



中瑞岳华会计师事务所有限公司

地址：北京市西城区金融大街 35
号国际企业大厦 A 座 8-9 层

邮政编码：100032

Zhongrui Yuehua Certified Public Accountants Co., Ltd.

Add:8-9 /F Block A Corporation Bldg.No.35
Finance Street Xicheng District
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AUDITORS' REPORT

ZhongruiYuehua Shen Zi [2008] No.15612

To CITIC Group:

We have audited the accompanying financial statements of CITIC Group (referred to as "the Company"), consisting of balance sheet and consolidated balance sheet as at 31 December 2007, income statement and consolidated income statement, cash flow statement and consolidated cash flow statement for the year then ended, and notes to the financial statements.

Management's Responsibility for the Financial Statements

The Company's Management is responsible for the preparation of these financial statements in accordance with the Accounting Standards for Business Enterprises, the Accounting Regulations for Financial Enterprises and the Accounting Regulations for Business Enterprises. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation of financial statements that are free from material misstatement, whether caused by fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China's Auditing Standards for Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessments of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements are in accordance with the Accounting Standards for Business Enterprises, the Accounting Regulations for Financial Enterprises and the Accounting Regulations for Business Enterprises and, in all material respects, give a fair view of the Company's financial position and consolidated financial position as at 31 December 2007, the results of operations and consolidated results of operations, and cash flows and consolidated cash flows for the year then ended.

RSM China Certified Public Accountants

Beijing, China

15 May 2008

Certified Public Accountants

Name of CPA: Zhang Fugen

Name of CPA: Dong Haitao

CITIC GROUP
CONSOLIDATED BALANCE SHEET

As at 31 December 2007

Expressed in thousands of RMB

ASSETS	Note	2007	2006
Current Assets:			
Cash and deposits	5、 (1)	168,496,012	109,825,275
Short-term loans	5、 (2)	367,914,025	293,427,276
Receivables	5、 (3)	27,805,539	18,069,534
Short-term investments	5、 (4)	221,904,492	78,291,126
Other current assets	5、 (5)	24,685,438	13,784,944
Total Current Assets		810,805,506	513,398,155
Long-term Assets:			
Medium and long-term loans	5、 (2)	276,110,566	217,491,976
Long-term investments	5、 (4)	163,047,355	147,994,748
Fixed assets	5、 (6)	61,537,077	39,219,341
Other long-term assets	5、 (7)	10,228,694	9,068,821
Total Long-term Assets		510,923,692	413,774,886
Total Assets		1,321,729,198	927,173,041

CITIC GROUP
CONSOLIDATED BALANCE SHEET (Continued)

As at 31 December 2007

Expressed in thousands of RMB

LIABILITIES AND INVESTOR'S EQUITY	Note	2007	2006
Current Liabilities:			
Short-term deposits from customers	5、 (8)	632,979,181	414,273,544
Short-term financing	5、 (9)	36,013,320	20,202,325
Payables	5、 (10)	64,149,701	33,016,822
Other current liabilities	5、 (11)	3,519,856	3,230,276
Total Current Liabilities		736,662,058	470,722,967
Long-term Liabilities:			
Long-term deposits from customers	5、 (12)	322,184,633	299,694,017
Medium and long-term borrowings		47,112,860	43,481,491
Long-term bond payables	5、 (13)	54,671,861	47,394,183
Other long-term liabilities	5、 (14)	16,582,296	4,571,297
Total Long-term Liabilities		440,551,650	395,140,988
Total Liabilities		1,177,213,708	865,863,955
Minority Interests		42,311,511	15,713,771
Investor's Equity			
Capital	5、 (15)	33,758,652	32,335,295
Reserves	5、 (16)	52,476,883	6,795,834
Profit for the year		15,968,444	6,464,186
Total Investor's Equity		102,203,979	45,595,315
Total Liabilities and Investor's Equity		1,321,729,198	927,173,041

The accompany notes are integral part of the financial statements

CITIC GROUP
CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

Expressed in thousands of RMB

	Note	2007	2006
Operating income	5、 (17)	109,352,266	80,634,563
Operating costs	5、 (18)	80,723,091	57,294,987
Operating expenses	5、 (19)	15,327,715	12,529,890
Investment income		23,668,278	5,160,890
Business taxes and surcharges		3,309,665	2,076,931
Operating Profit		33,660,073	13,893,645
Add: non-operating income		715,456	430,432
Less: non-operating expenses		917,414	153,376
Profit before provision for impairment losses		33,458,115	14,170,701
Less: provision for impairment losses	5、 (20)	6,929,174	4,198,588
Profit after provision for impairment losses		26,528,941	9,972,113
Less: income tax		7,204,353	2,547,333
Less: minority interests		3,474,378	975,791
Add: unrealised investment losses		98,234	15,197
Net Profit		15,948,444	6,464,186

The accompany notes are integral part of the financial statements

CITIC GROUP
CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

Expressed in thousands of RMB

Item	Row	Amount
1. Cash Flows from Operating Activities:		
Cash received from rendering of financial services	1	359,247,626
Cash received from sales of goods or rendering of other services	2	42,094,356
Refund of taxes	3	452,500
Other cash received relating to operating activities	4	53,876,433
Sub-total of cash inflows	5	455,670,915
Cash paid for financial services	6	317,603,750
Cash paid for goods and services	7	33,298,331
Cash paid to and on behalf of employees	8	5,520,226
Cash paid for all types of taxes	9	6,400,464
Other cash paid relating to operating activities	10	65,409,194
Sub-total of cash outflows	11	428,231,965
Net cash flows from operating activities	12	27,438,950
2. Cash flows from investing activities:		
Cash received from disposal of equity investments	13	267,421,418
Cash received from return on equity investments	14	1,764,595
Cash received from return on debt investments	15	11,750,875
Interests received	16	575,870
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	17	234,058
Other cash received relating to investing activities	18	894,214
Sub-total of cash inflows	19	282,641,030
Cash paid to acquire fixed assets, intangible assets and other long-term assets	20	7,389,986
Cash paid on equity investments	21	16,644,049
Cash paid on debt investments	22	295,744,795
Cash paid on other investing activities	23	2,406,141
Sub-total of cash outflows	24	322,184,971
Net cash flows from investing activities	25	-39,543,941
3. Cash flows from financing activities:		
Proceeds from equity investments	26	58,112,652
Inc: cash received from equity investments from subsidiaries' minority interests	27	67,826
Proceeds from bonds issued	28	1,263,220
Proceeds from borrowings	29	40,824,671
Proceeds from other financing activities	30	1,082,314
Sub-total of cash inflows	31	101,282,857
Cash payments of registered capital's withdrawal	32	-
Cash repayments of borrowings	33	32,610,180
Cash payments of financing expenses	34	83,706
Cash payments for distribution of dividends or profits	35	3,318,085
Inc: cash payments of dividends owned by subsidiaries' minority interests	36	100,113
Cash payments for interests	37	4,498,227
Cash payments on other financing activities	38	2,412,782
Sub-total of cash outflows	39	42,922,980
Net cash flows from financing activities	40	58,359,877
4. Effect of foreign exchange rate fluctuation on cash	41	-1,144,697
5. Net increase in cash and cash equivalents	42	45,110,189

The accompany notes are integral part of the financial statements

CITIC GROUP
BALANCE SHEET
As at 31 December 2007

Expressed in thousands of RMB

ASSETS	Note	2007	2006
Current Assets:			
Cash and deposits	6、(1)	10,099,278	5,416,735
Short-term loans	6、(3)	858,850	892,183
Receivables	6、(2)	7,347,160	6,409,074
Short-term investments	6、(4)	23,255,552	2,290,331
Other current assets		-	-
Total Current Assets		41,560,840	15,008,323
Long-term Assets:			
Medium and long-term loans	6、(3)	209,528	1,699,319
Long-term investments	6、(4)	137,409,792	93,176,908
Fixed assets	6、(5)	300,363	524,178
Other long-term assets	6、(6)	642,819	697,769
Total Long-term Assets		138,562,502	96,098,174
Total Assets		180,123,342	111,106,497

CITIC GROUP
BALANCE SHEET (Continued)
As at 31 December 2007

Expressed in thousands of RMB

LIABILITIES AND INVESTOR'S EQUITY	Note	2007	2006
Current Liabilities:			
Short-term deposits from customers		-	-
Short-term financing	6、 (7)	4,531,371	4,704,504
Payables	6、 (8)	9,100,791	3,612,518
Other current liabilities	6、 (9)	105,000	3,102,381
Total Current Liabilities		13,737,162	11,419,403
Long-term Liabilities:			
Long-term deposits from customers		-	45,252
Medium and long-term borrowings		35,333,569	24,472,132
Long-term bond payables	6、 (10)	27,748,166	27,766,469
Other long-term liabilities		1,724,000	2,072,659
Total Long-term Liabilities		64,805,735	54,356,512
Total Liabilities		78,542,897	65,775,915
Investor's Equity			
Capital	6、 (11)	33,758,652	32,335,295
Reserves	6、 (12)	51,915,278	6,534,429
Profit for the year		15,906,515	6,460,858
Total Investor's Equity		101,580,445	45,330,582
Total Liabilities and Investor's Equity		180,123,342	111,106,497

The accompany notes are integral part of the financial statements

CITIC GROUP
INCOME STATEMENT

For the year ended 31 December 2007

Expressed in thousands of RMB

	Note	2007	2006
Operating income	6、 (13)	409,875	1,059,398
Operating costs	6、 (14)	7,557,076	2,237,672
Operating expenses		580,153	425,789
Investment income	6、 (15)	27,691,784	9,971,451
Business taxes and surcharges		16,698	12,820
Operating Profit		19,947,732	8,354,568
Add: non-operating income		13,083	6,078
Less: non-operating expenses		19,390	16,624
Profit before provision for impairment losses		19,941,425	8,344,022
Less: provision for impairment losses	6、 (16)	2,440,817	1,814,246
Profit after provision for impairment losses		17,500,608	6,529,776
Less: income tax		1,594,093	68,918
Net Profit		15,906,515	6,460,858

The accompany notes are integral part of the financial statements

CITIC GROUP
CASH FLOW STATEMENT
For the year ended 31 December 2007

Expressed in thousands of RMB

Item	Row	Amount
1. Cash Flows from Operating Activities:		
Cash received from rendering of financial services	1	11,073,051
Cash received from sales of goods or rendering of other services	2	-
Refund of taxes	3	-
Other cash received relating to operating activities	4	1,476,502
Sub-total of cash inflows	5	12,549,553
Cash paid for financial services	6	15,228
Cash paid for goods and services	7	-
Cash paid to and on behalf of employees	8	179,389
Cash paid for all types of taxes	9	60,300
Other cash paid relating to operating activities	10	656,662
Sub-total of cash outflows	11	911,579
Net cash flows from operating activities	12	11,637,974
2. Cash flows from investing activities:		
Cash received from disposal of equity investments	13	4,143,989
Cash received from return on equity investments	14	-
Cash received from return on debt investments	15	-
Interests received	16	-
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	17	-
Other cash received relating to investing activities	18	-
Sub-total of cash inflows	19	4,143,989
Cash paid to acquire fixed assets, intangible assets and other long-term assets	20	5,810
Cash paid on equity investments	21	12,255,715
Cash paid on debt investments	22	6,577,706
Cash paid on other investing activities	23	-
Sub-total of cash outflows	24	18,839,231
Net cash flows from investing activities	25	-14,695,242
3. Cash flows from financing activities:		
Proceeds from equity investments	26	-
Inc: cash received from equity investments from subsidiaries' minority interests	27	-
Proceeds from bonds issued	28	-
Proceeds from borrowings	29	13,835,028
Proceeds from other financing activities	30	-
Sub-total of cash inflows	31	13,835,028
Cash payments of registered capital's withdrawal	32	-
Cash repayments of borrowings	33	2,791,402
Cash payments of financing expenses	34	-
Cash payments for distribution of dividends or profits	35	-
Inc: cash payments of dividends owned by subsidiaries' minority interests	36	-
Cash payments for interests	37	2,966,156
Cash payments on other financing activities	38	-
Sub-total of cash outflows	39	5,757,558
Net cash flows from financing activities	40	8,077,470
4. Effect of foreign exchange rate fluctuation on cash	41	-337,659
5. Net increase in cash and cash equivalents	42	4,682,543

The accompany notes are integral part of the financial statements

CITIC GROUP

NOTES TO FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

(Expressed in thousands of RMB)

1 Company Status

CITIC Group (referred to as “the Company”), established originally in 1979 in the Peoples’ Republic of China (PRC) upon approval of State Council of PRC, is a multi-business group company. As at 31 December 2007, the registered capital of the Company is RMB 30 billion. The legal representative of the Company is Mr. Kong Dan. The registered address of the Company is 6 Xinyuannanlu, Chaoyang District, Beijing. Principal activities of the Company and its subsidiaries (referred to as “the Group”) is comprised of financial services, investment holding, real estate and civil infrastructure, manufacturing, resources development, trading and services, information industry and project contracting business etc.

2 Basis of Preparation of Financial Statements

The principal accounting policies adopted in the preparation of the financial statements are in conformity with the Accounting Standards for Business Enterprises, the Accounting Regulations for Financial Enterprises and the Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the PRC (MOF).

3 Principal Accounting Policies and Estimates

(a) Accounting Year

The accounting year of the Group is the calendar year from 1 January to 31 December.

(b) Basis of Preparation and Measurement

The financial statements have been prepared on an accrual basis. Unless otherwise stated, the measurement basis used is historical cost.

(c) Reporting Currency

The reporting currency of the Group, the Company and its subsidiaries in mainland of PRC is RMB. The reporting currency of the Company’s subsidiaries out of mainland of PRC is adopted in accordance with the local accounting standards.

(d) Translation of Foreign Currency Transactions and Financial Statements

Non-financial institution entities record foreign currency transactions in a unified ledger. Foreign currency transactions during the year are translated into RMB at the exchange rates ruling at the transaction dates. At year end, monetary assets and liabilities in foreign currencies are translated into RMB at the exchange rates, quoted by the People's Bank of China (the "PBOC"), ruling at the balance sheet date. Financial institutions record foreign currency transactions in multi-currency ledgers. The ledgers denominated in foreign currencies are translated into USD at the exchange rates quoted in the London market, which is announced by the PBOC, ruling on the last day of the accounting year, and then translated from USD to RMB at the exchange rate quoted by the PBOC ruling on the same day.

Except for the exchange gains or losses relating directly to the construction of fixed assets (see note 3(1)), exchange differences arising from foreign currency transactions and exchanges are dealt with as foreign exchange gains or losses for the current period.

The financial statements of overseas subsidiaries are translated into RMB by current exchange rate method in accordance with the *Provisional Regulations on Consolidated Financial Statements*. Financial statements of foreign currencies are translated into RMB at year end exchange rates. Year end exchange rates are the exchange rates quoted in the London market, which is announced by the PBOC, ruling on the last day of the accounting year, and the exchange rate quoted by the PBOC ruling on the same day for the translation from USD to RMB. The exchange differences are recorded as differences from translation of financial statements denominated in foreign currencies.

(e) Cash and Cash Equivalents

Cash and cash equivalents include: cash, deposits, short-term inter-bank placements and highly liquid investments that are capable of being converted into known amounts of cash and are subject to an insignificant risk of change in value.

(f) Provision for Bad Debts

Provision for bad debts is estimated by management based on the general consideration of aging analysis, recoverability of receivables (including accounts receivable and other receivables), and individual measurements.

(g) Loans, Provision for Loan Losses and Writing Off of Loans

(1) Loan classification

- Short-term, medium and long-term loans: loans are classified according to their original maturity terms. Loans originally maturing within one year (including one year) are classified as short-term loans,

and loans originally maturing over one year are classified as medium and long-term loans.

- Overdue loans: loans not repaid on maturity or rescheduled maturity dates; advances arising from discounted bills or bill acceptances with insufficient collateralized deposits and not yet repaid until the due dates; overdue trade finance for inward and outward bills, and advances arising from off balance sheet credit facilities such as letters of credit and guarantees.

- Discounted bills: not-yet-matured bills discounted by the Group for customers or other financial institutions; rediscounted received from the central bank, other inter-banks or financial institutions.

- (2) Loans are initially recognized at the amounts actually drawn. Discounted bills are initially recognized at the par value. Interest income from discounted bills is recognized on an accrual basis on amounts provided and at an applicable interest rate over the terms of the bills. As at the balance sheet date, the par value of the discounted bills and the relevant unrealized interest income are separately shown in the balance sheet.
- (3) Provision for loan losses and writing off of loans.
Loans are classified into five categories: normal, special-mention, substandard, doubtful and loss.

When there is objective evidence that a loan is impaired, provision for loan losses is made based on the estimated loss covering specific losses, non-individually identified potential losses, and potential losses arising from sovereignty risk, geographic risk, industry risk, or particular types of loans. At the end of each year, the Group assesses the recoverability of each type of loans and estimates potential losses. The provision for loan losses is measured as the difference between the carrying amounts of the loan and its estimated recoverable amount. Provision for loan losses is made based on risk grading, while other factors such as the borrowers' solvency, willingness to repay and past repayment records, market value of the collateral and support from the guarantors are also taken into account when assessing the overall risk and recoverability, and to determine whether a loan is impaired and provision is properly made.

When a borrower or guarantor fails to repay his loan principal or interest, and uses the collateral to settle the debt, the respective loan principal together with the recognized interest, is transferred to repossessed assets with the corresponding provision for loan losses transferred to provision for impairment on repossessed assets at the same time.

When a loan is considered uncollectable after the Group has completed all the necessary legal procedures, upon approval from managements, the loan is written off against the provision for loan losses. If in a subsequent period the loan previously written off is recovered, the provision for the loan losses against the loan in the amount of the recovery will be reversed.

(h) Entrusted Loans and Investments

Entrusted loans are funded by the customers who entrust the Group to grant loans to designated borrowers for specific purposes at terms (such as maturity period and interest rate) specified by the customers. The Group is responsible for granting and monitoring the usage and repayment of entrusted loans.

Entrusted investments are also funded by the customers who entrust the Group to invest in accordance with the defined scopes. Balances of entrusted loans and entrusted investments are represented at the amounts granted or invested.

(i) Derivative Financial Instruments

The Group's derivatives include spot foreign exchange, forward foreign exchange, currency swaps, interest rate swaps and options, which are undertaken in response to customers' needs or for the Group's risk management purposes. In order to hedge potential risks associated with derivative transactions with customers, the Group entered into similar derivative contracts with other banks and financial institutions, under the approval of the PBOC. The Group earns commissions on such transactions.

(j) Inventories

Inventories include assets held for sale in the ordinary course of business (goods or finished goods), assets in the production process for sale in the ordinary course of business (work in process), and materials and supplies that are consumed in production (raw materials).

Inventories of the Group mainly consist of raw material, work-in progress, finished goods, goods, and self-developed products. They are stated at actual cost and managed by perpetual inventory system.

(k) Investments

(1) Short-term investments

The initial cost of a short-term investment is the total consideration paid on acquisition of the investment, excluding cash dividends which have been declared but unpaid or unpaid interests on debentures which were due at the time of acquisition.

Except for cash dividends which have been declared but unpaid at the time of acquisition and interest on debentures which is due but not yet paid at the time of acquisition, cash dividends and interest are set off against the carrying amount of short-term investments when actually received by the Group. Upon the disposal or recovery of a short-term investment, the difference between the carrying amount and the actual amount received is recognized as profit or loss for the current period.

Short-term investments are carried at the lower of their cost and market value, and a provision for diminution in value is made for any excess of the cost over the market value at the year end.

(2) Long-term equity investments

Where the Company controls, jointly controls or exercise significant influence over an investee enterprise, the long-term equity investment is accounted for under the equity method whereby the investment is initially recorded at cost and adjusted thereafter for any post-acquisition change in the Company's share of the shareholders' equity in the investee enterprise.

The difference between the initial investment cost and the Group's share of shareholders' equity in the investee enterprise is accounted for as the difference in equity investment. Positive differences are amortised in stages. For investments with contractual terms, it will be amortised according to the contractual terms of the investments. For investments without contractual terms, it will normally be amortised within a period of 10 years. Negative differences are directly taken into the capital surplus of the Group.

Where the Group does not control, jointly control or exercise significant influence over an investee enterprise, the long-term equity investment is accounted for under the cost method by stating it at the initial investment cost. Investment income is recognized when the investee enterprise declares a cash dividend or distributes its earnings.

Upon the disposal of long-term equity investments, the difference between the proceeds received and the carrying amount of the investments is recognized as profit or loss for the period.

(3) Long-term debt investments

The initial investment cost of a long-term debt investment is the total consideration amount paid for acquisition of the investment, but excludes any unpaid interest that was due at the time of acquisition. Such interest receivable is separately accounted for under receivables. Where the total consideration paid includes accrued interest that is not

yet due at the time of acquisition, such interest is separately accounted for under long-term debt investments.

The premium or discount on debentures represents the difference between the nominal value and the initial investment cost of the debenture after the deduction of relevant taxes and accrued interests which are not yet due for payments.

The premium (discount) on investments in long-term debentures is amortized on a straight-line basis over the holding period, and is treated as an adjustment to the interest income.

(1) Fixed Assets and Construction in Progress

Fixes assets are assets with comparatively high unit values held by the Group for producing products or rendering service. They are expected to be used for more than one year.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and provision for impairment. Construction in progress is stated in the balance sheet at cost less provision for impairment.

All direct and indirect costs that are related to the construction of fixed assets and incurred before the assets are ready for their intended uses are capitalized as construction in progress. Those costs include borrowing costs (including foreign exchange differences arising from the loan principal and the related interests) of specific borrowings for the construction of the fixed assets during the construction period.

Construction in progress is transferred to fixed assets when it is ready for its intended use.

Fixed assets are depreciated by using the straight-line method over their estimated useful lives. The estimated useful lives and the estimated rates of net residual value on cost adopted for the Group's fixed assets are as follows:

Classification	Estimated useful Life	Residual Value (% of cost)
Land Use Rights	Terms of the land lease	--
Plant and Buildings	15-40 years	3%-5%
Transportation Equipment	6-8 years	3%-5%
Machinery and Equipment	5-15 years	3%-5%
Others	3-10 years	3%-5%

(m) Intangible Assets

Intangible assets are long-lived assets that do not have physical appearance, held by the Group for producing products, rendering services, leasing, or operation management. Intangible assets are stated in the balance sheet at the actual cost incurred at the time of acquisition and are amortized on a straight-line basis over the beneficial periods.

(n) Long-term Deferred Expenses

Long-term deferred expenses represents expenses already paid but are amortized over a period of more than one year. Long-term deferred expenses are stated at the actual payments and subsequently amortized as follows:

- (1) Operating lease payments are amortized on a straight-line basis over the actual terms of the respective leases.
- (2) Other expenses paid are amortized on a straight-line basis over their respective beneficial periods.

When the long-term deferred expenses which are unlikely to be able to bring economic benefit to the Group in the subsequent periods, the balances will be charged to the income statement upon recognition.

(o) Pre-operating Expenses

Except for the expenditure incurred for acquiring or constructing the fixed assets, other expenses incurred during the start-up period are aggregated in long-term deferred expenses and then fully charged to the income statement in the month operations commence.

(p) Provision for Impairment of Assets

The carrying amounts of assets (including entrusted loans, inventories, long-term investments, fixed assets, construction in progress, intangible assets and other assets) are reviewed regularly to determine whether their recoverable amounts have declined below their carrying amounts except loans (see note 3(g)) and receivables(see note 3(f)). The Group will perform an impairment test to determine whether there are signs indicating that the carrying amount of an asset is concerned to be difficult to recover. When impairment has occurred, the carrying amount is reduced to the recoverable amount. The amount of deduction is recognized to be the impairment loss of the asset.

The recoverable amount is the value of an asset treated as the greater of its net realizable value and the present value of the estimated future cash flows obtainable from the asset's continuous use including the disposal at the end of its useful life.

Provision for impairment loss is measured on an item by item basis and recognized in the income statement for the current period. If a negative difference between the initial investment cost and the Group's share of the

shareholders' equity of the investee enterprise has been credited to the capital surplus, any impairment losses for the long-term equity investment should firstly set off against the difference initially recognized in the capital surplus relating to the investment and any excessive impairment losses are then recognized in the income statement for the current period.

If there has been a change in the estimates used to determine the recoverable amount and as a result the estimated recoverable amount is greater than the carrying amount of the asset, the impairment loss recognized in prior years is reversed. Reversals of impairment losses are recognized in the income statement for the current period. Impairment losses are reversed to the extent of the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. In respect of the reversal of an impairment loss for a long-term equity investment, the reversal starts with the impairment losses that had previously been recognized in the income statement and then the impairment losses that had been charged to the capital surplus.

(q) Repossessed Assets

(1) Repossessed assets are the assets repossessed by the Group through debt restructuring or effective control and the Group can legally realize through auction, transfer or any other procedures.

(2) Repossessed assets are recorded at the value of the collateralized portion of the loan principal and the recognized interest income. At the same time, all the corresponding loan provisions are transferred to provisions for impairment on repossessed assets.

(3) Provision for impairment on repossessed assets
Repossessed assets are stated at the lower of their carrying amounts and recoverable amounts at the end of each accounting period. Provision for impairment is measured as the difference between the recoverable amounts and the carrying amounts of repossessed assets.

(4) Disposal of repossessed assets
If the proceeds from the disposal of repossessed assets exceed their carrying amounts, the difference will be recognized as non-operating revenue. If the amount is less than the carrying amount, the difference will be recognized as non-operating expenses.

(r) Issued Bonds

Issued bonds are recognized as liabilities at the total amount received upon issuance. The difference between the total amount of issuance and the total par value is treated as the bonds discount or premium, and is amortized on a straight-line basis throughout the terms of the bonds.

Interest expenses are accrued based on the coupons. Interest expenses plus amortization of discount or premium and the issuance costs together, are charged to income statement as financial costs in the period incurred.

(s) Income Tax

Income tax is recognized by using the tax-effect accounting method. Income tax for the year consists of current tax paid and payable, and the movement of deferred tax assets and liabilities.

Current tax is calculated by applicable tax rate on the taxable income.

Deferred tax is measured for the differences between the accounting income and the taxable income arising from the timing differences in recognizing income, expenses or losses between the accounting and tax regulations. Income tax expense for the year is recorded into income statements; tax payable is provided by applicable tax rate on taxable income; deferred tax assets or liabilities are recorded at applicable tax rate on timing differences.

The Company and some of its subsidiaries have adopted a consolidated tax filing policy and calculated tax payable with 33% of taxable income. According to the *Notice on Enterprise Income Tax Filing of CITIC Group* (Guo Shui Han [2005] No. 1005) issued by the State Administration of Taxation, the Company and those subsidiaries mentioned above should prepare corporate income tax filing on a consolidation basis since 2005.

(t) Revenue Recognition

When it is probable that the economic benefits will flow to the Group, the amount of revenue and relevant costs can be measured reliably, revenue is recognized as follows:

(1) Interest income

Interest income from loans is recognized on an accrual basis on the time-proportion with reference to the principal outstanding and the interest rates applicable. For loans overdue (including rescheduled loans) and not yet recovered for more than 90 days, or loans with interest overdue for more than 90 days, the accrual interest is discontinued and is accounted for as an off-balance sheet item. Recognized interest receivables of such loans set off against interest income in the income statement, and turn to be accounted for as an off-balance sheet item. Repayment for a non-accrual loan will be firstly set off against the outstanding loan principal. It is only when the loan principal is fully recovered that any excess amount received can be recognized as interest income for the period.

(2) Rendering of services

When the outcome of a transaction involving the rendering of services can be reliably measured, revenue is recognized in the income statement by reference to the completion stage of the transaction. When the outcome of the transaction involving the rendering of services cannot be reliably measured, revenue is recognized only to the extent of the costs incurred that are expected to be recoverable.

Income from property management service is recognized when the service is rendered; it is probable that the economic benefits will flow to the Group; and the revenue and costs can be reliably measured.

(3) Insurance income

Insurance income is recognized on an accrual basis, starting from the time when the related insurance obligation becomes effective in accordance with agreed terms of signed insurance contract.

(4) Sale of goods

Revenue from sale of goods is recognized when the significant risks and rewards of ownership of the goods has been transferred to the buyer; the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the economic benefits associated with the transaction will be received by the Group; and the relevant amount of revenue and costs can be reliably measured.

Revenue from sale of properties is recognized when the construction is completed; the completion certificate is issued by the relevant government authorities; the sales agreement is signed; and the evidence of the customer payment in accordance with the term of the sales agreement is received. Usually, the evidence of the customer payment is the receipt of deposit of over 20% of the agreement amount or the payment schedule of the remaining amount being confirmed.

(5) Revenue from Contracts of construction

When the outcome of a construction contract can be reliably measured, revenue associated with the construction contract is recognized at the balance sheet date by using the percentage-of-completion method. When the outcome of a construction contract cannot be reliably measured, revenue is recognized only to the extent of the contract costs incurred that are recoverable.

(6) Other revenue

Other revenue is recognized on an accrual basis.

(u) Borrowing Costs

Borrowing costs incurred on specific borrowings for the construction of fixed assets are capitalized into the cost of the fixed assets during the construction period until the fixed assets are ready for their intended uses, when expenditures for the assets are being incurred; borrowing costs are being incurred; and activities that are necessary to prepare the asset for their intended uses are in progress.

Except for the specific borrowings for the construction of fixed assets, other borrowings are recognized as expenses for the period and charged to the income statement as part of the financial costs.

(v) Employee Benefits

According to the relevant regulations in PRC, the Company and its domestic subsidiaries established basic pension schemes in 1998. For each employee, the basic pension cost is accrued based on 28% of the total salary, of which 8% is borne by the employee and 20% is borne by the Company and its domestic subsidiaries. By the end of 2007, the Company and its domestic subsidiaries have made adequate accrual for this basic pension.

The Company and certain of its domestic subsidiaries also established annuity schemes, the related cost is accrued based on 8% of the total salary of an employee, of which 4% is borne by the employee and 4% is borne by the Company and these subsidiaries. By the end of 2007, the Company and these subsidiaries have made adequate accrual for the annuity.

(w) Provisions and Contingent Liabilities

Provisions are made when the Group has a present obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of outflow can be reliably estimated.

When the possibility of an outflow of economic benefits caused by the settlement of the above obligation is low, or the outflow amount cannot be reliably measured, this obligation is disclosed as a contingent liability.

(x) Related Parties

Two or more parties are considered to be related parties when at any time during the relevant financial period: if one party has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where one or more parties are subject to common control from another party, they are considered to be related parties.

(y) Segmental Reporting

A segment is a distinguishable component of the Group that is engaged either in providing distinguished products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

During the represented period, the business segments of the Group include: financial services, real estate and civil infrastructure, manufacturing, resources, trading and services, information industry, project contracting and unallocated.

4 Basis of Preparation of the Consolidated Financial Statements

- (a) The Group prepared its consolidated financial statements in accordance with the *Provisional Regulations on Consolidated Financial Statements* (Cai Kuai Zi [1995] No.11) issued by the Ministry of Finance and in accordance with the *Official Reply on the Issues Relating to the Scope of Consolidated Financial Statements* (Cai Kuai Zi [1996] No.2).

The consolidated financial statements are consolidated by the financial statements of the Company and all of its principal subsidiaries as at 31 December 2007. Subsidiaries are those entities controlled by the Company directly or indirectly: holding 50% or above equity shares directly or indirectly; carrying more than half of the voting rights; controlling the composition of the board of directors; or governing the financial and operating policies of an entity so as to obtain benefits from its activities. The investments in subsidiaries are accounted under equity method in the Company's financial statements, and these subsidiaries are consolidated at the end of the accounting year.

The consolidated financial statements of the Group are prepared base on the individual financial statements of the Company and its consolidated subsidiaries. Material intra-group transactions, including any intra-group unrealized profits and balances, are eliminated through the preparation of the Group's consolidated financial statements.

(b) Principal subsidiaries (included in the consolidation of the Group for year 2007) are as follows :

Name	Shares held (%)	Registration location	Principal activities	Type
CITIC Holdings	100.00%	Beijing	Financial services	Limited liabilities company
China CITIC Bank Corporation Ltd.	62.33%	Beijing	Financial services	Listed company
CITIC Prudential Life Insurance Co., Ltd.	50%	Guangzhou	Financial services	Limited liabilities company
CITIC Trust & Investment Co., Ltd.	80%	Beijing	Financial services	Limited liabilities company
CITIC Asset Management Corporation Ltd.	100%	Beijing	Financial services	Limited liabilities company
CITIC Guoan Group	100%	Beijing	Investment holding	Limited liabilities company
CITIC Real Estate Co.,Ltd.	86.50%	Beijing	Real estate and civil infrastructure	Listed company
CITIC East China Group	100%	Shanghai	Real estate and civil infrastructure	Limited liabilities company
CITIC Tianjin Industrial Development Co., Ltd.	100%	Tianjin	Real estate and civil infrastructure	Limited liabilities company
CITIC Construction	100%	Beijing	Project contracting	Limited liabilities company
Central and Southern China Municipal Engineering Design & Research Institute	100%	Wuhan	Project contracting	Limited liabilities company
Wuhan Architectural Design Institute	100%	Wuhan	Project contracting	Limited liabilities company
CITIC Metal Co., Ltd	100%	Beijing	Resources	Limited liabilities company
CITIC Investment Holding Co.,Ltd	100%	Beijing	Manufacturing	Limited liabilities company
CITIC Bohai Aluminium Industries Holding Co., Ltd.	100%	Qinhuangdao	Manufacturing	Limited liabilities company
CITIC Heavy Machinery Co., Ltd.	100%	Luoyang	Manufacturing	Limited liabilities company
CITIC Machinery Manufacturing Co., Ltd.	100%	Beijing	Manufacturing	Limited liabilities company
CITIC Application Service Provider Co., Ltd.	70%	Beijing	Information industry	Listed company
CITIC Digital Technology Co., Ltd.	100%	Beijing	Information industry	Limited liabilities company
China Enterprise Communications Ltd.	51%	Beijing	Information industry	Limited liabilities company
CITIC Networks Co., Ltd.	100%	Shenzhen	Information industry	Limited liabilities company
Beijing Capital Mansion	100%	Beijing	Services	Limited liabilities company
Beijing Daxing Capital Golf Club	80%	Beijing	Services	Limited liabilities company

Notes to financial statements for the year ended 31 December 2007

Name	Shares held (%)	Registration location	Principal activities	Type
Beijing CITIC Real Estate Co., Ltd.	100%	Beijing	Trading	Limited liabilities company
Shenzhen CITIC Investment Co., Ltd.	100%	Shenzhen	Trading	Limited liabilities company
CITIC Automobile Co., Ltd.	100%	Beijing	Trading	Limited liabilities company
China CITIC Press	100%	Beijing	Publishing	Limited liabilities company
CITIC International Economic Consultants Co., Ltd.	100%	Beijing	Services	Limited liabilities company
CITIC Ningbo Group	100%	Ningbo	Services	Limited liabilities company
CITIC Travel Co., Ltd.	100%	Beijing	Services	Limited liabilities company
CITIC Technology Co., Ltd.	100%	Beijing	Trading	Limited liabilities company
China Zhonghaizhi Corporation	51.03%	Shenzhen	Services	Limited liabilities company
Xinyi Services Center Co., Ltd.	80%	Beijing	Services	Limited liabilities company
CITIC International Financial Holdings Limited	55.17%	Hong Kong	Financial services	Limited liabilities company
CITIC Hong Kong (Holdings) Ltd.	100%	Hong Kong	Investment holding	Limited liabilities company
CITIC USA Holding Inc.	100%	USA	Investment holding	Limited liabilities company
CITIC Power Investment Co., Ltd.	100%	Hong Kong	Real estate and civil infrastructure	Limited liabilities company
CITIC Australia Pty. Limited	100%	Australia	Resources	Limited liabilities company
CITIC United Asia Investments Ltd.	100%	Hong Kong	Resources	Limited liabilities company
Keentech Group Ltd.	100%	British Virgin Islands	Resources	Limited liabilities company
Macau Cement Manufacturing Co., Ltd.	67.68%	Macau	Manufacturing	Limited liabilities company
Sundance Forest Industries Ltd	100%	Canada	Manufacturing	Limited liabilities company
CITIC Asia Satellite Holding Company Ltd.	100%	British Virgin Islands	Information industry	Limited liabilities company

5 Interpretation for Important Accounts of the Consolidated Financial Statements

(1) Cash and Deposit

	2007	2006
Deposits with the central bank	119,027,823	72,060,587
Others	49,468,189	37,764,688
Total	168,496,012	109,825,275

(2) Loans to Customers

	2007	2006
Short-term loans		
Short-term loans to customers	319,734,658	242,461,046
Discounted bills	33,777,853	46,203,285
Trade finance for inward and outward bills	14,427,260	4,798,805
Less: provision for short-term loans	25,746	35,860
Total short-term loans	367,914,025	293,427,276
Medium and long-term loans		
Medium and long-term loans to customers	279,921,740	218,653,066
Overdue loans	8,496,018	11,865,885
Less : provision for medium and long-term loans	12,307,192	13,026,975
Total medium and long-term loans to customers	276,110,566	217,491,976
Total loans to customers	644,024,591	510,919,252

(a) Analysis by categories (short-term loans to customers, medium and long-term loans to customers and overdue loans):

·Short-term loans to customers

By nature:	2007	2006
Unsecured loans	183,552,491	38,461,696
Loans with guarantees	71,678,710	139,603,994
Loans secured by properties	44,813,165	45,479,164
Loans pledged by monetary assets	19,690,292	18,916,192
Total	319,734,658	242,461,046

·Medium and long-term loans (not including overdue loans)

By nature and original maturity:

	2007		
	1-5 years	over 5 years	Total
Unsecured loans	43,524,135	36,065,372	79,589,507
Loans with guarantees	35,397,912	10,564,900	45,962,812
Loans secured by properties	55,047,854	63,525,318	118,573,172
Loans pledged by monetary assets	17,810,769	17,985,480	35,796,249
Total	151,780,670	128,141,070	279,921,740

	2006		
	1-5 years	over 5 years	Total
Unsecured loans	57,949,391	27,735,198	85,684,589
Loans with guarantees	31,004,097	11,853,424	42,857,521
Loans secured by properties	31,487,644	40,018,868	71,506,512
Loans pledged by monetary assets	6,353,874	12,250,570	18,604,444
Total	126,795,006	91,858,060	218,653,066

·Overdue loans

By nature:	2007	2006
Unsecured loans	1,765,602	3,824,103
Loans with guarantees	3,936,134	2,050,187
Loans secured by properties	2,372,722	5,546,409
Loans pledged by monetary assets	421,560	445,186
Total	8,496,018	11,865,885

(b) Analysis by risk grading (short-term loans to customers, medium and long-term loans to customers and over due loans):

	2007	2006
Normal	584,604,579	445,736,063
Special-mention	13,507,530	13,533,258
Total performing loans	598,112,109	459,269,321
Substandard	1,080,926	2,596,558
Doubtful	8,404,490	7,936,628
Loss	554,891	3,177,490
Total non-performing loans	10,040,307	13,710,676
Total	608,152,416	472,979,997

By the nature of non-performing loans:

	2007	2006
Unsecured loans	2,443,004	4,499,142
Loans with guarantees	3,993,409	5,681,685
Loans secured by properties	3,238,076	3,177,113
Loans pledged by monetary assets	365,818	352,736
Total	10,040,307	13,710,676

(c) Analysis by industry (including short-term loans to customers, medium and long-term loans to customers, overdue loans and discounted bills):

	2007	2006
Manufacturing	150,971,310	112,025,698
Transportation, storage and postal services	65,885,167	39,413,853
Property development	45,786,933	34,435,564
Wholesale and retail	45,405,546	36,364,296
Production and supply of electric power, gas and water	44,765,590	38,580,526
Leasing and commercial services	35,413,659	31,985,149
Water conservancy, environmental and public utility management	28,324,352	26,915,000
Construction	22,112,835	23,701,979
Public and social organizations	8,131,132	10,468,000
Finance	6,685,798	5,023,577
Others	78,107,588	82,418,556
Total corporate loans	531,589,910	441,332,198
Total individual loans	110,340,359	77,851,084
Gross amount of loans	641,930,269	519,183,282
Less: provision for loan losses	12,332,938	13,062,835
Net carrying amount of loans	629,597,331	506,120,447

The analysis of loans by industry has been classified in a new calibre in year 2007. The Group adjusted the opening balance of the loans by new categories at the same time.

(d) Analysis by geographical spread (including short-term loans to customers, medium and long-term loans to customers, overdue loans and discounted bills):

	2007	2006
Domestic	587,521,119	473,145,335
Overseas	54,409,150	46,037,947
including: Hong Kong SAR	46,889,197	40,245,447
Others	7,519,953	5,792,500
Gross amount of loans	641,930,269	519,183,282
Less: provision for loan losses	12,332,938	13,062,835
Net carrying amount of loans	629,597,331	506,120,447

(e) Provision for Loans Losses

	Total provision for impairment losses							
	Opening balance	Charge for the period	Value recovery-written back	Recovery of value written off	Subtotal	Value of write-off	Movement due to other reasons	Closing balance
Provision for short-term loans	35,860	192,233	202,260	-	-10,027	-	-87	25,746
Provision for medium and long-term loans	13,026,975	3,499,584	374,505	206,780	2,918,299	3,671,144	33,062	12,307,192
Total	13,062,835	3,691,817	576,765	206,780	2,908,272	3,671,144	32,975	12,332,938

(3) Receivables

	2007	2006
Other receivables	14,550,813	9,740,932
Accounts receivable	10,378,393	9,398,720
Prepayments	4,177,473	2,293,424
Interests receivable	3,436,488	2,021,538
Subtotal	32,543,167	23,454,614
Less: provision for bad debts	4,737,628	5,385,080
Total	27,805,539	18,069,534

Provision for Bad Debts

	Total provision for impairment losses							
	Opening balance	Charge for the period	Value recovery-written back	Recovery of value written off	Subtotal	Value of write-off	Movement due to other reasons	Closing balance
Provision for bad debts	5,385,080	229,563	10,687	8,165	210,711	430,662	-427,501	4,737,628
Total	5,385,080	229,563	10,687	8,165	210,711	430,662	-427,501	4,737,628

(4) Investments

	2007	2006
Short-term investments	103,830,437	33,344,471
Securities held under resale agreements	118,074,055	44,946,655
Total short-term investments	221,904,492	78,291,126
Long-term debt investments	104,540,547	98,797,183
Long-term equity investments	58,506,808	49,197,565
Total long-term investments	163,047,355	147,994,748
Total investments	384,951,847	226,285,874

(a) Short-term investments

	2007		
	Gross	Provision	Net
Bonds issued by PBOC	39,482,418	-	39,482,418
Government bonds	14,083,056	-	14,083,056
Bonds issued by domestic financial institutions	30,826	-	30,826
Corporate bonds	16,423,821	-	16,423,821
Debt securities issued by PRC policy banks	6,666,754	-	6,666,754
Debt securities issued by international institutions	4,500,841	-	4,500,841
Total bonds	81,187,716	-	81,187,716
Fund	95,993	638	95,355
Entrusted loans and investments	6,715,274	517,131	6,198,143
Others	16,461,301	112,078	16,349,223
Total	104,460,284	629,847	103,830,437

	2006		
	Gross	Provision	Net
Bonds issued by PBOC	16,284,754	-	16,284,754
Government bonds	3,483,114	-	3,483,114
Bonds issued by domestic financial institutions	3,254,406	-	3,254,406
Corporate bonds	1,332,259	12,035	1,320,224
Debt securities issued by PRC policy banks	1,065,919	-	1,065,919
Debt securities issued by international institutions	740,563	-	740,563
Total bonds	26,161,015	12,035	26,148,980
Fund	3,692,989	564	3,692,425
Entrusted loans and investments	1,994,968	317,553	1,677,415
Others	1,828,578	2,927	1,825,651
Total	33,677,550	333,079	33,344,471

(i) The government bonds, the PBOC bills and the debt securities issued by PRC policy banks held by the Group are traded in the inter-bank bond market.

(ii) Analysis by market value

	2007		2006	
	Net book value	Market value	Net book value	Market value
Bonds issued by PBOC	39,482,418	39,460,659	16,284,754	16,311,378
Government bonds	14,083,056	14,072,741	3,483,114	3,487,688
Bonds issued by domestic financial institutions	30,826	30,826	3,254,406	3,254,406
Corporate bonds	16,423,821	16,423,821	1,320,224	1,440,192
Debt securities issued by PRC policy banks	6,666,754	6,669,686	1,065,919	1,083,619
Debt securities issued by international institutions	4,500,841	4,500,841	740,563	743,265
Total bonds	81,187,716	81,158,574	26,148,980	26,320,548
Fund	95,355	95,355	3,692,425	3,695,448
Entrusted loans and investments	6,198,143	6,198,143	1,677,415	1,721,362
Others	16,349,223	17,487,578	1,825,651	1,832,949
Total	103,830,437	104,939,650	33,344,471	33,570,307

(b) Long-term debt investments

	2007		
	Gross	Provision	Net
Bonds issued by domestic financial institutions	4,223,979	-	4,223,979
Debt securities issued by international institutions	48,526,213	7,277	48,518,936
Government bonds	20,337,628	-	20,337,628
Debt securities issued by PRC policy banks	20,941,722	-	20,941,722
Corporate bonds	7,464,025	70,030	7,393,995
Bonds issued by PBOC	2,701,480	-	2,701,480
Others	424,765	1,958	422,807
Total	104,619,812	79,265	104,540,547

Notes to financial statements for the year ended 31 December 2007

	2006		
	Gross	Provision	Net
Bonds issued by domestic financial institutions	45,237,529	168,000	45,069,529
Debt securities issued by international institutions	17,564,700	49,515	17,515,185
Government bonds	13,900,233	-	13,900,233
Debt securities issued by PRC policy banks	13,638,027	-	13,638,027
Corporate bonds	6,151,526	76,526	6,075,000
Bonds issued by PBOC	1,894,122	-	1,894,122
Others	708,287	3,200	705,087
Total	99,094,424	297,241	98,797,183

(c) Long-term equity investments

	2007	2006
Investments in:		
Listed companies	38,803,255	24,037,884
Unlisted companies	29,066,204	32,248,983
Total	67,869,459	56,286,867
Less: provision for impairment	9,362,651	7,089,302
Net carrying amount	58,506,808	49,197,565

(d) Provision for investments

	Total provision for impairment losses							
	Opening balance	Charge for the period	Value recovery-written back	Recovery of value written off	Subtotal	Value of write-off	Movement due to other reasons	Closing balance
Provision for short-term investments	333,079	358,391	231	-	358,160	133,068	71,676	629,847
Provision for long-term debt investments	297,241	6,665	226	1,243	5,196	47,583	-175,589	79,265
Provision for long-term equity investments	7,089,302	2,340,855	500	26,120	2,314,235	124,231	83,345	9,362,651
Total	7,719,622	2,705,911	957	27,363	2,677,591	304,882	-20,568	10,071,763

(5) Other Current Assets

	2007	2006
Inventories	23,691,709	12,852,183
Deferred expenses	154,949	244,245
Other current assets	967,263	718,878
Less: provision for inventories	128,483	30,362
Total	24,685,438	13,784,944

(a) Analysis of inventories by usage

	2007	2006
Products in process	8,671,296	3,552,280
Finished goods	4,281,734	3,907,201
Raw materials	1,896,868	1,811,914
Self-made semi-finished goods	434,285	486,291
Low-value consumption goods	60,084	48,286
Consigned processing materials	39,535	36,558
Others	8,307,907	3,009,653
Total	23,691,709	12,852,183
Less: provision for inventories	128,483	30,362
Net carrying amount	23,563,226	12,821,821

(b) Analysis of inventories by industry

	2007	2006
Real estate and civil infrastructure	17,763,838	7,374,695
Manufacturing	3,402,930	3,209,326
Resources	2,022,396	1,764,520
Trading and services	304,334	292,167
Information industry	165,812	190,224
Project contracting	27,697	16,395
Unallocated	4,702	4,856
Total	23,691,709	12,852,183
Less: provision for inventories	128,483	30,362
Net carrying amount	23,563,226	12,821,821

(c) Provision for inventories

	Total provision for impairment losses							Closing balance
	Opening balance	Charge for the period	Value recovery-written back	Recovery of value written off	Subtotal	Value of write-off	Movement due to other reasons	
Provision for inventories	30,362	22,368	10,784	-	11,584	-	86,537	128,483
Total	30,362	22,368	10,784	-	11,584	-	86,537	128,483

(6) Fixed Assets

	2007	2006
Fixed assets net	53,615,036	32,528,008
Construction in progress	7,978,813	6,731,620
Fixed assets pending disposal	18,485	14,876
Less: provision for impairment	58,869	52,179
provision for construction in progress	16,388	2,984
Total	61,537,077	39,219,341

Costs of the fixed assets:

	Opening balance	Additions	Disposals	Closing balance
Land use rights	2,058,118	46,504	425,418	1,679,204
Plant and buildings	18,827,815	5,450,679	3,293,795	20,984,699
Transportation equipment	2,669,383	837,128	277,022	3,229,489
Machinery & equipment	13,537,147	19,421,100	1,584,288	31,373,959
Others	6,388,994	2,260,187	1,049,957	7,599,224
Total	43,481,457	28,015,598	6,630,480	64,866,575

Accumulated depreciation:

	Opening balance	Additions	Written back	Closing balance
Land use rights	-	-	-	-
Plant and buildings	2,599,162	779,304	788,588	2,589,878
Transportation equipment	559,044	295,518	332,731	521,831
Machinery & equipment	5,033,632	1,483,270	924,922	5,591,980
Others	2,761,611	500,040	713,801	2,547,850
Total	10,953,449	3,058,132	2,760,042	11,251,539

Provision for impairment:

	Total provision for impairment losses							Closing balance
	Opening balance	Charge for the period	Value recovery-written back	Recovery of value written off	Subtotal	Value of write-off	Movement due to other reasons	
Provision for fixed assets	52,179	7,135	-	-	7,135	-	-445	58,869
Including:								
Plant and buildings	18,491	1,069	-	-	1,069	-	3,007	22,567
Machinery & equipment	-	850	-	-	850	-	-	850
Others	33,688	5,216	-	-	5,216	-	-3,452	35,452
Provision for construction in progress	2,984	16,388	-	-	16,388	-	-2,984	16,388
Total	55,163	23,523	-	-	23,523	-	-3,429	75,257

(7) Other Long-term Assets

	2007	2006
Intangible assets	2,883,123	2,644,157
Less: provision for intangible assets	354	354
Deferred tax assets	1,836,302	2,389,064
Long-term deferred expenses	1,265,612	1,106,594
Repossessed assets	992,973	1,848,747
Less: provision for repossessed assets	318,231	1,056,468
Other long-term assets	3,573,081	2,140,699
Less: provision for other long-term assets	3,812	3,618
Total	10,228,694	9,068,821

Provision for impairment:

	Total provision for impairment losses							
	Opening balance	Charge for the period	Value recovery-written back	Recovery of value written off	Subtotal	Value of write-off	Movement due to other reasons	Closing balance
Provision for intangible assets	354	-	-	-	-	-	-	354
Provision for repossessed assets	1,056,468	70,456	-	-	70,456	16,544	-792,149	318,231
Provision for other long-term assets	3,619	-243	-	-	-243	-	-49	3,812
Total	1,060,441	70,213	-	-	70,213	16,544	-792,198	322,397

(8) Short-term Deposits from Customers

	2007	2006
Short-term deposits	345,524,091	266,495,498
Short-term savings deposits	158,561,941	96,028,079
Deposits from banks and other financial institutions	98,240,639	28,945,107
Short-term pledged deposits	30,652,510	22,804,860
Total	632,979,181	414,273,544

(9) Short-term Financing

	2007	2006
Short-term loans	16,974,882	16,658,208
Amounts of securities sold under repurchase agreements	15,234,145	2,579,174
Current portion of long-term liabilities	3,804,293	964,943
Total	36,013,320	20,202,325

(10) Payables

	2007	2006
Accounts payable	19,818,154	12,793,102
Other payables	17,309,177	7,365,523
Receipts in advance	8,596,155	4,906,579
Outward remittances	6,630,748	3,437,504
Accrued payroll	3,813,463	1,605,054
Tax payable	5,637,526	1,124,742
Inward remittances	1,365,590	647,535
Bills payable	837,176	775,725
Welfare payable	141,712	361,058
Total	64,149,701	33,016,822

(11) Other Current Liabilities

	2007	2006
Accrued expenses	641,227	741,547
Other current liabilities	2,878,629	2,488,729
Total	3,519,856	3,230,276

(12) Long-term Deposits from Customers

	2007	2006
Long-term deposits	184,883,345	162,876,176
Long-term savings deposits	67,105,426	75,358,083
Long-term pledged deposits	70,195,862	61,459,758
Total	322,184,633	299,694,017

(13) Long-term Bond Payables

	2007	2006
Total long-term bond payables	54,671,861	47,394,183
Inc: the Company	26,820,957	27,429,321
China CITIC Bank Corporation Ltd.	11,990,000	11,990,000
CITIC Resources Holdings Ltd.	7,146,518	-
CITIC International Financial Holdings Limited	5,854,229	6,474,862
CITIC Guoan Group	2,860,157	1,500,000

(14) Other Long-term Liabilities

	2007	2006
Long-term payables	1,637,578	1,004,433
Long-term reserves	4,348,363	2,024,756
Deferred tax credits	9,584,683	1,152,370
Other long-term liabilities	1,011,672	389,738
Total	16,582,296	4,571,297

Deferred tax:

	Deferred tax debits		Deferred tax credits		Net	
	2007	2006	2007	2006	2007	2006
Amount formed by:						
Provision for loans and reserves	944,523	1,732,000	-	-	944,523	1,732,000
Compensation for tax loss	302,829	354,558	-	-	302,829	354,558
Provision for bad debts	32,884	11,729	25	-	32,859	11,729
Provision for inventories	14,608	-	-	-	14,608	-
Provision for impairment of fixed assets	9,846	-	20	108	9,826	-108
Tax deductible	-	-	1,341	53,659	-1,341	-53,659
Accumulated depreciation:	-	-	771,830	-	-771,830	-
Changes in fair value	24,150	-	1,072,274	213,291	-1,048,124	-213,291
Others	507,462	290,777	7,739,193	885,312	-7,231,731	-594,535
Total	1,836,302	2,389,064	9,584,683	1,152,370	-7,748,381	1,236,694

(15) Capital

	Opening balance	Increase in current year	Decrease in current year	Closing balance	Note
Capital	32,335,295	1,423,357	-	33,758,652	

This item represents the paid-in capital contributed by the Ministry of Finance of the People's Republic of China (MOF). The increased amount of RMB 1,423,360,000 in the current year represents the transferred capital obtained from tax make-up for investing income abroad.

(16) Reserves

	2007	2006
Capital surplus	52,296,111	13,991,933
Surplus reserves	8,666,961	8,611,153
Opening balance of retained earnings	-9,105,955	-14,900,651
Difference from translation of financial statements dominated in foreign currencies	992,641	-714,381
Less: unrecognized investment losses	372,875	192,220
Total	52,476,883	6,795,834

Retained earnings:

	Amount
Closing balance of 2006	110,975
Add: adjustments of opening balance	-9,216,930
Other adjustment	-
Opening balance of 2007	-9,105,955
Transferred from net profit of 2007	15,968,444
Closing balance of 2007	6,862,489

(17) Operating Income

	2007	2006
Income of products sold	54,373,714	41,859,376
Interests	38,518,370	27,825,756
Interests from financial institutions	4,996,869	2,051,270
Fee and commission	3,359,288	1,716,859
Insurance income	3,011,666	1,613,724
Other operating income	5,092,359	5,567,578
Total	109,352,266	80,634,563

(18) Operating Cost

	2007	2006
Cost of products sold	44,727,585	35,054,983
Interest costs	20,875,356	16,914,592
Interest costs to financial institutions	4,750,842	1,744,061
Commission costs	312,555	233,973
Cost of insurance business	3,152,420	1,540,607
Other operating costs	2,599,793	1,585,203
Loss of foreign currency translation	4,304,540	221,568
Total	80,723,091	57,294,987

Loss of foreign currency translation: the assets of the Company are accounted by currencies. According to the regulations of the Ministry of Finance, the Company translated the foreign currency assets into RMB which forms the main part of the loss of foreign currency translation in 2007.

(19) Operating Expenses

	2007	2006
Staff costs	6,660,940	5,426,150
Depreciation	1,145,691	1,261,424
Expenses of reception	768,594	574,851
Rents	659,245	551,945
Amortisation	423,533	384,788
Publicity expenses of operation	389,638	302,625
Travel fees	295,811	273,466
Charges of mail & telephone	273,935	226,028
Running costs of electrical equipments	231,135	224,305
Sundry expenses	213,021	329,619
Other operating expenses	4,266,172	2,974,689
Total	15,327,715	12,529,890

(20) Provisions for Impairment Losses

	Charge for the period	Value recovery- written back	Recovery of value written off	Total provision for 2007
Provision for loan losses	3,691,817	576,765	206,780	2,908,272
Provision for long-term investments	2,347,520	726	27,363	2,319,431
Provision for bad debts	229,563	10,687	8,165	210,711
Provision for shor-term investments	358,391	231	-	358,160
Provision for repossessed assets	70,456	-	-	70,456
Provision for construction in process	16,388	-	-	16,388
Provision for inventories	22,368	10,784	-	11,584
Provision for fixed assets	7,135	-	-	7,135
Provision for other long-term assets	-243	-	-	-243
Writing off of non-performing assets	1,027,280	-	-	1,027,280
Total	7,770,675	599,193	242,308	6,929,174

(21) Supplemental Information of Cash Flow Statements

(a) Reconciliation of net profit to cash flows from operating activities.

Item	Amount
1.Reconciliation of net profit to cash flows from operating activities	
Net profit	15,968,444
Add: provision for impairment loss of assets	5,901,894
Depreciation of fixed assets	3,808,937
Amortization of intangible assets	305,235
Amortization of long-term deferred expenses	541,964
Decrease in prepaid expenses(deduct:increase)	89,296
Increase in accrued expenses (deduct:decrease)	-100,321
Losses on disposal of fixed assets, intangible assets and other long-term assets(deduct:gains)	-369,839
Losses on scrapping of fixed assets	3,044
Financial expenses (deduct:gains)	25,179,896
Losses from investments (deduct:gains)	-23,688,278
Deferred tax Credits (decuct:decrease)	8,985,075
Decrease in inventories (or decuct: increase)	-10,839,526
Decrease in operating receivables (deduct:increase)	-263,341,060
Increase in operating payables (deduct:decrease)	260,588,260
Others	4,405,929
Net cash flows from operating activities	27,438,950
2.Investing and financing activities that do not affect cash receipt and payment	
Liabilities converted to capital	351,371
Reclassify convertible bonds to be expired within one year as current liability	-
Fixed assets financed by finance leases	251,505
3.Net increase/ decrease in cash and cash equivalents:	
Cash at the end of the year	22,176,388
Including: cash on hand	198,136
Deposit at bank which can be paid at any time	16,379,146
Other monetary assets which can be paid at any time	5,599,106
Others	-
Cash equivalents at the end of the year	100,594,641
Including: short-term bonds investment (maturity within 3 months)	-
Less: cash at the beginning of the year	16,499,015
Less: cash equivalents at the beginning of the year	61,161,825
Net increase/ decrease in cash and cash equivalents	45,110,189

(b) Cash and Cash Equivalents

	2007	2006
Amount of cash and cash equivalents in balance sheet :		
Deposits with central bank	42,148,965	30,138,000
Cash and deposits (excluding deposits with central bank)	37,867,752	35,484,352
Inter-bank placements	10,364,000	4,688,000
Short-term investments	32,390,312	7,350,488
Total	122,771,029	77,660,840
Corresponding amount in balance sheet:		
Deposits with central bank	119,027,823	72,060,587
Cash and deposits (excluding deposits with central bank)	49,468,189	37,764,688
Inter-bank placements	11,053,496	5,150,387
Short-term investments	103,830,437	33,344,471
Total	283,379,945	148,320,133
Less: short-term investments (maturity more than 3 months)	160,608,916	70,659,293
Cash and cash equivalents	122,771,029	77,660,840

6 Interpretation for Important Accounts of the Company's Financial Statements

(1) Cash and Deposit

	2007	2006
Deposit at bank	9,180,464	4,368,698
Other monetary assets	918,814	1,048,037
Total	10,099,278	5,416,735

(2) Receivables

	2007	2006
Dividends receivable	3,565,020	3,000,000
Interests receivable	40,924	18,289
Other receivables	7,360,564	7,391,654
Less: provision for bad debts	3,619,348	4,000,869
Total	7,347,160	6,409,074

(3) Loans

	2007	2006
Short-term loans	864,296	897,883
Less: provision for short-term loans	5,446	5,700
Total short-term loans	858,850	892,183
Medium and long-term loans	1,143,479	3,205,447
Less : provision for medium and long-term loans	933,951	1,506,128
Total medium and long-term loans	209,528	1,699,319
Total loans	1,068,378	2,591,502

The loans mentioned above are capitalized loans to internal subsidiaries, which were formed before the re-organization. The loans issued after the re-organization are accounted as short-term investments in the form of entrusted loans

(a) Analysis by categories (short-term loans, medium and long-term loans):

·Short-term loans

	2007	2006
Unsecured loans	864,296	897,883
Total	864,296	897,883

·Medium and long-term loans

By nature and original maturity:

	2007		
	1-5 years	over 5 years	Total
Unsecured loans	189,531	756,019	945,550
Loans with guarantees	-	76,269	76,269
Loans secured by properties	-	63,077	63,077
Loans pledged by monetary assets	58,583	-	58,583
Total	248,114	895,364	1,143,479

	2006		Total
	1-5 years	over 5 years	
Unsecured loans	968,978	2,046,126	3,015,104
Loans with guarantees	-	109,217	109,217
Loans secured by properties	-	18,500	18,500
Loans pledged by monetary assets	62,626	-	62,626
Total	1,031,604	2,173,843	3,205,447

(b) Provision for Loans Losses

	Total provision for impairment losses							Closing balance
	Opening balance	Charge for the period	Value recovery-written back	Recovery of value written off	Subtotal	Value of write-off	Movement due to other reasons	
Provision for short-term loans	5,700	-167	-	-	-167	-	-87	5,446
Provision for medium and long-term loans	1,506,128	111,643	-	65,545	46,098	599,133	-19,142	933,951
Total	1,511,828	111,476	-	65,545	45,931	599,133	-19,229	939,397

(4) Investments

	2007	2006
Short-term investments	23,255,552	2,290,331
Long-term investments	137,409,792	93,176,908
Total investments	160,665,344	95,467,239

(a) Short-term investments

	2007	2006
Delegated management assets	5,845,860	261,970
Entrusted loans	8,806,195	1,642,500
Entrusted investments	4,328,915	346,149
Stocks	878,693	4,984
Bonds	1,577	-
Fund	63,840	56,416
Others	3,730,000	25,750
Total short-term investments	23,655,080	2,337,769
Less: Provision for short-term investments	399,528	47,438
Total	23,255,552	2,290,331

Analysis by market value

	2007		2006	
	Net book value	Market value	Net book value	Market value
Delegated management assets	5,787,402	5,787,402	259,350	259,350
Entrusted loans	8,511,866	8,511,866	1,642,500	1,642,500
Entrusted investments	4,328,915	4,328,915	302,202	302,202
Stocks	869,906	1,166,290	4,934	4,934
Bonds	1,561	1,561	-	-
Fund	63,202	63,202	55,852	55,852
Others	3,692,700	3,692,700	25,493	25,493
Total	23,255,552	23,551,936	2,290,331	2,290,331

(b) Long-term equity investments

	2007	2006
Investments in:		
Listed companies	66,140,895	5,377,032
Unlisted special companies which hold the shares of the listed companies	27,744,383	18,467,258
Other unlisted companies	51,781,015	75,387,619
Others	195,750	320,000
Total	145,862,043	99,551,909
Less: provision for long-term investments	8,452,251	6,375,001
Net carrying amount	137,409,792	93,176,908

As at 31 December 2007, the market value of listed companies directly held by the Company and indirectly held through unlisted special companies by the Company is RMB 356,001,580,000; while as at 31 December 2006 the market value is RMB 59,541,510,000.

(i) Analysis by industry:

	2007	2006
Financial services	82,609,765	45,845,199
Resources	19,944,735	16,869,875
Investment holding	19,438,057	17,972,175
Real estate and civil infrastructure	8,604,036	3,065,712
Manufacturing	4,399,555	3,893,210
Information industry	4,332,110	4,642,534
Trading and services	820,918	825,876
Project contracting	447,993	275,503
Others	5,264,874	6,161,825
Total long-term equity investments	145,862,043	99,551,909
Less: provision for long-term investments	8,452,251	6,375,001
Net carrying amount of long-term equity investments	137,409,792	93,176,908

(ii) Analysis by currency:

	2007		2006	
	USD	Amount in RMB	USD	Amount in RMB
Investment in RMB	-	84,333,153	-	41,234,754
Investment amount in USD	8,423,307	61,528,890	7,468,228	58,317,155
Total long-term equity investments	8,423,307	145,862,043	7,468,228	99,551,909
Less: provision for long-term investments	-	8,452,251	-	6,375,001
Net carrying amount of long-term equity investments	8,423,307	137,409,792	7,468,228	93,176,908

(c) Provision for investments

	Total provision for impairment losses							
	Opening balance	Charge for the period	Value recovery-written back	Recovery of value written off	Subtotal	Value of write-off	Movement due to other reasons	Closing balance
Provision for short-term investments	47,438	352,090	-	-	352,090	-	-	399,528
Provision for long-term investments	6,375,001	2,110,422	-	26,120	2,084,302	-33,182	-40,234	8,452,251
Total	6,422,439	2,462,512	-	26,120	2,436,392	-33,182	-40,234	8,851,779

(5) Fixed Assets

Costs of the fixed assets:

	Opening balance	Additions	Disposals	Closing balance
Plant and buildings	21,828	-	-	21,828
Transportation equipment	21,225	-	-	21,225
Machinery & equipment	870,604	-14	81	870,509
Others	42,182	6,478	869	47,791
Total	955,839	6,464	950	961,353

Accumulated depreciation:

	Opening balance	Additions	Written back	Closing balance
Plant and buildings	9,540	1,172	-	10,712
Transportation equipment	9,544	1,557	-	11,101
Machinery & equipment	384,607	219,849	-	604,456
Others	27,970	7,585	834	34,721
Total	431,661	230,163	834	660,990

(6) Other Long-term Assets

	2007	2006
Intangible assets	2,557	3,951
Long-term deferred expenses	176,888	195,932
Repossessed assets	134,172	139,609
Long-term accounts receivable	199,776	204,767
Right to trade in preciously non-tradable shares	129,426	153,510
Total	642,819	697,769

The long-term deferred expenses represents the costs of issuing bonds.

(7) Short-term Financing

	2007	2006
Short-term loans	3,919,191	4,484,263
Current portion of long-term liabilities	612,180	220,241
Total	4,531,371	4,704,504

(8) Payables

	2007	2006
Accounts payable	186,076	54,666
Other payables	4,048,437	3,140,838
Consigned investments	4,328,915	346,149
Tax payable	537,363	70,865
Total	9,100,791	3,612,518

(9) Other Current Liabilities

	2007	2006
Swap	50,965	16,166
Profit receipts in advance	54,035	3,086,215
Total	105,000	3,102,381

(10) Long-term Bond Payables

	Cut-off Date	Interest rate (%)	Closing balance of interest payable (in RMB)	Closing balance (in Original currency)	Closing balance (in RMB)
YEN					
96 Samurai	Sep.19,1996—Sep.19,2016	4.95	143,075	10,143,075	648,443
RMB					
01 CITIC	Dec.19,2001—Dec.19,2011	3.98	4,580	3,504,580	3,504,580
02 CITIC	Sep.26,2002—Sep.26,2017	4.08	48,289	4,548,289	4,548,289
03 CITIC 4 billion	Dec.12,2003—Dec.12,2013	4.5	9,730	4,009,730	4,009,730
03 CITIC 6 billion	Dec.12,2003—Dec.12,2023	5.1	15,569	6,015,569	6,015,569
05 CITIC 5 billion	Dec.9,2005—Dec.9,2015	Basic interest rate +1.48	8,114	5,008,114	5,008,114
05 CITIC 4 billion	Dec.9,2005—Dec.9,2025	4.6	13,441	4,013,441	4,013,441
Total			242,798		27,748,166

Repayment projection: 01 CITIC, 02 CITIC and 05 CITIC 4 billion are designated to pay the interests annually and to pay the principle at the maturity date. 03 CITIC, 05 CITIC 5 billion and 96 Samurai are designated to pay the interests semi-annually and to pay the principle at the maturity date. The closing balance of interest payable is the accrued interest which has not been paid

As part of the closing balance of long-term bond payables of the Company, the set off amount in consolidation is RMB 927,210,000.

(11) Capital

	Opening balance	Increase in current year	Decrease in current year	Closing balance	Note
Capital	32,335,295	1,423,357	-	33,758,652	

This item represents the paid-in capital from the Ministry of Finance of the People's Republic of China (MOF). The increased amount of RMB 1,423,360,000 in the current year represents the transferred capital amount obtained from tax make-up for investing income abroad.

(12) Reserves

	2007	2006	Note
Capital surplus	52,296,111	13,991,933	1
Surplus reserves	8,666,961	8,611,153	
Opening balance of retained earnings	-9,125,434	-14,917,923	2
Difference from translation of financial statements dominated in foreign currencies	77,640	-1,150,734	
Less: unrecognized investment losses	-	-	
Total	51,915,278	6,534,429	

(i) The movements of the capital surplus represents the Company's adjustments along with the changes of its invested companies' capital surplus according to the equity method. The amount is RMB 38,304,180,000.

(ii) Movements of retained earnings:

	Amount
Closing balance of 2006	-8,457,066
Add: adjustments of opening balance	-244,584
Other adjustment	-423,785
Opening balance of 2007	-9,125,434
Transferred from net profit of 2007	15,906,515
Closing balance of 2007	6,781,081

(13) Operating Income

	2007	2006
Interests	66,872	116,655
Fee and commission	38,079	20,468
Interests from financial institutions	32,444	34,373
Other operating income	272,480	887,902
Total	409,875	1,059,398

(14) Operating Cost

	2007	2006
Loss of foreign currency translation	4,283,945	207,600
Interest costs	3,066,154	1,969,343
Commission costs	27,493	13,686
Other operating costs	179,483	47,043
Total	7,557,076	2,237,672

Loss of foreign currency translation: the assets of the Company are accounted by currencies. According to the regulations of the Ministry of Finance, the company translated the foreign currency assets into RMB which forms the main part of the loss of foreign currency translation in 2007.

(15) Investment Income

	2007	2006
Income from short-term investments	543,438	185,778
Income from long-term investments	27,148,346	9,785,673
Including: recognized income(loss) according to equity method	18,540,544	9,710,217
Income from stock transfer	8,626,581	72,244
Dividends from invested companies	58,821	31,853
Others	-77,600	-28,641
Total	27,691,784	9,971,451

(16) Provisions for Impairment Losses

	Charge for the period	Value recovery- written back	Recovery of value written off	Total provision for 2007
Provision for long-term investments	2,110,422	-	26,120	2,084,302
Provision for short-term investments	352,090	-	-	352,090
Provision for bad debts	-79,311	-	8,000	-87,311
Provision for loan losses	111,476	-	65,545	45,931
Provision for other assets	-207	-	-	-207
Writing off of non-performing assets	46,012	-	-	46,012
Total	2,540,482	-	99,665	2,440,817

7 Segmental Reporting

(a) Business segments

2007

	Financial services	Real estate and civil infrastructure	Project contracting	Resources	Manufacturing	Information industry	Trading and services	Head office	Unallocated	Elimination	Total
Operating income	55,350,388	5,389,135	7,580,832	22,506,435	11,415,756	2,601,794	5,215,726	409,875	338,267	-1,455,942	109,352,266
Operating costs	25,455,683	3,107,467	6,949,838	19,958,420	9,830,496	2,099,262	3,936,756	7,557,076	533,483	1,294,610	80,723,091
Operating expenses	11,894,322	670,801	262,798	845,937	1,222,775	564,353	1,188,067	580,153	749,060	-2,650,551	15,327,715
Investment income	1,534,994	2,297,285	151,394	739,718	1,401,947	1,380,904	1,510,288	27,691,784	1,662,003	-14,682,039	23,688,278
Business taxes and surcharges	2,116,645	820,696	118,329	27,358	43,879	65,640	100,420	16,698	-	-	3,309,665
Operating profit	17,418,732	3,087,456	401,261	2,414,438	1,720,553	1,253,443	1,500,771	19,947,732	717,727	-14,782,040	33,680,073
Add: non-operating income	190,237	113,511	8,251	21,460	121,731	7,113	224,154	13,083	15,916	-	715,456
Less: non-operating expenses	80,281	21,878	6,231	288	44,353	20,447	723,430	19,390	1,116	-	917,414
Profit before provision for impairment losses	17,528,688	3,179,089	403,281	2,435,610	1,797,931	1,240,109	1,001,495	19,941,425	732,527	-14,782,040	33,478,115
Less: provision for impairment losses	3,000,120	218,602	28,323	15,456	98,707	75,333	252,917	2,440,817	798,899	-	6,929,174
Profit after provision for impairment losses	14,528,568	2,960,487	374,958	2,420,154	1,699,224	1,164,776	748,578	17,500,608	-66,372	-14,782,040	26,548,941
Less: income tax											7,204,353
Less: Minority interests											3,474,378
Add: unrealised investment losses											98,234
Net Profit											15,968,444

2007

	Financial services	Real estate and civil infrastructure	Project contracting	Resources	Manufacturing	Information industry	Trading and services	Head office	Unallocated	Elimination	Total
Assets	1,131,760,795	52,582,300	11,745,525	41,310,505	21,072,578	16,532,093	32,106,875	180,123,342	8,674,856	-174,179,671	1,321,729,198
Liabilities	1,031,764,023	28,736,526	11,028,638	28,657,686	13,130,373	7,937,525	17,480,293	78,542,897	12,857,197	-52,921,450	1,177,213,708

Notes to financial statements for the year ended 31 December 2007

2006

	Financial services	Real estate and civil infrastructure	Project contracting	Resources	Manufacturing	Information industry	Trading and services	Head office	Unallocated	Elimination	Total
Operating income	38,735,817	5,580,217	3,127,870	16,001,191	8,459,463	2,136,915	6,917,175	1,059,398	359,170	-1,742,653	80,634,563
Operating costs	18,245,924	3,560,299	2,623,759	14,563,732	7,639,829	1,941,869	5,702,697	2,237,672	60,801	718,405	57,294,987
Operating expenses	9,635,853	700,522	262,971	554,095	692,104	600,207	1,089,120	425,789	927,783	-2,358,554	12,529,890
Investment income	382,462	1,665,155	2,158	180,020	553,802	617,334	1,168,189	9,971,451	-808,687	-8,570,994	5,160,890
Business taxes and surcharges	1,424,317	429,949	52,903	6,422	26,685	57,384	66,443	12,820	8	-	2,076,931
Operating profit	9,812,185	2,554,602	190,395	1,056,962	654,647	154,789	1,227,104	8,354,568	-1,438,109	-8,673,498	13,893,645
Add: non-operating income	195,166	106,681	3,359	18,183	58,942	8,776	12,033	6,078	21,214	-	430,432
Less: non-operating expenses	73,014	13,605	1,747	1,000	31,075	5,706	10,453	16,624	152	-	153,376
Profit before provision for impairment losses	9,934,337	2,647,678	192,007	1,074,145	682,514	157,859	1,228,684	8,344,022	-1,417,047	-8,673,498	14,170,701
Less: provision for impairment losses	1,766,529	441,018	17,356	41,945	92,390	21,566	3,538	1,814,246	-	-	4,198,588
Profit after provision for impairment losses	8,167,808	2,206,660	174,651	1,032,200	590,124	136,293	1,225,146	6,529,776	-1,417,047	-8,673,498	9,972,113
Less: income tax											2,547,333
Less: Minority interests											975,791
Add: unrealised investment losses											15,197
Net Profit											6,464,186

2006

	Financial services	Real estate and civil infrastructure	Project contracting	Resources	Manufacturing	Information industry	Trading and services	Head office	Unallocated	Elimination	Total
Assets	810,600,367	33,454,503	6,635,444	16,923,484	15,169,334	16,497,942	27,894,718	111,106,497	791,001	-111,900,249	927,173,041
Liabilities	758,973,668	17,883,492	5,128,971	10,165,811	8,716,628	8,882,790	12,860,058	65,775,915	8,311,470	-30,834,848	865,863,955

According to the industry adjustments of subsidiaries, the amounts have been re-classified at the beginning of the year.

Notes to financial statements for the year ended 31 December 2007

(2) Geographical segments

	2007					2006				
	HongKong		Others	Elimination	Total	HongKong		Others	Elimination	Total
	Domestic	SAR				Domestic	SAR			
Operating income	85,799,989	22,797,911	1,214,789	-460,423	109,352,266	61,230,233	18,607,678	1,152,912	-356,260	80,634,563
Operating costs	60,438,040	19,681,127	948,070	-344,146	80,723,091	41,349,232	15,373,436	819,025	-246,706	57,294,987
Operating expenses	12,743,033	2,439,914	161,044	-16,276	15,327,715	10,251,955	2,133,355	154,134	-9,554	12,529,890
Investment income	23,995,628	5,631,566	47,517	-5,986,433	23,688,278	5,305,193	2,977,786	38,995	-3,161,084	5,160,890
Business taxes and surcharges	3,307,146	2,519	-	-	3,309,665	2,075,190	1,741	-	-	2,076,931
Operating profit	33,307,398	6,305,917	153,192	-6,086,434	33,680,073	12,859,049	4,076,932	218,748	-3,261,084	13,893,645
Add: non-operating income	619,306	91,620	4,530	-	715,456	336,803	93,260	369	-	430,432
Less: non-operating expenses	917,387	27	-	-	917,414	153,356	20	-	-	153,376
Profit before provision for impairment losses	33,009,317	6,397,510	157,722	-6,086,434	33,478,115	13,042,496	4,170,172	219,117	-3,261,084	14,170,701
Less: provision for impairment losses	6,783,083	146,091	-	-	6,929,174	4,141,847	56,741	-	-	4,198,588
Profit after provision for impairment losses	26,226,234	6,251,419	157,722	-6,086,434	26,548,941	8,900,649	4,113,431	219,117	-3,261,084	9,972,113
Less: income tax					7,204,353					2,547,333
Less: Minority interests					3,474,378					975,791
Add: unrealised investment losses					98,234					15,197
Net Profit					15,968,444					6,464,186

	2007					2006				
	HongKong		Others	Elimination	Total	HongKong		Others	Elimination	Total
	Domestic	SAR				Domestic	SAR			
Assets	1,194,389,356	180,314,219	6,052,630	-59,027,007	1,321,729,198	834,779,270	134,687,200	4,028,764	-46,322,193	927,173,041
Liabilities	1,053,038,380	130,494,931	1,553,637	-7,873,240	1,177,213,708	777,489,432	95,372,980	887,056	-7,885,513	865,863,955

8 Related Party Transactions

The transactions with related parties of the Group in 2007 included transactions in operating activities with those associates and joint ventures of the Group. These transactions were in terms of normal business contracts and lines, and traded at market prices. All the intra-group transactions of the Group are not disclosed since they have been eliminated in the preparation of the consolidated financial statements.

(a) Transactions with related parties (income statement items)

	With related parties in 2007	Total amount incurred in 2007	As percentage of the total amount (%)
	(1)	(2)	(1) / (2)
Interest income	1,698	38,518,370	0.00%
Fee and commission	95	3,359,288	0.00%
Interest costs	4,747	20,875,356	0.02%
Interest costs to financial institutions	260	4,750,842	0.01%

(2) Balances of receivables and payables arising from related parties (balance sheet items)

	2007			2006		
	With related parties	Total balance in balance sheet	As percentage of the total amount (%)	With related parties	Total balance in balance sheet	As percentage of the total amount (%)
	(1)	(2)	(1) / (2)	(3)	(4)	(3) / (4)
Assets:						
Other receivables	80,513	14,550,813	0.55%	754,100	9,740,932	7.74%
Account receivables	8,571	10,378,393	0.08%	7,877	9,398,720	0.08%
Overdue loans	-	8,496,018	-	317,800	11,865,885	2.68%
Short-term loans to customers	-	319,734,658	-	224,563	242,461,046	0.09%
Liabilities:						
Shor-term deposits	186,132	345,524,091	0.05%	4,530,678	266,495,498	1.70%
Deposits from banks and other financial institutions	5,176	98,240,639	0.01%	772,871	28,945,107	2.67%
Other payables	285,123	17,309,177	1.65%	290,806	7,365,523	3.95%
Accured expenses	-	641,227	-	35,807	741,547	4.83%
Short-term loans	-	16,974,882	-	5,000	16,658,208	0.03%
Account payables	7,242	19,818,154	0.04%	2,946	12,793,102	0.02%

9 Contingencies

(1) Off-balance sheet items

(a) Derivative financial instruments

Derivative financial instruments are off-balance sheet instruments, including forward, swaps, and option contracts conducted in exchange and interest market.

The following tables provide the nominal amounts and the fair value of derivatives of the Group and the nominal amounts are analyzed at the balance sheet date. The nominal amounts of the derivatives indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

	2007			2006		
	Nominal amount	Fair value		Nominal amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Interest rate contracts	166,844,706	1,246,366	680,952	115,488,737	347,343	626,677
Exchange contracts	164,896,908	1,635,514	2,054,350	91,216,380	434,986	349,494
Credit contracts	456,000	9,000	2,000	560,000	2,000	1,000
Total	332,197,614	2,890,880	2,737,302	207,265,117	784,329	977,171

(b) Irrevocable off-balance sheet credit

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers.

Value of guarantees and letters of credit presented below represents the maximum potential loss the Group would bear if the corresponding counter party failed to exercise completely as contracted.

	2007		2006	
	Consolidated	The Company	Consolidated	The Company
Direct credit substitutes	240,151,436	-	183,269,829	-
Trade-related contingencies	1,643,140	-	1,850,269	-
Other commitments	49,955,071	10,520	48,178,370	16,380
Guarantees	17,421,626	8,854,090	2,204,845	356,990
Loan guarantees	7,094,534	10,182,080	6,183,224	10,027,260
Total	316,265,807	19,046,690	241,686,537	10,400,630

The above credit businesses are those which expose the Group to credit risk.

(2) Contingent liabilities

Outstanding litigations

As at 31 December 2007, the Group was the defendant in certain pending litigations. The total amount involved in these litigations was approximately RMB 362,210,000.

(3) Commitments

(a) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases in respect of the premises were payable as follows:

	2007	2006
Within 1 year	636,892	500,543
After 1 year but within 5 years	1,419,955	1,179,470
After 5 years	952,311	568,114
Total	3,009,158	2,248,127

(b) Capital commitments

	2007	2006
Authorized and contracted	398,879	256,954
Authorized but not contracted	200,072	181,538
Total	598,951	438,492

10 Comparative figures

According to the Document Caijin [2007] No.167, the Company began to implement the Accounting Regulations for Financial Enterprises in 2007; the Company made the retroactive adjustments to assets impairments. The adjustment of the consolidated financial statements includes a decrease of RMB 8,547,440,000 in the opening balance of total assets and a decrease of RMB 8,547,440,000 in the opening balance of investor's equity.