



中信嘉華銀行
CITIC
KA WAH
BANK

二零零一年度中期報告
2001 INTERIM REPORT

紮根中港 穩步向前

Steady progress on solid foundation

Consolidated Profit and Loss Account*	44
Consolidated Statement of Recognised Gains and Losses*	45
Consolidated Balance Sheet*	46
Condensed Consolidated Cash Flow Statement*	47
Notes to the Interim Financial Report*	48
Supplementary Financial Information*	67
Supplementary Information	77
Independent Review Report	80
Management Discussion and Analysis	81

* Unaudited

The Board of Directors of CITIC Ka Wah Bank Limited (the 'Bank') is pleased to announce the unaudited consolidated results of the Bank and its subsidiaries (the 'Group') for the six months ended 30 June 2001 and the Group's state of affairs as at that date together with the restated comparative figures as follows:

Consolidated Profit and Loss Account – Unaudited

The Group			
Six months ended 30 June			
	2001 Unaudited	2000 Unaudited	Variance
Note	HK\$'000	HK\$'000	%
Interest income	1,850,175	1,768,311	4.63
Interest expense	(1,268,773)	(1,226,303)	3.46
Net interest income	581,402	542,008	7.27
Fees and commission income	177,512	141,314	25.62
Fees and commission expense	(10,714)	(8,440)	26.94
Other revenue	6,476	8,216	(21.18)
Other operating income	92,050	60,131	53.08
Non-interest income	265,324	201,221	31.86
Total operating income	846,726	743,229	13.93
Operating expenses	(335,920)	(275,216)	22.06
Operating profit before provisions	510,806	468,013	9.14
Charge for bad and doubtful debts	(142,552)	(197,612)	(27.86)
Operating profit	368,254	270,401	36.19
Net profit on disposal of tangible fixed assets	4,999	1,416	
(Provision)/ write back on held-to-maturity securities and investment securities	(11,178)	1,046	
Profit from ordinary activities before taxation	362,075	272,863	32.69
Taxation	(33,206)	(9,931)	
Profit from ordinary activities after taxation	328,869	262,932	25.08
Minority interests	(22,358)	(31,750)	(29.58)
Profit attributable to shareholders	306,511	231,182	32.58
Interim dividends declared HK\$0.03 (2000: HK\$0.02) per share	77,859	51,889	
Earnings per share			
Basic	11.81¢	8.91¢	
Diluted	11.80¢	8.91¢	

The notes on pages 48 to 66 form part of these accounts.

Consolidated Statement of Recognised Gains and Losses – Unaudited

The Group	
Six months ended 30 June	
2001 Unaudited	2000 Unaudited
HK\$'000	HK\$'000
Exchange differences on translation of the accounts of foreign entities	115
0	
Net gains not recognised in the profit and loss account	115
Net profit for the period	231,182
306,511	
Total recognised gains and losses	231,297
306,511	

The notes on pages 48 to 66 form part of these accounts.

Consolidated Balance Sheet – Unaudited

		The Group	
		As at 30 June 2001 Unaudited	As at 31 December 2000 Audited
	Note	HK\$'000	HK\$'000
Assets			
Cash and short-term funds	7	7,402,873	7,704,523
Placements with banks and other financial institutions maturing between one and twelve months	8	156,006	3,112,324
Trade bills less provisions		294,924	288,058
Certificates of deposit	9	3,594,850	4,258,256
Other investments in securities	10	1,654,149	1,086,128
Advances to customers and other accounts less provisions	11	33,928,134	33,721,683
Held-to-maturity securities and investment securities	12	11,031,322	5,463,881
Investments in associates		120,499	120,539
Tangible fixed assets		884,602	902,437
Total assets		59,067,359	56,657,829
Liabilities			
Deposits and balances of banks and other financial institutions	13	1,366,394	418,862
Current, fixed, savings and other deposits of customers	14	46,948,724	46,624,666
Certificates of deposit issued	15	2,891,901	1,653,582
Issued debt securities	16	357,987	398,197
Other accounts and provisions		1,276,739	1,536,976
Total liabilities		52,841,745	50,632,283
Capital resources			
Share capital		2,595,311	2,594,861
Reserves	17	3,425,579	3,248,319
Shareholders' funds		6,020,890	5,843,180
Minority interests		204,724	182,366
Total capital resources		6,225,614	6,025,546
Total liabilities and capital resources		59,067,359	56,657,829

The notes on pages 48 to 66 form part of these accounts.

Condensed Consolidated Cash Flow Statement – Unaudited

		The Group	
		Six months ended 30 June	
		2001 Unaudited HK\$'000	2000 Unaudited HK\$'000
Net cash inflow/(outflow) from operating activities		1,005,827	(3,721,234)
Net cash outflow from returns on investments and servicing of finance		(128,663)	(22,607)
Total tax refunded/(paid)		6,617	(859)
Net cash outflow from investing activities		(5,596,573)	(3,197,580)
Net cash outflow before financing		(4,712,792)	(6,942,280)
Net cash inflow/(outflow) from financing		942	(4)
Decrease in cash and cash equivalents		(4,711,850)	(6,942,284)
Cash and cash equivalents at 1 January		10,378,489	13,009,505
Cash and cash equivalents at 30 June		5,666,639	6,067,221

The notes on pages 48 to 66 form part of these accounts.

Notes to the Interim Financial Report – Unaudited

(1) Basis of preparation

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, and fully complied with the recommendations in the Guideline on 'Interim Financial Disclosure by Locally Incorporated Authorised Institutions' issued by the Hong Kong Monetary Authority ('HKMA') and Statement of Standard Accounting Practice ('SSAP') 25 'Interim Financial Reporting' issued by the Hong Kong Society of Accountants ('HKSA').

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 'Engagements to Review Interim Financial Reports', issued by the HKSA. KPMG's independent review report to the Board of Directors is included on page 80.

The financial information relating to the financial year ended 31 December 2000 included in the interim financial report does not constitute the Bank's statutory accounts for that financial year but is based on those accounts after adjustment of the dividends proposed or declared as mentioned below. Statutory accounts for the year ended 31 December 2000 are available from the Bank's registered office. The auditors expressed an unqualified opinion on those accounts in their report dated 12 February 2001.

This interim financial report is prepared on a basis consistent with the accounting policies adopted in the 2000 statutory accounts except that the dividends proposed or declared after the balance sheet date are no longer recognised as part of liabilities of the Group, but treated as part of its shareholders' funds, in order to comply with revised SSAP 9 'Events After the Balance Sheet Date' issued by the HKSA in January 2001. The accounting policy has been applied retrospectively in accordance with the revised SSAP 2 'Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies' issued by the HKSA. As a result, liabilities as of 30 June 2001 and 31 December 2000 have been reduced by HK\$78 million and HK\$130 million respectively. Prior period adjustments on the opening balances of retained earnings of the Group were put through accordingly.

Notes to the Interim Financial Report – Unaudited (cont'd)

(2) Segmental information

(a) By geographical area

The Group			
Six months ended 30 June			
	2001 *Profit/ (Loss) HK\$'000	2000 *Profit/ (Loss) HK\$'000	2001 Operating income HK\$'000
Hong Kong	926,748	259,312	1,395,642
Mainland China	(368)	0	2
United States of America	15,703	13,551	36,246
Less: Intra-group items	(580,008)	0	(585,164)
	362,075	272,863	846,726
			743,229

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.

(b) By class of business

The Group			
Six months ended 30 June			
	2001 *Profit HK\$'000	2000 *Profit HK\$'000	2001 Operating income HK\$'000
Commercial banking	860,097	186,726	1,322,116
Investment banking	62,914	28,516	73,820
Securities business	13,180	2,273	21,918
Other business	5,892	55,348	14,036
Less: Intra-group items	(580,008)	0	(585,164)
	362,075	272,863	846,726
			743,229

* Profit from ordinary activities before taxation

Notes to the Interim Financial Report – Unaudited (cont'd)

(3) (a) Other operating income

The Group	
Six months ended 30 June	
2001	2000
HK\$'000	HK\$'000
Net gain on other investments in securities	31,465
Net gain arising from dealing in foreign currencies	13,873
Net gain arising from other dealing activities	0
Others	14,793
92,050	60,131

(b) Operating expenses

Operating expenses included depreciation amounting to HK\$33,685,000 (2000: HK\$30,390,000).

(4) Taxation

Taxation in the consolidated profit and loss account represents:

The Group	
Six months ended 30 June	
2001	2000
HK\$'000	HK\$'000
Provision for Hong Kong Profits Tax	10,320
Overseas taxation	(389)
33,206	9,931

The provision for Hong Kong Profits Tax is based on an estimate of the assessable profits for the six months ended 30 June 2001 at 16% (2000: 16%). Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the countries in which they operate.

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

Notes to the Interim Financial Report – Unaudited (cont'd)

(5) Interim dividends

The following dividends were declared by the Board of Directors after 30 June 2001 and have not been provided for in the interim financial report.

Interim dividends declared of HK\$0.03
(2000: HK\$0.02) per share

The Group	
Six months ended 30 June	
2001	2000
HK\$'000	HK\$'000
77,859	51,889

(6) Basic and diluted earnings per share

- (a) The calculation of basic earnings per share for the six months ended 30 June 2001 is based on profit attributable to shareholders of HK\$306,511,000 (2000: HK\$231,182,000) and on the weighted average of 2,594,873,875 (2000: 2,594,461,444) ordinary shares in issue during the period.
- (b) The calculation of diluted earnings per share for the six months ended 30 June 2001 is based on profit attributable to shareholders of HK\$306,511,000 (2000: HK\$231,182,000) and on the weighted average of 2,598,123,114 (2000: 2,594,898,076) after adjusting for the effects of all dilutive potential ordinary shares.

(7) Cash and short-term funds

Cash and balances with banks and
other financial institutions
Money at call and short notice
Treasury bills (including Exchange Fund Bills)

The Group	
As at 30 June 2001	As at 31 December 2000
HK\$'000	HK\$'000
787,099	380,823
5,236,061	7,095,295
1,379,713	228,405
7,402,873	7,704,523

Notes to the Interim Financial Report – Unaudited (cont'd)

(7) Cash and short-term funds (cont'd)

- (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	
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
Held-to-maturity securities – unlisted	496,394	228,405
Other investments in securities – unlisted	883,319	0
	1,379,713	228,405
Issued by:		
Central governments and central banks	1,379,713	228,405

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

	The Group	
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
3 months or less but not repayable on demand	816,922	228,405
1 year or less but over 3 months	562,791	0
	1,379,713	228,405

Notes to the Interim Financial Report – Unaudited (cont'd)

(8) Placements with banks and other financial institutions maturing between one and twelve months

The maturity profile of placements with banks and other financial institutions analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

The Group	
As at 30 June 2001	As at 31 December 2000
HK\$'000	HK\$'000
3 months or less but over 1 month	
156,006	3,112,324

(9) Certificates of deposit

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

The Group	
As at 30 June 2001	As at 31 December 2000
HK\$'000	HK\$'000
3 months or less but not repayable on demand	
1 year or less but over 3 months	
5 years or less but over 1 year	
After 5 years	
134,451	199,995
2,514,691	661,887
945,708	3,195,479
0	200,895
3,594,850	4,258,256

Notes to the Interim Financial Report – Unaudited (cont'd)

(10) Other investments in securities

The Group	
As at 30 June 2001	As at 31 December 2000
HK\$'000	HK\$'000
Debt securities	
Listed in Hong Kong at market value	0
Listed outside Hong Kong at market value	18,243
Unlisted	925,343
1,566,455	943,586
Equity securities	
Listed in Hong Kong at market value	9,751
Listed outside Hong Kong at market value	7,904
Unlisted	124,887
87,694	142,542
Total	1,086,128
Issued by:	
Banks and other financial institutions	625,079
Corporate entities	348,229
Public sector entities	112,820
1,654,149	1,086,128

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	
As at 30 June 2001	As at 31 December 2000
HK\$'000	HK\$'000
5 years or less but over 1 year	388,758
After 5 years	554,828
1,566,455	943,586

Notes to the Interim Financial Report – Unaudited (cont'd)

(11) Advances to customers and other accounts less provisions

The Group		
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
Advances to customers	32,800,215	31,925,836
Advances to banks and other financial institutions	19,853	580,987
Accrued interest and other accounts	2,034,055	2,065,842
Provisions for bad and doubtful debts		
– Specific	(563,692)	(499,955)
– General	(362,297)	(351,027)
	33,928,134	33,721,683

- (a) The maturity profile of advances to customers included above and analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

The Group		
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
Repayable on demand	2,501,640	2,421,999
3 months or less but not repayable on demand	3,411,631	4,223,570
1 year or less but over 3 months	3,446,552	4,575,858
5 years or less but over 1 year	11,465,292	9,042,697
After 5 years	10,941,193	10,877,810
Undated	1,033,907	783,902
	32,800,215	31,925,836

Notes to the Interim Financial Report – Unaudited (cont'd)

(11) Advances to customers and other accounts less provisions (cont'd)

- (b) The maturity profile of advances to banks and other financial institutions included above and analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

The Group	
As at 30 June 2001	As at 31 December 2000
HK\$'000	HK\$'000
1 month or less but not repayable on demand	556,974
5 years or less but over 1 year	24,013
19,853	580,987

- (c) Loans on which interest is placed in suspense

The Group					
Total amount of loans on which interest is placed in suspense		Pledge amount for loans on which interest is placed in suspense	Specific provisions in respect of loans on which interest is placed in suspense	Amount of interest placed in suspense	
HK\$'000	%*	HK\$'000	HK\$'000	HK\$'000	
As at 30 June 2001	1,802,558	5.50	1,025,386	554,955	269,145
As at 31 December 2000	1,517,266	4.75	860,073	442,003	223,414

* Based on total advances to customers

There were no advances to banks and other financial institutions on which interest is being placed in suspense or on which interest accrual has ceased as at 30 June 2001 and 31 December 2000, nor were there any specific provisions made for them on these two days.

Notes to the Interim Financial Report – Unaudited (cont'd)

(12) Held-to-maturity securities and investment securities

	The Group	
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
Held-to-maturity securities – debt securities		
Listed in Hong Kong	359,809	79,799
Listed outside Hong Kong	1,667,648	449,011
	2,027,457	528,810
Unlisted	3,621,093	4,438,603
	5,648,550	4,967,413
Investment securities – debt securities		
Listed outside Hong Kong	3,923,948	0
Unlisted	1,449,023	486,667
	5,372,971	486,667
Investment securities – equity securities		
Unlisted	9,801	9,801
Total	11,031,322	5,463,881
Issued by:		
Central governments and central banks	186,959	257,568
Banks and other financial institutions	5,196,527	3,951,241
Corporate entities	5,301,317	1,188,509
Public sector entities	339,618	59,662
Others	6,901	6,901
	11,031,322	5,463,881
Market value of listed securities		
Debt securities	6,098,688	495,102

Notes to the Interim Financial Report – Unaudited (cont'd)

(12) Held-to-maturity securities and investment securities (cont'd)

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		
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
3 months or less but not repayable on demand	139,970	485,950
1 year or less but over 3 months	2,392,431	838,199
5 years or less but over 1 year	2,311,973	3,264,593
After 5 years	804,176	378,671
Undated	5,372,971	486,667
	11,021,521	5,454,080

(13) Deposits and balances of banks and other financial institutions

The Group		
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
Repayable on demand	91,411	53,671
With agreed maturity dates or periods of notice, by remaining maturity:		
3 months or less but not repayable on demand	1,274,983	335,191
1 year or less but over 3 months	0	30,000
	1,366,394	418,862

Notes to the Interim Financial Report – Unaudited (cont'd)

(14) Current, fixed, savings and other deposits of customers

The Group	
As at 30 June 2001	As at 31 December 2000
HK\$'000	HK\$'000
Repayable on demand	
With agreed maturity dates or periods of notice, by remaining maturity:	
3 months or less but not repayable on demand	4,943,923
1 year or less but over 3 months	38,073,321
5 years or less but over 1 year	1,041,196
	2,566,226
46,948,724	46,624,666

(15) Certificates of deposit issued

The Group	
As at 30 June 2001	As at 31 December 2000
HK\$'000	HK\$'000
With agreed maturity dates or periods of notice, by remaining maturity:	
3 months or less but not repayable on demand	15,601
1 year or less but over 3 months	769,447
5 years or less but over 1 year	868,534
2,891,901	1,653,582

(16) Issued debt securities

The Group	
As at 30 June 2001	As at 31 December 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	0
5 years or less but over 1 year	398,197
357,987	398,197

Notes to the Interim Financial Report – Unaudited (cont'd)

(17) Reserves

The Group						
As at 30 June 2001						
Share premium	Property revaluation reserve	Capital reserve	General reserve	Exchange revaluation reserve	Retained profits Restated	Total Restated
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2001						
As previously reported	1,425,542	11,945	37,500	100,000	322	1,543,267
Prior year adjustment in respect of dividends	0	0	0	0	0	129,743
As restated	1,425,542	11,945	37,500	100,000	322	1,673,010
Share premium on shares issued during the period	492	0	0	0	0	492
Dividend payment	0	0	0	0	0	(129,743)
Profit for the period	0	0	0	0	0	306,511
At 30 June 2001	1,426,034	11,945	37,500	100,000	322	1,849,778

The Group						
As at 31 December 2000						
Share premium	Property revaluation reserve	Capital reserve	General reserve	Exchange revaluation reserve	Retained profits Restated	Total Restated
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2000						
As previously reported	1,425,026	11,945	37,500	100,000	191	1,192,766
Prior year adjustment in respect of dividends	0	0	0	0	0	25,945
As restated	1,425,026	11,945	37,500	100,000	191	1,218,711
Share premium on shares issued during the year	520	0	0	0	0	520
Share issue expenses	(4)	0	0	0	0	(4)
Exchange adjustments	0	0	0	0	131	131
Dividend payment	0	0	0	0	0	(77,842)
Profit for the year	0	0	0	0	0	532,141
At 31 December 2000	1,425,542	11,945	37,500	100,000	322	1,673,010

Notes to the Interim Financial Report – Unaudited (cont'd)

(18) Off-balance sheet exposures

(a) Contingent liabilities and commitments

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

	The Group	
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
Direct credit substitutes	872,186	609,289
Transaction-related contingencies	54,832	63,060
Trade-related contingencies	817,871	820,910
Other commitments:		
with an original maturity of under 1 year or		
which are unconditionally cancellable	6,675,318	7,403,679
with an original maturity of 1 year and over	395,121	387,652
	8,815,328	9,284,590

The above amounts include the guarantees for credit facilities granted by third parties to certain subsidiaries amounting to HK\$40 million as at 30 June 2001 (31 December 2000: HK\$40 million).

Notes to the Interim Financial Report – Unaudited (cont'd)

(18) Off-balance sheet exposures (cont'd)

(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 derivatives entered into by:

	The Group					
	As at 30 June 2001			As at 31 December 2000		
	Trading	Hedging	Total	Trading	Hedging	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts						
Forwards	361,427	623,688	985,115	320,801	559,576	880,377
Swaps	0	69,088,097	69,088,097	0	42,189,304	42,189,304
Interest rate contracts						
Swaps	0	3,014,818	3,014,818	0	510,918	510,918
Forward rate agreement	0	100,000	100,000	0	0	0
Equity contracts						
Options	0	41,348	41,348	0	7,904	7,904
	361,427	72,867,951	73,229,378	320,801	43,267,702	43,588,503

Notes to the Interim Financial Report – Unaudited (cont'd)

(18) Off-balance sheet exposures (cont'd)

- (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			
	As at 30 June 2001		As at 31 December 2000	
	Replacement cost	Credit risk weighted amount	Replacement cost	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments	N/A	891,344	N/A	830,773
Exchange rate contracts	41,823	148,820	123,912	115,474
Interest rate contracts	189,749	44,766	24,805	5,799
Equity contracts	3,931	2,003	0	0
	235,503	1,086,933	148,717	952,046

(19) Assets subject to sale and repurchase transactions

The following assets are subject to sale and repurchase transactions:

	The Group	
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
	898,575	0
Held-to-maturity securities and investment securities		

Notes to the Interim Financial Report – Unaudited (cont'd)

(19) Assets subject to sale and repurchase transactions (cont'd)

The following liabilities are subject to sale and repurchase transactions:

	The Group	
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
Deposits and balances of banks and other financial institutions	898,575	0

(20) Material related party transactions

During the period, 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 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 period and balances outstanding as at 30 June 2001 is set out below:

(a) Income/(expense)

	The Group	
	Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
Interest income	4,893	13,678
Interest expense	(146,047)	(21,724)
Net interest expense	(141,154)	(8,046)

Notes to the Interim Financial Report – Unaudited (cont’d)

(20) Material related party transactions (cont’d)

(b) Ultimate holding company

	The Group	
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
Cash and short-term funds	0	156,006
Advances to customers and other accounts less provisions	199,733	142,004
	199,733	298,010
Current, fixed, savings and other deposits of customers	1,881,370	2,983,341
Other accounts and provisions	29,960	16,882
	1,911,330	3,000,223

Notes to the Interim Financial Report – Unaudited (cont'd)

(20) Material related party transactions (cont'd)

(c) Subsidiaries of the ultimate holding company

	The Group	
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
Advances to customers and other accounts less provisions	64,740	82,336

	The Group	
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
Deposits and balances of banks and other financial institutions	153,346	81,800
Current, fixed, savings and other deposits of customers	2,198,878	2,433,764
Other accounts and provisions	44,991	21,664
	2,397,215	2,537,228

- (d) A subsidiary of the Bank owns 464,200 shares (31 December 2000: 464,200 shares) in equity securities listed outside Hong Kong at 30 June 2001. The cost of investment was HK\$18.88 per share (31 December 2000: HK\$18.88 per share) totalling HK\$9 million (31 December 2000: HK\$9 million). This investment's fair value at 30 June 2000 was HK\$8 million (31 December 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\$16.17 equivalent) and will expire on 29 April 2002.
- (e) A subsidiary of the ultimate holding company has opened Hong Kong dollar and Renminbi bank accounts in another subsidiary bank of the ultimate holding company in the PRC to receive repayments from the Group's borrowers located in the PRC. The balances of these accounts, which amounted to HK\$359 million (31 December 2000: HK\$333 million) at 30 June 2001, were held in trust on behalf of the Bank free of any encumbrances.

Supplementary Financial Information – Unaudited

(1) Summary of financial position

		The Group			
		As at		As at	
		30 June		31 December	
		2001	Variance	2000	Variance
	HK\$'000	HK\$'000	%	HK\$'000	%
Loans and advances	33,114,992	30,978,169	6.90	32,798,146	0.97
Loans loss provision	925,989	1,141,276	(18.86)	854,247	8.40
Total assets	59,067,359	49,626,274	19.02	56,657,829	4.25
Total interest earning assets	56,099,341	47,225,096	18.79	53,932,408	4.02
Total deposits	50,198,612	41,860,740	19.92	48,676,445	3.13
Shareholders' funds	6,020,890	5,593,182	7.65	5,843,180	3.04
<u>Financial ratios</u>					
Capital adequacy – unadjusted*	15.12%	18.09%		17.10%	
Capital adequacy – adjusted**	14.69%	18.08%		16.70%	
Average liquidity*	52.21%	37.60%		42.08%	
Loans to deposits	65.97%	74.00%		67.38%	
Loans to total assets	56.06%	62.42%		57.89%	
General provision coverage	1.11%	1.08%		1.10%	
Property lending	47.72%	46.78%		48.28%	
Cost to income	39.67%	37.03%		40.51%	
Return on assets	1.14%	1.07%		1.11%	
Return on shareholders' funds	10.33%	8.42%		9.48%	

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

** 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.

Supplementary Financial Information – Unaudited (cont'd)

(2) Capital base after deductions

	The Group	
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
Core capital		
Paid up ordinary share capital	2,595,311	2,594,861
Reserves	3,231,563	3,015,839
Minority interests	90,422	78,710
Total core capital	5,917,296	5,689,410
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	11,945	11,945
General provisions for doubtful debts	362,297	354,271
Total eligible supplementary capital	374,242	366,216
Total capital base before deductions	6,291,538	6,055,626
Deductions from total capital base	(268,224)	(264,018)
Total capital base after deductions	6,023,314	5,791,608

Supplementary Financial Information – Unaudited (cont'd)

(3) Advances to customers – By industry sectors

	The Group				
	As at 30 June 2001		As at 31 December 2000		Variance
	HK\$'000	%	HK\$'000	%	%
Loans for use in Hong Kong					
<i>Industrial, commercial and financial</i>					
– property development	547,729	1.67	635,940	1.99	(13.87)
– property investment	3,427,425	10.45	3,004,415	9.41	14.08
– financial concerns	2,213,683	6.75	1,970,085	6.17	12.36
– stockbrokers	88,850	0.27	384	0.00	
– wholesale and retail trade	2,128,936	6.49	2,367,404	7.42	(10.07)
– manufacturing	2,573,651	7.85	1,957,305	6.13	31.49
– transport and transport equipment	2,584,952	7.88	1,482,624	4.64	74.35
– others	2,526,549	7.70	3,677,965	11.52	(31.31)
<i>Individuals</i>					
– loans for the purchase of flats under the Home Ownership Scheme and Private Sector Participation Scheme	17,776	0.06	20,724	0.06	(14.23)
– loans for the purchase of other residential properties	11,048,228	33.68	11,099,557	34.77	(0.46)
– others	1,252,701	3.82	966,775	3.03	29.58
Trade finance	2,228,302	6.79	2,400,267	7.52	(7.16)
Loans for use outside Hong Kong	2,161,433	6.59	2,342,391	7.34	(7.73)
TOTAL	32,800,215	100.00	31,925,836	100.00	2.74

Supplementary Financial Information – Unaudited (cont'd)

(4) Segmental information

(a) By geographical area

	The Group					
	As at 30 June 2001			As at 31 December 2000		
	Total assets	Total liabilities	Contingent liabilities	Total assets	Total liabilities	Contingent liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	60,438,985	53,735,696	8,217,410	59,726,664	53,218,941	8,807,979
Mainland China	1,267	4,120	0	1,129	3,573	0
United States of America	3,124,665	2,919,720	637,918	3,555,128	3,365,180	579,014
Less: Intra-group items	(4,497,558)	(3,817,791)	(40,000)	(6,625,092)	(5,955,411)	(102,403)
	59,067,359	52,841,745	8,815,328	56,657,829	50,632,283	9,284,590

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 booking the assets or liabilities.

	The Group					
	As at 30 June 2001			As at 31 December 2000		
	Advances to customers	Overdue loan	Non-performing loan	Advances to customers	Overdue loan	Non-performing loan
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	24,147,025	1,206,664	813,097	23,012,873	698,788	534,644
Mainland China	7,146,581	918,110	951,725	7,324,803	950,407	957,552
United States of America	1,330,267	12,986	37,736	1,395,649	4,847	25,070
Others	176,342	0	0	192,511	0	0
	32,800,215	2,137,760	1,802,558	31,925,836	1,654,042	1,517,266

The above geographical analysis has been classified by the location of the counterparties.

Supplementary Financial Information – Unaudited (cont'd)

(4) Segmental information (cont'd)

(b) By class of business

	The Group	
	As at 30 June 2001	As at 31 December 2000
	Total assets	Total assets
	HK\$'000	HK\$'000
Commercial banking	61,390,072	59,215,686
Investment banking	1,767,725	3,697,446
Securities business	286,548	117,363
Other business	120,572	252,426
Less: Intra-group items	(4,497,558)	(6,625,092)
	59,067,359	56,657,829

(5) Overdue loans and advances

		The Group			
		As at 30 June 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 customer
	HK\$'000 %*	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Three to six months overdue	349,971 1.07	508,076	286,308	63,662	20,181
Six months to one year overdue	599,812 1.83	438,490	343,732	256,080	52,593
Over one year overdue	1,187,977 3.62	725,959	634,655	553,322	395,502
TOTAL	2,137,760 6.52	1,672,525	1,264,695	873,064	468,276

Supplementary Financial Information – Unaudited (cont'd)

(5) Overdue loans and advances (cont'd)

The Group						
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
Three to six months overdue	301,442	0.94	327,792	268,061	33,381	9,196
Six months to one year overdue	232,717	0.73	364,339	177,243	55,474	33,260
Over one year overdue	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

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 30 June 2001 and 31 December 2000.

Supplementary Financial Information – Unaudited (cont'd)

(6) Reconciliation of overdue loans and advances to loans on which interest is placed in suspense

	The Group	
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
Advances to customers overdue for more than 3 months	2,137,760	1,654,042
Less: Amount overdue for more than 3 months and on which interest is still being accrued	(494,445)	(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	40,174	4,926
Add: Rescheduled advances on which interest is being placed in suspense or on which interest accrual has ceased	101,343	91,469
Add: Amount not overdue and on which interest is being placed in suspense or on which interest accrual has ceased	17,726	17,247
Advances to customers on which interest is being placed in suspense or on which interest accrual has ceased	1,802,558	1,517,266

(7) Rescheduled loans

	The Group	
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
	%*	%*
Rescheduled loans	154,912	238,068
	0.47	0.75

* Based on total advances to customers

There were no advances to banks and other financial institutions which were rescheduled as at 30 June 2001 and 31 December 2000.

Supplementary Financial Information – Unaudited (cont'd)

(8) Foreign currency exposures

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

Equivalent in HK\$'000	The Group					
	As at 30 June 2001			As at 31 December 2000		
	US dollars	Renminbi	Total	US dollars	Renminbi	Total
Spot assets	40,313,604	336,492	40,650,096	25,898,004	184,954	26,082,958
Spot liabilities	(42,601,449)	(44,676)	(42,646,125)	(22,033,592)	(27,386)	(22,060,978)
Forward purchases	127,749,282	0	127,749,282	25,200,257	0	25,200,257
Forward sales	(124,715,464)	0	(124,715,464)	(28,730,228)	0	(28,730,228)
Net long position	745,973	291,816	1,037,789	334,441	157,568	492,009

(9) Management of risks

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

(a) Credit risk management

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

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

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

Supplementary Financial Information – Unaudited (cont'd)

(9) Management of risks (cont'd)

(a) Credit risk management (cont'd)

An analysis of advances to customers by industry sectors is disclosed in note 3 above.

Unlike on-balance sheet instruments, where the credit risk is generally represented by the principal value, the credit risk for derivatives is the positive replacement cost. The credit risk exposure for derivatives is disclosed in note 18.

(b) 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 1 above, the Group's average liquidity ratio of 52.21% for the six months ended 30 June 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 deposit with maturities of between one to six years. Short-term funds are also borrowed from the interbank market.

(c) 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 1 above, the Group's adjusted capital adequacy ratio incorporating market risk of 14.69% and unadjusted capital adequacy ratio of 15.12% as at 30 June 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.

Supplementary Financial Information – Unaudited (cont'd)

(9) Management of risks (cont'd)

(d) Market risk management

The Group continues to exercise discipline in managing its trading portfolios with the objective of averting excessive exposures resulting from any potentially adverse market development. While scrupulously enforcing the internal guidelines on exposures, we regularly review policies pertinent to market risk management. Besides time analyses, reporting and control of exposures, we adopt a forward looking strategy of performing proactive simulation of various possible scenarios and recommend feasible hedging measures accordingly.

In addition, the Group is developing new risk management and control systems, including the Value at Risk ('VaR') system for monitoring the Group's risk exposures. The Group believes that these systems and policies will enable it to monitor and control more effectively risks inherent in its banking operations.

Supplementary Information

Interim dividends

The Directors are pleased to declare an interim dividend of HK\$0.03 (2000: HK\$0.02) per share. The interim dividends will be paid on Wednesday, 12 September 2001 to all shareholders whose names are on the Register of Members of the Bank on Monday, 10 September 2001.

Closure of Register of Members

The Register of Members of the Bank will be closed from Thursday, 6 September 2001 to Monday, 10 September 2001, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividends, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged for registration with the Bank's Share Registrars, Central Registration Hong Kong Limited, at Shops 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Wednesday, 5 September 2001.

Directors' interests

At 30 June 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 Securities (Disclosure of Interests) Ordinance (the 'SDIO') were as follows:

Name of Director	Ordinary Shares of HK\$1 each			
	Personal interests	Family interests	Other interests	Total interests
Cai Zhongzhi	/	/	3,000,000	3,000,000
Daniel H Lam	183,970	118,089	/	302,059
Zhao Shengbiao	1,200,000	/	614,114	1,814,114
Kelvin Lo Wing Yat	/	/	2,000,000	2,000,000
Doreen Chan Hui Dor Lam	/	/	2,000,000	2,000,000
Kenneth Kong Siu Chee	/	/	2,000,000	2,000,000

Supplementary Information (cont'd)

At 30 June 2001, the following Directors of the Bank had the following respective interests in options to subscribe for Ordinary Shares of the Bank granted pursuant to the Bank's Senior Executive Share Option Scheme. Particulars were as follows:

Name of Director	No. of shares in the options outstanding as at 30/06/2001	Date granted	Period during which options exercisable	Price per share to be paid on exercise of options
Cai Zhongzhi	3,000,000	17/08/1999	24/02/2000 – 29/03/2005	HK\$2.30
Zhao Shengbiao	87,000	10/04/1996	11/04/1996 – 29/03/2005	HK\$1.00
	210,875	08/05/1997	09/05/1997 – 29/03/2005	HK\$1.00
	316,239	06/05/1998	07/05/1998 – 29/03/2005	HK\$1.00
Kelvin Lo Wing Yat	2,000,000	17/08/1999	31/10/1999 – 29/03/2005	HK\$2.30
Doreen Chan Hui Dor Lam	2,000,000	17/08/1999	20/04/2000- 29/03/2005	HK\$2.30
Kenneth Kong Siu Chee	2,000,000	17/08/1999	18/05/2001- 29/03/2005	HK\$2.30

Save as mentioned above, none of the Directors of the Bank or their associates had any beneficial interests in the share capital of the Bank and its associated companies (as defined in the SDIO) as at 30 June 2001.

Substantial shareholder

At 30 June 2001, the Register of Substantial Shareholders maintained under Section 16(1) of the SDIO shows that China International Trust and Investment Corporation beneficially owned 1,433,317,209 Ordinary Shares of HK\$1 each in the share capital of the Bank representing approximately 55.23% of the then issued share capital of the Bank.

Save as disclosed, there was no person known to the Directors who at 30 June 2001 was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Bank or any of its associated companies (as defined in the SDIO).

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

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

Supplementary Information (cont'd)

Compliance with the Code of Best Practice

The Bank has complied throughout the six months period with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited, except that there is no specific term for the appointment of independent non-executive directors and that the Bank is in the process of forming an Audit Committee in order to comply fully with paragraph 14 of the aforementioned Code.

Independent Review Report



TO THE BOARD OF DIRECTORS OF CITIC KA WAH BANK LIMITED

Introduction

We have been instructed by the Bank to review the interim financial report set out on pages 44 to 66.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 'Interim Financial Reporting' issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the Directors.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 'Engagements to Review Interim Financial Reports' issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2001.

KPMG

Certified Public Accountants

Hong Kong, 3 August 2001

Management Discussion and Analysis

1. Operating environment and performance

Hong Kong banking industry still operated in a challenging and difficult environment in the first half of 2001. The industry was pressurized by problems including sluggish loan demand across-the-board, high unemployment rate, declining loan yield as a result of severe industry competition, and the prime rate undergoing five reductions during the first half. Despite the testing operating environment, the Bank succeeded in registering a respective growth of 0.97%, 3.13% and 4.25% in total loans, total deposits and total assets in the first half as compared to the year-end of 2000. At 30 June 2001, total loans, total deposits and total assets amounted to HK\$33.1 billion, HK\$50.2 billion and HK\$59.1 billion respectively.

The slow down of loan growth was also attributed to the Bank's conscious efforts in improving its asset quality, in exercising stringent credit scrutiny over newly booked loans and in maintaining interest margins at a reasonable level.

The Bank adopted various strategies to cope with the difficult operating environment, such as active restructuring of its loan portfolio, continuous launch of new products and services, stringent control on funding cost and realignment of loans and deposits. As a result, the Bank succeeded in maintaining a growth in its net interest income in the first half of 2001 of 7.27% to HK\$581 million. Net interest margin was at 2.14% in the first half, a fall of 29 and 23 basis points from 2.43% in 2000 and 2.37% in the first half of 2000 respectively.

At the same time, the Bank actively developed non-interest income avenues, focusing on wealth management services including the sale and distribution of unit trust and insurance, bills processing and fees generated from new loan facilities. As a result, net fees and commission income surged by 25.53% during the period. Besides providing a stable source of funding, the Bank successfully capitalized on interest rate trends through various investments. Hence, other operating income reached HK\$92 million, an increase of 53.08% over the HK\$60 million recorded in the corresponding period of last year. Non-interest income rose by 31.86% to HK\$265 million during the period. The satisfactory growth in interest income and non-interest income lifted the Bank's 2001 first half's operating income to HK\$846 million, a rise of HK\$103 million or 13.93%, when versus the HK\$743 million for the first half of 2000.

Management Discussion and Analysis (cont'd)

1. Operating environment and performance (cont'd)

In the first half of 2001, the Bank's operating expenses increased by HK\$61 million, or 22.06%, from HK\$275 million last year to HK\$336 million, largely due to the HK\$47 million increase in staff costs. At the end of June 2001, the total number of employees stood at 1,058, representing a net growth in headcounts of 98 from 30 June 2000. The recruitment of new staff, mostly middle and top management, IT specialists and frontline marketing executives, was necessary for the Bank's business development. During the period, operating profit before provisions amounted to HK\$510 million, an increase of 9.14% over last year's corresponding period of HK\$468 million.

The Bank's problem loans issue was basically under control. In the first half of 2001, loan loss provision fell 27.86% to HK\$142 million. Operating profit reached HK\$368 million, an increase of 36.19% as compared to the same period of last year. Net profit was HK\$307 million, representing an increase of HK\$76 million, or 32.58%, over the HK\$231 million in the corresponding period of 2000.

2. Financial position and subordinated notes issuance

The Bank's financial position remained stable in the first half of 2001, with an average liquidity ratio of 52.21%. At 30 June 2001, the Bank's loans to deposits ratio and unadjusted capital adequacy ratio were at 65.97% and 15.12% respectively. In July 2001, the Bank successfully issued US\$300 million 10-year, non-call 5-year, subordinated debt notes at a coupon of 7.625%. This subordinated debt issuance enables the Bank to better manage its capital more effectively and reduce its overall cost of capital. The funds raised will provide the Bank with the funding for organic growth and possible acquisitions.

3. Problem loans recovery

The Bank resolved a total of HK\$350 million of problem loans in the first half of 2001. The classified exposure at 30 June 2001, including sub-standard, doubtful and loss categories, amounted to HK\$2.32 billion, representing 7.08% of total customer loans and a slight increase over 2000 year-end's 6.45%. Specific provision made against this classified exposure was HK\$560 million, with collateral amounting to HK\$1.46 billion. This represents a coverage ratio of 87.40% and an uncovered exposure of HK\$300 million.

Management Discussion and Analysis (cont'd)

4. Major initiatives for the second half of 2001

a. Revamp core banking system

The Bank is in the process of revamping its core banking system in order to provide an advanced and reliable operating platform for future business development. The first phase of the new system will be launched in September 2001. The Bank will ensure a smooth transition of the systems.

b. Further improve and expand product range

The Bank will launch a series of innovative products and services, including credit cards, in the second half of 2001. The further enhancement and expansion of product range will enable the Bank to provide its customers with a more comprehensive range of quality financial services.

c. Strengthen co-operation with CITIC Group and other major Mainland shareholders

The Bank will further strengthen the business co-operation with other financial members of the CITIC Group, including CITIC Industrial Bank and CITIC Securities, with a view to creating synergy. At the same time, the Bank will strengthen co-operation with other major Mainland shareholders such as China Construction Bank and China Insurance Group.

5. Outlook

CITIC Ka Wah Bank has been operating in Hong Kong for over 70 years. Over the past three years, the Bank adopted the strategy of progressive business development and innovative reforms. This has resulted in great improvement in various areas such as code and system, management quality and profitability. The Bank will continue to capitalize on its competitive advantages, namely its top management which has on average over twenty years of international banking experience. This has led to a continuous improvement in the Bank's management system and professionalism. Furthermore, leveraging on the reputation and background of its parent company, CITIC, as well as the group's presence and extensive network within the Mainland, the Bank is well poised to actively participate in market competition.

Riding on this solid foundation, 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 capitalize on the vast opportunities that arise as a result of China's entry into the World Trade Organization. The Bank will position itself as the bridge for Hong Kong customers to develop businesses and manage their personal finances in the Mainland; the window for Mainland customers to explore worldwide opportunities; and the provider of a full range of financial services.

Management Discussion and Analysis (cont'd)

6. Interest rate deregulation

The Hong Kong banking industry completed its final stage of interest rate deregulation on 3 July 2001. The Bank currently has no plans to change its existing deposit rates structure. It will, however, consider launching tactical deposit campaigns, such as the recent 'high rate fixed deposit' campaign which offered a relatively high fixed deposit rate at 4% to secure longer term funding sources at a reasonable cost. In the future, the Bank will closely monitor market liquidity, fluctuations in market deposit rates, as well as its own capital requirements to determine its deposit rates.

7. New management appointment and change of Directors

On 6 July 2001, the Board of Directors appointed Mr. Chang Zhenming, a Director of the Bank, as President and Chief Executive Officer. The Board firmly believes that given the important positions held by Mr. Chang in CITIC and his nearly twenty years' extensive experience in the finance industry, his new appointment will definitely be beneficial to the further development of the Bank. At the same time, the Board appointed Mrs. Doreen Chan Hui Dor Lam and Mr. Kenneth Kong Siu Chee, both Directors of the Bank, as Alternate Chief Executive Officers.

During the first half of 2001, the Board of Directors appointed Mr. Kong Dan, Mr. Yang Chao, Mr. Chang Zhenming, Mr. Zhang En Zhao, Mrs. Doreen Chan Hui Dor Lam and Mr. Kenneth Kong Siu Chee as Directors of the Bank. Mr. Kong Dan was elected as the Chairman of the Bank on 12 January 2001 while Mr. Ju Weimin was appointed as Director of the Bank effective 12 July 2001. The Board of Directors deeply believes that the broad experience and extensive business connections of these newly appointed Directors will be beneficial to the Bank's business development.

The former Directors, Mr. Wang Xianzhang, Mr. Hong Yuncheng, Mr. Zhang Mingqian, Mr. Brian Tang See King and Mr. Zhou Hanrong had tendered resignations to the Board during the first half of 2001. Mr. Cai Zhongzhi also tendered his resignation as Director of the Bank effective 6 July 2001. The Board would like to take this opportunity to express again its sincere gratitude to each Director for their contribution and guidance to the Bank during their tenure of service.

By Order of the Board
Chang Zhenming
President and Chief Executive Officer

Hong Kong, 3 August 2001

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