



中信嘉華銀行有限公司 **CITIC KA WAH BANK LIMITED**

(Incorporated in Hong Kong with limited liability)

ANNOUNCEMENT OF 2003 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 2003 and the Group’s state of affairs as at that date together with the comparative figures for the corresponding period in the previous year as follows:–

CONSOLIDATED INCOME STATEMENT

	The Group		
	Six months ended 30 June		
	2003	2002	
	Unaudited	Unaudited	Variance
		Restated	
	HK\$’000	HK\$’000	%
Interest income	1,410,120	422,461	234
Interest expense	(629,638)	(163,118)	286
Net interest income	780,482	259,343	201
Fees and commission income	171,661	31,027	453
Fees and commission expense	(19,821)	(7,170)	176
Other operating income	54,306	20,774	161
Non-interest income	206,146	44,631	362
Operating income	986,628	303,974	225
Operating expenses	(427,669)	(126,456)	238
Operating profit before provisions	558,959	177,518	215
Charge for bad and doubtful debts	(223,108)	(109,477)	104
Operating profit	335,851	68,041	394
Net profit/(loss) on disposal of tangible fixed assets	68	(4,857)	
Net loss on disposal of associates	–	(239)	
Provision write back on held-to-maturity securities and investment securities	3,387	–	
Share of profits of an associate	40,368	–	

Profit from ordinary activities before taxation	379,674	62,945	503
Taxation	(62,435)	(314)	19,784
	<hr/>	<hr/>	
Profit attributable to shareholders	317,239	62,631	407
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Interim dividends declared during the period	150,551	–	
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CONSOLIDATED BALANCE SHEET

	The Group	
	As at 30 June 2003 Unaudited <i>HK\$'000</i>	As at 31 December 2002 Audited Restated <i>HK\$'000</i>
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Assets		
Cash and short-term funds	5,172,685	5,380,135
Placements with banks and other financial institutions maturing after one month	919,916	221,006
Trade bills less provisions	477,230	374,942
Certificates of deposit	992,159	1,030,944
Other investments in securities	3,970,820	2,583,605
Advances to customers and other accounts less provisions	41,267,040	42,847,862
Held-to-maturity securities and investment securities	22,063,720	18,575,250
Deferred tax assets	25,830	40,312
Investments in associates	153,050	120,110
Tangible fixed assets	1,702,589	1,745,920
	<hr/>	<hr/>
Total assets	76,745,039	72,920,086
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Liabilities		
Deposits and balances of banks and other financial institutions	2,748,019	2,039,519
Deposits from customers	58,564,561	54,910,978
Certificates of deposit issued	5,069,630	5,832,512
Deferred tax liabilities	18	20
Other accounts and provisions	1,269,937	1,210,871
	<hr/>	<hr/>
Total liabilities	67,652,165	63,993,900
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Capital resources

Share capital	2,393,341	2,393,341
Reserves	2,409,361	2,242,673
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Shareholders' funds	4,802,702	4,636,014
Loan capital	4,290,172	4,290,172
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Total capital resources	9,092,874	8,926,186
	<hr/>	<hr/>
Total liabilities and capital resources	76,745,039	72,920,086
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	The Group	
	As at 30 June 2003 Unaudited <i>HK\$'000</i>	As at 30 June 2002 Unaudited Restated <i>HK\$'000</i>
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Shareholders' equity at 1 January		
– as previously reported	4,595,722	3,238,342
– prior year adjustment in respect of deferred taxation	40,292	92,089
	<hr/>	<hr/>
– as restated	4,636,014	3,330,431
	<hr/>	<hr/>
Profit attributable to shareholders		
– as previously reported	317,239	61,637
– prior year adjustment in respect of deferred taxation	–	994
	<hr/>	<hr/>
– as restated	317,239	62,631
	<hr/>	<hr/>
Dividends approved and paid in respect of the previous year	–	(550,000)
Dividends approved during the period	(150,551)	–
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Shareholders' equity at 30 June	4,802,702	2,843,062
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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 2002 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 2002

are available from the Bank's registered office. The external auditors expressed an unqualified opinion on those financial statements in their report dated 12 March 2003.

- (2) The interim results announcement is prepared on a basis consistent with the accounting policies adopted by the Group in the 2002 statutory financial statements except as mentioned below:

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with Statement of Standard Accounting Practice ("SSAP")¹² (revised) issued by the Hong Kong Society of Accountants ("HKSA"), the Group adopted a new policy for deferred tax.

As a result of the adoption of this accounting policy, the profit for the period has decreased by HK\$14,480,000 (six months ended 30 June 2002: increased by HK\$994,000) and the assets and liabilities as of 30 June 2003 have increased by HK\$25,830,000 and HK\$18,000 respectively (31 December 2002: HK\$40,312,000 and HK\$20,000). The new accounting policy has been adopted retrospectively, with the opening balances of retained profits and reserves and comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.

Under the new accounting policy, income tax for the period comprises current and deferred tax. Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. All deferred tax liabilities and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised are recognised, except on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

- (3) The provision for Hong Kong profits tax is calculated at 17.5% (2002:16%) of the estimated assessable profits for the six months ended 30 June 2003. Taxation for overseas branches and subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries in which they operate.
- (4) The comparative figures for the consolidated income statement, consolidated statement of changes in equity and the related notes, represent the Hongkong Chinese Bank, Limited's results prior to its merger with CITIC International Financial Holdings Limited (formerly known as CITIC Ka Wah Bank Limited) on 25 November 2002 and thus are not comparable.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(1) Summary of financial position

	The Group		
	As at	As at	Variance
	30 June	31 December	
	2003	2002	
	HK\$'000	Restated HK\$'000	%
Loans and advances	40,929,925	42,319,847	(3.28)
Loan loss provision	951,590	940,785	1.15
Total assets	76,745,039	72,920,086	5.25
Total interest earning assets	73,925,520	70,007,302	5.60
Total deposits	63,634,191	60,743,490	4.76
Shareholders' funds	4,802,702	4,636,014	3.60
<i>Financial ratios</i>			
Capital adequacy – unadjusted*	17.23%	17.38%	
Capital adequacy – adjusted**	16.76%	16.76%	
Average liquidity***			
1/1/03 – 30/6/03	48.34%	N/A	
1/1/02 – 30/6/02	N/A	47.43%	
Loans to deposits	64.32%	69.67%	
Loans to total assets	53.33%	58.04%	
General provision coverage	1.13%	1.18%	
Property lending	44.20%	45.20%	
Cost to income	43.35%	46.71%	
Return on assets	0.85%	0.79%	
Return on shareholders' funds	13.56%	12.35%	

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

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

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

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

	The Group		
	As at 30 June 2003	As at 31 December 2002	Variance
	HK\$'000	HK\$'000	%
Advances to customers	40,449,543	41,941,753	(3.56)
Specific provisions for bad and doubtful debts	(488,237)	(442,648)	10.30
General provisions for bad and doubtful debts	(460,201)	(494,985)	(7.03)
	39,501,105	41,004,120	(3.67)
Advances to banks and other financial institutions	63,212	79,872	(20.86)
Accrued interest and other accounts less provisions	1,702,723	1,763,870	(3.47)
	41,267,040	42,847,862	(3.69)

(3) **Reserves**

	The Group		
	As at 30 June 2003	As at 31 December 2002	Variance
	HK\$'000	HK\$'000	%
Share Premium	282,930	282,930	—
Other property revaluation reserve	11,945	11,945	—
Capital reserve	41,271	41,271	—
General reserve	100,000	100,000	—
Exchange differences	2	2	—
Retained profits	1,973,213	1,806,525	9.23
Total	2,409,361	2,242,673	7.43

(4) Advances to customers – by industry sectors

The Group					
	As at 30 June 2003		As at 31 December 2002		Variance
	HK\$'000	%	HK\$'000	%	%
Loans for use in					
Hong Kong					
Industrial, commercial					
and financial					
– Property					
development	718,295	1.77	563,368	1.34	27.50
– Property					
investment	4,791,556	11.85	5,147,370	12.27	(6.91)
– Financial concerns	1,921,430	4.75	1,621,606	3.87	18.49
– Stockbrokers	33,549	0.08	27,590	0.07	21.60
– Wholesale and					
retail trade	2,295,040	5.67	2,464,647	5.88	(6.88)
– Manufacturing	3,117,601	7.71	3,318,627	7.91	(6.06)
– Transport and					
transport					
equipment	4,774,491	11.80	4,938,645	11.78	(3.32)
– Others	3,691,501	9.13	3,175,545	7.57	16.25
Individuals					
– Loans for the					
purchase of					
flats under the					
Home Ownership					
Scheme, Private					
Sector					
Participation					
Scheme and					
Tenants Purchase					
Scheme	24,616	0.06	30,990	0.07	(20.57)
– Loans for the					
purchase of					
other residential					
properties	12,367,174	30.57	13,246,473	31.59	(6.64)
– Credit card					
advances	334,280	0.83	335,647	0.80	(0.41)
– Others	973,232	2.41	1,289,488	3.07	(24.53)
Trade finance	1,925,536	4.76	1,968,023	4.69	(2.16)
Loans for use outside					
Hong Kong	3,481,242	8.61	3,813,734	9.09	(8.72)
	40,449,543	100.00	41,941,753	100.00	(3.56)

(5) Loans on which interest is placed in suspense

	The Group				
	Total amount of loans on which interest is placed in suspense		Pledged 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 in suspense
	HK\$'000	%*	HK\$'000	HK\$'000	HK\$'000
As at 30 June 2003	1,734,562	4.29	967,953	433,337	228,573
As at 31 December 2002	1,699,314	4.05	991,769	402,491	223,282

* *Based on total advances to customers*

There were no advances to banks and other financial institutions in the Group on which interest is being placed in suspense or on which interest accrual has ceased as at 30 June 2003 and 31 December 2002, nor were there any specific provisions made for them on these two days.

(6) Overdue advances to customers (net of suspended interest)

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

	The Group			
	As at 30 June 2003		As at 31 December 2002	
	HK\$'000	%*	HK\$'000	%*
– 6 months or less but over 3 months	236,180	0.58	262,097	0.62
– 1 year or less but over 6 months	330,318	0.82	169,342	0.40
– over 1 year	1,169,063	2.89	1,333,079	3.18
Total	1,735,561	4.29	1,764,518	4.20

Secured overdue advances	1,008,483	1,059,650
Unsecured overdue advances	727,078	704,868
	<u>1,735,561</u>	<u>1,764,518</u>
Market value of collateral held against the secured overdue advances	<u>1,265,252</u>	<u>1,701,268</u>
Specific provisions made	<u>382,151</u>	<u>347,557</u>

* *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 2003 and 31 December 2002.

(7) Reconciliation between overdue loans and advances and non-performing loans:

	The Group	
	As at 30 June 2003	As at 31 December 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Advances to customers overdue for more than 3 months	1,735,561	1,764,518
<i>Less:</i> Amount overdue for more than 3 months and on which interest is still being accrued	(137,529)	(173,900)
<i>Add:</i> Amount overdue for 3 months or less, or not yet overdue and on which interest is being placed in suspense or on which interest accrual has ceased	81,289	75,591
<i>Add:</i> Rescheduled advances on which interest is being placed in suspense or on which interest accrual has ceased	<u>55,241</u>	<u>33,105</u>
Advances to customers on which interest is being placed in suspense or on which interest accrual has ceased	<u>1,734,562</u>	<u>1,699,314</u>

(8) Other overdue assets

The Group	
As at 30 June 2003	As at 31 December 2002
<i>HK\$'000</i>	<i>HK\$'000</i>
The gross amount of trade bills which has been overdue for:	
– 6 months or less but over 3 months	282
– over 1 year	12,864
1,911	13,146
Held-to-maturity securities which have been overdue for over 1 year	
15,601	15,601

(9) Rescheduled loans

	The Group			
	As at 30 June 2003		As at 31 December 2002	
	<i>HK\$'000</i>	<i>%*</i>	<i>HK\$'000</i>	<i>%*</i>
Rescheduled loans	973,326	2.41	68,559	0.16

* *Based on total advances to customers*

There were no advances to banks and other financial institutions which were rescheduled as at 30 June 2003 and 31 December 2002.

(10) Repossessed assets

	The Group	
	As at 30 June 2003	As at 31 December 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Included in advances to customers and other accounts	420,780	409,682

(11) 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	As at
	30 June	31 December
	2003	2002
	HK\$'000	HK\$'000
Direct credit substitutes	804,360	1,187,756
Transaction-related contingencies	38,993	38,994
Trade-related contingencies	1,805,132	1,262,930
Forward forward deposits placed	75,000	–
Other commitments:		
– with an original maturity of under 1 year or which are unconditionally cancellable	9,786,726	9,294,444
– with an original maturity of 1 year or over	1,014,801	922,801
	13,525,012	12,706,925

(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:

	The Group					
	As at 30 June 2003			As at 31 December 2002		
	Trading	Hedging	Total	Trading	Hedging	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts						
Forwards	967,010	–	967,010	1,095,192	–	1,095,192
Swaps	12,554,245	6,873,640	19,427,885	34,890,559	4,999,417	39,889,976
Options purchased	366,272	–	366,272	66,884	–	66,884
Options written	328,028	–	328,028	40,490	–	40,490

Interest rate contracts

Forwards and futures	17,327,000	-	17,327,000	2,262,090	-	2,262,090
Swaps	2,420,047	9,471,045	11,891,092	2,127,535	9,526,349	11,653,884
Options purchased	931,162	-	931,162	931,162	-	931,162
Options written	1,028,666	178,003	1,206,669	931,162	-	931,162

Equity contracts

Options purchased	-	23,732	23,732	-	18,372	18,372
Options written	-	23,732	23,732	-	18,371	18,371
	<u>35,922,430</u>	<u>16,570,152</u>	<u>52,492,582</u>	<u>42,345,074</u>	<u>14,562,509</u>	<u>56,907,583</u>

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

	The Group			
	As at 30 June 2003		As at 31 December 2002	
	Replacement cost	Credit risk weighted amount	Replacement cost	Credit risk weighted amount
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
Contingent liabilities and commitments	N/A	1,318,328	N/A	1,332,425
Exchange rate contracts	128,828	75,922	135,779	118,904
Interest rate contracts	682,516	187,633	601,457	171,752
Equity contracts	146	1,497	104	792
	<u>811,490</u>	<u>1,583,380</u>	<u>737,340</u>	<u>1,623,873</u>

(12) Segmental information**(a) By geographical area**

On the basis of the location of the principal operations of the Group or, in the case of the Bank, on the location of the branches responsible for reporting the results or booking the assets, the Group operates predominantly in Hong Kong with over 90% of the Group's operating income, profit before taxation,

total assets, total liabilities, contingent liabilities and commitments arise therefrom or booked therein.

	The Group					
	As at 30 June 2003			As at 31 December 2002		
	Advances to customers	Overdue advances to customers	Non-performing loans	Advances to customers	Overdue advances to customers	Non-performing loans
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	33,203,296	1,704,886	1,703,390	35,136,453	1,752,223	1,673,556
Mainland China	4,513,951	3,840	3,840	4,319,078	–	4,732
USA	480,016	–	–	693,345	–	8,731
Others	2,252,280	26,835	27,332	1,792,877	12,295	12,295
	40,449,543	1,735,561	1,734,562	41,941,753	1,764,518	1,699,314

The above geographical analysis are classified by the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated.

Non-performing advances to customers are those advances on which interest is being placed in suspense or on which interest accrual has ceased.

(b) *By class of business*

	The Group			
	Six months ended 30 June			
	2003	2002	2003	2002
	Profit/(Loss)*	Profit/(Loss)*	Operating income	Operating income
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Retail banking	138,652	8,189	518,662	113,021
Wholesale banking	110,554	26,519	361,597	127,258
Treasury	237,960	29,556	278,220	56,842
Unallocated	(107,492)**	(1,319)	(171,851)	6,853
	379,674	62,945	986,628	303,974

* *Profit from ordinary activities before taxation*

** *Including share of profits of an associate of HK\$40,368,000 (six months ended 30 June 2002: Nil)*

(13) Capital base after deductions

	As at 30 June 2003	As at 31 December 2002
	HK\$'000	Restated HK\$'000
Core capital		
Paid up ordinary share capital	2,393,341	2,393,341
Share premium	282,930	282,930
Reserves	2,069,112	1,936,526
Total core capital	4,745,383	4,612,797
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	8,362	8,362
General provisions for doubtful debts	463,353	498,137
Perpetual subordinated debt	1,950,078	1,950,078
Term subordinated debt	1,872,075	2,306,399
Gross value of supplementary capital	4,293,868	4,762,976
Eligible value of supplementary capital	4,293,868	4,612,797
Total capital base before deductions	9,039,251	9,225,594
Deductions from total capital base	(135,860)	(135,865)
Total capital base after deductions	8,903,391	9,089,729

(14) Currency risk

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

<i>Equivalent in HK\$'000</i>	The Group					
	As at 30 June 2003			As at 31 December 2002		
	<i>US dollars</i>	<i>Renminbi</i>	<i>Total</i>	<i>US dollars</i>	<i>Renminbi</i>	<i>Total</i>
Spot assets	25,968,389	282,727	26,251,116	27,472,826	144,948	27,617,774
Spot liabilities	(25,562,104)	(75,429)	(25,637,533)	(25,049,311)	(74,251)	(25,123,562)
Forward purchases	11,760,615	-	11,760,615	20,917,099	-	20,917,099
Forward sales	(8,721,953)	-	(8,721,953)	(19,641,958)	-	(19,641,958)
Net option position	32,431	-	32,431	3,959	-	3,959
Net long position	3,477,378	207,298	3,684,676	3,702,615	70,697	3,773,312

The net option position is calculated using the worst case approach.

STATEMENT OF COMPLIANCE

This interim results announcement complies fully with the Guideline “Interim Financial Disclosure by Locally Incorporated Authorised Institutions” issued by the HKMA.

“Please also refer to the published version of this announcement in The Standard”.