

Auditors' report to the shareholders of CITIC Ka Wah Bank Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 10 to 62 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Bank and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2001 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Certified Public Accountants
Hong Kong, 28 February 2002

CITIC Ka Wah Bank Limited
Financial statements for the year ended 31 December 2001

	Note	2001	2000 Restated
		HK\$'000	HK\$'000
Interest income		<u>3,376,670</u>	3,759,046
Interest expense		<u>(2,130,383)</u>	<u>(2,607,670)</u>
Net interest income		1,246,287	1,151,376
Fees and commission income		371,735	291,663
Fees and commission expense		(23,047)	(17,245)
Other revenue	3(a)	17,900	18,033
Other operating income	3(b)	<u>176,561</u>	<u>156,101</u>
Operating income		1,789,436	1,599,928
Operating expenses	3(c)	<u>(759,169)</u>	<u>(648,052)</u>
Operating profit before provisions		1,030,267	951,876
Charge for bad and doubtful debts		<u>(340,961)</u>	<u>(318,571)</u>
Operating profit	3	689,306	633,305
Net loss on disposal of tangible fixed assets		(765)	(1,999)
Net profit on disposal of held-to-maturity securities		515	10,433
Provision on held-to-maturity securities and investment securities		<u>(3,337)</u>	<u>(5,694)</u>
Profit from ordinary activities before taxation	33	685,719	636,045
Taxation	5(a)	<u>(49,607)</u>	<u>(53,383)</u>
Profit from ordinary activities after taxation		636,112	582,662
Minority interests		<u>(19,484)</u>	<u>(50,521)</u>
Profit attributable to shareholders	6 & 30	616,628	532,141
Dividends attributable to the year:	7	=====	=====
Interim dividend declared and paid during the year		77,859	51,897
Final dividend proposed after the balance sheet date		<u>75,702</u>	<u>129,743</u>
		153,561	181,640
		=====	=====
Earnings per share	8		
Basic		23.30¢	20.11¢
		=====	=====
Diluted		23.28¢	20.09¢
		=====	=====

The notes on pages 18 to 62 form part of these financial statements.

Consolidated statement of recognised gains and losses
for the year ended 31 December 2001
(Expressed in Hong Kong dollars)

	<i>Note</i>	<i>2001</i> HK\$'000	<i>2000</i> HK\$'000
Surplus on revaluation of investment properties	30(b)	151	-
Exchange differences on translation of the financial statements of foreign entities	30(f)	<u>(1)</u>	<u>131</u>
Net gains not recognised in the consolidated income statement		150	131
Profit attributable to shareholders	6 & 30	<u>616,628</u>	<u>532,141</u>
Total recognised gains and losses		<u>616,778</u> =====	<u>532,272</u> =====

The notes on pages 18 to 62 form part of these financial statements.

Consolidated balance sheet at 31 December 2001
(Expressed in Hong Kong dollars)

	<i>Note</i>	<i>2001</i>	<i>2000</i>
		HK\$'000	Restated HK\$'000
Assets			
Cash and short-term funds	11 & 17	6,910,498	7,704,523
Placements with banks and other financial institutions maturing between one and twelve months	15(d)	-	3,112,324
Trade bills less provisions	12	223,932	288,058
Certificates of deposit	13	2,948,033	4,258,256
Other investments in securities	14	1,494,101	1,086,128
Advances to customers and other accounts less provisions	15(a) & 17	33,701,258	33,721,683
Held-to-maturity securities and investment securities	19	13,014,873	5,463,881
Investments in associates	21	120,499	120,539
Tangible fixed assets	23	<u>1,014,107</u>	<u>902,437</u>
Total assets		<u><u>59,427,301</u></u>	<u><u>56,657,829</u></u>
Liabilities			
Deposits and balances of banks and other financial institutions	17 & 24	3,132,145	418,862
Current, fixed, savings and other deposits of customers	17 & 25	42,514,182	46,624,666
Certificates of deposit issued	26	3,493,904	1,653,582
Issued debt securities	27	373,371	398,197
Other accounts and provisions	5(b) & 17	<u>1,118,079</u>	<u>1,536,976</u>
Total liabilities		<u><u>50,631,681</u></u>	<u><u>50,632,283</u></u>

Consolidated balance sheet at 31 December 2001 (continued)
(Expressed in Hong Kong dollars)

	<i>Note</i>	<i>2001</i> HK\$'000	<i>2000</i> Restated HK\$'000
Capital resources			
Share capital	29	2,595,511	2,594,861
Reserves	30	3,658,166	3,248,319
Shareholders' funds		6,253,677	5,843,180
Minority interests		201,849	182,366
Loan capital	31	2,340,094	-
		8,795,620	6,025,546
		59,427,301	56,657,829
Total liabilities and capital resources			

Approved and authorised for issue by the board of directors on 28 February 2002

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)	Directors
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)	Chief Financial Controller
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The notes on pages 18 to 62 form part of these financial statements.

Balance sheet at 31 December 2001
(Expressed in Hong Kong dollars)

	Note	2001 HK\$'000	2000 Restated HK\$'000
Assets			
Cash and short-term funds	11 & 17	6,837,048	7,486,070
Placements with banks and other financial institutions maturing between one and twelve months	15(d)	-	3,112,324
Trade bills less provisions	12	223,932	288,058
Certificates of deposit	13	2,915,803	4,228,256
Other investments in securities	14	1,450,231	979,482
Advances to customers and other accounts less provisions	15(a) & 17	33,234,912	32,020,933
Amounts due from subsidiaries	18	790,134	2,221,126
Held-to-maturity securities and investment securities	19	12,932,959	5,327,625
Investments in subsidiaries	20	522,389	509,184
Investments in associates	21	119,908	119,908
Tangible fixed assets	23	<u>907,055</u>	<u>795,345</u>
Total assets		<u>59,934,371</u>	<u>57,088,311</u>
Liabilities			
Deposits and balances of banks and other financial institutions	17 & 24	3,132,145	418,862
Current, fixed, savings and other deposits of customers	17 & 25	42,514,182	46,624,666
Certificates of deposit issued	26	3,493,904	1,668,582
Issued debt securities	27	373,371	398,197
Other accounts and provisions	5(b) & 17	875,870	1,226,875
Amounts due to subsidiaries	22	<u>3,606,589</u>	<u>1,703,841</u>
Total liabilities		<u>53,996,061</u>	<u>52,041,023</u>

Balance sheet at 31 December 2001 (continued)
(Expressed in Hong Kong dollars)

	<i>Note</i>	<i>2001</i> HK\$'000	<i>2000</i> Restated HK\$'000
Capital resources			
Share capital	29	2,595,511	2,594,861
Reserves	30	3,342,799	2,452,427
Shareholders' funds		5,938,310	5,047,288
		-----	-----
Total liabilities and capital resources		59,934,371	57,088,311
		=====	=====

Approved and authorised for issue by the board of directors on 28 February 2002

}	Directors
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}	Chief Financial Controller
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The notes on pages 18 to 62 form part of these financial statements.

Consolidated cash flow statement
for the year ended 31 December 2001
(Expressed in Hong Kong dollars)

	<i>Note</i>	HK\$'000	2001 HK\$'000	HK\$'000	2000 HK\$'000
Net cash (outflow)/inflow from operating activities	33		(1,694,365)		278,695
Returns on investments and servicing of finance					
Dividends received from an associated company		7,207		7,379	
Dividends received on equity investment securities		3,184		1,000	
Dividends paid		<u>(207,602)</u>		<u>(77,842)</u>	
Net cash outflow from returns on investments and servicing of finance			(197,211)		(69,463)
Taxation					
Hong Kong Profits Tax refunded		8,098		-	
Hong Kong Profits Tax paid		(5,899)		(4,499)	
Overseas tax paid		<u>(1,757)</u>		<u>(121)</u>	
Total tax refunded/(paid)			442		(4,620)
Investing activities					
Payment for purchase of tangible fixed assets		(198,310)		(67,291)	
Proceeds from disposals of tangible fixed assets		20,330		18,837	
Loan repaid from/(advanced to) associates		40		(2)	
Payment for purchase of held-to-maturity securities and investment securities		(7,632,301)		(3,300,143)	
Net proceeds from disposals of held-to-maturity securities and investment securities		<u>78,486</u>		<u>512,055</u>	
Net cash outflow from investing activities			<u>(7,731,755)</u>		<u>(2,836,544)</u>
Net cash outflow before financing			(9,622,889)		(2,631,932)

Consolidated cash flow statement
for the year ended 31 December 2001 (continued)
(Expressed in Hong Kong dollars)

	<i>Note</i>	HK\$'000	²⁰⁰¹ HK\$'000	HK\$'000	²⁰⁰⁰ HK\$'000
Financing					
Issue of loan capital		2,340,094		-	
Issue of ordinary share capital	34	<u>1,321</u>		<u>916</u>	
Net cash inflow from financing			<u>2,341,415</u>		<u>916</u>
Decrease in cash and cash equivalents			(7,281,474)		(2,631,016)
Cash and cash equivalents at 1 January			<u>10,378,489</u>		<u>13,009,505</u>
Cash and cash equivalents at 31 December	35		<u>3,097,015</u>		<u>10,378,489</u>

The notes on pages 18 to 62 form part of these financial statements.

Notes on the financial statements
(Expressed in Hong Kong dollars)

1 Principal activities

The principal activities of CITIC Ka Wah Bank Limited (the “Bank”) and its subsidiaries (the “Group”), which materially affect the results or comprise the assets of the Group, are the provision of banking and related financial services.

2 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice (“SSAP”) and Interpretations issued by the Hong Kong Society of Accountants (“HKSA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance, and comply fully with the module on “Financial Disclosure by Locally Incorporated Authorised Institutions” issued by the Hong Kong Monetary Authority. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties, and the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Investments in subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Bank has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2 Investments in subsidiaries (continued)

In the Bank's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Bank, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(d) Investments in associates

An associate is a company in which the Group or the Bank has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

In the Group's and the Bank's balance sheets, investments in associates are stated at cost less impairment losses (see note 2(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

The results of the associates are included in the consolidated and the Bank's income statement to the extent of dividends received and receivable, providing the dividend is in respect of a period ending on or before the accounts of the Group and the Bank are approved by the directors. The results and reserves of associates are not equity accounted for in the consolidated financial statements as they are considered by the directors to be immaterial to the Group.

(e) Advances to customers and other accounts

Advances to customers, banks and other financial institutions are carried at amounts advanced less payments collected and deducting provisions for estimated losses.

Sales of accounts receivable on mortgage loans without recourse to the Bank are recognised when control over the receivables has been irrevocably transferred to a third party and the receivables are then no longer included in the balance sheet.

Assets, other than equity and debt securities, acquired in exchange for advances in order to achieve an orderly realisation are reclassified to other accounts. The assets acquired are recorded at the carrying value of the advance disposed of at the date of the exchange. Impairment losses (see note 2(i)), if necessary, are made to allow for declines in the estimated fair value of the assets acquired.

Interest accrued on doubtful debts is credited to a suspense account which is netted in the balance sheet against the relevant balances.

(f) Doubtful debts

Specific provisions are made for doubtful debts as and when they are considered necessary by the directors and, in addition, amounts have been set aside as general provisions for doubtful debts. The specific element relates to individual banking facilities; the general element relates to other exposures not separately identified but known from experience to exist in any portfolio of banking facilities. These provisions are deducted from advances to customers, trade bills and other accounts. When there is no longer any realistic prospect of recovery, the outstanding debt is written off.

2 Significant accounting policies (continued)

(g) *Investments in securities*

The Group's and the Bank's policies for investments in securities other than investments in subsidiaries and associates are as follows:

- (i) Dated debt securities that the Group and/or the Bank have the ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less any provisions for diminution in value. Provisions are made when carrying amounts are not expected to be fully recovered and are recognised as an expense in the income statement, such provisions being determined for each investment individually.
- (ii) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as expenses in the income statement, such provisions being determined for each investment individually.
- (iii) Provisions against the carrying value of held-to-maturity securities and investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (iv) All other securities (whether held for trading or otherwise) are stated in the balance sheet at fair values. Changes in fair value are recognised in the income statement as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.
- (v) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

(h) *Tangible fixed assets and depreciation*

- (i) In preparing these accounts, advantage has been taken of the transitional provisions set out in paragraph 80 of SSAP 17 "Property, plant and equipment" issued by the HKSA, with the effect that other premises have not been revalued to open market value at the balance sheet date. It is not the directors' intention to revalue other premises in the future.
- (ii) Tangible fixed assets are carried in the balance sheet on the following bases:
 - Investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers;
 - Freehold land is not depreciated. Other premises are depreciated on a straight-line basis to write off their cost or valuation over their estimated useful lives which are as follows:

Land held on leases	- over the unexpired terms of the leases
Buildings	- over 30 years or the unexpired terms of the land leases, whichever is the shorter

2 Significant accounting policies (continued)

(h) *Tangible fixed assets and depreciation (continued)*

(ii) (continued)

- Furniture, fixtures and equipment are stated at cost less depreciation calculated on the straight-line basis to write off the assets over their estimated useful lives, which are generally between four and ten years.

(iii) Changes arising on the revaluation of investment properties are generally dealt with in reserves. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of the portfolio of investment properties, immediately prior to the revaluation; and
- when a surplus arises on revaluation, it will be taken to the income statement, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties, had previously been charged to the income statement.

(iv) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(v) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the income statement for the year. For all other fixed assets, any related revaluation surplus is transferred from the revaluation reserve to retained profits.

(i) *Impairment of assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);
- investments in subsidiaries and associates (except for those accounted for at fair value under notes 2(c) & (d)); and
- other assets.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2 Significant accounting policies (continued)

(i) *Impairment of assets (continued)*

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature, is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(j) *Revenue recognition*

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

- (i) Interest income and expenses are accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.
- (ii) Interest income from dated debt securities intended to be held to maturity is recognised as it accrues, as adjusted by the amortisation of the premium or discount on acquisition, so as to achieve a constant rate of return over the period from the date of purchase to the date of maturity.
- (iii) Fee income and expenses are recognised when earned or incurred except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised on an appropriate basis over the relevant period.
- (iv) Dividend income is recognised as follows:
 - dividend income from listed investments is recognised when the share price of the investment goes ex-dividend; and
 - dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(k) *Finance leases*

Leases under which substantially all the risks and benefits of ownership are transferred to lessees are classified as finance leases.

Where assets are leased out under finance leases, an amount representing the net investment in the lease is included in the balance sheet as advances to customers. Finance income implicit in the lease payments is taken to the income statement over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period.

2 Significant accounting policies (continued)

(l) *Operating lease charges*

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made.

(m) *Translation of foreign currencies*

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of foreign branches and subsidiaries are translated into Hong Kong dollars at the average exchange rates for the year. Balance sheet items are retranslated at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit and loss on disposal.

(n) *Deferred taxation*

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(o) *Provisions and contingent liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Bank has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 Significant accounting policies (continued)

(p) *Off-balance sheet financial instruments*

Off-balance sheet financial instruments arise from forward and swap transactions undertaken in the foreign exchange and interest rate markets. The accounting for these instruments is dependent upon whether the transactions are undertaken for dealing purposes, to hedge risk, or as part of the management of asset and liability portfolios.

Transactions undertaken for dealing purposes are marked to market and the net present value of the gain or loss arising is recognised in the income statement as dealing profits/losses, after appropriate deferrals for the unearned credit margin and future servicing costs.

Transactions designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions which they are hedging. Any profit or loss is recognised on the same basis as that arising from the related assets, liabilities or net positions.

Interest rate swap transactions undertaken as part of the management of asset and liability portfolios are separately identified and interest income or expense arising therefrom is netted off against the related interest income or expense on the on-balance sheet items these transactions are hedged against.

Unrealised gains on transactions which are marked to market are included in “Advances to customers and other accounts less provisions” in the balance sheet. Unrealised losses on transactions which are marked to market are included in other accounts and provisions”.

(q) *Sale and repurchase agreements*

Securities sold under sale and repurchase agreements are considered to be, in substance, secured loans. Therefore the securities are maintained on the balance sheet at cost or market value depending on their classification as held to maturity securities, investment securities or other investments and the proceeds of the sale are included in “Current, fixed, savings and other deposits of customers” or “Deposits and balance of banks and other financial institutions” depending on the identity of the counterparty. The difference between the sale price and the repurchase price is amortised on an effective yield basis over the period from the date of sale to the date of repurchase.

(r) *Retirement costs*

The Group operates a defined contribution provident fund and a Mandatory Provident Fund scheme. The retirement costs are charged to the income statement as and when the contributions fall due.

(s) *Related parties*

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

2 Significant accounting policies (continued)

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise tangible fixed assets, corporate and financing expenses and minority interests.

(u) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include placements with banks and other financial institutions repayable within three months from the date of the placement.

3 Operating profit

The operating profit is stated after taking account of:

(a) Other revenue

	<i>The Group</i>	
	<i>2001</i>	<i>2000</i>
	HK\$'000	HK\$'000
Dividend income		
Listed investments	8	10
Unlisted investments	10,383	8,379
Rental income less outgoings	<u>7,509</u>	<u>9,644</u>
	17,900	18,033
	=====	=====

3 Operating profit (continued)

(b) Other operating income

	<i>The Group</i>	
	2001 HK\$'000	2000 HK\$'000
Net gain on other investments in securities	96,574	104,344
Net gain arising from dealing in foreign currencies	28,044	25,425
Net (loss)/gain arising from other dealing activities	(371)	4,318
Others	<u>52,314</u>	<u>22,014</u>
	176,561	156,101
	=====	=====

(c) Operating expenses

Staff costs		
Salaries and other staff costs	429,333	383,703
Retirement costs (note 36)	29,116	21,250
Premises and equipment expenses		
Rental of premises	43,519	31,725
Depreciation (note 23)	65,696	62,052
Others	50,901	35,260
Auditors' remuneration	2,212	2,188
Others	<u>138,392</u>	<u>111,874</u>
	759,169	648,052
	=====	=====

(d) Individuals with highest emoluments:

Of the Group's five individuals with the highest emoluments, four (2000: two) are directors of the Bank whose emoluments are disclosed in note 4.

The emoluments of the remaining individual (2000: three) is as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries, allowances and benefits in kind	2,623	7,611
Bonuses	400	8,192
Pension contributions	<u>253</u>	<u>363</u>
	3,276	16,166
	=====	=====

3 Operating profit (continued)

(d) Individuals with highest emoluments: (continued)

The remuneration of this individual (2000: three) is within the following bands:

	<i>2001</i> <i>Number of</i> <i>individuals</i>	<i>2000</i> <i>Number of</i> <i>individuals</i>
HK\$3,000,001 - HK\$3,500,000	1	-
HK\$4,000,001 - HK\$4,500,000	-	2
HK\$7,500,001 - HK\$8,000,000	-	1
	<u>1</u>	<u>3</u>
	=====	=====

4 Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	<i>The Bank</i>	
	<i>2001</i> <i>HK\$'000</i>	<i>2000</i> <i>HK\$'000</i>
Fees	5,250	4,350
Salaries, allowances and benefits in kind	17,294	13,131
Bonuses	2,576	3,867
Pension contributions	814	775
	<u>25,934</u>	<u>22,123</u>
	=====	=====

Included in the directors' remuneration were fees of HK\$900,000 (2000: HK\$900,000) paid to independent non-executive directors during the year.

In addition to the above emoluments, certain directors were granted share options under the Bank's Option Scheme. The details of these benefits in kind are disclosed under the paragraph "Share option scheme" in the directors' report.

The remuneration of the directors is within the following bands:

	<i>2001</i> <i>Number of</i> <i>directors</i>	<i>2000</i> <i>Number of</i> <i>directors</i>
HK\$ Nil - HK\$1,000,000	14	10
HK\$1,500,001 - HK\$2,000,000	1	2
HK\$2,000,001 - HK\$2,500,000	2	-
HK\$3,000,001 - HK\$3,500,000	1	1
HK\$3,500,001 - HK\$4,000,000	-	1
HK\$4,000,001 - HK\$4,500,000	2	2
HK\$4,500,001 - HK\$5,000,000	1	-
	<u>21</u>	<u>16</u>
	==	==

5 Taxation

(a) *Taxation in the consolidated income statement represents:*

	2001 HK\$'000	2000 HK\$'000
Provision for Hong Kong Profits Tax for the year	47,894	53,249
Overseas taxation	<u>1,713</u>	<u>134</u>
	<u>49,607</u>	<u>53,383</u>

The provision for Hong Kong Profits Tax is calculated at 16% (2000: 16%) of the estimated assessable profits for the year ended 31 December 2001. Taxation for overseas branches and subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

(b) *Taxation in the balance sheets, which is included in other accounts and provisions, represents:*

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Provision for Hong Kong Profits Tax	7,569	14,022	-	2,274
Provision for overseas taxation	<u>166</u>	<u>210</u>	<u>166</u>	<u>210</u>
	<u>7,735</u>	<u>14,232</u>	<u>166</u>	<u>2,484</u>

(c) *The major components of the unprovided deferred taxation at the balance sheet date are as follows:*

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Depreciation allowances in excess of depreciation charges	(33,890)	(11,486)	(33,852)	(11,317)
General provisions for bad and doubtful loans and advances	<u>59,376</u>	<u>56,683</u>	<u>58,491</u>	<u>49,243</u>
Net deferred tax benefits	<u>25,486</u>	<u>45,197</u>	<u>24,639</u>	<u>37,926</u>

The surplus arising on the revaluation of investment properties does not constitute a timing difference as the disposal of these assets at their carrying value would result in capital gains which are not subject to tax.

6 Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a profit of HK\$1,097,152,000 (2000: HK\$462,329,000) which has been dealt with in the financial statements of the Bank.

7 Dividends

(a) Dividends attributable to the year

	2001 HK\$'000	2000 HK\$'000
Interim dividend declared and paid of HK\$0.03 (2000: HK\$0.02) per share	77,859	51,897
Final dividend proposed after the balance sheet date of HK\$0.025 (2000: HK\$0.05) per share	<u>75,702</u>	<u>129,743</u>
	153,561	181,640
	=====	=====

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2001 HK\$'000	2000 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year of HK\$0.05 (2000: HK\$0.01) per share	<u>129,743</u>	<u>25,945</u>
	=====	=====

8 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on profit attributable to shareholders of HK\$616,628,000 (2000: HK\$532,141,000) and on the weighted average of 2,647,023,734 (2000 as restated: 2,646,514,542) ordinary shares in issue during the year. The weighted average numbers of shares outstanding for 2001 and 2000 have been adjusted for the effects of the rights issue on 7 January 2002.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on profit attributable to shareholders of HK\$616,628,000 (2000: HK\$532,141,000) and on the weighted average of 2,649,030,438 (2000 as restated: 2,648,311,935) ordinary shares in issue during the year after adjusting for the effects of all dilutive potential ordinary shares.

(c) Reconciliation

	2001 Number of shares	2000 Number of shares Restated
Weighted average number of ordinary shares used in calculating basic earnings per share	2,647,023,734	2,646,514,542
Deemed issue of ordinary shares for no consideration	<u>2,006,704</u>	<u>1,797,393</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>2,649,030,438</u>	<u>2,648,311,935</u>
	=====	=====

9 Changes in accounting policies

(a) *Investment properties*

With effect from 1 January 2001, the Group adopted the revised SSAP 13 “Accounting for investment properties” issued by the HKSA. This results in a change of accounting treatment in respect of investment properties. Previously the Group took advantage of the exemption granted to banking companies under SSAP 13. As a result, investment properties were stated at cost less depreciation and not revalued.

Pursuant to the revised SSAP 13, such exemption granted to banking companies has been withdrawn. Investment properties are revalued annually by independent valuers on an open market value basis. Surpluses arising on revaluation on a portfolio basis are taken to the investment property revaluation reserve. Deficits arising on revaluation on a portfolio basis are firstly set off against any previous revaluation surplus and thereafter taken to the income statement.

As a result of the new accounting policy, the Group’s investment properties as at 31 December 2001 were stated at revalued amount and a surplus of HK\$151,000 was taken to the investment property revaluation reserve. The directors considered that the effect of this change for the year ended 31 December 2000 and the opening balance of retained profits of 2000 is not material and, therefore, this change in accounting policy has not been applied retrospectively.

(b) *Proposed dividends*

In prior years, dividends proposed or declared were recognised as liabilities in the accounting period to which they related. With effect from 1 January 2001, in order to comply with SSAP 19 (revised) “Events after the balance sheet date” issued by the HKSA, the Group recognises dividends proposed or declared as liabilities in the accounting period in which they are declared by the directors (in the case of interim dividends) or approved by the shareholders (in the case of final dividends). Consequently, dividend income from subsidiaries and associates is recognised as income in the Bank’s income statement in the accounting period in which they are declared by the subsidiaries’ and associates’ directors (in the case of interim dividends) or approved by the shareholders (in the case of final dividends).

As a result of the new accounting policy, the Group’s net assets as at the year end have been increased by HK\$76 million (2000: HK\$130 million). There is no impact on the Group’s profit attributable to shareholders for the periods presented. The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior periods.

10 Segment 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.

(i) *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 financial leases..
Corporate banking business:	It 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, centralised cash management for deposit taking and lending, management of investment securities and the overall funding of the Group.

10 Segment reporting (continued)

(i) Business segment (continued)

2001

	<i>The Group</i>						<i>Consolidated</i> HK\$'000
	<i>Retail</i> <i>banking</i> HK\$'000	<i>Corporate</i> <i>banking</i> HK\$'000	<i>Investment</i> <i>banking</i> HK\$'000	<i>Treasury</i> HK\$'000	<i>Unallocated</i> HK\$'000	<i>Inter-segment</i> <i>elimination</i> 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	<u>19,636</u>	<u>372</u>	<u>4,087</u>	-	<u>251,038</u>	<u>(275,133)</u>	-
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	<u>(179,282)</u>	<u>(43,403)</u>	<u>(14,522)</u>	<u>(13,831)</u>	<u>(24,095)</u>	<u>275,133</u>	-
Operating profit before provisions	175,936	417,479	32,689	345,588	58,575	-	1,030,267
Charge for bad and doubtful debt	<u>(51,804)</u>	<u>(289,096)</u>	<u>(61)</u>	-	-	-	<u>(340,961)</u>
Operating profit	124,132	128,383	32,628	345,588	58,575	-	689,306
Net loss on disposal of tangible fixed assets							(765)
Net profit on disposal of held-to-maturity securities							515
Provision on held-to-maturity securities and investment securities							<u>(3,337)</u>
Profit from ordinary activities before taxation							685,719
Taxation							<u>(49,607)</u>
Profit from ordinary activities after taxation							636,112
Minority interests							<u>(19,484)</u>
Profit attributable to shareholders							616,628
Depreciation for the year	<u>16,800</u>	<u>5,212</u>	<u>2,534</u>	<u>1,503</u>	<u>39,647</u>	<u>-</u>	<u>65,696</u>
Segment assets	14,521,299	21,906,903	515,884	21,576,299		(4,893,056)	53,627,329
Unallocated assets							<u>5,799,972</u>
Total assets							<u>59,427,301</u>
Segment liabilities	26,946,489	16,662,501	103,947	2,003,000		(4,400,186)	41,315,751
Unallocated liabilities							<u>9,315,930</u>
Total liabilities							<u>50,631,681</u>
Capital expenditure incurred during the year	<u>32,205</u>	<u>3,995</u>	<u>2,930</u>	<u>332</u>	<u>39,272</u>		<u>78,734</u>

10 Segment reporting (continued)

(i) Business segment (continued)

2000

	<i>The Group</i>						
	<i>Retail banking HK\$'000</i>	<i>Corporate banking HK\$'000</i>	<i>Investment banking HK\$'000</i>	<i>Treasury HK\$'000</i>	<i>Unallocated HK\$'000</i>	<i>Inter-segment elimination HK\$'000</i>	<i>Consolidated HK\$'000</i>
Net interest income	573,229	308,571	27,868	34,876	206,832	-	1,151,376
Non-interest income from external customers	59,490	148,127	130,281	105,080	5,574	-	448,552
Inter-segment revenue	<u>25,327</u>	<u>219</u>	<u>2,954</u>	<u>-</u>	<u>221,768</u>	<u>(250,268)</u>	<u>-</u>
Operating income	658,046	456,917	161,103	139,956	434,174	(250,268)	1,599,928
Operating expenses	(250,645)	(94,512)	(47,420)	(21,204)	(234,271)	-	(648,052)
Inter-segment operating expenses	<u>(132,490)</u>	<u>(62,306)</u>	<u>(9,925)</u>	<u>(17,047)</u>	<u>(28,500)</u>	<u>250,268</u>	<u>-</u>
Operating profit before provisions	274,911	300,099	103,758	101,705	171,403	-	951,876
Charge for bad and doubtful debt	<u>(20,780)</u>	<u>(297,850)</u>	<u>59</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(318,571)</u>
Operating profit	254,131	2,249	103,817	101,705	171,403	-	633,305
Net loss on disposal of tangible fixed assets							(1,999)
Net profit on disposal of held-to-maturity securities							10,433
Provision on held-to-maturity securities and investment securities							<u>(5,694)</u>
Profit from ordinary activities before taxation							636,045
Taxation							<u>(53,383)</u>
Profit from ordinary activities after taxation							582,662
Minority interests							<u>(50,521)</u>
Profit attributable to shareholders							532,141
Depreciation for the year	<u>14,279</u>	<u>5,491</u>	<u>1,618</u>	<u>1,212</u>	<u>39,452</u>	<u>-</u>	<u>62,052</u>
Segment assets	13,258,698	21,513,503	652,600	22,210,296		(4,451,011)	53,184,086
Unallocated assets							<u>3,473,743</u>
Total assets							56,657,829
Segment liabilities	27,615,205	15,909,232	280,425	2,647,000		(3,941,448)	42,510,414
Unallocated liabilities							<u>8,120,869</u>
Total liabilities							50,631,283
Capital expenditure incurred during the year	<u>24,093</u>	<u>2,121</u>	<u>4,034</u>	<u>1,930</u>	<u>35,114</u>		<u>67,292</u>

10 Segment reporting (continued)

(ii) 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 Bank itself, of the location of the branches responsible for reporting the results or booking the assets.

2001

	<i>Hong Kong</i> HK\$'000	<i>Mainland China</i> HK\$'000	<i>USA</i> HK\$'000	<i>Inter-segment elimination</i> HK\$'000	<i>Consolidated</i> 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

2000

	<i>Hong Kong</i> HK\$'000	<i>Mainland China</i> HK\$'000	<i>USA</i> HK\$'000	<i>Inter-segment elimination</i> HK\$'000	<i>Consolidated</i> HK\$'000
Operating income from external customers	1,528,491	10	71,427	-	1,599,928
Total assets	55,232,546	1,129	3,555,128	(2,130,974)	56,657,829
Capital expenditure incurred during the year	66,394	719	179	-	67,292

11 Cash and short-term funds

	<i>The Group</i>		<i>The Bank</i>	
	<i>2001</i> HK\$'000	<i>2000</i> HK\$'000	<i>2001</i> HK\$'000	<i>2000</i> HK\$'000
Cash and balances with banks and other financial institutions	477,225	380,823	403,775	372,125
Money at call and short notice	5,296,503	7,095,295	5,296,503	6,885,540
Treasury bills (including Exchange Fund Bills)	1,136,770	228,405	1,136,770	228,405
	6,910,498	7,704,523	6,837,048	7,486,070

(a) Money at call and short notice represents deposits of up to a maximum of one month maturity.

11 Cash and short-term funds (continued)

(b) *The analysis of treasury bills (including Exchange Fund Bills) is as follows:*

	<i>The Group and the Bank</i>	
	<i>2001</i>	<i>2000</i>
	HK\$'000	HK\$'000
Held-to-maturity securities	497,379	228,405
Other investments in securities	<u>639,391</u>	<u>-</u>
	<u>1,136,770</u>	<u>228,405</u>
	=====	=====
Unlisted and issued by central governments and central banks	<u>1,136,770</u>	<u>228,405</u>
	=====	=====

The maturity profile of securities included above and analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	<i>The Group and the Bank</i>	
	<i>2001</i>	<i>2000</i>
	HK\$'000	HK\$'000
3 months or less but not repayable on demand	399,032	228,405
1 year or less but over 3 months	<u>737,738</u>	<u>-</u>
	<u>1,136,770</u>	<u>228,405</u>
	=====	=====

12 Trade bills less provisions

	<i>The Group and the Bank</i>	
	<i>2001</i>	<i>2000</i>
	HK\$'000	HK\$'000
Trade bills	227,135	291,323
Specific provisions for bad and doubtful debts (note 16)	(979)	(21)
General provisions for bad and doubtful debts (note 16)	<u>(2,224)</u>	<u>(3,244)</u>
	<u>223,932</u>	<u>288,058</u>
	=====	=====

13 Certificates of deposit

	<i>The Group</i>		<i>The Bank</i>	
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Certificates of deposit	<u>2,948,033</u>	<u>4,258,256</u>	<u>2,915,803</u>	<u>4,228,256</u>
	=====	=====	=====	=====

13 Certificates of deposit (continued)

The maturity profile of certificates of deposit included above and analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	<i>The Group</i>		<i>The Bank</i>	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
3 months or less but not repayable on demand	1,041,802	199,995	1,041,802	199,995
1 year or less but over 3 months	1,642,194	661,887	1,609,964	661,887
5 years or less but over 1 year	264,037	3,195,479	264,037	3,165,479
After 5 years	-	200,895	-	200,895
	<u>2,948,033</u>	<u>4,258,256</u>	<u>2,915,803</u>	<u>4,228,256</u>

14 Other investments in securities

	<i>The Group</i>		<i>The Bank</i>	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Debt securities				
Listed in Hong Kong	14,849	-	14,849	-
Listed outside Hong Kong	918,361	18,243	918,361	-
Unlisted	<u>460,622</u>	<u>925,343</u>	<u>427,473</u>	<u>891,343</u>
	<u>1,393,832</u>	<u>943,586</u>	<u>1,360,683</u>	<u>891,343</u>
Equity securities				
Listed in Hong Kong	5,766	9,751	5,316	7,650
Listed outside Hong Kong	7,742	7,904	-	-
Unlisted	<u>86,761</u>	<u>124,887</u>	<u>84,232</u>	<u>80,489</u>
	<u>100,269</u>	<u>142,542</u>	<u>89,548</u>	<u>88,139</u>
	<u>1,494,101</u>	<u>1,086,128</u>	<u>1,450,231</u>	<u>979,482</u>
Issued by:				
Banks and other financial institutions	1,065,859	625,079	1,058,163	616,739
Corporate entities	94,882	348,229	60,795	252,010
Public sector entities	<u>333,360</u>	<u>112,820</u>	<u>331,273</u>	<u>110,733</u>
	<u>1,494,101</u>	<u>1,086,128</u>	<u>1,450,231</u>	<u>979,482</u>

14 Other investments in securities (continued)

	<i>The Group</i>		<i>The Bank</i>	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Market value of listed securities:				
Debt securities	933,210	18,243	933,210	-
Equity securities	<u>13,508</u>	<u>17,655</u>	<u>5,316</u>	<u>7,650</u>
	<u>946,718</u>	<u>35,898</u>	<u>938,526</u>	<u>7,650</u>

The maturity profile of debt securities included above and analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	<i>The Group</i>		<i>The Bank</i>	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
5 years or less but over 1 year	884,861	388,758	872,861	348,515
After 5 years	<u>508,971</u>	<u>554,828</u>	<u>487,822</u>	<u>542,828</u>
	<u>1,393,832</u>	<u>943,586</u>	<u>1,360,683</u>	<u>891,343</u>

15 Advances to customers and other accounts less provisions

(a) Advances to customers and other accounts

	<i>The Group</i>		<i>The Bank</i>	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Advances to customers (note 15(d))	32,454,727	31,925,836	32,080,073	30,807,364
Specific provisions for bad and doubtful debts (note 16)	(305,980)	(499,955)	(262,911)	(364,007)
General provisions for bad and doubtful debts (note 16)	<u>(368,878)</u>	<u>(351,027)</u>	<u>(363,348)</u>	<u>(304,527)</u>
	31,779,869	31,074,854	31,453,814	30,138,830
Advances to banks and other financial institutions (note 15(d))	95,692	580,987	95,692	24,013
Accrued interest and other accounts	<u>1,825,697</u>	<u>2,065,842</u>	<u>1,685,406</u>	<u>1,858,090</u>
	<u>33,701,258</u>	<u>33,721,683</u>	<u>33,234,912</u>	<u>32,020,933</u>

15 Advances to customers and other accounts less provisions (continued)

(b) Finance lease transactions

At 31 December 2001, the total minimum lease payments receivable under finance leases and hire purchase transactions, and their present values are as follows:

	<i>The Group and the Bank</i>		
	2001		
	<i>Present value of the minimum lease payments</i> HK\$'000	<i>Interest income relating to future periods</i> HK\$'000	<i>Total minimum lease payments</i> HK\$'000
Within 1 year	237,643	92,262	329,905
After 1 year but within 5 years	392,268	258,740	651,008
After 5 years	1,218,325	449,295	1,667,620
	1,848,236	800,297	2,648,533
Provisions for bad and doubtful debts	(440)		
	1,847,796		

(c) Non-performing loans are advances on which interest is being placed in suspense or on which interest accrual has ceased.

	<i>The Group</i>				
	<i>Gross advances</i> HK\$'000 %*		<i>Pledged amount</i> HK\$'000	<i>Specific provision made</i> HK\$'000	<i>Interest suspended</i> HK\$'000
As at 31 December 2001	1,471,876	4.54	908,838	278,263	168,227
As at 31 December 2000	1,517,266	4.75	860,073	442,003	223,414
	<i>The Bank</i>				
	<i>Gross advances</i> HK\$'000 %*		<i>Pledged amount</i> HK\$'000	<i>Specific provision made</i> HK\$'000	<i>Interest suspended</i> HK\$'000
As at 31 December 2001	1,217,387	3.79	718,919	240,943	136,076
As at 31 December 2000	1,117,533	3.63	641,373	309,735	184,733

* Based on total advances to customers

There were no advances to banks and other financial institutions in the Group and the Bank on which interest is being placed in suspense or on which interest accrual has ceased as at 31 December 2001 and 31 December 2000, nor were there any specific provisions made for them on these two days.

15 Advances to customers and other accounts less provisions (continued)

(d) *The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:*

	<i>The Group</i>		<i>The Bank</i>	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Advances to customers:				
Repayable on demand	2,674,651	2,421,999	2,658,604	2,402,861
3 months or less but not repayable on demand	3,041,732	4,223,570	2,990,669	3,999,723
1 year or less but over 3 months	4,204,068	4,575,858	3,990,335	4,148,098
5 years or less but over 1 year	12,017,351	9,042,697	12,005,896	8,762,539
After 5 years	10,058,532	10,877,810	10,024,880	10,814,032
Undated	<u>458,393</u>	<u>783,902</u>	<u>409,689</u>	<u>680,111</u>
	<u>32,454,727</u>	<u>31,925,836</u>	<u>32,080,073</u>	<u>30,807,364</u>
Placements with and advances to banks and other financial institutions:				
1 month or less but not repayable on demand	-	556,974	-	-
3 months or less but over 1 month	-	3,112,324	-	3,112,324
5 years or less but over 1 year	<u>95,692</u>	<u>24,013</u>	<u>95,692</u>	<u>24,013</u>
	<u>95,692</u>	<u>3,693,311</u>	<u>95,692</u>	<u>3,136,337</u>
Representing:				
Placements with banks and other financial institutions maturing between one and twelve months	-	3,112,324	-	3,112,324
Advances to banks and other financial institutions (note 15(a))	<u>95,692</u>	<u>580,987</u>	<u>95,692</u>	<u>24,013</u>
	<u>95,692</u>	<u>3,693,311</u>	<u>95,692</u>	<u>3,136,337</u>

16 Provisions for bad and doubtful debts

The Group - 2001

	<i>Specific</i> HK\$'000	<i>General</i> HK\$'000	<i>Total</i> HK\$'000	<i>Suspended interest</i> HK\$'000
At 1 January	530,860	354,271	885,131	223,414
Amounts written off	(595,242)	-	(595,242)	(200,747)
New provisions charged to the income statement	488,353	61,603	549,956	-
Provisions released back to the income statement	(167,995)	(41,000)	(208,995)	-
Amounts recovered	89,798	-	89,798	-
Transfer between provisions	3,772	(3,772)	-	-
Interest suspended during the year	-	-	-	168,580
Suspended interest recovered	-	-	-	(22,874)
Exchange differences	-	-	-	(146)
At 31 December	<u>349,546</u>	<u>371,102</u>	<u>720,648</u>	<u>168,227</u>
Representing:				
Trade bills (note 12)	979	2,224	3,203	154
Advances to customers (note 15(a))	305,980	368,878	674,858	168,073
Other accounts	<u>42,587</u>	<u>-</u>	<u>42,587</u>	<u>-</u>
	<u>349,546</u>	<u>371,102</u>	<u>720,648</u>	<u>168,227</u>

The Bank - 2001

	<i>Specific</i> HK\$'000	<i>General</i> HK\$'000	<i>Total</i> HK\$'000	<i>Suspended interest</i> HK\$'000
At 1 January	392,392	307,771	700,163	184,733
Amounts written off	(480,949)	-	(480,949)	(172,464)
New provisions charged to the income statement	432,606	61,573	494,179	-
Provisions released back to the income statement	(118,736)	-	(118,736)	-
Amounts recovered	74,812	-	74,812	-
Transfer between provisions	3,772	(3,772)	-	-
Interest suspended during the year	-	-	-	139,822
Suspended interest recovered	-	-	-	(15,868)
Exchange differences	-	-	-	(146)
At 31 December	<u>303,897</u>	<u>365,572</u>	<u>669,469</u>	<u>136,077</u>
Representing:				
Trade bills (note 12)	979	2,224	3,203	154
Advances to customers (note 15(a))	262,911	363,348	626,259	135,923
Other accounts	<u>40,007</u>	<u>-</u>	<u>40,007</u>	<u>-</u>
	<u>303,897</u>	<u>365,572</u>	<u>669,469</u>	<u>136,077</u>

16 Provisions for bad and doubtful debts (continued)

The Group - 2000

	<i>Specific</i> HK\$'000	<i>General</i> HK\$'000	<i>Total</i> HK\$'000	<i>Suspended interest</i> HK\$'000
At 1 January	726,547	309,817	1,036,364	152,711
Amounts written off	(510,493)	-	(510,493)	(73,022)
New provisions charged to the income statement	419,186	45,444	464,630	-
Provisions released back to the income statement	(146,059)	-	(146,059)	-
Amounts recovered	40,619	-	40,619	-
Transfer between provisions	1,036	(1,036)	-	-
Interest suspended during the year	-	-	-	193,207
Suspended interest recovered	-	-	-	(48,854)
Exchange differences	24	46	70	(628)
At 31 December	<u>530,860</u>	<u>354,271</u>	<u>885,131</u>	<u>223,414</u>
Representing:				
Trade bills (note 12)	21	3,244	3,265	-
Advances to customers (note 15(a))	499,955	351,027	850,982	223,414
Other accounts	<u>30,884</u>	<u>-</u>	<u>30,884</u>	<u>-</u>
	<u>530,860</u>	<u>354,271</u>	<u>885,131</u>	<u>223,414</u>

The Bank - 2000

	<i>Specific</i> HK\$'000	<i>General</i> HK\$'000	<i>Total</i> HK\$'000	<i>Suspended interest</i> HK\$'000
At 1 January	552,754	265,309	818,063	127,406
Amounts written off	(404,620)	-	(404,620)	(43,371)
New provisions charged to the income statement	327,636	43,452	371,088	-
Provisions released back to the income statement	(109,333)	-	(109,333)	-
Amounts recovered	24,895	-	24,895	-
Transfer between provisions	1,036	(1,036)	-	-
Interest suspended during the year	-	-	-	143,553
Suspended interest recovered	-	-	-	(42,152)
Exchange differences	24	46	70	(703)
At 31 December	<u>392,392</u>	<u>307,771</u>	<u>700,163</u>	<u>184,733</u>
Representing:				
Trade bills (note 12)	21	3,244	3,265	-
Advances to customers (note 15(a))	364,007	304,527	668,534	184,733
Other accounts	<u>28,364</u>	<u>-</u>	<u>28,364</u>	<u>-</u>
	<u>392,392</u>	<u>307,771</u>	<u>700,163</u>	<u>184,733</u>

17 Material related party transactions

(a) During the year, the Group entered into a number of transactions with its ultimate holding company and the ultimate holding company's subsidiaries, in the ordinary course of its banking business including, inter alia, lending, the acceptance and placement of interbank deposits, participation in loan syndicates, correspondent banking transactions and foreign exchange transactions. The contracts were priced based on relevant market rates at the time of each transaction, and were under the same terms as those available to other counterparties and customers of the Group. In the opinion of the directors, these transactions were conducted on normal commercial terms.

Information relating to income and expense from related party transactions during the year and balances outstanding as at the balance sheet date is set out below:

(i) Income/(expense)

	<i>The Group</i>		<i>The Bank</i>	
	<i>2001</i> HK\$'000	<i>2000</i> HK\$'000	<i>2001</i> HK\$'000	<i>2000</i> HK\$'000
Interest income	21,475	25,792	20,200	22,368
Interest expense	<u>(184,588)</u>	<u>(76,307)</u>	<u>(184,479)</u>	<u>(76,307)</u>
Net interest expense	<u>(163,113)</u>	<u>(50,515)</u>	<u>(164,279)</u>	<u>(53,939)</u>

(ii) Ultimate holding company

	<i>The Group</i>		<i>The Bank</i>	
	<i>2001</i> HK\$'000	<i>2000</i> HK\$'000	<i>2001</i> HK\$'000	<i>2000</i> HK\$'000
Cash and short-term funds	-	156,006	-	156,006
Advances to customers and other accounts less provisions	<u>117,124</u>	<u>142,004</u>	<u>117,124</u>	<u>74,753</u>
	<u>117,124</u>	<u>298,010</u>	<u>117,124</u>	<u>230,759</u>
Current, fixed, savings and other deposits of customers	1,324,232	2,983,341	1,324,232	2,983,341
Other accounts and provisions	<u>2,943</u>	<u>16,882</u>	<u>2,943</u>	<u>16,882</u>
	<u>1,327,175</u>	<u>3,000,223</u>	<u>1,327,175</u>	<u>3,000,223</u>

(iii) Subsidiaries of the ultimate holding company

	<i>The Group and the Bank</i>	
	<i>2001</i> HK\$'000	<i>2000</i> HK\$'000
Advances to customers and other accounts less provisions	<u>62,407</u>	<u>82,336</u>

17 Material related party transactions (continued)

(iii) Subsidiaries of the ultimate holding company (continued)

	<i>The Group</i>		<i>The Bank</i>	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Deposits and balances of banks and other financial institutions	122,647	81,800	122,594	81,800
Current, fixed, savings and other deposits of customers	111,028	2,433,764	111,028	2,433,764
Other accounts and provisions	<u>3,508</u>	<u>21,664</u>	<u>3,508</u>	<u>21,664</u>
	<u>237,183</u>	<u>2,537,228</u>	<u>237,130</u>	<u>2,537,228</u>

- (b) A subsidiary of the Bank owns 464,200 shares (2000: 464,200 shares) in equity securities listed outside Hong Kong at 31 December 2001. The cost of investment was HK\$18.88 per share (2000: HK\$18.88 per share) totalling HK\$9 million (2000: HK\$9 million). This investment's fair value at the year end was HK\$8 million (2000: HK\$8 million). The subsidiary entered into a put option with a subsidiary of the Bank's ultimate holding company, to sell to them these securities. The option has an exercise price of Thai Baht 93.93 per share (HK\$16.58 equivalent) and will expire on 29 April 2002.
- (c) A subsidiary of the ultimate holding company has opened Hong Kong dollar and Renminbi bank accounts in another subsidiary bank of the ultimate holding company in the PRC to receive repayments from the Group's borrowers located in the PRC. The balances of these accounts, which amounted to HK\$138 million (2000: HK\$333 million) at 31 December 2001, were held in trust on behalf of the Bank free of any encumbrances.
- (d) During the year, a subsidiary of the Bank opened a security account in CITIC Securities Company Limited ("CSCL") and appointed China Prime Investment Management Company Limited ("CPIMCL") as the investment manager of the account to invest in the PRC's equity and capital markets. Both CSCL and CPIMCL are subsidiaries of the Bank's ultimate holding company. Fee income payable to CPIMCL was calculated on a profit sharing basis annually. As at 31 December 2001, the subsidiary deposited an amount of HK\$29 million into the account. No fee income was paid or payable for the year ended 31 December 2001.

18 Amounts due from subsidiaries

During the year, the Bank entered into transactions with certain subsidiaries in the ordinary course of its banking business. Details of the amounts due from subsidiaries are as follows:

	<i>The Bank</i>	
	2001 HK\$'000	2000 HK\$'000
Money at call and short notice	509,994	1,488,179
Placements with banks and other financial institutions maturing between one and twelve months	18,389	689,011
Advances to banks and other financial institutions maturing over 12 months	-	25,351
Advances to customers and other accounts less provisions	<u>261,751</u>	<u>18,585</u>
	<u>790,134</u>	<u>2,221,126</u>

19 Held-to-maturity securities and investment securities (continued)

The maturity profile of debt securities included above and analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	<i>The Group</i>		<i>The Bank</i>	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
3 months or less but not repayable on demand	850,009	485,950	850,009	446,948
1 year or less but over 3 months	2,267,765	838,199	2,232,862	838,199
5 years or less but over 1 year	4,023,111	3,264,593	3,996,285	3,188,324
After five years	5,790,831	378,672	5,775,330	363,171
Undated	<u>73,356</u>	<u>486,666</u>	<u>68,672</u>	<u>481,182</u>
	<u>13,005,072</u>	<u>5,454,080</u>	<u>12,923,158</u>	<u>5,317,824</u>

20 Investments in subsidiaries, at cost

The following list contains only the particulars of principal subsidiaries which affect the results or assets of the Group.

Name of company	<i>Place of incorporation/ operation</i>	<i>% of shares held</i>	<i>Principal activities</i>	<i>Issued ordinary share capital</i>
Ka Wah International Merchant Finance Limited	Hong Kong	100%	Deposit-taking and provision of finance	HK\$432,500,000
Ka Wah Capital Limited *	Hong Kong	51%	Corporate finance services	HK\$5,000,000
Cargary Securities Limited	Hong Kong	51%	Securities brokerage services	HK\$28,000,000
KWB Investment Limited *	Hong Kong	100%	Project finance and investment holding	HK\$5,000,000
Ka Wah Credit Limited	Hong Kong	100%	Money lending	HK\$50,000,000
Ka Wah Assets Management Limited	Hong Kong	100%	Assets management	HK\$5,000,000
GCT Management	USA	100%	Property management	No par value
Win Rich Investments Ltd.	British Virgin Islands	51%	Investment holding	US\$1

20 Investments in subsidiaries, at cost (continued)

Name of company	<i>Place of incorporation/ operation</i>	<i>% of shares held</i>	<i>Principal activities</i>	<i>Issued ordinary share capital</i>
California Investment, LLC **	USA	100%	Property development	US\$5,000,000
KS Investment and Consultancy Limited*	British Virgin Islands/ Hong Kong	100%	Investment and consultancy	US\$1,200,000
CKWB (Cayman Islands) Limited	Cayman Islands/ Hong Kong	100%	Financial vehicle	US\$1
Beijing Kananten Investment Limited*	Mainland China	100%	Investment holding	US\$500,000

All the above subsidiaries are held directly by the Bank except for those indicated below.

* Subsidiaries held indirectly by the Bank.

** 99% of the shares of this subsidiary is held directly by the Bank and the remaining 1% is held indirectly through another subsidiary of the Bank.

21 Investments in associates

	<i>The Group</i>		<i>The Bank</i>	
	<i>2001</i> HK\$'000	<i>2000</i> HK\$'000	<i>2001</i> HK\$'000	<i>2000</i> HK\$'000
Unlisted shares, at cost	120,493	120,493	119,908	119,908
Loan to an associate	<u>6</u>	<u>46</u>	<u>-</u>	<u>-</u>
	<u>120,499</u>	<u>120,539</u>	<u>119,908</u>	<u>119,908</u>

Details of the principal associates are as follows:

Name of company	<i>Place of incorporation/ operation</i>	<i>Principal activities</i>	<i>% of shares held</i>	<i>Nominal value of issued shares</i>
KWR Asset Management Limited	Cook Islands/ Mainland China	Management services	50% 100% 0%	“A” US\$910 “B” US\$4,545 “C” US\$4,545
KWR Asset Management (HK) Limited	Hong Kong	Investment advisory services	50%	HK\$2
The Ka Wah Five Arrows China Hong Kong Fund Limited	Cook Islands/ Mainland China	Investment holding	32.6%	US\$46,002

All associated companies, except The Ka Wah Five Arrows China Hong Kong Fund Limited, are held indirectly by the Bank.

22 Amounts due to subsidiaries

During the year, the Bank entered into transactions with certain subsidiaries in the ordinary course of its banking business. In the opinion of the directors, the transactions were conducted on an arm's length basis. Details of the amounts due to subsidiaries are as follows:

	<i>The Bank</i>	
	<i>2001</i> HK\$'000	<i>2000</i> HK\$'000
Deposits and balances of banks and other financial institutions	341,172	1,145,995
Current, fixed, savings and other deposits of customers	2,933,787	256,899
Other accounts and provisions	<u>331,630</u>	<u>300,947</u>
	<u>3,606,589</u>	<u>1,703,841</u>

23 Tangible fixed assets

	<i>The Group</i>			
	<i>Investment properties HK\$'000</i>	<i>Other premises HK\$'000</i>	<i>Furniture, fixtures and equipment HK\$'000</i>	<i>Total HK\$'000</i>
Cost or valuation:				
At 1 January 2001	284,641	641,646	336,621	1,262,908
Additions	-	2,931	195,379	198,310
Disposals	(12,759)	(1,727)	(71,892)	(86,378)
Transfers	(48,104)	48,104	-	-
Adjustment on revaluation	(48,614)	-	-	(48,614)
	175,164	690,954	460,108	1,326,226
The analysis of cost or valuation of the above assets is as follows:				
Cost	-	464,862	460,108	924,970
Valuation				
- 1985	-	76,352	-	76,352
- 1988	-	149,740	-	149,740
- 2001	175,164	-	-	175,164
	175,164	690,954	460,108	1,326,226
Accumulated depreciation:				
At 1 January 2001	52,954	138,799	168,718	360,471
Charge for the year (note 3(c))	-	18,269	47,427	65,696
Written back on disposals	(3,310)	(391)	(61,582)	(65,283)
Transfers	(879)	879	-	-
Adjustment on revaluation	(48,765)	-	-	(48,765)
	-	157,556	154,563	312,119
Net book value:				
At 31 December 2001	175,164	533,398	305,545	1,014,107
At 31 December 2000	231,687	502,847	167,903	902,437

23 Tangible fixed assets (continued)

	<i>The Bank</i>			
	<i>Investment properties HK\$'000</i>	<i>Other premises HK\$'000</i>	<i>Furniture, fixtures and equipment HK\$'000</i>	<i>Total HK\$'000</i>
Cost or valuation:				
At 1 January 2001	204,445	615,874	315,877	1,136,196
Additions	-	-	192,044	192,044
Disposals	(12,759)	(1,727)	(71,116)	(85,602)
Transfers	32,092	(32,092)	-	-
Adjustment on revaluation	(48,614)	-	-	(48,614)
	175,164	582,055	436,805	1,194,024
	175,164	582,055	436,805	1,194,024
The analysis of cost or valuation of the above assets is as follows:				
Cost	-	355,963	436,805	792,768
Valuation				
- 1985	-	76,352	-	76,352
- 1988	-	149,740	-	149,740
- 2001	175,164	-	-	175,164
	175,164	582,055	436,805	1,194,024
	175,164	582,055	436,805	1,194,024
Accumulated depreciation:				
At 1 January 2001	43,627	137,342	159,882	340,851
Charge for the year	-	16,011	43,563	59,574
Written back on disposals	(3,310)	(391)	(60,990)	(64,691)
Transfers	8,448	(8,448)	-	-
Adjustment on revaluation	(48,765)	-	-	(48,765)
	-	144,514	142,455	286,969
	-	144,514	142,455	286,969
Net book value:				
At 31 December 2001	175,164	437,541	294,350	907,055
	175,164	437,541	294,350	907,055
At 31 December 2000	160,818	478,532	155,995	795,345
	160,818	478,532	155,995	795,345

23 Tangible fixed assets (continued)

The net book value of investment properties and other premises comprises:

	<i>The Group</i>		<i>The Bank</i>	
	<i>2001</i> HK\$'000	<i>2000</i> HK\$'000	<i>2001</i> HK\$'000	<i>2000</i> HK\$'000
Freeholds				
Held outside Hong Kong	199,449	220,053	161,402	184,294
Leaseholds				
Held in Hong Kong				
- Long term leases (over 50 years)	298,381	272,212	298,381	272,212
- Medium term leases (10 - 50 years)	208,936	240,083	151,126	180,658
Held outside Hong Kong				
- Medium term leases (10 - 50 years)	<u>1,796</u>	<u>2,186</u>	<u>1,796</u>	<u>2,186</u>
	<u>708,562</u>	<u>734,534</u>	<u>612,705</u>	<u>639,350</u>

The net book value of all premises which have been stated in the balance sheet at valuation would have been as follows had they been stated at cost less accumulated depreciation:

	<i>The Group</i>		<i>The Bank</i>	
	<i>2001</i> HK\$'000	<i>2000</i> HK\$'000	<i>2001</i> HK\$'000	<i>2000</i> HK\$'000
Net book value at 31 December	<u>302,040</u>	<u>153,313</u>	<u>302,040</u>	<u>153,313</u>

Investment properties of the Group and the Bank were revalued at 31 December 2001 by independent firms of surveyors, Vigers Hong Kong Ltd and Appraisal Advisory Group, Ltd, on an open market value basis calculated by reference to net rental income allowing for reversionary income potential. The revaluation surplus of HK\$150,786 has been transferred to the investment properties revaluation reserve (note 30(b)).

Vigers Hong Kong Ltd have among their staff Fellows of the Hong Kong Institute of Surveyors. Appraisal Advisory Group, Ltd have among their staff New York State Certified General Real Estate Appraiser.

24 Deposits and balances of banks and other financial institutions

	<i>The Group and the Bank</i>	
	<i>2001</i> HK\$'000	<i>2000</i> HK\$'000
Repayable on demand With agreed maturity dates or periods of notice, by remaining maturity:	65,779	53,671
3 months or less but not repayable on demand	3,066,366	335,191
1 year or less but over 3 months	<u>-</u>	<u>30,000</u>
	<u>3,132,145</u>	<u>418,862</u>

25 Current, fixed, savings and other deposits of customers

	<i>The Group and the Bank</i>	
	<i>2001</i>	<i>2000</i>
	HK\$'000	HK\$'000
Repayable on demand	6,576,888	4,943,923
With agreed maturity dates or periods of notice, by remaining maturity:		
3 months or less but not repayable on demand	33,560,893	38,073,321
1 year or less but over 3 months	2,355,517	1,041,196
5 years or less but over 1 year	<u>20,884</u>	<u>2,566,226</u>
	<u>42,514,182</u>	<u>46,624,666</u>
	=====	=====

26 Certificates of deposit issued

	<i>The Group</i>		<i>The Bank</i>	
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
With agreed maturity dates or periods of notice, by remaining maturity:				
3 months or less but not repayable on demand	135,799	15,601	135,799	15,601
1 year or less but over 3 months	1,036,863	769,447	1,036,863	769,447
5 years or less but over 1 year	<u>2,321,242</u>	<u>868,534</u>	<u>2,321,242</u>	<u>883,534</u>
	<u>3,493,904</u>	<u>1,653,582</u>	<u>3,493,904</u>	<u>1,668,582</u>
	=====	=====	=====	=====

27 Issued debt securities

	<i>The Group and the Bank</i>	
	<i>2001</i>	<i>2000</i>
	HK\$'000	HK\$'000
With agreed maturity dates or earlier redeemable dates at the holders' option, by remaining maturity:		
1 year or less but over 3 months	373,371	-
5 years or less but over 1 year	<u>-</u>	<u>398,197</u>
	<u>373,371</u>	<u>398,197</u>
	=====	=====

28 Assets subject to sale and repurchase transactions

The following assets are subject to sale and repurchase transactions:

	<i>The Group and the Bank</i>	
	<i>2001</i>	<i>2000</i>
	HK\$'000	HK\$'000
Included in held-to-maturity securities and investment securities	2,272,387	-
	<u>=====</u>	<u>=====</u>

The following liabilities are subject to sale and repurchase transactions:

	<i>The Group and the Bank</i>	
	<i>2001</i>	<i>2000</i>
	HK\$'000	HK\$'000
Included in deposits and balance of banks and other financial institutions	2,272,387	-
	<u>=====</u>	<u>=====</u>

29 Share capital

	<i>2001</i>	<i>2000</i>
	HK\$'000	HK\$'000
Authorised:		
6,000,000,000 (2000: 3,000,000,000) ordinary shares of HK\$1 each	6,000,000	3,000,000
	<u>=====</u>	<u>=====</u>
Issued and fully paid:		
At 1 January: 2,594,861,444 (2000: 2,594,461,444) ordinary shares of HK\$1 each	2,594,861	2,594,461
Shares issued under the Option Scheme	<u>650</u>	<u>400</u>
At 31 December: 2,595,511,444 (2000: 2,594,861,444) ordinary shares of HK\$1 each	<u>2,595,511</u>	<u>2,594,861</u>
	<u>=====</u>	<u>=====</u>

By an ordinary resolution passed on 10 December 2001, the authorised share capital of the Bank was increased to HK\$6,000,000,000 by the creation of 3,000,000,000 ordinary shares of HK\$1 each ranking pari passu in all respects with the existing ordinary shares of the Bank.

Pursuant to the Option Scheme adopted on 30 March 1995, options to purchase ordinary shares in the Bank were granted at a consideration of HK\$1 per grantee to eligible senior executives and directors.

29 Share capital (continued)

Details of the share options granted are as follows:

Date of grant	Subscription price	No. of options	Exercisable period	No. of shares acquired on exercise of options	No. of options lapsed	No. of options outstanding 2001	No. of options outstanding 2000
30 March 1995	HK\$1.00	15,000,000	30 March 1995 to 29 March 2005	11,800,000	3,000,000	200,000	200,000
10 April 1996	HK\$1.00	1,361,000	11 April 1996 to 29 March 2005	862,000	375,000	124,000	124,000
8 May 1997	HK\$1.00	1,186,500	9 May 1997 to 29 March 2005	511,625	421,875	253,000	253,000
6 May 1998	HK\$1.00	1,427,448	7 May 1998 to 29 March 2005	35,145	1,002,375	389,928	389,928
16 April 1999	HK\$1.68	2,450,000	6 August 1999 to 29 March 2005	1,250,000	-	1,200,000	1,350,000
17 August 1999	HK\$2.30	19,600,000	31 October 1999 to 29 March 2005	700,000	2,000,000	16,900,000	19,200,000
29 February 2000	HK\$2.044	2,000,000	18 January 2002 to 29 March 2005	-	-	2,000,000	2,000,000
16 March 2000	HK\$1.896	1,200,000	16 March 2001 to 29 March 2005	200,000	-	1,000,000	1,200,000
28 March 2000	HK\$1.824	1,700,000	31 March 2000 to 29 March 2005	-	-	1,700,000	1,700,000
19 May 2000	HK\$1.57	2,000,000	26 April 2002 to 29 March 2005	-	-	2,000,000	2,000,000
27 June 2000	HK\$1.744	1,000,000	5 June 2002 to 29 March 2005	-	-	1,000,000	1,000,000
10 August 2000	HK\$2.28	700,000	11 August 2001 to 29 March 2005	-	-	700,000	700,000
23 August 2000	HK\$2.296	200,000	24 August 2001 to 29 March 2005	-	-	200,000	200,000
5 December 2000	HK\$1.812	2,300,000	22 October 2001 to 29 March 2005	-	-	2,300,000	2,300,000

26 March 2001	HK\$1.824	300,000	27 March 2002 to 29 March 2005	-	-	300,000	-
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30 Reserves

	<i>The Group</i>		<i>The Bank</i>	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
(a) Share premium				
At 1 January	1,425,542	1,425,026	1,419,542	1,419,026
Share premium on shares issued during the year	<u>671</u>	<u>516</u>	<u>671</u>	<u>516</u>
At 31 December	<u>1,426,213</u>	<u>1,425,542</u>	<u>1,420,213</u>	<u>1,419,542</u>
(b) Investment property revaluation reserve				
At 1 January	-	-	-	-
Revaluation surplus on investment properties	<u>151</u>	<u>-</u>	<u>151</u>	<u>-</u>
At 31 December	<u>151</u>	<u>-</u>	<u>151</u>	<u>-</u>
(c) Other property revaluation reserve				
At 1 January and 31 December	<u>11,945</u>	<u>11,945</u>	<u>11,945</u>	<u>11,945</u>
(d) Capital reserves				
At 1 January and 31 December	<u>37,500</u>	<u>37,500</u>	<u>-</u>	<u>-</u>
(e) General reserve				
At 1 January and 31 December	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
(f) Exchange differences				
At 1 January	322	191	-	-
Current year	<u>(1)</u>	<u>131</u>	<u>-</u>	<u>-</u>
At 31 December	<u>321</u>	<u>322</u>	<u>-</u>	<u>-</u>
(g) Retained profits				
At 1 January				
- as previously reported	1,543,267	1,192,766	791,197	510,508
- prior year adjustment in respect of dividend proposed	<u>129,743</u>	<u>25,945</u>	<u>129,743</u>	<u>25,945</u>
- as restated	1,673,010	1,218,711	920,940	536,453
Dividends approved in respect of the previous year	(129,743)	(25,945)	(129,743)	(25,945)
Profit for the year	616,628	532,141	1,097,152	462,329
Dividends declared in respect of the current year	<u>(77,859)</u>	<u>(51,897)</u>	<u>(77,859)</u>	<u>(51,897)</u>
At 31 December	<u>2,082,036</u>	<u>1,673,010</u>	<u>1,810,490</u>	<u>920,940</u>
Total reserves	<u>3,658,166</u>	<u>3,248,319</u>	<u>3,342,799</u>	<u>2,452,427</u>

The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

31 Loan capital

Loan capital of face value and carrying amount of HK\$2,340 million (US\$300 million) represents 7.625% subordinated notes qualifying as tier 2 capital were issued on 5 July 2001 by CKWB (Cayman Islands) Ltd, a single purpose wholly-owned finance subsidiary of the Bank. The Bank unconditionally and irrevocably guarantees all amounts payable under the notes. The notes will mature on 5 July 2011.

32 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:

	<i>The Group</i>		<i>The Bank</i>	
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Direct credit substitutes	1,696,088	609,289	1,696,088	711,692
Transaction-related contingencies	39,365	63,060	39,365	63,060
Trade-related contingencies	1,047,237	820,910	1,047,237	820,910
Other commitments				
- with an original maturity of under 1 year or which are unconditionally cancellable	8,247,308	7,403,679	8,247,308	7,403,679
- with an original maturity of 1 year and over	<u>271,258</u>	<u>387,652</u>	<u>271,258</u>	<u>387,652</u>
	<u>11,301,256</u>	<u>9,284,590</u>	<u>11,301,256</u>	<u>9,386,993</u>

The above amounts include the following guarantees:

- (i) guarantees for credit facilities granted by third parties to certain subsidiaries amounting to HK\$40 million as at 31 December 2001 (2000: HK\$40 million).

32 Off-balance sheet exposures (continued)

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

<i>The Group</i>				
	2001		2000	
	<i>Replacement cost HK\$'000</i>	<i>Credit risk weighted amount HK\$'000</i>	<i>Replacement cost HK\$'000</i>	<i>Credit risk weighted amount HK\$'000</i>
Contingent liabilities and commitments	N/A	1,246,090	N/A	830,773
Exchange rate contracts	231,642	261,706	123,912	115,474
Interest rate contracts	256,673	63,909	24,805	5,799
Equity contracts	<u>3,661</u>	<u>2,002</u>	<u>-</u>	<u>-</u>
	<u>491,976</u>	<u>1,573,707</u>	<u>148,717</u>	<u>952,046</u>
<i>The Bank</i>				
	2001		2000	
	<i>Replacement cost HK\$'000</i>	<i>Credit risk weighted amount HK\$'000</i>	<i>Replacement cost HK\$'000</i>	<i>Credit risk weighted amount HK\$'000</i>
Contingent liabilities and commitments	N/A	1,246,090	N/A	933,176
Exchange rate contracts	231,642	261,706	123,912	115,474
Interest rate contracts	<u>258,136</u>	<u>64,201</u>	<u>24,805</u>	<u>5,760</u>
	<u>489,778</u>	<u>1,571,997</u>	<u>148,717</u>	<u>1,054,410</u>

The tables above give the contractual or notional amounts, replacement cost and credit risk-weighted amounts of off-balance sheet transactions. These are assessed in accordance with the Hong Kong Monetary Authority's guidelines which implement the Basle agreement of capital adequacy and depend on the status of the counterparty and the maturity characteristics.

The risk weights used range from 0% to 100% for contingent liabilities and commitments, and from 0% to 50% for exchange rate and interest rate contracts. Replacement cost represents the cost of replacing all contracts which have a positive value when marked to market. The credit risk-weighted amount refers to the amount as computed in accordance with the Third Schedule to the Hong Kong Banking Ordinance.

Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

Off-balance sheet financial instruments arise from forward and swap transactions undertaken in the foreign exchange and interest rate markets.

The notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date. They do not represent amounts at risk.

32 Off-balance sheet exposures (continued)

(d) Capital commitments

Capital commitments outstanding at 31 December not provided for in the financial statements were as follows:

	<i>The Group</i>		<i>The Bank</i>	
	<i>2001</i> HK\$'000	<i>2000</i> HK\$'000	<i>2001</i> HK\$'000	<i>2000</i> HK\$'000
Authorised and contracted for	8,960	126,252	8,960	126,252
Authorised but not contracted for	-	5,343	-	1,443
	8,960	131,595	8,960	127,695

(e) Lease commitments

At 31 December 2001, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<i>The Group</i>		<i>The Bank</i>	
	<i>2001</i> HK\$'000	<i>2000</i> HK\$'000	<i>2001</i> HK\$'000	<i>2000</i> HK\$'000
Premises				
Within one year	38,287	41,878	35,241	39,971
After one year but within five years	35,027	37,082	38,755	38,684
After five years	-	-	288	1,403
	73,314	78,960	74,284	80,058
Equipment				
Within one year	727	178	727	97
After one year but within five years	1,168	466	1,168	168
	1,895	644	1,895	265

The Group leases a number of properties and items of equipment under operating leases. The leases typically run for an initial period of two to four years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

33 Reconciliation of profit from ordinary activities before taxation to net cash (outflow)/inflow from operating activities

	2001 HK\$'000	2000 HK\$'000
Profit from ordinary activities before taxation	685,719	636,045
Provisions for bad and doubtful debts	430,759	359,190
Dividend received from associates	(7,207)	(7,379)
Loss on disposal of tangible fixed assets	765	1,999
Profit on disposal of held-to-maturity securities	(515)	(10,433)
Provision made for diminution in value of held-to-maturity securities and investment securities	3,337	5,694
Amortisation of expenses on issue of certificates of deposit	4,649	2,644
Depreciation	65,696	62,052
Dividend income on equity investment securities	<u>(3,184)</u>	<u>(1,000)</u>
Net cash inflow from trading activities	1,180,019	1,048,812
Decrease in placements with banks and other financial institutions (repayable beyond three months)	-	923,693
Increase in treasury bills (repayable beyond three months)	(688,242)	(19,608)
Decrease/(increase) in trade bills	64,188	(214,365)
Decrease/(increase) in certificates of deposit	1,310,223	(2,566,881)
Increase in other investments in securities	(407,973)	(994,151)
Increase in advances to customers	(1,176,520)	(5,045,034)
Decrease in advances to banks and other financial institutions	485,295	58,830
Decrease/(increase) in interest receivable and other assets	219,634	(242,658)
Increase in certificates of deposit issued	1,840,322	199,218
Decrease in debt securities issued	-	(98,320)
(Decrease)/increase in interest payable and other liabilities	(412,400)	321,043
Increase in deposits and balances of banks and other financial institutions (repayable beyond three months)	26,400	30,000
(Decrease)/increase in deposits of customers	(4,110,484)	6,896,501
Exchange differences	<u>(24,827)</u>	<u>(18,385)</u>
Net cash (outflow)/inflow from operating activities	<u><u>(1,694,365)</u></u>	<u><u>278,695</u></u>

34 Analysis of changes in financing during the year

	<i>2001</i>	<i>2000</i>
	<i>Share capital (including share premium)</i>	<i>Share capital (including share premium)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	4,020,403	4,019,487
Cash inflow from issue of share capital	<u>1,321</u>	<u>916</u>
At 31 December	<u><u>4,021,724</u></u>	<u><u>4,020,403</u></u>

35 Analysis of the balances of cash and cash equivalents

	<i>2001</i>	<i>2000</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and balances with banks and other financial institutions	477,225	380,823
Money at call and short notice	5,296,503	7,095,295
Treasury bills repayable within three months	399,032	178,909
Placements with banks and other financial institutions repayable within three months	-	3,112,324
Deposit and balances of banks and other financial institutions repayable within three months	<u>(3,075,745)</u>	<u>(388,862)</u>
	<u><u>3,097,015</u></u>	<u><u>10,378,489</u></u>

36 Staff retirement scheme

The Group has a defined contribution provident fund scheme (“The Retirement Scheme”) under which it contributes 10% of the employees’ basic salaries. The Retirement Scheme is funded by the Bank and certain subsidiaries and covers all permanent full-time employees of the Group. No employee contributions are required. Contributions forfeited by leavers prior to vesting fully in the contributions may not be used by the Group to reduce the existing level of contribution but are transferred to a separate welfare fund which shall be applied for the welfare of the Retirement Scheme’s members.

In light of the introduction of the Mandatory Provident Fund (“MPF”) Scheme, the Group has restructured its retirement arrangements to comply with the MPF legislation. The Group has secured MPF exemption status for the Retirement Scheme and participated in an approved MPF scheme with AIA Company (Trustee) Ltd effective 1 December 2000 to provide scheme choice to both existing and new employees. Mandatory benefits are being provided under the MPF Scheme.

During the year, the Group and the Bank contributed approximately HK\$29 million (2000: HK\$21 million) (note 3(c)) and HK\$27 million (2000: HK\$20 million) respectively to these schemes.

37 Loans to officers

Particulars of loans to officers disclosed pursuant to section 161B of the Hong Kong Companies Ordinance:

	2001 HK\$'000	2000 HK\$'000
Balance outstanding at 31 December		
- By the Bank	14,880	38,168
	=====	=====
Maximum aggregate amount outstanding during the year		
- By the Bank	16,716	48,969
	=====	=====

38 Assets pledged as security

On 31 December 2001, certificates of deposit amounting to HK\$252 million and money at call and short notice amounting to HK\$2 million (2000: certificates of deposit amounting to HK\$172 million and investment securities amounting to HK\$97 million) have been pledged to the Office of the Comptroller of Currency in the USA as statutory deposits.

39 Post balance sheet events

- (a) On 7 January 2002, the Bank issued 432,585,240 shares of HK\$1.00 each for cash at HK\$1.68 per share to shareholders in the proportion of one share for every six existing shares held. The net proceeds of the issue, amounting to approximately HK\$720 million, were intended for the expansion of the Bank's capital base. The new shares rank *pari passu* with the existing shares.
- (b) On 31 October 2001, the Bank entered into a Sale and Purchase Agreement with 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 Certificates of Deposit. HKCB is a licensed bank incorporated in Hong Kong. The acquisition was completed on 17 January 2002 and HKCB has become a wholly-owned subsidiary of the Bank thereafter.
- (c) On 17 January 2002, HKCB declared and paid an interim dividend totalling HK\$550 million for the year ending 31 December 2002.

39 Post balance sheet events (continued)

- (d) On 17 January 2002, the Bank entered into a Funded Participation Agreement with HKCB. Under the agreement, the Bank sold a portfolio of performing loans to HKCB without recourse. The loans were sold at net book value as at 16 January 2002 which amounted to HK\$3,673 million. HKCB also appointed the Bank to be its agent to administer the loans and agreed to pay to the Bank an annual administration fee payable in advance on the 17th day of January of every year calculated at 0.5% of the outstanding principal amount of the loans as at the date of payment.
- (e) On 4 February 2002, the Bank reorganised the shareholding structures of its two non-wholly owned subsidiaries, Ka Wah Capital Limited (“KWC”) and Cargary Securities Limited (“CS”). A new intermediate holding company, namely CITIC Capital Markets Holdings Limited (“CCMH”), was formed to take up the entire issued share capital of KWC and CS. CCMH is 51% indirectly owned by the Bank and 49% indirectly owned by the Bank’s ultimate holding company. The reorganisation was implemented by way of share transfer and no cash consideration was involved.

40 Comparative figures

Certain comparative figures have been adjusted as a result of changes in accounting policies (note 9).

41 Ultimate holding company

The directors consider the ultimate holding company at 31 December 2001 to be China International Trust and Investment Corporation, which is incorporated in the People’s Republic of China.

42 Approval of accounts

The accounts were approved by the Board of Directors on 28 February 2002.