

## Customer Focus

The Retail Banking Group continued its growth strategy based on customer-centric services that bring exceptional value to customers. Through delivering innovative products that meet customers' different lifestyle needs, we aim to become their trusted wealth management partner. Winning the 2002 Customer Service Award serves as an important recognition of our resolute commitment to continuously exceeding customer expectations.

# CITIC Ka Wah Bank Limited (the 'Bank')

## Retail Banking

**We believe the key to maximizing value to shareholders is to first bring value to our customers. During 2002, our Retail Banking Group ('RBG') made three breakthrough achievements in adding value to both customers and shareholders.**



### **Award-winning Customer-centric Services**

RBG won the 2002 Hong Kong Retail Management Association Customer Service Award, being the only bank in its category that was awarded with this honor. Over the past few years, we have devoted a great deal of effort to embedding the values of Total Quality Management ('TQM') among our people. This award is a true recognition of our commitment in providing value-added services and in exceeding our customers' expectations.

### **First-in-market Negative Equity Mortgage Refinancing Product**

As part of our ongoing drive in bringing innovation, creativity and vision to all areas of our business, we launched the 140% mortgage refinancing product in May 2002. Under this program, the Bank lends up to 90% of the current market value of the property, while the risk on the unsecured portion of the mortgage is borne by our partner, Pan Asian Mortgages Company Limited. With pricing ranging from P-0.5% to P-1.75%, customers can enjoy savings of up to 15% of their monthly repayment. The program was quickly upgraded to offer bridging facilities to help negative equity homeowners to switch properties in December 2002. The success of the program resulted in the booking of HK\$1.4 billion new mortgages as at 31 December 2002.

We see this new product breakthrough as a 'win-win-win' business proposition. The Bank enjoys quality repayment mortgage business at a higher yield. Customers are awarded with preferential repayment pricing and the flexibility to trade up for a better living environment or trade down to reduce debt. The total loans outstanding with negative equity in banks in Hong Kong can be reduced and funneled through securitization.

### **Brand New Concept in Wealth Management Services**

During the year we initiated throughout our branches a Financial Quotient ('FQ') Financial Needs Analysis ('FNA') to help customers manage both sides of the balance sheet in growing wealth. The FNA aims to help our customers understand their cash flow, risk profile, investment appetite and objectives as well as their life stage position. Through the FNA, we help our clients structure appropriate asset allocation proposals to fit their individual risk profile and financial needs. Through such wealth management initiatives, we were able to increase wealth management fee income by 81%, most notably from the distribution of unit trust and Bancassurance products where increases have grown 35.4% and 1.9 times respectively.

### CITIC Ka Wah Bank Limited

#### Retail Banking



The winning team at the 2002 Hong Kong Award for Services Ceremony

#### Sustainable Growth Strategy

During 2002, RBG succeeded in tripling total assets under management. Much effort was made to enhance our sales and distribution effectiveness. We consolidated the branch network to 38 shops by focusing our reach into the Professional / Managerial customer segments. The smooth integration of HKCB retail business in products, service, sales and operations enabled RBG to realize HK\$12 million synergy savings (excluding staff cost savings), and HK\$22 million additional fee income due to product alignment and cross-selling.

We continued to grow our credit card business with caution not to take additional risk. We achieved our target of issuing 100,000 new cards and increasing account receivables to HK\$336 million. Due to strong credit management, the charge-off rate for CKWB, excluding the HKCB portfolio, is single digit and below market average of 13.25%. We will continue to progressively grow this business on selected segments with preferred credit quality and profit potential, and to further enhance our positioning through value propositions that are of unique relevance to our customers' financial and lifestyle needs.

Our Hire Purchasing and Leasing business also enjoyed healthy growth. Loan outstanding increased by HK\$1.1 billion, or

57%, while post-provisioning profit rose by HK\$18 million, or 50%. In supporting the HKSAR government's Business Installation & Equipment Loan Guarantee Scheme ('BIG'), we succeeded in building a loan portfolio of approximately HK\$200 million and capturing 8% market share.

#### Building a Greater China Franchise

During 2002, RBG focused on building a strong foundation for expansion into the Greater China area where a strong rise in demand for individual wealth creation is expected. The thrust of our strategy is to seize a breakthrough into the Mainland market through establishing successful business models, one of which is to build a credit card business in China. A credit card servicing company was set up in Shenzhen during the year and preparation work was at full speed for a country-wide launch of a PRC credit card jointly with our sister bank, CITIC Industrial Bank ('CIB'), before the end of 2003. We shall add value in establishing the positioning, marketing and distribution strategies and provide technical support while CIB will be the card issuer. We have started providing wealth management seminars for more than 300 customers of CIB and CITIC Securities in Shenzhen, Shanghai and Hangzhou. We are also actively exploring opportunities to provide end-user residential mortgages in major China cities, such as Shenzhen, Dalian and Shanghai, targeting non-PRC residents.

In 2003, we will continue to build our wealth management franchise and grow our high margin secured lending business. While building business models that incorporate star products to acquire new customer segments, we will strengthen customer experience through innovative product offerings, customer-driven sales and service approaches and enhanced customer communication. Through these initiatives, we aim to grow customer value and profitability that will transform our retail banking franchise to a leading wealth management brand in Greater China.

# Professionalism



The Corporate Banking Group ('CBG') has successfully enhanced its service delivery capabilities and increased market share through recruiting and developing a team of professional relationship managers and product specialists. Our highly professional business management has enabled CBG to continuously achieve satisfactory revenue growth and loan quality improvements, despite prevailing adverse economic conditions.

# CITIC Ka Wah Bank Limited

## Corporate Banking

**Through focused targeting, pro-active relationship management, and competitive product offerings, the Corporate Banking Group ('CBG') has successfully built a sustainable corporate banking business featuring a balanced portfolio of quality loan assets and broadened revenue streams.**



In 2002, CBG continued to make significant contributions to the Bank's overall profit performance. With substantially expanded business coverage and a range of quality enhancements, we have successfully transformed ourselves into a premier financial services provider, adding significant value to our customers' business.

### Strengthened Business Portfolio

In spite of the adverse economic environment that prevailed in Hong Kong in 2002, our business achieved satisfactory growth on all fronts. With the successful integration of the HKCB portfolio, we enjoy a larger and more diversified customer base, providing ample opportunities for revenue growth and cost synergies.

### Broadened Revenue Stream

CBG undertook and completed a range of new business initiatives during the year to further improve our income stream. We successfully developed and introduced to our customers a number of innovative electronic banking and treasury products. We also established a loan syndication unit to cater for the market's growing needs for this type of financing. System and product enhancements undertaken in the trade finance area improved our processing capabilities and service quality. These initiatives have generated new and additional fee and interest income.

### Enhanced Asset Quality

We have out-performed competition in business growth, without compromising asset quality. The level of debt provision for corporate banking business has declined compared to 2001. We will continue to exercise stringent risk control to ensure that this positive trend is maintained.

### New Model for China Business

We placed very strong emphasis on expanding our China business capabilities, both in line with customers' needs, and to tap the opportunities brought about by China's impressive



CKWB is the Arranger for Eastern Asia Technology (HK) Ltd. syndicated term loan facility



economic growth. We have forged a close working relationship with CIB to provide a unified and effective platform for cross-border business. By utilizing the Group's representative offices and other networks in China, we continue to pursue our ultimate objective of providing quality, one-stop customer service for the Greater China region.

### **Staying Ahead of Competition**

The trading environment in Hong Kong is expected to remain difficult in 2003, characterized by slow economic growth, stagnation in new investments, and a depressed property market. A strategic repositioning of our business is underway to enable us to overcome these challenges successfully and to stay ahead of competition.

### **New Wholesale Banking Group**

At the beginning of 2003, we restructured the Bank's corporate and commercial banking operations into a new Wholesale Banking Group ('WBG'). Encompassed under WBG are business functions including corporate lending and syndication, commercial banking and trade finance, China corporate business, as well as our US branches. The new arrangement will further sharpen our market focus, and will create higher levels of synergy across the Bank's different lines of business.

### **New SME Business Model**

Small to medium enterprise ('SME') businesses will remain one of the key pillars of our economy. To professionally serve this market segment, we aim to design and introduce a new business model which will enable us to deliver quality customer service in a cost-effective way. Additional professional staff will be recruited, system enhancements will be enforced, and product offerings will be expanded as an integral part of this exercise.

### **Greater China Business**

To capitalize on the new business opportunities arising from China's entry into the World Trade Organization ('WTO'), and the ever increasing economic activities between the Mainland, Hong Kong and Taiwan, WBG and our China Banking Department will join forces to expand and strengthen our business capabilities in the region. We have committed additional resources to support these new initiatives. At the same time, we are also exploring various means to effectively leverage on the CITIC network to achieve more extensive market coverage and higher levels of customer satisfaction.



## Teamwork

Through inspiring teamwork and professional excellence, Treasury and Financial Institutions was able to respond optimally to our customers' needs and to achieve higher returns. Teamwork, innovativeness and professionalism were integral to the successful placement of our benchmark Upper Tier II transaction, and our winning of The Asset's 'Best Hybrid Bank Bond Deal'.

# CITIC Ka Wah Bank Limited

## Treasury & Financial Institutions

**In 2002, the Bank continued to focus on strengthening our risk management capabilities, the highly disciplined management of liquidity, capital, assets and liabilities, and overall control of costs of funds.**



### Enhancing Returns and Strengthening Risk Controls

We continued our key strategy of restructuring the liability mix and bolstering our long-term sources of funds by issuing Certificates of Deposit ('CDs') at regular intervals during the year. Through public syndication and private placement, we issued HK\$3.5 billion CDs in 2002. The persistently liquid market conditions amid weak loan demand, subdued new business growth and tightening of credit spreads on financial papers contributed to a further reduction of our overall cost of funds. Through the series of CD and debt issuance, our investor base has been significantly enlarged as evidenced by a much larger universe of participants in each of our syndicates.

Our planned and focused investments of surplus funds yielded satisfactory results for the year amidst a very difficult operating environment and slower business growth. Most of these investments were high credit quality securities which also enhanced our overall liquidity. Through selective hedging of investment portfolios and dedicated market risk management techniques, portfolio risks were prudently managed and returns were enhanced.

During the year, we further refined our Treasury system to provide streamlined processing of trades from deal captures

to settlement. Segregation of risk management functions between middle office and back office from front office trading ensures independent control and effective risk monitoring. Upgrading the Bank's risk management capabilities is a continuous process to ensure pro-active and sound market risk management and controls are in place.

### Setting Benchmarks in the Market

In addition to the successful management of assets and liabilities, the Bank also prudently managed its capital requirements. We engaged HSBC, Industrial and Commercial Bank of China (Asia) and UBS Warburg as joint bookrunners and lead managers to arrange for our landmark US\$250 million Upper Tier II transaction in May 2002. Being the first Upper Tier II transaction in Asia (ex-Japan) and well received by the market, the issue was awarded the 'Best Hybrid Bank Bond Deal' by The Asset magazine. Through this transaction, not only have we succeeded in enhancing our profile among institutional investors in Asia and Europe, we have also set a capital funding benchmark for banks in Hong Kong. Like the subordinated debt issued by the Bank in 2001, Upper Tier II is an innovative and efficient capital instrument which further strengthened the Bank's capital base for potential acquisition and organic expansion going forward.



CITIC Ka Wah Bank Limited  
Treasury & Financial Institutions

**Creating Broader and Deeper Customer Relationships**

With customer focus central to the Bank's philosophy, new initiatives were adopted for customer acquisition through product development and bolstering co-operation between the Bank's business units. Against a background of low interest rates and perceptible interest rates cuts, there was increasing demand from customers for yield enhancing. These demands were met through timely arranging of equity and currency linked products for retail customers and structural hedging products for corporate clients. Various seminars were organized for customers in the Mainland to enhance customer relationship and bolster the Bank's profile for China marketing.

Another encouraging development during the fiscal year was the extension to the Bank of counterparty limits through improved relationships with interbank counterparties. Expanded re-purchase facilities established with premier financial institutions greatly enhanced the Bank's access to market liquidity.

**Realizing Synergies within the Franchise**

With the challenging market environment in the US and continuing volatility in global interest rates, we are prepared for an interest rate reversal and are building hedges that will minimize the impact of interest rate fluctuations. Our focus on yield enhancement products including equity and currency linked products to meet customer demand should also benefit both revenue growth and customer acquisition. With the smooth integration of treasury and financial institutions functions with the former HKCB in 2002, we are confident that resulting synergies will continue to present themselves, bringing exceptional value to the Bank in 2003.



A special golf day to celebrate the successful issuance of CKWB's landmark US\$250 million Perpetual Subordinated Guaranteed Notes with our business partners



# Integrity

Integrity is fundamental to our business. Throughout the years, CITIC Ka Wah Bank has been adhering to the highest standard of integrity. Through continuous enhancement of risk management, be it credit, liquidity, market, interest rate, operational, legal, strategic or reputation risk, we fully demonstrate our culture of integrity, with a view to becoming the most trusted partner of our customers.

# CITIC Ka Wah Bank Limited

## Risk Management

**The Bank continues to enhance its risk management system to identify, measure, monitor and control the various types of risks within the Bank's activities and to hold capital against these risks. The Bank's senior management has designated risk owners who have the primary responsibility for overseeing and monitoring the respective risk type, and for ensuring that adequate policies and procedures are being maintained and enforced through an effective internal control system.**



The Credit and Risk Management Committee, chaired by Mr. Ronald Carstairs who is a veteran banker and an Independent Non-Executive Director of the Bank, was established in November 2002 to provide Board level governance of the Bank's risk management strategies, policies and mechanism. The Committee oversees the Bank's risk management through various committees at the Bank's management level, including Management Committee, Credit Committee, Non Performing Loan ('NPL') Committee, International Credit Committee, Asset & Liability Management Committee ('ALCO') and Operations & Control Committee.

The Audit Committee, an independent body, assists the Board in reviewing compliance with the policies, procedures and internal and statutory regulations. Chaired by Mr. Stephen Fan, an experienced professional accountant and an Independent Non-Executive Director of the Bank, the Committee oversees the Bank's internal and external auditors and assists the Board in providing independent review of the effectiveness of the Bank's financial reporting process and internal control system.

### Credit Risk Management

Credit risk management is one of the most important disciplines in the Bank's operations. It has become steadily more challenging due to today's increasingly stringent supervisory requirements and difficult economic environment. The integration with HKCB brought along a further challenge on the alignment of credit risk management culture. To overcome such challenges and to support new business development, the Bank implemented new policies and procedures, such as large exposure policy, to meet compliance and supervisory requirements; and to cater for its operations in various new business areas, such as negative equity mortgage refinancing services to retail customers and FX / swap facilities to corporate customers.

Within the Bank Group, the credit risk management function is centralized and is governed by the Credit and Risk Management Committee at Board level. The Committee defines and delegates the approval authority to three credit related functional committees: the Credit Committee, the International Credit Committee and the NPL Committee,

which focus on different aspects of the credit risk management function of the Group. These three committees comprise the Chief Executive Officer, the Group Credit Head and other members of senior management. Within the delegated authority, the Credit Committee approves, inter alia, credit policies of the Group, credit applications, loan classifications and policy exceptions. The International Credit Committee manages, approves and controls the interbank counterparty risk of the Group. The NPL Committee controls and manages all criticized credits and approves specific provisions.

During the year, the credit policies, including loan classification and provisioning, and credit approval hierarchy of CKWB and HKCB were reviewed and aligned. Control procedures for new business areas were also implemented to support the business expansion of the Bank. In addition, a post-approval review team continued to perform loan reviews on selected loan products of the Group which were perceived to be of comparatively high risk.

The ongoing enhancement and improvement in credit risk management has proved to be fruitful. The Bank's classification rate for new corporate accounts booked after 1998 continues to be relatively low, and these classified accounts are largely covered by related general provisions and collateral. The Bank will continue to adopt a prudent credit policy. At the same time, it will continue to further strengthen its credit risk management functions to protect asset quality.

## Liquidity Management

Liquidity management ensures there is adequate cash flow to meet all obligations in a timely and cost-effective manner. Liquidity risk is managed by maintaining an adequate stock of liquid assets of appropriate quality to ensure that the Bank can meet obligations at all times as they fall due and to provide the Bank with sufficient resources for contingency purposes.

In addition to the regular issuing of long-dated certificates of deposit, the Bank has also arranged re-purchase agreement facilities in order to enhance liquidity. The liquidity management policy has also been revised to initiate a more pro-active approach towards the management of liquidity.

## Market Risk Management

The Bank continues to manage its market risk effectively via the Market Risk Management Unit of the Audit & Risk Management Department. Market risk ensues once the Bank undertakes positions in markets such as foreign exchange, interest rates, securities and equities. Such positions are driven by execution of customer orders, proprietary trading and hedging.

The ALCO establishes the Bank's maximum market risk limits. Exposures are monitored and reported to Management regularly.

The average daily revenue generated from the Treasury's trading activities during 2002 was HK\$6,000 and the standard deviation was HK\$3,272,000.

The maximum daily loss was HK\$13,166,000 with 113 out of 244 days showing losses. The most frequent result was a daily revenue of HK\$19,000 to HK\$497,000 with 32 occurrences. The highest daily revenue was HK\$14,620,000.

The Bank's foreign exchange risk arises with foreign exchange position taking, commercial dealing, investment in foreign currency securities and through overseas branches. All foreign exchange positions are managed by the Treasury within limits approved by the ALCO. The average daily foreign exchange trading loss for the year ended 31 December 2002 was HK\$37,000.

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### CITIC Ka Wah Bank Limited Risk Management

#### **Interest Rate Risk Management**

The Bank's interest rate risk exists in both the bank book and the trading book. While the risk entailed in the former is reviewed by the ALCO on a monthly basis, the latter is marked to market daily. The average daily revenue incurred in the trading book for the year ended 31 December 2002 was HK\$42,000.

#### **Operational Risk Management**

The primary objective of the Operations & Control Committee is to assist the Bank's senior management to ensure that an effective operation and internal control system is in place. While the Committee does not carry the responsibility of day-to-day operations, it will address operational or control issues raised and may make decisions to direct the Bank's operations as the Committee deems appropriate.

The operational policies and procedures of the Bank are subject to constant review by senior management to ensure their robustness in containing risks and that they are in line with best banking practices. During 2002, over 400 policies and procedures were reviewed and revised with a view to improving overall operational efficiency and controls.

The Bank's operational risk management has been enhanced with the successful implementation of the new core banking system. The replacement of manual processing tasks and follow-ups by automated processing and system interfaces had led to improved accuracy. More efficient processing to handle higher transaction volume and rush orders had helped eliminate possible delays. Furthermore, improved management information reporting had resulted in more effective measurement and monitoring of the operational risk factors.

The integration with HKCB has resulted in greater operating synergy where the operating strength of both banks was combined in the areas of systems, procedures and staff expertise to further improve the overall operational risk management capabilities. Following this successful integration, the Bank's computer processing capabilities and expertise in IT were greatly enhanced to support a more sophisticated product range. Data centers of the two banks were consolidated in mid-August 2002 to optimize operations and cost efficiency. Test simulations have been successful in our 24 x 7 backup data center to assure business continuity in the event of external disruptions to our major operating centers.

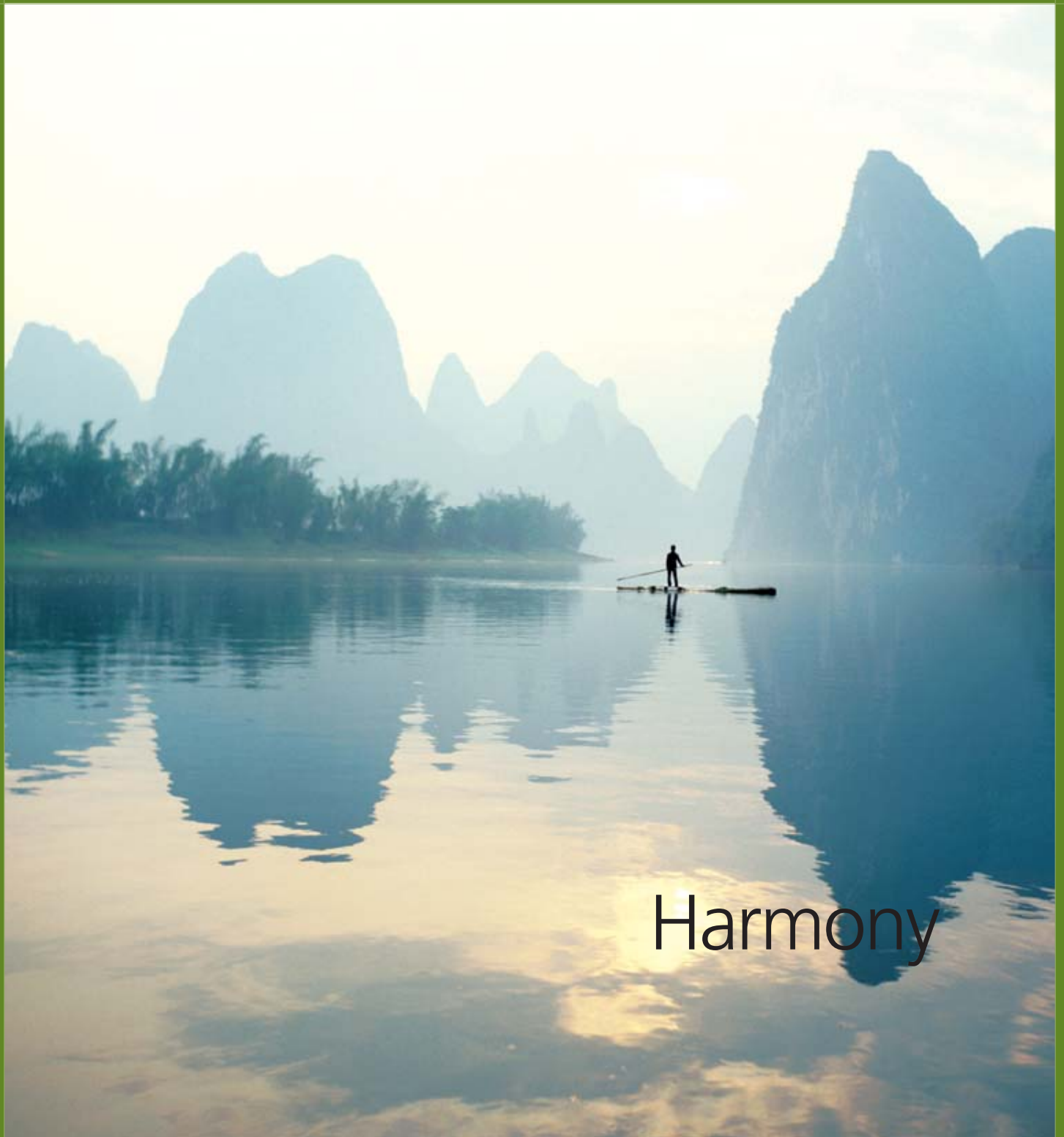
The integration of systems and operations has provided an unprecedented opportunity for the detailed review of the contingency arrangements for which business continuity plans will be refined and tested accordingly.

#### **Legal Risk Management**

The Bank is subject to various forms of legal risk, the management of which has become more challenging due to increasingly stringent legal and regulatory requirements as well as the Bank's rapid development in new products and businesses. To overcome such challenges the Bank continued to enhance its legal risk management capabilities through the implementation of relevant controls, policies and procedures during the year. Amongst the more significant measures were the continued staff training of key changes in relevant legal and regulatory requirements; the strict enforcement of controls to ensure the review by the Legal and Compliance functions prior to the launch of new products and services; and the further enhancement of control on subsidiaries and associated companies through the setting up of relevant policies.

## **Strategic and Reputation Risks Management**

The Bank is aware of the importance in defining and enforcing the appropriate business strategies, as well as in protecting and promoting the reputation of the Bank. The Management Committee of the Bank is responsible for monitoring and controlling the Bank's strategic and reputation risks. High level policies in respect of strategic risk and reputation risk have been drafted with a view to identifying and assessing risks, and improving controls.



# Harmony

The harmonious interaction of yin and yang nurtures every being in nature to grow and blossom. Adhering to the principle of harmony, CITIC International Assets Management intends to effectively leverage on the Group's internal and external resources, and actively explores the infinite opportunities in the market place brought forth by the asset management and direct investment businesses.

# CITIC International Assets Management Limited

**The Risk Assets Management Department ('RAM'), formerly known as Special Loans Department, is responsible for resolving the Group's historical problem loans burden since 1997. Currently, there are plans to further transform the business.**



Due to the RAM team's strong China capabilities and pro-active and innovative approach, the department has recovered close to HK\$4 billion worth of cash and assets during the period. Such recoveries have started to generate meaningful write-back of provisions over the past few years. The team is also responsible for managing the portfolio of recovered assets with a view to at least preserving, if not enhancing, the portfolio value.

## **Leveraging a Solid Track Record in Recoveries and Distressed Assets Management**

During the Group's re-organization in 2002, a load of distressed loans and assets was injected into CITIC International Assets Management Limited ('CIAM') (formerly known as Ka Wah Assets Management Limited). The current assets of CIAM is HK\$1.23 billion, largely reflecting the then book value of the assets injected. The objective of the exercise is twofold, namely, to further drive down the non-performing loan ratio of the commercial banking arm and to chart the way forward for establishing a new line of business – direct investment – within the Group.

The assets injected into CIAM consist of HK\$578 million non-performing loans, HK\$258 million in recovered assets and HK\$410 million in liquid assets. In the coming two years,

one of the team's main focus will be to make further recoveries with a view to realizing more cash and to minimizing provisions. It will also strive for better management of recovered assets for preservation and appreciation of asset value. Given the good track record of recoveries and distressed assets management of the team as well as the extensive network and resources of CITIC Group, CIAM is confident it will achieve a high recovery rate on the non-performing loan portfolio and the ultimate exit of the recovered assets through different means.

## **An Internationally Recognized China-focused Direct Investment Company**

The goal of CIAM management is to establish the company as an internationally recognized China-focused direct investment house within three years. CIAM will leverage primarily on the strong China capabilities of its team and CITIC Group as well as the immense business opportunities in the China market. It will focus on short and medium term direct investment in a prudent manner with a view to maximizing return and building a track record for this new line of business.

Towards this goal, CIAM signed an agreement in October 2002 with Shenzhen Guocheng Venture Capital Co., Ltd. and the Administration Center of Innofund under the Ministry of Science and Technology to form a joint venture investment



### CITIC International Assets Management Limited

company and an investment management company. The establishment of these two companies marks the first step of CIAM's venture into the direct investment market in China. CIAM aims to establish another direct investment fund within 2003 and is considering various joint venture opportunities. The total investment of CIAM in these joint ventures is planned to be approximately HK\$100 million.

CIAM is also considering a number of potential direct investment opportunities in high tech manufacturing and retail sales in China. The target aggregate investment for 2003 is between HK\$100 million and HK\$200 million.

CIAM continues to appreciate the fee income opportunities in providing distressed assets management and financial advisory services to third parties, including members of the CITIC Group.

The management of CIAM is actively recruiting expertise to enhance the existing team in meeting these challenges.

#### **A New Board Composition Demonstrating Professionalism and Strong China Capabilities**

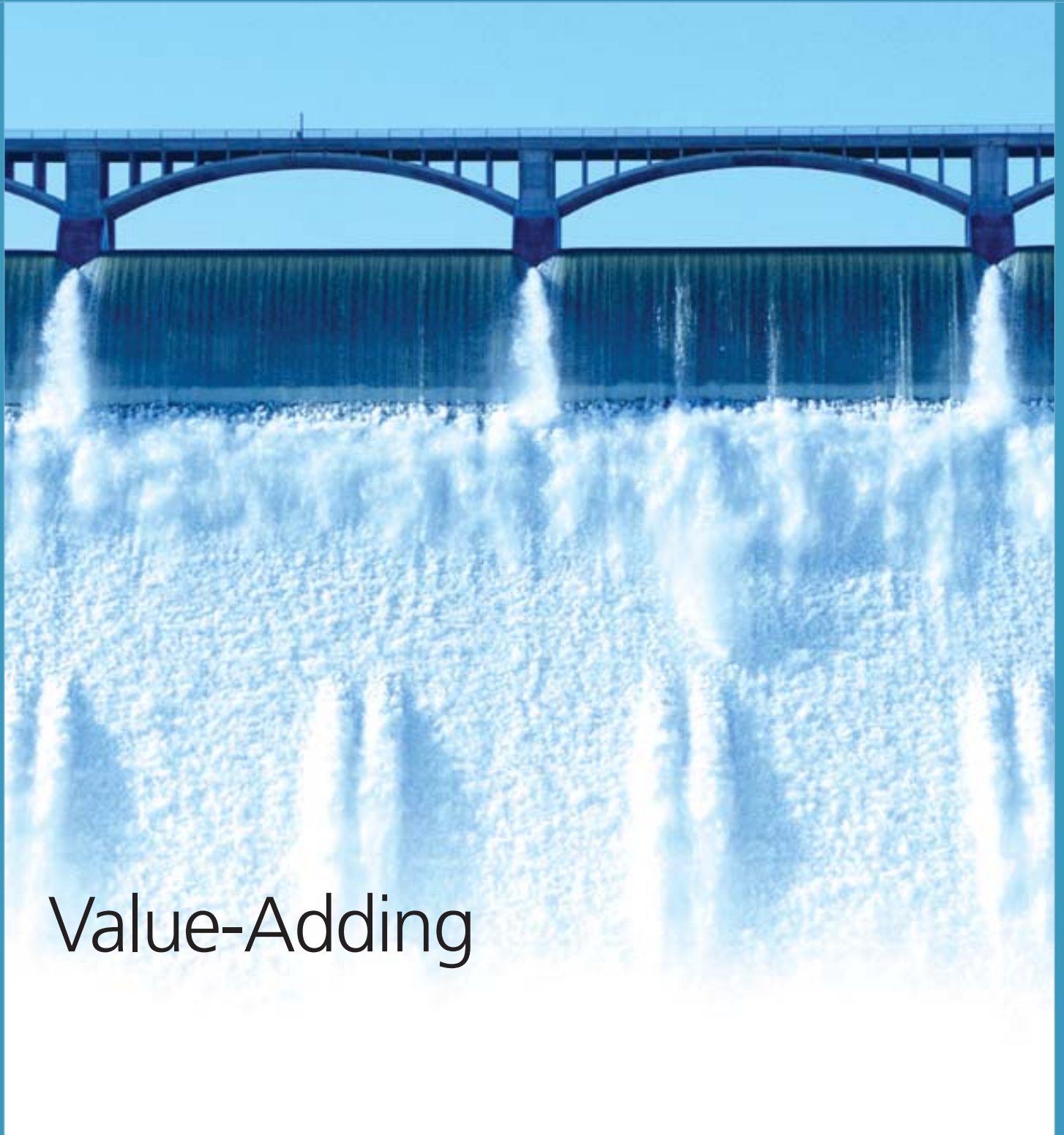
The Board members consist of Mr. Chang Zhenming, Chairman of CIAM and Mr. Lo Wing Yat Kelvin, Chief Executive Officer of CIAM. Details of their background are listed in the section entitled Biographies of Directors and Senior Executives of this annual report. Other members of the Board comprise Mr. Yeung Wai Keung Moses,

Executive Vice President and Treasurer of CITIC Ka Wah Bank and Ms. Margaret Man, Senior Vice President and Head of China Banking of CITIC Ka Wah Bank.

The appointment of new members to the Board of CIAM further reflects the firm backing and close relationship of CITIC Group with the company. The new members consist of Mr. Zhao Jingwen, Executive Director and Vice President of CITIC and Chairman of CITIC Assets Management Company Limited; Ms. Yao Haixing, President of CITIC Trust & Investment Company Limited; and Mr. Zhao Xiaofan, Vice President of CITIC Industrial Bank.

The new composition of the Board of CIAM presents a solid and resourceful foundation for business operations and future business development of the company. It is anticipated that there will be even closer co-operation between CIAM and the various units within the CITIC Group, presenting CIAM with further opportunities to effectively access the Group's resources in debt recoveries, distressed assets management and direct investment.

CIAM finds its core values in Harmony, Innovativeness and Professionalism. Abiding by these core values, management is confident to achieve the aforementioned goals, notwithstanding the challenges presented by the prevailing keen market competition and tough economic environment, and that CIAM will, in the near future, contribute quality earnings to the Group.



# Value-Adding

**CITIC Capital Markets Holdings helps clients in structuring capital and debt financing to fuel their business growth and assists investors to identify and seize investment opportunities. All these services have a common objective of adding value and providing tailored solutions to meet the specific needs of the clients that we serve.**

# CITIC Capital Markets Holdings Limited

**CITIC Capital Markets Holdings Limited ('CCMH') was established in January 2002 with the objective of combining the strategic resources of the CITIC Group in developing a leading China-focused international investment bank.**



A restructuring of the company in May 2002 led to its current shareholding structure divided as 25% being owned by CITIC, 50% by CITIC Pacific Limited and 25% by CITIC Ka Wah Bank Limited. The latter shareholding was subsequently transferred to CIFH in November 2002. Under the restructuring, CCMH becomes the holding company of two wholly owned subsidiaries, Ka Wah Capital Limited and Cargary Securities Limited, respectively the operating vehicles in the areas of investment banking and securities brokerage. To reflect their new corporate identity and ownership, Ka Wah Capital Limited and Cargary Securities Limited were renamed as CITIC Capital Markets Limited ('CITIC Capital Markets') and CITIC Capital Securities Limited ('CITIC Capital Securities') in September 2002, operating under the unified service brand of CITIC Capital.

## **Building a Leading China-focused International Investment Bank**

The year 2002 was one of transformation and infrastructure building for CCMH. An experienced senior management team was assembled, seasoned professional staff were recruited, and solid co-operation relationships were established with CKWB in Hong Kong and CITIC Securities in the PRC with a view to capitalizing on the opportunities inherited in their business contacts and branch network.

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

CCMH aims to provide comprehensive and quality capital market services to empower our diverse client base in three core areas: investment banking, asset management and securities brokerage, both in the PRC and Hong Kong.

## **Investment Banking**

Investment banking services are provided through CITIC Capital Markets to middle-market and PRC-related companies to raise funds in the debt and equity capital markets in Hong Kong and other international financial centers. Services include acting as advisor, arranger, manager and underwriter for capital market transactions.

During the year, CCMH's Debt Capital Markets Team was involved in raising funds of over HK\$10 billion for clients by way of syndicated loans, commercial papers and certificates of deposit. Building on its established brand name in high yield and PRC-related debt markets, CITIC Capital's strengths in this sector include innovative and structured financial solutions, strong distribution capabilities amongst financial institutions in Hong Kong and the PRC, and quick turnaround time to satisfy the funding needs of clients.

The Equity Capital Markets and Corporate Finance Team within the investment banking unit experienced a relatively quiet year due to an unfavorable investment climate and weak investor sentiment. In spite of these, we participated in a number of listing and initial public offering transactions of red chip companies in Hong Kong, particularly during the last quarter of 2002, and provided advisory services to various middle-market companies both in Hong Kong and the PRC.

### **Asset Management**

In addition to investment banking services, CITIC Capital Markets is also engaged in asset management services. During the year, the Ka Wah Five Arrows China Hong Kong Fund, a closed-end investment fund established in 1992 focusing on investment opportunities in China, Hong Kong and Macau, continued to provide stable income to the asset management unit. Despite adverse market conditions, a positive return on assets was reported during the year and a respectable performance was achieved as benchmarked against similar investment funds.

Building on our successful involvement in the management of the Ka Wah Five Arrows China Hong Kong Fund, there are plans to expand our presence in this business line. To further bolster the contributions of income from the asset management business, CITIC Capital Markets is actively working on the rollout of retail fund products and the solicitation of asset management mandates from various institutional investors, with progress being made during the year.

### **Securities Brokerage**

Securities brokerage services are provided by CITIC Capital Securities to the company's own clients as well as the customers of CKWB. In addition to brokerage services, the company also provides margin financing facilities to provide added financial flexibility and liquidity to our clients' securities investments.

During the year, CITIC Capital Securities rationalized its brokerage branch network in terms of both locations and ambience, expanded its product range to also cover securities listed on the Thailand Stock Exchange, and broadened its client base especially for institutional investors. These measures proved to be successful as evidenced by a marked increase in the market share of brokerage transactions on the Stock Exchange of Hong Kong.

### **Cross-border Growth through Strategic Alliance**

During the year, a strategic alliance was formed between CCMH and CITIC Securities, one of the largest independent investment banking and securities brokerage firms in the PRC. The alliance further enables us to capitalize on the respective competitive strengths of the two parties based on co-operation and the sharing of resources. The partnership has worked extremely well and has resulted in numerous referrals of cross-border business opportunities, secondment of staff for training purposes to facilitate seamless co-operation in the future, and the reciprocal link up of corporate internet web sites. It is anticipated that there will be increased areas of co-operation as the financial markets in the PRC continue with their bold steps towards further liberalization.

The year 2003 is expected to be a challenging one not only for CCMH, but for the entire investment banking and securities brokerage industries. The strong growth and buoyant economy of the PRC will no doubt also bring various opportunities to a China-focused operation such as CCMH. We will continue to manage our financial positions conservatively while at the same time keep building our service capabilities and infrastructure which will enable us to remain agile for all suitable opportunities that emerge in the markets we cover.