

FINANCIAL SECTION

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REPORT OF THE DIRECTORS

The directors have pleasure in presenting their annual report together with the audited accounts for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES

The principal activities of the Group and the Bank are the provision of general banking and related financial services, primarily in Hong Kong. The Bank also operates two branches in the United States of America. Particulars of the Bank's subsidiaries at 31 December 2000 are set out in note 19 on the accounts.

ACCOUNTS

The profit of the Group for the year ended 31 December 2000 and the state of the Bank's and the Group's affairs as at that date are set out in the accounts on pages 55 to 102.

DIVIDENDS

An interim dividend of HK\$0.02 (1999: HK\$Nil) per share was paid on 15 September 2000. The directors recommend the payment of a final dividend of HK\$0.05 (1999: HK\$0.01) per share in respect of the year ended 31 December 2000.

CHARITABLE DONATIONS

Donations made by the Group during the year amounted to HK\$986,129 (1999: HK\$255,135).

FIXED ASSETS

Movements in fixed assets are set out in note 22 on the accounts.

RESERVES

Movements in the reserves of the Group and the Bank during the year are set out in note 28 on the accounts.

SHARE CAPITAL AND OPTIONS

A Senior Executive Share Option Scheme (the "Option Scheme") is maintained by the Bank, under which eligible senior executives (including executive directors) of the Bank were granted share options for subscription of shares of the Bank.

Movements in the share capital of the Bank and details regarding share options granted and the exercise of share options under the Option Scheme during the year are set out in note 27 on the accounts.

DIRECTORS

The directors during the financial year and up to the date of this report are as follows (arranged in the order of number of strokes of the directors' Chinese surnames):

Mr Yu Baozhong

(Independent Non-executive Director)

Mr Li Hengxun

Mr Zhou Hanrong

Dr Daniel H Lam

(Independent Non-executive Director)

Mr Lam Kwong Siu

(Independent Non-executive Director)

Mr Hong Yuncheng

(Chairman)

Mr Zhang Mingqian

(Executive Vice President and Alternate Chief Executive Officer)

Mr Zhuang Shougang

Mr Zhao Shengbiao

(Executive Vice President and Country Head, USA)

Mr Cai Zhongzhi

(President and Chief Executive Officer)

Mr Brian Tang See King

Mr Kelvin Lo Wing Yat

(Executive Vice President)

Mr Dou Jianzhong

Mr Wang Xianzhang

(resigned on 2 January 2001)

Mr Nelson Tsao Youn Zain

(passed away on 18 March 2000)

Mr Yang Guangqi

(resigned on 12 June 2000)

Messrs Kong Dan and Yang Chao were appointed as directors on 2 January 2001. Mr Kong was elected as Chairman of the Bank on 12 January 2001 upon Mr Hong Yuncheng's resignation from the position.

In accordance with Article 111(1) of the Bank's Articles of Association, Messrs Kong Dan and Yang Chao retire from the Board at the forthcoming Ordinary Yearly Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 118 of the Bank's Articles of Association, Messrs Hong Yuncheng, Zhang Mingqian, Kelvin Lo Wing Yat and Brian Tang See King retire from the Board by rotation at the forthcoming Ordinary Yearly Meeting and Messrs Zhang Mingqian and Kelvin Lo Wing Yat, being eligible, offer themselves for re-election.

None of the directors has a service contract with the Bank or any of its subsidiaries which is not determinable by the Bank within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' INTERESTS

At 31 December 2000, the beneficial interests of the directors in the share capital of the Bank as recorded in the register maintained under section 29 of the Securities (Disclosure of Interests) Ordinance were as follows:

| Name of director | Ordinary shares of HK\$1 each | | | Total interests |
|------------------------|-------------------------------|------------------|-----------------|-----------------|
| | Personal interests | Family interests | Other interests | |
| Mr Hong Yuncheng | – | – | 3,000,000 | 3,000,000 |
| Mr Cai Zhongzhi | – | – | 3,000,000 | 3,000,000 |
| Mr Zhang Mingqian | – | – | 2,000,000 | 2,000,000 |
| Dr Daniel H Lam | 183,970 | 118,089 | – | 302,059 |
| Mr Zhao Shengbiao | 1,200,000 | – | 614,114 | 1,814,114 |
| Mr Kelvin Lo Wing Yat | – | – | 2,000,000 | 2,000,000 |
| Mr Brian Tang See King | – | – | 1,000,000 | 1,000,000 |

At 31 December 2000, the directors of the Bank had the following interests in options to subscribe for shares (closing market value per share was HK\$2.675 at 29 December 2000) of the Bank granted pursuant to the Option Scheme of the Bank:

| Name of director | No. of options | Date granted | Period during which options exercisable | Price per share to be paid on exercise of options HK\$ | No. of options outstanding at 31 December 2000 |
|------------------------|----------------|----------------|---|---|--|
| Mr Hong Yuncheng | 3,000,000 | 17 August 1999 | 24 February 2000 – 29 March 2005 | 2.30 | 3,000,000 |
| Mr Cai Zhongzhi | 3,000,000 | 17 August 1999 | 24 February 2000 – 29 March 2005 | 2.30 | 3,000,000 |
| Mr Zhang Mingqian | 2,000,000 | 17 August 1999 | 10 May 2000 – 29 March 2005 | 2.30 | 2,000,000 |
| Mr Zhao Shengbiao | 187,000 | 10 April 1996 | 11 April 1996 – 29 March 2005 | 1.00 | 87,000 |
| | 210,875 | 8 May 1997 | 9 May 1997 – 29 March 2005 | 1.00 | 210,875 |
| | 316,239 | 6 May 1998 | 7 May 1998 – 29 March 2005 | 1.00 | 316,239 |
| Mr Kelvin Lo Wing Yat | 2,000,000 | 17 August 1999 | 31 October 1999 – 29 March 2005 | 2.30 | 2,000,000 |
| Mr Brian Tang See King | 1,000,000 | 17 August 1999 | 11 February 2000 – 29 March 2005 | 2.30 | 1,000,000 |

The directors did not exercise any options during the year.

No contract of significance in relation to the Bank's business to which the Bank, its subsidiaries, holding company or fellow subsidiaries was a party and in which a director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Apart from the above, at no time during the year was the Bank, its subsidiaries, holding company or fellow subsidiaries a party to any arrangement to enable the directors or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

SUBSTANTIAL SHAREHOLDER

At 31 December 2000, the register of substantial shareholders maintained under section 16(1) of the Securities (Disclosure of Interests) Ordinance shows that the Bank has been notified of the following interests, being 10% or more, in the Bank's issued share capital.

| Name of shareholder | Number of ordinary shares of HK\$1 each | Shareholding % |
|--|--|-----------------------|
| China International Trust and Investment Corporation ("CITIC") | 1,433,317,209 | 55.24% |

During the year, the Group entered into transactions with CITIC, which is the Bank's controlling shareholder, and CITIC's other subsidiaries in the normal course of business. The Group's and the Bank's balances with CITIC and its other subsidiaries as at 31 December 2000 are set out in note 16 on the accounts.

CONNECTED TRANSACTIONS

On 1 September 2000, the Bank entered into a tenancy agreement with Cargary Securities Limited ("Cargary"), a non-wholly owned subsidiary, under which the Bank agreed to let to Cargary the premises on 2nd and 3rd Floors, Ka Wah Bank Centre, 232 Des Voeux Road Central, Hong Kong for a period of one year (exclusive of rates and management fee) commencing from 1 January 2000 at a monthly rental of HK\$137,016. The tenancy agreement is subject to an option of renewal for a second term of one year and a further option for a third term of one year at the then market rent. The aggregate rental for the year pursuant to the tenancy agreement was HK\$1,644,192.

On 11 October 2000, the Bank entered into an agency agreement with Cargary under which Cargary appointed the Bank as its non-exclusive agent to act on its behalf to receive orders for trading of securities from its customers through the Bank's branch network. For each successfully executed transaction, the Bank is entitled to receive from Cargary an agency fee at such rate as mutually agreed by both parties from time to time (being not less than 30% of the transaction value). The aggregate agency fee received for the year pursuant to the agency agreement was HK\$16,624,845.

The Bank holds 51% of Cargary's issued share capital while the remaining 49% is held by True Worth Investments Limited, a wholly owned subsidiary of CITIC. Accordingly, the transactions contained in the agreements constitute connected transactions under the Listing Rules of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In the opinion of the directors and as confirmed by two independent non-executive directors, the transactions in questions were conducted on terms that are fair and reasonable so far as the Bank's shareholders are concerned and were entered into in accordance with the terms of the respective agreement. The aggregate amount of each of the rental fee and agency fee for the year did not exceed the amount of 3% of the book value of the net tangible assets of the Group as disclosed in the audited accounts of the year.

PURCHASE, SALE OR REDEMPTION OF THE BANK'S LISTED SECURITIES

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

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Bank was entered into or existed during the year.

MAJOR CUSTOMERS

The directors believe that the five largest customers of the Group accounted for less than 30% of the total of interest income and other operating income of the Group in the year.

GUIDELINE ON FINANCIAL DISCLOSURE BY LOCALLY INCORPORATED AUTHORISED INSTITUTIONS

The accounts of the Bank for the year ended 31 December 2000 fully comply with the recommendations in the Guideline on the "Financial Disclosure by Locally Incorporated Authorised Institutions" issued by the Hong Kong Monetary Authority.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

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

AUDITORS

A resolution for the re-appointment of KPMG as auditors of the Bank is to be proposed at the forthcoming Ordinary Yearly Meeting.

On behalf of the Board

Kong Dan
Chairman

Hong Kong, 12 February 2001