



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

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

## ANNOUNCEMENT OF 2004 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 2004 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:–

### (A) CONSOLIDATED INCOME STATEMENT

	The Group		
	Six months ended 30 June		
	2004	2003	
	Unaudited	Unaudited	Variance
	HK\$'000	HK\$'000	%
Interest income	1,096,690	1,316,616	(16.70)
Interest expense	(327,023)	(536,134)	(39.00)
Net interest income	769,667	780,482	(1.39)
Fees and commission income	211,814	171,661	23.39
Fees and commission expense	(16,211)	(19,821)	(18.21)
Other operating income	33,944	54,306	(37.49)
Non-interest income	229,547	206,146	11.35
Operating income	999,214	986,628	1.28
Operating expenses	(438,762)	(427,669)	2.59
Operating profit before provisions	560,452	558,959	0.27
Charge for bad and doubtful debts	(53,565)	(223,108)	(75.99)
Operating profit	506,887	335,851	50.93
Net profit on disposal of tangible fixed assets	15,248	68	
Provision written back on held-to-maturity securities and investment securities	80	3,387	
Share of (losses)/profits of an associate	(17,471)	40,368	
Profit from ordinary activities before taxation	504,744	379,674	32.94
Income tax (Note 4)			
Current tax			
– Hong Kong	(82,489)	(44,505)	85.35
– Overseas	1,753	(707)	(347.95)
Deferred tax	(8,059)	(14,480)	(44.34)
Associate	3,875	(2,743)	(241.27)
Profit attributable to shareholders	419,824	317,239	32.34
Interim dividends declared during the period	211,000	150,551	

**(B) CONSOLIDATED BALANCE SHEET**

	<b>The Group</b>	
	<b>As at</b>	<b>As at</b>
	<b>30 June 2004</b>	<b>31 December 2003</b>
	<b>Unaudited</b>	<b>Audited</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Assets</b>		
Cash and short-term funds	<b>5,952,504</b>	7,326,174
Placements with banks and other financial institutions maturing after one month	<b>174,239</b>	646,373
Trade bills less provisions	<b>185,671</b>	452,489
Certificates of deposit	<b>1,787,584</b>	2,059,100
Other investments in securities	<b>3,970,340</b>	2,262,980
Advances to customers and other accounts less provisions	<b>40,140,440</b>	40,386,077
Held-to-maturity securities and investment securities	<b>22,588,607</b>	22,458,050
Interest in associates	<b>181,711</b>	195,306
Goodwill	<b>10,030</b>	10,558
Deferred tax assets	<b>41,289</b>	49,348
Tangible fixed assets	<b>1,506,335</b>	1,568,744
<b>Total assets</b>	<b>76,538,750</b>	77,415,199
<b>Liabilities</b>		
Deposits and balances of banks and other financial institutions	<b>3,748,533</b>	3,486,079
Deposits from customers	<b>57,606,112</b>	58,414,884
Certificates of deposit issued	<b>4,507,819</b>	4,711,175
Current taxation	<b>81,990</b>	16,912
Deferred tax liabilities	<b>15</b>	15
Other accounts and provisions	<b>1,156,296</b>	1,578,937
<b>Total liabilities</b>	<b>67,100,765</b>	68,208,002
<b>Capital resources</b>		
Share capital	<b>2,393,341</b>	2,393,341
Reserves	<b>2,754,840</b>	2,544,134
Shareholders' funds	<b>5,148,181</b>	4,937,475
Loan capital	<b>4,289,804</b>	4,269,722
<b>Total capital resources</b>	<b>9,437,985</b>	9,207,197
<b>Total liabilities and capital resources</b>	<b>76,538,750</b>	77,415,199

(C) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	The Group	
	As at 30 June 2004 Unaudited <i>HK\$'000</i>	As at 30 June 2003 Unaudited <i>HK\$'000</i>
Shareholders' equity at 1 January	<b>4,937,475</b>	
	-----	
– As previously reported		4,595,722
– Prior year adjustment in respect of deferred taxation		40,292
		-----
– As restated		4,636,014
		-----
Exchange differences	<b>1,882</b>	–
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Net gain not recognised in the income statement	<b>1,882</b>	–
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Profit attributable to shareholders	<b>419,824</b>	317,239
	-----	-----
Dividends approved during the period	<b>(211,000)</b>	(150,551)
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Shareholders' equity at 30 June	<b>5,148,181</b>	4,802,702
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Notes:

- (1) The financial information in this interim results announcement 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 Hong Kong Society of Accountants. It does not constitute statutory financial statements.
- (2) The financial information included in this interim results announcement relating to the financial year ended 31 December 2003 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 2003 are available from the Bank's registered office. The external auditors expressed an unqualified opinion on those financial statements in their report dated 18 March 2004.
- (3) The interim results announcement is prepared on a basis consistent with the accounting policies adopted by the Group in the 2003 statutory financial statements.
- (4) The provision for Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profits for the period. Taxation for branches and subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

## (1) Summary of financial position

	The Group		
	As at	As at	Variance
	30 June 2004	31 December 2003	
	HK\$'000	HK\$'000	%
Loans and advances	39,962,396	40,067,153	(0.26)
Loan loss provision	934,214	1,060,056	(11.87)
Total assets	76,538,750	77,415,199	(1.13)
Average interest earning assets	70,902,712	72,534,556	(2.25)
Total deposits	62,113,931	63,126,059	(1.60)
Shareholders' funds	5,148,181	4,937,475	4.27
<i>Financial ratios</i>			
Capital adequacy – unadjusted*	16.73%	16.30%	
Capital adequacy – adjusted**	16.02%	16.02%	
Average liquidity***			
1/1/2004-30/6/2004	47.38%	N/A	
1/1/2003-30/6/2003	N/A	48.34%	
Loans to deposits	64.34%	63.47%	
Loans to total assets	52.21%	51.76%	
General provision coverage	1.30%	1.36%	
Property lending	35.49%	38.72%	
Cost to income (before goodwill)	43.86%	47.14%	
Cost to income (after goodwill)	43.91%	47.14%	
Return on assets	1.10%	0.87%	
Return on shareholders' funds	16.74%	13.66%	

\* 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 (the "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**

	<b>The Group</b>		
	<b>As at</b>	<b>As at</b>	<b>Variance</b>
	<b>30 June 2004</b>	<b>31 December 2003</b>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>
Advances to customers	<b>39,774,849</b>	39,610,093	0.42
Specific provisions for bad and doubtful debts	<b>(414,584)</b>	(513,582)	(19.28)
General provisions for bad and doubtful debts	<b>(517,755)</b>	(541,903)	(4.46)
	<b>38,842,510</b>	38,554,608	0.75
Advances to banks and other financial institutions	<b>40,000</b>	40,000	
Accrued interest and other accounts less provisions	<b>1,257,930</b>	1,791,469	(29.78)
	<b>40,140,440</b>	40,386,077	(0.61)

(3) **Reserves**

	<b>The Group</b>		
	<b>As at</b>	<b>As at</b>	<b>Variance</b>
	<b>30 June 2004</b>	<b>31 December 2003</b>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>
Share Premium	<b>282,930</b>	282,930	
Other property revaluation reserve	<b>11,945</b>	11,945	
Capital reserve	<b>6,589</b>	6,589	
General reserve	<b>100,000</b>	100,000	
Exchange differences	<b>1,171</b>	(711)	264.70
Retained profits	<b>2,352,205</b>	2,143,381	9.74
Total	<b>2,754,840</b>	2,544,134	8.28

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

	The Group				
	As at 30 June 2004		As at 31 December 2003		Variance
	HK\$'000	%	HK\$'000	%	%
Loans for use in Hong Kong					
<i>Industrial, commercial and financial</i>					
– Property development	329,090	0.83	327,555	0.82	0.47
– Property investment	3,787,673	9.52	4,090,359	10.33	(7.40 )
– Financial concerns	2,466,022	6.20	2,647,514	6.68	(6.86 )
– Stockbrokers	19,996	0.05	20,519	0.05	(2.55 )
– Wholesale and retail trade	1,983,162	4.99	2,240,916	5.66	(11.50 )
– Manufacturing	3,821,437	9.61	3,506,532	8.85	8.98
– Transport and transport equipment	5,117,223	12.87	4,551,838	11.49	12.42
– Others	3,839,535	9.65	3,761,929	9.50	2.06
<i>Individuals</i>					
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	20,934	0.05	23,979	0.06	(12.70 )
– Loans for the purchase of other residential properties	10,001,252	25.14	10,920,086	27.57	(8.41 )
– Credit card advances	412,375	1.04	426,249	1.08	(3.25 )
– Others	999,259	2.51	1,409,427	3.56	(29.10 )
Trade finance	2,161,317	5.43	1,913,475	4.83	12.95
Loans for use outside Hong Kong	4,815,574	12.11	3,769,715	9.52	27.74
	<b>39,774,849</b>	<b>100.00</b>	<b>39,610,093</b>	<b>100.00</b>	<b>0.42</b>

(5) **Loans on which interest is placed in suspense**

	The Group			
	Total amount of loans on which interest is placed in suspense		Market value of collateral held	Specific provisions made
	HK\$'000	%*	HK\$'000	Amount of interest in suspense
	HK\$'000	%*	HK\$'000	HK\$'000
As at 30 June 2004	<b>1,630,224</b>	<b>4.10</b>	<b>1,387,490</b>	<b>206,868</b>
As at 31 December 2003	<b>2,090,128</b>	<b>5.28</b>	<b>1,630,574</b>	<b>238,745</b>

\* 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 2004 and 31 December 2003, 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:

	<b>The Group</b>			
	<b>As at 30 June 2004</b>		<b>As at 31 December 2003</b>	
	<i>HK\$'000</i>	<i>%*</i>	<i>HK\$'000</i>	<i>%*</i>
– 6 months or less but over 3 months	<b>142,535</b>	<b>0.36</b>	165,835	0.42
– 1 year or less but over 6 months	<b>97,352</b>	<b>0.24</b>	307,408	0.77
– over 1 year	<b>1,273,386</b>	<b>3.20</b>	1,651,711	4.17
<b>Total</b>	<b>1,513,273</b>	<b>3.80</b>	2,124,954	5.36
Secured overdue advances	<b>1,086,547</b>		1,388,339	
Unsecured overdue advances	<b>426,726</b>		736,615	
	<b>1,513,273</b>		2,124,954	
Market value of collateral held against the secured overdue advances	<b>1,976,235</b>		1,738,316	
Specific provisions made	<b>330,462</b>		410,020	

\* 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 2004 and 31 December 2003.

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

	<b>The Group</b>	
	<b>As at</b>	<b>As at</b>
	<b>30 June 2004</b>	<b>31 December 2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Advances to customers overdue for more than 3 months	<b>1,513,273</b>	2,124,954
Less: Amount overdue for more than 3 months and on which interest is still being accrued	<b>(132,171)</b>	(247,895)
Add: 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	<b>72,565</b>	84,187
Add: Rescheduled advances on which interest is being placed in suspense or on which interest accrual has ceased	<b>176,557</b>	128,882
Advances to customers on which interest is being placed in suspense or on which interest accrual has ceased	<b>1,630,224</b>	2,090,128

(8) Other overdue assets

	The Group	
	As at	As at
	30 June 2004	31 December 2003
	HK\$'000	HK\$'000
The gross amount of trade bills which has been overdue for:		
– 1 year or less but over 6 months	–	1,162
Held-to-maturity securities which have been overdue for:		
– 1 year or less but over 6 months	–	69,409
– over 1 year	85,335	15,526
	85,335	84,935

(9) Rescheduled loans

	The Group			
	As at 30 June 2004		As at 31 December 2003	
	HK\$'000	%*	HK\$'000	%*
Rescheduled loans	443,646	1.12	517,916	1.31

\* Based on total advances to customers

There were no advances to banks and other financial institutions which were rescheduled as at 30 June 2004 and 31 December 2003.

(10) Repossessed assets

	The Group	
	As at	As at
	30 June 2004	31 December 2003
	HK\$'000	HK\$'000
Included in advances to customers and other accounts	239,887	325,393



**(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:

	<b>The Group</b>	
	<b>As at</b>	<b>As at</b>
	<b>30 June 2004</b>	<b>31 December 2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Direct credit substitutes	<b>1,132,908</b>	1,096,253
Trade-related contingencies	<b>1,160,055</b>	1,635,365
Other commitments:		
– with an original maturity of under 1 year or which are unconditionally cancellable	<b>10,185,056</b>	10,387,731
– with an original maturity of 1 year or over	<b>182,315</b>	734,808
	<b>12,660,334</b>	13,854,157

*(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:

	<b>The Group</b>					
	<b>As at 30 June 2004</b>			<b>As at 31 December 2003</b>		
	<b>Trading</b>	<b>Hedging</b>	<b>Total</b>	<b>Trading</b>	<b>Hedging</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Exchange rate contracts</b>						
Forwards	<b>1,557,652</b>	–	<b>1,557,652</b>	1,059,391	–	1,059,391
Swaps	<b>9,762,326</b>	<b>9,593,194</b>	<b>19,355,520</b>	12,416,034	4,966,108	17,382,142
Options purchased	<b>147,152</b>	–	<b>147,152</b>	172,189	–	172,189
Options written	<b>147,152</b>	–	<b>147,152</b>	142,182	–	142,182
<b>Interest rate contracts</b>						
Forwards and futures	<b>2,589,482</b>	–	<b>2,589,482</b>	2,173,677	–	2,173,677
Swaps	<b>2,199,499</b>	<b>9,346,637</b>	<b>11,546,136</b>	3,060,615	8,992,439	12,053,054
Options purchased	<b>1,862,164</b>	–	<b>1,862,164</b>	1,853,448	–	1,853,448
Options written	<b>2,040,160</b>	–	<b>2,040,160</b>	2,031,079	–	2,031,079
<b>Equity contracts</b>						
Options purchased	–	<b>6,706</b>	<b>6,706</b>	–	12,044	12,044
Options written	–	<b>6,706</b>	<b>6,706</b>	–	12,044	12,044
	<b>20,305,587</b>	<b>18,953,243</b>	<b>39,258,830</b>	<b>22,908,615</b>	<b>13,982,635</b>	<b>36,891,250</b>

- (c) The replacement costs and credit risk weighted amounts of the above off-balance sheet exposures of the Group are as follows. The Group did not enter into any bilateral netting arrangements during the period/year and accordingly these amounts are shown on a gross basis:

	The Group			
	As at 30 June 2004		As at 31 December 2003	
	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	1,101,291	N/A	1,414,021
Exchange rate contracts	59,939	65,181	120,536	71,464
Interest rate contracts	316,140	106,257	459,238	133,659
Equity contracts	65	294	50	599
	<b>376,144</b>	<b>1,273,023</b>	<b>579,824</b>	<b>1,619,743</b>

## (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 arising therefrom or booked therein.

	The Group					
	As at 30 June 2004			As at 31 December 2003		
	Advances to customers	Overdue loans and advances	Non-performing loans	Advances to customers	Overdue loans and advances	Non-performing loans
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	32,554,338	935,710	1,025,790	32,515,584	1,514,868	1,483,817
Mainland China	5,119,935	501,907	503,549	4,670,115	500,555	502,561
USA	598,876	–	–	559,575	–	–
Others	1,501,700	75,656	100,885	1,864,819	109,531	103,750
	<b>39,774,849</b>	<b>1,513,273</b>	<b>1,630,224</b>	<b>39,610,093</b>	<b>2,124,954</b>	<b>2,090,128</b>

The above geographical analysis is 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 business segment*

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

Retail banking business:	It mainly comprises deposit account services, residential mortgage, other consumer lendings, credit card services and finance leases.
Wholesale banking business:	It mainly comprises trade financing, syndicated loans and other corporate lendings.
Treasury:	It covers provision of foreign exchange services, money market activities, management of investment securities and central cash management.
Unallocated:	It mainly comprises the bank premises and any items which cannot be reasonably allocated to specific business segments.

The transfer pricing methodology has been revised and the function of central cash management has been reallocated from 'Unallocated' to 'Treasury'. Management considered the above changes reflect better the Group's internal organisational and management structure and its system of internal financial reporting. The comparative figures have been restated to conform with current period's presentation.

	<b>The Group</b>			
	<b>Six months ended 30 June</b>			
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>Profit*</b>	<b>Profit*</b>	<b>Operating</b>	<b>Operating</b>
		<b>Restated</b>	<b>income</b>	<b>income</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Retail banking	<b>170,264</b>	36,877	<b>437,891</b>	415,422
Wholesale banking	<b>197,836</b>	65,924	<b>363,434</b>	316,967
Treasury	<b>132,764</b>	182,831	<b>179,350</b>	227,402
Unallocated	<b>3,880</b>	94,042	<b>18,539</b>	26,837
	<b>504,744</b>	<b>379,674</b>	<b>999,214</b>	<b>986,628</b>

\* *Profit from ordinary activities before taxation*

Profit from unallocated included share of losses of an associate amounting to \$17,471,000 (2003: share of profits of \$40,368,000).

(13) Capital base after deductions

	As at 30 June 2004	As at 31 December 2003
	HK\$'000	HK\$'000
<b>Core capital</b>		
Paid up ordinary share capital	2,393,341	2,393,341
Share premium	282,930	282,930
Reserves	2,382,958	2,157,024
Deduct: Goodwill	(10,030)	–
<b>Total core capital</b>	<b>5,049,199</b>	<b>4,833,295</b>
<b>Eligible supplementary capital</b>		
Reserves on revaluation of land and interests in land	8,362	8,362
General provisions for doubtful debts	519,630	546,474
Perpetual subordinated debt	1,949,911	1,940,783
Term subordinated debt	1,403,936	1,397,364
<b>Gross value of supplementary capital</b>	<b>3,881,839</b>	<b>3,892,983</b>
<b>Eligible value of supplementary capital</b>	<b>3,881,839</b>	<b>3,892,983</b>
<b>Total capital base before deductions</b>	<b>8,931,038</b>	<b>8,726,278</b>
<b>Deductions from total capital base</b>	<b>(135,860)</b>	<b>(511,734)</b>
<b>Total capital base after deductions</b>	<b>8,795,178</b>	<b>8,214,544</b>

(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 options position reported is calculated in accordance with the methods set out in the banking return “Foreign Currency Position” (MA(BS)6) submitted to the HKMA.

Equivalent in HK\$'000	The Group							
	As at 30 June 2004				As at 31 December 2003			
	US dollars	Renminbi	Other	Total	US dollars	Renminbi	Other	Total
Spot assets	25,623,015	283,130	4,389,481	30,295,626	26,057,334	225,983	5,551,948	31,835,265
Spot liabilities	(25,004,872)	(62,325)	(5,231,943)	(30,299,140)	(24,566,069)	(9,157)	(5,320,448)	(29,895,674)
Forward purchases	10,185,686	–	3,005,557	13,191,243	9,986,595	–	2,378,099	12,364,694
Forward sales	(10,750,265)	–	(2,162,819)	(12,913,084)	(8,239,058)	–	(2,621,242)	(10,860,300)
Net options position	–	–	–	–	23,051	–	128,193	151,244
<b>Net long position</b>	<b>53,564</b>	<b>220,805</b>	<b>276</b>	<b>274,645</b>	<b>3,261,853</b>	<b>216,826</b>	<b>116,550</b>	<b>3,595,229</b>

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

STATEMENT OF COMPLIANCE

In preparing the interim financial report for the period ended 30 June 2004, the Bank has fully complied with the Guideline “Interim Financial Disclosure by Locally Incorporated Authorised Institutions” under the Supervisory Policy Manual issued by the HKMA.