

# CITIC KA WAH BANK LIMITED

(Incorporated under the Hong Kong Companies Ordinance)

## ANNOUNCEMENT OF 2002 INTERIM RESULTS

### SUMMARY OF RESULTS

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 2002 together with the comparative figures for the corresponding period in the previous year as follows:-

### CONSOLIDATED INCOME STATEMENT

	<b>The Group</b>		
	<b>Six months ended 30 June</b>		
	<b>2002</b>	<b>2001</b>	
	<b>Unaudited</b>	<b>Unaudited</b>	
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>Variance</b>
			<b>%</b>
Interest income	1,549,137	1,850,175	(16.27)
Interest expense	(695,238)	(1,268,773)	(45.20)
Net interest income	853,899	581,402	46.87
Fees and commission income	188,091	177,512	5.96
Fees and commission expense	(25,326)	(10,714)	136.38
Other revenue	10,442	6,476	61.24
Other operating income	78,249	92,050	(14.99)
Non-interest income	251,456	265,324	(5.23)
Total operating income	1,105,355	846,726	30.54
Operating expenses	(530,892)	(335,920)	58.04
Operating profit before provisions	574,463	510,806	12.46
Charge for bad and doubtful debts	(210,968)	(142,552)	47.99
Operating profit	363,495	368,254	(1.29)
Net (loss) / profit on disposal of tangible fixed assets	(151)	4,999	
Net profit on disposal of subsidiaries and associate	27,303	0	
Share of profits of associates	7,995	0	
Provision on held-to-maturity securities and investment securities	(2,073)	(11,178)	
Profit from ordinary activities before taxation	396,569	362,075	9.53
Tax on profit from ordinary activities (Note 3)			
- Hong Kong	(16,902)	(32,458)	(47.93)
- Overseas	(1,153)	(748)	54.14
- Associates	(1,203)	0	
Profit from ordinary activities after taxation	377,311	328,869	14.73
Minority interests	(1,403)	(22,358)	(93.72)
Profit attributable to shareholders	375,908	306,511	22.64
Interim dividends declared 3 cents (2001: 3 cents) per share	90,956	77,859	
Earnings per share			
Basic (Note 5)	12.46 ¢	11.52 ¢	
Diluted (Note 6)	12.45 ¢	11.51 ¢	

# **CONSOLIDATED BALANCE SHEET**

	<b>The Group</b>	
	<b>As at 30 June 2002 Unaudited HK\$'000</b>	<b>As at 31 December 2001 Audited HK\$'000</b>
<b>Assets</b>		
Cash and short-term funds	8,007,376	6,910,498
Placements with banks and other financial institutions maturing between one and twelve months	164,880	0
Trade bills less provisions	318,209	223,932
Certificates of deposit	1,658,389	2,948,033
Other investments in securities	2,241,921	1,494,101
Advances to customers and other accounts less provisions	44,045,763	33,701,258
Held-to-maturity securities and investment securities	17,939,920	13,014,873
Interests in associates	355,202	120,499
Goodwill (Note 7)	1,300,403	0
Tangible fixed assets	1,768,444	1,014,107
<b>Total assets</b>	<b>77,800,507</b>	<b>59,427,301</b>
<b>Liabilities</b>		
Deposits and balances of banks and other financial institutions	1,384,999	3,132,145
Current, fixed, savings and other deposits of customers	57,421,626	42,514,182
Certificates of deposit issued	6,361,276	3,493,904
Issued debt securities	0	373,371
Other accounts and provisions	1,062,346	1,118,079
<b>Total liabilities</b>	<b>66,230,247</b>	<b>50,631,681</b>
<b>Capital resources</b>		
Share capital	3,031,879	2,595,511
Reserves	4,248,209	3,658,166
Shareholders' funds	7,280,088	6,253,677
Minority interests	0	201,849
Loan capital	4,290,172	2,340,094
<b>Total capital resources</b>	<b>11,570,260</b>	<b>8,795,620</b>
<b>Total liabilities and capital resources</b>	<b>77,800,507</b>	<b>59,427,301</b>

Notes:

- (1) The financial information in this interim results announcement is unaudited and does not constitute statutory financial statements.

The financial information included in this interim results announcement relating to the financial year ended 31 December 2001 does not constitute the Bank's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2001 are available from the Bank's registered office. The external auditors expressed an unqualified opinion on those financial statements in their report dated 28 February 2002.

- (2) In the preparation of the interim results announcement, accounting policies have been applied consistently with that adopted in the 2001 financial statements.
- (3) The provision for Hong Kong Profits Tax is based on an estimate of the assessable profits for the six months ended 30 June 2002 at 16% (2001: 16%). Taxation for overseas branches, subsidiaries and associates are 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 in the foreseeable future.

- (4) 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 utilized for the expansion of the Bank's capital base. The new shares rank pari passu with the existing shares.
- (5) The calculation of basic earnings per share for the six months ended 30 June 2002 is based on profit attributable to shareholders of HK\$375,908,000 (2001: HK\$306,511,000) and on the weighted average of 3,017,076,639 (2001 restated: 2,659,605,002) ordinary shares in issue during the period. The weighted average numbers of shares outstanding for 2001 have been adjusted for the effects of the right issue.
- (6) The calculation of diluted earnings per share for the six months ended 30 June 2002 is based on profit attributable to shareholders of HK\$375,908,000 (2001: HK\$306,511,000) and on the weighted average of 3,020,368,832 (2001 restated: 2,662,935,296) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares. The weighted average numbers of shares outstanding for 2001 have been adjusted for the effects of the right issue.
- (7) 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 Certificate of Deposit. HKCB is a licensed bank incorporated in Hong Kong. The acquisition was completed on 17 January 2002. HKCB has become a wholly-owned subsidiary of the Bank thereafter and its results have been consolidated into these unaudited interim financial statements. Goodwill amounted to HK\$1,333 million was created on consolidation and is to be amortised in not more than 20 years on a straight-line basis.
- (8) 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, China International Trust and Investment Corporation ("CITIC"). The reorganisation was implemented by way of share transfer and no cash consideration was involved.

- (9) On 14 March 2002, the Bank entered into a Share Transfer and Subscription Agreement with CITIC, Truth Worth Limited ("Truth Worth") (a wholly-owned subsidiary of CITIC), CITIC Pacific Limited ("CITIC Pacific"), Dramatic Year Limited ("Dramatic Year") (a wholly-owned subsidiary of the Bank), Forever Glory Holdings Ltd ("Forever Glory") (a subsidiary of CITIC Pacific) and CCMH. Under this agreement, Forever Glory agreed to subscribe for new shares in CCMH for cash consideration of HK\$499,591,837 and Dramatic Year agreed to sell the shares in CCMH to Forever Glory for cash consideration of HK\$10,408,163. Upon completion of the transaction, True Worth, Dramatic Year and Forever Glory will hold 25%, 25% and 50% of the issued share capital of CCMH respectively. The share transfer and subscription was completed on 27 May 2002.

Previously, the results of the associates were included in the consolidated income statement to the extent of dividends received and receivable, providing the dividends were in respect of a period ending on or before the financial statements of the Group and the Bank have been approved by the directors. The results and reserves of associates were not equity accounted for in the consolidated financial statements as they were considered by the directors to be immaterial to the Group. However, after the share transfer and the subscription mentioned above, KWC and CS have become the associates of the Bank and the directors considered that the results of the associates are material to the Group. These associates' results have been equity accounted for with effect from 27 May 2002, being the date the share transfer and the subscription were completed.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### (1) Summary of financial position

	The Group				
	As at 30 June 2002 HK\$'000	As at 30 June 2001 HK\$'000	Variance %	As at 31 December 2001 HK\$'000	Variance %
Loans and advances	43,731,306	33,114,992	32.06	32,777,554	33.42
Loans loss provision	1,072,353	925,989	15.81	678,061	58.15
Total assets	77,800,507	59,067,359	31.71	59,427,301	30.92
Total interest earning assets	72,695,459	56,099,341	29.58	56,557,764	28.53
Total deposits	63,782,902	50,198,612	27.06	46,381,457	37.52
Shareholders' funds	7,280,088	6,020,890	20.91	6,253,677	16.41

#### *Financial ratios*

Capital adequacy - unadjusted*	19.64%	15.12%	20.81%
Capital adequacy - adjusted**	18.89%	14.69%	20.11%
Average liquidity*	45.86%	52.21%	51.19%
Loans to deposits	68.56%	65.97%	70.67%
Loans to total assets	56.21%	56.06%	55.16%
General provision coverage	1.04%	1.11%	1.14%
Property lending	45.95%	47.72%	45.55%
Cost to income	48.03%	39.67%	42.43%
Return on assets	1.10%	1.14%	1.10%
Return on shareholders' funds	11.11%	10.33%	10.19%

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

### (2) Advances to customers and other accounts less provisions

	The Group		
	As at 30 June 2002 HK\$'000	As at 31 December 2001 HK\$'000	Variance %
Advances to customers	43,275,144	32,454,727	33.34
Advances to banks and other financial institutions	134,470	95,692	40.52
Accrued interest and other accounts	1,705,019	1,825,697	(6.61)
Provisions for bad and doubtful debts			
- Specific	(607,274)	(305,980)	98.47
- General	(461,596)	(368,878)	25.14
	<u>44,045,763</u>	<u>33,701,258</u>	

### (3) Reserves

	<b>The Group</b>		
	<b>As at 30 June 2002</b>	As at 31 December 2001	Variance
	<b>HK\$'000</b>	HK\$'000	%
Share premium	<b>1,716,099</b>	1,426,213	20.33
General reserve	<b>100,000</b>	100,000	
Investment property revaluation reserve	<b>151</b>	151	
Other property revaluation reserve	<b>11,945</b>	11,945	
Capital reserve	<b>37,500</b>	37,500	
Exchange revaluation reserve	<b>323</b>	321	0.62
Retained profits	<b>2,382,191</b>	2,082,036	14.42
Total	<b>4,248,209</b>	3,658,166	16.13
Proposed dividends, not provided for	<b>90,956</b>	75,702	20.15

**(4) Advances to customers - By industry sectors**

	The Group				
	As at 30 June 2002		As at 31 December 2001		Variance
	HK\$'000	%	HK\$'000	%	%
Loans for use in Hong Kong					
<i>Industrial, commercial and financial</i>					
- property development	426,811	0.99	394,281	1.21	8.25
- property investment	5,342,512	12.35	3,260,385	10.05	63.86
- financial concerns	1,743,460	4.03	1,368,391	4.22	27.41
- stockbrokers	57,120	0.13	16,058	0.05	
- wholesale and retail trade	1,979,840	4.58	2,017,801	6.22	(1.88)
- manufacturing	3,559,090	8.22	2,906,121	8.95	22.47
- transport and transport equipment	4,940,994	11.42	3,694,141	11.38	33.75
- others	3,708,107	8.57	2,793,213	8.61	32.75
<i>Individuals</i>					
- loans for the purchase of flats under the Home Ownership Scheme and Private Sector Participation Scheme	38,076	0.09	14,919	0.05	
- loans for the purchase of other residential properties	13,624,606	31.48	10,490,479	32.32	29.88
- credit card advances	316,272	0.73	41,691	0.13	
- others	1,744,329	4.03	1,330,647	4.10	31.09
Trade finance	2,996,371	6.92	1,564,905	4.82	91.47
Loans for use outside Hong Kong	2,797,556	6.46	2,561,695	7.89	9.21
<b>TOTAL</b>	<b>43,275,144</b>	<b>100.00</b>	<b>32,454,727</b>	<b>100.00</b>	<b>33.34</b>

**(5) 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
<b>As at 30 June 2002</b>	<b>2,678,971</b>	<b>6.19</b>	<b>1,617,899</b>	<b>590,900</b>	<b>244,638</b>
As at 31 December 2001	1,471,876	4.54	908,838	278,263	168,227

\* Based on total advances to customers

There were no advances to banks and other financial institutions on which interest is being placed in suspense on which interest accrual has ceased as at 30 June 2002 and 31 December 2001, nor were there any specific provisions made for them on these two days.

**(6) Overdue loans and advances**

The Group						
As at 30 June 2002						
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	HK\$'000
Overdue for						
- 6 months or less but over 3 months	367,171	0.85	645,089	252,096	115,075	47,563
- 1 year or less but over 6 months	640,415	1.48	389,476	365,675	274,740	104,123
- over 1 year	1,912,471	4.42	1,420,223	1,208,381	704,090	391,131
TOTAL	2,920,057	6.75	2,454,788	1,826,152	1,093,905	542,817

The Group						
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	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

\* 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 2002 and 31 December 2001.



**(7) Reconciliation**

	<b>The Group</b>	
	<b>As at</b>	<b>As at</b>
	<b>30 June 2002</b>	<b>31 December 2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Advances to customers overdue for more than 3 months	<b>2,920,057</b>	1,670,350
Less: Amount overdue for more than 3 months and on which interest is still being accrued	<b>(372,145)</b>	(260,969)
Add: Amount overdue for 3 months or less and on which interest is being placed in suspense or on which interest accrual has ceased	<b>94,726</b>	4,311
Add: Rescheduled advances on which interest is being placed in suspense or on which interest accrual has ceased	<b>23,698</b>	51,624
Add: Amount not overdue and on which interest is being placed in suspense or on which interest accrual has ceased	<b>12,635</b>	6,560
Advances to customers on which interest is being placed in suspense or on which interest accrual has ceased	<b>2,678,971</b>	<b>1,471,876</b>

**(8) Other overdue assets**

	<b>The Group</b>			
	<b>As at 30 June 2002</b>		<b>As at 31 December 2001</b>	
	<b>Accrued interest</b>	<b>Other assets*</b>	<b>Accrued interest</b>	<b>Other assets*</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Other assets overdue for				
- 6 months or less but over 3 months	719	144	1,758	-
- 1 year or less but over 6 months	1,024	-	12,658	2,826
- Over 1 year	27,825	39,482	41,735	-
	<b>29,568</b>	<b>39,626</b>	<b>56,151</b>	<b>2,826</b>

\* Other assets refer to trade bills, other investments in securities and held-to-maturity securities

**(9) Rescheduled loans**

	<b>The Group</b>			
	<b>As at 30 June 2002</b>		<b>As at 31 December 2001</b>	
	<b>HK\$'000</b>	<b>%*</b>	<b>HK\$'000</b>	<b>%*</b>
Rescheduled loans	<b>70,947</b>	<b>0.16</b>	89,665	0.28

\* Based on total advances to customers

There were no advances to banks and other financial institutions which were rescheduled as at 30 June 2002 and 31 December 2001.

**(10) 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:

	<b>The Group</b>	
	<b>As at</b>	<b>As at</b>
	<b>30 June 2002</b>	<b>31 December 2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Direct credit substitutes	<b>1,449,947</b>	1,696,088
Transaction-related contingencies	<b>82,520</b>	39,365
Trade-related contingencies	<b>1,368,995</b>	1,047,237
Others	<b>329,874</b>	-
Other commitments:		
with an original maturity of under 1 year or		
which are unconditionally cancellable	<b>13,305,306</b>	8,247,308
with an original maturity of 1 year and over	<b>1,105,068</b>	271,258
	<b><u>17,641,710</u></b>	<b><u>11,301,256</u></b>

**(10) Off-balance sheet exposures (con'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 derivative entered into by:

	<b>The Group</b>					
	<b>As at 30 June 2002</b>			<b>As at 31 December 2001</b>		
	<b>Trading</b>	<b>Hedging</b>	<b>Total</b>	<b>Trading</b>	<b>Hedging</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Exchange rate contracts						
Forwards/ Futures	<b>1,349,269</b>	<b>31,452</b>	<b>1,380,721</b>	292,271	1,397,797	1,690,068
Swaps	<b>82,817,898</b>	<b>9,224,746</b>	<b>92,042,644</b>	0	105,852,873	105,852,873
Interest rate contracts						
Swaps	<b>1,240,250</b>	<b>9,197,538</b>	<b>10,437,788</b>	0	10,994,794	10,994,794
Equity contracts						
Options	<b>4,440</b>	<b>0</b>	<b>4,440</b>	33,840	7,696	41,536
	<b>85,411,857</b>	<b>18,453,736</b>	<b>103,865,593</b>	<b>326,111</b>	<b>118,253,160</b>	<b>118,579,271</b>

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

	<b>The Group</b>			
	<b>As at 30 June 2002</b>		<b>As at 31 December 2001</b>	
	<b>Replacement</b>	<b>Credit risk</b>	<b>Replacement</b>	<b>Credit risk</b>
	<b>cost</b>	<b>weighted amount</b>	<b>cost</b>	<b>weighted amount</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Contingent liabilities and commitments	N/A	<b>1,617,129</b>	N/A	1,246,090
Exchange rate contracts	<b>141,831</b>	<b>233,144</b>	231,642	261,706
Interest rate contracts	<b>315,777</b>	<b>104,809</b>	256,673	63,909
Equity contracts	<b>0</b>	<b>133</b>	3,661	2,002
	<b>457,608</b>	<b>1,955,215</b>	<b>491,976</b>	<b>1,573,707</b>

(11) Segmental information

(a) By geographical area

	The Group			
	Six months ended 30 June			
	2002	2001	2002	2001
				(Restated)
	*Profit/(Loss)	(Restated) *Profit/(Loss)	Operating Income	Operating Income
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,051,787	926,748	1,740,948	1,395,642
Mainland China	225	(368)	800	2
United States of America	4,835	15,703	23,645	36,246
Less: Intra-group items	(660,278)	(580,008)	(660,038)	(585,164)
	<u>396,569</u>	<u>362,075</u>	<u>1,105,355</u>	<u>846,726</u>

	The Group					
	As at 30 June 2002			As at 31 December 2001		
	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	88,299,488	71,930,513	16,890,609	58,092,046	49,338,120	10,627,753
Mainland China	44,206	6	0	32,614	32,824	0
United States of America	1,944,131	1,748,472	751,101	3,385,335	3,167,326	673,503
Less: Intra-group items	(12,487,318)	(7,448,744)	0	(2,082,694)	(1,906,589)	0
	<u>77,800,507</u>	<u>66,230,247</u>	<u>17,641,710</u>	<u>59,427,301</u>	<u>50,631,681</u>	<u>11,301,256</u>

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

	The Group					
	As at 30 June 2002			As at 31 December 2001		
	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	36,106,439	2,459,311	2,204,994	23,549,074	1,164,956	1,151,172
Mainland China	5,970,189	426,088	439,318	7,510,586	492,490	307,793
United States of America	1,071,678	21	22	1,377,585	12,904	12,911
Others	126,838	34,637	34,637	17,482	0	0
	<u>43,275,144</u>	<u>2,920,057</u>	<u>2,678,971</u>	<u>32,454,727</u>	<u>1,670,350</u>	<u>1,471,876</u>

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.

(b) By class of business

	The Group			
	Six months ended 30 June			
	2002	2001	2002	2001
				(Restated)
	* Profit	(Restated) * Profit	Operating Income	Operating Income
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Retail banking	52,818	63,523	467,011	303,871
Corporate banking	129,225	81,116	359,066	267,333
Investment banking	5,174	37,059	22,275	68,576
Treasury	259,201	143,490	310,585	158,970
Unallocated	(49,849)	36,887	108,435	180,786
Less: Intra-group items	0	0	(162,017)	(132,810)
	<u>396,569</u>	<u>362,075</u>	<u>1,105,355</u>	<u>846,726</u>

\* Profit from ordinary activities before taxation

**(12) Capital base after deductions**

	<b>The Group</b>	
	<b>As at 30 June 2002</b>	<b>As at 31 December 2001</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Core capital</b>		
Paid up ordinary share capital	3,031,879	2,595,511
Share premium	1,716,099	1,426,213
Reserves	2,186,159	2,045,377
Minority interests	0	92,760
Deduct: Goodwill	(1,300,403)	0
<b>Total core capital</b>	<b>5,633,734</b>	<b>6,159,861</b>
<b>Eligible supplementary capital</b>		
Reserves on revaluation of land and interests in land	11,945	11,945
General provisions for doubtful debts	446,897	371,102
Perpetual subordinated debt	1,950,078	0
Term subordinated debt	2,340,094	2,340,094
<b>Total eligible supplementary capital</b>	<b>4,749,014</b>	<b>2,723,141</b>
<b>Total capital base before deductions</b>	<b>10,382,748</b>	<b>8,883,002</b>
<b>Deductions from total capital base</b>	<b>(194,209)</b>	<b>(199,733)</b>
<b>Total capital base after deductions</b>	<b>10,188,539</b>	<b>8,683,269</b>

### (13) Foreign currency exposures

The information concerning the foreign currency exposures of the Bank and its subsidiaries 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 2002			As at 31 December 2001		
	US dollars	Renminbi	Total	US dollars	Renminbi	Total
Spot assets	26,316,214	483,182	26,799,396	20,604,336	333,179	20,937,515
Spot liabilities	(24,895,048)	(61,901)	(24,956,949)	(21,250,359)	(9,836)	(21,260,195)
Forward purchases	61,061,661	0	61,061,661	61,313,741	0	61,313,741
Forward sales	(59,114,705)	0	(59,114,705)	(58,781,329)	0	(58,781,329)
Net long position	3,368,122	421,281	3,789,403	1,886,389	323,343	2,209,732

### STATEMENT OF COMPLIANCE

The Bank has complied throughout the six months period with the the Code of Best Practice as set out in Appendix 14 of the Li 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.

This interim results announcement has fully complied with the Guideline "Interim Financial Disclosure by Locally Incorporated Authorised Institutions" issued by Hong Kong Monetary Authority on 2 November 2001.

## **INTERIM DIVIDEND**

The Board are pleased to declare an interim dividend of HK\$0.03 (2001: HK\$0.03) per share. The interim dividend will be paid on Monday, 16 September 2002 to all shareholders whose names are on the Register of Members of the Bank on Thursday, 12 September 2002.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Bank will be closed from Monday, 9 September 2002 to Thursday, 12 September 2002, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged for registration with the Bank's Share Registrar, Computershare Hong Kong Investor Services Limited (formerly known as Central Registration Hong Kong Limited), at Shops 1712-1716, 17<sup>th</sup> Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00p.m. on Friday, 6 September 2002.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **1. Review of Operations**

In 2002, Hong Kong's economy continued to experience difficulties while the demand for loans remained weak. Operating under this challenging environment, the Bank firmly adhered to the guiding principles of "Innovation, Restructuring and Further Growth". On one hand, the Bank continued to develop high yield businesses to sustain earnings growth. On the other hand, significant progress has been made in terms of the integration with The Hongkong Chinese Bank, Limited ("HKCB") and the re-organization of the Group structure which will pave the way for future growth.

### **2 Business Performance**

The Bank completed the acquisition of HKCB on 17 January 2002. The results and financial position for the six months ended 30 June 2002 are presented on a consolidated basis.

#### **2.1 Earnings increased by over 20% in the first half of 2002**

##### **2.1.1 *CITIC Ka Wah Bank & HKCB earnings***

Despite the continued difficult operating environment for the banking industry, the Bank's net profit attributable to shareholders increased by HK\$69 million, or 22.6%, to HK\$376 million in the first half of 2002.

Following the completion of the acquisition of HKCB in January 2002, the Bank appointed a number of senior executives to HKCB to drive business development and to integrate the business and operations of the two banks. As a result, the performance of HKCB improved considerably compared to the second half of 2001. HKCB's contribution to the Bank amounted to approximately HK\$30 million in the first half of 2002. At the same time, driven by the increase in net interest income, the Bank's own businesses also

recorded significant growth, registering a net profit increase of over 20%.

### **2.1.2 *Net interest income***

In the first half of 2002, the Bank's net interest income surged by 46.9% to HK\$854 million over the corresponding period of 2001, mainly due to a 32.1% increase in total loans. In addition, net interest margin increased by 25 basis points to 2.39%. In view of the interest rate scenario, the Treasury Department hedged its portfolio by investing in high quality fixed income securities which led to a substantial increase in interest income.

### **2.1.3 *Non-interest income***

The Bank's non-interest income declined by 5.2% to HK\$251 million against the same period of last year. This was mainly due to the effect of hedging our treasury portfolio, which resulted in lower investment income but much higher interest income contribution. Brokerage fees and commission income from Investment Banking recorded a drop due to the lackluster stock market. In addition, the Bank reduced its interests in Ka Wah Capital Limited and Cargary Securities Limited from 51% to 25% in May resulting in their contributions no longer being consolidated at the subsidiary level. However, it is worth mentioning that the Bank's wealth management business registered strong growth. During the period, the Bank recorded HK\$43 million in fee-income from the distribution of guaranteed funds and Bancassurance, representing a substantial increase of 68% and 5.6 times respectively compared to the same period of last year. The credit card division, established at the end of 2001, also contributed to the Bank's fee income. Although wealth management, credit card, and syndicated loans are expected to be the key drivers for fee income growth in the future, the Bank will continue to explore new non-interest income avenues.

### **2.1.4 *Operating expenses***

In the first half of 2002, operating costs after goodwill increased by 58.0% to HK\$531 million. However, if HKCB related items, such as integration costs, operating costs and goodwill amortization, were excluded, the increase in the Bank's operating costs was moderate. The increase in the Bank's operating costs was attributable to credit card promotion expenses, staff costs, information technology expenses, amortization expenses for the subordinated debt issuance and costs relating to the Group restructuring. After taking into account of the goodwill amortization, the Bank's cost-to-income ratio stood at 48.0%.

### **2.1.5 *Charge for bad and doubtful debts***

In view of the satisfactory results for the first half of 2002, the Bank has decided to increase its charge for bad and doubtful debts by 48.0% to HK\$211 million after considering the difficult outlook of the local economy.

## **2.2 *Strive to enhance asset quality***

### **2.2.1 *Loans, deposits, and asset size***

Combining the assets of HKCB, the Bank's total assets reached HK\$77.8 billion in the first half of 2002, an increase of HK\$18.7 billion, or 31.7%, versus 2001 first half figure of HK\$59.1 billion. Total loans and deposits



reached HK\$43.7 billion and HK\$63.8 billion respectively, representing an increase of 32.1% and 27.1% respectively from the same period of last year.

#### **2.2.2 *Asset quality indicators***

Despite the challenging economic environment and the continued increase in the number of personal bankruptcy cases, the Bank's asset quality indicators remained at healthy levels. This was due to the close monitoring and stringent control of asset quality as well as the application of tightened credit approval and credit risk management measures. For instance, the credit card operation, which was established at the end of 2001, is expected to record a charge-off ratio of 4.9% for the full-year 2002, which is below the industry average. The charge-off ratio for Hire Purchase and Leasing was 0.6%.

#### **2.2.3 *Credit policies and approval procedures***

The Bank strives to enhance its asset quality by introducing new credit policies and approval procedures for new businesses such as the 140% negative equity mortgage re-financing service and foreign exchange contracts for corporate customers. At the same time, the Bank has made tremendous efforts in strengthening HKCB's credit risk management and approval procedures with a view to aligning them with those of the Bank. HKCB's asset quality indicators are expected to show significant improvement in the future.

#### **2.2.4 *Problem loans***

In the first half of 2002, the Bank resolved HK\$506 million problem loans. As at the end of June 2002, the classified exposure stood at HK\$2.9 billion, equivalent to 6.7% of total loans. Coverage ratio stood at 86.0%, while the non-performing loan ratio was 6.2%. The Bank has assigned HK\$886 million worth of non-performing loans and assets recovered from debt-to-asset swap to its asset management company. Following the completion of the Group restructuring, the Bank's asset quality will be further enhanced while the NPL ratio is expected to decline further.

#### **2.2.5 *Capital management***

On the capital management front, in January 2002, the Bank successfully raised HK\$726 million through a rights issue. In February 2002, the Bank launched HK\$600 million floating rate certificates of deposit. In May 2002, the Bank successfully issued US\$250 million perpetual subordinated guaranteed notes, the first-ever perpetual Upper Tier II Capital Security in Asia (ex-Japan). HKCB also issued HK\$800 million 364-day floating rate certificates of deposit in June 2002 to further enhance its capital base for future business development.

#### **2.2.6 *Financial position***

Under prudent treasury management and stringent credit control, the Bank's financial position remained strong. As at the end of June, the unadjusted capital adequacy ratio was 19.6%; the loans to deposits ratio was 68.6%; the loans to total assets ratio was 56.2%; and the average liquidity ratio was 45.9%.

#### Asset Quality Indicators:

	Consolidated Indicators as at 30 June 2002	CKWB Indicators as at 31 December 2001	CKWB Indicators as at 31 December 2000
Classified Exposure	6.7%	5.5%	6.3%
NPL	6.2%	4.5%	4.8%
Capital Adequacy (unadjusted)	19.6%	20.8%	17.1%
Loans to Deposits	68.6%	70.7%	67.4%
Loans to Total Assets	56.2%	55.2%	57.9%
Average Liquidity	45.9%	51.2%	42.1%

### 2.3 Continued business development

During the first half of 2002, the Bank launched a series of new products and services.

January	<ul style="list-style-type: none"> <li>• ‘SME Business Installation and Equipment Loan Scheme’</li> <li>• Credit Card ‘Interest Free Flexi-Installment’ Tax Loan Plan</li> <li>• Acted as Placing Bank for HKMC’s Retail Bonds</li> <li>• ‘Sun Savers’ life insurance service</li> </ul>
March	<ul style="list-style-type: none"> <li>• Official launch of ‘B2B Exchange’ service</li> <li>• Launch of additional ‘Internet Cash Management’ services including Account Transaction History Enquiry, Stop Cheque Payment, Bill Payment and Transfer Payment</li> <li>• Sun Life FORTUNE Guaranteed Interest Fund</li> </ul>
April	<ul style="list-style-type: none"> <li>• ‘Homeplus’ Comprehensive Home Contents Cover</li> <li>• Acted as Placing Bank for MTRC’s Retail Bonds</li> </ul>
May	<ul style="list-style-type: none"> <li>• First-in-Market Mortgage Refinancing Service of up to 140% of Current Market Value</li> <li>• Bonanza Deposit Campaign</li> <li>• Financial Needs Analysis</li> <li>• Acted as Placing Bank for HKMC’s Retail Bonds</li> </ul>
June	<ul style="list-style-type: none"> <li>• Treasury Product for Corporate Customers – FX Contract</li> <li>• Sun ‘Educational Fund Builder’</li> </ul>

#### 2.3.1 Credit card

CITIC Ka Wah VISA, the Bank’s first credit card launched in November 2001, achieved better than expected results. Its innovative value propositions attracted 80,000 new customers, and credit card receivables reached HK\$200 million. The Bank’s goal is to increase the number of cards issued to over 100,000 by the end of this year, and receivables are expected to be doubled.

#### 2.3.2 China banking

At the beginning of 2002, the Bank established a China Banking department to develop retail banking, corporate banking, and treasury businesses in the Mainland in collaboration with the CITIC group of companies.

In terms of retail banking, the Bank formed a joint venture with a Hong Kong

subsidiary of CITIC Industrial Bank to develop credit card business in the Mainland. Substantial amount of work had been completed in the past few months, including the completion of market research in Beijing, Shanghai, Guangzhou, and Shenzhen. A business plan has been drafted while the planning of organization structure and staffing is in progress. The Bank intends to sign an agreement with CITIC Industrial Bank of which the Bank will assume an advisory and management role in providing a range of technical and consulting services relating to credit card operations. The first RMB credit card is scheduled for launch in the first half of 2003. In addition, the Bank conducted a number of investment seminars in Shenzhen, Shanghai, and Hangzhou in collaboration with CITIC Industrial Bank and CITIC Securities to develop wealth management services. The Bank is also actively exploring residential mortgage lending opportunities in the Mainland.

On corporate banking, the Bank has been offering corporate customers with RMB loans through CITIC Industrial Bank since the beginning of 2000. The business has been growing steadily with a double-digit growth in business volume recorded in the first half of 2002.

On treasury, the Bank has started to provide US dollar clearing services for CITIC Industrial Bank's branches. In the future, the Bank plans to collaborate with CITIC Trust & Investment Co Limited to develop foreign currency fund management services in the Mainland through CITIC Industrial Bank.

### **2.3.3 *Loan syndication***

In March this year, the Bank established a Syndication Desk under the Corporate Banking Group to strengthen the Bank's capabilities in this area. Since inception, the Bank has been the sole arranger for three syndicated term loan facilities, namely Far East Consortium International Limited (US\$20 million), Eastern Asia Technology (HK) Limited (HK\$200 million), and Singamas Container Holdings Limited (US\$20 million).

### **2.3.4 *140% mortgage refinancing service***

In May 2002, the Bank introduced the first-in-market 140% mortgage refinancing services targeting homeowners in negative equity (the "140% Program"). Since introduction, the 140% Program has received tremendous positive responses and helped boost the Bank's image in the marketplace. The interest margin of the 140% product is, on average, approximately 100 basis points higher than those of normal residential mortgages. It also helped generate additional fee income for the Bank. To date, the Bank has approved 850 applications, equivalent to HK\$1.4 billion, under the 140% Program.

### **2.3.5 *Taiwan market***

The Bank is seeking to establish co-operative relationships with a number of banks in Taiwan. To this end, the Bank plans to enter into a memorandum of understanding with these banks for the development of banking businesses in the Greater China region. Through CITIC Industrial Bank, the Bank also seeks to provide Taiwanese companies with businesses in the Mainland HK dollar and foreign currency lending facilities, remittance, and trade finance services.

### **3 Progress of the integration with The Hongkong Chinese Bank**

#### **3.1 Integration project**

Following the acquisition of HKCB on 17 January 2002, the Bank commenced the first phase of the integration, which was completed on 30 June 2002. The entire integration is scheduled for completion before the end of this year.

##### **3.1.1 *Management structure***

In order to strengthen the management structure of both the Bank and HKCB and to ensure a smooth and seamless integration, the Bank appointed its Alternate Chief Executive Officer Mrs. Doreen Chan as the Managing Director and Chief Executive of HKCB on 15 April 2002. The Bank also appointed Mr. Raymond Lee as Vice Chairman of HKCB, Advisor to the Chief Executive Officers of the two banks and Director of the Integration Committee. In addition, the Bank has seconded a number of senior executives to HKCB and provided product training to over 100 HKCB staff with a view to driving future business development.

##### **3.1.2 *Customers***

The Bank's total number of customers is expected to increase by 20% after integration.

##### **3.1.3 *Products and services***

The Bank has aligned the management of all marketing activities. The alignment of products and services has been ongoing.

##### **3.1.4 *Sales and distribution***

The Bank has set sales targets and sales incentive schemes to promote sales effort at HKCB. The alignment of customer's scale of fee charges has been completed. At present, the Bank and HKCB have a total of 41 retail branches and 8 finance branches compared to 50 retail branches and 17 finance branches before the acquisition. In the future, the Bank will continue to upgrade the efficiency of its branch network through branch relocation, merger, and opening of new branches.

##### **3.1.5 *People***

The Bank has removed job duplications through training and staff redeployment. As at 30 June 2002, the combined total headcount of the Bank and HKCB was 1,440, representing a reduction of 140 staff since 2001 year-end. A majority of the staff turnover came from voluntary resignations. Given the two banks' combined assets at HK\$77.8 billion, the Bank considers the present staffing level to be appropriate and plans to maintain the number of headcount at this level going forward.

##### **3.1.6 *Operations***

The Bank has completed the physical integration of a majority of back office operations. The alignment of major departmental policies and procedures has been completed.

### **3.1.7 Technology**

IBM was appointed as the IT consultant on quality assurance. Full system conversion is scheduled to take place before end of 2002.

### **3.1.8 Risk management**

A majority of the integration tasks relating to risk management has been completed.

## **3.2 Synergies**

In the first half of 2002, the Bank recorded synergies amounting to HK\$43 million, approximately 70% of which came from cost savings and 30% from increased revenues. For the second half of 2002, the Bank projects a 1.6 times increase in synergies to HK\$111 million compared to the first half, and to reach HK\$154 million for 2002. The Bank expects the effect of synergies to be fully reflected in 2003.

## **4 Progress of the Group's re-organization**

In February 2002, the Bank announced the formation of CITIC International Financial Holdings Limited under which the Bank's operations will be divided into 3 distinct business lines, namely commercial banking, investment banking, and asset management, to increase the Bank's overall competitiveness.

### **4.1 Investment Banking**

In February 2002, the Bank restructured its investment banking operations by forming CITIC Capital Markets Holdings Limited ("CITIC Capital") as the holding company of Cargary Securities Limited and Ka Wah Capital Limited. In May 2002, CITIC Pacific Holdings Limited ("CITIC Pacific") became a shareholder of CITIC Capital. At present, the Bank and CITIC each owns 25% of CITIC Capital with the remaining 50% owned by CITIC Pacific. CITIC Capital's future plan is to build a closer relationship with the Bank and CITIC Securities, and to focus on the development of investment banking business in the Mainland. CITIC Capital will shortly roll out its first guaranteed fund for distribution through the Bank's network.

### **4.2 Commercial Banking**

On 12 July 2002, the passage of the CITIC Ka Wah Bank Limited (Merger) Bill took place at the Legislative Council and, as a result, the CITIC Ka Wah Bank Limited (Merger) Ordinance was enacted and published in the Government Gazette on 19 July 2002. The Bank intends to apply to the Hong Kong Monetary Authority for the revocation of CITIC Ka Wah Bank's banking licence, and on a day to be appointed by the Board, CITIC Ka Wah Bank will transfer its banking businesses to HKCB. HKCB will change its name to CITIC Ka Wah Bank Limited and continue to operate the integrated banking businesses, while CITIC Ka Wah Bank Limited will change its name to CITIC International Financial Holdings Limited. This will become the holding

company of CITIC Ka Wah Bank and other finance-related businesses, and shall maintain its listing on the Hong Kong Stock Exchange.

#### **4.3 Asset Management**

In the first half of 2002, Ka Wah Assets Management Limited (“KWAM”) completed the sub-participation of HK\$886 million worth of non-performing loans and assets recovered from debt-to-asset swap from CITIC Ka Wah Bank. Leveraging on its solid experience in the recovery of problem loans, KWAM’s core business will focus on the management and recovery of non-performing loans. In the medium term, KWAM plans to develop fund management businesses through venture capital or direct investments as well as exploring China-related assets management. The Bank anticipates KWAM will start to bring in positive contributions by the end of 2003.

#### **5 Future outlook**

For the second half of 2002, the Bank intends to expand and enhance its product range, continue to maintain a tight control on operating costs, and seek continued improvement on asset quality. The Bank will also aim at fostering closer relationships with CITIC and other financial institutions within the CITIC Group such as CITIC Industrial Bank and CITIC Securities, and will also actively explore business opportunities in the region, particularly the Taiwan market. Above all, the Bank is committed to accomplishing the HKCB integration and the Group re-organization before the end of this year, which will enable it to increase its competitiveness in the marketplace and to progress towards its goal of becoming a premier financial group in Hong Kong, the Mainland and the region.

By Order of the Board  
**CITIC KA WAH BANK LIMITED**  
**Chang Zhenming**  
*Director, President and Chief Executive Officer*

Hong Kong, 15 August 2002

*A more detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the Stock Exchange’s website in due course.*