



# 中信國際金融控股有限公司

CITIC INTERNATIONAL FINANCIAL HOLDINGS LIMITED

(formerly known as CITIC Ka Wah Bank Limited)

(Incorporated in Hong Kong with limited liability)

## ANNOUNCEMENT OF 2002 FINAL RESULTS

### SUMMARY OF RESULTS

The Board of Directors of CITIC International Financial Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2002 as follows:–

#### (A) CONSOLIDATED INCOME STATEMENT

	The Group		
	2002	2001	Variance
	HK\$'000	HK\$'000	%
Interest income	3,135,927	3,376,670	(7.13)
Interest expense	(1,456,483)	(2,130,383)	(31.63)
Net interest income	<u>1,679,444</u>	<u>1,246,287</u>	34.76
Fees and commission income	376,429	371,735	1.26
Fees and commission expense	(48,267)	(23,047)	109.43
Other operating income	<u>175,553</u>	<u>194,461</u>	(9.72)
Non-interest income	<u>503,715</u>	<u>543,149</u>	(7.26)
Total operating income	<u>2,183,159</u>	<u>1,789,436</u>	22.00
Operating expenses	<u>(1,055,951)</u>	<u>(759,169)</u>	39.09
Operating profit before provisions	<u>1,127,208</u>	<u>1,030,267</u>	9.41
Charge for bad and doubtful debts	<u>(539,802)</u>	<u>(340,961)</u>	58.32
Operating profit	<u>587,406</u>	<u>689,306</u>	(14.78)
Net loss on disposal of tangible fixed assets	(4,000)	(765)	
Revaluation deficit on investment properties	(35,033)	–	
Net profit on disposal of subsidiaries & associates	33,303	–	
Net profit on disposal of held-to-maturity securities	54,099	515	
Provision on held-to-maturity securities and investment securities	(8,390)	(3,337)	
Share of profits less losses of associates	<u>10,094</u>	<u>–</u>	
Profit from ordinary activities before taxation	<u>637,479</u>	<u>685,719</u>	(7.03)
Tax on profit from ordinary activities (Note 7)			
– Hong Kong	(19,748)	(47,894)	(58.77)
– Overseas	(2,619)	(1,713)	52.89
– Associates	<u>(766)</u>	<u>–</u>	
Profit from ordinary activities after taxation	<u>614,346</u>	<u>636,112</u>	(3.42)
Minority interests	<u>(1,402)</u>	<u>(19,484)</u>	(92.80)
Profit attributable to shareholders	<u>612,944</u>	<u>616,628</u>	(0.60)
Dividends attributable to the year			
Interim dividend declared during the year	90,962	77,859	
Final dividend proposed after the balance sheet date	<u>394,591</u>	<u>75,702</u>	
	<u>485,553</u>	<u>153,561</u>	
Earnings per share			
Basic (Note 9)	20.26¢	23.30¢	
Diluted (Note 10)	20.25¢	23.28¢	
Interim dividend per share	3.00¢	3.00¢	
Proposed final dividend per share	13.00¢	2.50¢	
Total dividends per share	16.00¢	5.50¢	

**(B) EXTRACTS FROM CONSOLIDATED BALANCE SHEET**

	<b>The Group</b>	
	<b>As at</b>	<b>As at</b>
	<b>31 Dec 2002</b>	<b>31 Dec 2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Assets</b>		
Cash and short-term funds	5,946,661	6,910,498
Placements with banks and other financial institutions maturing after one month	221,006	–
Trade bills less provisions	374,942	223,932
Certificates of deposit	1,030,944	2,948,033
Other investments in securities	3,219,559	1,494,101
Advances to customers and other accounts less provisions	43,531,505	33,701,258
Held-to-maturity securities and investment securities	18,621,468	13,014,873
Investments in associates	358,002	120,499
Goodwill ( <i>Note 2</i> )	1,267,059	–
Tangible fixed assets	1,676,193	1,014,107
<b>Total assets</b>	<b>76,247,339</b>	<b>59,427,301</b>
<b>Liabilities</b>		
Deposits and balances of banks and other financial institutions	2,120,181	3,132,145
Deposits from customers	55,535,460	42,514,182
Certificates of deposit issued	5,832,513	3,493,904
Debt securities issued	–	373,371
Other accounts and provisions	1,042,720	1,118,079
<b>Total liabilities</b>	<b>64,530,874</b>	<b>50,631,681</b>
<b>Capital resources</b>		
Share capital	3,035,313	2,595,511
Reserves	4,390,980	3,658,166
Shareholders' funds	7,426,293	6,253,677
Minority interests	–	201,849
Loan capital	4,290,172	2,340,094
<b>Total capital resources</b>	<b>11,716,465</b>	<b>8,795,620</b>
<b>Total liabilities and capital resources</b>	<b>76,247,339</b>	<b>59,427,301</b>

**(C) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	<b>The Group</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Shareholders' equity at 1 January	6,253,677	5,843,180
Net (deficit)/surplus on property revaluation	(151)	151
Exchange differences	(2)	(1)
<b>Net (losses)/gains not recognised in the income statement</b>	<b>(153)</b>	<b>150</b>
Profit attributable to shareholders	612,944	616,628
Dividends approved during the year	(166,716)	(207,602)
Movements in share capital:		
Shares issued under share option scheme	7,217	650
Shares issued under rights issue	432,585	–
Net share premium received	286,739	671
	726,541	1,321
Shareholders' equity at 31 December	7,426,293	6,253,677

Notes:

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

The financial information relating to the financial year ended 31 December 2002 included in this preliminary final results announcement does not constitute the Group'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 will be available from the Company's registered office. The external auditors expressed an unqualified opinion on those financial statements in their report dated 12 March 2003.

- (2) On 31 October 2001, the Company 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 and HKCB became a wholly-owned subsidiary of the Company thereafter. Goodwill amounted to HK\$1,333 million was created on consolidation and was amortised over 20 years.
- (3) On 4 February 2002, the Company had re-organised the shareholding structure of its two non-wholly owned subsidiaries, namely CITIC Capital Securities Limited ("CCSL") (then known as Cargary Securities Limited) and CITIC Capital Markets Limited ("CCML") (then known as Ka Wah Capital Limited) by setting up a new intermediate holding company namely CITIC Capital Markets Holdings Limited ("CCMH") to take up the entire issued share capital of both subsidiaries. Both CCSL and CCML were held as to 51% by the Company and 49% by China International Trust and Investment Corporation ("CITIC") before the restructuring and thereafter, the Company and CITIC held respectively 51% and 49% of the shareholding interest of CCMH through their respective wholly owned subsidiaries, Dramatic Year Limited ("**Dramatic Year**") and True Worth Investments Limited ("**True Worth**") (a wholly-owned subsidiary of CITIC).
- (4) On 14 March 2002, the Company entered into a Share Transfer and Subscription Agreement with CITIC, True Worth, CITIC Pacific Limited ("CITIC Pacific"), Forever Glory Holdings Ltd ("Forever Glory") (a subsidiary of CITIC Pacific), Dramatic Year 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 shares in CCMH to Forever Glory for cash consideration of HK\$10,408,163. Upon completion of the transaction, Dramatic Year, True Worth and Forever Glory would 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 Group's 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 Company 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, CCML and CCSL became the Group's associates and the directors considered that the results of the associates are material to the Group and commenced on 27 May 2002 to equity account for the results and reserves of the associates.

- (5) Pursuant to the CITIC Ka Wah Bank Limited (Merger) Ordinance ("Merger Ordinance"), the Board of Directors determined 25 November 2002 as the appointed day for transferring the bulk of the Company's assets and liabilities to HKCB, changed its name to CITIC International Financial Holdings Limited which became the holding company and continues to be listed on the Stock Exchange of Hong Kong Limited ("SEHK"). At the same time, HKCB changed its name to CITIC Ka Wah Bank Limited ("CKWB") and continues to operate the integrated banking businesses.
- (6) The new HKSSAP 34 "Employee Benefits" requires an enterprise to recognise the service provided by an employee in exchange for employee benefits to be paid in the future as a liability; and when the enterprise consumes the economic benefit arising from service provided by an employee in exchange for employee benefits as expenses. The adoption of this HKSSAP has not had any significant impact on the financial statements.
- (7) The provision for Hong Kong Profits Tax is based on an estimate of the assessable profits for the year ended 31 December 2002 at 16% (2001: 16%). Taxation for overseas branches, subsidiaries and associates 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 in the foreseeable future.

- (8) On 7 January 2002, the Company 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 Company's capital base. The new shares rank pari passu with the existing shares.
- (9) The calculation of basic earnings per share for the year ended 31 December 2002 is based on profit attributable to shareholders of HK\$612,944,000 (2001: HK\$616,628,000) and on the weighted average of 3,024,987,708 (2001: 2,647,023,734) ordinary shares in issue during the year. The weighted average numbers of shares outstanding for 2001 have been adjusted for the effects of the rights issue on 7 January 2002.
- (10) The calculation of diluted earnings per share for the year ended 31 December 2002 is based on profit attributable to shareholders of HK\$612,944,000 (2001: HK\$616,628,000) and on the weighted average of 3,027,464,639 (2001: 2,649,030,438) 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 rights issue on 7 January 2002.

**SUPPLEMENTARY FINANCIAL INFORMATION**
**(1) Summary of financial position**

	<b>The Group</b>		
	<b>As at</b>	<b>As at</b>	<b>Variance</b>
	<b>31 Dec 2002</b>	<b>31 Dec 2001</b>	<b></b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>
Loans and advances	<b>42,989,234</b>	32,681,862	31.54
Loans loss provision	<b>1,112,644</b>	678,061	64.09
Total assets	<b>76,247,339</b>	59,427,301	28.30
Total interest earning assets	<b>71,379,675</b>	56,557,764	26.21
Total deposits	<b>61,367,973</b>	46,381,457	32.31
Shareholders' funds	<b>7,426,293</b>	6,253,677	18.75

Financial ratios

Loans to deposits	<b>70.05%</b>	70.46%
Loans to total assets	<b>56.38%</b>	54.99%
General provision coverage	<b>1.16%</b>	1.14%
Property lending	<b>44.88%</b>	43.58%
Cost to income (before goodwill)	<b>45.31%</b>	42.43%
Cost to income (after goodwill)	<b>48.37%</b>	42.43%
Return on assets	<b>0.91%</b>	1.10%
Return on shareholders' funds	<b>8.98%</b>	10.52%

**(2) Operating profit**

The operating profit is stated after taking into account of:

*(a) Other revenue*

	<b>The Group</b>		
	<b>2002</b>	<b>2001</b>	<b>Variance</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>
Dividend income			
Listed investments	–	8	(100.00)
Unlisted investments	<b>18,722</b>	10,383	80.31
Rental income less outgoings	<b>12,024</b>	7,509	60.13
	<b>30,746</b>	17,900	71.77

*(b) Other operating income*

Net gain on other investments in securities	<b>89,116</b>	96,574	(7.72)
Net gain arising from dealing in foreign currencies	<b>13,084</b>	28,044	(53.34)
Net loss arising from other dealing activities	<b>(56,591)</b>	(371)	15,153.64
Others	<b>99,198</b>	52,314	89.62
	<b>144,807</b>	176,561	(17.98)
Total	<b>175,553</b>	194,461	(9.72)

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

	<b>The Group</b>		
	<b>As at 31 Dec 2002</b>	As at 31 Dec 2001	Variance
	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Advances to customers	<b>42,611,139</b>	32,454,727	31.29
Advances to banks and other financial institutions	<b>79,872</b>	95,692	(16.53)
Accrued interest and other accounts less provisions	<b>1,949,985</b>	1,825,697	6.81
Provisions for bad and doubtful debts			
– Specific	<b>(614,506)</b>	(305,980)	100.83
– General	<b>(494,985)</b>	(368,878)	34.19
	<b>43,531,505</b>	33,701,258	29.17

**(4) Reserves**

	<b>The Group</b>		
	<b>As at 31 Dec 2002</b>	As at 31 Dec 2001	Variance
	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Share premium	<b>1,712,952</b>	1,426,213	20.10
General reserve	<b>100,000</b>	100,000	0.00
Investment property revaluation reserve	–	151	(100.00)
Other property revaluation reserve	<b>11,945</b>	11,945	0.00
Capital reserve	<b>37,500</b>	37,500	0.00
Exchange revaluation reserve	<b>319</b>	321	(0.62)
Retained profits	<b>2,528,264</b>	2,082,036	21.43
Total	<b>4,390,980</b>	3,658,166	20.03
Proposed dividends, not provided for	<b>394,591</b>	75,702	421.24

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

	<b>The Group</b>				
	<b>As at 31 December 2002</b>		As at 31 December 2001		Variance
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	%
Loans for use in Hong Kong					
<i>Industrial, commercial and financial</i>					
– property development	<b>563,368</b>	<b>1.32</b>	394,281	1.21	42.88
– property investment	<b>5,314,907</b>	<b>12.47</b>	3,260,385	10.05	63.01
– financial concerns	<b>1,669,606</b>	<b>3.92</b>	1,368,391	4.22	22.01
– stockbrokers	<b>27,590</b>	<b>0.06</b>	16,058	0.05	
– wholesale and retail trade	<b>2,643,303</b>	<b>6.20</b>	2,017,801	6.22	31.00
– manufacturing	<b>3,318,627</b>	<b>7.79</b>	2,906,121	8.95	14.19
– transport and transport equipment	<b>4,938,645</b>	<b>11.59</b>	3,694,141	11.38	33.69
– others	<b>3,175,545</b>	<b>7.45</b>	2,793,213	8.61	13.69
<i>Individuals</i>					
– loans for the purchase of flats under the Home Ownership Scheme and Private Sector Participation Scheme	<b>30,990</b>	<b>0.07</b>	14,919	0.05	
– loans for the purchase of other residential properties	<b>13,246,473</b>	<b>31.10</b>	10,490,479	32.32	26.27
– credit card advances	<b>335,647</b>	<b>0.79</b>	41,691	0.13	
– others	<b>1,342,079</b>	<b>3.15</b>	1,330,647	4.10	0.86
Trade finance	<b>2,170,421</b>	<b>5.09</b>	1,564,905	4.82	38.69
Loans for use outside Hong Kong	<b>3,833,938</b>	<b>9.00</b>	2,561,695	7.89	49.66
TOTAL	<b>42,611,139</b>	<b>100.00</b>	32,454,727	100.00	31.29

**(6) Advances to customers – by geographical areas**

The 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.

	The Group					
	Total Advances to customers		Non-performing loans		Overdue loans and advances	
	As at 31 Dec 2002	As at 31 Dec 2001	As at 31 Dec 2002	As at 31 Dec 2001	As at 31 Dec 2002	As at 31 Dec 2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	32,709,114	24,180,619	1,933,155	1,151,172	1,955,079	1,164,956
Mainland China	8,734,969	7,510,586	427,119	307,793	467,170	492,490
United States of America	875,390	746,040	8,731	12,911	-	12,904
Others	291,666	17,482	-	-	-	-
	<b>42,611,139</b>	<b>32,454,727</b>	<b>2,369,005</b>	<b>1,471,876</b>	<b>2,422,249</b>	<b>1,670,350</b>

**(7) 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 suspense
	HK\$'000	%*	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2002	2,369,005	5.56	1,443,100	574,349	370,032
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 or on which interest accrual has ceased as at 31 December 2002 and 31 December 2001, nor were there any specific provisions made for them on these two days.

**(8) 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 31 Dec 2002		As at 31 Dec 2001	
	HK\$'000	%*	HK\$'000	%*
- 6 months or less but over 3 months	262,097	0.62	114,202	0.35
- 1 year or less but over 6 months	169,495	0.40	357,341	1.10
- over 1 year	1,990,657	4.67	1,198,807	3.70
Total	<b>2,422,249</b>	<b>5.69</b>	<b>1,670,350</b>	<b>5.15</b>
Secured overdue advance	1,517,331		1,072,299	
Unsecured overdue advance	904,918		598,051	
	<b>2,422,249</b>		<b>1,670,350</b>	
Market value of collateral held against the secured overdue advances	<b>2,197,901</b>		<b>1,350,652</b>	
Specific provision made	<b>496,969</b>		<b>270,229</b>	

\* 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 31 December 2002 and 31 December 2001.

**(9) Reconciliation between overdue loans & advance and non-performing loans**

	The Group	
	As at 31 Dec 2002	As at 31 Dec 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Advances to customers overdue for more than 3 months	2,422,249	1,670,350
<i>Less:</i> Amount overdue for more than 3 months and on which interest is still being accrued	(173,900)	(260,969)
<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	75,591	10,871
<i>Add:</i> Rescheduled advances on which interest is being placed in suspense or on which interest accrual has ceased	45,065	51,624
Advances to customers on which interest is being placed in suspense or on which interest accrual has ceased	<b>2,369,005</b>	<b>1,471,876</b>

**(10) Other overdue assets**

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
The gross amount of trade bills and receivables which has been overdue for :		
– 6 months or less but over 3 months	282	–
– 1 year or less but over 6 months	–	2,826
– over 1 year	12,864	–
	<b>13,146</b>	<b>2,826</b>
Other investments in securities which have been overdue for over 1 year	<b>4,081</b>	–
Held-to-maturity securities which have been overdue for over 1 year	<b>15,601</b>	–

**(11) Rescheduled loans**

	The Group			
	As at 31 Dec 2002		As at 31 Dec 2001	
	<i>HK\$'000</i>	%*	<i>HK\$'000</i>	%*
Rescheduled loans	<b>80,520</b>	<b>0.19</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 31 December 2002 and 31 December 2001.

**(12) 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 31 Dec 2002	As at 31 Dec 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Direct credit substitutes	1,187,756	1,696,088
Transaction-related contingencies	38,994	39,365
Trade-related contingencies	1,262,930	1,047,237
Other commitments:		
with an original maturity of under 1 year or which are unconditionally cancellable	9,294,444	8,247,308
with an original maturity of 1 year and over	922,801	271,258
	<b>12,706,925</b>	<b>11,301,256</b>

(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 31 Dec 2002			As at 31 Dec 2001		
	Trading	Hedging	Total	Trading	Hedging	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts						
Forwards	1,095,192	–	1,095,192	292,271	1,397,797	1,690,068
Swaps	34,890,559	4,999,417	39,889,976	–	105,852,873	105,852,873
Options purchased	66,884	–	66,884	–	–	–
Options written	40,490	–	40,490	–	–	–
Interest rate contracts						
Forwards/ Futures	2,262,090	–	2,262,090	–	–	–
Swaps	2,127,535	9,526,349	11,653,884	–	10,994,794	10,994,794
Options purchased	931,162	–	931,162	–	–	–
Options written	931,162	–	931,162	–	–	–
Equity contracts						
Options purchased	–	18,372	18,372	33,840	7,696	41,536
Options written	–	18,371	18,371	–	–	–
	<u>42,345,074</u>	<u>14,562,509</u>	<u>56,907,583</u>	<u>326,111</u>	<u>118,253,160</u>	<u>118,579,271</u>

- (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.

	The Group			
	As at 31 Dec 2002		As at 31 Dec 2001	
	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	1,332,425	N/A	1,246,090
Exchange rate contracts	135,779	118,904	231,642	261,706
Interest rate contracts	601,457	171,752	256,673	63,909
Equity contracts	104	792	3,661	2,002
	<u>737,340</u>	<u>1,623,873</u>	<u>491,976</u>	<u>1,573,707</u>

(13) **Segmental reporting**

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

(a) *Business segments*

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

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

	The Group						
	Retail banking	Corporate banking	Investment banking	Treasury	Unallocated	Inter-segment elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income	828,533	500,698	3,315	520,831	(173,933)	-	1,679,444
Non-interest income from external customers	206,275	228,457	19,229	21,093	28,661	-	503,715
Inter-segment revenue	-	-	-	-	306,211	(306,211)	-
Operating income	1,034,808	729,155	22,544	541,924	160,939	(306,211)	2,183,159
Operating expenses	(466,986)	(120,419)	(17,112)	(40,330)	(411,104)	-	(1,055,951)
Inter-segment operating expenses	(190,592)	(81,439)	(7,993)	(26,187)	-	306,211	-
Operating profit before provisions	377,230	527,297	(2,561)	475,407	(250,165)	-	1,127,208
Charge for bad and doubtful debts	(275,382)	(261,307)	-	(3,113)	-	-	(539,802)
Operating profit	101,848	265,990	(2,561)	472,294	(250,165)	-	587,406
Net loss on disposal of tangible fixed assets	-	-	-	-	(4,000)	-	(4,000)
Revaluation deficit on investment properties	-	-	-	-	(35,033)	-	(35,033)
Net profit on disposal of subsidiaries & associates	-	-	-	-	33,303	-	33,303
Net profit on disposal of held-to-maturity securities	-	3,786	-	50,313	-	-	54,099
Share of profits less losses of associates	-	-	10,094	-	-	-	10,094
Provision on held-to-maturity securities and investment securities	-	-	-	(8,390)	-	-	(8,390)
Profit from ordinary activities before taxation	101,848	269,776	7,533	514,217	(255,895)	-	637,479
Taxation	-	-	-	-	(23,133)	-	(23,133)
Profit from ordinary activities after taxation	101,848	269,776	7,533	514,217	(279,028)	-	614,346
Minority interests	-	-	-	-	(1,402)	-	(1,402)
Profit attributable to shareholders	101,848	269,776	7,533	514,217	(280,430)	-	612,944
Depreciation for the year	27,994	7,634	1,148	1,764	71,220	-	109,760
Amortisation of goodwill for the year	-	-	-	-	66,687	-	66,687
Segment assets	19,715,016	29,240,243	-	24,353,006	-	-	73,308,265
Investment in associates less provisions	-	-	358,002	-	-	-	358,002
Unallocated assets	-	-	-	-	2,581,072	-	2,581,072
Total assets	19,715,016	29,240,243	358,002	24,353,006	2,581,072	-	76,247,339
Segment liabilities	35,748,096	20,954,784	-	1,295,000	-	-	57,997,880
Unallocated liabilities	-	-	-	-	6,532,994	-	6,532,994
Total liabilities	35,748,096	20,954,784	-	1,295,000	6,532,994	-	64,530,874
Capital expenditure incurred during the year	5,588	459	89	638	81,849	-	88,623

	The Group						
	Retail banking	Corporate banking	Investment banking	Treasury	Unallocated	Inter-segment elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income	500,631	366,740	15,448	342,210	21,258	-	1,246,287
Non-interest income from external customers	145,810	195,980	81,439	48,784	71,136	-	543,149
Inter-segment revenue	19,636	372	4,087	-	251,038	(275,133)	-
Operating income	666,077	563,092	100,974	390,994	343,432	(275,133)	1,789,436
Operating expenses	(310,859)	(102,210)	(53,763)	(31,575)	(260,762)	-	(759,169)
Inter-segment operating expenses	(179,282)	(43,403)	(14,522)	(13,831)	(24,095)	275,133	-
Operating profit before provisions	175,936	417,479	32,689	345,588	58,575	-	1,030,267
Charge for bad and doubtful debt	(51,804)	(289,096)	(61)	-	-	-	(340,961)
Operating profit	124,132	128,383	32,628	345,588	58,575	-	689,306
Net loss on disposal of tangible fixed assets	-	-	-	-	(765)	-	(765)
Net profit on disposal of held-to-maturity securities	-	-	-	515	-	-	515
Provision on held-to-maturity securities and investment securities	-	-	-	(3,337)	-	-	(3,337)
Profit from ordinary activities before taxation	124,132	128,383	32,628	342,766	57,810	-	685,719
Taxation	-	-	-	-	(49,607)	-	(49,607)
Profit from ordinary activities after taxation	124,132	128,383	32,628	342,766	8,203	-	636,112
Minority interests	-	-	-	-	(19,484)	-	(19,484)
Profit attributable to shareholders	124,132	128,383	32,628	342,766	(11,281)	-	616,628
Depreciation for the year	16,800	5,212	2,534	1,503	39,647	-	65,696
Segment assets	14,521,299	21,906,903	515,884	19,236,205	-	-	56,180,291
Investment in associates less provisions	-	-	120,499	-	-	-	120,499
Unallocated assets	-	-	-	-	3,126,511	-	3,126,511
Total assets	14,521,299	21,906,903	636,383	19,236,205	3,126,511	-	59,427,301
Segment liabilities	26,946,489	16,662,501	103,947	2,003,000	-	-	45,715,937
Unallocated liabilities	-	-	-	-	4,915,744	-	4,915,744
Total liabilities	26,946,489	16,662,501	103,947	2,003,000	4,915,744	-	50,631,681
Capital expenditure incurred during the year	32,205	3,995	2,930	332	39,272	-	78,734

(b) *Geographical segments*

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

## 2002

	Hong Kong	Mainland China	USA	Others	Inter-segment elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Operating income from external customers	2,119,577	96	63,486	-	-
Total assets	87,244,983	6,301	2,932,256	508,788	(14,444,989)	76,247,339
Capital expenditure incurred during the year	87,462	865	296	-	-	88,623

2001

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

**(14) Capital adequacy ratio**

	The Group	
	As at 31 Dec 2002	As at 31 Dec 2001
Unadjusted Capital adequacy ratio *	18.92%	20.81%
Adjusted Capital adequacy ratio **	18.09%	20.11%

\* The unadjusted capital adequacy ratio is computed on the consolidated basis covering the Company 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 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.

**(15) Capital base after deductions**

	The Group	
	As at 31 Dec 2002	As at 31 Dec 2001
	HK\$'000	HK\$'000
<b>Core capital</b>		
Paid up ordinary share capital	3,035,313	2,595,511
Share premium	1,712,952	1,426,213
Reserves	2,030,732	2,045,377
Minority interests	-	92,760
Deduct: Goodwill	(1,267,059)	-
<b>Total core capital</b>	<b>5,511,938</b>	<b>6,159,861</b>
<b>Eligible supplementary capital</b>		
Reserves on revaluation of land and interests in land	8,362	11,945
General provisions for doubtful debts	498,137	371,102
Perpetual subordinated debt	1,950,078	-
Term subordinated debt	2,340,094	2,340,094
<b>Total eligible supplementary capital</b>	<b>4,796,671</b>	<b>2,723,141</b>
<b>Total capital base before deductions</b>	<b>10,308,609</b>	<b>8,883,002</b>
<b>Deductions from total capital base</b>	<b>(242,006)</b>	<b>(199,733)</b>
<b>Total capital base after deductions</b>	<b>10,066,603</b>	<b>8,683,269</b>

**(16) Liquidity ratio**

	The Group	
	As at 31 Dec 2002	As at 31 Dec 2001
Average consolidated liquidity ratio	46.29%	51.19%
Average solo liquidity ratio	547.32%	

The average consolidated liquidity ratio is computed on the consolidated basis covering the Company and certain of its subsidiaries for the period from January 2002 to October 2002 as required by the HKMA. After 25 November 2002, the Company is only required to compute the average liquidity ratio on a solo basis. The average solo liquidity ratio is computed covering the period from November 2002 to December 2002. The average liquidity ratio are computed in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

#### (17) Foreign currency exposures

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 return "Foreign Currency Position" (MA(BS)6) submitted to the HKMA.

Equivalent in HK\$'000	The Group					
	As at 31 Dec 2002			As at 31 Dec 2001		
	US dollars	Renminbi	Total	US dollars	Renminbi	Total
Spot assets	29,010,348	525,602	29,535,950	20,604,336	333,179	20,937,515
Spot liabilities	(26,322,455)	(80,389)	(26,402,844)	(21,250,359)	(9,836)	(21,260,195)
Forward purchases	20,917,099	-	20,917,099	61,313,741	-	61,313,741
Forward sales	(19,641,958)	-	(19,641,958)	(58,781,329)	-	(58,781,329)
Net option position	3,959	-	3,959	-	-	-
Net long position	<u>3,966,993</u>	<u>445,213</u>	<u>4,412,206</u>	<u>1,886,389</u>	<u>323,343</u>	<u>2,209,732</u>

#### STATEMENT OF COMPLIANCE

In preparing the accounts for the year ended 31 December 2002, the Company has fully complied with the requirements set out in the Supervisory Policy Manual "Financial Disclosure by Locally Incorporated Authorised Institutions" issued by the HKMA.

#### MANAGEMENT DISCUSSION AND ANALYSIS

##### 1. Review of Operations

In 2002, Hong Kong's economy continued to experience difficulties, which led to a weak demand for loans. Rising personal bankruptcies, together with high unemployment and declining property prices, also caused pressure on bank earnings. Operating against this challenging environment, CITIC International Financial Holdings Limited ("the Group") continued to deliver satisfactory earnings, and successfully completed the integration between CITIC Ka Wah Bank Limited ("CKWB") and The Hongkong Chinese Bank, Limited ("HKCB"), as well as the re-organization into a holding company, laying a solid foundation for future growth.

##### 2. Business Performance

On 25 November 2002, the Group completed the re-organization of its businesses into 3 distinct business lines, namely, commercial banking, asset management and investment banking. For the year ended December 2002, CKWB contributed majority of the Group's net profit.

###### (1) Earnings maintained at 2001's level

Despite the continued difficult operating environment in Hong Kong, the Group's 2002 operating profit before provisions reached HK\$1,127 million, which was HK\$97 million, or 9.4%, higher than CKWB's HK\$1,030 million in 2001, mainly driven by an increase in net interest income. Net profit attributable to shareholders was HK\$613 million, which was largely at the same level of CKWB in 2001.

###### (2) Net interest income

In 2002, the Group's net interest income amounted to HK\$1,679 million, representing an increase of 34.8% compared with CKWB in 2001, mainly driven by an increase in total loans to HK\$43.0 billion, and a widening of the net interest margin by 8 basis points to 2.32%. In addition, in view of the interest rate scenario, the Treasury Department of CKWB hedged its portfolio by investing in high quality fixed income securities, which also led to substantial increase in interest income.

###### (3) Non-interest income

Non-interest income declined by 7.3% to HK\$504 million compared with CKWB in 2001. This was mainly due to the effect of hedging our treasury portfolio by CKWB's Treasury Department, which resulted in lower investment income but much higher interest income contribution. In addition, brokerage fees and commission income from investment banking recorded a drop due to the lackluster investment market. Also, CKWB reduced its interests in Ka Wah Capital Limited (currently known as CITIC Capital Markets Limited) and Cargary Securities Limited (currently known as CITIC Capital Securities Limited) from 51% to 25% in May 2002, resulting in their contribution no longer being consolidated at the subsidiary level. However, it is worth mentioning that CKWB focused on exploring non-interest income avenues in the past, including wealth management, corporate loans, credit cards and negative equity mortgage refinancing services. During the period, HK\$91 million fee income was recorded from the distribution of unit trust and insurance products, representing 35.4% and 1.9 times increases respectively compared with CKWB in the same period of 2001. The Group will continue to expand its non-interest income businesses, with a view to increasing the non-interest income ratio to approximately 30%.

(4) *Operating expenses*

In 2002, the Group recorded HK\$1,056 million in operating expenses. Excluding HK\$67 million of goodwill amortization, the total operating expenses increased by 30.3%. The Group's cost-to-income ratio was 48.4% for 2002.

(5) *Charge for bad and doubtful debts*

Due to the continued high unemployment, rising personal bankruptcies and the weak property market, the overall asset quality of the banking industry was inevitably affected. In view of the difficult economic outlook, the Group adopted a prudent provisioning policy and increased the charge for bad and doubtful debts by 58.3% to HK\$540 million. In addition, the Group made a provision of HK\$35 million for devaluation of investment properties.

(6) *Final dividend*

2002 was a landmark year for the Group's development. During the year, CKWB celebrated its 80th anniversary. It also successfully acquired HKCB and completed the subsequent integration. In addition, the Group completed the re-organization during the year, establishing a new platform for future business development. To mark these special occasions, the Board of Directors proposed a final dividend of HK\$0.13 per share. The year's total dividend pay-out ratio was close to 80%.

### 3. Asset Quality

(1) *Loans, deposits and asset size*

At the end of 2002, the Group's total assets reached HK\$76.2 billion, representing an increase of HK\$16.8 billion, or 28.3%, compared with CKWB's HK\$59.4 billion at the end of 2001. Total loans and total deposits reached HK\$43.0 billion and HK\$61.4 billion respectively, representing an increase of 31.5% and 32.3% respectively compared with CKWB at the end of 2001.

(2) *Problem loans*

The Group resolved HK\$1,091 million problem loans last year. At the end of December 2002, the classified exposure stood at HK\$2,506 million, equivalent to 5.9% of total loans. The non-performing loan ratio declined from 6.2% at the end of June 2002 to 5.6% at the end of December 2002, while the coverage ratio rose significantly from 84% in 2001 to 91% in 2002.

(3) *Financial position*

As at the end of December 2002, the Group's unadjusted capital adequacy ratio was 18.9%; the loans to deposits ratio was 70.1%; and the loans to total assets ratio was 56.4%.

Asset Quality Indicators:

	<b>Group Indicators as at the end of 2002</b>	CKWB Indicators as at the end of 2001
Classified Exposure	<b>5.9%</b>	5.5%
NPL	<b>5.6%</b>	4.5%
Coverage	<b>91%</b>	84%
Mainland Loans to Total Loans	<b>18.2%</b>	23.1%
Unadjusted Capital Adequacy	<b>18.9%</b>	20.8%
Loans to Deposits	<b>70.1%</b>	70.5%
Loans to Total Assets	<b>56.4%</b>	55.0%
Average Liquidity	<b>Not Applicable</b>	51.2%

### 4. Core Business Development

(1) *Commercial Banking*

CKWB completed the acquisition of HKCB on 17 January 2002 and the legal and operational merger on 25 November of the same year. Following the integration, CKWB is now the seventh largest locally incorporated licensed bank in Hong Kong in terms of total assets.

During the past few years, the Retail Banking Group of CKWB committed substantial efforts in promoting service culture and enhancing service quality. By introducing innovative value propositions, CKWB has strengthened its position in the retail banking sector and expanded its market share. In December 2002, CKWB was awarded the "Hong Kong Retail Management Association Customer Service Award", and became the only bank to receive such recognition in that year. In addition, The Asset, a reputable finance magazine in Asia, selected CKWB's Perpetual Upper Tier II Capital Security as the "Best Hybrid Bank Bond Deal" in December 2002. These two awards represented the market's recognition of CKWB's innovativeness and customer-focused service spirit.

i. Business Performance

a. Earnings

Despite the difficult operating environment for the banking industry, CKWB's 2002 operating profit before provisions reached HK\$1,161 million, while net profit attributable to shareholders amounted to HK\$646 million.

b. Net interest income

In 2002, CKWB's net interest income reached HK\$1,707 million, mainly due to the increase in total loans to HK\$42.3 billion and interest income generated by the high quality fixed income securities invested by the Treasury Department. CKWB's net interest margin was improved to 2.5% in 2002.

- c. Non-interest income  
In the past, CKWB focused on exploring non-interest income avenues, including wealth management, corporate loans, credit cards and negative equity mortgage refinancing, all of which delivered outstanding results. In 2002, CKWB's non-interest income reached HK\$471 million. Retail banking, including wealth management, generated HK\$163 million in fees and commissions, while fees from corporate loans reached HK\$140 million, accounting for 34.7% and 29.7% of total non-interest income respectively.
- d. Operating expenses  
Following the acquisition of HKCB, CKWB formed the "Expense Control Committee" in June 2002. The Committee issued guidelines on the control of operating costs in different areas, including the reduction in overlapping costs between the two banks, rationalization of back office operations and the enhancement of staff productivity. With the HK\$93 million cost synergies from the integration, total operating costs of the two banks declined from 2001 year-end figure of HK\$1,110 million before the integration to HK\$1,018 million after the integration. CKWB's cost-to-income ratio was 46.7% in 2002.
- e. Charge for bad and doubtful debts  
In view of Hong Kong's difficult economic outlook, CKWB adopted a prudent provisioning policy by making a HK\$509 million charge for bad and doubtful debts in 2002, including HK\$78 million in provisions against the decline in value of collateral properties.

In addition, CKWB made a provision of HK\$34 million for revaluation deficit on investment properties, of which HK\$20 million was transferred from the property revaluation reserve. As a result, the net impact on the profit for the period was HK\$14 million.

## ii. Asset Quality

- a. Loans, deposits and asset size  
At the end of 2002, CKWB's total assets reached HK\$72.9 billion, while its total loans and total deposits were HK\$42.3 billion and HK\$60.7 billion respectively.
- b. Corporate governance  
To enhance corporate governance, CKWB established the Credit and Risk Management Committee, the Executive Personnel Committee and the Audit Committee at Board level in 2002, and appointed Mr. Ronald Carstairs, a veteran banker, and Mr. Stephen Fan, an experienced professional accountant, as independent non-executive directors, who chair the Credit and Risk Management Committee and the Audit Committee respectively. The Credit and Risk Management Committee oversees CKWB's risk management through various committees at CKWB's management level, including Management Committee, Credit Committee, Non Performing Loan Committee, International Credit Committee, Asset & Liability Management Committee and Operations & Control Committee, with a view to optimizing CKWB's risk management system.  
  
During 2002, CKWB carried out a review and alignment of the credit policies, including loan classification and provisioning, and credit approval hierarchy of the two banks. Control procedures for new business areas were also implemented to support the business expansion of CKWB. During the same period, CKWB had revised and modified over 400 operational policies and procedures with a view to improving overall operational efficiencies and controls.
- c. Asset quality indicators  
In 2002, CKWB strove to enhance the overall asset quality. During the period, CKWB resolved HK\$1,075 million problem loans, and assigned over HK\$800 million worth of non-performing loans and assets recovered from debt-to-asset swap to CITIC International Assets Management Limited (formerly known as "Ka Wah Assets Management Limited") in June 2002. As a result, CKWB's non-performing loan ratio declined substantially to 4.1%. At the end of December 2002, CKWB's classified exposure was HK\$1,836 million, equivalent to 4.4% of total loans. Coverage ratio stood at 90%.
- d. Capital management  
On the capital management front, CKWB successfully raised HK\$726 million through a rights issue in January 2002. In May 2002, CKWB successfully issued US\$250 million perpetual subordinated guaranteed notes, the first-ever perpetual Upper Tier II Capital Security in Asia (ex-Japan). During 2002, CKWB issued HK\$3.5 billion worth of certificates of deposit, which effectively lowered the overall cost of funds, and prepared for future business development.
- e. Financial position  
At the end of December 2002, CKWB's unadjusted capital adequacy ratio was 17.2%. The loans to deposits ratio was 69.7%. The loans to total assets ratio was 58.1%. The average liquidity ratio was 46.9% for January to October 2002, and 47.1% for November to December 2002.

Asset Quality Indicators

**CITIC Ka Wah Bank  
Indicators for 2002**

Classified Exposure	4.4%
NPL	4.1%
Coverage	90%
Mainland Loans to Total Loans	17.6%
Unadjusted Capital Adequacy	17.2%
Loans to Deposits	69.7%
Loans to Total Assets	58.1%
Average Liquidity	January to October: 46.9%
	November to December: 47.1%

iii. Continued Business Development

During 2002, CKWB launched over 30 new products and services.

New products and services launched in 2002

- |           |   |
|-----------|---|
| 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>  |
| July      | <ul style="list-style-type: none"> <li>• Credit Card ‘Smart Balance Transfer Program’</li> <li>• Sun Life ‘Refundable Critical Illness’ Plan</li> </ul>   |
| August    | <ul style="list-style-type: none"> <li>• Interest Rate Swap</li> <li>• Currency Swap</li> <li>• Equity-Linked Deposit</li> <li>• Credit Card Easy Cash-in Program</li> <li>• Credit Card ‘Happy Family Octopus Automated Add-Value Service’</li> <li>• Established ‘Movie Club’ for Credit Card members</li> <li>• Jointly launched ‘Hospital Cash Insurance Plan’ with Eagle Star Insurance</li> </ul> |
| September | <ul style="list-style-type: none"> <li>• Credit Card ‘Gen-X Reward Scheme’ Bi-monthly Offer and ‘Flexi Installment’ Awareness Program</li> <li>• ‘Sun Asset Builder’</li> </ul>   |
| October   | <ul style="list-style-type: none"> <li>• Currency-Linked Deposit</li> <li>• Acted as Placing Bank for HKMC’s Retail Bonds</li> </ul>  |
| November  | <ul style="list-style-type: none"> <li>• ‘Salaries Tax Loan’</li> <li>• Credit Card ‘Lucky “1” Program’</li> </ul>  |
| December  | <ul style="list-style-type: none"> <li>• ‘SuperFirst Mortgage Home Switching Flexi Plan’</li> <li>• Pre-Approved ‘Corporate Tax Loan’</li> </ul>  |

a. 140% Mortgage Refinancing Service

In May 2002, CKWB introduced the first-in-market 140% mortgage refinancing service targeting homeowners in negative equity (the “140% Program”). In 2002, CKWB approved over 1,000 applications, involving a total loan drawdown of HK\$1.4 billion. The 140% Program not only reflects CKWB’s commitment to providing innovative service to customers, but also generates additional interest and fee income for CKWB. At the end of 2002, CKWB enhanced the service by launching SuperFirst Mortgage Home Switching Flexi Plan, which caters for negative equity homeowners who wish to switch property. To date, CKWB has approved more than 150 applications, with the amount exceeding HK\$200 million, under the SuperFirst Flexi Plan.

- b. Credit Card  
CITIC Ka Wah VISA, CKWB's first credit card launched in November 2001, offers innovative value propositions and brand new incentives and services. CKWB has issued more than 100,000 cards with HK\$338 million credit card receivables at the end of 2002.
- c. Loan Syndication  
In March 2002, CKWB established a Syndication Desk under the Corporate Banking Group. In 2002, CKWB successfully completed nine syndicated term loan facilities, five of which CKWB acted as the sole arranger, generating approximately HK\$14 million in fee income.
- d. China Banking  
At the beginning of 2002, CKWB established the China Banking Department to organize and coordinate CKWB's liaison with the CITIC Group entities in the Mainland, and to plan and formulate China business strategies, as well as conducting market exploration and customer relationship development.

In 2002, CKWB conducted a number of wealth management seminars in Shenzhen, Shanghai, and Hangzhou in collaboration with CITIC Industrial Bank and CITIC Securities to develop wealth management services in the Mainland. Currently, CKWB is actively exploring the market for residential mortgages in the Mainland, targeting non-PRC residents. In respect of the credit card business jointly developed by CKWB and CITIC Industrial Bank, the first card is scheduled for launch in the second half of this year, targeting an issuance of 300,000 cards during the first year of launch.

On corporate banking, CKWB has been offering corporate customers with RMB loans through CITIC Industrial Bank since the beginning of 2000, and the business has been growing steadily. Recently, CKWB has reached an agreement with the Guangzhou branch of CITIC Industrial Bank to offer RMB loans in the Mainland to CKWB's SME customers.

- iv. The Integration with HKCB
  - a. Integration in all areas  
CKWB has fully aligned and integrated with HKCB in all areas on 25 November 2002, including products and services, operations, technology, risk management policies and related procedures. Currently, the number of retail branches has been reduced from 50 to 38, while the number of staff has been reduced from approximately 1,600 to approximately 1,400. Following the integration with HKCB, CKWB's total number of customers increased by 20%, while the number of its SME customers surged by 3 times, which facilitates future business development.
  - b. Synergies  
In 2002, CKWB recorded synergies of HK\$181 million, approximately 51% of which came from cost savings and 49% from increased revenues.
- v. Future Development  
Looking into the future, CKWB will, on one hand, continue to actively develop its Hong Kong and Greater China businesses, and on the other hand, strive to enhance corporate governance and management effectiveness.
  - a. Business Development
    - Hong Kong Market Development*  
For 2003, the operating environment in Hong Kong is expected to remain difficult, and performance of economic indicators will remain uncertain. To overcome the future challenges, CKWB will adhere to the spirit of innovation, and will strive to achieve new business breakthroughs and develop new revenue generators. At the same time, CKWB will actively consider mergers and acquisitions with a view to further expanding business scale.
    - Greater China Development*  
Leveraging on the Board of Directors' extensive market network and solid Mainland business experience, CKWB will actively consider the establishment of business partnerships with CITIC Industrial Bank and China Construction Bank to promote business development.
  - b. Corporate Governance  
In 2002, CKWB carried out a tremendous amount of work to enhance corporate governance. In the future, CKWB will continue to strengthen the management and control of the eight major risks, and to further enhance the management information systems in order to cope with the implementation of the new capital adequacy requirements under the new Basel Capital Accord in 2006.
  - c. Enhancing Management Effectiveness  
In November 2002, CKWB formed a Management Committee with a view to enhancing management effectiveness. In the future, CKWB will strengthen its internal communications and organize quarterly CEO forums to deepen staff understanding on CKWB's vision, mission, core values and priorities, and to strengthen staff cohesion, with a view to developing stronger team spirit to strive for common goals.

To ensure excellence in business management, CKWB has piloted Total Quality Management (TQM) in its Retail Banking Group which resulted in the winning of the "Hong Kong Retail Management Association Customer Service Award" in 2002. In the future, CKWB will extend TQM to cover the entire organization, with emphasis placed on leadership, strategic planning, customer service, information analysis, HR focus, process management and business results. This is for CKWB to build sustainable leadership and a world-class business management system.

(2) *Asset Management*

i. Recovery and Management of Non-performing Loans

Originated from CKWB's Risk Assets Management Department, CITIC International Assets Management Limited ("CIAM") has accumulated solid experience in the recovery of problem loans and distressed assets management. Since 1997, recoveries amounted to approximately HK\$4 billion worth of cash and assets and the recovered assets has been effectively managed with a view to achieving preservation and appreciation of asset value.

During the Group's re-organization in 2002, over HK\$800 million worth of non-performing loans and recovered assets were injected into CIAM with a view to further drive down the non-performing loan ratio of the commercial banking arm and to chart the way forward for establishing a new line of business — direct investment — within the Group.

In the next two years, the goal of CIAM's management is to leverage on the extensive networks and vast resources of the CITIC Group for further recoveries of problem loans and better management of recovered assets in order to achieve a higher recovery rate, which will lead to cash realization and profit generation.

ii. Establishing Direct Investment Business in China

The Group plans to further develop its asset management and direct investment businesses by utilizing the experience of the team and the cash within CIAM.

In October 2002, CIAM signed an agreement with Shenzhen Guocheng Venture Capital Co., Ltd. and the Administration Center of Innofund under the Ministry of Science and Technology to form a joint venture investment company and an investment management company, pending final government approval. To capitalize on the immense business opportunities in the Mainland, CIAM aims to establish the company as an internationally recognized China-focused direct investment house within three years, targeting aggregate investment for 2003 at approximately HK\$200 million.

At the same time, CIAM will offer distressed asset management and financial advisory services to other institutions, including members of the CITIC Group, to boost non-interest income.

iii. Target

The current assets of CIAM amounted to approximately HK\$1.23 billion. In the future, CIAM will co-operate closely with various units within the CITIC Group, presenting CIAM with further opportunities to effectively utilize the Group's resources, and to contribute quality earnings to the Group in the near future.

(3) *Investment Banking*

i. Shareholding Structure

CITIC Capital Markets Holdings Limited ("CCMH") was established in January 2002 as the holding company of Ka Wah Capital Limited and Cargary Securities Limited. In May 2002, CITIC Pacific Limited ("CITIC Pacific") became a shareholder of CCMH. To unify their service brand names, Ka Wah Capital Limited and Cargary Securities Limited were renamed as CITIC Capital Markets Limited ("CITIC Capital Markets") and CITIC Capital Securities Limited ("CITIC Capital Securities") in September 2002. Currently, CITIC and CIFH each owns 25% of CCMH, with the remaining 50% by CITIC Pacific. CCMH has been working closely with CKWB and CITIC Securities, its goal is to become a China-focused international investment bank leveraging on the strategic resources of the CITIC Group and world-class financial expertise.

ii. Performance

Despite the challenging operating environment, CCMH achieved a consolidated profit after tax of approximately HK\$42 million with total assets in excess of HK\$1.1 billion as at 31 December, 2002.

a. Investment Banking

In 2002, CITIC Capital Markets successfully raised over HK\$10 billion for clients by way of syndicated loans, commercial papers and certificates of deposit. Moreover, it participated in a number of equity corporate finance transactions, including the initial public offerings of China Oilfield Services Limited, Hainan Meilan Airport Company Limited, China Telecom Corporation Limited, and Kenfair International (Holdings) Limited.

b. Asset Management

CCMH focuses on assisting mainland investors to manage their investments in the global markets and global investors to invest in China-focused companies with a view to achieving capital appreciation. CCMH will soon launch its first retail guaranteed fund under the "CITIC Capital" brand, which will be distributed through the network of CKWB.

c. Securities Brokerage

During 2002, CITIC Capital Securities recorded a marked increase in the market share of brokerage transactions on the Stock Exchange of Hong Kong. Currently, CITIC Capital Securities operates 3 branches in Hong Kong. In addition to focusing on securities brokerage in Hong Kong, CITIC Capital Securities expanded its product range to also cover securities listed on the Thailand stock market, and broadened its institutional client base.

**5. China Banking Development**

China business development will be one of the Group's major focus. Following the establishment of CITIC Holdings in December of 2002, CIFH and CITIC's financial entities will jointly develop and cross-sell financial products under the separate supervision regulatory regime, and leverage on CITIC's brand equity and synergies to enhance overall competitiveness and profitability. In January 2003, the Group attached the China Banking Department under both CIFH and CKWB to effectively integrate resources and to enhance the Group's China market development capabilities.

### Three Business Models for Market Development

The Group strives to develop three business models for the China market, namely, private enterprises, personal wealth management, and Greater China market models.

#### (1) *Private Enterprise Market Model*

With trade financing as an entry point, the Group plans to organize seminars for private enterprises through collaboration with local business organizations, and engage the Beijing and Shanghai representative offices in front-line market development. The Group aims to attract private enterprises' funds to Hong Kong and to provide these enterprises with one-stop financial services.

To explore the vast market for private enterprises, the China Banking Department successfully organized trade finance seminars at the end of 2002 and the beginning of 2003 for private enterprises at Shenzhen, Guangzhou, Shanghai and Hangzhou to introduce the Group's one-stop financial services.

#### (2) *Personal Wealth Management Market Model*

The Group plans to develop wealth management services in collaboration with CITIC Industrial Bank, CITIC Securities and CITIC Trust, and to establish product sales teams at the representative offices in Beijing and Shanghai, targeting owners of private enterprises, and the management of PRC enterprises.

#### (3) *Greater China Market Model*

In December 2002, CIFH entered into separate memorandum of understanding with four Taiwanese banks, namely, Bank Sinopac, Chinatrust Commercial Bank, Land Bank of Taiwan and United World Chinese Commercial Bank. Through collaborating with these Taiwanese banks to set up a joint financial platform, CIFH's subsidiaries such as CKWB will be able to provide a comprehensive range of financial services to Taiwanese companies operating in the Mainland.

## 6. Future Development

The Group's structure after re-organization provides tremendous flexibility for future development. The Group will actively consider different initiatives, including the injection of CITIC's financial businesses and increasing its interests in CCMH. Any of the consideration will be made on a commercial basis and at the interests of shareholders as well as complying with the relevant regulatory requirements.

Being the financial flagship of CITIC outside Mainland China, CIFH's goal is to become a financial supermarket by providing a comprehensive range of financial services, and to establish a cross-strait financial bridge by leveraging on CITIC's brand equity and synergies.

## FINAL DIVIDEND

At the annual general meeting to be held on Friday, 16 May 2003 ("**Annual General Meeting**"), the Directors will propose a final dividend of HK\$0.13 per share which, together with the interim dividend of HK\$0.03 per share paid in September 2002, will constitute a total dividend of HK\$0.16 per share for the full year. This represents an increase of 191% over the total dividend of HK\$0.055 per share for the year 2001. Shareholders whose names are on the Register of Members at the close of business on Friday, 4 April 2003 will be entitled to the proposed final dividend. The final dividend will be paid in cash, with an option to the Shareholders to choose to receive new shares, credited as fully paid up, in lieu of cash. This scrip dividend scheme is conditional upon the passing of the relevant resolution at the Annual General Meeting and the Listing Committee of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") granting the listing of and permission to deal in the new shares. The dividend warrants and the share certificates for the scrip dividend will be sent to Shareholders by ordinary mail on or about Wednesday, 21 May 2003. Details of the scrip dividend and the election form will be sent to the Shareholders on or about Monday, 7 April 2003.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 1 April 2003 to Friday, 4 April 2003, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Monday, 31 March 2003.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year. In January 2002, CITIC Capital Securities Limited (then known as Cargary Securities Limited), the then subsidiary of the Company, subscribed 553,897 rights shares of the Company at the subscription price of HK\$1.68 per share pursuant to the 1 for 6 Rights Issue of the Company. The shares were subsequently sold on the Stock Exchange at the price range of HK\$1.97 to HK\$2.075 per share in January 2002. Save as mentioned above, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

By Order of the Board  
**CITIC International Financial Holdings Limited**  
**Chang Zhenming**  
*Chief Executive Officer*

Hong Kong, 12 March 2003

*Remark: A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange will be subsequently published on the website of the Stock Exchange in due course.*

"Please also refer to the published version of this announcement in SCMP".