



中信嘉華銀行
CITIC
KA WAH
BANK

一九九九年度中期報告



1999 INTERIM REPORT

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To be a reputable provider of financial services in the hearts of the customers.



SUMMARY OF RESULTS

The Board of Directors of CITIC Ka Wah Bank Limited (the “Bank”) announces the unaudited consolidated results of the Bank and its subsidiaries (the “Group”) for the six months ended 30 June 1999 together with the comparative figures for the corresponding period in previous year as follows:–

	Six months ended 30 June		Variance %
	1999 HK\$'000	1998 HK\$'000	
Interest Income	1,489,699	1,540,374	(3.29)
Interest Expense	(1,088,456)	(1,085,508)	0.27
Net Interest Income	401,243	454,866	(11.79)
Other Operating Income	123,336	121,757	1.30
Operating Income	524,579	576,623	(9.03)
Operating Expenses	(223,035)	(216,043)	3.24
Operating Profit			
Before Provisions	301,544	360,580	(16.37)
Provision On Held-to-maturity Securities And Investment Securities	(24,859)	0	N/A
Charge For Bad And Doubtful Debts	(225,095)	(139,688)	61.14
Operating Profit	51,590	220,892	(76.64)
Net Profit/(Loss) On Disposal Of Tangible Fixed Assets And Investment Securities	761	(129)	689.92
Profit From Ordinary Activities			
Before Taxation	52,351	220,763	(76.29)
Tax On Profit From Ordinary Activities (Note 2)			
– Hong Kong	(444)	(28,747)	(98.46)
– Overseas	(310)	(613)	(49.43)
Profit Attributable To Shareholders	51,597	191,403	(73.04)
Earnings Per Share			
Basic (Note 3)	1.99 ¢	8.12 ¢	
Diluted (Note 4)	1.99 ¢	8.11 ¢	

Notes:

- (1) The Group adopted the new Statement of Standard Accounting Practice 2.124 “Accounting for Investments in Securities” commencing from 1 January 1999 which resulted in a change of accounting policy with respect of treasury bills, certificates of deposit, securities held for dealing purposes and investment securities. Debt securities intended to hold 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 is not considered to be material.

- (2) The provision for Hong Kong profits tax is based on an estimate of the assessable profits for the six months ended 30 June 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.

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.

- (3) The calculation of basic earnings per share for the six months ended 30 June 1999 is based on earnings of HK\$51,597,000 (1998: HK\$191,403,000) and on the weighted average of 2,592,547,794 (1998: 2,356,339,273) ordinary shares in issue during the period.

- (4) The calculation of diluted earnings per share for the six months ended 30 June 1999 is based on earnings of HK\$51,597,000 (1998: HK\$191,403,000) and on the weighted average of 2,593,127,623 (1998: 2,358,703,892) after adjusting for the effects of all dilutive potential ordinary shares.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(1) Advances and other accounts

	The Group		
	As at 30 June 1999 HK\$'000	As at 31 December 1998 HK\$'000	Variance %
Advances to customers	26,842,779	25,046,550	7.17
Advances to banks and other financial institutions	669,100	697,869	(4.12)
Accrued interest and other accounts	1,444,559	1,391,610	3.80
Provisions for bad and doubtful debts			
– Specific	(975,557)	(735,608)	32.62
– General	(272,857)	(261,412)	4.38
	<u>27,708,024</u>	<u>26,139,009</u>	6.00

(2) Advances to customers – By industry sectors

	The Group				
	As at 30 June 1999 HK\$'000	%	As at 31 December 1998 HK\$'000	%	Variance %
Loans for use in Hong Kong					
<i>Industrial, commercial and financial</i>					
– property development	1,348,296	5.02	1,534,407	6.13	(12.13)
– property investment	2,023,997	7.54	2,110,585	8.43	(4.10)
– financial concerns	1,184,762	4.41	1,440,590	5.75	(17.76)
– stockbrokers	49,635	0.19	26,297	0.10	88.75
– wholesale and retail trade	1,168,794	4.36	1,296,166	5.18	(9.83)
– manufacturing	577,576	2.15	546,289	2.18	5.73
– transport and transport equipment	1,071,293	3.99	984,235	3.93	8.85
– others	5,361,195	19.97	5,418,176	21.63	(1.05)
<i>Individuals</i>					
– loans for the purchase of flats in the Home Ownership Scheme and Private Sector Participation Scheme	29,444	0.11	34,693	0.14	(15.13)
– loans for the purchase of other residential properties	8,220,916	30.63	6,048,762	24.15	35.91
– others	610,231	2.27	510,642	2.04	19.50
Trade finance	2,439,294	9.09	2,548,376	10.17	(4.28)
Loans for use outside Hong Kong	<u>2,757,346</u>	<u>10.27</u>	<u>2,547,332</u>	<u>10.17</u>	8.24
TOTAL	<u>26,842,779</u>	<u>100.00</u>	<u>25,046,550</u>	<u>100.00</u>	7.17

(3) Loans on which interest is placed in suspense

	The Group				
	Total amount of loans on which interest is placed in suspense		Pledge amount for loans on which interest is placed in suspense	Specific provision in respect of loans on which interest is placed in suspense	Amount of interest placed in suspense
	HK\$'000	%*	HK\$'000	HK\$'000	HK\$'000
As at 30 June 1999	2,171,237	7.85	821,171	756,457	210,501
As at 31 December 1998	2,118,669	8.18	657,514	679,389	108,979

* Based on total loans and advances

There were no advances to banks and other financial institutions on which interest is being placed in suspense or on which interest accrual has ceased as at 30 June 1999 and 31 December 1998, nor were there any specific provisions made for them on these two days.

(4) Overdue loans and advances

	The Group					
	As at 30 June 1999					
	Overdue gross advances to customers(net of suspended interest)		Amount of collateral held in respect of overdue advances to customers	Amount of secured balance	Amount of unsecured balance	Amount of specific provisions made against overdue advances to customers
	HK\$'000	%*	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Three to six months overdue	189,942	0.69	161,654	86,523	103,419	17,948
Six months to one year overdue	808,575	2.92	401,331	314,099	494,476	348,552
Over one year overdue	928,637	3.36	625,846	473,642	454,995	305,503
TOTAL	1,927,154	6.97	1,188,831	874,264	1,052,890	672,003

The Group

As at 31 December 1998

	Overdue gross advances to customers(net of suspended interest)		Amount of collateral held in respect of overdue advances to customers	Amount of secured balance	Amount of unsecured balance	Amount of specific provisions made against overdue advances to customers
	HK\$'000	%*	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Three to six months overdue	521,645	2.01	395,185	221,500	300,190	63,411
Six months to one year overdue	709,420	2.74	333,272	277,958	431,417	260,518
Over one year overdue	555,359	2.14	310,079	201,651	353,708	257,156
TOTAL	1,786,424	6.89	1,038,536	701,109	1,085,315	581,085

* Based on total loans and advances

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 30 June 1999 and 31 December 1998.

(5) Rescheduled loans

The Group

	As at 30 June 1999 HK\$'000	%*	As at 31 December 1998 HK\$'000	%*
Rescheduled loans	1,346,472	4.87	776,994	3.00

* Based on total loans and advances

There were no advances to banks and other financial institutions which were rescheduled as at 30 June 1999 and 31 December 1998.

(6) The amount of advances to customers and advances to banks and other financial institutions which are:

	The Group As at 30 June 1999 HK\$'000
Overdue for more than 3 months and on which interest is still being accrued	500,923
Overdue for 3 months or less and on which interest is being placed in suspense or on which interest accrual has ceased	18,009

(7) Summary of financial position

	As at 30 Jun 1999 HK\$'000	As at 30 Jun 1998 HK\$'000	Variance %	As at 31 Dec 1998 HK\$'000	Variance %
Loans and Advances	27,646,431	20,850,186	32.60	25,904,650	6.72
Loans Loss Provision	1,248,414	804,172	55.24	1,023,680	21.95
Total Assets	45,577,148	38,362,351	18.81	44,110,038	3.33
Total Interest Earning Assets	43,977,916	37,002,922	18.85	42,384,993	3.76
Total Deposits	38,569,065	31,081,746	24.09	37,246,325	3.55
Shareholders' Funds	5,328,492	4,741,768	12.37	5,276,421	0.99
<i>Financial ratios</i>					
Capital Adequacy	20.14%	22.30%		20.57%	
Average Liquidity	44.57%	50.07%		50.69%	
Loans to Deposits	71.68%	67.08%		69.55%	
Loans to Total Assets	60.66%	54.35%		58.73%	
General Provision Coverage	1.02%	1.03%		1.04%	
Property Lending	44.90%	29.94%		40.15%	
Cost to Income	42.52%	37.47%		41.35%	
Return on Assets	0.23%	1.05%		0.26%	
Return on Shareholders' Funds	1.95%	8.24%		2.10%	

(8) 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	
	As at 30 June 1999 HK\$'000	As at 31 December 1998 HK\$'000
Direct credit substitutes	351,155	253,892
Trade-related contingencies	557,429	678,546
Other commitments:		
with an original maturity of under 1 year or which are unconditionally cancellable	7,466,856	5,958,535
with an original maturity of 1 year and over	143,641	47,249
	<u>8,519,081</u>	<u>6,938,222</u>

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 30 June 1999, the balances due from these companies amounted to HK\$467 million (31 December 1998: HK\$621 million).
- (ii) guarantees for credit facilities granted by third parties to certain subsidiaries amounting to HK\$43 million as at 30 June 1999 (31 December 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						
	As at 30 June 1999			As at 31 December 1998		
	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000
Exchange rate contracts						
Forwards	10,953	291,619	302,572	55,744	207,465	263,209
Swaps	238,250	22,988,727	23,226,977	147,937	22,489,114	22,637,051
Interest rate contracts						
Swaps	0	465,837	465,837	0	464,752	464,752
	<u>249,203</u>	<u>23,746,183</u>	<u>23,995,386</u>	<u>203,681</u>	<u>23,161,331</u>	<u>23,365,012</u>

STATEMENT OF COMPLIANCE

In preparing the disclosure for the first half of 1999, the Bank has fully complied with the recommendations made by the Hong Kong Monetary Authority on 25 June 1999.

"The Bank will continue to adopt a vigorous yet prudent business approach, with the aim of creating a strong platform for profitable growth."

A stylized, handwritten signature in black ink, consisting of several loops and a long horizontal stroke.

Cai Zhongzhi

*President and
Chief Executive Officer*

OPERATING ENVIRONMENT

In the aftermath of the financial crisis that began in 1997, Hong Kong still finds its economy in a difficult adjustment stage, with problems including negative economic growth, contraction in trade volume, uncertainty over interest rates movement, subdued demand for corporate loans, increasing levels of problem loans and intensifying competition in the banking sector.

Despite the testing operating environment, the Bank has continued to adopt a prudent but progressive business development strategy which has brought about encouraging growth. At the same time, the Bank has embarked on a programme of reform and adjustments and strengthened the control and recovery of problem loans, with intent of setting up a solid ground for long-term business expansion.

FINANCIAL REVIEW

The Bank's financial strength remained robust. As at 30 June 1999, total assets were recorded at HK\$45.57 billion, an increase of 18.8% compared with the corresponding figure in 1998. Total loans and advances reached HK\$27.64 billion, reflecting an increase of 32.6% over 1998. Total deposits amounted to HK\$38.56 billion, an increase of 24.1% over last year.

All major financial indicators were managed at stable levels. The Bank continued to maintain a strong liquidity position, with the average liquidity ratio for the first half of 1999 standing at 44.6%. The loan to deposit ratio and the capital adequacy ratio were put at 71.7% and 20.1% respectively.

The interim operating profit before provisions amounted to HK\$301 million, representing a 16% decrease compared with the corresponding period in 1998. The Bank's charge for bad and doubtful debts amounted to HK\$220 million, an increase of 61% over the same period last year. Profit attributable to shareholders for the six months ended 30 June 1999 was HK\$51 million, a decline of 73% compared with the same period last year.

BUSINESS REVIEW

Problem loans remained an issue to be dealt with by the entire banking sector. As a result, the amount of the Bank's interest in suspense increased by HK\$100 million in the first half of 1999. Leaving this factor aside, the Bank's interest income in the first six months of 1999 was approximately at the same level as that recorded in the corresponding period of 1998.

The Bank has adopted a conservative provisioning policy which has resulted in a rise in provision for the period. In order to create a sound platform for business expansion, the Bank has continuously improved the quality of its loan portfolio and has taken proactive measures to recover problem loans. In the first half of 1999, the Bank made considerable progress in the recovery of problem loans through cash recovery, restructuring and realisation of collaterals. Approximately HK\$1,007 million of problem loans were recovered.

Significant progress has been made in raising the quality of the Bank's loan assets by diversifying in and focusing on the domestic market. The Consumer Banking Group has made substantial inroads into the local market, recording a strong growth of 46% in personal lending compared with the same period last year. Based on the same criteria announced last year end, exposure to the mainland has also been reduced from HK\$8.3 billion at the end of last year to HK\$7.9 billion, and as a percentage to the total loan portfolio, mainland related companies accounted for 32% at the end of 1998. This has now dropped to 28%.

Owing to the reduction in the volume of Hong Kong and China-related trade finance business, the Bank has recorded a decrease in trade finance related fees from HK\$21 million in the first half year of 1998 to HK\$15 million for the same period in 1999.

Operating costs merely increased by 3.2% over the same period in 1998. The Bank has continued recruitment of highly qualified professionals, investment in the technological infrastructure and the refurbishment of branches. At the same time, the Bank has exercised stringent cost control and focused on improving operational efficiency.

OUTLOOK

The Bank has made considerable progress in reform and adjustments which has resulted in encouraging business growth. Significant progress has been made in the recovery of problem loans and new corporate values have been established. The Bank will continue to adopt a vigorous yet prudent business approach. Emphasis will be placed on active expansion of the asset base, resolution of the problem loan issue, restructuring of the loan portfolio and enhancement of the overall management capability with the aim of creating a strong platform for profitable growth.

The Bank will continue to implement stringent control over expenses through rationalisation of processes and system re-engineering aiming to enhance operational efficiency and to maintain operating costs at a relatively low level.

INTERIM DIVIDEND

The Board does not recommend any interim dividend (1998 : Nil) for the period.

YEAR 2000 COMPLIANCE

The Bank has established, in June 1997, a “High Level Steering Committee” and a “Millennium Bug Team” to ensure the Bank’s computer systems and ancillary equipment would perform, function and manage data involving dates without being abnormally affected by dates transiting into the year 2000.

In June 1998, the Bank had accomplished the assessment, modification and testing of the mainframe system followed by user acceptance test, simulation run and system conversion which were completed in September 1998. To ensure the mainframe system works properly during the millennium transition, further testing will be conducted within the fourth quarter of 1999. Questionnaires were sent in July 1998 to counterparties to inquire as to their Year 2000 preparedness. The Bank has also sent account officers to visit business customers to ensure that the Year 2000 counterparty assessment guidelines laid down by the Hong Kong Monetary Authority are followed.

The budget for the Year 2000 compliance is HK\$10,400,000, of which HK\$1,400,000 will be charged in 1999. Up to the end of June 1999, related expenditure amounted to HK\$900,000.

The Bank has established a Business Resumption Plan, embedded with which is a Year 2000 Contingency Plan. The documentation and rehearsal of this Year 2000 Contingency Plan had been completed prior to 30 June 1999. Moreover, management had planned to conduct trial testing of the Contingency Plan in October 1999, in which all Bank personnels will be required to participate. The Bank has set up a “Year 2000 Customer Awareness Programme” and has prepared posters and leaflets, presenting to customers work done in tackling the problem. At the same time, a telephone hotline for public enquiry has been set up and the relevant information has been included in the Bank’s website for reference.

DIRECTORS' INTERESTS

At 30 June 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 ("the SDIO") were as follows:

Name of Director	Ordinary Shares of HK\$1.00 each			
	Personal Interests	Family Interests	Other Interests	Total Interests
Daniel H Lam	183,970	118,089	–	302,059
Zhao Shengbiao (Executive Vice President and Country Head, USA)	900,000	–	914,114	1,814,114

At 30 June 1999, a Director of the Bank had the following interests in options to subscribe for Ordinary Shares of the Bank granted pursuant to the Bank's Senior Executive Share Option Scheme. Particulars were as follows:–

Name of Director	No. of shares in the options outstanding as at 30/06/1998	Date Granted	Period during which options exercisable	Price per share to be paid on exercise of options
Zhao Shengbiao	200,000	30/03/1995	03/04/1995 – 29/03/2005	HK\$1.00
	187,000	10/04/1996	11/04/1996 – 29/03/2005	HK\$1.00
	210,875	08/05/1997	09/05/1997 – 29/03/2005	HK\$1.00
	316,239	06/05/1998	07/05/1998 – 29/03/2005	HK\$1.00

Save as mentioned above, none of the Directors of the Bank or their associates had any beneficial interests in the share capital of the Bank and its associated companies (as defined in the SDIO) as at 30 June 1999.

SUBSTANTIAL SHAREHOLDER

At 30 June 1999, the register of substantial shareholders maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance shows that China International Trust and Investment Corporation beneficially owned 1,433,317,209 Ordinary Shares of HK\$1.00 each in the share capital of the Bank representing approximately 55.28% of the then issued share capital of the Bank.

Save as disclosed, there was no person known to the Directors who at 30 June 1999 was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Bank or any of its associated companies (as defined in the SDIO).



PURCHASE, SALE OR REDEMPTION OF THE BANK'S LISTED SECURITIES

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

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Bank has noted certain requirements in relation with the formation of an Audit Committee under the Code of Best Practice were set out by The Stock Exchange of Hong Kong Limited. A thorough study undertaken by the Bank indicates that the banking industry in Hong Kong is governed under strict supervisory framework. In addition, the internal control and risk management of the Bank is under constant improvement and strengthening. In view of these, no concrete timetable has yet been set by the Board with respect to the formation of an Audit Committee. However, further study on these requirements will remain an ongoing exercise of the Bank.

The Bank has complied throughout the period with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited, 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.

By Order of the Board
Cai Zhongzhi
President and Chief Executive Officer

Hong Kong, 6 August 1999

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