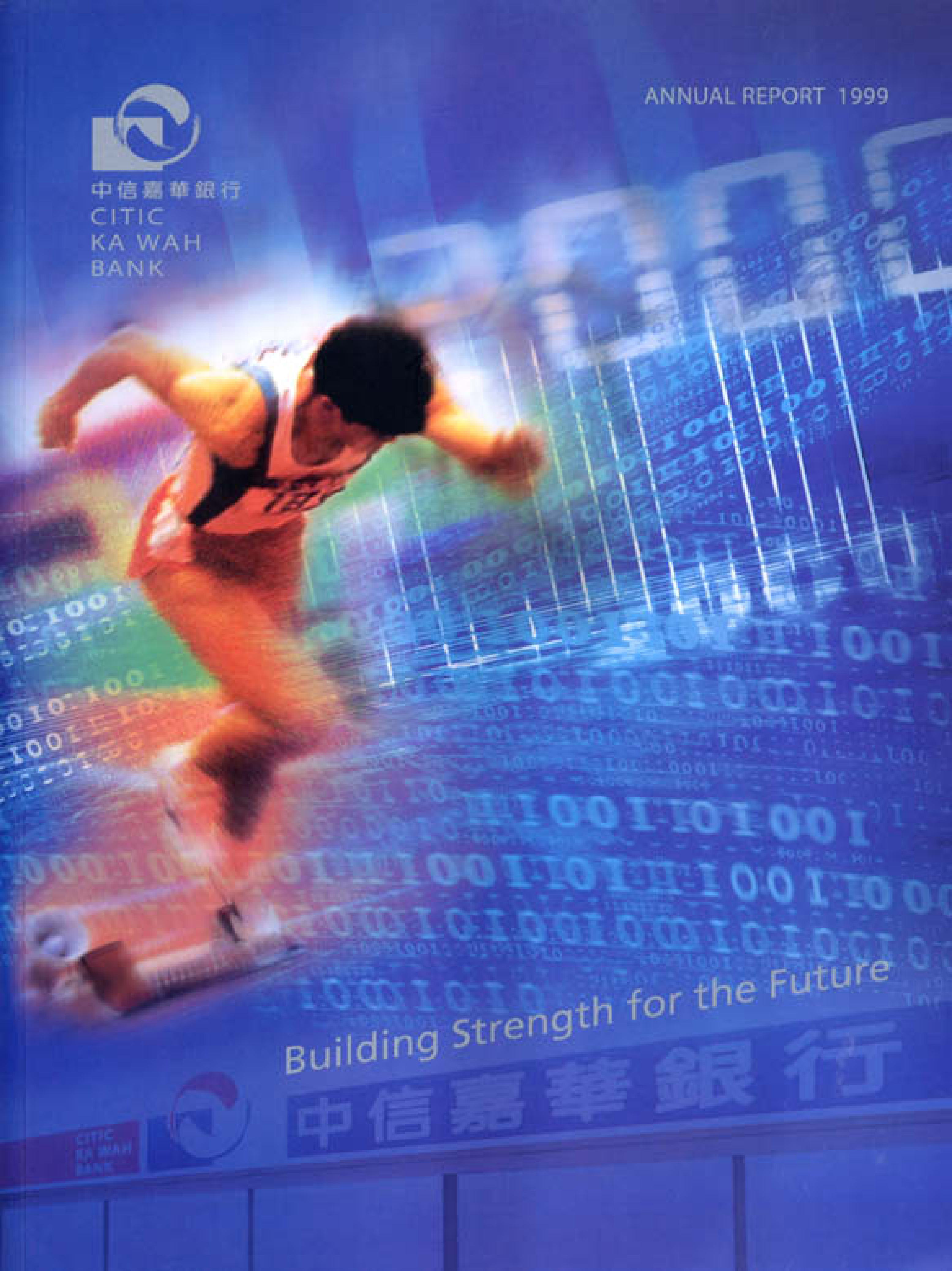
ANNUAL REPORT 1999

中信嘉華銀行
CITIC
KA WAH
BANK

Building Strength for the Future



CITIC Ka Wah Bank Limited (the 'Bank') has been operating in Hong Kong for over 70 years. Publicly listed on the Stock Exchange of Hong Kong, it is backed by the vast resources of China International Trust and Investment Corporation ('CITIC') Group. The Bank's vision is to be a reputable provider of financial services in the hearts of the customers. To achieve this we are constantly developing a range of leading-edge products and services that meet the different money management and investment needs of our customers.

In July 1998, the Bank officially changed its name to CITIC Ka Wah Bank Limited. We launched a fresh corporate identity in November 1998, emblematic of our new corporate values and culture and a demonstration of our determination and spirit for reform and business development.

Today we are recognized as an innovative and progressive bank operating under strong leadership with a professional attitude to all aspects of our growing business. We have successfully transformed and revitalized the business, gearing it to provide shareholders and customers with quality earnings and value-added services.

The Bank's strong financial position is reflected in the international ratings secured in December 1999. Moody's Investors Service rated the Bank's long- and short-term foreign currency deposit at Baa2 and Prime-3 respectively. The Bank's financial strength was rated at D and the rating outlook remains stable. The ratings reflect our sound financial position in the wake of our business development and reforms. As at December 1999, the capital adequacy ratio, the loan to deposit ratio and the average liquidity ratio were at 19.2%, 67.9% and 39.5% respectively. These figures are solid proof for our strong financial position.

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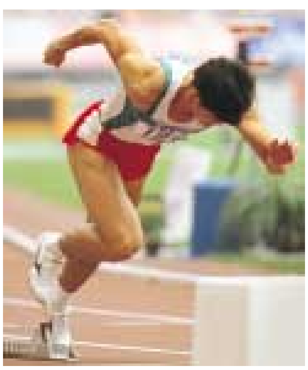


Building Strength for the Future

Like a well-trained and ambitious sportsman, CITIC Ka Wah Bank has prepared itself for a future at the top. In the past two years, we have quietly groomed ourselves, implementing a program of reform and prudent business development and proving the validity of a well-earned reputation in the market place.
The time has arrived for us to focus on the next level of competition — to create even greater shareholder value. Professional staff, innovative strategies and solid infrastructure are in place. The business fundamentals are right.
CITIC Ka Wah Bank is ready to set new performance records.

Financial Performance

1999 Financial Highlights

For the Year (In HK$ million)	1999	1998	% Change
Net Interest Income	**898**	876	+2.5
Other Operating Income	**252**	302	-16.4
Operating Expenses	**481**	481	—
Charge for Bad and Doubtful Debts	**938**	571	+64.2
Profit on Disposal of Interest in Subsidiaries	**397**	—	—
Profit Before Taxation	**110**	125	-12.3
Taxation	**1**	22	-93.3
Profit Attributable to Shareholders	**109**	103	+5.1

At Year End (In HK$ million)	1999	1998	% Change
Loans and Advances	**28,320**	25,905	+9.3
Total Assets	**48,783**	44,110	+10.6
Total Deposits	**41,705**	37,246	+12.0
Shareholders' Funds	**5,362**	5,276	+1.6

Financial Ratios	1999	1998
Capital Adequacy	**19.2%**	20.6%
Average Liquidity	**39.5%**	50.7%
Cost to Income	**41.8%**	40.8%
Loan to Deposit	**67.9%**	69.6%

Financial Calendar

Final Results Announcement — **25 February 2000**

Posting Date for Annual Report — **11 April 2000**

Share Register Closing Period — **25 April 2000 to 3 May 2000**

Date of Ordinary Yearly Meeting — **3 May 2000**

Dividend Payment Date — **9 May 2000**

Five Year Summary

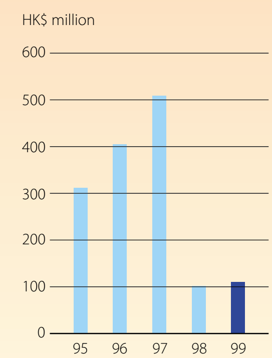
For the Year (In HK$ million)	1999	1998	1997	1996	1995
Net Interest Income	**898**	876	831	628	520
Other Operating Income	**252**	302	297	217	197
Operating Expenses	**481**	481	382	329	286
Charge for Bad and Doubtful Debts	**938**	571	210	50	59
Profit Before Taxation	**110**	125	565	455	376
Taxation	**1**	22	49	46	57
Profit Attributable to Shareholders	**109**	103	516	409	319

Per Share (In HK$)	1999	1998	1997	1996	1995
Earnings Per Share (Adjusted)	**0.042**	0.043	0.255	0.217	0.170
Dividends Per Share (Adjusted)	**0.010**	0.010	0.019	0.015	0.013
Book Value at Year End	**2.07**	2.04	2.90	1.89	1.50
Market Value at Year End	**2.975**	2.525	6.800	3.625	2.275

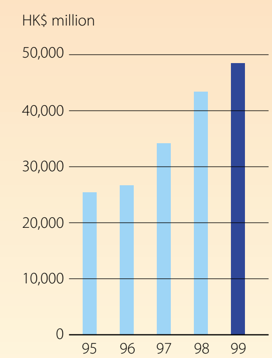
At Year End (In HK$ million)	1999	1998	1997	1996	1995
Loans and Advances	**28,320**	25,905	19,982	15,750	14,054
Charge for Bad and Doubtful Debts	**1,034**	1,024	781	576	542
Total Assets	**48,783**	44,110	34,631	27,124	25,721
Total Interest Earnings Assets	**46,448**	42,385	33,294	25,744	23,923
Total Deposits	**41,705**	37,246	27,501	22,228	20,839
Shareholders' Funds	**5,362**	5,276	4,550	2,096	1,716

Financial Ratios	1999	1998	1997	1996	1995
Capital Adequacy	**19.2%**	20.6%	24.2%	14.4%	13.8%
Average Liquidity	**39.5%**	50.7%	58.8%	56.0%	44.9%
Loan to Deposit	**67.9%**	69.6%	72.7%	70.9%	67.4%
Loans to Total Assets	**58.1%**	58.7%	57.8%	58.1%	54.6%
General Provision Coverage	**1.2%**	1.0%	1.2%	2.5%	3.5%
Cost to Income	**41.8%**	40.8%	33.9%	38.9%	39.9%
Dividend Payout	**23.9%**	25.1%	7.6%	6.8%	7.7%
Return on Assets	**0.2%**	0.3%	1.7%	1.6%	1.4%
Return on Shareholders' Funds	**2.0%**	2.1%	15.5%	21.5%	20.4%

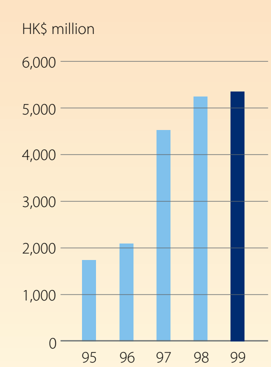
Profit Attributable to Shareholders



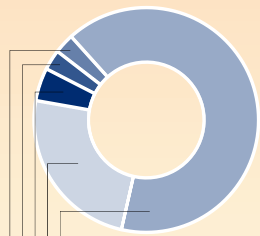
Total Assets



Shareholders' Funds



Deposit Breakdown



Deposits*

1. By Type	1999	1998
Current	**1.5%**	1.8%
Savings	**8.6%**	9.1%
Fixed	**89.9%**	89.1%
TOTAL	**100.0%**	100.0%

2. By Maturity	1999	1998
On demand	**10.3%**	12.6%
Less than 3 months	**82.1%**	80.0%
Over 3 months but less than 1 year	**3.8%**	7.3%
Over 1 year but less than 5 years	**3.8%**	0.1%
TOTAL	**100.0%**	100.0%

3. By Currency	1999	1998
HKD	**72.9%**	69.8%
USD	**22.4%**	24.8%
Others	**4.7%**	5.4%
TOTAL	**100.0%**	100.0%

4. Number of Deposit Accounts	1999	1998
	232,800	207,645

* Based on Customers Deposits only

Non-Interest Income

	1999	1998
Fees & Commission Income	**72.6%**	72.9%
Gain from Foreign Exchange Dealing	**8.1%**	9.8%
Dividend Income	**3.0%**	3.4%
Others	**16.3%**	13.9%
TOTAL	**100.0%**	100.0%

Loan Portfolio#

1. By Industry Sectors	1999	1998
Loans for Use in Hong Kong :		
Industrial, Commercial and Financial :		
Property Development	**5.1%**	6.1%
Property Investment	**6.5%**	8.4%
Financial Concerns	**4.3%**	5.8%
Stockbrokers	**0.7%**	0.1%
Wholesale and Retail Trade	**4.1%**	5.2%
Manufacturing	**3.2%**	2.2%
Transport and Transport Equipment	**4.6%**	3.9%
Others	**21.9%**	21.6%
Individuals :		
Mortgage (Home Ownership Scheme and Private Sector Participation Scheme)	**0.1%**	0.1%
Mortgage (Other Residential Properties)	**31.9%**	24.2%
Others	**2.4%**	2.0%
Trade Finance	**6.7%**	10.2%
Loans for Use Outside Hong Kong	**8.5%**	10.2%
TOTAL	**100.0%**	100.0%

2. By Geographical Spread	1999	1998
Hong Kong	**91.6%**	89.8%
China	**4.1%**	6.5%
Others	**4.3%**	3.7%
TOTAL	**100.0%**	100.0%

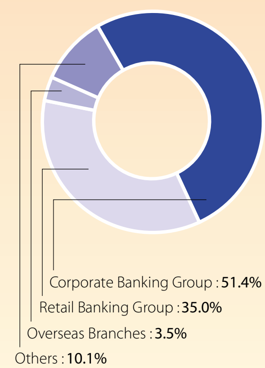
3. By Maturity	1999	1998
Repayable on demand	**5.8%**	7.3%
Less than one year	**26.6%**	26.4%
Over one year but less than 5 years	**31.4%**	32.5%
Over 5 years	**29.8%**	25.2%
Undated	**6.4%**	8.6%
TOTAL	**100.0%**	100.0%

4. By Currency	1999	1998
HKD	**69.9%**	63.4%
USD	**29.6%**	36.0%
Others	**0.5%**	0.6%
TOTAL	**100.0%**	100.0%

5. Number of Loan Accounts	1999	1998
	13,448	8,386

Excluding Trade Bills and Advances to Banks

Loan Breakdown



1999 Milestones

February

- Announcement of 1998 Final Results
- Relocation of Yuen Long Branch

April

- The 74th Ordinary Yearly Meeting held

99 Jan Feb Mar Apr May

March

- Launch of 'Mortgage Insurance Program'

May

- Appointment of Mr. Kenneth Kong as Executive Vice President

- Launch of new loan services for small and medium sized enterprises

July

- Announcement of strategic alliance with AIA Pension and Trustee Co. Ltd. to launch Mandatory Provident Fund products for small and medium sized enterprises

- Launch of 'Personal Installment Loan'
- Causeway Bay Branch unveiled new identity

September

- Risk Assets Management Department established
- Installation of an automatic securities trading and settlement system

November

- Ka Wah Capital Ltd. arranged a HK$1.7 billion syndicated loan for a subsidiary of Wai Kee Holdings Ltd.
- Launch of 'Tax Loan'

- Official opening of Call Center to provide 24-hour General Banking Hotline services

Jun Jul Aug Sep Oct Nov Dec 00

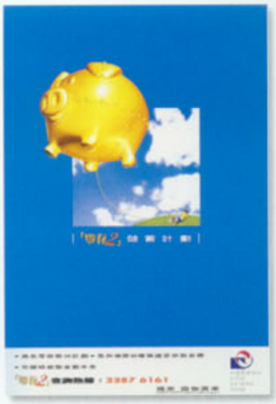
June

- Modification and testing of the Business Resumption Plan and the Year 2000 Contingency Plan accomplished

August

- Announcement of 1999 Interim Results
- Signing of Forward Commitment Facility Agreement with the Hong Kong Mortgage Corporation Ltd. for the sale of HK$300 million mortgage loans

- Launch of 'SavingsBuilder 2'



October

- Official opening of Shatin Center Branch

- Installation of a new Forex margin trading system

December

- Assigned first-time ratings by Moody's Investors Service
- Entered into an agreement with CITIC to sell a 49% stake in each of Cargary Securities Ltd. and Ka Wah Capital Ltd.

" An Unwavering Commitment for Innovation and Development "

Asian countries were recovering, at varying speeds, from the financial crisis in 1999. After a major adjustment in 1998, Hong Kong's economy gradually restored stability — all industries showed signs of revival; unemployment rates declined after recording historic high. For the banking sector, although the most difficult times spurred by the financial crisis had passed, difficulties and financial challenges remained plentiful. The proportion of bad debt was still high and overall demand for loans had not yet fully recovered.

To cope with the market circumstances in 1999, our Bank adopted a progressive and prudent business development approach. On the one hand, we sought ways to manage the difficulties brought by the financial turmoil, implementing reforms and adjustments and maintaining stability within the organization. Externally, on the other hand, we aimed to capitalize on the opportunities the crisis created, by expanding scope of businesses with a combination of determination, innovation and active business pursuits. Satisfactory results could therefore be recorded for many business lines over the last year, which was made possible by the support from various societal parties and from CITIC. Our Bank's loans and deposits recorded relatively high growth rates; problem loan ratio was greatly reduced; funding was ample and financial status was sound; our overall strengths were augmented; and profit exceeded 1998's level. In December 1999, Moody's Investors Service assigned the Bank a rating for the first time. The ratings for our long- and short-term foreign currency deposit were Baa2 and Prime-3 respectively.

Our financial status was rated at D, and the rating outlook is stable. The ratings demonstrate that the Bank has basically resolved the issues triggered by the Asian financial crisis and reflect the Bank's status of progressive and prudent development.

In 1999, the Bank focused on longer-term development needs and continued to recruit top-tier professionals to further enhance the overall capability of our management team. Reforms across various departments were reinforced, aiming to raise standards in the operational and management aspects. Additional investments had been directed to information technology and more efforts had been put in the development of new products and services. Customer relationship management was strengthened while various sales channels were improved. Staff training was intensified to raise quality and operational efficiency. Operational expenditure was contained for higher cost-efficiency. Such collective efforts of our entire staff force over last year helped boost overall operational and management capabilities, and improvement was shown in the Bank's asset quality. We have basically resolved the inherited issue of problem loans, expanded business scope, enlarged market share and increased our competitiveness. A solid foundation has been laid for further reforms and business development in the future.

The gradual economic recovery in Asia and China's impending admission into the World Trade Organization in 2000 will make Hong Kong's economy more dynamic and create more business opportunities for the financial services sector. In this new environment, the Bank will adhere to the strategy of seeking reforms, innovation and progressive development, and continue to be market-oriented in search of new growth areas. The current major focuses are to develop our e-finance services and strengthen our capital market businesses. While the Bank will actively target local medium-to-large enterprises and multi-national corporations, business with mainland companies will also be pursued with prudence. The Bank will continuously adopt a customer-focused strategy, relentlessly raising service quality, exploring new products to meet the needs of different market segments, and consequently playing a contributing role in the overall advancement and prosperity of the Hong Kong's economy.

As the Bank makes strides into the new millennium with confidence, on behalf of the Board of Directors, I would like to thank our entire staff members for their devotion and hardship in last year. I wish, in particular, to pay tribute to Mr. Nelson Tsao, a Director of the Bank, who has recently passed away. The Bank owes much to the contributions and dedication made by Mr. Tsao during his tenure.

Finally, on behalf of the Board, I would like to thank our shareholders and customers for their profound support and for sharing the Bank's confidence in the future; and to wish all our customers every success in their businesses.

Mr. Hong Yuncheng
Chairman

Report of Chief Executive Officer

Building Strength for the Millennium

Since the end of 1997, the Hong Kong economy has been operating in the mist of the Asian financial crisis, surrounded by problems including a dismal business environment, negative economic growth, high unemployment rate, contracting trade volume and plummeting stock and property markets. These transpired in shrinking loan demand across-the-board and the banking business was hard hit. The financial turmoil also led to the deterioration of the Bank's loan assets, to the extent that out of the approximately HK$20 billion loans at the end of 1997, HK$6.9 billion gradually became problematic. In response, the new management has since 1998 adopted a progressive business development strategy while concurrently implementing reforms and dealing with inherited issues. Highly experienced and qualified professionals were recruited to strengthen the management team. This strategy has proved to be successful, with satisfactory business performance being registered in many divisions of our businesses.

In 1999, Hong Kong still found its economy in a difficult stage. In a most critical operating environment, we continued to pursue the proven strategy of progressive business development and prudent internal transformation. After two years of solid work, we ultimately succeeded in overcoming challenges and achieved satisfactory profit growth,

Mr. Kelvin Lo
Executive Vice President

Mr. Kenneth Kong
Executive Vice President & Head of Corporate Banking Group

Mr. Zhang Mingqian
Executive Vice President & Alternate Chief Executive Officer

enabling significant provisions to be made against problem loans. A platform has also been laid for further business expansion and profit growth in 2000. We believe that the worst is now behind us and 2000 shall be a year of rich return.

Progress

1. Loans and deposits recorded high growth rates. According to statistics from the Hong Kong Monetary Authority ('HKMA'), total loans and advances in Hong Kong reduced by 19.8% in 1998. However, for the Bank, total loans grew 29.6%, or HK$5.92 billion in value. Total loans and advances in Hong Kong dropped another 15% in 1999, and in contrast, the Bank's loans recorded another year of improvement, by 9.3%, or an increase of HK$2.42 billion. As a result of cumulative growth of 41.7% in two years, or HK$8.34 billion, the Bank's total loans stood at HK$28.3 billion at the end of 1999.

   In 1998, the Bank's total deposits rose by 35.4%, or HK$9.75 billion. 1999 was another year of satisfactory growth as far as deposits were concerned. During the year HK$4.46 billion of deposits, or 12.0%, were added, bringing the 1999 year end figure to HK$41.71 billion. Taking into account that HK$1.6 billion of certificates of deposit matured during 1999, the effective growth in total deposits was put at 16.3%. Comparing the year end figures of 1997 and 1999, deposits increased by HK$14.20 billion, or 51.6%, in two years.

Mr. Cai Zhongzhi
President &
Chief Executive Officer

Mrs. Doreen Chan
Executive Vice President &
Head of Retail Banking Group

Mr. Kane G. Gong
Executive Vice President &
Head of Group Finance & Operations

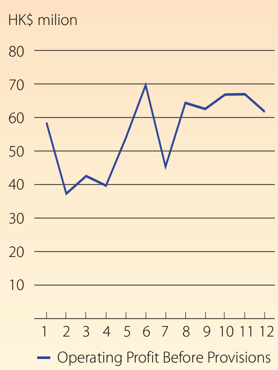
Total assets grew 27.4%, or HK$9.48 billion, in 1998. As at 31 December 1999, total assets were recorded at HK$48.78 billion, reflecting an increase of HK$4.67 billion, or 10.6% over 1998. After experiencing two successive years of relatively rapid growth the Bank's total assets increased significantly by HK$14.15 billion, or 40.9%, from approximately HK$35 billion in the beginning of 1998 to approaching the HK$50 billion mark.

2. Asset quality improved. Our strategy is to gradually acquire new quality assets, bringing down continuously the lending risk exposure and diversifying the loan portfolio. Since 1998 we have developed a robust credit system by centralizing the credit processes. All newly booked loans are subjected to stringent credit scrutiny. As a result, the delinquency ratio for new corporate loans booked since 1998 was at a low level of 0.4%.

Asset Quality	1999	1998	1997
Total Loans and Advances (HK$ billion)	**28.32**	25.90	19.98
– Lending to Listed Companies as a percentage of Total Loans and Advances	**28.8**	25.8	10.1
– Top 20 Customers Exposure as a percentage of Total Loans and Advances	**30.2**	33.7	–
– Mainland Exposure as a percentage of Total Loans and Advances *	**29.2**	37.0	–
– Mortgage Loans as a percentage of Total Loans and Advances	**31.1**	23.3	18.1

* Mainland exposure is stated in accordance with the guideline issued by the HKMA (including debt securities and other investment instruments).

1999 Monthly Profit



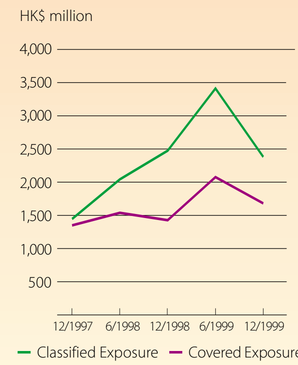
3. Profit growth maintained. Despite intensifying competition in the local banking industry, most notably in the mortgage sector, profit attributable to shareholders rose by 5.1% in 1999. Although non-interest income decreased 16.4%, operating profit before provision only fell by 4.0%. This is attributable partly to the fall in operating expenses as a result of stringent cost control and the satisfactory performance recorded by various business divisions which drove net interest income up by 2.5%. As a result of the gratifying profit growth, and a windfall gain of approximately HK$400 million from disposing of 49% of our shareholding in each of Cargary Securities Limited ('Cargary') and Ka Wah Capital Limited ('Capital') in late 1999, we have ample capital to lift our provisioning level that far exceeds HKMA's requirements. This also ensures that we are able to support future business growth to enhance profitability.

It is worth pointing out that the Bank's profit level has started to make a breakthrough since the fourth quarter of 1999, with the average monthly operating profit before provisions exceeding HK$60 million. As this trend is sustained in early 2000 and a sharply lower provision figure is expected, we anticipate that profit in 2000 will reach a high level.

4. Problem loans issue under control. In 1999, we made a recovery of HK$1.94 billion in problem loans, broken down as HK$696 million from cash recovery, HK$658 million from debt restructuring, HK$278 million from collateral realization and HK$310 million of additional collateral. This was achieved on top of the HK$1.83 billion already dealt with in 1998, putting total recovery in the two years at HK$3.77 billion. In addition, we have written off, respectively, HK$390 million and HK$1,080 million of problem loans in 1998 and 1999. After two years of vigorous tackling and write-off, the problem loans issue is now basically under control.

Problem Loans Recovery	1999 (HK$ million)	1998 (HK$ million)	Total (HK$ million)
Cash Recovery	**696**	789	1,485
Collateral Realization	**278**	353	631
New Collateral	**310**	–	310
Debt Restructuring	**658**	686	1,344
Total	**1,942**	1,828	3,770

Coverage of Classified Exposure



As at the end of 1999, classified exposure, comprising substandard and doubtful loans, amounted to HK$2.38 billion, representing 8.4% of the Bank's total loans. Specific provision made against this classified exposure was HK$720 million, with collateral amounting to HK$960 million. This represents a coverage ratio of 70.6% and an uncovered exposure of HK$700 million. In September 1999, we set up the Risk Assets Management Department for the handling of problem loans. It is believed that the problem loans issue could be wholly resolved in 2000.

5. Continuous reform and development is vital to sustain business development. Two years ago, many difficulties and issues confronted the Bank. Not only were problem loans standing at a relatively high level, we also lagged behind the market in many facets, from our management systems and operating principles to the quality of senior management. To support business development, therefore, it was imperative for the Bank to undertake a comprehensive program of reform and adjustments.

The first step of reform involved strengthening the management team. Two years ago, the Bank's management team comprised entirely of mainland bankers. In early 1998, we recruited Mrs. Doreen Chan to head the Retail Banking Group. Mrs. Chan worked in Standard Chartered Bank for many years and is a veteran retail banker. Under her leadership, the Retail Banking Group was transformed and revitalized. This includes the setting up of a new organization structure, revamping of the branch network, formation of a direct sales force and establishment of an efficient operating platform. For the past two years, the Retail Banking Group has actively participated in the mortgage market, resulting in a HK$5.2 billion growth in the Bank's mortgage portfolio, which represents one and a half times the total mortgage loans acquired during the last 10 or more years.

In May 1999, the Bank appointed Mr. Kenneth Kong, a highly experienced banker, to lead the Corporate Banking Group. A comprehensive business reform program was put into place, which led to the establishment of new lending policies and a new group structure. Relationships with local corporates were enhanced, new product development programs were strengthened, and operational procedures streamlined. Business reforms have started to make a positive impact on the Bank's corporate loans, both in volume, returns and interest margins, as well as contributed toward raising the quality of the Bank's loan portfolio.

The Bank engaged Mr. Kelvin Lo, a qualified solicitor with extensive China experience, in problem loans recovery. A specialized Risk Assets Management Department was established in September 1999. Under Mr. Lo's leadership, we have, in the past two years, made considerable progress in the recovery of problem loans.

The Bank, at the same time, appointed Ms. Nancy Leung, who has been working for Jardine Fleming for many years, to the position of Head of Human Resources Department to spearhead reforms in human resources management. Ms. Leung applied a set of standards which are highly transparent, systematic and professional to revamp our human resources system. This has led to the recruitment of a number of professionals with international experience as well as gradually establishing a corporate culture that is open, international and contemporary.

Staff Force	1999	1998
1. By distribution:		
Head Office	**463**	394
Branches	**343**	396
Subsidiaries	**54**	88
Overseas Offices	**53**	56
Total	**913**	934
2. By grade:		
Assistant Manager and Above	**281**	212
Below Assistant Manager	**632**	722
Total	**913**	934
3. Turnover Rate	**22.1%**	6.8%

At the end of 1997, Mr. Simon Lee, who had a long career with Chase Manhattan Bank, joined the Bank to take charge of credit. Subsequently, our credit approval processes were refined and reformed and a new approval authority matrix established. Overall awareness of the importance of credit risk management was reinforced within the entire Bank. This has resulted in enhanced efficiency for credit approval and improved asset quality.

Recently, we recruited Mr. Kane G. Gong, who has a long professional career with Citibank N.A. and ING Barings, to be responsible for overseeing finance and operations. Mr. Gong will focus on enhancing the back office operations and finance function, with an emphasis on lifting our capabilities in finance management, research and analysis, and processing procedures.

6. Financial soundness gained recognition. The Bank's strong financial position was reflected in the first-ever international rating secured in December 1999. The ratings recognize the strengths of our ample capital and invigorated marketing drive, serving as an affirmation of our business development and reforms. As at the end of December 1999, the capital adequacy ratio and loan to deposit ratio were 19.2% and 67.9% respectively, while the average liquidity ratio for the year was 39.5%, which were solid proof of our strong capital base and stable financial position.

Major Initiatives for 2000

Management's unwavering commitment to a strategy of progressive business development and reform has demonstrably been successful, as illustrated by the Bank's past two years' performance. In 2000, this strategy will be persistently applied, together with continued efforts on problem loans recovery and the consolidation of our mainland exposure. As far as business initiatives are concerned, focus will be placed on two areas:

1. Launch of e-finance. Management recognizes the pivotal role that internet technology is playing in the future development and delivery of financial services. Therefore, we have since 1999 started putting together a web-enabled infrastructure and invested in the installation and establishment of a state-of-the-art IT systems and software. This e-initiative is already underway and we have recently commissioned PricewaterhouseCoopers to develop an e-business strategy as well as a market positioning strategy. Completion of the report is scheduled in the first quarter of 2000. The preliminary concept points to the development of a completely new e-finance business model embracing the future needs of the Bank as well as those of CITIC's financial services and telecommunications businesses. The plan is to launch internet securities trading services initially and the long-term goal is to develop regional e-finance coverage.

2. Focus on capital market activities. Both Cargary and Capital went through a process of reforms and expansion in 1999. As a result, their 1999 profits rose 86% and 242% respectively, compared to 1998. In December 1999, the Bank sold a 49% shareholding interest each in Cargary and Capital to CITIC. The purpose of the transaction is to strengthen the co-operation between the Bank and CITIC in the areas of securities brokerage and investment banking. Both Cargary and Capital are expected to benefit from a closer affiliation with CITIC through business referrals, sharing of customer base and a more visible identity, which is expected to boost the recognition and market standing of the two companies in both mainland and Hong Kong markets. While leveraging on CITIC's strengths, the Bank's capital market activities are expected to experience steady expansion in their scale of operations.

Building Strength for the Millennium

Under the direction of a professional management team and the profound support of staff members and customers, the Bank has, in the past two years, successfully undergone a process of transformation and expansion. Additionally, tremendous progress has been made in resolving the problem loans issue through significant recoveries and prudent provisioning. Such courses had led to the Bank's successful arresting of the issues prompted by the financial turmoil and our inherited problems. For the Bank, the worst is over and the pace of business development will be shifted into higher gears, taking us into this hi-tech era free of baggage. The year 2000 is fully expected to be a year of rich harvest.

Mr. Cai Zhongzhi
President & Chief Executive Officer

Innovative

Despite today's constantly evolving and changing retail banking world, the Retail Banking Group ('RBG') succeeded in making significant inroads into the market place by bringing innovation, creativity and vision to all areas of work which, in turn, drove performance and results.

Achievements

- RBG firmly established itself as a serious market player in the competitive retail banking scene
- Profits doubled as a result of phenomenal loan and deposit growth
- Income streams expanded through the launch of a comprehensive range of interest and fee income generating products
- Mortgage achieved a 48% growth in portfolio size and an increase of 42% in market share despite fierce competition
- A professional retail banking management structure was set up, staffed with qualified professionals in each functional area of expertise
- Distribution transformed from a single branch channel dependency into a multi-channel capability, resulted in cost efficiency and distribution effectiveness
- A web-enabled platform was set up to provide a top-notch integrated customer relationship management (CRM) solution and to pave the way for mobile and e-banking services
- A new retail factory was established to centralize back office processing work while operations were re-engineered to improve productivity

Retail Banking

Retail Banking

As a result of the appointment of a new business head in 1998, the Retail Banking Group ('RBG') has successfully re-positioned itself with the launch of a new retail identity. New strategic directions were established and the business was revamped and revitalized. Outstanding results were realized within a short period of time and RBG's achievements gained broad recognition in the market place.

In 1999, RBG continued its momentous growth and has firmly established itself as a serious player in the competitive scene of retail banking. Profits doubled as a result of phenomenal loan and deposit growth. Despite fierce competition in the mortgage market, mortgage loans achieved a 47.8% growth in portfolio size and an increase of 41.9% in market share. We have also made significant inroads into the personal loan market, securing approximately 2% market share following the successful launch of our 'Personal Installment Loan' in July 1999.

During the year, we have launched over 10 new products and services, hitting the market with a new campaign launch almost once a month. These products and services range from asset products, such as mortgage loan, personal loan and tax loan to liability products such as 'SavingsBuilder 2', and to fee income generators such as securities trading services, mandatory provident fund and investment products. The launch of such a diverse range of products and services not only helps broaden and strengthen our customer base, it also reflects our commitment to becoming a one-stop financial services provider. By launching these products and services campaigns with such momentum, we are able to generate and sustain a very high level of awareness in the market place and achieve satisfactory market share and profit growth.

The ability to be faster than our competition and the capability of bringing innovation, creativity and vision to all areas of work, are critical success factors. We have therefore continued to invest a lot of effort in building a strong infrastructure which is capable of taking the retail business forward. Within RBG, we have set up a new organization, segregated into specialized functional units such as sales, marketing, credit, operations etc. These are staffed with qualified professionals. Most have been recruited externally and are specialists within their own areas. To continuously enhance the quality of our people, we have redefined job specifications, built new competency models, and identified training needs. We regularly conduct staff surveys to encourage feedback and ideas.

In terms of channel management, we have transformed distribution from a single branch channel dependency into a multi-channel capability. We are now distributing products and services through multiple channels, working synergistically, with the aim of optimizing efficiency and cost effectiveness. We have continued to rationalize and upgrade our branch network, making our network more efficient through relocation, merger and new locations. Since the launch of our new retail identity in 1998, we have built four new model branches which are designed to provide a refreshingly different retail banking experience for our customers. These model branches contain Personal Investment Services Centers. Equipped with the latest technologies, Personal Investment Services Centers provide fully automated securities trading services as well as online market information for our customers. The popularity of these centers is evidenced by a significant increase in the volume of securities trading transactions being channeled through our branches. As a result, our commission income recorded over 50% increase for 1999. Besides rationalizing our branch network, we have invested in building new channels, such as setting up a mortgage direct sales force and the establishment of a tele-marketing team in our newly designed Call Center. We are now able to provide round-the-clock phone banking services for our customers following the installation of VRU technology in our Call Center.

During the year, we have invested over $20 million in new technology to build a web-enabled system platform, paving the way for mobile and e-banking services which are scheduled for launch in 2000. The investment came at a time when technology development has made major breakthroughs in many facets, enabling the Bank to obtain the best total integrated IT solution for the investment. These include a securities trading system which can provide one-stop servicing to customers at all channels; a call center system featuring state-of-the-art call distribution management and customer relationship management capabilities; a loan processing system combining the latest image and workflow technology that enable us to take applications online, to perform online approval and online processing; and an electronic cheque processing system with hub-and-spoke architecture which is the first-in-the-market. We have, at the same time, improved operational efficiency, control and service quality by setting up a retail factory, taking the operations and back office work away from branches and centralizing them in a low cost location.

In the new millennium, we envisage that the retail banking sector will become increasingly competitive as a result of the pending interest rate deregulation and the unprecedented market changes brought upon by internet technology. We are fully aware of the impact of these changes, and initiatives are underway to embrace the opportunities as well as the challenges associated with these changes. We are developing new e-initiatives aiming to bring meaningful value propositions to retail customers. New revenue generators will be built to significantly increase fee income earnings. Emphasis will be placed on developing the small business sector, and the sale and marketing of unit trust, securities trading and insurance products and services. Internally, we will continue to enhance our people and service quality. We will firmly establish our direct and electronic channels while adopting a 'click and brick' distribution model that leverages the franchise of our existing branch network. We will also continue to transform our infrastructure to maximize operating efficiency and to support business growth.

Through our dedication to bringing innovation, creativity and vision to all areas of work, the Retail Banking Group is well positioned to embrace today's constantly changing market and customer expectations.

Progressive

The Corporate Banking Group ('CBG') has completed its metamorphosis and is on a progressive mode to capitalize on the vast business opportunities in the new millennium.

Achievements

- A business re-engineering exercise commenced in June 1999, to support a growth and re-positioning strategy for the Bank's corporate banking business
- A revised organization structure, under new management and incorporating new business teams, took effect on 1 July 1999
- Substantial investments were made to recruit qualified and experienced professionals, in order to strengthen CBG's customer relationship management capabilities
- Product offerings expanded to provide value-added services to customers
- Infrastructural improvements introduced to provide quality customer-focused services
- Asset quality improved by broadening of borrowing customer base, proactive portfolio management, and risk diversification
- Income streams expanded by growing fee-based income through boosting trade finance and electronic banking services
- Contributions to the profits of the Bank for 1999 surpassed budgeted expectations

Corporate Banking

Corporate Banking

Consequent upon a strategic review of the Bank's corporate banking activities, a business re-engineering initiative was undertaken towards the end of the first half year to improve our operating efficiency in this key functional area.

With the appointment in May of a new Executive Vice President to head our Corporate Banking Group ('CBG'), a streamlined organization structure was put in place on 1 July 1999. In the ensuing months, more than 25 qualified professionals, including experienced Relationship Managers and other management personnel, were recruited from the market to strengthen CBG's business development and portfolio management capabilities. New business teams were formed, and they were actively supported by strengthened mid-office functions, encompassing business planning and operations support, MIS development, as well as product development and market research.

Fundamental to this business evolution process was the successful introduction of a new corporate culture and a market-driven business philosophy. In line with the revised organization structure, clearly defined job accountability and responsibilities were established, which in turn were reinforced by an equitable performance based rewards system.

All staff members in CBG responded positively to these new challenges, as confirmed by the substantially strengthened teamwork and enhanced productivity evidenced.

A close rapport was developed between marketing and supporting units to improve service quality. Through successful co-operation with our investment banking arm, Ka Wah Capital Limited, CBG participated in various major business deals with satisfactory results.

1999 has been an eventful year for CBG, with all areas of our business satisfactorily moving into a new mode of operation and management. The new organization structure was up and running, and we are now capable of responding to our customers' needs in a much more speedy manner. Our asset quality was greatly improved by risk diversification and stringent credit control. A quality assurance program aimed at efficiency improvement was introduced in the third quarter of 1999. The successful implementation of the related action plan has resulted in marked changes in areas of MIS, credit, product, inter-departmental communications, staff training and development. Enhancement was also made to the Bank's trade finance operations and foreign exchange service delivery platform to provide flexible and efficient services to our customers.

Despite the sluggish corporate loan demand and fierce competition in 1999, CBG loans grew by 9.0%, compared to 1998 while deposits were up by 43.7%. The business repositioning exercise has made a positive impact on our bottom line, and CBG's contribution to the Bank's overall performance for the year has surpassed budgeted expectations by 18.5%. We have good reasons to believe that our corporate banking operation now commands a more respectable competitive position in the market place.

In the new millennium, CBG's key objective is to achieve a sustainable growth in our business. Asset quality and service quality will rank top on our priority list. To support our growth strategy, and to achieve risk diversification, we will further expand our customer base in various target market segments. With a much more sharpened focus, we will strive to expand our market share in the local corporate segment. We will solicit increased business from trade finance customers by offering an enhanced trade finance platform and new product capabilities. We will access multinational corporates who need a strong tie with a professional local bank. Also, we will leverage our strength in the China market to seek related business opportunities both in Hong Kong and in China. A China Desk has been set up, with local and PRC professionals stationed in Hong Kong, Shanghai and Beijing, to strengthen and co-ordinate our marketing capabilities in this area.

By properly benchmarking ourselves against competition, we will continue to strive to meet our customers' needs. To support our Relationship Managers in their pro-active relationship management and delivery process, we will invest appropriately in our infrastructural support, product development and e-business capabilities. Our principal objective is to create shareholder value through the provision to our customers of a range of competitive, efficient and value-added services.

The Corporate Banking Group has completed its metamorphosis and is now on a progressive mode to capitalize on the vast business opportunities lying ahead.

Professional

The Institutional Banking Group will continue to bring into play its professional expertise to meet a full range of funding requirements in a prudent manner. By continuing to master investment opportunities, we aim to set new earnings record.

Achievements

- New earnings record achieved for two successive years
- Forex margin trading and settlement system enhanced to improve risk management
- Captured market investment opportunities while exercising caution, and successfully applied credit derivative products to increase investment return
- Made good use of our ample capital to actively buy back a portion of the Bank's certificates of deposit in light of distressed bond market
- A marketing team was set up to expand the foreign exchange business
- Proper allocation of working capital ensured smooth transition to the Year 2000

Institutional Banking

Institutional Banking

An astute policy of cautious funding controls and leveraged investment opportunities helped ensure our earnings soared to record levels in 1999.

Under the guidance of the Bank's professional treasury team, earnings increased by more than 20% over 1998's historic high. We successfully capitalized on market trends and were able to place medium- to long-term funds before the reduction of interest rates in the first half of 1999. Using our in-depth experience with the mainland credit market, we purchased China credit-linked notes and bonds at a time when investors still lacked confidence in the area. At the same time, we effectively controlled costs and expenditure.

Primary Capital Market

In 1999, market confidence had yet to recover and funding costs remained high throughout the year. Uncertainties surrounding the Guangdong Enterprises incident resulted in the market in general adopting a 'wait and see' attitude to the level of provisioning against exposure related to Chinese institutions. We did not undertake any fund-raising exercise in a market where the funding costs was relatively high because the Bank retained ample capital and did not have the need to raise funds.

This also facilitated our settlement of a total of US$290.5 million (equivalent to HK$2,265.9 million) in floating rate certificates of deposit and floating rate notes matured during 1999.

Floating Rate Certificates of Deposit and Floating Rate Notes due in 1999

Date	Amount in US$(million)	Equivalent in HK$(million)
29 March 1999	66.0	514.8
7 July 1999	70.0	546.0
8 August 1999	88.0	686.4
5 November 1999	50.0	390.0
14 December 1999	16.5	128.7
Total	**290.5**	**2,265.9**

Secondary Capital Market

Our performance in the secondary capital market in 1999 was regarded as outstanding. We were able to capitalize on market fluctuations and the average profit margin of our investments in debt securities increased by 75.3% over the 1998's figure.

The Bank purchased an equivalent of HK$1.7 billion debt securities, raising the Bank's total amount of debt securities from HK$2.7 billion at 31 December 1998 to HK$3.9 billion at 31 December 1999. This represents a 44.4% increase after the deduction of all debt securities matured in 1999.

Assessments by overseas investors of the risks in the mainland credit market fluctuated vigorously and this caused the interest spread for credit-linked bonds to reach a record high. Again our knowledge of China's credit market enabled us to make timely but prudent purchases of China credit-linked notes and bonds which increased our earnings. In addition, we raised further earnings by applying our in-depth knowledge of the market situation and buying back the Bank's debt securities at appropriate levels.

Foreign Exchange

In October 1999, we launched a margin trading and settlement system that enables us to manage the risks associated with foreign exchange margin trading more effectively, paving the way for internet and electronic banking service. The system, in compliance with the Securities and Futures Commission's Leveraged Foreign Exchange Trading Ordinance, provides state-of-the-art functions that enable customers to access their account status and evaluate market rates on a real-time basis. It also provides a faster and better service as a result of improved efficiency and reduced operational risks.

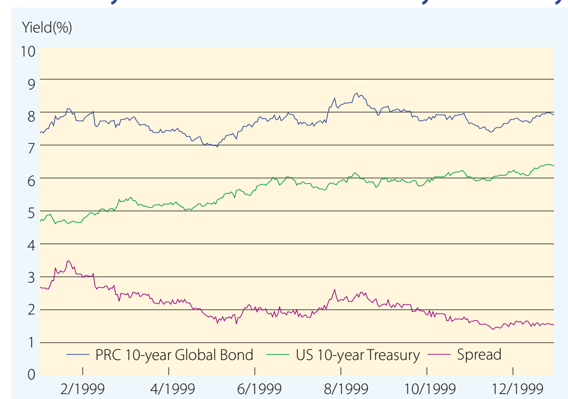
Looking ahead, we will focus on developing customer-oriented foreign exchange services to further increase our earnings. The Treasury Department will expand its foreign exchange marketing team and plans to reduce the incremental transaction amount for foreign exchange contracts. We will also provide cross-currency contracts and basis points rebate services.

Information services is an integrated aspect of our promotion of foreign exchange products. In this respect, we are constantly improving customer access to market news, economic data, exchange rates and charts on our web site or by fax through calling our information hotline. Other plans include the offering of updates on order status, price alert, account information and market news via the mobile phone.

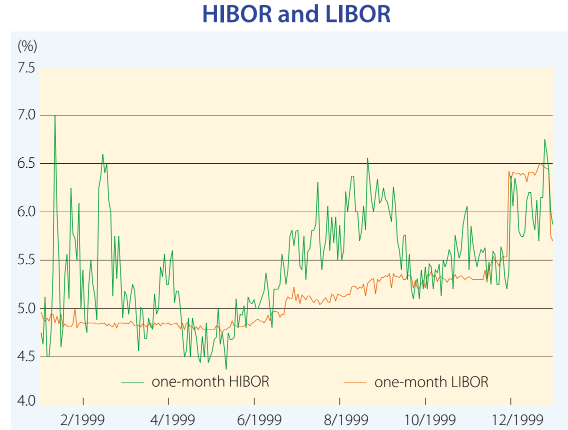
Compared with early 1999, interest spreads of Asian debt securities have greatly reduced with the anticipated entry of China into the World Trade Organization and the improved credit ratings by Standard & Poors for Korea and Malaysia. With Hong Kong's economy in recovery mode, we believe the capital market is becoming favorable. The cost of debt securities issuance will reduce, facilitating long-term fund raising activities.

In 2000, the Treasury Department is aiming for double-digit growth in annual earnings by continuing to enhance its liquidity management, actively investing in debt securities and promoting its margin trading services.

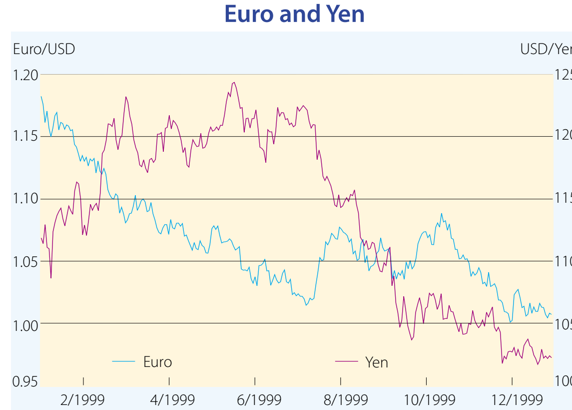
Spread between Ministry of Finance, PRC 10-year Global Bond and US 10-year Treasury



HIBOR and LIBOR



Euro and Yen



Investment Banking

(This announcement appears as a matter of record only)

First Star Development Limited
HK$1,732,000,000 Term Loan Facility
For the Development of a PSPS Project

Guaranteed by

Wai Kee Holdings Limited

Co-ordinating Arranger

Ka Wah Capital Limited

Lead Arrangers

Bank of Communications, Hong Kong Branch
Union Bank of Hong Kong Limited

Arrangers

Banca Commerciale Italiana, S.p.A. Hong Kong Branch
China Construction Bank, Hong Kong Branch

Lead Managers

CITIC Ka Wah Bank Limited
Bank of Communications, Hong Kong Branch
Union Bank of Hong Kong Limited
Banca Commerciale Italiana, S.p.A. Hong Kong Branch
China Construction Bank, Hong Kong Branch

Expanded Lead Managers

Dao Heng Bank Limited
Oversea-Chinese Banking Corporation Limited
Erste Bank
United Overseas Bank Limited
Wing Hang Bank, Limited

Co-Lead Managers

Banca Nazionale del Lavoro S.p.A., Hong Kong Branch
The Agricultural Bank of China, Hong Kong Branch
The Bank of East Asia, Limited
Dah Sing Bank, Limited
International Bank of Asia Limited
Keppel TatLee Bank Limited, Hong Kong Branch
United Chinese Bank Limited

Managers

The Industrial and Commercial Bank of China, Hong Kong Branch
The Development Bank of Singapore Ltd
The Mitsubishi Trust and Banking Corporation, Hong Kong Branch

Agent

Ka Wah Capital Limited

November, 1999

Tianjin Development Holdings Limited

US Dollar
Floating Rate Notes
Private Placement

Sole Mandated Arranger & Agent

Ka Wah Capital Limited

Sep-Nov 1999

1999 was a challenging and rewarding year for Ka Wah Capital Limited ('Capital'). Having undergone a series of restructuring processes and the recruitment of experienced professionals who have extensive experience in investment banking and in-depth exposure to the Greater China market, Capital saw its net profit increased two folds over that of 1998.

With senior management support and through co-operation with other departments, Capital re-focuses its strategy and aims at becoming a leading local investment bank which assists primarily middle market and PRC companies to raise funds in both local and international capital markets. We now offer a comprehensive range of investment banking products and services which include arranging and underwriting syndicated loans and floating rate notes ('FRNs') issues; private placement of equity, debt and hybrid instruments; underwriting Initial Public Offer ('IPO') issues; providing advisory services on balance sheet restructuring and on acquisition and realization of assets; performing due diligence review; and asset management services.

During 1999, we have successfully completed several major transactions in loan syndication and debt issuance. We were the co-ordinating arranger, sole book-runner and agent for a HK$1,732 million 3-year term loan facility for First Star Development Limited, a subsidiary of Wai Kee Group, and the sole arranger and agent for a US$30 million FRNs private placement for Tianjin Development Holdings Limited. We were also commissioned by a leading red-chip company to provide financial advice and co-ordinate the effort of restructuring its balance sheet.

Our 'Ka Wah Five Arrows China Hong Kong Fund' continues to have stable performance. During the year, new investments in bonds and Hong Kong stocks have been made to enhance its return to shareholders.

In the new millennium, we will strive to be a market leader in arranging syndicated debt transactions and providing financial advisory services to local middle market and PRC companies. We will continue to enhance our profile through co-leading major IPOs and actively seeking the opportunity of sponsoring equity transactions in the future. We expect Capital will play an increasing important role in the investment banking business and the scale of operation will expand as a result of a closer affiliation with our parent CITIC following its acquisition of a 49% stake in Capital.

Securities Broking

The securities broking business of the Bank is operated by Cargary Securities Limited ('Cargary') whose principal business is to conduct securities trading for our customers. Following the relocation of its operations to Ka Wah Bank Centre in 1998, Cargary carried out reforms and investment in various aspects of its business to meet both its long-term business development objectives as well as those of the Bank.

Cargary's new Board of Directors took office in early 1999. The Board appointed an independent supervisor to strengthen Cargary's internal management and ensure effective regulatory compliance.

In September 1999, the fully automated securities trading and settlement system became operational. The commissioning of this system has led Cargary into a new era of enhanced development. The fully automated electronic system can provide customers with fast and accurate securities trading services. It immediately verifies the account balances of customers to ensure there are sufficient stocks or funds once their trading instructions are received. This avoids erroneous transactions and reduces our settlement and operational risks. Besides providing real-time trading status information, the system also allows clients to buy or sell stocks within a plus or minus nine spreads to the nominal price.

The system has also improved the efficiency of securities trading services at branch level. With customers' instructions directly transmitted to Cargary through our computer network, delays such as those caused by busy telephone lines will no longer occur. Consequently, the Bank has become more competitive in the area of securities trading services and the business turnover in our branches has increased significantly.

Customer satisfaction is reflected in our operating results. Cargary recorded satisfactory operating results despite Hong Kong's still relatively weak economy during the first half of 1999. Our after-tax profits for the year exceeded HK$29 million. This represents more than a 86.3% increase over 1998's figures. Our client base, market ranking and market share all achieved steady growth.

	1999	**1998**	**% Change**
Total Turnover (HK$ million)	**14,967.5**	10,654.8	40.5
Brokers' Commission (HK$ million)	**37.4**	26.6	40.3
After-tax Profits (HK$ million)	**29.7**	15.9	86.3

As well as developing our stock margin financing service during 2000, Cargary will also develop our index futures and options trading business after regulations relevant to the merger of the Hong Kong Stock Exchange and the Hong Kong Futures Exchange are promulgated. New services such as stock margin financing, internet trading, index futures, institutional sales and options trading will be launched, expanding Cargary's profile as a diversified and integrated brokerage company.

Overseas Operations

The Bank's overseas operations are managed by its two branches in the United States, one in New York and the other in Los Angeles. Both branches are governed by the Office of the Comptroller of the Currency (OCC). The New York branch, located in Manhattan's Chinatown, is a full service branch and a member of the Federal Deposit Insurance Corporation (FDIC). The Los Angeles branch is located in a highly Asian populated area in California. Major services provided to local customers are deposits, remittances, mortgages, commercial loans and trade finance. Other activities include participation in loan syndication and the provision of international banking services such as offshore deposit services to the Bank's customers.

Despite the recent Asian financial crisis, both branches recorded encouraging profit growth as a result of improved net interest margins, stringent cost control and strengthened credit risk management. The financial performance ratios of the New York branch continue to exceed US banking industry norm, reflecting strong financial management capability.

Both branches anticipate growth opportunities and increased profitability as the economy in Asia displays signs of recovery. In 2000, both branches will target for assets and earnings growth as well as diversifying foreign business risks through further development of the domestic market. To support these strategic initiatives, branch management has become more centralized and co-ordinated with Head Office's appointment of Peter Zhao as US Country Head, and Dong Li as Deputy US Country Head, to be jointly responsible for US branch operations.

	1999	**1998**	**% Change**
Loans (US$ million)	**130.6**	121.4	7.6
Deposits (US$ million)	**336.2**	384.8	-12.6
No. of Loan Accounts	**415**	555	-25.2
No. of Deposit Accounts	**2,990**	2,719	10.0

From left to right:
Mr. Peter Zhao *(Executive Vice President & Country Head, USA)*
Mr. Cai Zhongzhi *(President & Chief Executive Officer)*
Mr. Hong Yuncheng *(Chairman)*
Mr. Dong Li *(Senior Vice President & Deputy Country Head, USA)*

Risk Management

Risk management is an integral part of our business management. We have established comprehensive risk management policies and procedures for the control and monitoring of the various types of risks to which our business is exposed. Our internal auditors also perform regular audits to ensure compliance with the policies and procedures.

Credit Risk Management

Credit risk assessment is considered to be one of the most important aspects of risk management in the Bank's operations. Over the past year, we have continued to place the Bank's credit culture on a firmer foundation. By re-engineering and centralizing our credit processes, we have ensured the overall robustness of our system. In addition, we have designed new procedures to review and monitor the quality of the Group's loan portfolio, particularly in areas that are perceived to be of high risk or of an exceptional nature.

The Credit Committee, which is the Bank's sole credit authority, is chaired by the Chief Executive Officer and has a membership drawn from the Credit Department and other executives. This Committee has been restructured with a new chain of authority designed to achieve improved credit control and greater efficiency. It will also ensure compliance of all credit policies, guidelines and statutory lending limits.

Other initiatives implemented in this area over the past year include new corporate lending guidelines which will ensure that all credit applications are subjected to stringent scrutiny and rated according to a standard risk rating system. Both the management information system and the compliance checking system have been upgraded to ensure efficient and timely monitoring and reporting. Staff training courses have upgraded the credit skills of our credit and marketing officers.

As a result of our ongoing reforms, the classification rate for new corporate accounts booked since 1998 was a low 0.4%. The Bank will continue to adopt a prudent credit policy and strengthen its credit risk management functions to further improve the quality of its loan assets.

Asset and Liability Management

The Bank's Asset and Liability Management Committee, comprising senior management personnel, makes assessments and recommendations on a regular basis on issues that are likely to have an impact on the Bank's financial conditions, such as market risk, liquidity risk, capital management and asset allocation. Processes have been defined for measuring, monitoring and controlling various types of risk and mechanisms are being put in place to control cost of funds and improve interest margins. The Committee also formulates strategic plans and policies to optimize the Bank's overall performance through prudent asset and liability management.

Liquidity Management

The Group manages the liquidity structure of its assets, liabilities and commitments so as to ensure that all operations can meet their funding requirements and that they comply with the statutory liquidity ratio. The Board of Directors reviews the current and prospective funding requirements of all operations through daily monitoring of the liquidity ratio and the maturity mismatch profile. The liquidity risk is managed by holding sufficient liquid assets such as cash and short-term funds and securities of appropriate quality to ensure that short-term funding requirements are covered within prudent limits. The Group's average liquidity ratio of 39.5% for the year of 1999 is well above the statutory minimum ratio of 25%.

Capital Management

The Group's policy is to maintain a strong capital base to support the development of the business and to meet the statutory capital adequacy ratio. Capital is allocated to the various activities of the Bank depending on the risk taken by each business division. The Group's capital adequacy ratio of 19.2% as at 31 December 1999 is well above the statutory minimum ratio.

Market Risk Management

The Group adopts a prudent approach to managing its trading portfolios and reduces any excessive market risk by executing offsetting transactions or hedging contracts with other market counterparties.

Year 2000

The Bank successfully made the transition to the Year 2000. All computer systems were operating smoothly during and subsequent to the millennium transition. All tasks relating to Year 2000 transition have been completed on schedule.

The Bank had established a Business Resumption Plan in which the Year 2000 Contingency Plan was embedded. Testing of this Year 2000 Contingency Plan was completed before 30 June 1999. Periodical review and revision of the Business Resumption Plan to accommodate changes in situation will be our normal practice.

Biographies of Directors and Senior Executives

Biographies of Directors

Arranged in the order of number of strokes of the Directors' Chinese surnames

MR. YU BAOZHONG (Independent Non-executive Director)

Aged 69. Appointed as a Director of the Bank in 1988. Mr. Yu graduated from the Chinese People's University. He was formerly the Chief Executive of China Insurance Group Hong Kong and Macau Regional Office and is now the Senior Adviser of Huatai Insurance Company of China, Limited. Mr. Yu has over 40 years of continuous experience in banking, insurance and financial fields.

MR. WANG XIANZHANG

Aged 57. Appointed as a Director of the Bank in 1994. Mr. Wang graduated from Liao Ning Finance & Economic Institute (now known as North East Finance & Economic University) in 1965. He is presently the Chairman and President of China Insurance Hong Kong (Holdings) Co., Ltd. He has over 30 years of continuous experience in the banking and insurance industries.

MR. LI HENGXUN

Aged 56. Appointed as a Director of the Bank in 1991. Mr. Li graduated from Beijing Qinghua University in 1968. He is presently the Director and Chief Accountant of CITIC Group.

MR. ZHOU HANRONG

Aged 66. Appointed as a Director of the Bank in 1988. Mr. Zhou was formerly the Executive Vice President of China Construction Bank and Vice Chairman of China Investment Bank. He is presently the Director of Bank of China and Jian Sing Bank Limited. He has over 40 years of banking experience.

DR. DANIEL H. LAM LL.D., C.B.E., J.P. (Independent Non-executive Director)

Aged 78. Appointed as a Director of the Bank in 1960. Dr. Lam graduated from the University of the Philippines and obtained a Bachelor Degree in Engineering. He is the son of the late Dr. Lam Chi Fung, founder of the Bank. Dr. Lam has over 45 years of experience in banking.

MR. LAM KWONG SIU (Independent Non-executive Director)

Aged 65. Appointed as an Independent Non-executive Director of the Bank in 1996. Mr. Lam is presently a Deputy Chief Executive of Bank of China Hongkong-Macau Regional Office, Chairman of Po Sang Bank Limited, Vice Chairman of Chiyu Banking Corporation Limited, Director of Bank of China, BOC China Fund Limited, Henderson China Holdings Limited and Ananda Wing On Travel (Holdings) Limited. He has over 30 years of continuous banking experience.

MR. HONG YUNCHENG (Chairman)

Aged 70. Appointed as a Director of the Bank on 18 March 1998 and was elected Chairman of the Bank on 23 June 1998. Mr. Hong obtained a Bachelor Degree from Hungchow University in 1951 and was granted the prestigious title of 'Senior Economist' by the People's Bank of China in 1988. Mr. Hong had been working in the People's Bank of China for about 40 years and had been its official spokesman to the press. He is presently a Director of CITIC Industrial Bank and an Executive Director of CITIC Group. Concurrently, Mr. Hong is also the Vice President of China Society for Finance and an Executive Committee Member of China International Financial Association. Mr. Hong has over 40 years of banking experience.

MR. ZHANG MINGQIAN (Executive Vice President & Alternate Chief Executive Officer)

Aged 37. Joined the Bank as Executive Vice President in November 1997. Mr. Zhang was appointed as a Director and Alternate Chief Executive Officer of the Bank in December 1997 and in March 1998 respectively. He is now the Chairman of Cargary Securities Limited and also the Director of Ka Wah International Merchant Finance Limited and Ka Wah Capital Limited. Mr. Zhang obtained a Bachelor Degree in Economics from the Hitotsubashi University in 1986 and a MBA degree in International Banking and Finance from the University of Birmingham in 1996. Before joining the Bank, Mr. Zhang was an Executive Vice President of CITIC Industrial Bank and Deputy Director-General of Finance Department of CITIC Group.

MR. NELSON YOUN ZAIN TSAO*

Aged 81. Appointed as a Director of the Bank in 1986. Mr. Tsao was graduated from the University of Shanghai and La Universitato Utopia. He was a Director of Sin Hua Bank Limited. Mr. Tsao had over 50 years of continuous experience in banking.

MR. ZHUANG SHOUCANG

Aged 73. Appointed as a Director of the Bank in 1986. Mr. Zhuang has worked for various major organisations in the PRC and has been with CITIC Group since its incorporation. He was formerly a Director of CITIC Group and is presently a Director of CITIC Hong Kong (Holdings) Limited.

MR. YANG GUANGQI

Aged 72. Appointed as a Director of the Bank in 1986. Mr. Yang was formerly the Vice Chairman and Chief Supervisor of CITIC Group and a Director of CITIC Hong Kong (Holdings) Limited. He has over 40 years of continuous experience in banking and related fields.

MR. ZHAO SHENGBIAO (Executive Vice President & Country Head, USA)

Aged 49. Joined the Bank as Vice President in 1986 and became Senior Vice President and Branch Manager of the New York Branch in 1990. Mr. Zhao was appointed as a Director in 1991 and was promoted to Executive Vice President and General Manager, USA in 1995. He is now in charge of the overall business operations in USA. Mr. Zhao graduated from the University of International Business and Economics, Beijing and obtained a Master Degree in Finance from the College of Insurance, New York. He has over 20 years of experience in international banking and worked in London, Paris, Hong Kong and New York.

MR. CAI ZHONGZHI (President & Chief Executive Officer)

Aged 46. Appointed as President of the Bank on 24 February 1998 and became Director and Chief Executive Officer on 18 March 1998. Mr. Cai is the Chairman of Ka Wah International Merchant Finance Limited and Ka Wah Capital Limited. He obtained a Doctoral Degree in Economics, major in Money and Banking from the Graduate School, People's Bank of China in 1991. He obtained the Sun Ye Fang Award for Achievements in Economics in 1986 and was granted the prestigious title of 'Senior Economist' by the People's Bank of China in 1990. He had also been a Visiting Scholar of the Department of Economics, Columbia University. Mr. Cai had been a Division Chief for various departments in the People's Bank of China and became the Executive Vice President of its Hainan Branch in 1992. In 1994, Mr. Cai became a Director of the Office of Hong Kong, Macao and Taiwan Affairs, the People's Bank of China. He had been with Deutsche Bank and Deutsche BundesBank for years. Before joining the Bank, Mr. Cai was the Executive Vice President of CITIC Industrial Bank and the President of its Guangzhou Branch. He is currently a Director of CITIC Group.

MR. BRIAN SEE KING TANG (Senior Vice President)

Aged 50. Joined the Bank as Senior Vice President in August 1997 and was appointed as a Director of the Bank in January 1998. Mr. Tang obtained a Bachelor Degree in Science from the California State University of Long Beach. Previously, Mr. Tang worked with Cheung Kong (Holdings) Limited as Chief Accountant and, separately, with Morgan Guaranty Trust Co. as Vice President and Financial Controller.

MR. KELVIN WING YAT LO (Executive Vice President)

Aged 41. Joined the Bank as Chief Group Counsel in October 1997 and was appointed as a Director in December of the same year. Mr. Lo is now in charge of the Risk Assets Management Department and Legal Department of the Bank. Concurrently, Mr. Lo also holds directorships and senior executive positions in various subsidiaries of the Group (including a Director and Chief Executive Officer of Ka Wah International Merchant Finance Limited and a Director of Ka Wah Capital Limited). Mr. Lo graduated from the University of Hong Kong with a Bachelor Degree in Laws. He was admitted as a Solicitor of the Supreme Court of Hong Kong in 1984 and a Solicitor of the Supreme Court of England and Wales in 1989. Prior to joining the Bank, Mr. Lo served as an In-house Counsel of Bank of China Hongkong-Macau Regional Office and then became partner of Messrs Kao, Lee & Yip and Messrs Linklaters.

MR. DOU JIANZHONG

Aged 44. Appointed as a Director of the Bank in 1991. Mr. Dou graduated from the University of International Business and Economics, Beijing in 1979 and obtained a Master Degree in Economics from Liao Ning University. He was granted the prestigious title of 'Senior Economist' by CITIC Group. Mr. Dou is presently an Executive Director and Vice President of CITIC and the President of CITIC Industrial Bank.

* Mr. Nelson Youn Zain Tsao passed away on 18th March 2000.

Biographies of Senior Executives

MRS. DOREEN CHAN HUI DOR LAM (Executive Vice President)

Aged 45. Joined the Bank as Executive Vice President in April 1998 and is now in charge of the Retail Banking Group of the Bank. Prior to joining the Bank, Mrs. Chan was in charge of the retail banking business for a major international bank in Hong Kong. Mrs. Chan has over 25 years of experience in the banking industry, of which over 10 years has been specializing in retail banking business.

MR. KENNETH KONG SIU CHEE (Executive Vice President)

Aged 53. Joined the Bank as Executive Vice President in May 1999. Mr. Kong is now in charge of the Corporate Banking Group of the Bank and is a Director of Ka Wah Capital Limited. He obtained a Bachelor Degree in Economics from the University of Hong Kong and a MBA Degree from the Chinese University of Hong Kong. He is an Associate of the Institute of Bankers (U.K.). Before joining the Bank, Mr. Kong had been working in Standard Chartered Bank for 24 years.

MR. KANE G. GONG (Executive Vice President)

Aged 51. Joined the Bank as Executive Vice President in January 2000 and is in charge of finance, information technology, operations and administration of the Bank. Mr. Gong graduated from Columbia University, majoring in Economics and attended the Columbia Graduate School of Business Administration in New York City. He has had over 23 years of international banking experience in senior positions. He worked in Citibank for 13 years in various locations including New York, Hong Kong, Singapore, Saudi Arabia and Utah. Before joining the Bank, his last position was Assistant General Manager and Alternate Chief Executive Officer of ING Bank N.V. in Hong Kong, concurrently with his other responsibility as the Chief Operating Officer of Greater China (PRC, Hong Kong & Taiwan) and the Philippines for both ING Bank and ING Barings.

MR. SIMON LEE MAN WOOD (Senior Vice President)

Aged 48. Joined the Bank as Senior Vice President in October 1997 and is now in charge of the Credit Department. He graduated from the University of Winnipeg and is a Certified Management Accountant of Ontario. Before joining the Bank, Mr. Lee held senior positions in Banque Indosuez, American Express Bank Limited and Chase Manhattan Bank.

MS. NANCY LEUNG MAY CHU (Senior Vice President)

Aged 53. Joined the Bank as Senior Vice President in August 1998 and is now in charge of the Human Resources Department. Miss Leung graduated from the University of Hong Kong in 1969, majored in Economics. She served in the education profession before switching to the commercial / financial sectors in 1979. She was the head of human resources function in the UK merchant bank Samuel Montague & Co., Xerox (Hong Kong & China), ABN AMRO Bank, Jardine Fleming Holdings Limited and Peregrine Holdings Limited.

MR. JOHN NG YUK MAN **(Senior Vice President & Chief Financial Controller)**

Aged 48. Joined the Bank in 1982 and became Senior Vice President and Chief Financial Controller in 1998. Mr. Ng graduated from the City University of New York and is a Certified General Accountant of Canada. He has over 20 years of continuous banking experience.

MS. MARGARET MAN **(Senior Vice President)**

Aged 45. Joined the Bank as Senior Vice President in October 1998 and is the deputy in charge of the Bank's Corporate Banking Group. Miss Man graduated from the Graduate School of the People's Bank of China obtaining a Master Degree in Banking and Finance. She had been a Division Chief in People's Bank of China ('PBOC') and worked for PBOC for 7 years. Before joining the Bank, Miss Man was a Deputy Managing Director of China Venturetechno International Co. Ltd.

MR. DONG LI **(Senior Vice President)**

Aged 42. Joined the Bank as Senior Vice President in September 1999 and is now the Deputy Country Head, USA of the Bank. Mr. Dong graduated from Beijing Institute of Technology. He also obtained a Master Degree in Economics from George Washington University and a Ph.D. in Economics from the University of Massachusetts. He had worked for the People's Bank of China, the Economic Development Institute of the World Bank and China Sci-Tech International Trust and Investment Corporation. Before joining the Bank, he was the Managing Director of Jian Nan Finance Limited, a wholly-owned subsidiary of China Merchants Bank, in Hong Kong.

MR. NORMAN LI KAI KEUNG **(Senior Vice President)**

Aged 39. Mr. Li has held positions in major investment banks and stock broking companies since 1987. He joined the Bank in October 1997 as a Vice President and was promoted to become a Senior Vice President in November 1998, in charge of the operations of the Chairman and C.E.O.'s Office and is a Director of Ka Wah Capital Limited. Mr. Li is a graduate of Macquarie University, Australia, with a Bachelor Degree in Economics and currently an Associate of the Australian Society of Certified Practicing Accountants.

Professional Inquiries and Analyst Coverage

Professional Inquiries

In line with our policy of making our operations more transparent and readily understandable by all interested parties, we have included a section entitled 'Professional Inquiries' in this annual report. The following are our management responses to inquiries made by analysts and communications specialists.

1 Competition of the banking industry in Hong Kong is intensifying, most notably in the provision of mortgage loans. How does the Bank respond to the challenges of a severely deteriorating operating environment?

Despite intense market competition which began at the second half of 1999, residential mortgages registered a satisfactory growth of 47.8% in portfolio size and an increase of 41.9% in market share in 1999 as a result of our effective marketing and sales strategy. We will continue to position mortgage loans as a strategic product for customer acquisition and for developing a long-term customer base for cross-selling. While continuing to actively grow our mortgage portfolio, we will strictly manage the profit and cost dynamics as well as asset quality. To counter the effects of an increasingly challenging operating environment, we will continue to diversify our product range and explore other fee income revenue streams to increase profitability.

2 The launch of the Mandatory Provident Fund Scheme and further interest rate deregulation have been touted as the two significant events in 2000 impacting the entire industry. What is the strategy and positioning of the Bank particularly on these two areas?

Management recognizes the importance of these two events and their impact on the banking industry and therefore strategies have been formulated to improve our overall competitiveness which will enable us to capitalize on these changes. The strategic alliance with AIA Pension and Trustee Co. Ltd. ('AIAPT') allows us to enter the mandatory provident fund ('MPF') market at minimal investment cost while leveraging on AIAPT's full-fledged infrastructure and experience in pension schemes and trustee services. The synergies gained from the alliance will create significant cost savings that enable our MPF products to be priced very competitively, thus ultimately benefit our customers.

Deregulation is a worldwide trend and management has since 1998 applied a vital process of reform to prepare itself for deregulation. This involves re-positioning the Bank and differentiating the retail banking services through the upgrading of service quality, development of an innovative product range for customer retention and acquisition as well as actively developing non-interest income sources.

3 Admission of China into the WTO is imminent and how the Bank views a more open and competitive banking sector there? Consequently what is the Bank's overall pursuits and developments in this market?

Although a definitive timetable is yet to be established, the eventual entry of China into the WTO will certainly lead to financial liberalization in the mainland banking sector which will open up new opportunities and provide impetus to the Hong Kong economy. Backed by the vast resources of our parent company, CITIC, and our in-depth knowledge of the mainland market, we are well positioned to embrace the challenges and capitalize on the opportunities that arise as a result of China's entry into the WTO.

4 Does management consider the Bank's position as a potential buyer in the midst of the bank consolidation changed, following the transaction of disposing a respective 49% stake in Cargary Securities and Ka Wah Capital?

The Bank has all along been looking for business expansion opportunities through appropriate acquisitions and this will remain unchanged. The transaction of disposing of a respective 49% stake in Cargary Securities and Ka Wah Capital is a move to strengthen the co-operation between the Bank and its parent company CITIC in the areas of securities brokerage and investment banking. While leveraging on CITIC's strength, our capital market activities are expected to experience steady expansion in their scale of operations.

5 A number of staff movements at the highest level of the Bank have been noted in 1999. What is the Bank's human resources policy towards building and retaining the staff force particularly when a corner seemed to have been turned for the Hong Kong economy?

The Bank's human resources management is built on a philosophy which recognizes people as its most important asset. Pertaining to this is a long-term commitment to invest in our people and provide them with a dynamic and challenging environment that is conducive to teamwork and employee satisfaction. The Bank's recruitment program forms an integral part of our long-term development strategy. Since 1998, the Bank has recruited 16 senior management staff to enhance its overall management capability. Performance-based schemes have been introduced to encourage greater commitment and effectiveness from staff. To infuse a spirit of teamwork throughout the organization, a staff opinion survey was conducted in August 1999 by an external consultant to measure staff attitudes with regard to the culture and management of the Bank. New communication channels have been established which include regular CEO briefing sessions to keep staff informed of the Bank's business development. In 1999, our Human Resources Department organized various professional and management training courses to enhance people quality as well as the overall management capability. On average, each staff member attended more than 2 training courses during the year.

6 Headline news reveal a number of versions in relation to the restructuring plans of CITIC's financial assets and interests. What roles does the Bank envisage playing in the group's development and re-organization blueprint?

Being a long established SAR-listed bank, we will certainly play an important role in the group's development and re-organization of its financial assets and interests. As a member of the CITIC group we will further build on the group's presence and network within the mainland, and to explore mutually beneficial cross-selling and co-operation opportunities with our sister organizations operating in various financial fields, such as the e-commerce initiative.

7 The Bank received for the first time a rating from an international rating agency. Is it a precursor to its possible entry in the international capital markets for funding?

The Bank has all along been examining various ways to meet its funding requirements. The assignment of a credit rating from an international rating agency will certainly boost investors' confidence on the Bank and open up more avenues for the Bank to grow its funding base.

8 What is the current expectation of the Bank in dealing with its non-performing loans, taking into consideration a settlement being reached for the Guangdong Enterprises Group debt restructuring?

After two years of vigorous tackling and write-off, the problem loans issue is now basically under control. In 1999, we made a recovery of HK$1.94 billion in problem loans through cash recovery, restructuring, realization of collaterals and new collaterals. This was achieved on top of the HK$1.83 billion already dealt with in 1998, putting total recovery in the two years to HK$3.77 billion. We have written off respective amounts of HK$390 million and HK$1,080 million of problem loans in 1998 and 1999. Classified exposure, comprising substandard and doubtful loans, amounted to HK$2.38 billion as at the end of 1999, representing 8.4% of our total loans, down from the previous 9.4%. Mainland exposure accounted for HK$1.8 billion or 79.1% and this exposure was 65.2% covered by collaterals and specific provisions. If the restructuring of Guangdong Enterprises Group is resolved, the coverage ratio of the mainland classified exposure could be lifted to 87.1%. With the establishment of a specialized Risk Assets Management Department to tackle the problem loans issue, we expect the issue will be completely resolved in 2000.

Analyst Coverage

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Cazenove Asia Ltd.	Simon Ho	**2123-0392**	**2868-1411**	stlho@cazenove.com
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Warburg Dillon Read	Sherry Lin	**2971-6123**	**2971-8542**	sherry.lin@wdr.com
Worldsec International Ltd.	Patrick Ho	**2867-7258**	**2845-1655**	wwho@worldsec.com

Financial Section

Contents

Report of the Directors

The directors have pleasure in presenting their annual report together with the audited accounts for the year ended 31 December 1999.

Principal activities

The principal activities of the Group and the Bank are the provision of general banking and related financial services, primarily in Hong Kong. The Bank also operates two branches in the United States of America. Particulars of the Bank's subsidiaries at 31 December 1999 are set out in note 20 on the accounts.

Accounts

The profit of the Group for the year ended 31 December 1999 and the state of the Bank's and the Group's affairs as at that date are set out in the accounts on pages 51 to 87.

The directors recommend the payment of a dividend of HK$0.01 per ordinary share in respect of the year ended 31 December 1999.

Charitable donations

Donations made by the Group during the year amounted to HK$255,135 (1998: HK$1,299,839).

Fixed assets

Movements in fixed assets are set out in note 23 on the accounts.

Reserves

Movements in the reserves of the Group and the Bank during the year are set out in note 29 on the accounts.

Share capital and options

A Senior Executive Share Option Scheme (the "Option Scheme") is maintained by the Bank, under which eligible senior executives (including executive directors) of the Bank are entitled to the grant of share options for subscription of ordinary shares of the Bank.

Movements in the share capital of the Bank and details regarding share options granted and the exercise of share options under the Option Scheme during the year are set out in note 28 on the accounts.

Directors

The directors during the financial year were as follows (arranged in the order of number of strokes of the directors' Chinese surnames):

Mr Yu Baozhong **(Independent Non-executive Director)**
Mr Wang Xianzhang
Mr Li Hengxun
Mr Zhou Hanrong
Dr Daniel H Lam **(Independent Non-executive Director)**
Mr Lam Kwong Siu **(Independent Non-executive Director)**
Mr Hong Yuncheng **(Chairman)**
Mr Zhang Mingqian **(Executive Vice President and Alternate Chief Executive Officer)**
Mr Nelson Tsao Youn Zain
Mr Zhuang Shoucang
Mr Yang Guangqi
Mr Zhao Shengbiao **(Executive Vice President and Country Head, USA)**
Mr Cai Zhongzhi **(President and Chief Executive Officer)**
Mr Brian Tang See King
Mr Kelvin Lo Wing Yat **(Executive Vice President)**
Mr Dou Jianzhong

In accordance with Article 118 of the Bank's Articles of Association, Messrs Li Hengxun, Lam Kwong Siu, Zhuang Shoucang, Zhao Shengbiao and Dou Jianzhong retire from the Board by rotation at the forthcoming Ordinary Yearly Meeting and, being eligible, offer themselves for re-election.

None of the directors has a service contract with the Bank or any of its subsidiaries which is not determinable by the Bank within one year without payment of compensation, other than normal statutory obligations.

Directors' interests

At 31 December 1999, the beneficial interests of the directors in the share capital of the Bank as recorded in the register maintained under section 29 of the Securities (Disclosure of Interests) Ordinance were as follows:

	Ordinary shares of HK$1 each			
Name of director	**Personal interests**	**Family interests**	**Other interests**	**Total interests**
Mr Hong Yuncheng	–	–	3,000,000	3,000,000
Mr Cai Zhongzhi	–	–	3,000,000	3,000,000
Mr Zhang Mingqian	–	–	2,000,000	2,000,000
Dr Daniel H Lam	183,970	118,089	–	302,059
Mr Zhao Shengbiao	1,200,000	–	614,114	1,814,114
Mr Kelvin Lo Wing Yat	–	–	2,000,000	2,000,000
Mr Brian Tang See King	–	–	1,000,000	1,000,000

Directors' interests *(continued)*

At 31 December 1999, the directors of the Bank had the following interests in options to subscribe for ordinary shares (closing market value per share was HK$2.975 at 30 December 1999) of the Bank granted pursuant to the Option Scheme of the Bank. Particulars were as follows:

Name of director	No. of shares in the options	Date granted	Period during which options exercisable	No. of shares acquired on exercise of options during the year	Price per share to be paid on exercise of options HK$	No. of shares in the options outstanding at 31 December 1999
Mr Hong Yuncheng	3,000,000	17 August 1999	24 February 2000 – 29 March 2005	–	2.30	3,000,000
Mr Cai Zhongzhi	3,000,000	17 August 1999	24 February 2000 – 29 March 2005	–	2.30	3,000,000
Mr Zhang Mingqian	2,000,000	17 August 1999	10 May 2000 – 29 March 2005	–	2.30	2,000,000
Mr Zhao Shengbiao	187,000	10 April 1996	11 April 1996 – 29 March 2005	100,000	1.00	87,000
	210,875	8 May 1997	9 May 1997 – 29 March 2005	–	1.00	210,875
	316,239	6 May 1998	7 May 1998 – 29 March 2005	–	1.00	316,239
Mr Kelvin Lo Wing Yat	2,000,000	17 August 1999	31 October 1999 – 29 March 2005	–	2.30	2,000,000
Mr Brian Tang See King	1,000,000	17 August 1999	11 February 2000 – 29 March 2005	–	2.30	1,000,000

No contract of significance in relation to the Bank's business to which the Bank, its holding company or any of its subsidiaries or fellow subsidiaries was a party and in which a director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Apart from the above, at no time during the year was the Bank, its holding company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

Substantial shareholder

At 31 December 1999, the register of substantial shareholders maintained under section 16(1) of the Securities (Disclosure of Interests) Ordinance shows that the Bank has been notified of the following interests, being 10% or more, in the Bank's issued share capital.

Name of shareholder	Number of ordinary shares of HK$1 each	Shareholding Percentage
China International Trust and Investment Corporation ("CITIC")	1,433,317,209	55.25%

During the year, the Group entered into transactions with CITIC, which is the Bank's controlling shareholder, and CITIC's other subsidiaries in the normal course of business. The Group's and the Bank's balances with CITIC and its other subsidiaries as at 31 December 1999 are set out in note 17 on the accounts.

Connected transaction

On 17 December 1999, the Bank and Ka Wah International Merchant Finance Limited ("KWIMF"), a wholly-owned subsidiary of the Bank, (collectively the "Vendors") entered into a Sale and Purchase Agreement (the "Agreement") with CITIC under which the Vendors agreed to sell to CITIC a 49% shareholding interest each in Cargary Securities Limited and Ka Wah Capital Limited, respectively wholly-owned subsidiaries of the Bank and KWIMF, for an aggregate consideration of HK$530,000,000. This transaction was approved by the independent shareholders at the Extraordinary General Meeting held on 11 February 2000.

According to the Agreement, CITIC paid part of the aggregate consideration, amounting to HK$400,000,000 on 30 December 1999. The remaining balance of HK$130,000,000 together with interest will be received at the anniversary of the completion date of this transaction. The completion date will be on or before 29 February 2000.

Purchase, sale or redemption of the Bank's listed securities

The Bank has not redeemed any of its listed securities during the year. Neither the Bank nor any of its subsidiaries has purchased or sold any of the Bank's listed securities during the year.

Management contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Bank was entered into or existed during the year.

Major customers

The directors believe that the five largest customers of the Group accounted for less than 30% of the total of interest income and other operating income of the Group in the year.

Guideline on Financial Disclosure by Locally Incorporated Authorised Institutions

The accounts of the Bank for the year ended 31 December 1999 fully comply with the recommendations in the Guideline on the "Financial Disclosure by Locally Incorporated Authorised Institutions" issued by the Hong Kong Monetary Authority.

Compliance with the Code of Best Practice

The Bank has noted certain requirements in connection with the formation of an Audit Committee under the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited ("the Stock Exchange"). A thorough study undertaken by the Bank indicates that the banking industry in Hong Kong is governed under strict supervisory framework. In addition, the Bank's internal controls and risk management are under constant improvement and strengthening. Based on the foregoing, no concrete timetable has been set by the Board with respect to the formation of an Audit Committee. However, further study of these requirements will remain an ongoing exercise for the Bank.

The Bank has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange, except that no Audit Committee has yet been formed as explained above and that there is no specific term for the appointment of independent non-executive directors.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Bank is to be proposed at the forthcoming Ordinary Yearly Meeting.

On behalf of the Board

Hong Yuncheng
Chairman
Hong Kong, 25 February 2000

Auditors' Report

To the shareholders of
CITIC Ka Wah Bank Limited
(Incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 51 to 87 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Bank and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the accounts give a true and fair view, in all material respects, of the state of affairs of the Bank and of the Group as at 31 December 1999 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
Hong Kong, 25 February 2000

Consolidated Profit and Loss Account

for the year ended 31 December 1999 (Expressed in Hong Kong dollars)

	Note	**1999 HK$'000**	1998 HK$'000
Interest income		**3,167,111**	3,169,261
Interest expense		**(2,269,518)**	(2,293,280)
Net interest income		**897,593**	875,981
Fees and commission income		**199,127**	233,550
Fees and commission expense		**(15,870)**	(13,630)
Other revenue	3(a)	**15,504**	15,291
Other operating income	3(b)	**53,532**	66,432
Operating income		**1,149,886**	1,177,624
Operating expenses	3(c)	**(480,614)**	(480,649)
Operating profit before provisions		**669,272**	696,975
Charge for bad and doubtful debts	4	**(937,588)**	(571,116)
Operating (loss)/profit		**(268,316)**	125,859
Net profit/(loss) on disposal of tangible fixed assets		**188**	(449)
Profit on disposal of interest in subsidiaries	5	**396,909**	–
Provision on held-to-maturity securities and investment securities		**(18,737)**	–
Profit from ordinary activities before taxation	31	**110,044**	125,410
Tax on profit from ordinary activities	7(a)	**(1,483)**	(22,138)
Profit attributable to shareholders	8	**108,561**	103,272
Appropriations:			
Dividends	9	**(25,945)**	(25,927)
Retained profits for the year	29(f)	**82,616**	77,345
Earnings per share:	10		
Basic		**4.19¢**	4.33¢
Diluted		**4.18¢**	4.33¢

The notes on pages 56 to 87 form part of these accounts.

Consolidated Statement of Recognised Gains and Losses

for the year ended 31 December 1999 (Expressed in Hong Kong dollars)

	Note	**1999 HK$'000**	1998 HK$'000
Exchange differences on translation of the accounts of foreign entities	29(e)	**143**	(28)
Net gains/(losses) not recognised in the profit and loss account		**143**	(28)
Net profit for the year	29(f)	**82,616**	77,345
Total recognised gains and losses		**82,759**	77,317

The notes on pages 56 to 87 form part of these accounts.

Consolidated Balance Sheet

at 31 December 1999 (Expressed in Hong Kong dollars)

	Note	**1999 HK$'000**	1998 HK$'000
Assets			
Cash and short-term funds	12 & 17	**11,872,776**	11,457,548
Placements with banks and other financial institutions maturing between one and twelve months	15(c)	**2,435,135**	1,992,433
Trade bills and certificates of deposit	13	**1,766,886**	1,979,322
Other investments in securities	14	**30,583**	38,803
Advances to customers and other accounts less provisions	15(a) & 17	**29,055,394**	26,140,430
Held-to-maturity securities and investment securities	19	**2,583,870**	1,587,347
Investments in associates	21	**120,537**	623
Tangible fixed assets	23	**917,908**	913,532
Total assets		**48,783,089**	44,110,038
Liabilities			
Deposits and balances of banks and other financial institutions	17 & 24	**344,825**	592,585
Current, fixed, savings and other deposits of customers	17 & 25	**39,728,165**	32,795,990
Certificates of deposit issued	26	**1,454,121**	3,098,373
Issued debt securities	27	**522,320**	1,351,962
Other accounts and provisions	7(b) & 17	**1,213,995**	968,782
Proposed dividend	9	**25,945**	25,925
Total liabilities		**43,289,371**	38,833,617
Capital resources			
Share capital	28	**2,594,461**	2,592,513
Reserves	29	**2,767,428**	2,683,908
Shareholders' funds		**5,361,889**	5,276,421
Minority interests		**131,829**	–
		5,493,718	5,276,421
Total liabilities and capital resources		**48,783,089**	44,110,038

Approved by and on 25 February 2000

Mr Hong Yuncheng, *Chairman*

Mr Cai Zhongzhi, *Director*

Mr Zhang Mingqian, *Director*

Mr Ng Yuk Man John, *Chief Financial Controller*

The notes on pages 56 to 87 form part of these accounts.

Balance Sheet

at 31 December 1999 (Expressed in Hong Kong dollars)

	Note	**1999 HK$'000**	1998 HK$'000
Assets			
Cash and short-term funds	12 & 17	**11,871,597**	11,265,994
Placements with banks and other financial institutions maturing between one and twelve months	15(c)	**2,435,135**	1,969,195
Trade bills and certificates of deposit	13	**1,643,006**	1,728,626
Other investments in securities	14	**11,601**	12
Advances to customers and other accounts less provisions	15(a) & 17	**25,879,236**	21,839,938
Amounts due from subsidiaries	18	**3,562,402**	4,602,889
Held-to-maturity securities and investment securities	19	**2,382,572**	1,257,928
Investments in subsidiaries	20	**454,184**	467,331
Investments in associates	21	**119,908**	–
Tangible fixed assets	23	**807,713**	803,296
Total assets		**49,167,354**	43,935,209
Liabilities			
Deposits and balances of banks and other financial institutions	17 & 24	**344,825**	592,585
Current, fixed, savings and other deposits of customers	17 & 25	**39,728,165**	32,762,425
Certificates of deposit issued	26	**1,454,121**	3,098,373
Issued debt securities	27	**522,320**	1,351,962
Other accounts and provisions	7(b) & 17	**823,522**	740,099
Proposed dividend	9	**25,945**	25,925
Amounts due to subsidiaries	22	**1,632,516**	768,658
Total liabilities		**44,531,414**	39,340,027
Capital resources			
Share capital	28	**2,594,461**	2,592,513
Reserves	29	**2,041,479**	2,002,669
Shareholders' funds		**4,635,940**	4,595,182
Total liabilities and capital resources		**49,167,354**	43,935,209

Approved by and on 25 February 2000

Mr Hong Yuncheng, *Chairman*

Mr Cai Zhongzhi, *Director*

Mr Zhang Mingqian, *Director*

Mr Ng Yuk Man John, *Chief Financial Controller*

The notes on pages 56 to 87 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31 December 1999 (Expressed in Hong Kong dollars)

	Note	1999		1998	
		HK$'000	**HK$'000**	HK$'000	HK$'000
Net cash inflow from operating activities	31		**1,434,520**		3,581,486
Returns on investments and servicing of finance					
Dividends received from an associated company		**6,217**		4,331	
Dividends received on equity investment securities		**1,305**		5,940	
Dividends paid		**(25,925)**		(39,272)	
Net cash outflow from returns on investments and servicing of finance			**(18,403)**		(29,001)
Taxation					
Hong Kong profits tax paid		**(7,335)**		(51,174)	
Hong Kong profits tax refund		**10,683**		–	
Overseas tax paid		**(877)**		(789)	
Total tax refunded/(paid)			**2,471**		(51,963)
Investing activities					
Payment for purchase of tangible fixed assets		**(60,254)**		(48,407)	
Proceeds from disposals of tangible fixed assets		**1,373**		70	
Loan to associated companies		**(6)**		(39)	
Payment for investment on an associated company		**(56,449)**		–	
Proceeds from liquidation of an associated company		**–**		992	
Payment for purchase of held-to-maturity securities and investment securities		**(1,064,765)**		(10,313)	
Net proceeds from disposal of interest in subsidiaries		**398,738**		–	
Net cash outflow from investing activities			**(781,363)**		(57,697)
Net cash inflow before financing			**637,225**		3,442,825
Financing					
Issue of ordinary share capital	32	**2,733**		655,884	
Share issue expenses	32	**(24)**		(7,001)	
Net cash inflow from financing			**2,709**		648,883
Increase in cash and cash equivalents			**639,934**		4,091,708
Cash and cash equivalents at 1 January			**12,744,284**		8,652,576
Cash and cash equivalents at 31 December	33		**13,384,218**		12,744,284

The notes on pages 56 to 87 form part of these accounts.

Notes on the Accounts

(Expressed in Hong Kong dollars)

1. Principal activities

The principal activities of the Bank and its subsidiaries, which materially affect the results or assets of the Group, are the provision of banking and related financial services.

2. Significant accounting policies

(a) Statement of compliance

The accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and comply fully with "Financial Disclosure by Locally Incorporated Authorised Institutions" issued by the Hong Kong Monetary Authority. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost and the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Basis of consolidation

The consolidated accounts include the accounts of CITIC Ka Wah Bank Limited ("the Bank") and all its subsidiaries ("the Group") made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions and balances are eliminated on consolidation.

(d) Investments in subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors.

Investments in subsidiaries in the Bank's balance sheet are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.

(e) Investments in associates

An associate is a company in which the Group or the Bank has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

Investments in associates are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each associate individually. The results of the associates are included in the consolidated and the Bank's profit and loss account to the extent of dividends received and receivable, providing the dividend is in respect of a period ending on or before the accounts of the Group and the Bank are approved by the directors. The results and reserves of associates are not equity accounted for in the consolidated accounts as they are considered by the directors to be immaterial to the Group.

2. Significant accounting policies *(continued)*

(f) Doubtful debts

(i) Specific provisions are made for doubtful debts as and when they are considered necessary by the directors and, in addition, amounts have been set aside as general provisions for doubtful debts. The specific element relates to individual banking facilities; the general element relates to other exposures not separately identified but known from experience to exist in any portfolio of banking facilities. These provisions are deducted from advances to customers, trade bills and other accounts. When there is no longer any realistic prospect of recovery, the outstanding debt is written off.

(ii) Assets acquired in exchange for advances are reclassified to other accounts. The asset acquired is recorded at the carrying value of the advance disposed of at the date of the exchange, and provisions are based on any subsequent deterioration in its value.

(iii) Interest accrued on doubtful debts is credited to a suspense account which is netted in the balance sheet against the relevant advances.

(g) Investments in securities

The Group's and the Bank's policies for investments in securities other than investments in subsidiaries and associates are as follows:

(i) Dated debt securities that the Group and/or the Bank have the ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less any provisions for diminution in value. Provisions are made when carrying amounts are not expected to be fully recovered and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.

(ii) Investments held on a continuing basis for an identified long-term purpose are classified as "investment securities". Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.

(iii) All other securities (whether held for trading or otherwise) are stated in the balance sheet at fair values. Changes in fair value are recognised in the profit and loss account as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.

(iv) Provisions against the carrying value of held-to-maturity securities and investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(v) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

2. Significant accounting policies *(continued)*

(h) Tangible fixed assets and depreciation

(i) In preparing these accounts, advantage has been taken of the transitional provisions set out in paragraph 72 of Statement of Standard Accounting Practice 17 "Property, plant and equipment" issued by the Hong Kong Society of Accountants, with the effect that premises have not been revalued to fair value at the balance sheet date. It is not the directors' intention to revalue premises in the future.

(ii) Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential.

Investment properties and other premises are depreciated on a straight-line basis to write off their cost or valuation over their estimated useful lives which are as follows:

- Freehold land is not depreciated.
- Land held on leases is depreciated on the straight-line basis over the unexpired terms of the leases.
- Buildings are depreciated over 30 years or the unexpired terms of the land leases, whichever is the shorter.

(iii) Furniture, fixtures and equipment are stated at cost less depreciation calculated on the straight-line basis to write off the assets over their estimated useful lives, which are generally between four and ten years.

(iv) The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account. In determining the recoverable amount, expected future cash flows generated by the fixed assets are discounted to their present values.

When the circumstances and events that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of an asset is written back to the profit and loss account. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

(v) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(vi) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

(i) Revenue recognition

(i) Interest income and expenses are accrued on a time-apportioned basis on the principal outstanding and at the rate applicable. Fee income and expenses are recognised when earned or incurred.

(ii) Interest income from dated debt securities intended to be held to maturity is recognised as it accrues, as adjusted by the amortisation of the premium or discount on acquisition, so as to achieve a constant rate of return over the period from the date of purchase to the date of maturity.

2. Significant accounting policies *(continued)*

(i) Revenue recognition *(continued)*

(iii) Dividend income is recognised as follows:

- dividends from listed investments are recognised when the share price of such investments goes ex-dividend; and
- interim dividends from unlisted investments are recognised when the directors of such investments declare such dividends; final dividends from unlisted investments are recognised when the shareholders of such investments approve the dividends proposed by the directors at the general meeting.

(j) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payable under operating leases are accounted for in the profit and loss account on a straight-line basis over the periods of the respective lease term.

(k) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

The results of overseas branches and subsidiaries are translated into Hong Kong dollars at the average exchange rates for the year. Balance sheet items are retranslated at the rates of exchange ruling at the balance sheet date. The exchange differences are dealt with as a movement in reserves.

(l) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(m) Off-balance sheet financial instruments

Off-balance sheet financial instruments arise from forward and swap transactions undertaken in the foreign exchange and interest rate markets. The accounting for these instruments is dependent upon whether the transactions are undertaken for dealing purposes, to hedge risk, or as part of the management of asset and liability portfolios.

Transactions undertaken for dealing purposes are marked to market and the net present value of the gain or loss arising is recognised in the profit and loss account as dealing profits/losses, after appropriate deferrals for the unearned credit margin and future servicing costs.

Transactions designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions which they are hedging. Any profit or loss is recognised on the same basis as that arising from the related assets, liabilities or net positions.

Interest rate swap transactions undertaken as part of the management of asset and liability portfolios are separately identified and interest income or expense arising therefrom is netted off against the related interest income or expense on the on-balance sheet items these transactions are hedged against.

2. Significant accounting policies *(continued)*

(m) Off-balance sheet financial instruments *(continued)*

Unrealised gains on transactions which are marked to market are included in 'Advances to customers and other accounts less provisions' in the balance sheet. Unrealised losses on transactions which are marked to market are included in 'Other accounts and provisions'.

(n) Retirement costs

The Group operates a defined contribution provident fund scheme, the assets of which are all held separately from those of the Group in an independently administered fund. The cost of this retirement scheme is charged to the profit and loss account as and when the contributions fall due.

(o) Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(p) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include placements with banks and other financial institutions repayable within three months from the date of the placement.

3. Operating (loss)/profit

The operating (loss)/profit for the year is stated after taking account of:

(a) Other revenue

	The Group	
	1999 HK$'000	1998 HK$'000
Dividend income		
Listed investments	**9**	23
Unlisted investments	**7,522**	10,271
Rental income less outgoings	**7,973**	4,997
	15,504	15,291

(b) Other operating income

	1999 HK$'000	1998 HK$'000
Net gain on other investments in securities	**9,741**	15,207
Net gain arising from dealing in foreign currencies	**20,332**	29,643
Others	**23,459**	21,582
	53,532	66,432

3. Operating (loss)/profit *(continued)*

(c) Operating expenses

	The Group	
	1999	1998
	HK$'000	HK$'000
Staff costs		
Salaries and other staff costs	**272,596**	257,850
Retirement benefit costs (note 34)	**16,919**	16,533
Premises and equipment expenses		
Rental of premises	**26,833**	23,517
Depreciation (note 23)	**54,852**	52,067
Others	**39,467**	42,254
Auditors' remuneration	**1,892**	2,212
Others	**68,055**	86,216
	480,614	480,649

(d) The emoluments of the five highest paid individuals:

Of the Group's five highest paid individuals, 4 (1998: all) are directors whose remuneration is disclosed in note 6. The remuneration in respect of the other individual in 1999 is as follows:

	1999
	HK$'000
Salaries, allowances and benefits in kind	**2,638**
Pension contributions	**213**
Bonuses	**900**
	3,751

4. Charge for bad and doubtful debts

	1999		1998	
	HK$'000	**HK$'000**	HK$'000	HK$'000
Specific provisions against:				
– advances (note 16)	**868,254**		483,417	
– trade bills (note 16)	**–**		23,178	
– other accounts (note 16)	**(169)**		398	
		868,085		506,993
General provisions against:				
– advances (note 16)	**69,326**		65,233	
– trade bills (note 16)	**(267)**		(692)	
		69,059		64,541
		937,144		571,534
Bad debts recovered		**(1,154)**		(430)
Bad debt expenses		**1,598**		12
		937,588		571,116

5. Disposal of interest in subsidiaries

A profit of HK$397 million was made on the sale of 49% shareholding in two of the Bank's wholly owned subsidiaries to its ultimate holding company.

6. Directors' emoluments

The aggregate emoluments of the directors of the Bank disclosed pursuant to section 161 of the Hong Kong Companies Ordinance were:

	The Bank	
	1999 HK$'000	1998 HK$'000
Fees	**4,800**	6,300
Salaries, allowances and benefits in kind	**11,903**	15,319
Pension contributions	**787**	880
Bonuses	**2,816**	7,598
Compensation for loss of office	**–**	2,933
	20,306	33,030

Included in the directors' remuneration were fees of HK$900,000 (1998: HK$900,000) paid to independent non-executive directors during the year.

In addition to the above emoluments, certain directors were granted share options under the Bank's Option Scheme. The details of these benefits in kind are disclosed under the paragraph "Directors' interests" in the directors' report.

The remuneration of the directors is within the following bands:

	1999 Number of directors	1998 Number of directors
HK$ Nil - HK$1,000,000	**10**	11
HK$1,000,001 - HK$1,500,000	**–**	1
HK$1,500,001 - HK$2,000,000	**2**	2
HK$2,500,001 - HK$3,000,000	**1**	2
HK$3,000,001 - HK$3,500,000	**1**	1
HK$3,500,001 - HK$4,000,000	**2**	1
HK$4,000,001 - HK$4,500,000	**–**	1
HK$7,500,001 - HK$8,000,000	**–**	1
	16	20

7. Taxation

(a) Taxation in the consolidated profit and loss account represents:

	1999 HK$'000	1998 HK$'000
Provision for Hong Kong profits tax	**786**	21,695
Overseas taxation	**697**	443
	1,483	22,138

The provision for Hong Kong profits tax is based on an estimate of the assessable profits for the year ended 31 December 1999 at 16% (1998: 16%). Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the countries in which they operate.

(b) Taxation in the balance sheets, which is included in other accounts and provisions, represents:

	The Group		**The Bank**	
	1999 HK$'000	1998 HK$'000	**1999 HK$'000**	1998 HK$'000
Provision for Hong Kong profits tax	**12,097**	7,963	**2,274**	1,974
Provision for overseas taxation	**197**	377	**190**	377
	12,294	8,340	**2,464**	2,351

(c) No provision for deferred tax is made as there are no material timing differences which would result in a liability payable or an asset receivable in the foreseeable future.

8. Profit attributable to shareholders

The profit attributable to shareholders includes an amount of HK$63,994,000 (1998: HK$7,908,000) which has been dealt with in the accounts of the Bank.

9. Dividends

	1999 HK$'000	1998 HK$'000
Final dividend of HK$Nil (1998: HK$0.025) per ordinary share in respect of shares issued under the Option Scheme subsequent to 31 December 1998 and before the close of Register of Members of the Bank	**–**	2
Proposed dividend of HK$0.01 (1998: HK$0.01) per ordinary share	**25,945**	25,925
	25,945	25,927

10. Earnings per share

(a) ***Basic earnings per share***

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK$108,561,000 (1998: HK$103,272,000) and on the weighted average of 2,593,248,423 (1998: 2,383,580,927) ordinary shares.

(b) ***Diluted earnings per share***

The calculation of diluted earnings per share is based on the profit attributable to shareholders of HK$108,561,000 (1998: HK$103,272,000) and the weighted average number of ordinary shares of 2,595,460,815 shares (1998: 2,387,421,342 shares) after adjusting for the effects of all dilutive potential ordinary shares.

(c) ***Reconciliation***

	1999 Number of shares	1998 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**2,593,248,423**	2,383,580,927
Deemed issue of ordinary shares for no consideration	**2,212,392**	3,840,415
Weighted average number of ordinary shares used in calculating diluted earnings per share	**2,595,460,815**	2,387,421,342

11. Change in accounting policy

The Group adopted the new Statement of Standard Accounting Practice 24 "Accounting for Investments in Securities" commencing from 1 January 1999 which resulted in a change of accounting policy with respect to treasury bills, certificates of deposit, securities held for dealing purposes and investment securities. Debt securities intended to be held to maturity are accounted for as held-to-maturity securities. Other securities are accounted for using the benchmark treatment.

The opening retained earnings for 1999 were not restated as the effect of the change of the accounting policy was considered by the directors to be immaterial. As a result of the adoption of this accounting policy, the Group's profit for the year ended 31 December 1999 was increased by HK$837,000 with the net assets at the year end increased by HK$837,000. Comparative figures for the year ended 31 December 1998 were reclassified to conform with the current year's presentation.

12. Cash and short-term funds

	The Group		The Bank	
	1999	1998	**1999**	1998
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and balances with banks and other financial institutions	**444,734**	330,274	**443,555**	327,212
Money at call and short notice	**11,199,585**	10,928,614	**11,199,585**	10,740,122
Treasury bills (including Exchange Fund Bills)	**228,457**	198,660	**228,457**	198,660
	11,872,776	11,457,548	**11,871,597**	11,265,994

(a) Money at call and short notice represents deposits of up to a maximum of one month to maturity.

(b) The analysis of treasury bills (including Exchange Fund Bills) is as follows:

	The Group and the Bank	
	1999	1998
	HK$'000	HK$'000
Held-to-maturity securities:		
Unlisted and issued by central governments and central banks	**228,457**	198,660

The maturity profile of held-to-maturity securities included above and analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	The Group and the Bank	
	1999	1998
	HK$'000	HK$'000
3 months or less but not repayable on demand	**79,756**	198,660
1 year or less but over 3 months	**148,701**	–
	228,457	198,660

13. Trade bills and certificates of deposit

	The Group		The Bank	
	1999	1998	**1999**	1998
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade bills	**76,958**	160,231	**76,958**	160,231
General provisions for bad and doubtful debts (note 16)	**(963)**	(1,230)	**(963)**	(1,230)
Specific provisions for bad and doubtful debts (note 16)	**–**	(25,430)	**–**	(25,430)
	75,995	133,571	**75,995**	133,571
Certificates of deposit	**1,690,891**	1,845,751	**1,567,011**	1,595,055
	1,766,886	1,979,322	**1,643,006**	1,728,626

13. Trade bills and certificates of deposit *(continued)*

The maturity profile of certificates of deposit included above and analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	The Group		The Bank	
	1999 HK$'000	1998 HK$'000	**1999 HK$'000**	1998 HK$'000
3 months or less but not repayable on demand	**38,880**	135,000	**–**	135,000
1 year or less but over 3 months	**698,476**	525,114	**668,476**	485,114
5 years or less but over 1 year	**953,535**	1,185,637	**898,535**	974,941
	1,690,891	1,845,751	**1,567,011**	1,595,055

14. Other investments in securities

	The Group		The Bank	
	1999 HK$'000	1998 HK$'000	**1999 HK$'000**	1998 HK$'000
Equity securities				
Listed in Hong Kong	**417**	1,299	**1**	12
Listed outside Hong Kong	**18,566**	37,504	**–**	–
Unlisted	**11,600**	–	**11,600**	–
	30,583	38,803	**11,601**	12
Issued by:				
Banks and other financial institutions	**18,566**	37,504	**–**	–
Corporate entities	**12,017**	1,299	**11,601**	12
	30,583	38,803	**11,601**	12

15. Advances to customers and other accounts less provisions

(a) Advances to customers and other accounts

	The Group		The Bank	
	1999 HK$'000	1998 HK$'000	**1999 HK$'000**	1998 HK$'000
Advances to customers (note 15(c))	**27,603,561**	25,046,550	**25,115,542**	21,548,390
Specific provisions for bad and doubtful debts (note 16)	**(723,969)**	(735,608)	**(552,754)**	(587,829)
General provisions for bad and doubtful debts (note 16)	**(308,854)**	(261,412)	**(264,346)**	(215,904)
	26,570,738	24,049,530	**24,298,442**	20,744,657
Advances to banks and other financial institutions (note 15(c))	**639,817**	697,869	**32,232**	40,370
Accrued interest and other accounts	**1,844,839**	1,393,031	**1,548,562**	1,054,911
	29,055,394	26,140,430	**25,879,236**	21,839,938

15. Advances to customers and other accounts less provisions *(continued)*

(b) The total advances on which interest has been placed in suspense are as follows:

	The Group		The Bank	
	1999 HK$'000	1998 HK$'000	**1999 HK$'000**	1998 HK$'000
Gross advances	**1,555,450**	2,118,669	**1,087,530**	1,701,073
Specific provisions	**(514,767)**	(679,389)	**(356,421)**	(547,970)
	1,040,683	1,439,280	**731,109**	1,153,103

The specific provisions were made after taking into account the value of collateral in respect of such advances.

(c) The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	The Group		The Bank	
	1999 HK$'000	1998 HK$'000	**1999 HK$'000**	1998 HK$'000
Advances to customers:				
Repayable on demand	**1,593,613**	1,844,162	**1,558,232**	1,807,754
3 months or less but not repayable on demand	**1,878,082**	3,514,807	**1,776,012**	3,108,630
1 year or less but over 3 months	**5,461,669**	3,094,656	**4,375,196**	2,030,179
5 years or less but over 1 year	**8,676,425**	8,133,896	**7,747,081**	6,632,798
After 5 years	**8,228,729**	6,316,805	**8,157,026**	6,188,793
Undated	**1,765,043**	2,142,224	**1,501,995**	1,780,236
	27,603,561	25,046,550	**25,115,542**	21,548,390
Placements with and advances to banks and other financial institutions:				
3 months or less but over 1 month	**2,461,055**	1,905,015	**2,435,135**	1,879,195
1 year or less but over 3 months	**25,920**	139,057	**–**	90,000
5 years or less but over 1 year	**587,977**	646,230	**32,232**	40,370
	3,074,952	2,690,302	**2,467,367**	2,009,565
Representing:				
Placements with banks and other financial institutions maturing between one and twelve months	**2,435,135**	1,992,433	**2,435,135**	1,969,195
Advances to banks and other financial institutions (note 15(a))	**639,817**	697,869	**32,232**	40,370
	3,074,952	2,690,302	**2,467,367**	2,009,565

16. Provisions for bad and doubtful debts

The Group – 1999

	Specific HK$'000	General HK$'000	Total HK$'000	Suspended interest HK$'000
At 1 January	763,785	262,642	1,026,427	108,979
Amounts written off	(927,310)	–	(927,310)	(167,143)
Charge to profit and loss account (note 4)	868,085	69,059	937,144	–
Transfer between provisions	21,952	(21,952)	–	–
Interest suspended during the year	–	–	–	239,388
Suspended interest recovered	–	–	–	(28,513)
Exchange differences	35	68	103	–
At 31 December	**726,547**	**309,817**	**1,036,364**	**152,711**
Representing:				
Trade bills (note 13)	–	963	963	–
Advances to customers (note 15(a))	723,969	308,854	1,032,823	152,711
Other accounts	2,578	–	2,578	–
	726,547	**309,817**	**1,036,364**	**152,711**

The Bank – 1999

	Specific HK$'000	General HK$'000	Total HK$'000	Suspended interest HK$'000
At 1 January	613,259	217,134	830,393	102,240
Amounts written off	(702,111)	–	(702,111)	(163,860)
Charge to profit and loss account	630,619	59,059	689,678	–
Transfer between provisions	10,952	(10,952)	–	–
Interest suspended during the year	–	–	–	214,703
Suspended interest recovered	–	–	–	(25,677)
Exchange differences	35	68	103	–
At 31 December	**552,754**	**265,309**	**818,063**	**127,406**
Representing:				
Trade bills (note 13)	–	963	963	–
Advances to customers (note 15(a))	552,754	264,346	817,100	127,406
	552,754	**265,309**	**818,063**	**127,406**

16. Provisions for bad and doubtful debts *(continued)*

The Group – 1998

	Specific HK$'000	General HK$'000	Total HK$'000	Suspended interest HK$'000
At 1 January	550,721	233,063	783,784	9,753
Amounts written off	(328,414)	(457)	(328,871)	(44,815)
Charge to profit and loss account (note 4)	506,993	64,541	571,534	–
Transfer between provisions	34,492	(34,492)	–	–
Interest suspended during the year	–	–	–	156,693
Suspended interest recovered	–	–	–	(12,647)
Exchange differences	(7)	(13)	(20)	(5)
At 31 December	763,785	262,642	1,026,427	108,979
Representing:				
Trade bills (note 13)	25,430	1,230	26,660	994
Advances to customers (note 15(a))	735,608	261,412	997,020	107,985
Other accounts	2,747	–	2,747	–
	763,785	262,642	1,026,427	108,979

The Bank – 1998

	Specific HK$'000	General HK$'000	Total HK$'000	Suspended interest HK$'000
At 1 January	397,240	177,555	574,795	9,753
Amounts written off	(262,159)	(457)	(262,616)	(44,815)
Charge to profit and loss account	453,694	64,540	518,234	–
Transfer between provisions	24,491	(24,491)	–	–
Interest suspended during the year	–	–	–	149,954
Suspended interest recovered	–	–	–	(12,647)
Exchange differences	(7)	(13)	(20)	(5)
At 31 December	613,259	217,134	830,393	102,240
Representing:				
Trade bills (note 13)	25,430	1,230	26,660	994
Advances to customers (note 15(a))	587,829	215,904	803,733	101,246
	613,259	217,134	830,393	102,240

17. Material related party transactions

During the year, the Group entered into a number of transactions with its ultimate holding company and the ultimate holding company's subsidiaries, in the ordinary course of its banking business including, inter alia, lending, the acceptance and placement of interbank deposits, participation in loan syndicates, correspondent banking transactions and foreign exchange transactions. The contracts were priced based on relevant market rates at the time of each transaction, and were under the same terms as those available to other counterparties and customers of the Group. In the opinion of the directors these transactions were conducted on normal commercial terms.

Information relating to income and expense from related party transactions during the year and balances outstanding as at the balance sheet date is set out below:

(a) Income/(expense)

	The Group and the Bank	
	1999	1998
	HK$'000	HK$'000
Interest income	**9,171**	3,081
Interest expense	**(12,688)**	(87,050)
Net interest expense	**(3,517)**	(83,969)

(b) Ultimate holding company

	The Group		The Bank	
	1999	1998	**1999**	1998
	HK$'000	HK$'000	**HK$'000**	HK$'000
Advances to customers and other accounts less provisions	**130,000**	–	**66,173**	–
Current, fixed, savings and other deposits of customers	**55,065**	373,785	**55,065**	373,785
Other accounts and provisions	**61**	1,106	**61**	1,106
	55,126	374,891	**55,126**	374,891

(c) Subsidiaries of the ultimate holding company

	The Group and the Bank	
	1999	1998
	HK$'000	HK$'000
Cash and short-term funds	**37,112**	34,526
Advances to customers and other accounts less provisions	**443**	11
	37,555	34,537
Deposits and balances of banks and other financial institutions	**19,900**	120,362
Current, fixed, savings and other deposits of customers	**477,354**	1,525,602
Other accounts and provisions	**1,687**	6,854
	498,941	1,652,818

17. Material related party transactions *(continued)*

(d) A subsidiary of the Bank has an investment of HK$19 million (1998: HK$38 million) in equity securities listed outside Hong Kong. The subsidiary also entered into a put option with a subsidiary of the ultimate holding company, to sell to them these securities. The option has an exercise price of Thai Baht 93.93 per share and will expire on 29 April 2000.

(e) A subsidiary of the ultimate holding company has opened Hong Kong dollar and Renminbi bank accounts in another subsidiary bank of the ultimate holding company in the PRC to receive repayments from borrowers of the Group located in the PRC. The accounts, which amount to HK$248 million (1998: HK$25 million) at the year end, are held in trust on behalf of the Bank free of any encumbrances.

(f) Included in held-to-maturity securities is a credit-link-note security (the "security") of US$5 million. A condition is attached to the security whereby the issuer of the security will not repurchase the security upon its maturity if the reference entity failed to repay the issuer a specific security acquired by the issuer from the reference entity. The reference entity of the security is the Bank's ultimate holding company.

18. Amounts due from subsidiaries

During the year, the Bank entered into transactions with certain subsidiaries in the ordinary course of its banking business. The transactions were conducted on an arm's length basis. Details of the amounts due from subsidiaries are as follows:

	The Bank	
	1999 HK$'000	1998 HK$'000
Money at call and short notice	**1,018,009**	1,219,734
Placements with banks and other financial institutions maturing between one and twelve months	**2,215,198**	2,959,644
Advances to customers and other accounts less provisions	**329,195**	423,511
	3,562,402	4,602,889

19. Held-to-maturity securities and investment securities

	The Group		The Bank	
	1999 HK$'000	1998 HK$'000	**1999 HK$'000**	1998 HK$'000
Held-to-maturity securities – debt securities				
Listed in Hong Kong	**86,946**	79,581	**79,690**	79,581
Listed outside Hong Kong	**562,441**	619,620	**373,633**	371,754
	649,387	699,201	**453,323**	451,335
Unlisted	**1,854,490**	748,540	**1,854,490**	671,081
	2,503,877	1,447,741	**2,307,813**	1,122,416
Investment securities – debt securities				
Listed outside Hong Kong	**61,541**	58,835	**61,541**	58,835
Unlisted	**8,651**	7,511	**3,417**	3,417
	70,192	66,346	**64,958**	62,252
Investment securities – equity securities				
Unlisted	**9,801**	73,260	**9,801**	73,260
Total	**2,583,870**	1,587,347	**2,382,572**	1,257,928
Issued by:				
Central governments and central banks	**257,079**	216,886	**257,079**	216,886
Banks and other financial institutions	**1,598,747**	843,094	**1,598,747**	804,365
Corporate entities	**724,178**	524,641	**525,864**	235,795
Others	**3,866**	2,726	**882**	882
	2,583,870	1,587,347	**2,382,572**	1,257,928
Market value of listed securities				
Debt securities	**677,575**	731,334	**502,106**	510,117

19. Held-to-maturity securities and investment securities *(continued)*

The maturity profile of debt securities included above and analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	The Group		The Bank	
	1999 HK$'000	1998 HK$'000	**1999 HK$'000**	1998 HK$'000
3 months or less but not repayable on demand	**58,880**	–	**58,880**	–
1 year or less but over 3 months	**301,892**	154,898	**280,203**	77,439
5 years or less but over 1 year	**1,598,781**	831,960	**1,424,406**	622,824
After five years	**550,700**	467,235	**550,700**	428,505
Undated	**63,816**	59,994	**58,582**	55,900
	2,574,069	1,514,087	**2,372,771**	1,184,668

20. Investments in subsidiaries, at cost

The following list contains only the particulars of subsidiaries which principally affect the results or assets of the Group.

Name of company	Place of incorporation	Percentage of shares held	Principal activities	Issued ordinary share capital
Ka Wah International Merchant Finance Limited	Hong Kong	100%	Syndication arrangements and project financing	HK$432,500,000
Ka Wah Capital Limited *	Hong Kong	51%	Corporate finance services	HK$5,000,000
Cargary Securities Limited	Hong Kong	51%	Securities brokerage services	HK$28,000,000
KWB Investment Limited *	Hong Kong	100%	Project finance and investment holding	HK$5,000,000
The Ka Wah Bank (Trustee) Limited	Hong Kong	100%	Trustee services	HK$3,000,000
The Ka Wah Bank (Nominees) Limited	Hong Kong	100%	Nominee services	HK$2
KWB Management Limited	Hong Kong	100%	Property management	HK$2

20. Investments in subsidiaries, at cost *(continued)*

Name of company	Place of incorporation	Percentage of shares held	Principal activities	Issued ordinary share capital
Kawake Advertising Company Limited	Hong Kong	100%	Advertising and related publications	HK$2
Ka Wah International Services Limited *	Hong Kong	100%	Loan administration services	HK$2
GCT Management Limited	USA	100%	Property management	No par value
Southam Investment Limited	Hong Kong	100%	Investment holding	HK$10,000
Ka Wah China Management Limited *	British Virgin Islands	51%	Investment and advisory	US$100
Win Rich Investments Limited *	British Virgin Islands	51%	Investment holding	US$1
Chancery Assets Limited *	British Virgin Islands	51%	Investment holding	US$1
CKW Financial Products Limited *	British Virgin Islands	51%	Financing vehicle	US$1
KWB International Limited	Hong Kong	100%	Investment holding	HK$2
California Investment, LLC **	USA	100%	Property development	US$5,000,000

All subsidiaries are held directly by the Bank except for those indicated below.

* Subsidiaries held indirectly by the Bank.

** 99% of the shares of this subsidiary is held directly by the Bank and the remaining 1% is held indirectly through another subsidiary of the Bank.

The principal places of operation are the same as the places of incorporation.

21. Investments in associates

	The Group		The Bank	
	1999 HK$'000	1998 HK$'000	**1999 HK$'000**	1998 HK$'000
Unlisted shares, at cost	**120,493**	585	**119,908**	–
Loan to an associate	**44**	38	**–**	–
	120,537	623	**119,908**	–

Dividend received from an associate during the year amounted to HK$6,216,601 (1998: HK$4,330,888).

Details of the principal associates are as follows:

Name of company	Place of incorporation	Principal activities	Percentage of shares held	Nominal value of issued shares
KWR Asset Management Limited	Cook Islands	Management services	50% 100% 0%	"A" US$910 "B" US$4,545 "C" US$4,545
KWR Asset Management (HK) Limited	Hong Kong	Investment advisory services	50%	HK$2
The Ka Wah Five Arrows China Hong Kong Fund Limited	Cook Islands	Investment holding	25%	US$60,002

All associated companies, except The Ka Wah Five Arrows China Hong Kong Fund Limited, are held indirectly by the Bank.

22. Amounts due to subsidiaries

During the year, the Bank entered into transactions with certain subsidiaries in the ordinary course of its banking business. In the opinion of the directors, the transactions were conducted on an arm's length basis. Details of the amounts due to subsidiaries are as follows:

	The Bank	
	1999 HK$'000	1998 HK$'000
Deposits and balances of banks and other financial institutions	**972,443**	543,512
Current, fixed, savings and other deposits of customers	**455,998**	212,214
Other accounts and provisions	**204,075**	12,932
	1,632,516	768,658

23. Tangible fixed assets

	The Group			
	Investment properties HK$'000	Other premises HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
Cost or valuation:				
At 1 January 1999	160,430	767,163	262,317	1,189,910
Exchange differences	47	99	71	217
Additions	–	6,183	54,071	60,254
Disposals	–	–	(15,653)	(15,653)
Transfers	132,268	(132,268)	–	–
At 31 December 1999	**292,745**	**641,177**	**300,806**	**1,234,728**
The analysis of cost or valuation of the above assets is as follows:				
At cost	285,379	420,014	300,806	1,006,199
At directors' valuation				
– 1985	7,366	71,423	–	78,789
– 1988	–	149,740	–	149,740
	292,745	**641,177**	**300,806**	**1,234,728**
Accumulated depreciation:				
At 1 January 1999	21,804	122,490	132,084	276,378
Exchange differences	2	2	54	58
Charge for the year (note 3(c))	3,728	21,154	29,970	54,852
Written back on disposals	–	–	(14,468)	(14,468)
Transfers	23,113	(23,113)	–	–
At 31 December 1999	**48,647**	**120,533**	**147,640**	**316,820**
Net book value:				
At 31 December 1999	**244,098**	**520,644**	**153,166**	**917,908**
At 31 December 1998	138,626	644,673	130,233	913,532

23. Tangible fixed assets *(continued)*

	The Bank			
	Investment properties HK$'000	Other premises HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
Cost or valuation:				
At 1 January 1999	148,386	673,504	243,738	1,065,628
Exchange differences	–	–	70	70
Additions	–	6,182	49,335	55,517
Disposals	–	–	(15,296)	(15,296)
Transfers	64,201	(64,201)	–	–
At 31 December 1999	**212,587**	**615,485**	**277,847**	**1,105,919**
The analysis of cost or valuation of the above assets is as follows:				
At cost	205,221	394,322	277,847	877,390
At directors' valuation				
– 1985	7,366	71,423	–	78,789
– 1988	–	149,740	–	149,740
	212,587	**615,485**	**277,847**	**1,105,919**
Accumulated depreciation:				
At 1 January 1999	21,522	116,478	124,332	262,332
Exchange differences	–	–	53	53
Charge for the year	3,528	19,114	27,536	50,178
Written back on disposals	–	–	(14,357)	(14,357)
Transfers	16,086	(16,086)	–	–
At 31 December 1999	**41,136**	**119,506**	**137,564**	**298,206**
Net book value:				
At 31 December 1999	**171,451**	**495,979**	**140,283**	**807,713**
At 31 December 1998	126,864	557,026	119,406	803,296

23. Tangible fixed assets *(continued)*

The net book value of investment properties and other premises comprises:

	The Group		The Bank	
	1999 HK$'000	1998 HK$'000	**1999 HK$'000**	1998 HK$'000
Freeholds				
Held outside Hong Kong	**226,310**	232,536	**190,038**	195,781
Leaseholds				
Held in Hong Kong				
– Long term leases (over 50 years)	**279,541**	343,268	**279,541**	280,613
– Medium term leases (10 - 50 years)	**251,015**	199,290	**189,975**	199,290
Held outside Hong Kong				
– Long term leases (over 50 years)	**5,620**	5,879	**5,620**	5,879
– Medium term leases (10 - 50 years)	**2,256**	2,327	**2,256**	2,327
	764,742	783,300	**667,430**	683,890

The net book value of all premises which have been stated in the balance sheet at valuation would have been as follows had they been stated at cost less accumulated depreciation:

	The Group		The Bank	
	1999 HK$'000	1998 HK$'000	**1999 HK$'000**	1998 HK$'000
Net book value at 31 December	**156,483**	159,654	**156,483**	159,654

24. Deposits and balances of banks and other financial institutions

	The Group and the Bank	
	1999 HK$'000	1998 HK$'000
Repayable on demand	**167,424**	120,758
With agreed maturity dates or periods of notice, by remaining maturity:		
3 months or less but not repayable on demand	**177,401**	261,378
1 year or less but over 3 months	**–**	210,449
	344,825	592,585

25. Current, fixed, savings and other deposits of customers

	The Group		The Bank	
	1999	1998	**1999**	1998
	HK$'000	HK$'000	**HK$'000**	HK$'000
Repayable on demand	**4,091,442**	4,133,033	**4,091,442**	4,133,033
With agreed maturity dates or periods of notice, by remaining maturity:				
3 months or less but not repayable on demand	**32,625,013**	26,230,576	**32,625,013**	26,230,576
1 year or less but over 3 months	**1,501,087**	2,410,285	**1,501,087**	2,376,720
5 years or less but over 1 year	**1,510,623**	22,096	**1,510,623**	22,096
	39,728,165	32,795,990	**39,728,165**	32,762,425

26. Certificates of deposit issued

	The Group and the Bank	
	1999	1998
	HK$'000	HK$'000
With agreed maturity dates or periods of notice, by remaining maturity:		
3 months or less but not repayable on demand	**1,010,886**	542,215
1 year or less but over 3 months	**427,683**	1,068,939
5 years or less but over 1 year	**15,552**	1,487,219
	1,454,121	3,098,373

27. Issued debt securities

	The Group and the Bank	
	1999	1998
	HK$'000	HK$'000
With agreed maturity dates or earlier redeemable dates at the holders' option, by remaining maturity:		
3 months or less but not repayable on demand	**58,320**	–
1 year or less but over 3 months	**–**	670,023
5 years or less but over 1 year	**464,000**	681,939
	522,320	1,351,962

28. Share capital

	1999 HK$'000	1998 HK$'000
Authorised:		
3,000,000,000 ordinary shares of HK$1 each	**3,000,000**	3,000,000
Issued and fully paid:		
At 1 January 2,592,513,174 (1998: 1,570,804,645) ordinary shares of HK$1 each	**2,592,513**	1,570,805
Capitalisation issue (note 29(a))	**–**	785,435
Shares issued under the Option Scheme	**1,948**	605
New issue	**–**	235,668
At 31 December 2,594,461,444 (1998: 2,592,513,174) ordinary shares of HK$1 each	**2,594,461**	2,592,513

Pursuant to the Option Scheme adopted on 30 March 1995, options to purchase ordinary shares in the Bank were granted at a consideration of HK$1.00 per grantee to eligible senior executives and directors.

Details of the share options granted are as follows:

Date of grant	Subscription price	No. of shares in the options	Exercisable period	No. of shares acquired on exercise of options	No. of shares in the options lapsed	No. of shares in the options outstanding as at 31 December 1999
30 March 1995	HK$1.00	15,000,000	30 March 1995 to 29 March 2005	11,800,000	3,000,000	200,000
10 April 1996	HK$1.00	1,361,000	11 April 1996 to 29 March 2005	862,000	375,000	124,000
29 April 1996	HK$1.244	2,100,000	29 April 1997 to 29 March 2005	2,100,000	–	–
8 May 1997	HK$1.00	1,186,500	9 May 1997 to 29 March 2005	511,625	421,875	253,000
8 May 1997	HK$1.244	262,500	9 May 1997 to 29 March 2005	262,500	–	–
14 July 1997	HK$4.56	200,000	14 July 1998 to 29 March 2005	–	200,000	–
6 May 1998	HK$1.00	1,427,448	7 May 1998 to 29 March 2005	35,145	1,002,375	389,928
6 May 1998	HK$1.244	50,000	7 May 1998 to 29 March 2005	50,000	–	–
6 May 1998	HK$4.56	100,000	14 July 1998 to 29 March 2005	–	100,000	–
16 April 1999	HK$1.68	2,450,000	6 August 1999 to 29 March 2005	1,100,000	–	1,350,000
17 August 1999	HK$2.30	19,600,000	31 October 1999 to 29 March 2005	–	–	19,600,000

29. Reserves

	The Group		The Bank	
	1999	1998	**1999**	1998
	HK$'000	HK$'000	**HK$'000**	HK$'000
(a) Share premium				
At 1 January	**1,424,265**	1,797,090	**1,418,265**	1,791,090
Share premium on shares issued during the year	**785**	419,611	**785**	419,611
Share issue expenses	**(24)**	(7,001)	**(24)**	(7,001)
Capitalisation on bonus issue of ordinary shares (note 28)	**–**	(785,435)	**–**	(785,435)
At 31 December	**1,425,026**	1,424,265	**1,419,026**	1,418,265
(b) Property revaluation reserves				
At 1 January and 31 December	**11,945**	11,945	**11,945**	11,945
(c) Capital reserves				
At 1 January and 31 December	**37,500**	37,500	**–**	–
(d) General reserves				
At 1 January and 31 December	**100,000**	100,000	**100,000**	100,000
(e) Exchange differences				
At 1 January	**48**	76	**–**	–
Current year	**143**	(28)	**–**	–
At 31 December	**191**	48	**–**	–
(f) Retained profits				
At 1 January	**1,110,150**	1,032,805	**472,459**	490,478
Profit/(loss) for the year	**82,616**	77,345	**38,049**	(18,019)
At 31 December	**1,192,766**	1,110,150	**510,508**	472,459
Total reserves	**2,767,428**	2,683,908	**2,041,479**	2,002,669

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

30. Off-balance sheet exposures

(a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	The Group		The Bank	
	1999 HK$'000	1998 HK$'000	**1999 HK$'000**	1998 HK$'000
Direct credit substitutes	**435,501**	253,892	**903,184**	874,837
Trade-related contingencies	**613,922**	678,546	**613,922**	678,546
Other commitments				
– with an original maturity of under 1 year or which are unconditionally cancellable	**7,668,932**	5,958,535	**7,668,932**	5,958,535
– with an original maturity of 1 year and over	**326,672**	47,249	**320,117**	28,276
	9,045,027	6,938,222	**9,506,155**	7,540,194

The above amounts include the following guarantees:

(i) continuing guarantees to a wholly owned subsidiary, Ka Wah International Merchant Finance Limited ("KWIMF"), to secure the collectibility of principal and related interest in respect of loans granted by KWIMF to third parties. As at 31 December 1999, the balances due from these companies amounted to HK$468 million (1998: HK$621 million).

(ii) guarantees for credit facilities granted by third parties to certain subsidiaries amounting to HK$43 million as at 31 December 1999 (1998: HK$43 million).

(b) Derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices.

The following is a summary of the notional amounts of each significant type of derivative entered into by:

	The Group					
	1999			1998		
	Trading HK$'000	**Hedging HK$'000**	**Total HK$'000**	Trading HK$'000	Hedging HK$'000	Total HK$'000
Exchange rate contracts						
Forwards	**428,400**	**489,698**	**918,098**	55,744	207,465	263,209
Swaps	**–**	**17,484,727**	**17,484,727**	147,937	22,489,114	22,637,051
Interest rate contracts						
Swaps	**–**	**427,679**	**427,679**	–	464,752	464,752
	428,400	**18,402,104**	**18,830,504**	203,681	23,161,331	23,365,012

30. Off-balance sheet exposures *(continued)*

(b) Derivatives *(continued)*

The Bank

	1999 Trading HK$'000	**1999 Hedging HK$'000**	**1999 Total HK$'000**	1998 Trading HK$'000	1998 Hedging HK$'000	1998 Total HK$'000
Exchange rate contracts						
Forwards	**428,400**	**489,698**	**918,098**	55,744	207,465	263,209
Swaps	**–**	**17,484,727**	**17,484,727**	147,937	22,489,114	22,637,051
Interest rate contracts						
Swaps	**–**	**217,729**	**217,729**	–	216,886	216,886
	428,400	**18,192,154**	**18,620,554**	203,681	22,913,465	23,117,146

(c) The replacement costs and credit risk weighted amounts of the above off-balance sheet exposures are as follows. These amounts do not take into account the effects of bilateral netting arrangements.

The Group

	1999 Replacement cost HK$'000	**1999 Credit risk weighted amount HK$'000**	1998 Replacement cost HK$'000	1998 Credit risk weighted amount HK$'000
Contingent liabilities and commitments	**N/A**	**627,642**	N/A	204,636
Exchange rate contracts	**28,304**	**46,658**	141,494	79,350
Interest rate contracts	**3,844**	**1,454**	34,058	12,700
	32,148	**675,754**	175,552	296,686

The Bank

	1999 Replacement cost HK$'000	**1999 Credit risk weighted amount HK$'000**	1998 Replacement cost HK$'000	1998 Credit risk weighted amount HK$'000
Contingent liabilities and commitments	**N/A**	**1,092,047**	N/A	816,094
Exchange rate contracts	**28,304**	**46,658**	141,494	79,350
Interest rate contracts	**3,844**	**1,220**	–	450
	32,148	**1,139,925**	141,494	895,894

30. Off-balance sheet exposures *(continued)*

The tables above give the contractual or notional amounts, replacement cost and credit risk-weighted amounts of off-balance sheet transactions. These are assessed in accordance with the Hong Kong Monetary Authority's guidelines which implement the Basle agreement of capital adequacy and depend on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments, and from 0% to 50% for exchange rate and interest rate contracts. Replacement cost represents the cost of replacing all contracts which have a positive value when marked to market. The credit risk-weighted amount refers to the amount as computed in accordance with the Third Schedule to the Banking Ordinance.

Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

Off-balance sheet financial instruments arise from forward and swap transactions undertaken in the foreign exchange and interest rate markets.

The notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

(d) Capital commitments

Capital commitments for acquisition of property, plant and equipment outstanding at 31 December not provided for in the accounts were as follows:

	The Group		**The Bank**	
	1999 HK$'000	1998 HK$'000	**1999 HK$'000**	1998 HK$'000
Expenditure contracted for	**18,940**	9,825	**18,835**	9,685
Expenditure authorised but not contracted for	**–**	780	**–**	780
	18,940	10,605	**18,835**	10,465

(e) Lease commitments

Commitments under non-cancellable operating leases payable during the next year:

	The Group		**The Bank**	
	1999 HK$'000	1998 HK$'000	**1999 HK$'000**	1998 HK$'000
Premises				
Leases expiring:				
– within one year	**1,392**	1,088	**1,392**	1,088
– after one year but within five years	**24,083**	26,260	**24,083**	26,260
– after five years	**–**	245	**1,278**	1,519
	25,475	27,593	**26,753**	28,867

31. Reconciliation of profit from ordinary activities before taxation to net cash inflow from operating activities

	1999 HK$'000	1998 HK$'000
Profit from ordinary activities before taxation	**110,044**	125,410
Provisions for bad and doubtful debts	**937,144**	571,534
Provision written back on diminution in value of investment in associated companies	**–**	(23)
Dividend received from an associated company	**(6,217)**	(4,331)
(Profit)/loss on disposal of tangible fixed assets	**(188)**	449
Profit on disposal of interest in subsidiaries	**(396,909)**	–
Provision made for diminution in value of held-to-maturity securities and investment securities	**18,737**	–
Amortisation of expenses on issue of certificates of deposit	**4,134**	5,205
Depreciation	**54,852**	52,067
Dividend income on equity investment securities	**(1,305)**	(5,940)
Net cash inflow from trading activities	**720,292**	744,371
(Increase)/decrease in placements with banks and other financial institutions (repayable beyond three months)	**(217,996)**	951,690
Decrease in trade bills	**57,843**	226,064
Decrease/(increase) in certificates of deposit	**155,583**	(94,147)
Decrease/(increase) in other investments in securities	**8,292**	(12,016)
Increase in advances to customers	**(3,458,890)**	(6,449,876)
Decrease/(increase) in advances to banks and other financial institutions	**58,052**	(27,825)
Increase in interest receivable and other assets	**(325,774)**	(553,048)
Decrease in certificates of deposit issued	**(1,649,884)**	–
Decrease in debt securities issued	**(757,824)**	(174,419)
Increase/(decrease) in interest payable and other liabilities	**241,259**	(266,321)
Decrease in deposits and balances of banks and other financial institutions	**(247,760)**	(682,554)
Increase in deposits of customers	**6,932,175**	9,883,117
Exchange differences	**(80,848)**	36,450
Net cash inflow from operating activities	**1,434,520**	3,581,486

32. Analysis of changes in financing during the year

	1999 Share capital (including share premium) HK$'000	1998 Share capital (including share premium) HK$'000
At 1 January	**4,016,778**	3,367,895
Cash inflow from issue of share capital	**2,733**	655,884
Share issue expenses	**(24)**	(7,001)
At 31 December	**4,019,487**	4,016,778

33. Analysis of the balances of cash and cash equivalents

	1999 HK$'000	1998 HK$'000
Cash and balances with banks and other financial institutions	**444,734**	330,274
Money at call and short notice	**11,199,585**	10,928,614
Treasury bills	**228,457**	198,660
Placements with banks and other financial institutions repayable within three months	**1,511,442**	1,286,736
	13,384,218	12,744,284

34. Staff retirement scheme

The Group has a defined contribution provident fund scheme under which it contributes 10% of the employees' basic salaries to the fund. The scheme is funded by the Bank and certain subsidiaries and covers all permanent full-time employees of the Group. The scheme is administered by The Ka Wah Bank (Trustee) Limited, a wholly owned subsidiary of the Bank. No employee contributions are required under the scheme. Contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions may not be used by the Group to reduce the existing level of contribution but are transferred to a separate welfare fund which shall be applied for the welfare of the members of the scheme.

During the year, the Group and the Bank contributed approximately HK$17 million (1998: HK$17 million) (note 3(c)) and HK$17 million (1998: HK$14 million) respectively to the scheme.

35. Loans to officers

Particulars of loans to officers disclosed pursuant to section 161B of the Hong Kong Companies Ordinance:

	1999 HK$'000	1998 HK$'000
Balance outstanding at 31 December		
– By the Bank	**11,329**	8,356
– By a subsidiary	**–**	5,272
	11,329	13,628
Maximum aggregate amount outstanding during the year		
– By the Bank	**12,795**	11,362
– By a subsidiary	**5,288**	66,266
	18,083	77,628

36. Assets pledged as security

On 31 December 1999, certificates of deposit amounting to HK$139 million (1998: HK$139 million) and investment securities amounting to HK$175 million (1998: HK$116 million) have been pledged to the Office of the Comptroller of Currency in the U.S.A. as statutory deposits.

37. Comparative figures

The presentation and classification of items in the accounts have been changed due to adoption of the requirements of SSAP 1 (revised) "Presentation of financial statements" and SSAP 24 "Accounting for investments in securities". As a result, securities held for dealing purposes and investment securities have been analysed into investments in held-to-maturity securities, investment securities and other investments in securities as required by SSAP 24 and additional line items have been included on the face of the consolidated profit and loss account and the balance sheets as required by SSAP 1 (revised), such as fees and commission income, fees and commission expense and other revenue. Comparative figures have been reclassified to conform with the current year's presentation.

38. Ultimate holding company

The directors consider the ultimate holding company at 31 December 1999 to be China International Trust and Investment Corporation, which is incorporated in the People's Republic of China.

39. Approval of accounts

The accounts were approved by the Board of Directors on 25 February 2000.

Unaudited Supplementary Financial Information

as at 31 December 1999 (Expressed in Hong Kong dollars)

(a) Capital adequacy and liquidity ratios

	1999	1998
Capital adequacy ratio as at 31 December	**19.16%**	20.57%
Average liquidity ratio for the year	**39.45%**	50.69%

The capital adequacy ratio and the average liquidity ratio are computed on the consolidated basis covering the Bank and certain of its financial subsidiaries as required by the Hong Kong Monetary Authority (the "HKMA") for its regulatory purposes, and are in accordance with the Third Schedule and the Fourth Schedule to the Banking Ordinance respectively.

(b) Capital base after deductions as at 31 December

	1999 **HK$'000**	1998 HK$'000
Core capital		
Paid up ordinary share capital	**2,594,461**	2,592,513
Reserves	**2,630,655**	2,595,101
Minority interests	**127,342**	–
Total core capital	**5,352,458**	5,187,614
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	**11,945**	11,945
General provisions for doubtful debts	**309,817**	262,642
Total eligible supplementary capital	**321,762**	274,587
Total capital base before deductions	**5,674,220**	5,462,201
Deductions from total capital base	**(270,793)**	(72,915)
Total capital base after deductions	**5,403,427**	5,389,286

(c) Segmental information

(i) *By geographical area*

The information concerning geographical analysis has been classified by the location of the principal operations of the subsidiaries, or in the case of the Bank itself, of the location of the branches responsible for reporting the results or booking the assets.

	The Group			
	1999		1998	
	*** Profit HK$'000**	**Total assets HK$'000**	* Profit HK$'000	Total assets HK$'000
Hong Kong	**210,686**	**52,987,066**	174,097	48,506,851
United States of America	**20,816**	**3,443,109**	20,723	3,656,658
Less: Intra-group items	**(121,458)**	**(7,647,086)**	(69,410)	(8,053,471)
Group total	**110,044**	**48,783,089**	125,410	44,110,038

(ii) *By class of business*

	The Group			
	1999		1998	
	*** Profit HK$'000**	**Total assets HK$'000**	* Profit HK$'000	Total assets HK$'000
Commercial banking	**59,901**	**51,118,630**	3,208	46,087,465
Investment banking	**132,043**	**4,612,464**	153,651	5,555,504
Securities business	**32,048**	**288,971**	19,045	127,479
Other business	**7,510**	**410,110**	18,916	393,061
Less: Intra-group items	**(121,458)**	**(7,647,086)**	(69,410)	(8,053,471)
Group total	**110,044**	**48,783,089**	125,410	44,110,038

* This refers to profit from ordinary activities before taxation.

Commercial banking activities during the year included acceptance of demand deposits, advance of commercial and industrial loans, supply of trust services, foreign exchange, trade financing and international banking.

Investment banking activities during the year included merchant banking, trading of equity securities and fund management.

Securities business activities during the year represented stockbroking.

Other business activities during the year included investment holding and property management.

(d) Advances to customers - by industry sectors

The analysis of advances to customers by industry sectors is based on categories and definitions used by the HKMA.

	The Group Gross advances to customers	
	1999 HK$'000	1998 HK$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
– Property development	**1,393,313**	1,534,407
– Property investment	**1,801,952**	2,110,585
– Financial concerns	**1,177,542**	1,440,590
– Stockbrokers	**192,440**	26,297
– Wholesale and retail trade	**1,137,820**	1,296,166
– Manufacturing	**885,096**	546,289
– Transport and transport equipment	**1,271,654**	984,235
– Others	**6,045,662**	5,418,176
Individuals		
– Loans for the purchase of flats under the Home Ownership Scheme and Private Sector Participation Scheme	**24,108**	34,693
– Loans for the purchase of other residential properties	**8,798,674**	6,048,762
– Others	**675,206**	510,642
Trade finance	**1,852,329**	2,548,376
Loans for use outside Hong Kong	**2,347,765**	2,547,332
	27,603,561	25,046,550

Approximately HK$19,321 million (1998: HK$16,953 million) of the above advances are backed by collateral.

(e) Overdue and rescheduled advances to customers

Overdue advances to customers

The gross amount of advances, net of accrued interest that has been capitalised but accrued to a suspense account, which have been overdue for periods of:

	The Group			
	1999		1998	
	HK$'000	**% of total loans and advances**	HK$'000	% of total loans and advances
Six months or less but over three months	**409,613**	**1.45**	521,645	2.01
One year or less but over six months	**447,459**	**1.58**	709,420	2.74
Over one year	**1,104,267**	**3.90**	555,359	2.14
	1,961,339	**6.93**	1,786,424	6.89
Rescheduled advances (net of any that have been overdue for over three months)	**738,981**	**2.61**	776,994	3.00
Total overdue and rescheduled advances	**2,700,320**	**9.54**	2,563,418	9.89

(e) Overdue and rescheduled advances to customers *(continued)*

Reconciliation

	1999 HK$'000	1998 HK$'000
Advances to customers overdue for more than 3 months	**1,961,339**	1,786,424
Less: Amount overdue for more than 3 months and on which interest is still being accrued	**(892,161)**	(425,613)
Add: Amount overdue for 3 months or less and on which interest is being placed in suspense or on which interest accrual has ceased	**37,839**	191,550
Add: Rescheduled advances on which interest is being placed in suspense or on which interest accrual has ceased	**413,852**	458,126
Add: Amount not overdue and on which interest is being placed in suspense or on which interest accrual has ceased	**34,581**	108,182
Advances to customers on which interest is being placed in suspense or on which interest accrual has ceased	**1,555,450**	2,118,669

(f) Management of risks

The Group has established policies and procedures for the control and monitoring of credit risk, liquidity, capital and market risk, which are reviewed regularly by the Board of Directors. The internal auditors also perform regular audits to ensure compliance with the policies and procedures.

(i) Credit risk management

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from the lending, trade finance, treasury, derivatives and other activities undertaken by the Group.

The Group's credit policy defines the credit extension criteria, the credit approval and monitoring processes, the loan classification system and provisioning policy. It also takes into account the requirements of the Banking Ordinance and the guidelines issued by the HKMA with respect to large exposures and provisioning requirements.

The Group manages its credit risk within a conservative framework by evaluating the creditworthiness of counterparties, setting credit limits for counterparties and industry sectors, and obtaining collateral where appropriate. Actual credit exposures and limits and asset quality are regularly monitored and controlled by management. The Group's policy is not to have significant unwarranted concentrations of exposure to individual counterparties.

An analysis of advances to customers by industry sectors is disclosed in note (d) above.

Unlike on-balance sheet instruments, where the credit risk is generally represented by the principal value, the credit risk for derivatives is the positive replacement cost. The credit risk exposure for derivatives is disclosed in Note 30.

(f) Management of risks *(continued)*

(ii) Liquidity management

The Group manages the liquidity structure of its assets, liabilities and commitments so as to ensure that all Group operations can meet their funding needs and that the statutory liquidity ratio is complied with. As disclosed in note (a) above, the Group's average liquidity ratio of 39.45% for 1999 is well above the statutory minimum ratio of 25%.

The board of directors reviews the current and prospective funding requirements for all operations through daily monitoring of the liquidity ratio and the maturity mismatch profile. The liquidity risk is managed by holding sufficient liquid assets (eg cash and short-term funds and securities) of appropriate quality to ensure that short-term funding requirements are covered within prudent limits.

Current, fixed, savings and other customer deposits form a significant part of the Group's overall funding. Its composition has remained relatively diversified and stable. In order to lengthen the duration of the funding, the Bank periodically issues certificates of deposits with maturities of between one to six years. Short-term funds are also borrowed from the interbank market.

(iii) Capital management

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to meet the statutory capital adequacy ratio. As disclosed in note (a) above, the Group's capital adequacy ratio of 19.16% as at 31 December 1999 is well above the statutory minimum ratio.

Capital is allocated to the various activities of the Bank depending on the risk taken by each business division. Certain financial subsidiaries, as specified by the HKMA, are subject to the HKMA's capital requirements for its regulatory supervision purposes.

(iv) Market risk management

The Group adopts a prudent approach to managing its trading portfolios, and reduces any excessive market risk by executing offsetting transactions or hedging contracts with other market counterparties. The Group has also met all of the de minimis exemption criteria for reporting market risk as set out in the HKMA's Guideline Maintenance of Adequate Capital Against Market Risks.

The Group considers that any market risk arising from its trading book is not material.

(g) Year 2000 compliance

The Bank quoted the same Year 2000 compliance definition as that of the HKMA: "A Year 2000 compliant system should perform, function and manage data involving dates without being abnormally affected by dates spanning the period prior to, during and after the year 2000".

The Bank successfully made the transition to the Year 2000. All computer systems were operating smoothly during and subsequent to the millennium transition. All tasks relating to Year 2000 transition have been completed on schedule.

The Bank had established a Business Resumption Plan in which the Year 2000 Contingency Plan was embedded. Testing of this Year 2000 Contingency Plan was completed before 30 June 1999. Periodic review and revision of the Business Resumption Plan to accommodate changes in situation will be conducted.

The total costs of the Year 2000 project which amounted to approximately HK$10,400,000, have been fully expensed to the profit and loss accounts during the financial years from 1997 to 1999.

Corporate Information

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Incorporation in Hong Kong : 17 December 1924

Listing : 23 July 1980

Hong Kong Stock Exchange Code : 183

Share Capital
- Authorised : HK$3,000,000,000
- Issued : HK$2,594,461,444

Composition of Shareholders :

	Number	No. of Shares Held	%
Individuals	7,805	96,359,680	3.71
Corporations	82	1,562,118,185	60.21
Nominees	63	935,983,579	36.08
Total	**7,950**	**2,594,461,444**	**100.00**

Number of Employees : 913

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