



中信嘉華銀行
CITIC
KA WAH
BANK

Annual Report 2001



Combining Strengths for
Quantum

Growth



The Dragon is the symbol of China, a vast and resourceful country. The vigorous Chinese character of 'Dragon' highlighted on the cover of Annual Report 2001 aptly depicts China's current rapid economic development. The dragon nurtures a luminous pearl, which symbolizes Hong Kong and its prosperity backed by the support of the mother country. CITIC Ka Wah Bank, much like the precious pearl, has achieved quantum growth by leveraging on the strengths and network of its parent company CITIC in the Mainland, as well as on its own in-depth knowledge of the Hong Kong and Mainland markets. Building on this solid foundation, CITIC Ka Wah Bank is well positioned to capitalize on the vast opportunities arising from China's entry to the World Trade Organization; to become a connecting bridge between Hong Kong and the Mainland, and a window to explore financial opportunities worldwide. CITIC Ka Wah Bank is ready to move forward with its customers and to embrace the bright future that lies ahead.



2001

M I L E S T O N E S

2001

J A N

1

- Appointment of Mr. Kong Dan as the Bank's Chairman
- No monthly fee pledge and HK\$100 cash rebate for new depositors
- Ka Wah Capital Ltd. acted as Lead Manager, Co-Sponsor and Receiving Bank for Wealthmark International (Holdings) Limited Initial Public Offer



F E B

2

- Announcement of 2000 Final Results
- Official opening of Queen's Road West Branch



M A Y

5

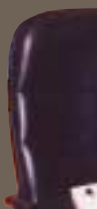
- The 76th Ordinary Yearly Meeting held
- Formed a strategic alliance with Sun Life Financial (Hong Kong) Limited to launch Bancassurance
- Launch of 4% fixed deposit rate campaign
- Official opening of Quarry Bay Branch
- Launch of 'Sun RetireFun' life insurance service



J U N

6

- Official opening of Cargary Securities Ltd.'s Kwai Chung Branch



S E P

9

- Completion of Phase One Implementation of Core Banking System
- Launch of 'Phone Enrollment' service for insurance application

O C T

10

- Launch of 'Internet Cash Management' service
- Launch of 4% fixed rate deposit and insurance bundle product
- Launch of HK\$600 million Floating Rate Certificates of Deposit Issue



M A R

3

- Establishment of Beijing Representative Office
- Official launch of 'Click2Trade Station' e-business service
- Launch of 'SME Loan'
- Launch of second phase 'i-banking' service
- Launch of HK\$1 billion Dual Tranche Floating Rate Certificates of Deposit Issue
- Ka Wah Credit Ltd. officially opened its Mongkok Branch
- Ka Wah Capital Ltd. acted as Joint Mandated Co-ordinating Arranger for China Merchants Holdings Co., Ltd.'s US\$200 million Floating Rate Notes and Transferable Loan Certificates
- Ka Wah Capital Ltd. acted as Sole Mandated Arranger for DeMaT TransAsia Holdings Limited's US\$35 million Term Loan Facility



A P R

4

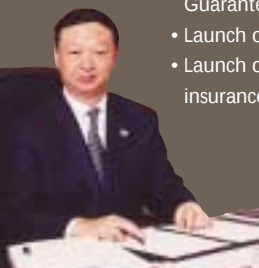
- Corporate Banking Group's Year 2001 Spring Cocktail Reception held
- Launch of personal wealth management service with the opening of the inaugural Wealth Management Centre at Taikoo Place
- Launch of 'More Money' cash card account
- Launch of 'Bond Investment' service
- Launch of HK\$500 million Fixed Rate Certificates of Deposit Issue



J U L

7

- Appointment of Mr. Chang Zhenming as President and Chief Executive Officer
- Appointment of Mrs. Doreen Chan Hui Dor Lam and Mr. Kenneth Kong Siu Chee as Alternate Chief Executive Officers
- Global Issue of US\$300 million Subordinated Guaranteed Notes
- Launch of 'Unit Trust Savings Plan'
- Launch of 'Life Plus' life insurance service



A U G

8

- Announcement of 2001 Interim Results
- Launch of 'Personal Installment Loan' at HK\$1 interest charge
- Jointly launched general insurance products with Eagle Star Insurance
- Ka Wah Capital Ltd. acted as Joint Mandated Arranger for Road King Infrastructure Limited's US\$75 million Term Loan Facility



N O V

11

- Announcement of acquisition of The Hongkong Chinese Bank, Limited for HK\$4.2 billion, thereby becoming the fourth largest Hong Kong listed bank by assets
- Launch of the Bank's first credit card 'CITIC Ka Wah VISA'
- Launch of 'Salaries Tax Loan'



D E C

12

- Approval of HK\$726 million Rights Issue at an Extraordinary General Meeting
- Launch of 'Company Tax Loan'



2001 Milestones	Inside front cover
Financial Performance	02
Chairman's Statement	06
Report of Chief Executive Officer	08
Review of Operations	14
Risk Management	32
Biographies of Directors and Senior Executives	35
Analyst Coverage	40
Corporate Information	42
Financial Section	43

CITIC Ka Wah Bank Limited (the 'Bank') has been operating in Hong Kong for nearly 80 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'). In July 1998, we changed our name to CITIC Ka Wah Bank Limited to reflect the firm backing and the close relationship with our parent, CITIC. In November of the same year, we launched a new corporate identity, emblematic of our new corporate values and culture and a demonstration of our determination and spirit for reforms and business development. Our vision is to be a reputable provider of financial services in the hearts of the customers.

In November 2001, the Bank announced its acquisition of The Hongkong Chinese Bank, Limited for HK\$4.2 billion. The acquisition represented a major step for, and part of the growth strategy of, the Bank in establishing itself as a premier financial group in Hong Kong, the Mainland and the region. The acquisition, which was completed in January 2002, has propelled the Bank up the rankings to become Hong Kong's fourth largest listed bank by assets. Both Moody's Investors Service and Standard and Poor's affirmed our ratings as 'Baa2' and 'BBB' respectively following the announcement of the acquisition.

Under a strong and experienced management team, we have grown and developed into a well-managed medium-sized local bank. Today we are recognized as an innovative and progressive bank with a professional attitude to all aspects of our growing businesses, which are geared to providing shareholders and customers with quality earnings and value-added services. At 31 December 2001, the unadjusted capital adequacy ratio, the loans to deposits ratio and the average liquidity ratio were at 20.8%, 70.7% and 51.2% respectively. These figures are solid proof for our strong financial position.

Financial Performance

2001 Financial Highlights

For the Year (In HK\$ million)	2001	2000	% Change
Net Interest Income	1,246	1,151	+8.3
Non-Interest Income	543	448	+21.2
Operating Expenses	759	648	+17.1
Charge for Bad and Doubtful Debts	341	318	+7.2
Profit Before Taxation	686	636	+7.9
Taxation	50	53	-5.7
Minority Interest	19	51	-62.7
Profit Attributable to Shareholders	617	532	+16.0

At Year End (In HK\$ million)	2001	2000	% Change
Loans and Advances	32,778	32,798	-
Total Assets	59,427	56,658	+4.9
Total Deposits	46,381	48,676	-4.7
Shareholders' Funds	6,254	5,843	+7.0

Financial Ratios	2001	2000
Capital Adequacy	20.8%	17.1%
Average Liquidity	51.2%	42.1%
Cost to Income	42.4%	40.5%
Loans to Deposits	70.7%	67.4%

Financial Calendar

Final Results Announcement	28 February 2002
Posting Date for Annual Report	25 April 2002
Share Register Closing Period	14-17 May 2002
Date of Ordinary Yearly Meeting	17 May 2002
Dividend Payment Date	23 May 2002

Five Year Summary

For the Year (In HK\$ million)	2001	2000	1999	1998	1997
Net Interest Income	1,246	1,151	898	876	831
Non-Interest Income	543	448	252	302	297
Operating Expenses	759	648	481	481	382
Charge for Bad and Doubtful Debts	341	318	938	571	210
Profit Before Taxation	686	636	110	125	565
Taxation	50	53	1	22	49
Profit Attributable to Shareholders	617	532	109	103	516

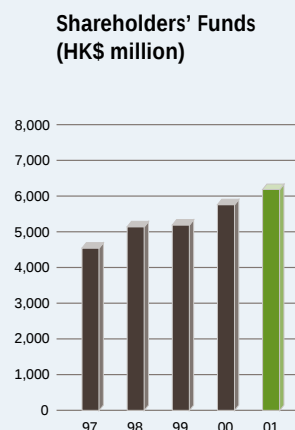
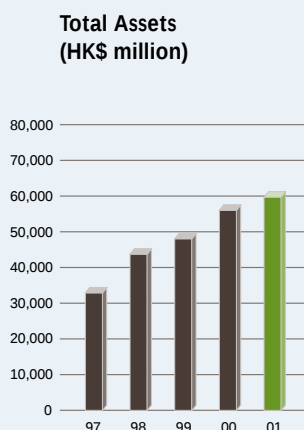
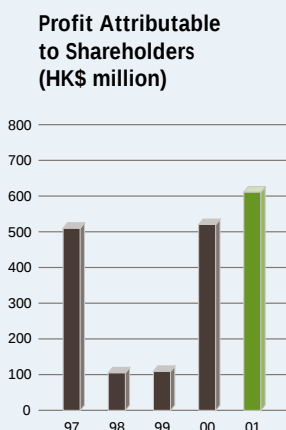
Per Share (In HK\$)	2001	2000	1999	1998	1997
Basic Earnings Per Share*	0.233	0.201	0.041	0.043	0.250
Dividends Per Share	0.055	0.070	0.010	0.010	0.019
Book Value at Year End**	2.41	2.25	2.08	2.05	2.92
Market Value at Year End	1.980	2.675	2.975	2.525	6.800

At Year End (In HK\$ million)	2001	2000	1999	1998	1997
Loans and Advances	32,778	32,798	28,320	25,905	19,982
Charge for Bad and Doubtful Debts	678	854	1,034	1,024	781
Total Assets	59,427	56,658	48,783	44,110	34,631
Total Interest Earnings Assets	56,558	53,932	46,448	42,385	33,294
Total Deposits	46,381	48,676	41,705	37,246	27,501
Shareholders' Funds**	6,254	5,843	5,388	5,302	4,589

Financial Ratios	2001	2000	1999	1998	1997
Capital Adequacy	20.8%	17.1%	19.2%	20.6%	24.2%
Average Liquidity	51.2%	42.1%	39.5%	50.7%	58.8%
Loans to Deposits	70.7%	67.4%	67.9%	69.6%	72.7%
Loans to Total Assets	55.2%	57.9%	58.1%	58.7%	57.8%
General Provision Coverage	1.1%	1.1%	1.2%	1.0%	1.2%
Cost to Income	42.4%	40.5%	41.8%	40.8%	33.9%
Dividend Payout	24.9%	34.1%	23.9%	25.1%	7.6%
Return on Assets	1.1%	1.1%	0.2%	0.3%	1.7%
Return on Shareholders' Funds**	10.2%	9.5%	2.0%	2.1%	15.4%

* Adjusted for the effect of the rights issue on 7 January 2002

** Restated due to changes in accounting policies



Deposits*

1. By Type	2001	2000
Current	1.9%	1.6%
Savings	12.8%	8.6%
Fixed	85.3%	89.8%
Total	100.0%	100.0%

2. By Maturity	2001	2000
On Demand	15.5%	10.6%
Less Than 3 Months	78.9%	81.7%
Over 3 Months But Less Than 1 Year	5.5%	2.2%
Over 1 Year But Less Than 5 Years	0.1%	5.5%
Total	100.0%	100.0%

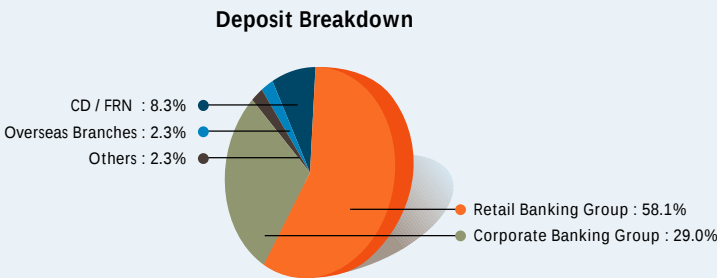
3. By Currency	2001	2000
HKD	64.2%	60.7%
USD	29.5%	34.1%
Others	6.3%	5.2%
Total	100.0%	100.0%

4. Number of Deposit Accounts	2001	2000
	207,317	258,135

* Based on Customers Deposits only

Non-Interest Income

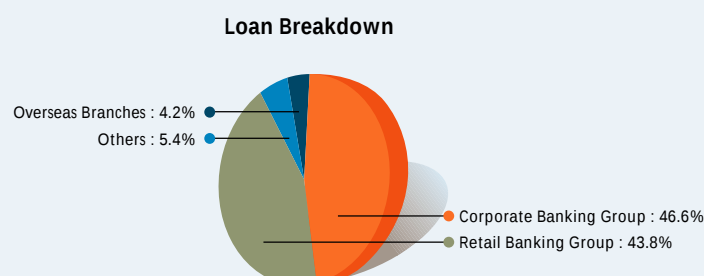
	2001	2000
Net Fees & Commission Income	64.2%	61.2%
Gain from Foreign Exchange Dealing	5.2%	5.6%
Dividend Income	1.9%	1.8%
Others	28.7%	31.4%
Total	100.0%	100.0%



Loan Portfolio[#]

1. By Industry Sectors	2001	2000
Loans for Use in Hong Kong		
Industrial, Commercial and Financial:		
Property Development	1.2%	2.0%
Property Investment	10.1%	9.4%
Financial Concerns	4.2%	6.2%
Wholesale and Retail Trade	6.2%	7.4%
Manufacturing	9.0%	6.1%
Transport and Transport Equipment	11.4%	4.6%
Others	8.6%	11.5%
Individuals:		
Mortgage (Home Ownership Scheme and Private Sector Participation Scheme)	0.1%	0.1%
Mortgage (Other Residential Properties)	32.3%	34.8%
Credit Card Advances	0.1%	0.0%
Others	4.1%	3.0%
Trade Finance	4.8%	7.5%
Loans for Use Outside Hong Kong	7.9%	7.4%
Total	100.0%	100.0%
2. By Geographical Spread	2001	2000
Hong Kong	72.6%	72.1%
China	23.1%	22.9%
Others	4.3%	5.0%
Total	100.0%	100.0%
3. By Maturity	2001	2000
Repayable on Demand	8.3%	7.6%
Less Than One Year	22.3%	27.5%
Over 1 Year But Less Than 5 Years	37.0%	28.3%
Over 5 Years	31.0%	34.1%
Undated	1.4%	2.5%
Total	100.0%	100.0%
4. By Currency	2001	2000
HKD	76.8%	72.0%
USD	23.0%	27.7%
Others	0.2%	0.3%
Total	100.0%	100.0%
5. Number of Loan Accounts	2001	2000
	63,838	26,052

[#] Excluding Trade Bills and Advances to Banks



Combining *Strengths*

Chairman's Statement

In 2001, CITIC Ka Wah Bank repeated its previous success by achieving record-breaking profits for the second consecutive year. These impressive results reflect the success of the Bank's reforms and developments over the past few years.

The economic environment in Hong Kong continued to be difficult in 2001, and the banking industry was adversely affected. The Bank, through progressively expanding its business, including the development of personal wealth management and credit card businesses, was able to generate significant growth in non-interest income and resulted in record-breaking profits. At the same time, the Bank also dedicated much attention to risk management in order to enhance its asset quality, as well as to establish a solid platform to prepare itself for future expansions.

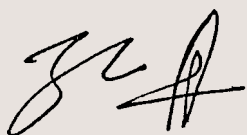
In November 2001, the Bank announced the acquisition of The Hongkong Chinese Bank, thereby becoming the fourth largest listed bank in Hong Kong by assets. The acquisition represents a major step for, and part of the growth strategy of, the Bank in establishing itself as a premier financial group in Hong Kong, the Mainland and the region. The transaction was completed in January 2002, and significant synergies are to be achieved.

The Bank's parent company, CITIC, is currently in the process of establishing CITIC Holdings, and will inject its financial businesses into this new company. This initiative is in line with the international trend. CITIC Ka Wah Bank, as a listed bank in Hong Kong with a long history of development, will play an important role in the development of CITIC's financial businesses. To prepare for this, the Bank is currently planning to re-organize into a financial holdings company in order to enhance its overall competitiveness. After re-organization, the financial holdings company will fall under CITIC Holdings, thereby strengthening co-operation with CITIC's financial entities. By leveraging on CITIC Group's strengths and positive brand equity, the Bank is well positioned to accelerate the development of the Mainland market and capitalize on the vast opportunities arising from China's accession to the World Trade Organization.

FOR Quantum growth

Year 2002 marks the 80th anniversary of the Bank. Leveraging on its solid foundations built over the past 80 years, its in-depth knowledge of both the Hong Kong and the Mainland markets, as well as CITIC's network and strengths in the Mainland, the Bank will continue to operate from its base in Hong Kong and expand its Mainland businesses with a view to achieving quantum growth, while strictly adhering to the guiding principles of 'innovation, restructuring and further growth'.

Last but not least, on behalf of the Board of Directors, I would like to express my deepest gratitude to our shareholders and customers for their enormous support. I would also like to thank our dedicated staff for their collaborative efforts and hard work, which have contributed immensely to the Bank's development.



Kong Dan
Chairman



Report of Chief Executive Officer

Back row

Mr. Kelvin Lo
Executive Vice President &
Chief Group Counsel

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

Mr. Moses Yeung
Executive Vice President &
Treasurer

Front row

Mrs. Doreen Chan
Alternate Chief Executive Officer &
Head of Retail Banking

Mr. Chang Zhenming
President &
Chief Executive Officer

Mr. Kenneth Kong
Alternate Chief Executive Officer &
Head of Corporate Banking



Management Discussion and Analysis

1. Review of Operations

In 2001, Hong Kong's economy continued to experience difficulties. In the face of such unfavorable operating circumstances, the Bank adopted the guiding principles of 'innovation, restructuring, and further growth'. As a result, we succeeded in achieving our major business targets, enlarging our asset base and achieving another year of record profits.

2. Business Performance

a. Earnings reached historic high levels

To overcome the challenges of a difficult operating environment, the Bank exercised stringent cost controls and focused on enhancing profitability by developing new value-added products and services and by increasing operational efficiency. As a result, profits hit record high levels.

In 2001, the Bank's operating profit before provisions amounted to HK\$1.03 billion, representing an increase of HK\$78 million, or 8.2%, over HK\$952 million in 2000. Profit attributable to shareholders was HK\$617 million, an increase of HK\$85 million, or 16%, over the HK\$532 million recorded in 2000. The Bank had a second consecutive year of record earnings.

b. Significant improvement in asset quality

At 2001 year-end, the Bank's loans and advances, at HK\$32.8 billion, were basically at 2000's level.

Deposits fell HK\$2.3 billion, or 4.7%, from 2000's HK\$48.7 billion to HK\$46.4 billion. The Bank's total assets reached HK\$59.4 billion as of 2001 year-end, representing an increase of HK\$2.8 billion, or 4.9%, over 2000's HK\$56.7 billion.

In 2001, the Bank heightened its efforts to further enhance asset quality. A review of the credit administrative workflow was performed and the entire credit approval process was re-engineered and streamlined with a view to improving the quality of the Bank's loan portfolio. At the same time, in order to support new business development, the Bank implemented new credit policies and procedures in various new business areas, such as credit cards and consumer loans. As a result, various asset quality indicators surpassed market standards, as demonstrated by the 0.6% mortgage delinquency rate and the 2.3% and zero charge-off rates for unsecured personal lending and hire purchase and leasing facilities, respectively.

The Bank continued to make improvement in regard to the problem loans issue. In 2001, the Bank resolved a total of HK\$844 million of problem loans through cash collection, asset-for-debt swaps and debt restructuring. The classified exposure at year-end, including sub-standard, doubtful and loss categories, was significantly reduced from HK\$2.1 billion recorded at 2000 year-end to HK\$1.8 billion, representing 5.5% of total loans as of 2001 year-end. The coverage ratio increased from 80% in 2000 to 84% in 2001, while the NPL ratio dropped to 4.5%, and is expected to further decline.

In 2001, the Bank launched three certificates of deposits ('CDs') issues, totaling HK\$2.1 billion. The longest tenor issued was that of five years CDs. In an effort to effectively manage its capital requirements,

the Bank issued its inaugural ten-year subordinated debt issue of US\$300 million in July, which was well received by international investors. In January 2002, the Bank successfully raised HK\$726 million through a rights issue, thereby further enhanced its capital adequacy ratio and fueling future growth.

Asset Quality Indicators	2001	2000	1999
Top 20 Customers			
Exposure as a Percentage of Total Indebtedness	23.0%	25.7%	32.9%
Classified Exposure (sub-standard, doubtful and loss)	5.5%	6.3%	8.4%
NPL*	4.5%	4.8%	5.6%
Capital Adequacy	20.8%	17.1%	19.2%
Loans to Deposits	70.7%	67.4%	67.9%
Loans to Total Assets	55.2%	57.9%	58.1%
Average Liquidity	51.2%	42.1%	39.5%

* as a percentage of advances to customers

Due to its prudent approach in treasury management, the Bank's financial position was further enhanced in 2001. At year-end, the unadjusted capital adequacy ratio was 20.8%; the loans to deposits ratio was 70.7%; the loans to total assets ratio was 55.2%; the property-related loan ratio was 45.6%; and the average liquidity ratio was 51.2%.

At 2001 year-end, various asset quality indicators pointed to a significant improvement in the quality of the Bank's asset portfolio as a result of the further strengthening of credit review and monitoring procedures.

c. Business recorded steady growth, non-interest income rose significantly

In 2001, the Bank achieved a steady growth in interest income through a combination of loan asset reshuffling and the development of high yield products and services. The improvement in loan returns, coupled with stringent efforts in regard to funding cost control and the restructuring of the Bank's loans and deposits mix, resulted in a net interest income of HK\$1.2 billion, representing an increase of HK\$95 million, or 8%, over 2000's level. Non-interest income surged by HK\$95 million, or 21%, to HK\$543 million as compared to HK\$448 million recorded in 2000. The main impetus for the non-interest income growth was fees generated from the sale of personal wealth management products such as unit trusts, insurance and bonds, new corporate facilities, bills, as well as net gains on equity and forex investments. The Bank will focus on exploring additional non-interest income avenues in an effort to further increase the contribution of non-interest income towards operating income from the current level of 30%.

During the year, the Bank launched a series of new products and services. A personal wealth management service was introduced in April, while the Bank formed a strategic alliance with Sun Life Financial (Hong Kong) Limited in May to jointly launch Bancassurance, thereby broadening its core range of wealth management products. In addition, the Bank launched its first credit card, CITIC Ka Wah VISA, in November to diversify its businesses and to open up

a significant source of interest and non-interest revenue. The new credit card business will enable the Bank to build and strengthen customer relationships, providing bountiful opportunities for cross-selling and business alliances. Since its launch, the Bank has already issued over 60,000 credit cards in three months. The number of credit card customers is expected to surpass 100,000 by the end of 2002.

New Products and Services Launched in 2001

January	- No monthly fee pledge and HK\$100 cash rebate for new depositors
March	- 'Click2Trade Station' e-business service - 'SME Loan' - Second phase of 'i-banking' service
April	- Launch of personal wealth management service with the opening of the inaugural Wealth Management Centre at Taikoo Place - 'More Money' cash card account - 'Bond Investment' service
May	- Formed a strategic alliance with Sun Life Financial (Hong Kong) Limited to launch Bancassurance - 4% fixed deposit rate campaign - 'Sun RetireFun' life insurance service
July	- 'Unit Trust Savings Plan' - 'Life Plus' life insurance service
August	- 'Personal Installment Loan' at HK\$1 interest charge - Jointly launched general insurance products with Eagle Star Insurance
September	- 'Phone Enrollment' service for insurance application

October	- 'Internet Cash Management' service - 4% fixed rate deposit and insurance bundle product
November	- The Bank's first credit card 'CITIC Ka Wah VISA' - 'Salaries Tax Loan'
December	- 'Company Tax Loan'

Over the past two years, the Bank has launched over 30 new products and services. Together with the completion of its extensive service platform, the Bank is well positioned for further business growth.

d. Improved risk management capability

In 2000, work began on replacing the Bank's core banking system with the intention of better handling the Bank's long-term business development needs. The conversion of the first phase of the core banking system took place in September 2001 and the implementation of the second phase was completed in January 2002. The successful overhaul of the core banking system enhanced the Bank's internal management capability and infrastructure, including its capabilities in financial management, research and analysis, and operational flow.

In order to further raise the standard of operational risk management, the Bank established a back-up IT center in Shatin. Business contingency plans are being continually updated to reflect current changes in the operating environment. The Bank also undertook periodic test simulations in order to assure business continuity in the event of external disruptions to the Bank's major operating systems.

To make further improvements in corporate governance, the Group Compliance Department was established. The Internal Control Committee, being set up in August, was mandated to review, evaluate and improve the effectiveness of the internal control environment within the Bank and to facilitate and re-align the process of developing and approving the Bank's policies and procedures. In 2001, the Bank issued a Compliance Manual and provided the necessary training to all staff members, which raised staff awareness of a risk management culture.

e. Human resources development

At the end of 2001, the total number of employees stood at 1,127. Management believes it is 'people' that make the difference and create success for an organization. Hence, to attract and retain people of talent and good performance, the Bank makes continuous efforts in benchmarking and improving the remuneration structure. A bonus scheme covering all employees was initiated at the beginning of the year with an objective of cultivating common goals amongst employees, stimulating functional and cross-functional teamwork, and driving individual performance and results for the Bank. The scheme has linked bonus amounts in direct correlation to the Bank's profitability, departmental performance and individual contribution. Total staff costs of the Bank in 2001 was HK\$458 million.

A Senior Executive Share Option Scheme is maintained by the Bank, under which eligible senior executives of the Group are granted share options for subscription of shares of the Bank. At the end of 2001, the number of shares outstanding under the Option Scheme was 30,266,928.

The Bank has also put emphasis on staff training and people development. A total of 331 classes were organized during the year, the curriculums covering a wide range of subjects such as product and computer knowledge, management, regulatory developments, marketing and servicing skills.

Staff Force	2001	2000
1. By Distribution:		
Head Office	706	593
Branches	289	310
Subsidiaries	76	82
Overseas Offices	56	50
Total	1,127	1,035
2. By Grade:		
Assistant Manager and Above	499	408
Below Assistant Manager	628	627
Total	1,127	1,035
3. Voluntary Turnover Rate	20.5%	26.9%

3. Progress of Integration with The Hongkong Chinese Bank, Limited

In November 2001, the Bank announced the acquisition of The Hongkong Chinese Bank, Limited. The related transaction was completed on 17 January 2002. As a result of this acquisition, the Bank's asset base was increased to around HK\$79.6 billion, thereby becoming the fourth largest listed bank in Hong Kong. Total deposits and total loans were approximately HK\$62.7 billion and HK\$44.7 billion respectively.

Following the completion, the two banks will continue to operate as separate entities, but with a view to becoming fully integrated by the end of 2002. An Integration Committee, comprising management of both banks, was established to decide on integration-related issues. The Bank has invested much advance work and

planning in the integration in order to maximize the overall benefits for customers, employees and shareholders. During the transition process, the two banks will seek co-operation in all aspects of business undertakings, customer referrals and back-office operations. The resultant effect will be better products and services for customers; more opportunities for employees; higher efficiency and profitability for the Bank; and earnings accretion for shareholders.

4. Future Strategies

The Bank has successfully laid a solid business foundation as a result of the efforts made in the past few years. In order to leverage on the network and strengths of its parent company in Mainland China and to capitalize on the numerous opportunities arising from China's entry to the World Trade Organization ('WTO'), the Bank is currently formulating plans to re-organize its group structure.

a. Re-organization of group structure

The Bank is in the process of formulating its re-organization plan, under which the Bank's three main businesses, namely commercial banking, investment banking and assets management will be re-organized under a financial holdings company. The main purpose of the re-organization is to provide customers with a full range of financial services, to enhance the group's overall competitiveness as a result of further specialization of management, and ultimately to deliver better returns for shareholders.

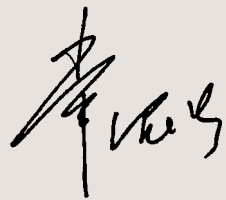
b. Accelerate Mainland market development

The Bank signed a memorandum of understanding with CITIC Industrial Bank on 28 February 2002

with a view to establishing a long-term business co-operation relationship. The aims are to achieve a mutual sharing of complementary business strengths, the pooling of business resources, development of new business opportunities and the enhancement of risk management capabilities. The areas of co-operation will encompass priority participation in syndicated loans arranged by the other party; joint arrangement of foreign currencies and Renminbi dual-currency club deals; priority consideration given to the other party in the processing of international trade settlements; and enhanced co-operation in product development in areas such as credit cards, personal financial management and personal loans.

5. Outlook

Looking ahead, the Bank will continue to operate from its base in Hong Kong. With CITIC's support and the Bank's in-depth knowledge of the Hong Kong and Mainland markets, the Bank is well positioned to accelerate the development of its Mainland businesses and to capitalize on the vast opportunities that are arising as a result of China's entry to the WTO. The Bank will position itself as the provider of a full range of financial services and strive to become a premier financial group in Hong Kong, the Mainland and the region.



Chang Zhenming
President and Chief Executive Officer

Differentiating Wealth Management Focus



REVIEW OF OPERATIONS

Retail Banking

In year 2001, the Retail Banking Group ('RBG') continued its robust pace of development, registering momentous growth in the distribution of unit trust and insurance, and establishing a brand new credit card business. At the same time, the fundamentals in sales, distribution, product design, and operating platforms were enhanced which set a solid foundation for future expansion into the Greater China area.

Innovative Value *Propositions*



Differentiating Wealth Management Focus

To capture the business opportunities of the growing needs in wealth preservation, education and retirement planning, concerted efforts had been made throughout the year to strengthen our wealth management business. A strategic alliance with Sun Life Financial was formed to launch Bancassurance, establishing the Bank as a pioneer in matching wealth building and protection needs against different life stages. A brand new Wealth Management Centre was opened at Taikoo Place, introducing a refreshingly different retail banking experience where our customers can enjoy the privilege to manage their wealth in comfortable and relaxed home-like surroundings.

During the year, we continuously broadened our spectrum of wealth management services. We signed up Eagle Star to provide competitive and innovative general insurance services to our customers through our branch network and direct banking channels. The bond service, which was introduced to our retail customers in April, was well received.

Through these wealth management initiatives, we have greatly enhanced our fee income generating capability. Our unit trust distribution attained over 190% growth in terms of fee income, while RBG's total fee income soared by over 100%.





Dynamic People Force

REVIEW OF OPERATIONS

RETAIL BANKING

Innovative Value Propositions — Customer Value Growth Strategy

We believe in differentiating the Bank through the adoption of a 'value for money' strategy to establish strong customer value. In November 2001, RBG launched the Bank's first credit card — CITIC Ka Wah VISA. Leveraging on a strategy to offer value propositions that are of high relevance to our customers' financial and lifestyle needs, the card offers two distinctive features: an unique innovative interest-free installment plan which is applicable for any choice of goods and services of any purchase amount from any place, anywhere; and a reward scheme that enables cardmembers to enjoy a broad range of quality lifestyle premiums at the upfront before meeting the spending criteria. Coupled with creative card designs and innovative marketing strategies, more than 60,000 cards were issued in three months, marking a legendary achievement in today's fiercely competitive credit card market.

The commitment of 'no monthly fee for low-balance current and savings accounts' was well received by customers as a strong value offer and we attracted over 10,000 new customers in one month. Throughout the year, value-added product programs, including 'More Money' cash card and the five-year personal installment loan, were launched. These innovative new products had not only deepened customer relationship with us but also successfully rejuvenated our customer base by bringing in more than 50% growth in target customers.

Our foothold in the SME market was also strong. An active growth strategy was pursued to serve the financial services needs of Hong Kong's small enterprises with tailor-made secured and unsecured lending products. Focusing on machinery and vehicle financing, our Hire Purchase and Leasing business registered phenomenal growth of over 120%, both in terms of customer base and asset portfolio. Through these initiatives, we had doubled our market share in the SME segment to 6%.

Strengthened **Brand Power**



Dynamic People Force

To develop a customer-driven sales and service culture, we provide professional training that equips our front-line people to better serve our customers. In order to assist our people's career development, clear career paths with corresponding learning curriculum and competency models have been put in place for all our channels' staff. These represent 60% of RBG's total staff force. In addition, a lot of effort was devoted to embedding the values of Total Quality Management ('TQM') among our people.

In 2001, an extended management forum was established to foster communications for business updates at the middle management level. Business reviews at senior management level are carried out every quarter. Management development programs that foster leadership and collaboration between departments, thereby ensuring efficient and effective operation of the entire value chain, will be our next focus.

By strengthening teamwork and the willpower to succeed, all these development and communications programs add to our staff capabilities and underline our determination to establish our retail banking business as a strong franchise.

Strengthened Brand Power

RBG continued its growth strategy through innovative banking products, value-added propositions and speedy response to market trends and customer needs. At the same time, investments were made to upgrade our back-end support, such as the installation of our new core banking system. With the acquisition of The Hongkong Chinese Bank, the combined customer base and bigger distribution network will greatly facilitate the cross-selling of our new products and services. Through the continuous creation of value-added customer propositions, we aim to strengthen our brand power and achieve our vision to become the preferred financial services provider in Hong Kong and the Greater China region.



Specialized Skills

REVIEW OF OPERATIONS

Corporate Banking

Leveraging on the solid foundation established over the past few years, Corporate Banking Group (‘CBG’) maintained its business momentum in year 2001, achieving double-digit growth in operating income and maintaining its position as the Bank’s key profit contributor.

China Business Capabilities



Sharpened Customer Focus and Market Positioning

At the beginning of 2001, we realigned CBG's organization structure to reflect proper market segmentation. Our four business groups — namely PRC Corporates, Local Corporates, Trade Finance and Multinationals, and SME — now possess specialized skills to meet the needs of different types of customers.

As part of our commitment to delivering quality service to our customers, we also embarked on a business optimization project in the second quarter of the year, achieving marked improvements in operating efficiency.

Sustainable Growth and Quality Income Stream

Through focused customer targeting, professional relationship management, and innovative product offerings, we continued to expand our corporate customer base and to achieve further risk diversification. Our loan portfolios

now comprise a much better asset mix, which in turn has created a more sustainable revenue stream for the business. More than one-third of our total income is now comprised of commission and fee income, with the interest margin on loans being maintained at a satisfactory level.

Capitalizing on our now enlarged customer portfolio, particularly in respect of corporate clients engaged in manufacturing and infrastructural businesses, we will further strengthen our capabilities in the syndication and structured finance areas in year 2002. Our initiatives will enable us to meet the more diversified financing needs of our customers, as well as to generate more off-balance sheet revenue.

China Capabilities

With our extensive and in-depth knowledge of the China market, and through close co-operation with the other members of the CITIC Group, including CITIC Industrial Bank and CITIC Securities, we are able to provide value-added services to those of our customers who are pursuing



eBusiness Products

REVIEW OF OPERATIONS

CORPORATE BANKING



business opportunities in China. Apart from offering business advisory services, we also provide financing on projects relating to infrastructural and property development, as well as manufacturing and trading activities.

Given China's impressive economic growth and the country's entry into the WTO, we foresee an even higher level of business activities between Hong Kong and the Mainland in the times ahead. To position ourselves strategically for these new opportunities, we will further strengthen our sales and service capabilities, both in Hong Kong and in China. This will include the recruitment of additional talents from the market to fill relationship manager positions, as well as the setting up of new representative offices in China.

E-Business and New Product Offering

During the year, CBG successfully launched several e-business products, including Click2Trade Station and Internet Cash Management. These, together with the upgrade of our trade service delivery platform and the

Sustainable *Growth*



installation of our new core banking system, have placed us at the forefront of the competition.

Going forward, we will continue to invest in product development and management, and we will co-operate closely with our strategic partners to further expand our product range. New services identified as ready for launch in 2002 include Receivable Discounting, Document Preparation Services and B2B Exchange.

The Future

The trading environment in Hong Kong is expected to remain sluggish in the short term. However, with the core strengths we have successfully built up, we are confident that our corporate banking business is well positioned to face the challenges ahead. We will continue to focus on asset quality and to pursue a growth strategy. At the same time, we will ensure that we achieve the highest customer satisfaction through the provision of professional and innovative products and services.





P L A N N E D

Focus

REVIEW OF OPERATIONS

Treasury & Financial Institutions

The Treasury and Financial Institutions Group continued its key strategies of optimizing revenue through planned and focused investments as well as prudent management of the Bank's liquidity, assets and liabilities. As part of the ongoing efforts to effectively manage capital, this year also saw the launch of the Bank's inaugural issue of US\$300 million lower tier two subordinated debt notes that was welcomed by solid market interest. A strengthened market risk function, coupled with inspiring teamwork and professional expertise, have brought in innovative solutions and insightful forecasts. All these contributed to a year of optimal return.

Prudent

Financial Management



Planned Focus

In 2001, the Bank continued to apply vigorous discipline in managing its liquidity, assets and liabilities, with added emphasis on overall control of costs of funds.

Taking advantage of liquid market conditions, we continued our key strategy of restructuring the liability mix by issuing CDs at regular intervals during the year. This boosted our long-term sources of funds as well as achieving the aim of spreading out future liability maturing profiles — the longest tenor we issued was five years CDs. Our CD investor base was enlarged, evidenced by a much larger universe of participants in each of our CD issuing syndicates. The tightening of credit spreads on financial papers also helped reduce our overall cost of funds.

Against a backdrop of a series of interest rate cuts, we were able to optimize revenue through planned and focused investments of surplus funds resulting from sluggish loan demand. Most of these investments were high credit quality fixed income securities. Through the introduction of market

risk management techniques, selective hedging of investment portfolios not only enhanced returns but also controlled portfolio risks.

Prudent Financial Management

With the newly installed Treasury system, we accomplished a complete switch to market risk management orientation. While the Treasury system was in its nascent stage, every effort was made to bring the procedures in line with new workflow processes. Continuous fine-tuning is being pursued in order to ensure that proactive and sound market risk management and control are in place.

In addition to assets and liabilities, the Bank also prudently managed its capital requirements. The Bank engaged Barclays, Industrial and Commercial Bank of China ('ICBC'), and UBS Warburg as joint bookrunners and lead managers in our 10-year subordinated debt issue of US\$300 million in July 2001. The Bank's senior management team participated in a global roadshow to broaden our investor base in Hong Kong, Singapore, New York, Boston,



Inspiring TEAMWORK

REVIEW OF OPERATIONS

TREASURY & FINANCIAL INSTITUTIONS



Frankfurt and London which attracted a strong audience of quality institutional and private investors and the results were pleasing. Not only did we manage to raise US\$300 million in capital, we succeeded in establishing a benchmark and gaining efficient capital funding. The debt securities were successfully issued under Rule 144A and listed on the Luxembourg Stock Exchange. Subordinated debt is deemed to be an efficient capital instrument that can successfully build up the Bank's capital base for potential acquisition and organic expansion.

Inspiring Teamwork

Market risk management functions were further strengthened in 2001. This was demonstrated by the segregation of risk management from front office trading. Front office trading is effectively supported by risk management techniques applied by the middle office to achieve optimal return within pre-determined risk appetite. Besides strengthening our risk management functions,

Optimal *Return*



concerted efforts by our professional experts, who brought in innovative solutions and insightful forecasts in response to the dynamic market environment, proved to be successful in risk mitigation as well as in improving the efficiency of execution.

During the year, new initiatives for bolstering co-operation between the Bank's business units were adopted. These measures led to a better control of the overall cost of funds of the Bank. During 2001, a fixed income securities warehousing infrastructure with focus on household names was set up to facilitate bond distribution to retail customers as well as to build investor relations.

In addition, relationship with interbank counterparties improved significantly during the year, and these in combination with the resulting counterparty limits extended to our Bank greatly facilitated our hedging activities. Re-purchase facilities established with premier financial institutions also provided access to market liquidity.

Optimal Return

To achieve optimal return in today's market, building teamwork among various expertise as well as picking the right strategy are essential. With the help of the newly installed Treasury system, as well as dedicated analysis, precise forecasting, focused investment, selective but prudent hedging applied to our portfolio and professional application of market risk management techniques, we successfully rode the tailwinds of severe interest rate cuts in 2001, producing remarkable and encouraging results.

In view of the uncertainty that lies ahead in 2002, the challenge lies in building hedges that will minimize the impact of interest rate fluctuation as well as preparing for possible interest rate reversal. Last but not least, we shall continue to exercise prudent liquidity management and capital management.



Unrivaled

Strengths and

Insights

REVIEW OF OPERATIONS

Investment Banking

Ka Wah Capital

2001 was a challenging year for Ka Wah Capital Limited ('Ka Wah Capital'). Owing to the global economic downturn and the September 11 disaster in the US, the economic situation in Hong Kong deteriorated significantly. It was inevitable that our business was affected to a certain extent. However, with our senior management's leadership and through our team members' efforts, Ka Wah Capital remained competitive in the market. Our positioning is to become a leading local investment bank, assisting middle-market and PRC-related companies to raise funds in Hong Kong and other international capital markets.

During the year, the Debt Capital Markets Team continued to raise our profile in the capital market through arranging

a number of major transactions in loan syndication and debt issuance. We raised over HK\$4.5 billion (2000: HK\$6 billion and 1999: HK\$1.9 billion) in debt capital for our clients by way of syndicated loans, floating / fixed rate notes ('FRNs') and floating / fixed rate certificates of deposits ('FRCDs'). In particular, we were the joint arranger for HK\$1 billion FRCDs issued by the Bank, the joint mandated arranger for Road King Infrastructure Limited's US\$75 million term loan facility and the joint mandated co-ordinating arranger for US\$200 million FRNs and transferable loan certificates ('TLC') issued by China Merchants Holdings Company Limited. We were also the sole mandated arranger for US\$34.35 million convertible notes issued by Asia Television Limited and the sole mandated arranger for term loan facility of DeMaT TransAsia Holdings Limited, Orient Power Holdings Limited and China Aerospace International Holdings Limited. In addition, we were the

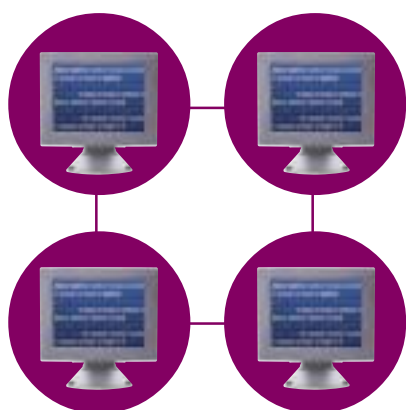
Synergies with sister companies



financial advisor to China National Offshore Oil Corporation on its US\$4 billion joint-venture project with the Dutch Shell Group.

As a result of poor stock market sentiment, the amount of monies raised by equity offerings in Hong Kong decreased by more than 70% in 2001. Nevertheless, our Equity Corporate Finance Team successfully participated in numerous Initial Public Offering ('IPO') transactions in Hong Kong including, but not limited to, Wealthmark International (Holdings) Limited, Convenience Retail Asia Limited, China National Offshore Oil Corporation Limited, TeleEye Holdings Limited, and Aluminum Corporation of China Limited. In addition, we were the independent financial advisor of Lamex Holdings Limited and Top Glory International Holdings Limited. Leveraging our strong parental background, we further co-operated with the Bank, CITIC Industrial Bank and CITIC Securities to expand our PRC-related business in both Hong Kong and Mainland China.





Sound Business System

Operating

REVIEW OF OPERATIONS

INVESTMENT BANKING

Our Ka Wah Five Arrows China Hong Kong Fund, through prudent management, continues to provide shareholders with favorable returns. In 2001, the Manager made a positive contribution to the Fund through new investments in fixed income and Hong Kong-listed stocks despite volatile market conditions.

Debt Capital Market

	2001	2000	1999
Amount Arranged (HK\$ billion)	4.5	6.0	1.9
Number of Mandates	10	9	2

Equity Corporate Finance

	2001	2000	1999
Number of IPOs Participated	4	13	N/A
Number of Financial Advisory Mandates	2	7	N/A

Cargary Securities

Since 1988, the securities broking business of the Bank had been managed by Cargary Securities Limited ('Cargary'). The primary function of this subsidiary is to provide clients with securities trading and margin financing services. All transactions are processed through a sophisticated and fully automated securities trading and settlement system, which is designed to offer customers an efficient, reliable and secure securities trading platform.

2001 was a difficult year for the entire brokerage industry. The global economic slowdown, regulatory developments, and fierce competition all contributed to a challenging operating environment. That transpired, Cargary recorded reductions both in the value transacted and profitability by approximately 47.6% and 70.5% respectively.

During the year, Cargary placed high priority on staff training with a view to providing more professional services

Endless Growth

Endless Gains



to customers. To enhance trading efficiency and reduce transaction costs, continuous investment had been made in system upgrades. The third-generation Automated Matching and Execution System was successfully launched in February 2001. The more efficient execution capability has helped to attract and retain clients. In June, Cargary opened its second branch in Kwai Chung and succeeded in enlarging its client base by 15.5%. With this enlarged customer base, Cargary aims to achieve a higher growth in turnover and market share.

	2001	2000	%Change
Total Value of Transactions (HK\$ million)	10,927.6	20,856.9	-47.6
Profit After Tax (HK\$ million)	11.1	37.8*	-70.5
Number of Transactions	182,550	242,422	-24.7
Number of Customers	31,952	27,665	15.5

* excluding the gain from disposal of shares in Hong Kong Exchanges and Clearing Limited

In 2002, Cargary will focus on enhancing its distribution capabilities and further enlarging its customer base through establishing new branch outlets and developing multi-channel capabilities for order placement, such as Internet stock trading. The margin financing service will be further promoted, with prudent management of related risk exposures. Furthermore, a new range of products and services, such as the trading of futures, China B-shares and Equity Linked Notes are under development or consideration which will eventually lead to wider investment options for customers. Through these initiatives, Cargary aims to further diversify its scope of businesses and to achieve a higher ranking among Exchange participants in the brokerage industry.



East *to* West *presence*

REVIEW OF OPERATIONS

Overseas Operations

US Operations

The Bank operates two branches in the United States, one in New York City, New York, the other in Los Angeles, California. For regulatory purposes, both branches are governed by the Office of the Comptroller of the Currency. The New York Branch, located in Manhattan's 'Chinatown District', operates as a full service branch with deposits insured by the Federal Deposit Insurance Corporation. The Los Angeles Branch is located in a densely Asian populated area within the State of California.

A comprehensive range of commercial and / or retail banking products is provided by at least one, if not both, of our US branches, including loans, deposits, funds transfer, letters of credit, foreign exchange, and safe deposit box. Both US branches actively participate in loan syndications, and both provide a suite of international banking services

encompassing offshore deposits, international payments and trade-finance related products to the Bank's customers located in the Asian region. While capitalizing on our competitive strengths in these areas, the two branches will further diversify their foreign business risks through expanding their businesses and customer bases in the domestic market.

While the Los Angeles Branch had another record year in 2001 in terms of profitability, the New York Branch recorded a decline. Similar to many other US banks, the New York Branch was negatively affected by the narrowing of net interest margins as a result of falling US interest rates. Nevertheless, its financial performance continued to exceed US banking industry norms, registering a Return on Assets in excess of 1.0%. Other financial ratios of both branches continued to improve and / or exceed US banking industry norms, reflecting the capability of their individual management teams.



Quality Growth

in Assets and Earnings

During the year, the two branches continued to work closely to achieve common business goals under a more centralized and co-ordinated management structure. Both branches placed high priority on risk management, in particular the strengthening of credit risk and operational controls; both these measures received positive regulatory assessments. To enhance operational efficiency and to improve on its management information system, the New York Branch replaced its core banking system with a fully-integrated on-line system. The conversion was successfully completed on 30 June 2001. The new system will be implemented by the Los Angeles Branch in 2002 so that both branches will be operating on a common system platform.

In 2002, both branches will aim to increase the level of correspondent banking services provided to other banks based in the Asian region. The branches will strive towards achieving healthy growth rates, while emphasis will be placed on quality growth in assets and earnings.

	2001	2000	1999	%Change
Loans				
(US\$ million)	175.4	181.0	130.6	-3.1
Number of Loan				
Accounts	385	380	415	1.3
Deposits				
(US\$ million)	300.9	318.0	336.2	-5.4
Number of				
Deposit				
Accounts	3,578	3,216	2,990	11.3

China Operations

The Bank established a representative office in Beijing in March 2001 to develop PRC business opportunities by working closely with CITIC and its subsidiaries. Our presence in the Mainland was further strengthened by the takeover of The Hongkong Chinese Bank's representative office in Shanghai in January 2002.

Risk Management

Risk management forms an integral part of our business. During the year, we further strengthened the control and monitoring of the various types of risks to which our business is exposed. Our internal auditors performed regular audits to assess the adequacy and effectiveness of controls for major risk areas and to ensure compliance with the Bank's policies and procedures.

Credit Risk Management

Credit risk management is one of the most important disciplines in the Bank's operations. It has become steadily more challenging because of today's increasingly stringent supervisory requirements and depressed economic environment. To overcome such challenges and to support new business development, the Bank implemented new policies and procedures in order to meet compliance and supervisory requirements, and to develop its operations in various new business areas, such as credit cards and consumer loans.

The Credit Committee oversees the credit risk management function. This is the Bank's highest credit authority and comprises the Chief Executive Officer, the Group Credit Head and other members of senior management. This Committee approves all major transactions and supervises the credit policies of all entities within the Group.

During the year, the Bank further strengthened its reviewing and monitoring procedures to ensure the quality of its loan portfolio. With the assistance of external consultants and with the collaboration of different departments in the Bank, a major review of the credit documentation and administrative workflow was performed. As a result, the entire credit approval process was re-engineered and streamlined. Control procedures in new business areas were also put in place to support the business expansion of the Bank. In addition, a post-approval review team was set up during the year to conduct loan reviews on selected loan products of the Group that were perceived to be of comparatively high risk.

The ongoing enhancement and improvement in the controlling and monitoring measures in credit risk management proved to be fruitful. The Bank's classification rate for new corporate accounts booked after 1998 continues to be relatively low, and these classified accounts are largely covered by related general provisions and collateral. The Bank will continue to adopt a prudent credit policy and, at the same time, it will continue to further strengthen its credit risk management functions to protect asset quality.

Liquidity Management

The Bank manages its liquidity so as to ensure that it meets all regulatory requirements and complies with the statutory liquidity ratio. More importantly, the Bank must ensure that all customer commitments can be met in both normal and emergency circumstances. In addition to issuing long-dated certificates of deposits regularly, the Bank has also arranged re-purchase agreement facilities in order to enhance liquidity. The liquidity management policy has also been revised by adopting a more proactive approach towards the management of liquidity.

Market Risk Management

2001 was a watershed in terms of market risk management. The Bank planned well ahead for its invigorated participation in the financial markets. Our new Treasury system went live in the second quarter of 2001 to meet the more demanding risk reporting requirements.

The Bank's surplus fund was inflated by dwindling loan demand and the proceeds from the subordinated debt prior to acquisition of The Hongkong Chinese Bank. This excess cash had a significant impact on our yield enhancement. In order to boost returns, the Bank placed these excess funds in investment vehicles. Equipped with the new Treasury system and a conscientious risk management concept, we effectively managed the burgeoning market risk exposures.

Market risk ensues once the Bank takes positions in markets such as foreign exchange, interest rates, securities and equities. Such positions are driven by execution of customer orders, proprietary trading and hedging. The Bank's maximum market risk exposures are set by the Assets and Liabilities Committee ('ALCO'). Exposures are monitored and reported to the Management regularly.

The average daily revenue generated from Treasury's trading activities for the period (April to December) was HK\$209,000 and the standard deviation HK\$1,815,000.

Foreign Exchange Risk Management

The Bank's foreign exchange risk stems from foreign exchange position taking, commercial dealing, investment in foreign currency securities and overseas branches. All foreign exchange positions are managed by Treasury within limits approved by the ALCO. The average daily foreign exchange trading profit for the year ended 31 December 2001 was HK\$105,000.

Interest Rate Risk Management

The Bank's interest rate risk exists in both the bank book and the trading book. Although the risk entailed in the former is managed on a monthly basis, the latter is managed daily. The Bank is in the process of revising its interest rate risk policy in order to eventually manage both books on a more frequent basis. The average daily revenue incurred in the trading book for the year ended 31 December 2001 was HK\$98,000.

Equity Price Risk Management

In September 2001, Treasury commenced trading in equities on a limited scale, primarily confined to selected blue and red chip shares. The daily revenue earned from this trading activity for the period was HK\$133,000.

Operational Risk Management

The Bank's product and service delivery in terms of time to market, transactional capability and processing capacity were greatly enhanced following the successful overhaul of its core banking system, completed in January 2002. With the new host computer system, including a 'hot site' back-up IT center and new application software, the Bank is well positioned to further cope with the ongoing demands of its progressive business development strategies.

In addition to straight through processing and capacity, the new system also increased our potential to optimize the overall risk control management process. Since the new system impacts all entities of the Bank, the entire spectrum of operating procedures, from back office to point of sales, was updated in accordance with the modus operandi of the new system and process protocol. The enhanced system security and integrated nature of the system, which also includes an integrated data warehousing and reporting capability, provide the Bank with the necessary tools to review, assess and further improve its operational risk management capability. In addition, progress was made in improving and enhancing existing capabilities in the areas of operational risk measurement and management control as well as in establishing a relationship between the market, credit and operational risk factors; in particular, the inter-relationship between risks and the so-called domino effect.

With a 7 x 24 'hot-site' back-up IT center, business continuity was assured in the event of external disruptions to our major operating centers. Business contingency plans are being continually updated to reflect current changes in the operating environment and we undertake periodic test simulations.

Legal, Strategic and Reputation Risks Management

Over the past year the Bank took significant steps to further enhance controls regarding legal, strategic and reputation risks. Resources and management capability were further strengthened in the Bank's various control functions. The Group Compliance Department was established to centrally administer all relevant regulatory compliance issues concerning the Bank. Its key roles and responsibilities include advising senior management of any significant legal and regulatory changes relevant to the operations of the Bank and taking appropriate steps to ensure due compliance. One of the key achievements of the Department was the issuance of a Compliance Manual to all staff of the Bank and its subsidiaries. The Manual outlines the procedures that all employees must follow when carrying out their duties in order to ensure compliance with the relevant laws, rules and regulations in Hong Kong.

Seeking further improvement in terms of the Bank's corporate governance is one of the Bank's key objectives in enhancing its risk management ability. As a result, the Internal Control Committee, whose members are heads of all the Bank's control functions, was set up by the Board in August. The Committee is mandated to review and evaluate the effectiveness of the internal control environment within the Bank and to make recommendations to senior management for improvements when and where necessary. A key exercise that has been initiated and currently being carried out by the Committee is to re-align the process of developing and approving the policies and procedures of the Bank with a view to increasing efficiency and to be in line with the Bank's overall risk management process.

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 71. 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. Kong Dan

(Chairman)

Aged 54. Appointed as a Director of the Bank on 2 January 2001 and was elected Chairman of the Bank on 12 January 2001. Mr. Kong is presently the Vice Chairman and President of CITIC Group. He holds a Master Degree in Economics from the China Academy of Social Sciences. Mr. Kong was formerly the Vice Chairman and President of China Everbright Group Limited, Vice Chairman of China Everbright Limited and Chairman of China Everbright Technology Limited. He has extensive business connections and experience in investment and finance.

Mr. Kong Siu Chee Kenneth

(Alternate Chief Executive Officer)

Aged 55. Joined the Bank as Executive Vice President in May 1999. Mr. Kong was appointed as a Director and Alternate Chief Executive Officer of the Bank on 4 May 2001 and 6 July 2001 respectively. He is now in charge of the Corporate Banking Group of the Bank and is a Director of Ka Wah Capital Limited and The Hongkong Chinese Bank, 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. Li Hengxun

Aged 58. Appointed as a Director of the Bank in 1991. Mr. Li graduated from Beijing Qinghua University in 1968. He is presently the Director of CITIC Group and Chairman of CITIC-Prudential Life Insurance Company Limited.

Dr. Daniel H. Lam LL.D., C.B.E., J.P.

(Independent Non-executive Director)

Aged 80. 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 67. Appointed as an Independent Non-executive Director of the Bank in 1996. Mr. Lam is presently the Vice Chairman of BOC International Holdings Limited and the Director of Bank of China, The Hongkong Chinese Bank, Limited and Ananda Wing On Travel (Holdings) Limited. He was formerly the Deputy Chief Executive of Bank of China Hongkong-Macau Regional Office, Chairman of Po Sang Bank Limited, Vice Chairman of Chiyu Banking Corporation Limited and the Director of BOC China Fund Limited and Henderson China Holdings Limited. He has over 40 years of continuous banking experience.

Mr. Ju Weimin

Aged 38. Appointed as a Director of the Bank on 12 July 2001. Mr. Ju obtained a Bachelor Degree in Economics from the Hangchow Institute of Electronic Engineering and a Master Degree in Economics from the People's University of China. He is presently the Director and Chief Accountant of CITIC Group.

Mr. Chang Zhenming

(President and Chief Executive Officer)

Aged 45. Appointed as a Director of the Bank on 4 May 2001. Mr. Chang was further appointed as the President and Chief Executive Officer of the Bank on 6 July 2001. He is now the Chairman of The Hongkong Chinese Bank, Limited, Cargary Securities Limited, Ka Wah Assets Management Limited, Ka Wah Capital Limited and Ka Wah International Merchant Finance Limited. Mr. Chang is concurrently an Executive Director and Vice President of CITIC, Chairman of CITIC Securities Co., Ltd. and a Director of CITIC Pacific Limited. He has nearly 20 years' broad range of experience in the finance industry.

Mr. Zhang Enzhao

Aged 55. Appointed as a Director of the Bank on 4 May 2001. Mr. Zhang is presently the President of China Construction Bank. He is also the Chairman of China International Capital Corporation Limited and a Director of China Petroleum and Chemical Corporation.

Mrs. Chan Hui Dor Lam Doreen

(Alternate Chief Executive Officer)

Aged 48. Joined the Bank as Executive Vice President in April 1998. Mrs. Chan was appointed as a Director and Alternate Chief Executive Officer of the Bank on 4 May 2001 and 6 July 2001 respectively. She is now in charge of the Retail Banking Group of the Bank. Mrs. Chan is the Chairman of Ka Wah Credit Limited, Director of The Hongkong Chinese Bank, Limited and Chief Executive

Officer of HKCB Finance Limited. 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. Zhuang Shoucang

Aged 75. Appointed as a Director of the Bank in 1986. Mr. Zhuang has worked for various major organizations 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 Chao

Aged 52. Appointed as a Director of the Bank on 2 January 2001. Mr. Yang is presently the Chairman and President of China Insurance Company Limited and China Insurance Hong Kong (Holdings) Co., Ltd. He is also the Chairman of China Insurance International Holdings Co., Ltd. Mr. Yang was granted the prestigious title of 'Senior Economist' by The People's Insurance Company of China. He was formerly the Chairman and General Manager of CIC Holdings Ltd. Mr. Yang has over 20 years of experience in banking and insurance.

Mr. Zhao Shengbiao

(Executive Vice President and Country Head, U.S.A.)

Aged 51. 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, U.S.A. in 1995. He is now in charge of the overall business operations in U.S.A. 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. Lo Wing Yat Kelvin

(Executive Vice President)

Aged 43. 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, Ka Wah Assets Management Limited and The Hongkong Chinese Bank, 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 46. 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 Group and the President of CITIC Industrial Bank.

Biographies of Senior Executives

Mr. Kane G. Gong

(Executive Vice President)

Aged 53. 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 25 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 (P.R.C., Hong Kong & Taiwan) and the Philippines for both ING Bank and ING Barings.

Mr. Yeung Wai Keung Moses

(Executive Vice President & Treasurer)

Aged 51. Joined the Bank as Senior Vice President and Treasurer in June 2000 and was promoted in January 2002 to become an Executive Vice President in charge of the overall activities of Treasury Department and Financial Institutions Department of the Bank. Mr. Yeung obtained a Master Degree in Business Administration from the University of Hawaii. He has gained over 22 years of regional experience in treasury assets & liabilities management from Citibank Hong Kong, Citibank Tokyo, UBS Australia, Credit Suisse Hong Kong and Banco Santander Hong Kong. Mr. Yeung is responsible for controlling and managing

liquidity, funding and trading risk of the Bank. In addition, he drives and formulates business strategies and policies for commercial foreign exchange, deposits and innovative financial products.

Mr. Lee Man Wood Simon

(Senior Vice President)

Aged 50. 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. Leung May Chu Nancy

(Senior Vice President)

Aged 55. Joined the Bank as Senior Vice President in August 1998 and is now in charge of the Human Resources Department. Ms. 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. Ng Yuk Man John

(Senior Vice President & Chief Financial Controller)

Aged 50. 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 obtained a MBA Degree from the Manchester Business School. He is also a Certified General Accountant of Canada. He has over 20 years of continuous banking experience.

Ms. Margaret Man

(Senior Vice President)

Aged 47. Joined the Bank as Senior Vice President in October 1998 and is now the Head of China Banking of the Bank. Ms. 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, Ms. Man was a Deputy Managing Director of China Venturetechno International Co. Ltd.

Mr. Lee Wing Hung Raymond

(Managing Director and Chief Executive of The Hongkong Chinese Bank, Limited)

Aged 53. Joined The Hongkong Chinese Bank, Limited as Managing Director and Chief Executive in 1999. Mr. Lee has over 25 years of diversified experience in international banking gained from appointments with various multinational and local banks. He is a fellow member of The Association of Chartered Certified Accountants of the United Kingdom and an associate member of The Hong Kong Society of Accountants.

Mr. Wong Shiu Lim Calvin

(Senior Vice President)

Aged 36. Joined the Bank as Senior Vice President in July 2001 and is now the Head of Group Compliance Department and the Compliance Officer of the Bank. Mr. Wong obtained a MBA Degree in Finance from the University of California, Irvine and a Bachelor Degree in Accounting from the Chinese University of Hong Kong. He is a member of the Hong Kong Society of Accountants and the American Institute of Certified Public Accountants. Mr. Wong was the Head of Compliance of UBS Warburg in Hong Kong before joining the Bank.

Mr. Dong Li

(Senior Vice President)

Aged 44. Joined the Bank as Senior Vice President in September 1999 and is now the Deputy Country Head, U.S.A. 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.

Analyst Coverage

Firm	Analyst	Telephone	Fax	E-mail
ABN Amro Asia Ltd.	Scott Gibson	2102-2519	2102-2818	scott.gibson@hk.abnamro.com
BOCI Research Ltd.	Nicole Chong	2230-8103	2230-8515	nicolechong.boci@bocgroup.com
BNP Paribas Peregrine Securities Ltd.	Patrick Ho	2825-1888	2845-2232	patrick.ho@peregrine.bnpparibas.com
Capital Intelligence (Cyprus) Ltd.	George Lee	2581-0122	2581-2578	glee@ci.biz.com.hk
Capital Research Company	Harold La	2842-1014	2810-6788	hxl@capgroup.com
Cazenove Asia Ltd.	Emerald Kwai	2123-0392	2868-1411	emerald.kwai@cazenove.com
Celestial Research Ltd.	Tony Tong	2287-8194	2820-0646	tony.tong@cash.com.hk
China Everbright Research Ltd.	Tracy Woo	2537-6689	2537-1065	wuls@hk.ebchina.com
China Insurance Group Securities	Alan Shum	2541-4171	2815-1499	alanshum@cigsec.com
Core Pacific -Yamaichi International (HK) Ltd.	Bonnie Lai	2109-5506	2536-9916	bonnie.lai@cpy.com.hk
CLSA Ltd.	Dominic Chan	2600-8510	2845-9844	dominic.chan@clsa.com
Credit Suisse First Boston (HK) Ltd.	Mehdee Reza	2101-6555	2284-6555	mehdee.reza@csfb.com
CU Research Ltd.	Lydia Ho	2801-0866	2521-9939	lydiaho@cu-stock.com
Daiwa Institute of Research (H.K.) Ltd.	Kenneth Lee	2848-4069	2845-2190	kenneth.lee@dir.com.hk
Dao Heng Securities Ltd.	Joanna Ng	2218-2861	2285-3160	joanna.ng@guoco.com
DBS Vickers (Hong Kong) Ltd.	Tony Liu	2971-1966	2521-1812	tony_liu@hk.dbsvickers.com
Deutsche Bank AG	Sally Ng	2203-6203	2203-6921	sally.ng@db.com
Finet Holdings	Raymond Fung	2110-3690	2151-0510	raymondfung@finet.com.hk
Fox-Pitt, Kelton (Asia) Ltd.	Terence Law	3191-8625	3191-8988	terence.law@fpk.com
Fulbright Securities Ltd.	Francis Lun	2180-9191	2180-9168	fulbright@i-broker.com.hk

Firm	Analyst	Telephone	Fax	E-mail
G K Goh Securities (HK) Ltd.	Steven Chan	2532-1141	2537-1547	chan.steven@gkgoh.com.hk
Goldman Sachs (Asia) L.L.C.	Roy Ramos	2978-0457	2978-1346	roy.ramos@gs.com
HSBC Securities (Asia) Ltd.	Alan Chua	2996-6717	2845-1593	alanchua@hsbc.com.hk
ICEA Securities Asia Ltd.	Benny Yu	2115-8919	2115-8613	byu@icea.com.hk
ING Baring Securities (HK) Ltd.	Christina Fok	2913-8042	2810-6127	christina.fok@ing-barings.com
KGI Asia Ltd.	Samuel Chua	2878-6744	2878-6790	schua@kgia.com
Kim Eng Securities (Hong Kong) Ltd.	Tony Lau	2532-8262	2877-0104	tlau@kimeng.com.hk
Lehman Brothers	Grant Chan	2869-3818	2869-3133	grchan@lehman.com
Mansion House Securities	Conita Hung	2843-1449	2537-8158	conitahung@mansionhse.com
Merrill Lynch (Asia Pacific) Ltd.	Stephen Kam	2536-3400	2536-3435	stephen_kam@hk.ml.com
Morgan Stanley Asia Ltd.	Amit Rajpal	2848-1951	2537-1701	amitr@ms.com
Nomura International (HK) Ltd.	Kevin Chan	2536-1832	2536-1820	kevin.chan@hk.nomura.com
Pacific Challenge Securities Ltd.	Adrian Ying	2970-8207	2537-0304	adrianying@pac-challenge.com.hk
Salomon Smith Barney HK Ltd.	Michael Siu	2501-2770	2521-5350	michael.siu@ssmb.com
SG Securities (HK) Ltd.	Jasmine Lai	2166-4090	2166-4662	jasmine.lai@sg-ib.com
South China Research Ltd.	Patrick Pong	2820-6321	2845-5868	patrickp@sctrade.com
Sun Hung Kai Research Ltd.	Maggie Choi	2106-8232	2106-8200	maggie.choi@shkco.com
Typhoon Eight Research Ltd.	Lachlan Christie	2801-6324	2801-7876	lchristie@t8research.com
UBS Warburg	Tracy Yu	2971-6123	2971-8542	tracy.yu@ubsw.com

Corporate Information

Registered Office : 232 Des Voeux Road Central, Hong Kong

Tel : (852) 2545 7131

Fax : (852) 2541 7029

info@citickawahbank.com

www.citickawahbank.com

Incorporation in Hong Kong : 17 December 1924

Listing : 23 July 1980

Hong Kong Stock Exchange Code : 183

Company Secretary : Miss Kyna Y. C. Wong

39th Floor, COSCO Tower

183 Queen's Road Central, Hong Kong

Tel : (852) 2909 6368

Fax : (852) 2545 9075

Auditors : KPMG

8th Floor, Prince's Building

10 Chater Road, Central, Hong Kong

Tel : (852) 2522 6022

Fax : (852) 2845 2588

Share Registrar and Transfer Office : Central Registration Hong Kong Limited

Shops 1712 - 1716, 17th Floor, Hopewell Centre

183 Queen's Road East, Hong Kong

Tel : (852) 2862 8628

Fax : (852) 2865 0990

Chinese version of the report is available upon request : Company Secretarial Department, CITIC Ka Wah Bank Limited, 39th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong.

Financial Section

Report of the Directors	45
Auditors' Report	53
Consolidated Income Statement	54
Consolidated Statement of Recognised Gains and Losses	55
Consolidated Balance Sheet	56
Balance Sheet	58
Consolidated Cash Flow Statement	60
Notes on the Financial Statements	62
Unaudited Supplementary Financial Information	114

Report of the Directors

The directors have pleasure in presenting their annual report together with the audited financial statements for the year ended 31 December 2001.

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 principal subsidiaries as at 31 December 2001 are set out in note 20 on the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2001 and the state of the Bank's and the Group's affairs as at that date are set out in the financial statements on pages 54 to 113.

DIVIDENDS

An interim dividend of HK\$0.03 (2000: HK\$0.02) per share was paid on 12 September 2001. The directors recommend the payment of a final dividend of HK\$0.025 (2000: HK\$0.05) per share in respect of the year ended 31 December 2001.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK\$57,571 (2000: HK\$986,129).

FIXED ASSETS

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

RESERVES

Movements in the reserves of the Group and the Bank during the year are set out in note 30 on the financial statements.

SHARE CAPITAL

Movements in the share capital of the Bank are set out in note 29 on the financial statements.

DIRECTORS

The directors during the financial year and up to the date of this report are as follows (arranged in the order of number of strokes of the directors' Chinese surnames):

Mr. Yu Baozhong (Independent Non-executive Director)	
Mr. Kong Dan (Chairman)	(appointed on 2 January 2001)
Mr. Kong Siu Chee Kenneth (Executive Vice President and Alternate Chief Executive Officer)	(appointed on 4 May 2001)
Mr. Li Hengxun	
Dr. Daniel H Lam (Independent Non-executive Director)	
Mr. Lam Kwong Siu (Independent Non-executive Director)	
Mr. Ju Weimin	(appointed on 12 July 2001)
Mr. Chang Zhenming (President and Chief Executive Officer)	(appointed on 4 May 2001)
Mr. Zhang En Zhao	(appointed on 4 May 2001)
Mrs. Chan Hui Dor Lam Doreen (Executive Vice President and Alternate Chief Executive Officer)	(appointed on 4 May 2001)
Mr. Zhuang Shoucang	
Mr. Yang Chao	(appointed on 2 January 2001)
Mr. Zhao Shengbiao (Executive Vice President and Country Head, USA)	
Mr. Lo Wing Yat Kelvin (Executive Vice President)	
Mr. Dou Jianzhong	
Mr. Wang Xianzhang	(resigned on 2 January 2001)
Mr. Hong Yuncheng	(retired by rotation on 3 May 2001)
Mr. Zhang Mingqian	(retired by rotation on 3 May 2001)
Mr. Tang See King Brian	(retired by rotation on 3 May 2001)
Mr. Zhou Hanrong	(resigned on 4 May 2001)
Mr. Cai Zhongzhi	(resigned on 6 July 2001)

In accordance with Article 111(1) of the Bank's Articles of Association, Mr. Chang Zhenming, Mr. Zhang En Zhao, Mrs. Chan Hui Dor Lam Doreen, Mr. Kong Siu Chee Kenneth and Mr. Ju Weimin retire from the Board at the forthcoming Ordinary Yearly Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 118 of the Bank's Articles of Association, Dr. Daniel H Lam, Mr. Zhuang Shoucang and Mr. Yu Baozhong 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 2001, the beneficial interests of the directors in the share capital of the Bank as recorded in the register maintained under section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance were as follows:

Name of director	Ordinary shares of HK\$1 each			Total interests
	Personal interests	Family interests	Other interests	
Dr. Daniel H Lam	183,970	118,089	–	302,059
Mrs. Chan Hui Dor Lam Doreen	–	–	2,000,000	2,000,000
Mr. Kong Siu Chee Kenneth	–	–	2,000,000	2,000,000
Mr. Lo Wing Yat Kelvin	–	–	2,000,000	2,000,000
Mr. Zhao Shengbiao	1,200,000	–	614,114	1,814,114

Senior Executive Share Option Scheme

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 were granted share options for subscription of shares of the Bank. The Option Scheme was adopted on 30 March 1995. The exercise price of options was determined by the Board and was the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited (the 'Stock Exchange') for the five business days immediately preceding the date of the grant.

The maximum number of shares in respect of which options may be granted under the Option Scheme may not exceed 10% of the issued share capital of the Bank from time to time, excluding any shares which have been duly allotted and issued pursuant to the exercise of any option granted under the Option Scheme.

At 31 December 2001, the directors and employees of the Bank had the following interests in options to subscribe for shares of the Bank (market value per share at 31 December 2001 was HK\$1.98) granted pursuant to the Option Scheme of the Bank. Each option gives the holder the right to subscribe for one share.

DIRECTORS' INTERESTS (continued)**Senior Executive Share Option Scheme** (continued)

Directors	No. of options outstanding at the beginning of the year	No. of options outstanding at the year end	Date granted	Period during which options exercisable	No. of shares acquired on exercise of options during the year	No. of options lapsed during the year	Price per share on exercise of options	Weighted average closing price (note 2)
Mrs. Chan Hui Dor Lam Doreen	2,000,000	2,000,000	17 August 1999	20 April 2000 to 29 March 2005	–	–	HK\$2.30	–
Mr. Kong Siu Chee Kenneth	2,000,000	2,000,000	17 August 1999	18 May 2001 to 29 March 2005	–	–	HK\$2.30	–
Mr. Lo Wing Yat Kelvin	2,000,000	2,000,000	17 August 1999	31 October 1999 to 29 March 2005	–	–	HK\$2.30	–
Mr. Zhao Shengbiao	87,000	87,000	10 April 1996	11 April 1996 to 29 March 2005	–	–	HK\$1.00	–
	210,875	210,875	8 May 1997	9 May 1997 to 29 March 2005	–	–	HK\$1.00	–
	316,239	316,239	6 May 1998	7 May 1998 to 29 March 2005	–	–	HK\$1.00	–
Mr. Hong Yuncheng	3,000,000	2,700,000	17 August 1999	24 February 2000 to 31 March 2002	300,000	–	HK\$2.30	HK\$2.7
Mr. Cai Zhongzhi	3,000,000	3,000,000	17 August 1999	24 February 2000 to 5 January 2002	–	–	HK\$2.30	–
Mr. Zhang Mingqian	2,000,000	–	17 August 1999	10 May 2000 to 3 July 2001	–	2,000,000	HK\$2.30	–
Mr. Tang See King Brian	1,000,000	1,000,000	17 August 1999	11 February 2000 to 1 January 2002	–	–	HK\$2.30	–
Aggregate total of employees	200,000	200,000	30 March 1995	30 March 1995 to 29 March 2005	–	–	HK\$1.00	–
	37,000	37,000	10 April 1996	11 April 1996 to 29 March 2005	–	–	HK\$1.00	–
	42,125	42,125	8 May 1997	9 May 1997 to 29 March 2005	–	–	HK\$1.00	–

DIRECTORS' INTERESTS *(continued)*

Senior Executive Share Option Scheme *(continued)*

Directors	No. of options outstanding at the beginning of the year	No. of options outstanding at the year end	Date granted	Period during which options exercisable	No. of shares acquired on exercise of options during the year	No. of options lapsed during the year	Price per share on exercise of options	Weighted average closing price (note 2)
Aggregate total of employees <i>(continued)</i>	73,689	73,689	6 May 1998	7 May 1998 to 29 March 2005	–	–	HK\$1.00	–
	1,350,000	1,200,000	16 April 1999	6 August 1999 to 29 March 2005	150,000	–	HK\$1.68	HK\$2.7
	4,200,000	4,200,000	17 August 1999	1 April 2000 to 29 March 2005	–	–	HK\$2.30	–
	2,000,000	2,000,000	29 February 2000	18 January 2002 to 29 March 2005	–	–	HK\$2.044	–
	1,200,000	1,000,000	16 March 2000	16 March 2001 to 29 March 2005	200,000	–	HK\$1.896	HK\$2.49
	1,700,000	1,700,000	28 March 2000	31 March 2000 to 29 March 2005	–	–	HK\$1.824	–
	2,000,000	2,000,000	19 May 2000	26 April 2002 to 29 March 2005	–	–	HK\$1.57	–
	1,000,000	1,000,000	27 June 2000	5 June 2002 to 29 March 2005	–	–	HK\$1.744	–
	700,000	700,000	10 August 2000	11 August 2001 to 29 March 2005	–	–	HK\$2.28	–
	200,000	200,000	23 August 2000	24 August 2001 to 29 March 2005	–	–	HK\$2.296	–
	2,300,000	2,300,000	5 December 2000	22 October 2001 to 29 March 2005	–	–	HK\$1.812	–
	–	300,000	26 March 2001	27 March 2002 to 29 March 2005	–	–	HK\$1.824	–

DIRECTORS' INTERESTS *(continued)***Senior Executive Share Option Scheme** *(continued)**Notes:*

1. All the option lapsed before expiry of the option will be added back to the number of shares available to be issued under the Option Scheme.
2. This represents the weighted average closing price of the shares of the Bank immediately before the dates the options were exercised.

The share options granted are not recognised in the financial statements until they are exercised. The value per option granted in 2001 estimated at the date of grant using the Binomial option pricing model was HK\$2.25. The weighted average assumptions used are as follows:

Risk-free interest rate	5.22%
Expected life (in years)	3
Volatility	50%
Expected dividend per share	HK\$0.055

The Binomial option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Because the Bank's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the Binomial option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

No contract of significance in relation to the Bank's business to which the Bank, its holding company, 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, 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

As far as the directors are aware, the following had an interest of 10% or more of the issued share capital of the Bank as at 31 December 2001:

Name of shareholder	Number of ordinary shares of HK\$1 each	Shareholding %
China International Trust and Investment Corporation ('CITIC')	1,429,577,209	55.08%

Save as disclosed above, the directors are not aware of any other party having an interest representing 10% or more of the issued share capital of the Bank.

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 2001 are set out in note 17 on the financial statements.

CONNECTED TRANSACTIONS

On 1 September 2000, the Bank entered into a tenancy agreement with Cargary Securities Limited ('Cargary'), a non-wholly owned subsidiary, under which the Bank agreed to let to Cargary the premises on 2nd and 3rd Floors, Ka Wah Bank Centre, 232 Des Voeux Road Central, Hong Kong for a period of one year (exclusive of rates and management fee) commencing from 1 January 2000 at a monthly rental of HK\$137,016. The tenancy agreement has been renewed for another one year from 1 January 2001 at a monthly rental of HK\$107,952. The aggregate rental for the year pursuant to the tenancy agreement was HK\$1,295,424.

On 11 October 2000, the Bank entered into an agency agreement with Cargary under which Cargary appointed the Bank as its non-exclusive agent to act on its behalf to receive orders for trading of securities from its customers through the Bank's branch network. For each successfully executed transaction, the Bank is entitled to receive from Cargary an agency fee at such rate as mutually agreed by both parties from time to time (being not less than 30% of the transaction fee). The aggregate agency fee received for the year pursuant to the agency agreement was HK\$7,559,020.

The Bank holds 51% of Cargary's issued share capital while the remaining 49% is held by True Worth Investments Limited, a wholly-owned subsidiary of CITIC. Accordingly, the transactions contained in the agreements constitute connected transactions under the Listing Rules of the Stock Exchange.

In the opinion of the directors and as confirmed by two independent non-executive directors, the transactions in questions were conducted on terms that are fair and reasonable so far as the Bank's shareholders are concerned and were entered into in accordance with the terms of the respective agreements. The aggregate amount of each of the rental fee and agency fee for the year did not exceed the amount of 3% of the book value of the net tangible assets of the Group as disclosed in the audited financial statements for the year.

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.

SUPERVISORY POLICY MANUAL ON 'FINANCIAL DISCLOSURE BY LOCALLY INCORPORATED AUTHORISED INSTITUTIONS'

The financial statements of the Bank for the year ended 31 December 2001 fully comply with the requirements set out in the Supervisory Policy Manual 'Financial Disclosure by Locally Incorporated Authorised Institutions' issued by the Hong Kong Monetary Authority.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Bank has complied throughout the year with the Code of Best Practice as set out by the Stock Exchange in Appendix 14 to the Listing Rules, except that there is no specific term for the appointment of independent non-executive directors and the Bank is in the process of forming an audit committee in order to comply fully with paragraph 14 of the aforementioned Code.

AUDITORS

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

Kong Dan

Chairman

Hong Kong, 28 February 2002

Auditors' Report



Auditors' report to the shareholders of CITIC Ka Wah Bank Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 54 to 113 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 financial statements which give a true and fair view. In preparing financial statements 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 financial statements 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2001 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, 28 February 2002

Consolidated Income Statement

for the year ended 31 December 2001 (Expressed in Hong Kong dollars)

	Note	2001 HK\$'000	2000 Restated HK\$'000
Interest income		3,376,670	3,759,046
Interest expense		(2,130,383)	(2,607,670)
Net interest income		1,246,287	1,151,376
Fees and commission income		371,735	291,663
Fees and commission expense		(23,047)	(17,245)
Other revenue	3(a)	17,900	18,033
Other operating income	3(b)	176,561	156,101
Operating income		1,789,436	1,599,928
Operating expenses	3(c)	(759,169)	(648,052)
Operating profit before provisions		1,030,267	951,876
Charge for bad and doubtful debts		(340,961)	(318,571)
Operating profit	3	689,306	633,305
Net loss on disposal of tangible fixed assets		(765)	(1,999)
Net profit on disposal of held-to-maturity securities		515	10,433
Provision on held-to-maturity securities and investment securities		(3,337)	(5,694)
Profit from ordinary activities before taxation	33	685,719	636,045
Taxation	5(a)	(49,607)	(53,383)
Profit from ordinary activities after taxation		636,112	582,662
Minority interests		(19,484)	(50,521)
Profit attributable to shareholders	6 & 30	616,628	532,141
Dividends attributable to the year:	7		
Interim dividend declared and paid during the year		77,859	51,897
Final dividend proposed after the balance sheet date		75,702	129,743
		153,561	181,640
Earnings per share	8		
Basic		23.30¢	20.11¢
Diluted		23.28¢	20.09¢

The notes on pages 62 to 113 form part of these financial statements.

Consolidated Statement of Recognised Gains and Losses

for the year ended 31 December 2001 (Expressed in Hong Kong dollars)

	Note	2001 HK\$'000	2000 HK\$'000
Surplus on revaluation of investment properties	30(b)	151	–
Exchange differences on translation of the financial statements of foreign entities	30(f)	(1)	131
Net gains not recognised in the consolidated income statement		150	131
Profit attributable to shareholders	6 & 30	616,628	532,141
Total recognised gains and losses		616,778	532,272

The notes on pages 62 to 113 form part of these financial statements.

Consolidated Balance Sheet

at 31 December 2001 (Expressed in Hong Kong dollars)

	Note	2001 HK\$'000	2000 Restated HK\$'000
Assets			
Cash and short-term funds	11 & 17	6,910,498	7,704,523
Placements with banks and other financial institutions maturing between one and twelve months	15(d)	–	3,112,324
Trade bills less provisions	12	223,932	288,058
Certificates of deposit	13	2,948,033	4,258,256
Other investments in securities	14	1,494,101	1,086,128
Advances to customers and other accounts less provisions	15(a) & 17	33,701,258	33,721,683
Held-to-maturity securities and investment securities	19	13,014,873	5,463,881
Investments in associates	21	120,499	120,539
Tangible fixed assets	23	1,014,107	902,437
Total assets		59,427,301	56,657,829
Liabilities			
Deposits and balances of banks and other financial institutions	17 & 24	3,132,145	418,862
Current, fixed, savings and other deposits of customers	17 & 25	42,514,182	46,624,666
Certificates of deposit issued	26	3,493,904	1,653,582
Issued debt securities	27	373,371	398,197
Other accounts and provisions	5(b) & 17	1,118,079	1,536,976
Total liabilities		50,631,681	50,632,283

	Note	2001 HK\$'000	2000 Restated HK\$'000
Capital resources			
Share capital	29	2,595,511	2,594,861
Reserves	30	3,658,166	3,248,319
Shareholders' funds		6,253,677	5,843,180
Minority interests		201,849	182,366
Loan capital	31	2,340,094	–
		8,795,620	6,025,546
Total liabilities and capital resources			
		59,427,301	56,657,829

Approved and authorised for issue by the board of directors on 28 February 2002

Mr. Chang Zhenming, *Director*

Mrs. Chan Hui Dor Lam Doreen, *Director*

Mr. Kong Siu Chee Kenneth, *Director*

Mr. Ng Yuk Man John, *Chief Financial Controller*

The notes on pages 62 to 113 form part of these financial statements.

Balance Sheet

at 31 December 2001 (Expressed in Hong Kong dollars)

	Note	2001 HK\$'000	2000 Restated HK\$'000
Assets			
Cash and short-term funds	11 & 17	6,837,048	7,486,070
Placements with banks and other financial institutions maturing between one and twelve months	15(d)	–	3,112,324
Trade bills less provisions	12	223,932	288,058
Certificates of deposit	13	2,915,803	4,228,256
Other investments in securities	14	1,450,231	979,482
Advances to customers and other accounts less provisions	15(a) & 17	33,234,912	32,020,933
Amounts due from subsidiaries	18	790,134	2,221,126
Held-to-maturity securities and investment securities	19	12,932,959	5,327,625
Investments in subsidiaries	20	522,389	509,184
Investments in associates	21	119,908	119,908
Tangible fixed assets	23	907,055	795,345
Total assets		59,934,371	57,088,311
Liabilities			
Deposits and balances of banks and other financial institutions	17 & 24	3,132,145	418,862
Current, fixed, savings and other deposits of customers	17 & 25	42,514,182	46,624,666
Certificates of deposit issued	26	3,493,904	1,668,582
Issued debt securities	27	373,371	398,197
Other accounts and provisions	5(b) & 17	875,870	1,226,875
Amounts due to subsidiaries	22	3,606,589	1,703,841
Total liabilities		53,996,061	52,041,023

	Note	2001 HK\$'000	2000 Restated HK\$'000
Capital resources			
Share capital	29	2,595,511	2,594,861
Reserves	30	3,342,799	2,452,427
Shareholders' funds		5,938,310	5,047,288
Total liabilities and capital resources		59,934,371	57,088,311

Approved and authorised for issue by the board of directors on 28 February 2002

Mr. Chang Zhenming, *Director*

Mrs. Chan Hui Dor Lam Doreen, *Director*

Mr. Kong Siu Chee Kenneth, *Director*

Mr. Ng Yuk Man John, *Chief Financial Controller*

The notes on pages 62 to 113 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2001 (Expressed in Hong Kong dollars)

	Note	2001		2000	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net cash (outflow)/inflow from operating activities	33		(1,694,365)		278,695
Returns on investments and servicing of finance					
Dividends received from an associated company		7,207		7,379	
Dividends received on equity investment securities		3,184		1,000	
Dividends paid		(207,602)		(77,842)	
Net cash outflow from returns on investments and servicing of finance			(197,211)		(69,463)
Taxation					
Hong Kong Profits Tax refunded		8,098		–	
Hong Kong Profits Tax paid		(5,899)		(4,499)	
Overseas tax paid		(1,757)		(121)	
Total tax refunded/(paid)			442		(4,620)
Investing activities					
Payment for purchase of tangible fixed assets		(198,310)		(67,291)	
Proceeds from disposals of tangible fixed assets		20,330		18,837	
Loan repaid from/(advanced to) associates		40		(2)	
Payment for purchase of held-to-maturity securities and investment securities		(7,632,301)		(3,300,143)	
Net proceeds from disposals of held-to-maturity securities and investment securities		78,486		512,055	
Net cash outflow from investing activities			(7,731,755)		(2,836,544)
Net cash outflow before financing			(9,622,889)		(2,631,932)

	Note	2001		2000	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financing					
Issue of loan capital		2,340,094		–	
Issue of ordinary share capital	34	1,321		916	
Net cash inflow from financing			2,341,415		916
Decrease in cash and cash equivalents			(7,281,474)		(2,631,016)
Cash and cash equivalents at 1 January			10,378,489		13,009,505
Cash and cash equivalents at 31 December	35		3,097,015		10,378,489

The notes on pages 62 to 113 form part of these financial statements.

Notes on the Financial Statements

(Expressed in Hong Kong dollars)

1. PRINCIPAL ACTIVITIES

The principal activities of CITIC Ka Wah Bank Limited (the 'Bank') and its subsidiaries (the 'Group'), which materially affect the results or comprise the assets of the Group, are the provision of banking and related financial services.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice ('SSAP') and Interpretations issued by the Hong Kong Society of Accountants ('HKSA'), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance, and comply fully with the module on 'Financial Disclosure by Locally Incorporated Authorised Institutions' issued by the Hong Kong Monetary Authority. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties, and the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Investments in subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Bank has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Bank's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Bank, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) 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.

In the Group's and the Bank's balance sheets, investments in associates are stated at cost less impairment losses (see note 2(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

The results of the associates are included in the consolidated and the Bank's income statement 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 financial statements as they are considered by the directors to be immaterial to the Group.

(e) Advances to customers and other accounts

Advances to customers, banks and other financial institutions are carried at amounts advanced less payments collected and deducting provisions for estimated losses.

Sales of accounts receivable on mortgage loans without recourse to the Bank are recognised when control over the receivables has been irrevocably transferred to a third party and the receivables are then no longer included in the balance sheet.

Assets, other than equity and debt securities, acquired in exchange for advances in order to achieve an orderly realisation are reclassified to other accounts. The assets acquired are recorded at the carrying value of the advance disposed of at the date of the exchange. Impairment losses (see note 2(i)), if necessary, are made to allow for declines in the estimated fair value of the assets acquired.

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

(f) Doubtful debts

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 income statement, 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 expenses in the income statement, such provisions being determined for each investment individually.
- (iii) 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.
- (iv) 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 income statement 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.
- (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 income statement as they arise.

(h) Tangible fixed assets and depreciation

- (i) In preparing these accounts, advantage has been taken of the transitional provisions set out in paragraph 80 of SSAP 17 'Property, plant and equipment' issued by the HKSA, with the effect that other premises have not been revalued to open market value at the balance sheet date. It is not the directors' intention to revalue other premises in the future.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Tangible fixed assets and depreciation *(continued)*

(ii) Tangible fixed assets are carried in the balance sheet on the following bases:

- Investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers;
- Freehold land is not depreciated. 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:

Land held on leases – over the unexpired terms of the leases

Buildings – over 30 years or the unexpired terms of the land leases, whichever is the shorter

- 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.

(iii) Changes arising on the revaluation of investment properties are generally dealt with in reserves. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of the portfolio of investment properties, immediately prior to the revaluation; and
- when a surplus arises on revaluation, it will be taken to the income statement, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties, had previously been charged to the income statement.

(iv) 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 Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(v) 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 income statement on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the income statement for the year. For all other fixed assets, any related revaluation surplus is transferred from the revaluation reserve to retained profits.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);
- investments in subsidiaries and associates (except for those accounted for at fair value under notes 2(c) & (d)); and
- other assets.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature, is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

- (i) Interest income and expenses are accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.
- (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.
- (iii) Fee income and expenses are recognised when earned or incurred except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised on an appropriate basis over the relevant period.
- (iv) Dividend income is recognised as follows:
 - dividend income from listed investments is recognised when the share price of the investment goes ex-dividend; and
 - dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(k) Finance leases

Leases under which substantially all the risks and benefits of ownership are transferred to lessees are classified as finance leases.

Where assets are leased out under finance leases, an amount representing the net investment in the lease is included in the balance sheet as advances to customers. Finance income implicit in the lease payments is taken to the income statement over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period.

(l) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) 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 income statement.

The results of foreign 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 resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit and loss on disposal.

(n) 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.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Bank has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) 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 income statement 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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.

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'.

(q) Sale and repurchase agreements

Securities sold under sale and repurchase agreements are considered to be, in substance, secured loans. Therefore the securities are maintained on the balance sheet at cost or market value depending on their classification as held-to-maturity securities, investment securities or other investments and the proceeds of the sale are included in 'Current, fixed, savings and other deposits of customers' or 'Deposits and balance of banks and other financial institutions' depending on the identity of the counterparty. The difference between the sale price and the repurchase price is amortised on an effective yield basis over the period from the date of sale to the date of repurchase.

(r) Retirement costs

The Group operates a defined contribution provident fund and a Mandatory Provident Fund scheme. The retirement costs are charged to the income statement as and when the contributions fall due.

(s) Related parties

For the purposes of these financial statements, 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.

(t) Segment reporting

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

The Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise tangible fixed assets, corporate and financing expenses and minority interests.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)***(u) 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 PROFIT

The operating profit is stated after taking account of:

(a) Other revenue

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Dividend income		
Listed investments	8	10
Unlisted investments	10,383	8,379
Rental income less outgoings	7,509	9,644
	17,900	18,033

(b) Other operating income

Net gain on other investments in securities	96,574	104,344
Net gain arising from dealing in foreign currencies	28,044	25,425
Net (loss)/gain arising from other dealing activities	(371)	4,318
Others	52,314	22,014
	176,561	156,101

3. OPERATING PROFIT *(continued)*

(c) Operating expenses

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Staff costs		
Salaries and other staff costs	429,333	383,703
Retirement costs (note 36)	29,116	21,250
Premises and equipment expenses		
Rental of premises	43,519	31,725
Depreciation (note 23)	65,696	62,052
Others	50,901	35,260
Auditors' remuneration	2,212	2,188
Others	138,392	111,874
	759,169	648,052

(d) Individuals with highest emoluments:

Of the Group's five individuals with the highest emoluments, four (2000: two) are directors of the Bank whose emoluments are disclosed in note 4.

The emoluments of the remaining individual (2000: three) are as follows:

	2001	2000
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	2,623	7,611
Bonuses	400	8,192
Pension contributions	253	363
	3,276	16,166

The remuneration of this individual (2000: three) is within the following bands:

	2001	2000
	Number of individuals	Number of individuals
HK\$3,000,001 – HK\$3,500,000	1	–
HK\$4,000,001 – HK\$4,500,000	–	2
HK\$7,500,001 – HK\$8,000,000	–	1
	1	3

4. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

The Bank		
	2001	2000
	HK\$'000	HK\$'000
Fees	5,250	4,350
Salaries, allowances and benefits in kind	17,294	13,131
Bonuses	2,576	3,867
Pension contributions	814	775
	25,934	22,123

Included in the directors' remuneration were fees of HK\$900,000 (2000: 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 'Share option scheme' in the directors' report.

The remuneration of the directors is within the following bands:

	2001	2000
	Number of directors	Number of directors
HK\$ Nil – HK\$1,000,000	14	10
HK\$1,500,001 – HK\$2,000,000	1	2
HK\$2,000,001 – HK\$2,500,000	2	–
HK\$3,000,001 – HK\$3,500,000	1	1
HK\$3,500,001 – HK\$4,000,000	–	1
HK\$4,000,001 – HK\$4,500,000	2	2
HK\$4,500,001 – HK\$5,000,000	1	–
	21	16

5. TAXATION

(a) Taxation in the consolidated income statement represents:

	2001 HK\$'000	2000 HK\$'000
Provision for Hong Kong Profits Tax for the year	47,894	53,249
Overseas taxation	1,713	134
	49,607	53,383

The provision for Hong Kong Profits Tax is calculated at 16% (2000: 16%) of the estimated assessable profits for the year ended 31 December 2001. Taxation for overseas branches and subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

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

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Provision for Hong Kong Profits Tax	7,569	14,022	–	2,274
Provision for overseas taxation	166	210	166	210
	7,735	14,232	166	2,484

(c) The major components of the unprovided deferred taxation at the balance sheet date are as follows:

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Depreciation allowances in excess of depreciation charges	(33,890)	(11,486)	(33,852)	(11,317)
General provisions for bad and doubtful loans and advances	59,376	56,683	58,491	49,243
Net deferred tax benefits	25,486	45,197	24,639	37,926

The surplus arising on the revaluation of investment properties does not constitute a timing difference as the disposal of these assets at their carrying value would result in capital gains which are not subject to tax.

6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of HK\$1,097,152,000 (2000: HK\$462,329,000) which has been dealt with in the financial statements of the Bank.

7. DIVIDENDS

(a) Dividends attributable to the year

	2001 HK\$'000	2000 HK\$'000
Interim dividend declared and paid of HK\$0.03 (2000: HK\$0.02) per share	77,859	51,897
Final dividend proposed after the balance sheet date of HK\$0.025 (2000: HK\$0.05) per share	75,702	129,743
	153,561	181,640

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2001 HK\$'000	2000 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year of HK\$0.05 (2000: HK\$0.01) per share	129,743	25,945

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on profit attributable to shareholders of HK\$616,628,000 (2000: HK\$532,141,000) and on the weighted average of 2,647,023,734 (2000 as restated: 2,646,514,542) ordinary shares in issue during the year. The weighted average numbers of shares outstanding for 2001 and 2000 have been adjusted for the effects of the rights issue on 7 January 2002.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on profit attributable to shareholders of HK\$616,628,000 (2000: HK\$532,141,000) and on the weighted average of 2,649,030,438 (2000 as restated: 2,648,311,935) ordinary shares in issue during the year after adjusting for the effects of all dilutive potential ordinary shares.

8. EARNINGS PER SHARE *(continued)*

(c) Reconciliation

	2001 Number of shares	2000 Number of shares Restated
Weighted average number of ordinary shares used in calculating basic earnings per share	2,647,023,734	2,646,514,542
Deemed issue of ordinary shares for no consideration	2,006,704	1,797,393
Weighted average number of ordinary shares used in calculating diluted earnings per share	2,649,030,438	2,648,311,935

9. CHANGES IN ACCOUNTING POLICIES

(a) Investment properties

With effect from 1 January 2001, the Group adopted the revised SSAP 13 'Accounting for investment properties' issued by the HKSA. This results in a change of accounting treatment in respect of investment properties. Previously the Group took advantage of the exemption granted to banking companies under SSAP 13. As a result, investment properties were stated at cost less depreciation and not revalued.

Pursuant to the revised SSAP 13, such exemption granted to banking companies has been withdrawn. Investment properties are revalued annually by independent valuers on an open market value basis. Surpluses arising on revaluation on a portfolio basis are taken to the 'investment property revaluation reserve'. Deficits arising on revaluation on a portfolio basis are firstly set off against any previous revaluation surplus and thereafter taken to the income statement.

As a result of the new accounting policy, the Group's investment properties as at 31 December 2001 were stated at revalued amount and a surplus of HK\$151,000 was taken to the investment property revaluation reserve. The directors considered that the effect of this change for the year ended 31 December 2000 and the opening balance of retained profits of 2000 is not material and, therefore, this change in accounting policy has not been applied retrospectively.

9. CHANGES IN ACCOUNTING POLICIES *(continued)*

(b) Proposed dividends

In prior years, dividends proposed or declared were recognised as liabilities in the accounting period to which they related. With effect from 1 January 2001, in order to comply with SSAP 9 (revised) 'Events after the balance sheet date' issued by the HKSA, the Group recognises dividends proposed or declared as liabilities in the accounting period in which they are declared by the directors (in the case of interim dividends) or approved by the shareholders (in the case of final dividends). Consequently, dividend income from subsidiaries and associates is recognised as income in the Bank's income statement in the accounting period in which they are declared by the subsidiaries' and associates' directors (in the case of interim dividends) or approved by the shareholders (in the case of final dividends).

As a result of the new accounting policy, the Group's net assets as at the year end have been increased by HK\$76 million (2000: HK\$130 million). There is no impact on the Group's profit attributable to shareholders for the periods presented. The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior periods.

10. SEGMENT REPORTING

Segment information is represented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format as the directors consider that this is more relevant to the Group's internal financial reporting.

(a) Business segment

The Group is principally engaged in the provision of banking and related financial services. The Group comprises the following main business segments:

Retail banking business:	It mainly comprises deposit account services, residential mortgage, other consumer lendings, credit card services and finance leases.
Corporate banking business:	It comprises trade financing, syndicated loans and other corporate lendings.
Investment banking:	It comprises merchant banking, fund management and securities brokerage and dealing.
Treasury:	It covers provision of foreign exchange services, centralised cash management for deposit taking and lending, management of investment securities and the overall funding of the Group.

10. SEGMENT REPORTING (continued)

(a) Business segment (continued) 2001

	The Group						Consolidated HK\$'000
	Retail banking HK\$'000	Corporate banking HK\$'000	Investment banking HK\$'000	Treasury HK\$'000	Unallocated HK\$'000	Inter- segment elimination HK\$'000	
Net interest income	500,631	366,740	15,448	342,210	21,258	–	1,246,287
Non-interest income from external customers	145,810	195,980	81,439	48,784	71,136	–	543,149
Inter-segment revenue	19,636	372	4,087	–	251,038	(275,133)	–
Operating income	666,077	563,092	100,974	390,994	343,432	(275,133)	1,789,436
Operating expenses	(310,859)	(102,210)	(53,763)	(31,575)	(260,762)	–	(759,169)
Inter-segment operating expenses	(179,282)	(43,403)	(14,522)	(13,831)	(24,095)	275,133	–
Operating profit before provisions	175,936	417,479	32,689	345,588	58,575	–	1,030,267
Charge for bad and doubtful debt	(51,804)	(289,096)	(61)	–	–	–	(340,961)
Operating profit	124,132	128,383	32,628	345,588	58,575	–	689,306
Net loss on disposal of tangible fixed assets							(765)
Net profit on disposal of held-to- maturity securities							515
Provision on held-to-maturity securities and investment securities							(3,337)
Profit from ordinary activities before taxation							685,719
Taxation							(49,607)
Profit from ordinary activities after taxation							636,112
Minority interests							(19,484)
Profit attributable to shareholders							616,628
Depreciation for the year	16,800	5,212	2,534	1,503	39,647	–	65,696
Segment assets	14,521,299	21,906,903	515,884	21,576,299	–	(4,893,056)	53,627,329
Unallocated assets							5,799,972
Total assets							59,427,301
Segment liabilities	26,946,489	16,662,501	103,947	2,003,000	–	(4,400,186)	41,315,751
Unallocated liabilities							9,315,930
Total liabilities							50,631,681
Capital expenditure incurred during the year	32,205	3,995	2,930	332	39,272	–	78,734

10. SEGMENT REPORTING *(continued)***(a) Business segment** *(continued)*

2000

	The Group						
	Retail banking HK\$'000	Corporate banking HK\$'000	Investment banking HK\$'000	Treasury HK\$'000	Unallocated HK\$'000	Inter- segment elimination HK\$'000	Consolidated HK\$'000
Net interest income	573,229	308,571	27,868	34,876	206,832	–	1,151,376
Non-interest income from external customers	59,490	148,127	130,281	105,080	5,574	–	448,552
Inter-segment revenue	25,327	219	2,954	–	221,768	(250,268)	–
Operating income	658,046	456,917	161,103	139,956	434,174	(250,268)	1,599,928
Operating expenses	(250,645)	(94,512)	(47,420)	(21,204)	(234,271)	–	(648,052)
Inter-segment operating expenses	(132,490)	(62,306)	(9,925)	(17,047)	(28,500)	250,268	–
Operating profit before provisions	274,911	300,099	103,758	101,705	171,403	–	951,876
Charge for bad and doubtful debt	(20,780)	(297,850)	59	–	–	–	(318,571)
Operating profit	254,131	2,249	103,817	101,705	171,403	–	633,305
Net loss on disposal of tangible fixed assets							(1,999)
Net profit on disposal of held-to- maturity securities							10,433
Provision on held-to-maturity securities and investment securities							(5,694)
Profit from ordinary activities before taxation							636,045
Taxation							(53,383)
Profit from ordinary activities after taxation							582,662
Minority interests							(50,521)
Profit attributable to shareholders							532,141
Depreciation for the year	14,279	5,491	1,618	1,212	39,452	–	62,052
Segment assets	13,258,698	21,513,503	652,600	22,210,296	–	(4,451,011)	53,184,086
Unallocated assets							3,473,743
Total assets							56,657,829
Segment liabilities	27,615,205	15,909,232	280,425	2,647,000	–	(3,941,448)	42,510,414
Unallocated liabilities							8,121,869
Total liabilities							50,632,283
Capital expenditure incurred during the year	24,093	2,121	4,034	1,930	35,114	–	67,292

10. SEGMENT REPORTING *(continued)*

(b) Geographical segments

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.

2001

	Hong Kong HK\$'000	Mainland China HK\$'000	USA HK\$'000	Inter- segment elimination HK\$'000	Consolidated HK\$'000
Operating income from external customers	1,722,594	7	66,835	–	1,789,436
Total assets	58,092,046	32,614	3,385,335	(2,082,694)	59,427,301
Capital expenditure incurred during the year	75,015	24	3,695	–	78,734

2000

	Hong Kong HK\$'000	Mainland China HK\$'000	USA HK\$'000	Inter- segment elimination HK\$'000	Consolidated HK\$'000
Operating income from external customers	1,528,491	10	71,427	–	1,599,928
Total assets	55,232,546	1,129	3,555,128	(2,130,974)	56,657,829
Capital expenditure incurred during the year	66,394	719	179	–	67,292

11. CASH AND SHORT-TERM FUNDS

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Cash and balances with banks and other financial institutions	477,225	380,823	403,775	372,125
Money at call and short notice	5,296,503	7,095,295	5,296,503	6,885,540
Treasury bills (including Exchange Fund Bills)	1,136,770	228,405	1,136,770	228,405
	6,910,498	7,704,523	6,837,048	7,486,070

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

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

	The Group and the Bank	
	2001 HK\$'000	2000 HK\$'000
Held-to-maturity securities	497,379	228,405
Other investments in securities	639,391	–
	1,136,770	228,405
Unlisted and issued by central governments and central banks	1,136,770	228,405

The maturity profile of 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	
	2001 HK\$'000	2000 HK\$'000
3 months or less but not repayable on demand	399,032	228,405
1 year or less but over 3 months	737,738	–
	1,136,770	228,405

12. TRADE BILLS LESS PROVISIONS

The Group and the Bank		
	2001	2000
	HK\$'000	HK\$'000
Trade bills	227,135	291,323
Specific provisions for bad and doubtful debts (note 16)	(979)	(21)
General provisions for bad and doubtful debts (note 16)	(2,224)	(3,244)
	223,932	288,058

13. CERTIFICATES OF DEPOSIT

The Group		The Bank	
	2001	2000	2001
	HK\$'000	HK\$'000	HK\$'000
Certificates of deposit	2,948,033	4,258,256	2,915,803

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	
	2001	2000	2001
	HK\$'000	HK\$'000	HK\$'000
3 months or less but not repayable on demand	1,041,802	199,995	1,041,802
1 year or less but over 3 months	1,642,194	661,887	1,609,964
5 years or less but over 1 year	264,037	3,195,479	264,037
After 5 years	–	200,895	–
	2,948,033	4,258,256	2,915,803

14. OTHER INVESTMENTS IN SECURITIES

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Debt securities				
Listed in Hong Kong	14,849	–	14,849	–
Listed outside Hong Kong	918,361	18,243	918,361	–
Unlisted	460,622	925,343	427,473	891,343
	1,393,832	943,586	1,360,683	891,343
Equity securities				
Listed in Hong Kong	5,766	9,751	5,316	7,650
Listed outside Hong Kong	7,742	7,904	–	–
Unlisted	86,761	124,887	84,232	80,489
	100,269	142,542	89,548	88,139
	1,494,101	1,086,128	1,450,231	979,482
Issued by:				
Banks and other financial institutions	1,065,859	625,079	1,058,163	616,739
Corporate entities	94,882	348,229	60,795	252,010
Public sector entities	333,360	112,820	331,273	110,733
	1,494,101	1,086,128	1,450,231	979,482

14. OTHER INVESTMENTS IN SECURITIES *(continued)*

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Market value of listed securities				
Debt securities	933,210	18,243	933,210	–
Equity securities	13,508	17,655	5,316	7,650
	946,718	35,898	938,526	7,650

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	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
5 years or less but over 1 year	884,861	388,758	872,861	348,515
After 5 years	508,971	554,828	487,822	542,828
	1,393,832	943,586	1,360,683	891,343

15. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS LESS PROVISIONS

(a) Advances to customers and other accounts

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Advances to customers (note 15(d))	32,454,727	31,925,836	32,080,073	30,807,364
Specific provisions for bad and doubtful debts (note 16)	(305,980)	(499,955)	(262,911)	(364,007)
General provisions for bad and doubtful debts (note 16)	(368,878)	(351,027)	(363,348)	(304,527)
	31,779,869	31,074,854	31,453,814	30,138,830
Advances to banks and other financial institutions (note 15(d))	95,692	580,987	95,692	24,013
Accrued interest and other accounts	1,825,697	2,065,842	1,685,406	1,858,090
	33,701,258	33,721,683	33,234,912	32,020,933

15. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS LESS PROVISIONS *(continued)***(b) Finance leases transactions**

At 31 December 2001, the total minimum lease payments receivable under finance leases transactions, and their present values are as follows:

	The Group and the Bank		
	2001		
	Present value of the minimum lease payments HK\$'000	Interest income relating to future periods HK\$'000	Total minimum lease payments HK\$'000
Within 1 year	237,643	92,262	329,905
After 1 year but within 5 years	392,268	258,740	651,008
After 5 years	1,218,325	449,295	1,667,620
	1,848,236	800,297	2,648,533
Provisions for bad and doubtful debts	(440)		
	1,847,796		

15. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS LESS PROVISIONS *(continued)*

- (c) Non-performing loans are advances on which interest is being placed in suspense or on which interest accrual has ceased.

The Group					
	Gross advances		Pledged	Specific	Interest
	HK\$'000	% *	amount	provisions	suspended
			HK\$'000	made	HK\$'000
				HK\$'000	HK\$'000
As at 31 December 2001	1,471,876	4.54	908,838	278,263	168,227
As at 31 December 2000	1,517,266	4.75	860,073	442,003	223,414
The Bank					
	Gross advances		Pledged	Specific	Interest
	HK\$'000	% *	amount	provisions	suspended
			HK\$'000	made	HK\$'000
				HK\$'000	HK\$'000
As at 31 December 2001	1,217,387	3.79	718,919	240,943	136,076
As at 31 December 2000	1,117,533	3.63	641,373	309,735	184,733

* Based on total advances to customers

There were no advances to banks and other financial institutions in the Group and the Bank on which interest is being placed in suspense or on which interest accrual has ceased as at 31 December 2001 and 31 December 2000, nor were there any specific provisions made for them on these two days.

15. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS LESS PROVISIONS *(continued)*

(d) 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	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Advances to customers:				
Repayable on demand	2,674,651	2,421,999	2,658,604	2,402,861
3 months or less but not repayable on demand	3,041,732	4,223,570	2,990,669	3,999,723
1 year or less but over 3 months	4,204,068	4,575,858	3,990,335	4,148,098
5 years or less but over 1 year	12,017,351	9,042,697	12,005,896	8,762,539
After 5 years	10,058,532	10,877,810	10,024,880	10,814,032
Undated	458,393	783,902	409,689	680,111
	32,454,727	31,925,836	32,080,073	30,807,364
Placements with and advances to banks and other financial institutions:				
1 month or less but not repayable on demand	–	556,974	–	–
3 months or less but over 1 month	–	3,112,324	–	3,112,324
5 years or less but over 1 year	95,692	24,013	95,692	24,013
	95,692	3,693,311	95,692	3,136,337
Representing:				
Placements with banks and other financial institutions maturing between one and twelve months	–	3,112,324	–	3,112,324
Advances to banks and other financial institutions (note 15(a))	95,692	580,987	95,692	24,013
	95,692	3,693,311	95,692	3,136,337

16. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

2001

	The Group			Suspended interest HK\$'000
	Specific HK\$'000	General HK\$'000	Total HK\$'000	
At 1 January	530,860	354,271	885,131	223,414
Amounts written off	(595,242)	–	(595,242)	(200,747)
New provisions charged to the income statement	488,353	61,603	549,956	–
Provisions released back to the income statement	(167,995)	(41,000)	(208,995)	–
Amounts recovered	89,798	–	89,798	–
Transfer between provisions	3,772	(3,772)	–	–
Interest suspended during the year	–	–	–	168,580
Suspended interest recovered	–	–	–	(22,874)
Exchange differences	–	–	–	(146)
At 31 December	349,546	371,102	720,648	168,227
Representing:				
Trade bills (note 12)	979	2,224	3,203	154
Advances to customers (note 15(a))	305,980	368,878	674,858	168,073
Other accounts	42,587	–	42,587	–
	349,546	371,102	720,648	168,227

16. PROVISIONS FOR BAD AND DOUBTFUL DEBTS *(continued)*

2001

	The Bank			Suspended interest HK\$'000
	Specific HK\$'000	General HK\$'000	Total HK\$'000	
At 1 January	392,392	307,771	700,163	184,733
Amounts written off	(480,949)	–	(480,949)	(172,464)
New provisions charged to the income statement	432,606	61,573	494,179	–
Provisions released back to the income statement	(118,736)	–	(118,736)	–
Amounts recovered	74,812	–	74,812	–
Transfer between provisions	3,772	(3,772)	–	–
Interest suspended during the year	–	–	–	139,822
Suspended interest recovered	–	–	–	(15,868)
Exchange differences	–	–	–	(146)
At 31 December	303,897	365,572	669,469	136,077
Representing:				
Trade bills (note 12)	979	2,224	3,203	154
Advances to customers (note 15(a))	262,911	363,348	626,259	135,923
Other accounts	40,007	–	40,007	–
	303,897	365,572	669,469	136,077

16. PROVISIONS FOR BAD AND DOUBTFUL DEBTS *(continued)*

2000

	The Group			Suspended interest
	Specific HK\$'000	General HK\$'000	Total HK\$'000	HK\$'000
At 1 January	726,547	309,817	1,036,364	152,711
Amounts written off	(510,493)	–	(510,493)	(73,022)
New provisions charged to the income statement	419,186	45,444	464,630	–
Provisions released back to the income statement	(146,059)	–	(146,059)	–
Amounts recovered	40,619	–	40,619	–
Transfer between provisions	1,036	(1,036)	–	–
Interest suspended during the year	–	–	–	193,207
Suspended interest recovered	–	–	–	(48,854)
Exchange differences	24	46	70	(628)
At 31 December	530,860	354,271	885,131	223,414
Representing:				
Trade bills (note 12)	21	3,244	3,265	–
Advances to customers (note 15(a))	499,955	351,027	850,982	223,414
Other accounts	30,884	–	30,884	–
	530,860	354,271	885,131	223,414

16. PROVISIONS FOR BAD AND DOUBTFUL DEBTS *(continued)*

2000

	The Bank			Suspended
	Specific HK\$'000	General HK\$'000	Total HK\$'000	interest HK\$'000
At 1 January	552,754	265,309	818,063	127,406
Amounts written off	(404,620)	–	(404,620)	(43,371)
New provisions charged to the income statement	327,636	43,452	371,088	–
Provisions released back to the income statement	(109,333)	–	(109,333)	–
Amounts recovered	24,895	–	24,895	–
Transfer between provisions	1,036	(1,036)	–	–
Interest suspended during the year	–	–	–	143,553
Suspended interest recovered	–	–	–	(42,152)
Exchange differences	24	46	70	(703)
At 31 December	392,392	307,771	700,163	184,733
Representing:				
Trade bills (note 12)	21	3,244	3,265	–
Advances to customers (note 15(a))	364,007	304,527	668,534	184,733
Other accounts	28,364	–	28,364	–
	392,392	307,771	700,163	184,733

17. MATERIAL RELATED PARTY TRANSACTIONS

- (a) 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:

(i) **Income/(expense)**

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Interest income	21,475	25,792	20,200	22,368
Interest expense	(184,588)	(76,307)	(184,479)	(76,307)
Net interest expense	(163,113)	(50,515)	(164,279)	(53,939)

(ii) **Ultimate holding company**

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Cash and short-term funds	–	156,006	–	156,006
Advances to customers and other accounts less provisions	117,124	142,004	117,124	74,753
	117,124	298,010	117,124	230,759
Current, fixed, savings and other deposits of customers	1,324,232	2,983,341	1,324,232	2,983,341
Other accounts and provisions	2,943	16,882	2,943	16,882
	1,327,175	3,000,223	1,327,175	3,000,223

17. MATERIAL RELATED PARTY TRANSACTIONS *(continued)***(iii) Subsidiaries of the ultimate holding company**

	The Group		The Bank	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Advances to customers and other accounts less provisions	62,407	82,336	62,407	82,336
Deposits and balances of banks and other financial institutions	122,647	81,800	122,594	81,800
Current, fixed, savings and other deposits of customers	111,028	2,433,764	111,028	2,433,764
Other accounts and provisions	3,508	21,664	3,508	21,664
	237,183	2,537,228	237,130	2,537,228

- (b)** A subsidiary of the Bank owns 464,200 shares (2000: 464,200 shares) in equity securities listed outside Hong Kong at 31 December 2001. The cost of investment was HK\$18.88 per share (2000: HK\$18.88 per share) totalling HK\$9 million (2000: HK\$9 million). This investment's fair value at the year end was HK\$8 million (2000: HK\$8 million). The subsidiary entered into a put option with a subsidiary of the Bank's ultimate holding company to sell to them these securities. The option has an exercise price of Thai Baht 93.93 per share (HK\$16.58 equivalent) and will expire on 29 April 2002.
- (c)** 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 the Group's borrowers located in the PRC. The balances of these accounts, which amounted to HK\$138 million (2000: HK\$333 million) at 31 December 2001, were held in trust on behalf of the Bank free of any encumbrances.
- (d)** During the year, a subsidiary of the Bank opened a security account in CITIC Securities Company Limited ('CSCL') and appointed China Prime Investment Management Company Limited ('CPIMCL') as the investment manager of the account to invest in the PRC's equity and capital markets. Both CSCL and CPIMCL are subsidiaries of the Bank's ultimate holding company. Fee income payable to CPIMCL was calculated on a profit sharing basis annually. As at 31 December 2001, the subsidiary deposited an amount of HK\$29 million into the account. No fee income was paid or payable for the year ended 31 December 2001.

18. AMOUNTS DUE FROM SUBSIDIARIES

During the year, the Bank entered into transactions with certain subsidiaries in the ordinary course of its banking business. Details of the amounts due from subsidiaries are as follows:

	The Bank	
	2001	2000
	HK\$'000	HK\$'000
Money at call and short notice	509,994	1,488,179
Placements with banks and other financial institutions maturing between one and twelve months	18,389	689,011
Advances to banks and other financial institutions maturing over 12 months	–	25,351
Advances to customers and other accounts less provisions	261,751	18,585
	790,134	2,221,126

19. HELD-TO-MATURITY SECURITIES AND INVESTMENT SECURITIES

	The Group		The Bank	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Held-to-maturity securities				
– debt securities				
Listed in Hong Kong	358,559	79,799	358,559	79,799
Listed outside Hong Kong	4,313,489	449,011	4,237,732	321,196
	4,672,048	528,810	4,596,291	400,995
Unlisted	8,324,923	4,438,603	8,323,450	4,435,646
	12,996,971	4,967,413	12,919,741	4,836,641
Investment securities				
– debt securities				
Unlisted	8,101	486,667	3,417	481,183
Investment securities				
– equity securities				
Unlisted	9,801	9,801	9,801	9,801
	13,014,873	5,463,881	12,932,959	5,327,625

19. HELD-TO-MATURITY SECURITIES AND INVESTMENT SECURITIES *(continued)*

	The Group		The Bank	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Issued by:				
Central governments and central banks	147,969	257,568	147,969	257,568
Banks and other financial institutions	6,528,505	3,951,241	6,528,505	3,951,241
Corporate entities	6,038,146	1,188,509	5,976,417	1,073,238
Public sector entities	294,152	59,662	278,651	44,161
Others	6,101	6,901	1,417	1,417
	13,014,873	5,463,881	12,932,959	5,327,625

	The Group		The Bank	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Market value of listed securities				
Debt securities	4,818,494	495,102	4,757,903	389,286

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	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
3 months or less but not repayable on demand	850,009	485,950	850,009	446,948
1 year or less but over 3 months	2,267,765	838,199	2,232,862	838,199
5 years or less but over 1 year	4,023,111	3,264,593	3,996,285	3,188,324
After five years	5,790,831	378,672	5,775,330	363,171
Undated	73,356	486,666	68,672	481,182
	13,005,072	5,454,080	12,923,158	5,317,824

20. INVESTMENTS IN SUBSIDIARIES, AT COST

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

Name of company	Place of incorporation/ operation	% of shares held	Principal activities	Issued ordinary share capital
Ka Wah International Merchant Finance Limited	Hong Kong	100%	Deposit-taking and provision of finance	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
Ka Wah Credit Limited	Hong Kong	100%	Money lending	HK\$50,000,000
Ka Wah Assets Management Limited	Hong Kong	100%	Assets management	HK\$15,000,000
GCT Management Limited	USA	100%	Property management	No par value
Win Rich Investments Limited*	British Virgin Islands	51%	Investment holding	US\$1
California Investment, LLC**	USA	100%	Property development	US\$5,000,000
KS Investment and Consultancy Limited*	British Virgin Islands/ Hong Kong	100%	Investment and consultancy	US\$1,200,000
CKWB (Cayman Islands) Limited	Cayman Islands/ Hong Kong	100%	Financial vehicle	US\$1
Beijing Kananten Investment Limited*	Mainland China	100%	Investment holding	US\$500,000

All the above 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.

21. INVESTMENTS IN ASSOCIATES

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	120,493	120,493	119,908	119,908
Loan to an associate	6	46	–	–
	120,499	120,539	119,908	119,908

Details of the principal associates are as follows:

Name of company	Place of incorporation/ operation	Principal activities	% of shares held	Nominal value of issued shares
KWR Asset Management Limited	Cook Islands/ Mainland China	Management services	50%	'A' US\$910
			100%	'B' US\$4,545
			0%	'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/ Mainland China	Investment holding	32.6%	US\$46,002

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	
	2001 HK\$'000	2000 HK\$'000
Deposits and balances of banks and other financial institutions	341,172	1,145,995
Current, fixed, savings and other deposits of customers	2,933,787	256,899
Other accounts and provisions	331,630	300,947
	3,606,589	1,703,841

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 2001	284,641	641,646	336,621	1,262,908
Additions	–	2,931	195,379	198,310
Disposals	(12,759)	(1,727)	(71,892)	(86,378)
Transfers	(48,104)	48,104	–	–
Adjustment on revaluation	(48,614)	–	–	(48,614)
At 31 December 2001	175,164	690,954	460,108	1,326,226
The analysis of cost or valuation of the above assets is as follows:				
Cost	–	464,862	460,108	924,970
Valuation				
– 1985	–	76,352	–	76,352
– 1988	–	149,740	–	149,740
– 2001	175,164	–	–	175,164
	175,164	690,954	460,108	1,326,226
Accumulated depreciation:				
At 1 January 2001	52,954	138,799	168,718	360,471
Charge for the year (note 3(c))	–	18,269	47,427	65,696
Written back on disposals	(3,310)	(391)	(61,582)	(65,283)
Transfers	(879)	879	–	–
Adjustment on revaluation	(48,765)	–	–	(48,765)
At 31 December 2001	–	157,556	154,563	312,119
Net book value:				
At 31 December 2001	175,164	533,398	305,545	1,014,107
At 31 December 2000	231,687	502,847	167,903	902,437

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 2001	204,445	615,874	315,877	1,136,196
Additions	–	–	192,044	192,044
Disposals	(12,759)	(1,727)	(71,116)	(85,602)
Transfers	32,092	(32,092)	–	–
Adjustment on revaluation	(48,614)	–	–	(48,614)
At 31 December 2001	175,164	582,055	436,805	1,194,024
The analysis of cost or valuation of the above assets is as follows:				
Cost	–	355,963	436,805	792,768
Valuation				
– 1985	–	76,352	–	76,352
– 1988	–	149,740	–	149,740
– 2001	175,164	–	–	175,164
	175,164	582,055	436,805	1,194,024
Accumulated depreciation:				
At 1 January 2001	43,627	137,342	159,882	340,851
Charge for the year	–	16,011	43,563	59,574
Written back on disposals	(3,310)	(391)	(60,990)	(64,691)
Transfers	8,448	(8,448)	–	–
Adjustment on revaluation	(48,765)	–	–	(48,765)
At 31 December 2001	–	144,514	142,455	286,969
Net book value:				
At 31 December 2001	175,164	437,541	294,350	907,055
At 31 December 2000	160,818	478,532	155,995	795,345

23. TANGIBLE FIXED ASSETS *(continued)*

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

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Freeholds				
Held outside Hong Kong	199,449	220,053	161,402	184,294
Leaseholds				
Held in Hong Kong				
– Long term leases (over 50 years)	298,381	272,212	298,381	272,212
– Medium term leases (10 – 50 years)	208,936	240,083	151,126	180,658
Held outside Hong Kong				
– Medium term leases (10 – 50 years)	1,796	2,186	1,796	2,186
	708,562	734,534	612,705	639,350

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	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Net book value at 31 December	302,040	153,313	302,040	153,313

Investment properties of the Group and the Bank were revalued at 31 December 2001 by independent firms of surveyors, Vigers Hong Kong Ltd and Appraisal Advisory Group, Ltd, on an open market value basis calculated by reference to net rental income allowing for reversionary income potential. The revaluation surplus of HK\$150,786 has been transferred to the investment properties revaluation reserve (note 30(b)).

Vigers Hong Kong Ltd has among its staff Fellows of the Hong Kong Institute of Surveyors. Appraisal Advisory Group, Ltd has among its staff New York State Certified General Real Estate Appraiser.

24. DEPOSITS AND BALANCES OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group and the Bank	
	2001 HK\$'000	2000 HK\$'000
Repayable on demand	65,779	53,671
With agreed maturity dates or periods of notice, by remaining maturity:		
3 months or less but not repayable on demand	3,066,366	335,191
1 year or less but over 3 months	—	30,000
	3,132,145	418,862

25. CURRENT, FIXED, SAVINGS AND OTHER DEPOSITS OF CUSTOMERS

	The Group and the Bank	
	2001 HK\$'000	2000 HK\$'000
Repayable on demand	6,576,888	4,943,923
With agreed maturity dates or periods of notice, by remaining maturity:		
3 months or less but not repayable on demand	33,560,893	38,073,321
1 year or less but over 3 months	2,355,517	1,041,196
5 years or less but over 1 year	20,884	2,566,226
	42,514,182	46,624,666

26. CERTIFICATES OF DEPOSIT ISSUED

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
With agreed maturity dates or periods of notice, by remaining maturity:				
3 months or less but not repayable on demand	135,799	15,601	135,799	15,601
1 year or less but over 3 months	1,036,863	769,447	1,036,863	769,447
5 years or less but over 1 year	2,321,242	868,534	2,321,242	883,534
	3,493,904	1,653,582	3,493,904	1,668,582

27. ISSUED DEBT SECURITIES

	The Group and the Bank	
	2001	2000
	HK\$'000	HK\$'000
With agreed maturity dates or earlier redeemable dates at the holders' option, by remaining maturity:		
1 year or less but over 3 months	373,371	–
5 years or less but over 1 year	–	398,197
	373,371	398,197

28. ASSETS SUBJECT TO SALE AND REPURCHASE TRANSACTIONS

The following assets are subject to sale and repurchase transactions:

	The Group and the Bank	
	2001	2000
	HK\$'000	HK\$'000
Included in held-to-maturity securities and investment securities	2,272,387	–

The following liabilities are subject to sale and repurchase transactions:

	The Group and the Bank	
	2001	2000
	HK\$'000	HK\$'000
Included in deposits and balance of banks and other financial institutions	2,272,387	–

29. SHARE CAPITAL

	2001	2000
	HK\$'000	HK\$'000
Authorised:		
6,000,000,000 (2000: 3,000,000,000) ordinary shares of HK\$1 each	6,000,000	3,000,000
Issued and fully paid:		
At 1 January: 2,594,861,444 (2000: 2,594,461,444) ordinary shares of HK\$1 each	2,594,861	2,594,461
Shares issued under the Option Scheme	650	400
At 31 December: 2,595,511,444 (2000: 2,594,861,444) ordinary shares of HK\$1 each	2,595,511	2,594,861

By an ordinary resolution passed on 10 December 2001, the authorised share capital of the Bank was increased to HK\$6,000,000,000 by the creation of 3,000,000,000 ordinary shares of HK\$1 each ranking pari passu in all respects with the existing ordinary shares of the Bank.

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 per grantee to eligible senior executives and directors.

29. SHARE CAPITAL *(continued)*

Details of the share options granted are as follows:

Date of grant	Subscription price	No. of options	Exercisable period	No. of shares acquired on exercise of options	No. of options lapsed	No. of options outstanding 2001	No. of options outstanding 2000
30 March 1995	HK\$1.00	15,000,000	30 March 1995 to 29 March 2005	11,800,000	3,000,000	200,000	200,000
10 April 1996	HK\$1.00	1,361,000	11 April 1996 to 29 March 2005	862,000	375,000	124,000	124,000
8 May 1997	HK\$1.00	1,186,500	9 May 1997 to 29 March 2005	511,625	421,875	253,000	253,000
6 May 1998	HK\$1.00	1,427,448	7 May 1998 to 29 March 2005	35,145	1,002,375	389,928	389,928
16 April 1999	HK\$1.68	2,450,000	6 August 1999 to 29 March 2005	1,250,000	–	1,200,000	1,350,000
17 August 1999	HK\$2.30	19,600,000	31 October 1999 to 29 March 2005	700,000	2,000,000	16,900,000	19,200,000
29 February 2000	HK\$2.044	2,000,000	18 January 2002 to 29 March 2005	–	–	2,000,000	2,000,000
16 March 2000	HK\$1.896	1,200,000	16 March 2001 to 29 March 2005	200,000	–	1,000,000	1,200,000
28 March 2000	HK\$1.824	1,700,000	31 March 2000 to 29 March 2005	–	–	1,700,000	1,700,000
19 May 2000	HK\$1.57	2,000,000	26 April 2002 to 29 March 2005	–	–	2,000,000	2,000,000
27 June 2000	HK\$1.744	1,000,000	5 June 2002 to 29 March 2005	–	–	1,000,000	1,000,000
10 August 2000	HK\$2.28	700,000	11 August 2001 to 29 March 2005	–	–	700,000	700,000
23 August 2000	HK\$2.296	200,000	24 August 2001 to 29 March 2005	–	–	200,000	200,000
5 December 2000	HK\$1.812	2,300,000	22 October 2001 to 29 March 2005	–	–	2,300,000	2,300,000
26 March 2001	HK\$1.824	300,000	27 March 2002 to 29 March 2005	–	–	300,000	–

30. RESERVES

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
(a) Share premium				
At 1 January	1,425,542	1,425,026	1,419,542	1,419,026
Share premium on shares issued during the year	671	516	671	516
At 31 December	1,426,213	1,425,542	1,420,213	1,419,542
(b) Investment property revaluation reserve				
At 1 January	–	–	–	–
Revaluation surplus on investment properties	151	–	151	–
At 31 December	151	–	151	–
(c) Other property revaluation reserve				
At 1 January and 31 December	11,945	11,945	11,945	11,945
(d) Capital reserves				
At 1 January and 31 December	37,500	37,500	–	–
(e) General reserve				
At 1 January and 31 December	100,000	100,000	100,000	100,000
(f) Exchange differences				
At 1 January	322	191	–	–
Current year	(1)	131	–	–
At 31 December	321	322	–	–

30. RESERVES (continued)

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
(g) Retained profits				
At 1 January				
– as previously reported	1,543,267	1,192,766	791,197	510,508
– prior year adjustment in respect of dividend proposed	129,743	25,945	129,743	25,945
– as restated	1,673,010	1,218,711	920,940	536,453
Dividends approved in respect of the previous year	(129,743)	(25,945)	(129,743)	(25,945)
Profit for the year	616,628	532,141	1,097,152	462,329
Dividends declared in respect of the current year	(77,859)	(51,897)	(77,859)	(51,897)
At 31 December	2,082,036	1,673,010	1,810,490	920,940
Total reserves	3,658,166	3,248,319	3,342,799	2,452,427

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

31. LOAN CAPITAL

Loan capital of face value and carrying amount of HK\$2,340 million (US\$300 million) represents 7.625% subordinated notes qualifying as tier 2 capital were issued on 5 July 2001 by CKWB (Cayman Islands) Ltd, a single purpose wholly-owned finance subsidiary of the Bank. The Bank unconditionally and irrevocably guarantees all amounts payable under the notes. The notes will mature on 5 July 2011.

32. 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	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Direct credit substitutes	1,696,088	609,289	1,696,088	711,692
Transaction-related contingencies	39,365	63,060	39,365	63,060
Trade-related contingencies	1,047,237	820,910	1,047,237	820,910
Other commitments:				
– with an original maturity of under 1 year or which are unconditionally cancellable	8,247,308	7,403,679	8,247,308	7,403,679
– with an original maturity of 1 year and over	271,258	387,652	271,258	387,652
	11,301,256	9,284,590	11,301,256	9,386,993

The above amounts include the following guarantees:

- (i) guarantees for credit facilities granted by third parties to certain subsidiaries amounting to HK\$40 million as at 31 December 2001 (2000: HK\$40 million).

32. OFF-BALANCE SHEET EXPOSURES *(continued)*

(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						
	2001			2000		
	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000
Exchange rate contracts						
Forwards	292,271	1,397,797	1,690,068	320,801	559,576	880,377
Swaps	–	105,852,873	105,852,873	–	42,189,304	42,189,304
Interest rate contracts						
Swaps	–	10,994,794	10,994,794	–	510,918	510,918
Equity contracts						
Options	33,840	7,696	41,536	–	7,904	7,904
	326,111	118,253,160	118,579,271	320,801	43,267,702	43,588,503
The Bank						
	2001			2000		
	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000
Exchange rate contracts						
Forwards	292,271	1,397,797	1,690,068	320,801	559,576	880,377
Swaps	–	105,852,873	105,852,873	–	42,189,304	42,189,304
Interest rate contracts						
Swaps	–	10,994,794	10,994,794	–	432,917	432,917
	292,271	118,245,464	118,537,735	320,801	43,181,797	43,502,598

32. OFF-BALANCE SHEET EXPOSURES *(continued)*

- (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				
	2001		2000	
	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Contingent liabilities and commitments	N/A	1,246,090	N/A	830,773
Exchange rate contracts	231,642	261,706	123,912	115,474
Interest rate contracts	256,673	63,909	24,805	5,799
Equity contracts	3,661	2,002	–	–
	491,976	1,573,707	148,717	952,046

The Bank				
	2001		2000	
	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Contingent liabilities and commitments	N/A	1,246,090	N/A	933,176
Exchange rate contracts	231,642	261,706	123,912	115,474
Interest rate contracts	258,136	64,201	24,805	5,760
	489,778	1,571,997	148,717	1,054,410

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 Hong Kong 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.

32. OFF-BALANCE SHEET EXPOSURES *(continued)*

(c) *(continued)*

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 outstanding at 31 December not provided for in the financial statements were as follows:

	The Group		The Bank	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Authorised and contracted for	8,960	126,252	8,960	126,252
Authorised but not contracted for	–	5,343	–	1,443
	8,960	131,595	8,960	127,695

(e) Lease commitments

At 31 December 2001, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Bank	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Premises				
Within one year	38,287	41,878	35,241	39,971
After one year but within five years	35,027	37,082	38,755	38,684
After five years	–	–	288	1,403
	73,314	78,960	74,284	80,058
Equipment				
Within one year	727	178	727	97
After one year but within five years	1,168	466	1,168	168
	1,895	644	1,895	265

The Group leases a number of properties and items of equipment under operating leases. The leases typically run for an initial period of two to four years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

33. RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION TO NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
Profit from ordinary activities before taxation	685,719	636,045
Provisions for bad and doubtful debts	430,759	359,190
Dividend received from associates	(7,207)	(7,379)
Loss on disposal of tangible fixed assets	765	1,999
Profit on disposal of held-to-maturity securities	(515)	(10,433)
Provision made for diminution in value of held-to-maturity securities and investment securities	3,337	5,694
Amortisation of expenses on issue of certificates of deposit	4,649	2,644
Depreciation	65,696	62,052
Dividend income on equity investment securities	(3,184)	(1,000)
Net cash inflow from trading activities	1,180,019	1,048,812
Decrease in placements with banks and other financial institutions (repayable beyond three months)	–	923,693
Increase in treasury bills (repayable beyond three months)	(688,242)	(19,608)
Decrease/(increase) in trade bills	64,188	(214,365)
Decrease/(increase) in certificates of deposit	1,310,223	(2,566,881)
Increase in other investments in securities	(407,973)	(994,151)
Increase in advances to customers	(1,176,520)	(5,045,034)
Decrease in advances to banks and other financial institutions	485,295	58,830
Decrease/(increase) in interest receivable and other assets	219,634	(242,658)
Increase in certificates of deposit issued	1,840,322	199,218
Decrease in debt securities issued	–	(98,320)
(Decrease)/increase in interest payable and other liabilities	(412,400)	321,043
Increase in deposits and balances of banks and other financial institutions (repayable beyond three months)	26,400	30,000
(Decrease)/increase in deposits of customers	(4,110,484)	6,896,501
Exchange differences	(24,827)	(18,385)
Net cash (outflow)/inflow from operating activities	(1,694,365)	278,695

34. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	2001 Share capital (including share premium) HK\$'000	2000 Share capital (including share premium) HK\$'000
At 1 January	4,020,403	4,019,487
Cash inflow from issue of share capital	1,321	916
At 31 December	4,021,724	4,020,403

35. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2001 HK\$'000	2000 HK\$'000
Cash and balances with banks and other financial institutions	477,225	380,823
Money at call and short notice	5,296,503	7,095,295
Treasury bills repayable within three months	399,032	178,909
Placements with banks and other financial institutions repayable within three months	–	3,112,324
Deposit and balances of banks and other financial institutions repayable within three months	(3,075,745)	(388,862)
	3,097,015	10,378,489

36. STAFF RETIREMENT SCHEME

The Group has a defined contribution provident fund scheme ('the Retirement Scheme') under which it contributes 10% of the employees' basic salaries. The Retirement Scheme is funded by the Bank and certain subsidiaries and covers all permanent full-time employees of the Group. No employee contributions are required. Contributions forfeited by leavers 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 Retirement Scheme's members.

In light of the introduction of the Mandatory Provident Fund ('MPF') Scheme, the Group has restructured its retirement arrangements to comply with the MPF legislation. The Group has secured MPF exemption status for the Retirement Scheme and participated in an approved MPF scheme with AIA Company (Trustee) Ltd effective 1 December 2000 to provide scheme choice to both existing and new employees. Mandatory benefits are being provided under the MPF Scheme.

During the year, the Group and the Bank contributed approximately HK\$29 million (2000: HK\$21 million) (note 3(c)) and HK\$27 million (2000: HK\$20 million) respectively to these schemes.

37. LOANS TO OFFICERS

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

	2001	2000
	HK\$'000	HK\$'000
Balance outstanding at 31 December		
– By the Bank	14,880	38,168
Maximum aggregate amount outstanding during the year		
– By the Bank	16,716	48,969

38. ASSETS PLEDGED AS SECURITY

On 31 December 2001, certificates of deposit amounting to HK\$252 million and money at call and short notice amounting to HK\$2 million (2000: certificates of deposit amounting to HK\$172 million and investment securities amounting to HK\$97 million) have been pledged to the Office of the Comptroller of Currency in the USA as statutory deposits.

39. POST BALANCE SHEET EVENTS

- (a) On 7 January 2002, the Bank issued 432,585,240 shares of HK\$1.00 each for cash at HK\$1.68 per share to shareholders in the proportion of one share for every six existing shares held. The net proceeds of the issue, amounting to approximately HK\$720 million, were intended for the expansion of the Bank's capital base. The new shares rank pari passu with the existing shares.
- (b) On 31 October 2001, the Bank entered into a Sale and Purchase Agreement with The HKCB Bank Holding Company Limited to acquire the entire issued share capital of The Hongkong Chinese Bank Limited ('HKCB') for an aggregate consideration of HK\$4,200 million comprising cash consideration of HK\$3,360 million plus HK\$840 million in principal amount of Certificates of Deposit. HKCB is a licensed bank incorporated in Hong Kong. The acquisition was completed on 17 January 2002 and HKCB has become a wholly-owned subsidiary of the Bank thereafter.
- (c) On 17 January 2002, HKCB declared and paid an interim dividend totalling HK\$550 million for the year ending 31 December 2002.
- (d) On 17 January 2002, the Bank entered into a Funded Participation Agreement with HKCB. Under the agreement, the Bank sold a portfolio of performing loans to HKCB without recourse. The loans were sold at net book value as at 16 January 2002 which amounted to HK\$3,673 million. HKCB also appointed the Bank to be its agent to administer the loans and agreed to pay to the Bank an annual administration fee payable in advance on the 17th day of January of every year calculated at 0.5% of the outstanding principal amount of the loans as at the date of payment.
- (e) On 4 February 2002, the Bank reorganised the shareholding structures of its two non-wholly owned subsidiaries, Ka Wah Capital Limited ('KWC') and Cargary Securities Limited ('CS'). A new intermediate holding company, namely CITIC Capital Markets Holdings Limited ('CCMH'), was formed to take up the entire issued share capital of KWC and CS. CCMH is 51% indirectly owned by the Bank and 49% indirectly owned by the Bank's ultimate holding company. The reorganisation was implemented by way of share transfer and no cash consideration was involved.

40. COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of changes in accounting policies (note 9).

41. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 December 2001 to be China International Trust and Investment Corporation, which is incorporated in the People's Republic of China.

42. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 28 February 2002.

Unaudited Supplementary Financial Information

as at 31 December 2001 (Expressed in Hong Kong dollars)

(A) CAPITAL ADEQUACY AND LIQUIDITY RATIOS

	2001	2000
Unadjusted capital adequacy ratio as at 31 December	20.81%	17.10%
Adjusted capital adequacy ratio as at 31 December	20.11%	16.70%
Average liquidity ratio for the year	51.19%	42.08%

The unadjusted capital adequacy ratio is computed on the consolidated basis covering the Bank and certain of its subsidiaries as required by the Hong Kong Monetary Authority ('HKMA') for its regulatory purposes, and is in accordance with the Third Schedule to the Hong Kong Banking Ordinance.

The adjusted capital adequacy ratio which takes into account market risks as at the balance sheet date is computed in accordance with the Guideline 'Maintenance of Adequate Capital Against Market Risks' issued by the HKMA and on the same consolidated basis as for unadjusted capital adequacy ratio.

The average liquidity is computed on the consolidated basis covering the Bank and certain of its subsidiaries as required by the HKMA for its regulatory purposes, and is in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

(B) CAPITAL BASE AFTER DEDUCTIONS AS AT 31 DECEMBER

	2001 HK\$'000	2000 HK\$'000
Core capital		
Paid up ordinary share capital	2,595,511	2,594,861
Share premium	1,426,213	1,425,542
Other reserves	2,045,377	1,590,297
Minority interests	92,760	78,710
Total core capital	6,159,861	5,689,410
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	11,945	11,945
General provisions for doubtful debts	371,102	354,271
Term subordinated debt	2,340,094	–
Total eligible supplementary capital	2,723,141	366,216
Total capital base before deductions	8,883,002	6,055,626
Deductions from total capital base	(199,733)	(264,018)
Total capital base after deductions	8,683,269	5,791,608

(C) SEGMENTAL INFORMATION**By geographical area**

	2001				
	Profit*	Total assets	Total liabilities	Operating income	Contingent liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	660,833	58,092,046	49,338,120	1,724,252	10,627,753
Mainland China	(1,599)	32,614	32,824	7	–
USA	26,485	3,385,335	3,167,326	67,789	673,503
Less: Inter-segment items	–	(2,082,694)	(1,906,589)	(2,612)	–
	685,719	59,427,301	50,631,681	1,789,436	11,301,256

	2000				
	Profit*	Total assets	Total liabilities	Operating income	Contingent liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	611,391	55,232,546	49,368,079	1,530,148	8,705,576
Mainland China	(2,318)	1,129	3,573	10	–
USA	26,972	3,555,128	3,365,180	72,424	579,014
Less: Inter-segment items	–	(2,130,974)	(1,974,806)	(2,654)	–
	636,045	56,657,829	50,762,026	1,599,928	9,284,590

(C) SEGMENTAL INFORMATION *(continued)*

By geographical area *(continued)*

The above 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.

	2001			2000		
	Advances to customers	Overdue loans	Non- performing loans	Advances to customers	Overdue loans	Non- performing loans
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	23,549,074	1,164,956	1,151,172	23,012,873	698,788	534,644
Mainland China	7,510,586	492,490	307,793	7,324,803	950,407	957,552
USA	1,377,585	12,904	12,911	1,395,649	4,847	25,070
Others	17,482	–	–	192,511	–	–
	32,454,727	1,670,350	1,471,876	31,925,836	1,654,042	1,517,266

The above geographical analysis has been classified by the location of the counterparties after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

* This refers to profit from ordinary activities before taxation.

(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.

	Gross advances to customers	
	2001 HK\$'000	2000 HK\$'000
Loans for use in Hong Kong		
<i>Industrial, commercial and financial</i>		
– Property development	394,281	635,940
– Property investment	3,260,385	3,004,415
– Financial concerns	1,368,391	1,970,085
– Stockbrokers	16,058	384
– Wholesale and retail trade	2,017,801	2,367,404
– Manufacturing	2,906,121	1,957,305
– Transport and transport equipment	3,694,141	1,482,624
– Others	2,793,213	3,677,965
<i>Individuals</i>		
– Loans for the purchase of flats under the Home Ownership Scheme and Private Sector Participation Scheme	14,919	20,724
– Loans for the purchase of other residential properties	10,490,479	11,099,557
– Credit card advances	41,691	–
– Others	1,330,647	966,775
Trade finance	1,564,905	2,400,267
Loans for use outside Hong Kong	2,561,695	2,342,391
	32,454,727	31,925,836

Approximately HK\$22,688 million (2000: HK\$20,781 million) of the above advances are backed by collateral.

(E) CURRENCY RISK

The information concerning the foreign currency exposures of the Group arising from trading, non-trading and structural positions is disclosed as follows. The net options position reported is calculated in accordance with the methods set out in the banking return 'Foreign Currency Position' (MA(BS)6) submitted to the HKMA.

Equivalent in HK\$'000	2001			2000		
	US dollars	Renminbi	Total	US dollars	Renminbi	Total
Spot assets	20,604,336	333,179	20,937,515	25,898,004	184,954	26,082,958
Spot liabilities	(21,250,359)	(9,836)	(21,260,195)	(22,033,592)	(27,386)	(22,060,978)
Forward purchases	61,313,741	–	61,313,741	25,200,257	–	25,200,257
Forward sales	(58,781,329)	–	(58,781,329)	(28,730,228)	–	(28,730,228)
Net long position	1,886,389	323,343	2,209,732	334,441	157,568	492,009

(F) CROSS-BORDER CLAIMS

		Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
As at 31 December 2001					
1	Asia and Pacific excluding Hong Kong	4,065,400	153,687	1,785,290	6,004,377
	of which Australia	1,656,043	–	–	1,656,043
	of which Mainland China	1,662,188	153,687	1,510,783	3,326,658
2	Western Europe	9,162,848	–	3,878,748	13,041,596
	of which Germany	2,387,371	–	392,774	2,780,145
	of which United Kingdom	3,579,340	–	1,376,473	4,955,813
As at 31 December 2000					
1	Asia and Pacific excluding Hong Kong	6,322,974	267,585	1,729,164	8,319,723
	of which Australia	2,371,349	–	–	2,371,349
	of which Mainland China	2,937,053	267,585	1,727,838	4,932,476
2	Western Europe	9,302,282	–	617,502	9,919,784
	of which Germany	3,209,417	–	253,955	3,463,372
	of which United Kingdom	2,469,227	–	155,042	2,624,269

The information of cross-border claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

(G) OVERDUE AND RESCHEDULED ASSETS**(i) 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:

As at 31 December 2001						
	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
Overdue for						
– 6 months or less but over 3 months	114,202	0.35	85,434	57,697	56,505	19,305
– 1 year or less but over 6 months	357,341	1.10	424,189	275,925	81,416	52,991
– over 1 year	1,198,807	3.70	841,029	738,677	460,130	197,933
Total	1,670,350	5.15	1,350,652	1,072,299	598,051	270,229

As at 31 December 2000						
	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
Overdue for						
– 6 months or less but over 3 months	301,442	0.94	327,792	268,061	33,381	9,196
– 1 year or less but over 6 months	232,717	0.73	364,339	177,243	55,474	33,260
– over 1 year	1,119,883	3.51	642,211	556,677	563,206	365,576
Total	1,654,042	5.18	1,334,342	1,001,981	652,061	408,032

* Based on total advances to customers

(G) OVERDUE AND RESCHEDULED ASSETS *(continued)*

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

Overdue advances to customers *(continued)*

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 31 December 2001 and 31 December 2000.

Reconciliation

	2001 HK\$'000	2000 HK\$'000
Advances to customers overdue for more than 3 months	1,670,350	1,654,042
Less: Amount overdue for more than 3 months and on which interest is still being accrued	(260,969)	(250,418)
Add: Amount overdue for 3 months or less and on which interest is being placed in suspense or on which interest accrual has ceased	4,311	4,926
Add: Rescheduled advances on which interest is being placed in suspense or on which interest accrual has ceased	51,624	91,469
Add: Amount not overdue and on which interest is being placed in suspense or on which interest accrual has ceased	6,560	17,247
Advances to customers on which interest is being placed in suspense or on which interest accrual has ceased	1,471,876	1,517,266

(ii) Other overdue assets

	2001		2000	
	Accrued interest HK\$'000	Other assets* HK\$'000	Accrued interest HK\$'000	Other assets* HK\$'000
Other assets overdue for				
– 6 months or less but over 3 months	1,758	–	6,787	–
– 1 year or less but over 6 months	12,658	2,826	6,808	–
– Over 1 year	41,735	–	84,192	–
	56,151	2,826	97,787	–

* Other assets refer to trade bills and receivables

(G) OVERDUE AND RESCHEDULED ASSETS *(continued)***(iii) Rescheduled loans**

	As at 31 December 2001		As at 31 December 2000	
	HK\$'000	% *	HK\$'000	% *
Rescheduled loans	89,665	0.28	238,068	0.75

* Based on total advances to customers

There were no advances to banks and other financial institutions which were rescheduled as at 31 December 2001 and 31 December 2000.

(H) RISK MANAGEMENT

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. Our internal auditors also perform regular audits to assess the adequacy and effectiveness of controls for major risk areas and 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 manual, which was approved by the Board of Directors, defines the credit approval hierarchy and delegation of approval authority, the credit extension criteria, the credit approval and monitoring processes, the internal credit risk rating system, the loan classification system and provisioning policy. It also takes into account the requirements of the Hong Kong Banking Ordinance and the guidelines issued by the HKMA from time to time.

The credit risk management function is independent of business units and is overseen by the Credit Committee which comprises the Chief Executive Officer, Group Credit Head and other members of senior management.

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

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 derivative is disclosed in note 32.

(H) RISK MANAGEMENT *(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 51.19% for 2001 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 (e.g. 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 unadjusted capital adequacy ratio and adjusted capital adequacy ratio of 20.81% and 20.11% respectively as at 31 December 2001 are 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

2001 was a watershed in terms of market risk management. The Group planned well ahead for its invigorated participation in the financial markets. Our new treasury system went live in the second quarter of 2001 to meet the more demanding risk reporting requirements.

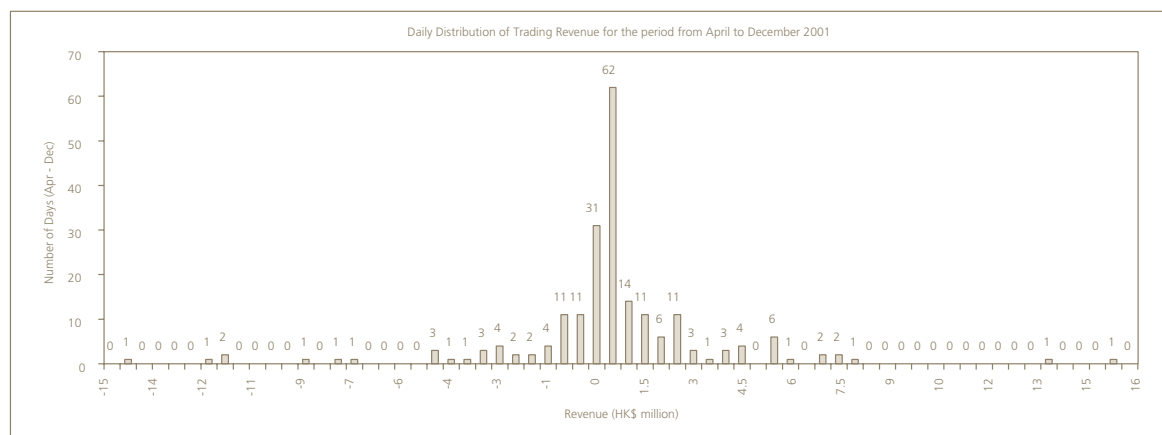
The Group's surplus fund was inflated by dwindling loan demand and the proceeds from the subordinated debt prior to acquisition of HKCB. This excess cash had a significant impact on our yield enhancement. In order to boost returns, the Group placed these excess funds in investment vehicles. Equipped with the new treasury system and a conscientious risk management concept, we effectively managed the burgeoning market risk exposures.

Market risk is ensured once the Group takes positions in markets such as foreign exchange, interest rates, securities and equities. Such positions are driven by execution of customer orders, proprietary trading and hedging. The Group's maximum market risk exposures are set by the Assets and Liabilities Committee ('ALCO'). Exposures are monitored and reported to management regularly.

The average daily revenue generated from the trading activities for the period was HK\$209,000 and the standard deviation was HK\$1,815,000.

(H) RISK MANAGEMENT *(continued)***(iv) Market risk management** *(continued)*

An analysis of the Group's trading revenue is shown below:



This shows a maximum daily loss of HK\$14,692,000 with 82 out of 209 days showing losses. The most frequent result was a daily revenue of HK\$1,000 to HK\$500,000 with 62 occurrences. The highest daily revenue was HK\$15,539,000.

Foreign Exchange Risk Management

The Group's foreign exchange risk stems from foreign exchange position taking, commercial dealing, investment in foreign currency securities and overseas branches. All foreign exchange positions are managed by the Treasury Department within limits approved by the ALCO. The average daily foreign exchange trading profit for the period was HK\$105,000.

Interest Rate Risk Management

The Group's interest rate risk exists in both the bank book and the trading book. Although the risk entailed in the former is managed on a monthly basis, the latter is managed daily. The Group is in the process of revising its interest rate risk policy in order to eventually manage both books on a more frequent basis. The average daily revenue incurred in the trading book for the period was HK\$98,000.

Equity Price Risk Management

Decisions in equity trading are made by a six-member committee. A strict position and a stop loss limit are established.

In September 2001, the Group commenced trading in equities on a limited scale, primarily confined to selected blue and red chip shares. The daily revenue earned from this trading activity for the period was HK\$133,000.



中信嘉華銀行
CITIC
KA WAH
BANK

232 Des Voeux Road Central, Hong Kong
Tel : (852) 2545 7131
Fax : (852) 2541 7029
info@citickawahbank.com
www.citickawahbank.com