

## Report of the directors

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2003.

### **Principal activities**

The principal activities of the Group and the Company are the provision of general banking and related financial services, primarily in Hong Kong. Particulars of the Company's principal subsidiaries as at 31 December 2003 are set out in note 21 on the financial statements.

### **Financial statements**

The profit of the Group for the year ended 31 December 2003 and the state of the Company and the Group's affairs as at that date are set out in the financial statements on pages 12 to 77.

### **Dividends**

An interim dividend of HK\$0.03 (2002: HK\$0.03) per share was paid on 24 September 2003. The directors recommend the payment of a final dividend of HK\$0.063 (2002: HK\$0.13) per share in respect of the year ended 31 December 2003.

### **Charitable donations**

Charitable donations made by the Group during the year amounted to HK\$39,800 (2002: HK\$159,150).

### **Fixed assets**

Movements in tangible fixed assets are set out in note 25 on the financial statements.

### **Reserves**

Movements in the reserves of the Group and the Company during the year are set out in note 30 on the financial statements.

### **Share capital**

Movements in the share capital of the Company are set out in note 29 on the financial statements.

## Directors

The directors during the year ended 31 December 2003 and up to the date of this report are as follows (arranged in the order of number of strokes of the directors' Chinese surnames):

Mr. Kong Dan (*Chairman*)  
Mr. Wang Dongming  
Mr. Kong Siu Chee Kenneth (*Managing Director*)  
Mr. Lee Wing Hung Raymond  
Mr. Ju Weimin  
Mr. Lam Kwong Siu (*Independent Non-executive Director*)  
Mr. Fan Sheung Tak Stephen (*Independent Non-executive Director*)  
Mr. Chang Zhenming (*Chief Executive Officer*)  
Mrs. Chan Hui Dor Lam Doreen (*Managing Director and Alternate Chief Executive Officer*)  
Mr. Zhang Enzhao  
Mr. Yang Chao  
Mr. Zhao Shengbiao  
Mr. Liu Jifu  
Mr. Lo Wing Yat Kelvin (*Managing Director*)  
Mr. Dou Jianzhong

In accordance with Article 98 of the Company's Articles of Association, all directors shall retire from office by rotation at each annual general meeting and the retiring directors shall be eligible for re-election. Save for Mr. Lee Wing Hung Raymond, all directors offer themselves for re-election at the forthcoming Annual General Meeting.

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

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

At no time during the year was the Company, its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate with the exception of the share option schemes, details of which are set out in the following section under the heading of "Share Option Schemes".

**Directors' and chief executive's interests**

As at 31 December 2003, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) disclosed in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:-

1. **Long positions in shares of the Company:**

Name of director	Capacity	Number of shares	Percentage of issued share capital
Mr. Zhao Shengbiao	Beneficial owner	1,698,000	0.053

2. **Long positions in (in respect of equity derivatives) underlying shares of the Company:**

Shares options, being unlisted physically settled equity derivatives, to subscribe for the shares of the Company were granted to Mr. Kong Dan, Mr. Chang Zhenming, Mrs. Chan Hui Dor Lam Doreen, Mr. Kong Siu Chee Kenneth, Mr. Lo Wing Yat Kelvin and Mr. Zhao Shengbiao pursuant to the Senior Executive Share Option Scheme and The CITIC International Financial Holdings Limited Share Option Scheme respectively. Information in relation to these share options during the year ended 31 December 2003 was shown in the following section under the heading of "Share Option Scheme".

3. **Short positions in shares and (in respect of equity derivatives) underlying shares of the Company:**

None.

4. **Long and short positions in shares and (in respect of equity derivatives) underlying shares of associated corporations of the Company:**

None.

5. **Interests in debentures of the Company:**

None.

6. **Interests in debentures of the associated corporation of the Company:**

Name of director	Issuer	Capacity	Amount of debentures
Mrs. Chan Hui Dor Lam Doreen	CKWB (Cayman Islands) Limited	Beneficial owner	USD300,000
Mr. Lo Wing Yat Kelvin	CKWB (Cayman Islands) Limited	Beneficial owner	USD80,000

Save as disclosed above, as at 31 December 2003, none of the directors or chief executive of the Company had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) or any interests which are required to be entered into the register kept by the Company pursuant to Section 352 of the SFO.

## Share Option Schemes

At the 78th Ordinary Yearly Meeting of the Company held on 16 May 2003, the Company adopted The CITIC International Financial Holdings Limited Share Option Scheme (the "**New Option Scheme**") and, at the same time, terminated the Senior Executive Share Option Scheme adopted by the Company on 30 March 1995 (the "**Old Option Scheme**"). However, the provisions of the Old Option Scheme remain in full force and effect to the extent necessary to give effect to the exercise of all options granted prior to the termination of the Old Option Scheme. For the year ended 31 December 2003, there was no option granted by the Company under the Old Option Scheme. Options to subscribe for a total of 6,758,000 shares of the Company were granted to 273 eligible persons under the New Option Scheme on 1 December 2003.

The following is a summary of the New Option Scheme disclosed in accordance with the Listing Rules:

1. **Purpose of the New Option Scheme:**

The purpose of the New Option Scheme is to provide the Company with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to the eligible persons.

2. **Participants of the New Option Scheme:**

The Board may offer to grant an option to the following eligible persons:-

- (a) an employee or director holding salaried office or employment under a contract with a member of the Group;
- (b) a non-executive director (including any independent non-executive directors);
- (c) a direct or indirect shareholder of any member of the Group;
- (d) a supplier of goods or services to any member of the Group;
- (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group;
- (f) a person or entity that provides research, development or other technological support or any advisory, consultancy and professional services to any member of the Group;
- (g) any company wholly-owned by one or more persons belonging to any of the above classes of participants; or
- (h) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any of the above classes of participants.

3. **Total number of shares available for issue under the New Option Scheme and percentage of issued share capital as at 31 December 2003:**

The number of shares available for issue under the New Option Scheme is 252,628,306 shares, representing 7.92% of the issued share capital of the Company as at 31 December 2003.

4. **Maximum entitlement of each participant under the New Option Scheme:**

No options may be granted to any eligible person which, if exercised, would result in such eligible person becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued or to be issued to him under all options granted to him in the 12 month period up to and including the offer date of the relevant options, exceed 1% of the shares in issue at such date. Any grant of further options above this limit shall be subject to certain requirements as stipulated in the rules of the New Option Scheme.

5. **The period within which the shares must be taken up under an option:**

Beginning on the 17th day of November 2005 and ending on the 16th day of November 2013.

6. **The minimum period for which an option must be held before it can be exercised:**

Beginning on the 17th day of November 2003 and ending on the 16th day of November 2005.

7. **The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid:**

Not applicable.

8. **The basis of determining the exercise price:**

The exercise price is determined by the directors and being not less than the higher of the followings:-

- (a) the closing price of the shares of the Company as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on the date of offer;
- (b) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer; and
- (c) the nominal value of the shares of the Company.

9. **The remaining life of the New Option Scheme:**

The New Option Scheme will be ended on 15 May 2013.

**Share Option Schemes (continued)**

At 31 December 2003, the directors and the other eligible persons had the following interests in options, which were granted under the Old Option Scheme and/or the New Option Scheme respectively, to subscribe for shares of the Company.

	<i>No. of options outstanding at the beginning of the year</i>	<i>No. of options outstanding at the end of the year</i>	<i>Date granted</i>	<i>Vesting period</i>	<i>Period during which options exercisable</i>	<i>No. of options granted during the year (Note 1)</i>	<i>No. of options exercised during the year</i>	<i>No. of options lapsed during the year</i>	<i>Price per share on exercise of options HK\$</i>	<i>Weighted average closing price (Note 2) HK\$</i>
Mr. Kong Dan	-	400,000	01/12/2003	17/11/2003 to 16/11/2005	17/11/2005 to 16/11/2013	400,000	-	-	3.540	-
Mr. Chang Zhenming	-	400,000	01/12/2003	17/11/2003 to 16/11/2005	17/11/2005 to 16/11/2013	400,000	-	-	3.540	-
Mrs. Chan Hui Dor Lam Doreen	2,000,000	2,000,000	17/08/1999	-	20/04/2000 to 29/03/2005	-	-	-	2.217	-
	74,689	74,689	28/02/2002	-	28/02/2002 to 29/03/2005	-	-	-	2.217	-
	-	300,000	01/12/2003	17/11/2003 to 16/11/2005	17/11/2005 to 16/11/2013	300,000	-	-	3.540	-
Mr. Kong Siu Chee Kenneth	2,000,000	2,000,000	17/08/1999	-	18/05/2001 to 29/03/2005	-	-	-	2.217	-
	74,689	74,689	28/02/2002	-	28/02/2002 to 29/03/2005	-	-	-	2.217	-
	-	200,000	01/12/2003	17/11/2003 to 16/11/2005	17/11/2005 to 16/11/2013	200,000	-	-	3.540	-
Mr. Lo Wing Yat Kelvin	2,000,000	1,200,000	17/08/1999	-	31/10/1999 to 29/03/2005	-	800,000	-	2.217	3.481
	74,689	74,689	28/02/2002	-	28/02/2002 to 29/03/2005	-	-	-	2.217	-
	-	200,000	01/12/2003	17/11/2003 to 16/11/2005	17/11/2005 to 16/11/2013	200,000	-	-	3.540	-
Mr. Zhao Shengbiao	87,000	-	10/04/1996	-	11/04/1996 to 29/03/2005	-	87,000	-	1.000	3.111
	210,875	-	08/05/1997	-	09/05/1997 to 29/03/2005	-	210,875	-	1.000	3.111
	316,239	316,114	06/05/1998	-	07/05/1998 to 29/03/2005	-	125	-	1.000	3.111
	-	40,000	01/12/2003	17/11/2003 to 16/11/2005	17/11/2005 to 16/11/2013	40,000	-	-	3.540	-
Aggregate total of other eligible persons	200,000	-	30/03/1995	-	30/03/1995 to 29/03/2005	-	200,000	-	1.000	3.111
	37,000	-	10/04/1996	-	11/04/1996 to 29/03/2005	-	37,000	-	1.000	3.111
	42,125	-	08/05/1997	-	09/05/1997 to 29/03/2005	-	42,125	-	1.000	3.111
	73,689	814	06/05/1998	-	07/05/1998 to 29/03/2005	-	72,875	-	1.000	3.111

Share Option Schemes (continued)

	<i>No. of options outstanding at the beginning of the year</i>	<i>No. of options outstanding at the end of of the year</i>	<i>Date granted</i>	<i>Vesting period</i>	<i>Period during which options exercisable</i>	<i>No. of options granted during the year (Note 1)</i>	<i>No. of options exercised during the year</i>	<i>No. of options lapsed during the year</i>	<i>Price per share on exercise of options HK\$</i>	<i>Weighted average closing price (Note 2) HK\$</i>
Aggregate total of other eligible persons (continued)	450,000	-	16/04/1999	-	16/04/2000 to 29/03/2005	-	450,000	-	1.620	2.720
	22,406	203	28/02/2002	-	28/02/2002 to 29/03/2005	-	22,203	-	1.620	2.720
	4,000,000	1,000,000	17/08/1999	-	01/04/2000 to 29/03/2005	-	3,000,000	-	2.217	3.481
	149,377	71,423	28/02/2002	-	28/02/2002 to 29/03/2005	-	77,954	-	2.217	3.481
	700,000	-	16/03/2000	-	01/03/2002 to 29/03/2005	-	700,000	-	1.828	3.339
	37,344	37,344	28/02/2002	-	01/03/2002 to 29/03/2005	-	-	-	1.828	-
	1,700,000	500,000	28/03/2000	-	31/03/2000 to 29/03/2005	-	1,200,000	-	1.758	3.176
	63,485	37,344	28/02/2002	-	28/02/2002 to 29/03/2005	-	26,141	-	1.758	3.176
	1,000,000	100,000	27/06/2000	-	05/06/2002 to 29/03/2005	-	900,000	-	1.681	3.538
	37,344	37,344	28/02/2002	-	05/06/2002 to 29/03/2005	-	-	-	1.681	-
	500,000	100,000	10/08/2000	-	11/08/2001 to 29/03/2005	-	200,000	200,000	2.198	3.825
	18,672	4,203	28/02/2002	-	28/02/2002 to 29/03/2005	-	7,000	7,469	2.198	3.825
	200,000	-	23/08/2000	-	24/08/2001 to 29/03/2005	-	200,000	-	2.213	3.662
	7,469	-	28/02/2002	-	28/02/2002 to 29/03/2005	-	7,469	-	2.213	3.662
	1,300,000	500,000	05/12/2000	-	22/10/2001 to 29/03/2005	-	800,000	-	1.747	3.116
	48,547	37,344	28/02/2002	-	28/02/2002 to 29/03/2005	-	11,203	-	1.747	3.116
	300,000	-	26/03/2001	-	27/03/2002 to 29/3/2005	-	-	300,000	1.758	-
	11,203	-	28/02/2002	-	27/03/2002 to 29/3/2005	-	-	11,203	1.758	-
	-	5,218,000	01/12/2003	17/11/2003 to 16/11/2005	17/11/2005 to 16/11/2013	5,218,000	-	-	3.540	-
	<u>17,736,842</u>	<u>14,924,200</u>				<u>6,758,000</u>	<u>9,051,970</u>	<u>518,672</u>		

Notes:

1. (a) The closing price of the shares of the Company immediately before 1 December 2003 on which the options were granted was HK\$3.55.
- (b) The directors consider that it is not appropriate to disclose the value of options granted during the year ended 31 December 2003 since any valuation of the options would be subject to a number of assumptions that would be subjective and uncertain. The directors believe that the evaluation of options based upon speculative assumptions would not be meaningful and would be misleading.
2. This represents the weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised.

Save as disclosed above, as at 31 December 2003, none of the directors or chief executive of the Company or their spouses or children under 18 years of age were granted or exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations.

### Substantial shareholders' interests

Save as disclosed below, as at 31 December 2003, the directors were not aware of any person (other than a director or chief executive of the Company or their respective associate(s)) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

#### I. Long positions in shares of the Company:

Name	Capacity	Number of shares	Percentage of issued share capital
CITIC Group (formerly known as China International Trust and Investment Corporation)	Beneficial owner	1,700,198,220	53.30
	Interest of controlled corporations	14,620,076	0.46
China Construction Bank	Beneficial owner	168,599,268	5.29
J. P. Morgan Chase & Co.	Beneficial owner	131,540,713	4.12
	Investment manager	119,199,000	3.74
	Custodian	34,166,000	1.07

#### II. Short positions in shares of the Company:

Name	Capacity	Number of shares	Percentage of issued share capital
J. P. Morgan Chase & Co.	Beneficial owner	95,400,000	2.99

#### III. Long and Short positions in (in respect of equity derivatives) underlying shares of the Company:

None

### Convertible bonds

In December 2003, CIFH (CB-I) Limited, a wholly-owned subsidiary of the Company, issued convertible bonds in the aggregate principal amount of US\$180,000,000 (the "Bonds"). The Bonds are unconditionally and irrevocably guaranteed by the Company and bear interest from 8 December 2003 at the rate of 0.25 percent per annum, payable semi-annually in arrear on each of 8 June and 8 December, commencing on 8 June 2004. The issue price of the Bonds was 100 percent of the aggregate principal amount of the Bonds. The bondholders have the right to convert the Bonds into ordinary shares of HK\$1.00 each in the capital of the Company at any time on and after 18 January 2004 up to and including 8 November 2008 at the conversion price of HK\$4.269 per share. The conversion price will be subject to adjustment for, amongst other things, consolidations/subdivisions of shares, capital distributions, bonus issues, rights issues and other events which may have a diluting effect on bondholders. Upon full conversion of the Bonds at the conversion price of HK\$4.269 per share, a total of 326,900,913 ordinary shares of the Company will be issued. The net proceeds of the issue of the Bonds will be used for general corporate purposes of the Group.

## Connected transactions

### Discretionary Investment Management Agreements

On 31 July 2003, CITIC Ka Wah Bank Limited ("**CKWB**"), a wholly-owned subsidiary of the Company, entered into a discretionary investment management agreement with CITIC Capital Markets Limited ("**CCML**"), an associate company of the Company and CITIC Group, ("**CKWB DIM Agreement**") whereby CKWB appointed CCML as the investment manager providing discretionary investment management services to CKWB. A management fee of 0.5% per annum of the invested amount would be paid by CKWB to CCML for the investment management services provided and on top of that, a performance fee of 15% for annualized return of 5% or above, 20% for annualized return of 10% or above, or 25% for annualized return of 15% or above.

Under the CKWB DIM Agreement, the management fee and performance fee payable by CKWB for the year ended 31 December 2003 were HK\$209,169 and HK\$800,834 respectively.

On 18 September 2003, CITIC International Assets Management Limited ("**CIAM**"), a wholly-owned subsidiary of the Company, entered into a discretionary investment management agreement with CCML ("**CIAM DIM Agreement**") whereby CIAM appointed CCML to act as the investment manager providing discretionary investment management services to CIAM at the respective amount of management fee and performance fee calculated as follows:-A management fee of 0.5% per annum of the net asset value, being the average daily balance in the month, would be paid monthly by CIAM to CCML for the investment management services provided and on top of that, a performance fee of 10% for a net return portion from 5% to 8%, and 20% for the net return portion in excess of 8% would be paid by CIAM for such services.

Under the CIAM DIM Agreement, the management fee and performance fee paid or payable by CIAM for the year ended 31 December 2003 were HK\$6,021,216 and HK\$394,057 respectively.

### Subscription of Funds

On 22 August 2003 and 18 November 2003, CIAM respectively subscribed for the participating redeemable shares of CITIC Capital China Plus Fund Limited ("**China Plus Fund**") for an amount of US\$6.4 million (approximately HK\$49,920,000) and that of CITIC Capital Global Macro Fund Limited ("**Global Macro Fund**") for an amount of US\$6 million (approximately HK\$46,800,000). On 12 December 2003, CKWB subscribed for the participating redeemable shares of China Plus Fund for an amount of US\$8 million (approximately HK\$62,400,000). Since both China Plus Fund and Global Macro Fund (collectively the "**Funds**") were corporate funds set up by CCMH, also an associate of CITIC Group, and managed by CITIC Capital Investment Management (Cayman) Limited, a wholly-owned subsidiary of CCMH, the subscriptions of shares in the Funds constituted connected transactions of the Company under the Listing Rules.

### Acquisition of Jiangxi Copper's Shares

On 25 August 2003, CIAM and CKWB, entered into an agreement with CITIC Capital Investment Holdings Limited ("**CCIH**"), a wholly-owned subsidiary of CCMH, whereby CCIH sold 16,000,000 H shares of Jiangxi Copper Company Limited ("**Jiangxi Copper**") to CIAM and 8,000,000 H shares of Jiangxi Copper to CKWB at a price of HK\$1.78 per share. Since CCIH is an associate of CITIC Group, the acquisitions of Jiangxi Copper's shares by CIAM and CKWB from CCIH constituted connected transactions of the Company.

### Services Agreement entered with CITIC Industrial Bank

CKWB and CITIC Industrial Bank ("**CIB**") entered into a Memorandum of Understanding on 28 February 2002 whereby a mutual understanding was reached between the parties to explore the opportunity to jointly develop a credit card business in Mainland China with the ultimate objective to set up a joint venture therefor if regulations permit. Both parties have been working closely under such business plan since then and both incurred certain costs and expenses during the process. The joint venture has not been set up yet but CIB has already started its dialogue with the regulatory bodies in Mainland China on the subject. On 29 December 2003, CKWB entered into an agreement with CIB ("**CIB Agreement**") whereby CIB agreed to pay to CKWB an amount of HK\$17,855,997 for absorbing all costs and expenses incurred by CKWB in exploring the opportunity to jointly develop the credit card business with CIB in Mainland China. The parties would continue to work closely towards the objective to set up the joint venture when the regulations permit.

Since CIB is a wholly-owned subsidiary of CITIC Group, the entering into the CIB Agreement between CKWB and CIB constituted a connected transaction of the Company.



## **Connected transactions (continued)**

### **CITIC Frontier Research Service Agreements**

On 29 October 2003, CITIC Frontier China Research Limited ("**CITIC Frontier**"), a 75% owned subsidiary of the Company, entered into a research service agreement ("**CCSL Research Service Agreement**") with CITIC Capital Securities Limited ("**CCSL**"), a wholly-owned subsidiary of CCMH, whereby CITIC Frontier agreed to (i) prepare and compile exclusively for CCSL a weekly research publication containing Hong Kong and PRC equities market analyses and commentaries and stock recommendations and a monthly research publication recommending a selected portfolio of PRC stock included in the weighting of the MSCI Index; and (ii) provide certain promotional and marketing support to CCSL, at a service fee of HK\$1,800,000 per annum.

On 24 November 2003, CITIC Frontier entered into a research service agreement with CCMH ("**CCMH Research Service Agreement**") whereby CITIC Frontier would render to the CCMH Group certain research compilation and corporate, industrial and market advisory services, deal origination and marketing support and other related services at a service fee comprising an upfront fee of HK\$2,100,000 and a semi-annual service fee of HK\$1,050,000 each receivable on 31 March 2004 and 30 September 2004.

Since CCSL and CCMH are associates of CITIC Group, the entering into the CCSL Research Service Agreement and CCMH Research Service Agreement by CITIC Frontier constituted connected transactions of the Company. The aggregate service fees received or receivable by CITIC Frontier pursuant to the CCSL Research Service Agreement and the CCMH Research Service Agreement for the year ended 31 December 2003 was HK\$3,075,000.

### **Other continuing connected transactions**

On 27 May 2002, CKWB entered into a service agreement ("**CCMH Service Agreement**") with CCMH. Pursuant to the CCMH Service Agreement, CKWB would provide management support services to CCMH and CCMH would pay CKWB service fees for the services rendered on a time cost basis as mutually agreed between the parties from time to time. The aggregate service fee received or receivable by CKWB for the year ended 31 December 2003 was HK\$1,332,000.

On 27 May 2002, CKWB entered into an agency agreement with CCSL ("**CCSL Agency Agreement**") whereby CCSL appointed CKWB as its agent bank to act on its behalf to open securities accounts for its customers and to receive order from CCSL's customers through CKWB. For each successfully executed order, CKWB would be entitled to receive from CCSL an agency fee amounting to 30% of the brokerage commission payable by CCSL's customer on such order or such amount as mutually agreed between the parties from time to time. The aggregate agency fee received by CKWB for the year ended 31 December 2003 was HK\$8,834,088.

### **Directors' review on the continuing connected transactions**

The Directors, including the Independent Non-executive Directors, had reviewed the continuing connected transactions made during the year ended 31 December 2003 and confirmed that these transactions were (i) entered into in the ordinary and usual course of business on terms that are fair and reasonable so far as the Company or the relevant subsidiary is concerned and (ii) on normal commercial terms and in accordance with the terms of each of the relevant agreements governing such transactions. The aggregate investment management and performance fees paid or payable by CKWB and CIAM pursuant to CKWB DIM Agreement and CIAM DIM Agreement, or the aggregate service fees received or receivable by CITIC Frontier pursuant to CCSL Research Service Agreement and CCMH Research Service Agreement, or the aggregate service fee received or receivable by CKWB pursuant to the CCMH Service Agreement, or the aggregate agency fee received or receivable by CKWB pursuant to the CCSL Agency Agreement, did not exceed 3% of the consolidated net tangible assets of the Company as at 31 December 2003.

**Purchase, sale or redemption of the Company's listed securities**

The Company had not redeemed any of its listed securities during the year ended 31 December 2003. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities during the year.

**Management contracts**

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

**Major customers**

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

**Compliance with the Code of Best Practice**

The Company had complied throughout the year with the Code of Best Practice as set out by the Stock Exchange in Appendix 14 to the Listing Rules, except that there is no specific term for the appointment of independent non-executive directors.

**Supervisory Policy Manual on Financial Disclosure by Locally Incorporated Authorised Institutions**

The financial statements for the year ended 31 December 2003 fully comply with the guideline on "Financial Disclosure by Locally Incorporated Authorised Institutions" under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority.

**Auditors**

A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Kong Dan  
Chairman

Hong Kong, 18 March 2004

## **Auditors' report to the shareholders of CITIC International Financial Holdings Limited**

*(Incorporated in Hong Kong with limited liability)*

We have audited the financial statements on pages 12 to 77 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 solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **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 Company's and the Group's circumstances, 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 Company and of the Group as at 31 December 2003 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.

### **KPMG**

Certified Public Accountants  
Hong Kong, 18 March 2004

## Consolidated Income Statement for the year ended 31 December 2003

(Expressed in Hong Kong dollars)

	Note	2003 HK\$'000	2002 Restated HK\$'000
Interest income	4(a)	2,523,226	2,968,114
Interest expense		<u>(961,655)</u>	<u>(1,288,670)</u>
Net interest income		1,561,571	1,679,444
Fees and commission income		416,276	429,453
Fees and commission expense		(39,000)	(48,267)
Other operating income	4(b)	<u>82,012</u>	<u>122,529</u>
Operating income		2,020,859	2,183,159
Operating expenses	4(c)	<u>(1,015,485)</u>	<u>(1,049,049)</u>
Operating profit before provisions		1,005,374	1,134,110
Charge for bad and doubtful debts	4(d)	<u>(513,781)</u>	<u>(539,802)</u>
Operating profit	4	491,593	594,308
Net loss on disposal of tangible fixed assets		(16,017)	(4,000)
Net surplus/(deficit) on revaluation of investment properties		24,461	(35,033)
Net profit on disposal of subsidiaries and associates		-	33,303
Net profit on disposal of held-to-maturity securities		124,823	54,099
Provision written back/(made) on held-to-maturity securities and investment securities		169	(8,390)
Impairment loss on other premises		(27,617)	-
Share of profits less losses of associates		<u>174,672</u>	<u>10,094</u>
Profit from ordinary activities before taxation	34	772,084	644,381
Income tax	6(a)	<u>(115,318)</u>	<u>(104,336)</u>
Profit from ordinary activities after taxation		656,766	540,045
Minority interests		<u>(188)</u>	<u>(1,402)</u>
Profit attributable to shareholders	30	<u>656,578</u>	<u>538,643</u>
Profit retained in :			
The Company and its subsidiaries		508,231	529,315
Associates		<u>148,347</u>	<u>9,328</u>
		<u>656,578</u>	<u>538,643</u>
Dividends attributable to the year:	8		
Interim dividend declared and paid during the year		95,465	90,962
Final dividend proposed after the balance sheet date		<u>200,960</u>	<u>394,591</u>
		<u>296,425</u>	<u>485,553</u>
Earnings per share	9		
Basic		<u>21.00¢</u>	<u>17.81¢</u>
Diluted		<u>20.84¢</u>	<u>17.79¢</u>

The notes on pages 19 to 77 form part of these financial statements.

## Consolidated Balance Sheet at 31 December 2003

(Expressed in Hong Kong dollars)

		2003	2002
		HK\$'000	Restated HK\$'000
	<i>Note</i>		
<b>Assets</b>			
Cash and short-term funds	11 & 27	7,511,643	5,946,661
Placements with banks and other financial institutions maturing after one month	27	646,373	221,006
Trade bills less provisions	12 & 27	452,489	374,942
Certificates of deposit	13	2,059,100	1,030,944
Other investments in securities	14	2,511,606	3,219,559
Advances to customers and other accounts less provisions	15(a)	41,073,517	43,531,505
Held-to-maturity securities and investment securities	20	22,454,176	18,621,468
Interest in associates	22	490,444	358,002
Goodwill	24	1,077,587	1,135,923
Deferred tax assets	18(a)	87,477	78,090
Tangible fixed assets	25	1,553,045	1,676,193
<b>Total assets</b>		<b>79,917,457</b>	<b>76,194,293</b>
<b>Liabilities</b>			
Deposits and balances of banks and other financial institutions	27	3,486,079	2,120,181
Deposits from customers	26 & 27	56,847,606	55,535,460
Certificates of deposit issued	27	4,711,175	5,832,513
Convertible bonds issued	27 & 31	1,397,364	-
Current taxation	6(c)	17,071	2,772
Deferred tax liabilities	18(a)	15	20
Other accounts and provisions		1,376,464	1,039,948
<b>Total liabilities</b>		<b>67,835,774</b>	<b>64,530,894</b>

## Consolidated Balance Sheet at 31 December 2003 (continued)

(Expressed in Hong Kong dollars)

	<i>Note</i>	2003 HK\$'000	2002 Restated HK\$'000
<b>Capital resources</b>			
Share capital	29	3,189,835	3,035,313
Reserves	30	4,621,935	4,337,914
Shareholders' funds		7,811,770	7,373,227
<b>Minority interests</b>		<b>191</b>	-
<b>Loan capital</b>	32	4,269,722	4,290,172
<b>Total capital resources</b>		<b>12,081,683</b>	11,663,399
<b>Total liabilities and capital resources</b>		<b>79,917,457</b>	76,194,293

Approved and authorised for issue by the Board of Directors on 18 March 2004

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The notes on pages 19 to 77 form part of these financial statements.

## Balance Sheet at 31 December 2003

(Expressed in Hong Kong dollars)

		2003 HK\$'000	2002 HK\$'000
	<i>Note</i>		
<b>Assets</b>			
Cash and short-term funds	11 & 27	-	725,628
Other investments in securities	14 & 27	-	508,553
Advances to customers and other accounts less provisions	15(a)	<b>29,910</b>	12,449
Amounts due from subsidiaries	19	<b>1,637,049</b>	184,142
Investments in subsidiaries	21	<b>5,546,229</b>	5,546,222
Tangible fixed assets	25	<b>212,735</b>	161,346
<b>Total assets</b>		<b><u>7,425,923</u></b>	<b><u>7,138,340</u></b>
<b>Liabilities</b>			
Deposits and balances of banks and other financial institutions	27	-	238,080
Deposits from customers	26 & 27	-	815,453
Other accounts and provisions		<b>7,690</b>	15,393
Amounts due to subsidiaries	23	<b>1,397,597</b>	164,382
<b>Total liabilities</b>		<b><u>1,405,287</u></b>	<b><u>1,233,308</u></b>

## Balance Sheet at 31 December 2003 (continued)

(Expressed in Hong Kong dollars)

	<i>Note</i>	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
<b>Capital resources</b>			
Share capital	29	<b>3,189,835</b>	3,035,313
Reserves	30	<b>2,830,801</b>	2,869,719
Shareholders' funds		<b>6,020,636</b>	5,905,032
<b>Total liabilities and capital resources</b>		<b>7,425,923</b>	7,138,340

Approved and authorised for issue by the Board of Directors on 18 March 2004

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The notes on pages 19 to 77 form part of these financial statements.



## Consolidated Statement of Changes in Equity for the year ended 31 December 2003

(Expressed in Hong Kong dollars)

	<i>Note</i>	<b>2003</b>	2002
		<b>HK\$'000</b>	Restated HK\$'000
Shareholders' equity at 1 January			
- As previously reported		<b>7,426,293</b>	6,253,677
- Prior year adjustment in respect of deferred taxation		<b>(53,066)</b>	21,235
- As restated		<b>7,373,227</b>	6,274,912
Net deficit on property revaluation	30	-	(151)
Exchange differences	30	<b>(916)</b>	(2)
<b>Net losses not recognised in the income statement</b>		<b>(916)</b>	(153)
Net profit for the year			
- As previously reported			612,944
- Prior year adjustment in respect of deferred taxation			(74,301)
- Profit attributable to shareholders (2002 as restated)	30	<b>656,578</b>	538,643
Dividends paid during the year	8(c)	<b>(490,095)</b>	(166,716)
Movements in share capital:			
Shares issued under the Old Option Scheme	29	<b>9,052</b>	7,217
Shares issued under rights issue	29	-	432,585
Shares issued under scrip dividends	29	<b>145,470</b>	-
Net share premium received	30	<b>118,454</b>	286,739
		<b>272,976</b>	726,541
Shareholders' equity at 31 December		<b>7,811,770</b>	7,373,227

The notes on pages 19 to 77 form part of these financial statements.

## Consolidated Cash Flow Statement for the year ended 31 December 2003

(Expressed in Hong Kong dollars)

	Note	2003 HK\$'000	2002 Restated HK\$'000
<b>Operating activities</b>			
Cash generated from/(used in) operating activities	34	1,330,860	(4,281,852)
Hong Kong profits tax paid		(44,307)	(5,745)
Overseas profits tax paid		(2,408)	(1,550)
<b>Net cash generated from/(used in) operating activities</b>		<u>1,284,145</u>	<u>(4,289,147)</u>
<b>Investing activities</b>			
Dividends received from equity investment securities		13,462	18,722
Dividends received from associates		15,180	-
Payment for purchase of tangible fixed assets		(39,756)	(88,624)
Proceeds from disposal of tangible fixed assets		20,453	6,841
Proceeds from disposal of associates		-	54,455
Net cash inflow from purchase of a subsidiary	35(b)	511	1,821,150
Net cash outflow from disposal of subsidiaries		-	(304,159)
<b>Net cash from investing activities</b>		<u>9,850</u>	<u>1,508,385</u>
<b>Financing activities</b>			
Dividends paid		(490,095)	(166,716)
Net proceeds from convertible bond issued		1,369,417	-
Proceeds from loan capital issued		-	1,950,078
Interest paid on loan capital issued		(356,667)	(178,432)
Proceeds from shares issued under rights issue		-	719,575
Capital contribution from minority interests		3	-
Proceeds from shares issued		272,976	12,966
<b>Net cash from financing activities</b>		<u>795,634</u>	<u>2,337,471</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>2,089,629</u>	<u>(443,291)</u>
<b>Cash and cash equivalents at 1 January</b>		<u>5,729,469</u>	<u>6,172,760</u>
<b>Cash and cash equivalents at 31 December</b>	36	<u>7,819,098</u>	<u>5,729,469</u>

The notes on pages 19 to 77 form part of these financial statements.

## Notes on the Financial Statements

*(Expressed in Hong Kong dollars unless otherwise indicated)*

### 1 Principal activities

The principal activities of CITIC International Financial Holdings Limited (the “Company”) and its subsidiaries (the “Group”), which materially affect the results or comprise the assets and liabilities 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 Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice (“SSAP”) and Interpretations) issued by the Hong Kong Society of Accountants (the “HKSA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. 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 premises and investment properties, and the marking to market of certain investments in securities and derivative financial instruments as explained in the accounting policies set out below.

#### (c) 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 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. Other interest income is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable, except in the case of interest on doubtful debts (note 2(d)(v)).
- (ii) Fee and commission income is recognised when the corresponding service is provided, 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 as income in the accounting period in which the costs or risk incurred or accounted for as interest income.
- (iii) Finance income implicit in the finance lease and hire purchase payments is recognised as interest income 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. Commission paid to dealers for finance lease loans or hire purchase contracts is amortised over the terms of the leases.

## 2 Significant accounting policies (continued)

### (c) Revenue recognition (continued)

- (iv) Rental income receivable under operating leases is recognised as other operating income 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 granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable.
- (v) 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.

### (d) Advances and doubtful debts

- (i) Advances to customers and trade bills are measured at the cash consideration at the time of drawdown/acquisition and are stated in the balance sheet at the principal amounts outstanding net of any suspended interest and provisions for bad and doubtful debts. Cash rebates granted in relation to residential mortgage loans are capitalised and amortised to the income statement over the early prepayment penalty period.
- (ii) Loans are designated as non-performing as soon as management has doubts as to the ultimate recoverability of principal or interest or when contractual payments of principal or interest are 90 days overdue. When a loan is designated as non-performing, interest will be suspended and a specific provision raised if required.

However, the suspension of interest may be deferred for up to 12 months past due in the following situations:

- where cash collateral is held covering the total of principal and interest due and the right of set-off is in place; or
  - where the value of net realisable tangible collateral is considered more than sufficient to cover the full repayment of all principal and interest due and credit approval has been given to the rolling-up or capitalisation of interest payments.
- (iii) Specific provisions

Specific provisions represent the quantification of expected losses from identified accounts and are deducted from loans and advances in the balance sheet. The amount of specific provision raised is assessed on a case by case basis. Specific provisions are made against the carrying amount of advances that are identified as being in doubt, based on regular reviews of outstanding balances, to reduce these advances, net of any realisable collateral, to their recoverable amounts.

## 2 Significant accounting policies (continued)

### (d) Advances and doubtful debts (continued)

#### (iv) General provisions

General provisions augment specific provisions and provide cover for loans which are impaired at the balance sheet date but which will not be identified as such until some time in the future. The Group maintains a general provision which is determined taking into account the structure and risk characteristics of the Group's loan portfolio and the expected loss of the individual components of the loan portfolio based primarily on the historical loss experience. General provisions are deducted from loans and advances to customers in the balance sheet.

#### (v) Advances on which interest is being suspended

Interest accrued on non-performing loans is credited to a suspense account which is netted in the balance sheet against "Advances to customers and other accounts" or "Trade bills" as appropriate. On receipt of cash (other than from the realisation of collateral), suspended interest is recovered and taken to the income statement. Amounts received from the realisation of collateral are applied to the repayment of outstanding indebtedness, with any surplus used to recover any specific provisions and then suspended interest.

#### (vi) Non-accrual loans

Loans are not reclassified as accruing until interest and principal payments are up-to-date and future payments are reasonably assured. Where the probability of receiving interest payments is remote, interest is no longer accrued. Where the loan has no reasonable prospect of recovery, the loan and any related suspended interest are written off.

#### (vii) Assets acquired in exchange for advances

Assets acquired in exchange for advances in order to achieve an orderly realisation continue to be reported as advances. In this regard, provision is made on the shortfall between the carrying amount of the advances and the expected net sales proceeds from realisation of the repossessed assets.

In the case when the loan has been written off, the asset acquired will be reclassified to other accounts. Impairment losses (see note 2(k)), if necessary, are made to allow for declines in the estimated fair value of the assets acquired.

### (e) 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 Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

## 2 Significant accounting policies (continued)

### (e) Subsidiaries (continued)

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 the investment is accounted for as an investment in other securities (see note 2(h)(iv)).

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.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the income statement.

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(k)), 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 Company, in which case the investment is accounted for as an investment in other securities (see note 2(h)(iv)).

### (f) Associates

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

An interest in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, 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 Group, in which case the investment is accounted for as an investment in other securities (see note 2(h)(iv)). The consolidated income statement reflects the Group's share of the post-acquisition results of the associates for the year. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further loss is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

## 2 Significant accounting policies (continued)

### (f) Associates (continued)

In the Company's balance sheet, its interests in associates are stated at cost less impairment losses (see note 2(k)), 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 the investment is accounted for as an investment in other securities (see note 2(h)(iv)).

### (g) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 2(k)).

On disposal of a controlled subsidiary during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement is included in the calculation of the profit or loss on disposal.

### (h) Investments in securities

The Group's and the Company'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 Company 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.

## 2 Significant accounting policies (continued)

### (i) Sale and repurchase agreements

Proceeds received from the sale of securities 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 "Deposits from customers" or "Deposits and balances 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 and is included in interest expense.

### (j) Tangible fixed assets and depreciation

(i) In preparing these financial statements, 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 near future.

(ii) Tangible fixed assets are carried in the balance sheet on the following bases:

- Investment properties are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers. No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.
- 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
- Furniture, fixtures and equipment are stated at cost less depreciation calculated on a 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.



## 2 Significant accounting policies (continued)

### (j) Tangible fixed assets and depreciation (continued)

- (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) Profits 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.

### (k) 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 as an investment in other securities under notes 2(h)(iv)); and
- positive goodwill.

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).

#### (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 taken to the income statement in the year in which the reversals are recognised.

## 2 Significant accounting policies (continued)

### (l) Leases and hire purchase contracts

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

#### (i) Assets held under finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the balance sheet as advances to customers. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Revenue arising from finance leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(c)(iii).

#### (ii) Assets held for use in operating leases

Where the Group is a lessor under operating leases, the leased assets are included in fixed assets and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(j), and less any impairment losses (see note 2(k)). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(c).

#### (iii) 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) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks and other financial institutions, and short-term, highly liquid inter-bank placements and investments that are readily convertible into known amount of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

### (n) Subordinated liabilities and debt securities issued

Subordinated liabilities and debt securities issued are included in the balance sheet at the value of the net proceeds received upon issue, adjusted for the amortisation of any premium or discount arising on issue.

Interest on subordinated liabilities and debt securities issued is charged to the income statement at the coupon rate adjusted for the amortisation of any premium or discount arising on issue so as to achieve a constant rate of charge over the period from the date of issue to the date of redemption.

When debt securities issued are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

### (o) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

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

## 2 Significant accounting policies (continued)

### (o) Employee benefits (continued)

- (iii) When the Group grants employees options to acquire shares of the Company, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.
- (iv) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

### (p) Income tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

## 2 Significant accounting policies (continued)

### (p) Income tax (continued)

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (q) 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 enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated 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 or loss on disposal.

### (r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company 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)

### (s) Off-balance sheet financial instruments

Off-balance sheet financial instruments mainly include derivatives arising from futures, forward, swap and option transactions undertaken by the Group and the Company in the foreign exchange, interest rate and equity markets. Netting is applied where a legal right of set-off exists, which would survive the insolvency of all parties.

The accounting for these instruments is dependent upon whether the transactions are undertaken for trading purposes or as part of the management of asset and liability portfolios.

#### (i) Derivatives used for trading purposes

Trading transactions include transactions undertaken for market making, to service customers' needs and for proprietary purposes, as well as any related hedges.

Transactions undertaken for trading purposes are marked to market and the net present value of the gain or loss arising is recognised in the income statement as trading gains/losses. Unrealised gains on transactions are included in 'Accrued interest and other accounts' in the balance sheet. Unrealised losses on transactions are included in 'Other accounts and provisions'.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract as the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

#### (ii) Derivatives used for asset and liability management purposes

Derivatives that qualify as hedges are valued on an equivalent basis to the underlying 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.

A hedging relationship exists where:

- at the inception of the hedge there is formal documentation of the hedge;
- the hedge is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is highly effective throughout the reporting period; and
- for hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect net profit or loss.

Any gain or loss on termination of hedging derivatives is deferred and amortised to the income statement over the remaining original life of the terminated contract. Where the underlying asset, liability or position is sold or terminated, the hedging derivative is immediately marked to market through the income statement.

## 2 Significant accounting policies (continued)

### (t) 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.

### (u) 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 for the purposes of these financial statements.

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.

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 the bank premises, central cash management and any items which cannot be reasonably allocated to specific business segments.

## 3 Change in accounting policy

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with SSAP 12 (revised) issued by the HKSA, the Group adopted a new policy for deferred tax as set out in note 2(p). As a result of the adoption of this accounting policy, the Group's profit for the year has been increased by \$16,294,000 (2002 : decreased by \$74,301,000) and the net assets as at the year end have been decreased by \$36,772,000 (2002 : \$53,066,000).

The new accounting policy has been adopted retrospectively, with the opening balances of retained profits and reserves and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.

#### 4 Operating profit

The operating profit for the year is stated after taking account of the following:

##### (a) Interest income

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Interest income on securities	903,153	981,377
Other interest income	1,620,073	1,986,737
	<u>2,523,226</u>	<u>2,968,114</u>

##### (b) Other operating income

	The Group	
	2003	2002
	HK\$'000	HK\$'000
<b>Other revenue</b>		
Dividend income		
Listed investments	357	-
Unlisted investments	13,105	18,722
Rental income less outgoings of \$3,694,000 (2002: \$5,164,000)	13,736	12,024
	<u>27,198</u>	<u>30,746</u>
<b>Other net income</b>		
Net gain on other investments in securities	15,409	89,116
Net gain arising from dealing in foreign currencies	7,590	13,084
Net gain/(loss) arising from other dealing activities	14,058	(56,591)
Others	17,757	46,174
	<u>54,814</u>	<u>91,783</u>
	<u>82,012</u>	<u>122,529</u>

##### (c) Operating expenses

	The Group	
	2003	2002
	HK\$'000	Restated HK\$'000
Staff costs		
Salaries and other staff costs	459,783	524,956
Retirement costs (note 37)	36,493	25,569
Premises and equipment expenses		
Rental of premises	46,456	48,774
Depreciation (note 25)	123,443	109,760
Others	92,355	74,873
Advertising	51,639	74,869
Amortisation of goodwill	59,786	59,785
Communication, printing and stationery	54,294	47,045
Legal and professional fees	23,277	33,672
Transportation	7,271	6,409
Auditors' remuneration	3,799	3,648
Others	56,889	39,689
	<u>1,015,485</u>	<u>1,049,049</u>

#### 4 Operating profit (continued)

##### (d) Charge for bad and doubtful debts

	The Group	
	2003 HK\$'000	2002 HK\$'000
Specific provisions		
- new provisions	699,883	675,295
- releases	(153,667)	(32,394)
- recoveries	(80,935)	(96,005)
	465,281	546,896
General provisions		
- new provisions	94,323	64,979
- releases	(45,823)	(72,073)
	48,500	(7,094)
Net charge for bad and doubtful debts	513,781	539,802

##### (e) Individuals with highest emoluments:

Of the Group's five individuals with the highest emoluments, four of them (2002: four) are directors of the Company and the information in respect of the directors' emoluments are disclosed in note 5.

The emoluments of the remaining individual are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries, allowances and benefits in kind	2,208	1,529
Bonuses	600	328
Pension contributions	216	110
Others	-	2,134
	3,024	4,101

#### 5 Directors' remuneration

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

	The Group	
	2003 HK\$'000	2002 HK\$'000
Fees	4,500	4,650
Salaries, allowances and benefits in kind	14,950	19,393
Bonuses	3,964	5,016
Pension contributions	1,394	1,479
	24,808	30,538



## 5 Directors' remuneration (continued)

Included in the directors' remuneration were fees of \$600,000 (2002: \$400,000) provided to independent non-executive directors during the year.

In addition to the above emoluments, certain directors were granted share options under the Company's Senior Executive Share Option Scheme (the '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:

	<b>2003</b>	2002
	<b>Number of directors</b>	Number of directors
\$0 - \$1,000,000	9	13
\$1,500,001 - \$2,000,000	2	-
\$2,000,001 - \$2,500,000	-	1
\$3,500,001 - \$4,000,000	1	1
\$4,000,001 - \$4,500,000	1	1
\$4,500,001 - \$5,000,000	1	-
\$5,000,001 - \$5,500,000	1	1
\$5,500,001 - \$6,000,000	-	1
\$6,000,001 - \$6,500,000	-	1
	<u>15</u>	<u>19</u>

## 6 Income tax

(a) Taxation in the consolidated income statement represents:

	<b>The Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
<b>Current tax - Provision for Hong Kong Profits Tax</b>		
Tax for the year	94,709	23,028
Over-provision in respect of prior years	(1,501)	(3,280)
	<u>93,208</u>	<u>19,748</u>
<b>Current tax - Overseas</b>		
Tax for the year	5,177	2,619
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(2,073)	81,203
Effect of increase in tax rate on deferred tax balances at 1 January	(7,319)	-
	<u>(9,392)</u>	<u>81,203</u>
Share of associates' taxation	26,325	766
Total income tax expense	<u>115,318</u>	<u>104,336</u>

In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase is taken into account in the preparation of the Group's financial statements for the year ended 31 December 2003. Accordingly, the provision for Hong Kong Profits Tax for 2003 is calculated at 17.5% (2002 : 16%) of the estimated assessable profits for the year. Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

## 6 Taxation (continued)

### (b) Reconciliation between tax expenses and accounting profit at applicable tax rates:

	<b>The Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Profit before tax	<u>772,084</u>	<u>644,381</u>
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	<b>134,686</b>	100,773
Tax effect of non-deductible expenses	<b>24,685</b>	18,990
Tax effect of non-taxable revenue	<b>(28,963)</b>	(19,135)
Tax effect of unused tax losses not recognised	<b>6,587</b>	6,917
Tax effect of tax benefit from tax planning arrangement	<b>(13,125)</b>	-
Tax effect of temporary allowance not recognised	<b>268</b>	71
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	<b>(7,319)</b>	-
Over-provision in prior years	<u><b>(1,501)</b></u>	<u>(3,280)</u>
Actual tax expense	<u><b>115,318</b></u>	<u>104,336</u>

### (c) Taxation in the balance sheet represents:

	<b>The Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Hong Kong Profits Tax	<b>12,892</b>	<b>1,549</b>
Overseas taxation	<b>4,179</b>	<b>1,223</b>
	<u><b>17,071</b></u>	<u><b>2,772</b></u>

## 7 Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a profit of \$332,723,000 (2002: \$335,176,000) which has been dealt with in the financial statements of the Company.

## 8 Dividends

### (a) Dividends attributable to the year

	2003 HK\$'000	2002 HK\$'000
Interim dividend declared and paid of \$0.03 (2002: \$0.03) per share	95,465	90,962
Final dividend proposed after the balance sheet date of \$0.063 (2002: \$0.13) per share	<u>200,960</u>	<u>394,591</u>
	<u><u>296,425</u></u>	<u><u>485,553</u></u>

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

	2003 HK\$'000	2002 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year of \$0.13 (2002: \$0.025) per share	394,591	75,702
Final dividend in respect of the previous financial year on shares issued under the Old Option Scheme subsequent to the balance sheet date and before the close of the Register of Members of the Company	<u>39</u>	<u>52</u>
	<u><u>394,630</u></u>	<u><u>75,754</u></u>

### (c) Dividends approved during the year

	2003 HK\$'000	2002 HK\$'000
Interim dividend declared and paid of \$0.03 (2002: \$0.03) per share	95,465	90,962
Final dividend in respect of the previous financial year, approved and paid during the year of \$0.13 (2002: \$0.025) per share	394,591	75,702
Final dividend in respect of the previous financial year on shares issued under the Old Option Scheme subsequent to the balance sheet date and before the close of the Register of Members of the Company	<u>39</u>	<u>52</u>
	<u><u>490,095</u></u>	<u><u>166,716</u></u>

## 9 Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share is based on profit attributable to shareholders of \$656,578,000 (2002 restated: \$538,643,000) and on the weighted average of 3,126,742,217 (2002: 3,024,987,708) ordinary shares in issue during the year.

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on adjusted profit attributable to shareholders of \$656,811,000 (2002 restated: \$538,643,000) and on the weighted average number of ordinary shares of 3,151,682,576 (2002: 3,027,464,639) after adjusting for the effects of all dilutive potential ordinary shares.

## 9 Earnings per share (continued)

### (c) Reconciliation

	2003 Number of shares	2002 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	3,126,742,217	3,024,987,708
Deemed issue of ordinary shares for no consideration	3,445,504	2,476,931
Deemed issue of ordinary shares for Convertible Bonds	21,494,855	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>3,151,682,576</u>	<u>3,027,464,639</u>

## 10 Segment reporting

Segment information is presented 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 segments

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

Commercial banking business:	It mainly comprises banking business, which includes retail banking, corporate banking and treasury activities.
Asset management:	It mainly comprises direct investment and distressed assets management.
Investment banking:	It comprises merchant banking, fund management and securities brokerage and dealing.
Unallocated:	It mainly comprises the premises and any items which cannot be reasonably allocated to specific business segments.

In prior years, retail banking, corporate banking and treasury activities were separately disclosed as a reportable segment and asset management was grouped under corporate banking. Starting from 1 January 2003, management considered the above reportable segments reflect more the Group's internal organisational and management structure and its system of internal financial reporting. As a result, the comparative figures have been adjusted to conform with current year's presentation.

## 10 Segment reporting (continued)

### (i) Business segments (continued)

2003	The Group					Consolidated HK\$'000
	Commercial banking HK\$'000	Asset management HK\$'000	Investment banking HK\$'000	Unallocated HK\$'000	Inter-segment elimination HK\$'000	
Net interest income	1,547,284	11,380	-	2,907	-	1,561,571
Other operating income	399,608	54,535	-	5,145	-	459,288
Operating income	<u>1,946,892</u>	<u>65,915</u>	<u>-</u>	<u>8,052</u>	<u>-</u>	<u>2,020,859</u>
Segment result	555,488	9,923	-	(73,818)	-	491,593
Net (loss)/gain on disposal of tangible fixed assets	(21,818)	-	-	5,801	-	(16,017)
Net surplus on revaluation of investment properties	7,835	-	-	16,626	-	24,461
Net profit on disposal of held-to-maturity securities	123,948	-	-	875	-	124,823
Provision written back/(made) on held-to-maturity securities and investment securities	1,135	-	-	(966)	-	169
Impairment loss on other premises	(4,751)	-	-	(22,866)	-	(27,617)
Share of profits less losses of associates	95,102	-	79,570	-	-	174,672
Profit/(loss) from ordinary activities before taxation	756,939	9,923	79,570	(74,348)	-	772,084
Income tax	(103,214)	(7)	(11,825)	(272)	-	(115,318)
Profit/(loss) from ordinary activities after taxation	653,725	9,916	67,745	(74,620)	-	656,766
Minority interests	-	-	-	(188)	-	(188)
Profit/(loss) attributable to shareholders	<u>653,725</u>	<u>9,916</u>	<u>67,745</u>	<u>(74,808)</u>	<u>-</u>	<u>656,578</u>
Depreciation for the year	<u>125,537</u>	<u>55</u>	<u>-</u>	<u>(2,149)</u>	<u>-</u>	<u>123,443</u>
Charge for bad and doubtful debts	<u>473,638</u>	<u>38,042</u>	<u>-</u>	<u>2,101</u>	<u>-</u>	<u>513,781</u>
Amortisation of goodwill for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>59,786</u>	<u>-</u>	<u>59,786</u>
Segment assets	77,219,893	1,258,759	410	2,514,990	(1,567,039)	79,427,013
Interest in associates	195,306	-	295,138	-	-	490,444
Total assets	<u>77,415,199</u>	<u>1,258,759</u>	<u>295,548</u>	<u>2,514,990</u>	<u>(1,567,039)</u>	<u>79,917,457</u>
Segment liabilities	<u>68,208,002</u>	<u>18,584</u>	<u>-</u>	<u>1,397,364</u>	<u>(1,788,176)</u>	<u>67,835,774</u>
Capital expenditure incurred during the year	<u>36,388</u>	<u>450</u>	<u>-</u>	<u>2,918</u>	<u>-</u>	<u>39,756</u>

## 10 Segment reporting (continued)

### (i) Business segments (continued)

2002 (Restated)

	The Group					Consolidated HK\$'000
	Commercial banking HK\$'000	Asset management HK\$'000	Investment banking HK\$'000	Unallocated HK\$'000	Inter-segment elimination HK\$'000	
Net interest income	1,707,084	5,864	3,315	(36,819)	-	1,679,444
Other operating income	471,361	1,603	19,229	11,522	-	503,715
Operating income	<u>2,178,445</u>	<u>7,467</u>	<u>22,544</u>	<u>(25,297)</u>	<u>-</u>	<u>2,183,159</u>
Segment result	651,697	(24,154)	5,432	(38,667)	-	594,308
Net (loss)/gain on disposal of tangible fixed assets	(8,987)	-	-	4,987	-	(4,000)
Net deficit on revaluation of investment properties	(13,879)	-	-	(21,154)	-	(35,033)
Net (loss)/profit on disposal of subsidiaries and associates	(190)	-	-	33,493	-	33,303
Net profit on disposal of held-to-maturity securities	51,949	-	-	2,150	-	54,099
Provision (made)/written back on held-to-maturity securities and investment securities	(13,194)	-	-	4,804	-	(8,390)
Share of profits less losses of associates	-	-	10,094	-	-	10,094
Profit/(loss) from ordinary activities before taxation	667,396	(24,154)	15,526	(14,387)	-	644,381
Income tax	(94,631)	(9)	(1,335)	(8,361)	-	(104,336)
Profit/(loss) from ordinary activities after taxation	572,765	(24,163)	14,191	(22,748)	-	540,045
Minority interests	-	-	-	(1,402)	-	(1,402)
Profit/(loss) attributable to shareholders	<u>572,765</u>	<u>(24,163)</u>	<u>14,191</u>	<u>(24,150)</u>	<u>-</u>	<u>538,643</u>
Depreciation for the year	113,388	-	1,148	(4,776)	-	109,760
Charge for bad and doubtful debts	509,228	30,574	-	-	-	539,802
Amortisation of goodwill for the year	-	-	-	59,785	-	59,785
Segment assets	72,799,976	1,243,467	10,819	2,136,098	(354,069)	75,836,291
Interest in associates	120,110	-	237,892	-	-	358,002
Total assets	<u>72,920,086</u>	<u>1,243,467</u>	<u>248,711</u>	<u>2,136,098</u>	<u>(354,069)</u>	<u>76,194,293</u>
Segment liabilities	63,993,900	9,893	10	1,055,479	(528,388)	64,530,894
Capital expenditure incurred during the year	88,534	-	89	-	-	88,623

## 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 branches of its subsidiaries.

#### 2003

	Hong Kong HK\$'000	Mainland China HK\$'000	USA HK\$'000	Others HK\$'000	Inter-segment elimination HK\$'000	Consolidated HK\$'000
Operating income from external customers	1,978,831	3,882	43,689	-	(5,543)	2,020,859
Total assets	78,513,770	413,576	1,911,002	354,100	(1,274,991)	79,917,457
Capital expenditure incurred during the year	<u>37,876</u>	<u>484</u>	<u>1,396</u>	<u>-</u>	<u>-</u>	<u>39,756</u>

#### 2002 (Restated)

	Hong Kong HK\$'000	Mainland China HK\$'000	USA HK\$'000	Others HK\$'000	Inter-segment elimination HK\$'000	Consolidated HK\$'000
Operating income from external customers	2,119,377	96	64,735	-	(1,049)	2,183,159
Total assets	74,977,766	6,301	2,935,886	508,788	(2,234,448)	76,194,293
Capital expenditure incurred during the year	<u>87,462</u>	<u>865</u>	<u>296</u>	<u>-</u>	<u>-</u>	<u>88,623</u>

## 11 Cash and short-term funds

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and balances with banks and other financial institutions	497,995	499,915	-	2,017
Money at call and short notice (a)	7,013,648	5,058,548	-	335,413
Treasury bills (including Exchange Fund Bills) (b)	-	388,198	-	388,198
	<u>7,511,643</u>	<u>5,946,661</u>	<u>-</u>	<u>725,628</u>

(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:

	<b>The Group and the Company</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Other investments in securities - Unlisted and issued by central governments and central banks	<u>-</u>	<u>388,198</u>

## 12 Trade bills less provisions

	<b>The Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Trade bills	<b>457,060</b>	378,094
General provisions for bad and doubtful debts (note 16)	<u>(4,571)</u>	<u>(3,152)</u>
	<u><b>452,489</b></u>	<u>374,942</u>



### 13 Certificates of deposit

	<b>The Group</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Held-to-maturity securities		
- Unlisted	<b>1,678,843</b>	937,340
- Listed	<b>-</b>	93,604
	<b>1,678,843</b>	1,030,944
Other investments		
- Unlisted	<b>380,257</b>	-
	<b>2,059,100</b>	1,030,944
Market value of listed securities :	<b>-</b>	97,496

### 14 Other investments in securities

	<b>The Group</b>		<b>The Company</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Debt securities</b>				
Listed in Hong Kong	<b>1,397</b>	68,394	-	-
Listed outside Hong Kong	<b>1,523,272</b>	1,161,618	-	349,548
Unlisted	<b>471,443</b>	1,728,570	-	159,005
	<b>1,996,112</b>	2,958,582	-	508,553
<b>Equity securities</b>				
Listed in Hong Kong	<b>37,601</b>	16,280	-	-
Listed outside Hong Kong	<b>3,340</b>	-	-	-
Unlisted	<b>262,099</b>	210,906	-	-
	<b>303,040</b>	227,186	-	-
<b>Investment funds - unlisted</b>	<b>212,454</b>	33,791	-	-
	<b>2,511,606</b>	3,219,559	-	508,553

## 14 Other investments in securities (continued)

The issuers of debt securities and equity securities are as follows:

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Central governments and central banks	-	461,795	-	159,005
Banks and other financial institutions	1,514,774	2,019,330	-	349,548
Corporate entities	737,053	296,103	-	-
Public sector entities	259,779	442,331	-	-
	<u>2,511,606</u>	<u>3,219,559</u>	<u>-</u>	<u>508,553</u>

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Market value of listed securities:				
Debt securities	1,524,669	1,230,012	-	349,548
Equity securities	40,941	16,280	-	-
	<u>1,565,610</u>	<u>1,246,292</u>	<u>-</u>	<u>349,548</u>

The unlisted equity securities include an amount of \$123,697,000 (2002: \$123,697,000) representing 25% equity interest in Chinese Mercantile Bank ("CMB"), a joint venture bank established and operating in Shenzhen, The People's Republic of China.

In 1999, the Group appointed the other shareholder of CMB to identify a buyer to acquire the 25% equity interest in CMB held by the Group at a consideration of approximately \$129,947,000. A cash deposit in the amount of this agreed sale consideration was received by the Group from the other shareholder of CMB. At the same time, the Group and that other shareholder of CMB also agreed that the Group would no longer have any further involvement in the management and operations of CMB, or participation in its financial results, from the time of receipt of the cash deposit.

As a result of the above arrangements, the 25% equity interest in CMB held by the Group has been reclassified, in prior year, from the caption "Investments in associates" to "Other investments in securities" in the balance sheet, which is stated at fair value. In the opinion of the Directors, the cash deposit received by the Group less anticipated transaction costs best represents the fair value of the 25% equity interest in CMB held by the Group.

The other shareholder of CMB informed the Group that a buyer for the Group's 25% equity interest in CMB had not yet been identified during the year, and the above-mentioned arrangements remain valid.

## 15 Advances to customers and other accounts less provisions

### (a) Advances to customers and other accounts less provisions

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Advances to customers (note 27)	40,186,173	42,611,139	-	-
Specific provisions for bad and doubtful debts (note 16)	(690,501)	(614,506)	-	-
General provisions for bad and doubtful debts (note 16)	(541,903)	(494,985)	-	-
	<u>38,953,769</u>	<u>41,501,648</u>	-	-
Advances to banks and other financial institutions (note 27)	40,000	79,872	-	-
Accrued interest and other accounts less provisions	2,079,748	1,949,985	29,910	12,449
	<u>41,073,517</u>	<u>43,531,505</u>	<u>29,910</u>	<u>12,449</u>

### (b) Net investment in finance leases and hire purchase contracts

Advances to customers include net investment in equipment leased to customers under finance leases and hire purchase contracts having the characteristics of finance leases. The contracts usually run for an initial period of 5 to 20 years, with an option for acquiring the leased asset at nominal value.

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

#### The Group

	2003			2002		
	Present value of the minimum lease payments HK\$'000	Interest income relating to future periods HK\$'000	Total minimum lease payments HK\$'000	Present value of the minimum lease payments HK\$'000	Interest income relating to future periods HK\$'000	Total minimum lease payments HK\$'000
Within 1 year	494,196	118,555	612,751	450,433	142,487	592,920
After 1 year but within 5 years	882,692	334,812	1,217,504	980,482	366,993	1,347,475
After 5 years	1,834,055	597,645	2,431,700	1,796,949	608,899	2,405,848
	<u>3,210,943</u>	<u>1,051,012</u>	<u>4,261,955</u>	<u>3,227,864</u>	<u>1,118,379</u>	<u>4,346,243</u>
Provisions for bad and doubtful debts	(17,109)			(29,996)		
Net investment in finance leases and hire purchase contracts	<u>3,193,834</u>			<u>3,197,868</u>		

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

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

	<b>The Group</b>				
	<b>Total amount of loans on which interest is placed in suspense</b>		<b>Market value of collateral held</b>	<b>Specific provisions made</b>	<b>Amount of interest suspense</b>
	<b>HK\$'000</b>	<b>%*</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>As at 31 December 2003</b>	<b><u>2,616,208</u></b>	<b><u>6.51</u></b>	<b><u>2,018,580</u></b>	<b><u>657,620</u></b>	<b><u>389,638</u></b>
As at 31 December 2002	<u>2,369,005</u>	<u>5.56</u>	<u>1,443,100</u>	<u>574,349</u>	<u>370,032</u>

\* Based on total advances to customers

There were no advances to banks and other financial institutions on which interest is being placed in suspense or on which interest accrual has ceased as at 31 December 2003 and 31 December 2002, nor were there any specific provisions made for them on these two days.

The specific provisions were made after taking into account the value of collateral in respect of such advances.

## 16 Provisions for bad and doubtful debts

### The Group - 2003

	Specific HK\$'000	General HK\$'000	Total HK\$'000	Suspended interest HK\$'000
At 1 January	669,976	498,137	1,168,113	370,032
Addition through acquisition of subsidiary	26,861	-	26,861	-
Amounts written off	(480,990)	-	(480,990)	(107,100)
New provisions charged to the income statement	699,883	94,323	794,206	-
Provisions released to the income statement	(234,602)	(45,823)	(280,425)	-
Amount recovered	80,935	-	80,935	-
Interest suspended during the year	-	-	-	183,527
Suspended interest recovered	-	-	-	(57,201)
Exchange differences	-	(163)	(163)	380
At 31 December	<u>762,063</u>	<u>546,474</u>	<u>1,308,537</u>	<u>389,638</u>
Representing:				
Trade bills (note 12)	-	4,571	4,571	206
Advances to customers (note 15(a))	690,501	541,903	1,232,404	389,432
Other accounts	71,562	-	71,562	-
	<u>762,063</u>	<u>546,474</u>	<u>1,308,537</u>	<u>389,638</u>

## 16 Provisions for bad and doubtful debts (continued)

### The Group - 2002

	Specific HK\$'000	General HK\$'000	Total HK\$'000	Suspended interest HK\$'000
At 1 January	349,546	371,102	720,648	168,227
Addition through acquisition of subsidiary	338,486	134,619	473,105	475,078
Addition through acquisition of loans	934	1,850	2,784	-
Release through disposal of subsidiaries	(2,422)	-	(2,422)	-
Amounts written off	(659,469)	(2,340)	(661,809)	(461,459)
New provisions charged to the income statement	675,295	64,979	740,274	-
Provisions released to the income statement	(128,399)	(72,073)	(200,472)	-
Amount recovered	96,005	-	96,005	-
Interest suspended during the year	-	-	-	278,788
Suspended interest recovered	-	-	-	(90,642)
Exchange differences	-	-	-	40
At 31 December	<u>669,976</u>	<u>498,137</u>	<u>1,168,113</u>	<u>370,032</u>
Representing:				
Trade bills (note 12)	-	3,152	3,152	6,073
Advances to customers (note 15(a))	614,506	494,985	1,109,491	363,959
Other accounts	55,470	-	55,470	-
	<u>669,976</u>	<u>498,137</u>	<u>1,168,113</u>	<u>370,032</u>

## 17 Material related party transactions

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 inter-bank 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:

### (a) Income/(expense)

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Interest income	6,141	2,301	-	-
Interest expense	(28,426)	(48,194)	-	(440)
Other income	15,668	3,652	30	-
Other expense	(9,412)	-	(1,000)	-
	<u>(16,029)</u>	<u>(42,241)</u>	<u>(970)</u>	<u>(440)</u>

### (b) Ultimate holding company

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Advances to customers and other accounts less provisions	<u>-</u>	<u>117,094</u>	<u>-</u>	<u>-</u>
Deposits from customers	529,348	1,162,517	-	-
Other accounts and provisions	<u>16</u>	<u>2,366</u>	<u>-</u>	<u>-</u>
	<u>529,364</u>	<u>1,164,883</u>	<u>-</u>	<u>-</u>

## 17 Material related party transactions (continued)

### (c) Subsidiaries of the ultimate holding company

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and short-term fund	371,785	-	-	-
Advances to customers and other accounts less provisions	241,094	-	-	-
	<u>612,879</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deposits and balances of banks and other financial institutions	127,602	97,316	-	-
Deposits from customers	979,917	1,290,672	-	2,685
Other accounts and provisions	1,039	228	-	45
	<u>1,108,558</u>	<u>1,388,216</u>	<u>-</u>	<u>2,730</u>

### (d) Associates

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other investment in securities	239,221	-	-	-
Advances to customers and other accounts less provisions	10,617	-	-	-
	<u>249,838</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deposits from customers	580,988	356,847	-	-
Other accounts and provisions	1,940	158	-	-
	<u>582,928</u>	<u>357,005</u>	<u>-</u>	<u>-</u>

During the year, an associate of the Company acted as arranger for the issue of convertible bond (note 31). Arranger fee of \$12,343,000 has been paid to the associate.



## 18 Deferred taxation

### (a) Deferred tax assets and liabilities recognised

#### The Group

The components of deferred tax assets and liabilities recognised in the balance sheets and the movements during the year are as follows:

Deferred tax arising from:	Depreciation allowances in excess of related depreciation HK\$'000	Provisions HK\$'000	Fair value adjustment on properties & assets HK\$'000	Losses HK\$'000	Others HK\$'000	Total HK\$'000
<b>At 1 January 2003</b>						
- as previously reported	-	-	-	-	-	-
- prior period adjustments	58,623	(74,718)	(43,669)	(13,875)	(4,431)	(78,070)
- as restated	58,623	(74,718)	(43,669)	(13,875)	(4,431)	(78,070)
<b>Charged/(credited) to consolidated income statement</b>	<b>(7,576)</b>	<b>(14,840)</b>	<b>(3,020)</b>	<b>13,875</b>	<b>2,169</b>	<b>(9,392)</b>
<b>At 31 December 2003</b>	<b>51,047</b>	<b>(89,558)</b>	<b>(46,689)</b>	<b>-</b>	<b>(2,262)</b>	<b>(87,462)</b>
<b>At 1 January 2002</b>						
- as previously reported	-	-	-	-	-	-
- prior period adjustments	72,165	(75,871)	(45,918)	(99,073)	(10,576)	(159,273)
- as restated	72,165	(75,871)	(45,918)	(99,073)	(10,576)	(159,273)
<b>Charged/(credited) to consolidated income statement</b>	<b>(13,542)</b>	<b>1,153</b>	<b>2,249</b>	<b>85,198</b>	<b>6,145</b>	<b>81,203</b>
<b>At 31 December 2002 (restated)</b>	<b>58,623</b>	<b>(74,718)</b>	<b>(43,669)</b>	<b>(13,875)</b>	<b>(4,431)</b>	<b>(78,070)</b>
					<b>The Group</b>	
					<b>2003</b>	2002
					<b>HK\$'000</b>	HK\$000
Net deferred tax asset recognised on the balance sheet					(87,477)	(78,090)
Net deferred tax liability recognised on the balance sheet					15	20
					<b>(87,462)</b>	<b>(78,070)</b>

## 18 Deferred taxation (continued)

### (b) Deferred tax assets unrecognised

The Group and the Company have not recognised deferred tax assets in respect of tax losses of \$92,468,000 (2002: \$54,830,000) and \$21,023,000 (2002: Nil) respectively. The tax losses do not expire under current tax legislation.

## 19 Amounts due from subsidiaries

	<b>The Company</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Money at call and short notice	1,405,783	-
Advances to customers and other accounts less provisions (Note)	<u>231,266</u>	184,142
	<u><b>1,637,049</b></u>	<u>184,142</u>

Note: Including \$10,000,000 (2002: nil) loan to a subsidiary which is repayable after one year.

## 20 Held-to-maturity securities and investment securities

	<b>The Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
<b>Held-to-maturity securities</b>		
Listed in Hong Kong	1,202,690	276,062
Listed outside Hong Kong	<u>8,294,091</u>	5,096,234
	<u>9,496,781</u>	5,372,296
Unlisted	<u>12,971,704</u>	13,265,061
	<u>22,468,485</u>	18,637,357
<b>Provision for diminution in value</b>		
Held-to-maturity securities	<u>(54,292)</u>	(55,886)
	<u>22,414,193</u>	18,581,471
<b>Investment securities</b>		
<b>- debt securities</b>		
Unlisted	<u>15,932</u>	15,932
<b>Investment securities</b>		
<b>- equity securities</b>		
Unlisted	<u>24,051</u>	24,065
	<u><b>22,454,176</b></u>	<u>18,621,468</u>

**20 Held-to-maturity securities and investment securities (continued)**

The issuers of debt securities and equity securities are as follows:-

	<b>The Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Central governments and central banks	<b>1,190,249</b>	1,011,640
Banks and other financial institutions	<b>12,962,613</b>	7,866,612
Corporate entities	<b>7,980,893</b>	9,506,110
Public sector entities	<b>362,781</b>	281,060
Others	<b>11,932</b>	11,932
	<b><u>22,508,468</u></b>	<u>18,677,354</u>
 <b>Market value of listed securities</b>		
Debt securities	<b><u>10,322,551</u></b>	<u>5,709,174</u>

During the year, held-to-maturity securities with an amortised cost of \$874,715,000 were disposed of at a profit of \$124,823,000 being recognised in the consolidated income statement. The major reason for disposal of these held-to-maturity securities was to mitigate market and credit risks.

## 21 Investments in subsidiaries, at cost

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<u><b>5,546,229</b></u>	<u>5,546,222</u>

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

Name of company	Place of incorporation/ operation	% of shares held	Principal activities	Issued ordinary share capital
Beijing Kananten Investment Consulting***	PRC	100%	Investment holding	US\$500,000
California Investment, LLC **	USA	100%	Property holding	US\$5,000,000
Carford International Limited*	Hong Kong	100%	Property holding	HK\$2
China International Finance Company Limited (Shenzhen)***	PRC	100%	Financial services	RMB400,000,000
CIFH (CB-I) Limited	Cayman Islands	100%	Issuer of convertible bonds	US\$1
CITIC Frontier China Research Limited	Hong Kong	75%	Research services	HK\$10,000
CITIC International Assets Management Limited	Hong Kong	100%	Investment holding and assets management	HK\$1,261,488,146
CITIC Ka Wah Bank Limited	Hong Kong	100%	Banking	HK\$2,393,341,176
CKWB (Cayman Islands) Limited*	Cayman Islands/ Hong Kong	100%	Issuer of subordinated notes	US\$1
CKWH-UT2 Limited*	Cayman Islands/ Hong Kong	100%	Issuer of subordinated notes	US\$1
Dramatic Year Limited	British Virgin Islands	100%	Investment holding	US\$1
GCT Management Limited*	USA	100%	Property management	US\$496,454
HKCB Finance Limited*	Hong Kong	100%	Consumer financing	HK\$300,000,000
HKCB Insurance Agency Limited*	Hong Kong	100%	Insurance agency	HK\$2
Ka Wah Credit Limited*	Hong Kong	100%	Consumer financing	HK\$50,000,000
Ka Wah International Merchant Finance Limited*	Hong Kong	100%	Financial services	HK\$32,500,000
KS Investment and Consultancy Limited*	British Virgin Islands/ Hong Kong	100%	Investment and consultancy	US\$1,200,000
KWB Investment Limited*	Hong Kong	100%	Investment holding	HK\$5,000,000
The Hongkong Chinese Bank (Nominees) Limited*	Hong Kong	100%	Nominee services	HK\$5,000
Viewcon Hong Kong Limited*	Hong Kong	100%	Mortgage financing	HK\$2

## 21 Investments in subsidiaries, at cost (continued)

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

\* Subsidiaries held indirectly by the Company.

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

\*\*\* Subsidiaries held indirectly by the Company incorporated in the PRC and were "Foreign Investment Enterprises" under the PRC Law.

On 12 December 2003, the Group acquired 100% interest in China International Finance Company Limited (Shenzhen) for \$6,961,000, satisfied in cash. There was no profit contribution by this subsidiary to the Group's profit for the year.

## 22 Interest in associates

	The Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	<u>490,444</u>	<u>358,002</u>

Details of the principal associates are as follows:

Name of company	Form of business structure	Place of incorporation/ operation	Principal activities	Proportion of ownership interest			Nominal value of issued shares
				Group's effective interest	held by subsidiaries	held by associate	
CITIC Capital Active Partner Fund Limited (Formerly known as Ka Wah Five Arrows China Hong Kong Fund Limited)	Incorporated	Cook Islands/ PRC	Investment holding	53.2%	41.8%	11.4%*	US\$60,582
CITIC Capital Markets Holdings Limited	Incorporated	Hong Kong	Investment holding	25%	25%	-	HK\$1,960
CITIC Capital Securities Limited	Incorporated	Hong Kong	Securities broking service	25%	25%	-	HK\$28,000,000
CITIC Capital Markets Limited	Incorporated	Hong Kong	Corporate finance service	25%	25%	-	HK\$10,000,000

All associates are held indirectly by the Company.

\* Including 11.4% held by an 25% associate.

## 23 Amounts due to subsidiaries

	The Company	
	2003 HK\$'000	2002 HK\$'000
Other accounts and provisions	233	164,382
Placement from a subsidiary	<u>1,397,364</u>	-
	<u><u>1,397,597</u></u>	<u><u>164,382</u></u>

## 24 Goodwill

	<b>The Group HK\$'000</b>
<b>Cost:</b>	
At 1 January 2003	
- As previously reported	1,333,746
- Prior year adjustment in respect of deferred taxation	<u>(138,038)</u>
- As restated	1,195,708
Addition arising on acquisition of a subsidiary	10,558
Provision written back	<u>(9,108)</u>
<b>At 31 December 2003</b>	<b><u><u>1,197,158</u></u></b>
<b>Accumulated amortisation:</b>	
At 1 January 2003	
- As previously reported	66,687
- Prior year adjustment in respect of deferred taxation	<u>(6,902)</u>
- As restated	59,785
Amortisation for the year	<u>59,786</u>
<b>At 31 December 2003</b>	<b><u><u>119,571</u></u></b>
<b>Carrying amount:</b>	
<b>At 31 December 2003</b>	<b><u><u>1,077,587</u></u></b>
<b>At 31 December 2002</b>	
- As previously reported	1,267,059
- Prior year adjustment in respect of deferred taxation	<u>(131,136)</u>
- As restated	<u><u>1,135,923</u></u>

Goodwill is amortised over 10 to 20 years. The amortisation of goodwill for the year is included in "operating expenses" in the consolidated income statement.

## 25 Tangible fixed assets

	<b>The Group</b>			
	<b>Investment properties HK\$'000</b>	<b>Other premises HK\$'000</b>	<b>Furniture, fixtures and equipment HK\$'000</b>	<b>Total HK\$'000</b>
<b>Cost or valuation:</b>				
At 1 January 2003	235,575	1,358,246	729,735	2,323,556
Additions:				
- through acquisition of a subsidiary	-	416	1,764	2,180
- others	-	-	39,756	39,756
Disposals	(11,000)	-	(95,250)	(106,250)
Transfers	(51,775)	50,229	-	(1,546)
Exchange difference	-	(194)	(61)	(255)
Net surplus on revaluation	24,461	-	-	24,461
<b>At 31 December 2003</b>	<b>197,261</b>	<b>1,408,697</b>	<b>675,944</b>	<b>2,281,902</b>
<b>The analysis of cost or valuation of the above assets is as follows:</b>				
Cost	-	1,208,253	675,944	1,884,197
Valuation				
- 1985	-	50,704	-	50,704
- 1988	-	149,740	-	149,740
- 2003	197,261	-	-	197,261
	<u>197,261</u>	<u>1,408,697</u>	<u>675,944</u>	<u>2,281,902</u>
<b>Accumulated depreciation:</b>				
At 1 January 2003	-	311,805	335,558	647,363
Addition through acquisition of a subsidiary	-	313	1,501	1,814
Charge for the year (note 4(c))	-	28,809	94,634	123,443
Written back on disposal	-	-	(69,780)	(69,780)
Impairment loss	-	27,617	-	27,617
Transfers	-	(1,546)	-	(1,546)
Exchange difference	-	(18)	(36)	(54)
<b>At 31 December 2003</b>	<b>-</b>	<b>366,980</b>	<b>361,877</b>	<b>728,857</b>
<b>Net book value:</b>				
<b>At 31 December 2003</b>	<b>197,261</b>	<b>1,041,717</b>	<b>314,067</b>	<b>1,553,045</b>
At 31 December 2002	<u>235,575</u>	<u>1,046,441</u>	<u>394,177</u>	<u>1,676,193</u>

25 Tangible fixed assets (continued)

	The Company			
	Investment properties HK\$'000	Other premises HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
<b>Cost or valuation:</b>				
At 1 January 2003	83,290	103,038	9,043	195,371
Additions	-	55,388	2,295	57,683
Net surplus on revaluation	16,626	-	-	16,626
<b>At 31 December 2003</b>	<b>99,916</b>	<b>158,426</b>	<b>11,338</b>	<b>269,680</b>
<b>The analysis of cost or valuation of the above assets is as follows:</b>				
Cost	-	151,056	11,338	162,394
Valuation				
- 1985	-	7,370	-	7,370
- 2003	99,916	-	-	99,916
	99,916	158,426	11,338	269,680
<b>Accumulated depreciation:</b>				
At 1 January 2003	-	28,328	5,697	34,025
Charge for the year	-	2,968	1,219	4,187
Impairment loss	-	18,733	-	18,733
<b>At 31 December 2003</b>	<b>-</b>	<b>50,029</b>	<b>6,916</b>	<b>56,945</b>
<b>Net book value:</b>				
<b>At 31 December 2003</b>	<b>99,916</b>	<b>108,397</b>	<b>4,422</b>	<b>212,735</b>
At 31 December 2002	83,290	74,710	3,346	161,346



## 25 Tangible fixed assets (continued)

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

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Freehold</b>				
Held outside Hong Kong	<b>189,754</b>	195,322	<b>153,333</b>	158,000
<b>Leasehold</b>				
Held in Hong Kong				
- Long term leases (over 50 years)	<b>273,745</b>	286,273	-	-
- Medium term leases (10 - 50 years)	<b>758,147</b>	783,137	<b>54,980</b>	-
Held outside Hong Kong				
- Medium term leases (10 - 50 years)	<b>17,332</b>	17,284	-	-
	<b><u>1,238,978</u></b>	<u>1,282,016</u>	<b><u>208,313</u></b>	<u>158,000</u>

The net book value of other premises of the Group and the Company at 31 December 2003 would have been \$109,545,000 (2002: \$111,730,000) and \$2,705,000 (2002: \$2,929,000) respectively had they been carried at cost less accumulated depreciation.

Investment properties of the Group and the Company were revalued at 31 December 2003 by independent firms of surveyors, Vigers Appraisal and Consulting Limited and DTZ Debenham Tie Leung Limited, on an open market value basis. The revaluation surplus amounted to \$24,461,000 and \$16,626,000 in the Group and in the Company respectively have been credited to the income statement. Vigers Appraisal & Consulting Limited and DTZ Debenham Tie Leung Limited have among their staff Fellows of the Hong Kong Institute of Surveyors.

The gross rental income arising from investment properties is amounted to \$16,064,000 (2002 : \$16,040,000).

During the year, profit on disposal of investment properties amounted to \$2,052,000 (2002: Nil).

## 25 Tangible fixed assets (continued)

The Group leases out investment properties under operating leases. The lease typically run for an initial period of two to three years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The gross carrying amounts of investment properties of the Group held for use in operating leases were \$184,412,000 (2002: \$197,185,000).

The Group and the Company's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 1 year	7,272	16,585	2,797	7,800
After 1 year but within 5 years	2,353	24,967	-	18,688
	<u>9,625</u>	<u>41,552</u>	<u>2,797</u>	<u>26,488</u>

## 26 Deposits from customers

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Demand deposits and current deposits	12,200,834	1,283,195	-	25,022
Savings deposits	8,967,279	7,274,653	-	98,372
Time, call and notice deposits	35,679,493	46,977,612	-	692,059
	<u>56,847,606</u>	<u>55,535,460</u>	<u>-</u>	<u>815,453</u>

## 27 Maturity profile

	The Group						Total HK\$'000
	Repayable on demand HK\$'000	3 months or less but not repayable on demand HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	
<b>As at 31 December 2003</b>							
<b>Assets</b>							
Cash and short-term funds	497,995	7,013,648	-	-	-	-	7,511,643
Placements with banks and other financial institutions maturing after one month	-	646,373	-	-	-	-	646,373
Trade bills	6,517	368,950	81,593	-	-	-	457,060
Certificates of deposit	-	-	593,869	1,465,231	-	-	2,059,100
Other investments in securities	-	-	-	-	-	-	-
- debt securities	-	155,182	40,706	1,504,331	291,979	3,914	1,996,112
Advances to customers	1,969,410	4,317,032	4,693,187	15,364,994	11,848,124	1,993,426	40,186,173
Advances to banks and other financial institutions	-	-	-	40,000	-	-	40,000
Held-to-maturity securities and investment securities	-	-	-	-	-	-	-
- debt securities	-	271,480	2,981,852	13,320,250	5,813,968	96,867	22,484,417
	<u>2,473,922</u>	<u>12,772,665</u>	<u>8,391,207</u>	<u>31,694,806</u>	<u>17,954,071</u>	<u>2,094,207</u>	<u>75,380,878</u>
<b>Liabilities</b>							
Deposits and balances of banks and other financial institutions	567,191	2,725,862	193,026	-	-	-	3,486,079
Deposits from customers	21,168,113	34,150,134	1,384,702	144,657	-	-	56,847,606
Certificates of deposit issued	-	1,060,709	649,876	3,000,590	-	-	4,711,175
Convertible bonds issued*	-	-	-	1,397,364	-	-	1,397,364
	<u>21,735,304</u>	<u>37,936,705</u>	<u>2,227,604</u>	<u>4,542,611</u>	<u>-</u>	<u>-</u>	<u>66,442,224</u>

\* Maturity based on expected Bondholders' option as mentioned in Note 31.

	The Group						Total HK\$'000
	Repayable on demand HK\$'000	3 months or less but not repayable on demand HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	
<b>As at 31 December 2002</b>							
<b>Assets</b>							
Cash and short-term funds	499,915	5,058,548	388,198	-	-	-	5,946,661
Placements with banks and other financial institutions maturing after one month	-	221,006	-	-	-	-	221,006
Trade bills	7,406	334,978	22,349	-	-	13,361	378,094
Certificates of deposit	-	16,069	458,366	556,509	-	-	1,030,944
Other investments in securities	-	-	-	-	-	-	-
- debt securities	-	-	861,769	1,516,962	575,770	4,081	2,958,582
Advances to customers	2,593,094	3,643,523	4,688,290	15,167,716	14,461,832	2,056,684	42,611,139
Advances to banks and other financial institutions	-	-	19,872	60,000	-	-	79,872
Held-to-maturity securities and investment securities	-	-	-	-	-	-	-
- debt securities	-	193,974	2,474,339	9,409,058	6,548,386	27,532	18,653,289
	<u>3,100,415</u>	<u>9,468,098</u>	<u>8,913,183</u>	<u>26,710,245</u>	<u>21,585,988</u>	<u>2,101,658</u>	<u>71,879,587</u>
<b>Liabilities</b>							
Deposits and balances of banks and other financial institutions	166,163	1,954,018	-	-	-	-	2,120,181
Deposits from customers	8,557,848	43,738,225	3,232,652	6,735	-	-	55,535,460
Certificates of deposit issued	-	1,000,000	1,566,579	3,265,934	-	-	5,832,513
	<u>8,724,011</u>	<u>46,692,243</u>	<u>4,799,231</u>	<u>3,272,669</u>	<u>-</u>	<u>-</u>	<u>63,488,154</u>

27 Maturity profile (continued)

	The Company						
	Repayable on demand HK\$'000	3 months or less but not repayable on demand HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
<b>As at 31 December 2003</b>							
<b>Assets</b>							
Cash and short-term funds	-	-	-	-	-	-	-
Placements with banks and other financial institutions maturing after one month	-	-	-	-	-	-	-
Certificates of deposit	-	-	-	-	-	-	-
Other investments in securities							
- debt securities	-	-	-	-	-	-	-
Advances to customers	-	-	-	-	-	-	-
Advances to banks and other financial institutions	-	-	-	-	-	-	-
Held-to-maturity securities and investment securities							
- debt securities	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Liabilities</b>							
Deposits and balances of banks and other financial institutions	-	-	-	-	-	-	-
Deposits from customers	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

	The Company						
	Repayable on demand HK\$'000	3 months or less but not repayable on demand HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
<b>As at 31 December 2002</b>							
<b>Assets</b>							
Cash and short-term funds	2,017	335,413	388,198	-	-	-	725,628
Placements with banks and other financial institutions maturing after one month	-	-	-	-	-	-	-
Certificates of deposit	-	-	-	-	-	-	-
Other investments in securities							
- debt securities	-	-	-	198,162	310,391	-	508,553
Advances to customers	-	-	-	-	-	-	-
Advances to banks and other financial institutions	-	-	-	-	-	-	-
Held-to-maturity securities and investment securities							
- debt securities	-	-	-	-	-	-	-
	<u>2,017</u>	<u>335,413</u>	<u>388,198</u>	<u>198,162</u>	<u>310,391</u>	<u>-</u>	<u>1,234,181</u>
	<u>2,017</u>	<u>335,413</u>	<u>388,198</u>	<u>198,162</u>	<u>310,391</u>	<u>-</u>	<u>1,234,181</u>
<b>Liabilities</b>							
Deposits and balances of banks and other financial institutions	-	238,080	-	-	-	-	238,080
Deposits from customers	123,394	473,096	216,419	2,544	-	-	815,453
	<u>123,394</u>	<u>711,176</u>	<u>216,419</u>	<u>2,544</u>	<u>-</u>	<u>-</u>	<u>1,053,533</u>
	<u>123,394</u>	<u>711,176</u>	<u>216,419</u>	<u>2,544</u>	<u>-</u>	<u>-</u>	<u>1,053,533</u>

## 28 Assets subject to sale and repurchase transactions

The following assets and liabilities are subject to sale and repurchase transactions:

	<b>The Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Included in held-to-maturity securities and investment securities	<u><b>2,010,227</b></u>	<u>1,633,873</u>
Included in deposits and balances of banks and other financial institutions	<u><b>2,196,121</b></u>	<u>1,681,482</u>

**29 Share capital**

	2003 HK\$'000	2002 HK\$'000
<b>Authorised:</b>		
6,000,000,000 ordinary shares of \$1 each	<u>6,000,000</u>	<u>6,000,000</u>
<b>Issued and fully paid:</b>		
At 1 January: 3,035,313,281 (2002: 2,595,511,444) ordinary shares of \$1 each	3,035,313	2,595,511
Shares issued under rights issue	-	432,585
Shares issued under the Old Option Scheme	9,052	7,217
Shares issued under scrip dividend	<u>145,470</u>	<u>-</u>
At 31 December: 3,189,835,394 (2002: 3,035,313,281) ordinary shares of \$1 each	<u>3,189,835</u>	<u>3,035,313</u>

On 16 May 2003, the Company adopted The CITIC International Financial Holdings Limited Share Option Scheme (the "New Option Scheme") and, at the same time, terminated the Senior Executive Share Option Scheme (the "Old Option Scheme"). The provisions of the Old Option Scheme remain in full force and effect to the extent necessary to give effect to the exercise of all options granted prior to the termination of the Old Option Scheme. There was no option granted under the Old Option Scheme during the year ended 31 December 2003. Pursuant to the New Option Scheme, options to subscribe for a total of 6,758,000 shares of the Company were granted to 273 eligible persons on 1 December 2003. As at 31 December 2003, the details of the outstanding share options, which had been granted under the Old Option Scheme and the New Option Scheme, are as follows:-

Date of grant	Exercise price HK\$	No. of options granted	Vesting period	Exercisable period	No. of shares acquired on exercise of options as at 31 December 2003	No. of options lapsed as at 31 December 2003	No. of options outstanding as at 31 December 2003	No. of options outstanding as at 31 December 2002
<b>The Old Option Scheme</b>								
30 March 1995	1.000	15,000,000	-	30 March 1995 to 29 March 2005	12,000,000	3,000,000	-	200,000
10 April 1996	1.000	1,361,000	-	11 April 1996 to 29 March 2005	986,000	375,000	-	124,000
8 May 1997	1.000	1,186,500	-	9 May 1997 to 29 March 2005	764,625	421,875	-	253,000
6 May 1998	1.000	1,427,448	-	7 May 1998 to 29 March 2005	108,145	1,002,375	316,928	389,928
16 April 1999	1.620	2,450,000	-	16 April 2000 to 29 March 2005	2,450,000	-	-	450,000
17 August 1999	2.217	19,600,000	-	31 October 1999 to 29 March 2005	5,250,000	8,150,000	6,200,000	10,000,000
16 March 2000	1.828	1,200,000	-	1 March 2002 to 29 March 2005	1,200,000	-	-	700,000
28 March 2000	1.758	1,700,000	-	31 March 2000 to 29 March 2005	1,200,000	-	500,000	1,700,000
27 June 2000	1.681	1,000,000	-	5 June 2002 to 29 March 2005	900,000	-	100,000	1,000,000
10 August 2000	2.198	700,000	-	11 August 2001 to 29 March 2005	400,000	200,000	100,000	500,000
23 August 2000	2.213	200,000	-	24 August 2001 to 29 March 2005	200,000	-	-	200,000
5 December 2000	1.747	2,300,000	-	22 October 2001 to 29 March 2005	1,800,000	-	500,000	1,300,000
26 March 2001	1.758	300,000	-	27 March 2002 to 29 March 2005	-	300,000	-	300,000
28 February 2002	1.620	44,813	-	28 February 2002 to 29 March 2005	44,610	-	203	22,406

**29 Share capital (Continued)**

Date of grant	Exercise price HK\$	No. of options granted	Vesting period	Exercisable period	No. of shares acquired on exercise of options as at 31 December 2003	No. of options lapsed as at 31 December 2003	No. of options outstanding as at 31 December 2003	No. of options outstanding as at 31 December 2002
28 February 2002	2.217	481,743	-	28 February 2002 to 29 March 2005	77,954	108,299	295,490	373,444
28 February 2002	1.758	74,688	-	28 February 2002 to 29 March 2005	26,141	11,203	37,344	74,688
28 February 2002	1.681	37,344	-	5 June 2002 to 29 March 2005	-	-	37,344	37,344
28 February 2002	2.213	7,469	-	28 February 2002 to 29 March 2005	7,469	-	-	7,469
28 February 2002	2.198	26,141	-	28 February 2002 to 29 March 2005	14,469	7,469	4,203	18,672
28 February 2002	1.747	85,891	-	28 February 2002 to 29 March 2005	48,547	-	37,344	48,547
28 February 2002	1.828	37,344	-	1 March 2002 to 29 March 2005	-	-	37,344	37,344
<b>The New Option Scheme</b>								
1 December 2003	3.540	6,758,000	17 November 2003 to 16 November 2005	17 November 2005 to 16 November 2013	-	-	6,758,000	-
		<u>55,978,381</u>			<u>27,477,960</u>	<u>13,576,221</u>	<u>14,924,200</u>	<u>17,736,842</u>

### 30 Reserves

(a) Share premium

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	Restated HK\$'000	HK\$'000	HK\$'000
At 1 January	1,712,952	1,426,213	1,712,952	1,420,213
Share premium on rights issue	-	286,990	-	286,990
Share premium on shares issued during the year	118,454	5,749	118,454	5,749
Release on disposal of subsidiary	-	(6,000)	-	-
At 31 December	<u>1,831,406</u>	<u>1,712,952</u>	<u>1,831,406</u>	<u>1,712,952</u>

(b) Investment property revaluation reserve

At 1 January	-	151	-	151
Disposal through group re-organisation	-	-	-	(20,481)
Net deficit on revaluation of investment properties	-	(151)	-	-
Revaluation deficit release to the income statement	-	-	-	20,330
At 31 December	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(c) Other property revaluation reserve

At 1 January	11,945	11,945	-	11,945
Disposal through group re-organisation	-	-	-	(11,945)
At 31 December	<u>11,945</u>	<u>11,945</u>	<u>-</u>	<u>-</u>

(d) Capital reserve

At 1 January	37,500	37,500	-	-
Transfer to retained profits (Note)	(34,682)	-	-	-
At 31 December	<u>2,818</u>	<u>37,500</u>	<u>-</u>	<u>-</u>

(e) General reserve

At 1 January	100,000	100,000	-	100,000
Disposal through group re-organisation	-	-	-	(100,000)
At 31 December	<u>100,000</u>	<u>100,000</u>	<u>-</u>	<u>-</u>

(f) Exchange differences

At 1 January	319	321	-	-
Current year	(916)	(2)	-	-
At 31 December	<u>(597)</u>	<u>319</u>	<u>-</u>	<u>-</u>



### 30 Reserves (continued)

	The Group		The Company	
	2003	2002 Restated	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>(g) Retained profits</b>				
At 1 January				
- As previously reported	2,528,264	2,082,036	1,156,767	1,810,490
- Prior year adjustment in respect of deferred taxation	(53,066)	21,235	-	-
- As restated	2,475,198	2,103,271	1,156,767	1,810,490
Dividends approved in respect of the previous year (Note 8(b))	(394,630)	(75,754)	(394,630)	(75,754)
Transfer from capital reserve (Note)	34,682	-	-	-
Profit for the year	656,578		332,723	
- As previously reported		612,944		335,176
- Prior year adjustment in respect of deferred taxation		(74,301)		-
- As restated		538,643		335,176
Disposal through group re-organisation	-	-	-	(822,183)
Dividends paid in respect of the current year	(95,465)	(90,962)	(95,465)	(90,962)
At 31 December	2,676,363	2,475,198	999,395	1,156,767
Total reserves	4,621,935	4,337,914	2,830,801	2,869,719

Included in the retained profits is an amount of \$386,239,000 (2002: \$237,892,000), being the retained profits attributable to associates.

The application of the share premium is governed by section 48B of the Hong Kong Companies Ordinance. The exchange reserve and revaluation reserves have been set up and will be dealt with in accordance with the accounting policies adopted for translation of foreign currencies and the revaluation of premises and investment properties (note 2).

The other property revaluation reserve is not available for distribution to shareholders because it does not constitute realised profits within the meaning of section 79B(2) of the Hong Kong Companies Ordinance. At 31 December 2003, the aggregate amount of reserves available for distribution to shareholders of the Company was \$999,395,000 (2002: \$1,156,767,000). After the balance sheet date the directors proposed a final dividend of 6.3 cents per share (2002: 13 cents per share), amounting to \$200,960,000 (2002: \$394,591,000). This dividend has not been recognised as a liability at the balance sheet date.

Note:

During the year, part of the capital reserve was released to retained profits as a result of partial redemption of shares in a subsidiary.

### 31 Convertible bonds

	<b>The Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Convertible bonds	<u><b>1,397,364</b></u>	<u>-</u>

In December 2003, the Group issued 0.25% Guaranteed Convertible Bonds with face value of US\$180 million. The Bonds were issued by CIFH (CB-I) Limited, a single purpose wholly-owned subsidiary of the Company. The Company unconditionally and irrevocably guarantees all amounts payable under the Bonds. Each Bond, at the option of the holder, be convertible on or after 18 January 2004 upto and including 8 November 2008 into fully paid ordinary shares with a par value of HK\$1.00 of the Company at an initial conversion price of HK\$4.269 per share. The Bonds can be redeemed at their principal amount together with accrued interest on 8 December 2008.

The net proceeds from the issue of the Bonds have not been used and have been placed in inter-bank and would be used for general corporate purposes of the Group.

### 32 Loan capital

	<b>The Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Subordinated notes	<u><b>4,269,722</b></u>	<u>4,290,172</u>

The notes represent 7.625% subordinated notes with face value of US\$300 million issued on 5 July 2001 and 9.125% perpetual subordinated notes with face value of US\$250 million issued on 23 May 2002. The notes were issued by CKWB (Cayman Islands) Ltd and CKWH-UT2 Ltd respectively, two separate single purpose wholly-owned subsidiaries of CITIC Ka Wah Bank Limited ("CKWB"), a subsidiary of the Company, and qualify as tier 2 capital. CKWB unconditionally and irrevocably guarantees all amounts payable under the notes. The 7.625% subordinated notes will mature on 5 July 2011 whereas the 9.125% perpetual subordinated notes will be callable in 2012.

### 33 Off-balance sheet exposures

#### (a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	The Group	
	2003 HK\$'000	2002 HK\$'000
Direct credit substitutes	1,096,253	1,187,756
Transaction-related contingencies	-	38,994
Trade-related contingencies	1,635,365	1,262,930
Other commitments:		
- with an original maturity of under 1 year or which are unconditionally cancellable	10,387,731	9,294,444
- with an original maturity of 1 year and over	<u>734,808</u>	<u>922,801</u>
	<u><b>13,854,157</b></u>	<u><b>12,706,925</b></u>

Contingent liabilities and commitments are credit-related instruments which include acceptance, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. As the facilities may expire without being drawn upon, the contract amounts do not represent expected future cash flows.

#### (b) Derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices.

The following is a summary of the notional amounts of each significant type of derivatives entered into by the Group. No derivative transaction was entered by the Company in 2003 and 2002.

	The Group					
	2003			2002		
	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000
<b>Exchange rate contracts</b>						
Forwards	1,059,391	-	1,059,391	1,095,192	-	1,095,192
Swaps	12,416,034	4,966,108	17,382,142	34,890,559	4,999,417	39,889,976
Options purchased	172,189	-	172,189	66,884	-	66,884
Options written	142,182	-	142,182	40,490	-	40,490
<b>Interest rate contracts</b>						
Forwards and futures	2,173,677	-	2,173,677	2,262,090	-	2,262,090
Swaps	3,060,615	8,992,439	12,053,054	2,127,535	9,526,349	11,653,884
Options purchased	1,853,448	-	1,853,448	931,162	-	931,162
Options written	2,031,079	-	2,031,079	931,162	-	931,162
<b>Equity contracts</b>						
Options purchased	-	12,044	12,044	-	18,372	18,372
Options written	-	12,044	12,044	-	18,371	18,371
	<u><b>22,908,615</b></u>	<u><b>13,982,635</b></u>	<u><b>36,891,250</b></u>	<u><b>42,345,074</b></u>	<u><b>14,562,509</b></u>	<u><b>56,907,583</b></u>

The above transactions are undertaken by the Group in the foreign exchange, interest rate and equity markets. The notional amounts of these instruments indicate the volume of transactions outstanding and do not represent amounts at risk.

**33 Off-balance sheet exposures (continued)**

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

	<b>The Group</b>			
	<b>2003</b>		<b>2002</b>	
	<b>Replacement cost HK\$'000</b>	<b>Credit risk weighted amount HK\$'000</b>	<b>Replacement cost HK\$'000</b>	<b>Credit risk weighted amount HK\$'000</b>
Contingent liabilities and commitments	N/A	<b>1,414,021</b>	N/A	1,332,425
Exchange rate contracts	<b>120,536</b>	<b>71,464</b>	135,779	118,904
Interest rate contracts	<b>459,238</b>	<b>133,659</b>	601,457	171,752
Equity contracts	<b>50</b>	<b>599</b>	104	792
	<b>579,824</b>	<b>1,619,743</b>	<b>737,340</b>	<b>1,623,873</b>

The replacement cost represents the cost of replacing all contracts which have a positive value when marked to market and which have not been subject to any bilateral netting arrangement.

The credit risk-weighted amount refers to the amount as computed in accordance with the Third Schedule to the Hong Kong Banking Ordinance on capital adequacy and depends 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, interest rate and other derivatives contracts.

### 33 Off-balance sheet exposures (continued)

#### (d) Capital commitments

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

	<b>The Group</b>	
	<b>2003</b>	2002
<b>Authorised and contracted for</b>	<b>HK\$'000</b>	HK\$'000
Fixed assets	<b>14,062</b>	9,983
Others	<b>57,878</b>	-
	<u><b>71,940</b></u>	<u>9,983</u>

#### (e) Lease commitments

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

	<b>The Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
<b>Premises</b>		
Within one year	<b>15,348</b>	45,095
After one year but within five years	<b>7,759</b>	37,668
After five years	-	4,388
	<u><b>23,107</b></u>	<u>87,151</u>
<b>Equipment</b>		
Within one year	<b>718</b>	2,248
After one year but within five years	<b>1,221</b>	2,923
	<u><b>1,939</b></u>	<u>5,171</u>

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 when all terms are renegotiated. Lease payments are usually adjusted annually to reflect market rentals. None of the leases includes contingent rentals.

**34 Reconciliation of profit from ordinary activities before taxation to cash generated from/(used in) operating activities**

	2003	2002
	HK\$'000	Restated HK\$'000
Profit from ordinary activities before taxation	772,084	644,381
Charge for bad and doubtful debts	513,781	539,802
Share of profits less loss of associates	(174,672)	(10,094)
Net loss on disposal of tangible fixed assets	16,017	4,000
Net (surplus)/deficit on revaluation of investment properties	(24,461)	35,033
Impairment loss on other premises	27,617	-
Net profit on disposal of subsidiaries and associates	-	(33,303)
Net profit on disposal of held-to-maturity securities	(124,823)	(54,099)
Provision (written back)/made on held-to-maturity securities and investment securities	(169)	8,390
Amortisation of deferred expenses	63,005	47,815
Interest expenses on subordinated notes	355,260	280,745
Interest expenses on convertible bonds issued	301	-
Amortisation of goodwill	59,786	59,785
Depreciation	123,443	109,760
Dividend income from equity investment securities	(13,462)	(18,722)
Foreign exchange difference	(20,128)	-
Net cash inflow from trading activities	<u>1,573,579</u>	1,613,493
Increase in money at call (original maturity over 3 months)	(26,893)	-
Increase in placements with banks and other financial institutions (original maturity over 3 months)	(262,025)	(31,795)
Decrease in treasury bills (original maturity over 3 months)	388,198	873,205
(Increase)/decrease in certificates of deposit	(1,028,156)	2,522,491
Decrease/(increase) in other investments in securities	707,953	(1,608,906)
Decrease in advances to customers, banks and other financial institutions, trade bills and other accounts	1,801,322	1,063,772
Increase in held-to-maturity securities and investment securities	(3,707,716)	(5,124,498)
Increase/(decrease) in deposits and balances of banks and other financial institutions	1,365,898	(1,015,083)
Increase/(decrease) in deposits from customers	1,312,146	(2,325,358)
Increase/(decrease) in interest payable and other liabilities	327,892	(383,803)
(Decrease)/increase in certificates of deposit issued	(1,121,338)	508,001
Decrease in issued debt securities	-	(373,371)
Cash generated from/(used in) operating activities	<u><u>1,330,860</u></u>	<u><u>(4,281,852)</u></u>

**35 Acquisition of a subsidiary**

	<b>2003</b>
	<b>HK\$'000</b>
<b>(a) Net assets acquired</b>	
Cash and short-term funds	5,732
Advances to customers and other accounts less provisions	7,590
Tangible fixed assets	366
Other accounts and provisions	(17,285)
Goodwill on acquisition	10,558
	<u>6,961</u>
	<u>6,961</u>
Investment cost paid	5,221
Investment cost payable	1,740
Total amount satisfied by cash	<u>6,961</u>

**(b) Analysis of net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary**

	<b>2003</b>
	<b>HK\$'000</b>
Cash consideration	(5,221)
Cash and short-term funds acquired	5,732
	<u>511</u>

### 36 Analysis of the balances of cash and cash equivalents

	2003	2002
	HK\$'000	Restated HK\$'000
<b>(i) Component of cash and cash equivalents in the consolidated cash flow statement</b>		
Cash and balances with banks and other financial institutions	497,995	499,915
Money at call and short notice	6,986,755	5,058,548
Placements with banks and other financial institutions repayable with original maturity within three months	334,348	171,006
	<u>7,819,098</u>	<u>5,729,469</u>
<b>(ii) Reconciliation with the consolidated balance sheet</b>		
Cash and short-term funds	7,511,643	5,946,661
Placements with banks and other financial institutions maturing after one month	646,373	221,006
Amount shown in the consolidated balance sheet	<u>8,158,016</u>	<u>6,167,667</u>
Less: amounts with an original maturity of beyond three months	(338,918)	(438,198)
Cash and cash equivalent in the consolidated cash flow statement	<u>7,819,098</u>	<u>5,729,469</u>

### 37 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 an MPF exempted scheme and covers all permanent full-time employees of the Group. No employee contributions are required. Contributions forfeited by leavers prior to vesting fully 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.

Besides the Retirement Scheme, the Group also participated in an approved MPF scheme effective on 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 contributed approximately \$36 million (2002: \$26 million) (note 4(c)) to these schemes.



### 38 Equity compensation benefits

On 16 May 2003, the Company adopted The CITIC International Financial Holdings Limited Share Option Scheme (the "New Option Scheme") and, at the same time, terminated the Senior Executive Share Option Scheme adopted by the Company on 30 March 1995 (the "Old Option Scheme"). For details, please refer to note 29. These options were granted for nil consideration and can be exercised during the period from 17 November 2005 to 16 November 2013.

#### (a) Movement in share options

	<b>2003</b>	2002
	<b>Numbers</b>	Numbers
As at 1 January	<b>17,736,842</b>	30,266,928
Granted	<b>6,758,000</b>	944,810
Exercised	<b>(9,051,970)</b>	(7,216,597)
Lapsed	<b>(518,672)</b>	(6,258,299)
As at 31 December	<b><u>14,924,200</u></b>	<u>17,736,842</u>

#### (b) Terms of unexpired and unexercised share options at the balance sheet date

Date granted	Vesting period	Exercisable period	Exercise price HK\$	Number of options outstanding	
				2003	2002
30 March 1995	-	30 March 1995 to 29 March 2005	1.000	-	200,000
10 April 1996	-	11 April 1996 to 29 March 2005	1.000	-	124,000
8 May 1997	-	9 May 1997 to 29 March 2005	1.000	-	253,000
6 May 1998	-	7 May 1998 to 29 March 2005	1.000	<b>316,928</b>	389,928
16 April 1999	-	16 April 2000 to 29 March 2005	1.620	-	450,000
17 August 1999	-	31 October 1999 to 29 March 2005	2.217	<b>6,200,000</b>	10,000,000
16 March 2000	-	1 March 2002 to 29 March 2005	1.828	-	700,000
28 March 2000	-	31 March 2000 to 29 March 2005	1.758	<b>500,000</b>	1,700,000
27 June 2000	-	5 June 2002 to 29 March 2005	1.681	<b>100,000</b>	1,000,000
10 August 2000	-	11 August 2001 to 29 March 2005	2.198	<b>100,000</b>	500,000

### 38 Equity compensation benefits (continued)

#### (b) Terms of unexpired and unexercised share options at balance sheet date (continued)

Date granted	Vesting period	Exercisable period	Exercise price HK\$	Number of options outstanding	
				2003	2002
23 August 2000	-	24 August 2001 to 29 March 2005	2.213	-	200,000
5 December 2000	-	22 October 2001 to 29 March 2005	1.747	500,000	1,300,000
26 March 2001	-	27 March 2002 to 29 March 2005	1.758	-	300,000
28 February 2002	-	28 February 2002 to 29 March 2005	1.620	203	22,406
28 February 2002	-	28 February 2002 to 29 March 2005	2.217	295,490	373,444
28 February 2002	-	28 February 2002 to 29 March 2005	1.758	37,344	74,688
28 February 2002	-	5 June 2002 to 29 March 2005	1.681	37,344	37,344
28 February 2002	-	28 February 2002 to 29 March 2005	2.213	-	7,469
28 February 2002	-	28 February 2002 to 29 March 2005	2.198	4,203	18,672
28 February 2002	-	28 February 2002 to 29 March 2005	1.747	37,344	48,547
28 February 2002	-	1 March 2002 to 29 March 2005	1.828	37,344	37,344
1 December 2003	17 November 2003 to 16 November 2005	17 November 2005 to 16 November 2013	3.540	6,758,000	-
				<b>14,924,200</b>	<b>17,736,842</b>

#### (c) Details of share options granted during the financial year

Vesting period	Exercisable period	Exercise price HK\$	Total Consideration	Number of options	
				2003	2002
17 November 2003 to 16 November 2005	17 November 2005 to 16 November 2013	3.540	-	6,758,000	-
-	28 February 2002 to 29 March 2005	1.620	-	-	44,813
-	28 February 2002 to 31 December 2002	1.970	-	-	74,689
-	28 February 2002 to 29 March 2005	2.217	-	-	481,743
-	28 February 2002 to 29 March 2005	1.758	-	-	74,688
-	5 June 2002 to 29 March 2005	1.681	-	-	37,344
-	26 April 2002 to 29 March 2005	1.513	-	-	74,688

### 38 Equity compensation benefits (continued)

#### (c) Details of share options granted during the financial year (continued)

Vesting period	Exercisable period	Exercise price HK\$	Total Consideration	Number of options	
				2003	2002
-	28 February 2002 to 29 March 2005	2.213	-	-	7,469
-	28 February 2002 to 29 March 2005	2.198	-	-	26,141
-	28 February 2002 to 29 March 2005	1.747	-	-	85,891
-	1 March 2002 to 29 March 2005	1.828	-	-	37,344
				<b>6,758,000</b>	<b>944,810</b>

#### (d) Details of share options exercised during the financial year

Exercise date	Exercise Price HK\$	Market value per share at exercise date HK\$	Proceeds received HK\$	Number of options
21 February 2003	1.000	2.125	298,000	298,000
3 September 2003	1.620	2.675	324,000	200,000
3 September 2003	2.217	2.675	665,100	300,000
10 September 2003	2.217	2.700	665,100	300,000
10 September 2003	1.747	2.700	524,100	300,000
20 September 2003	1.620	2.800	179,820	111,000
29 September 2003	1.620	2.900	261,149	161,203
30 September 2003	1.758	2.875	351,600	200,000
30 September 2003	1.758	2.875	527,400	300,000
3 October 2003	2.217	3.150	665,100	300,000
8 October 2003	2.217	3.150	458,919	207,000
9 October 2003	1.747	3.225	543,672	311,203
10 October 2003	1.828	3.300	548,400	300,000
13 October 2003	2.217	3.275	221,700	100,000
15 October 2003	2.213	3.200	110,650	50,000
28 October 2003	2.217	3.500	443,400	200,000
28 October 2003	1.758	3.500	749,156	426,141
30 October 2003	1.681	3.425	252,150	150,000
31 October 2003	1.828	3.475	731,200	400,000
3 November 2003	1.681	3.575	252,150	150,000
4 November 2003	2.217	3.775	709,440	320,000
5 November 2003	2.217	3.825	443,400	200,000
6 November 2003	2.213	3.650	348,479	157,469
7 November 2003	1.747	3.675	349,400	200,000
7 November 2003	1.681	3.675	504,300	300,000
13 November 2003	2.217	3.625	1,146,952	517,344
14 November 2003	2.217	3.525	665,100	300,000
21 November 2003	1.758	3.375	527,400	300,000
26 November 2003	1.681	3.500	504,300	300,000
12 December 2003	2.217	4.200	1,108,500	500,000
16 December 2003	2.217	3.825	665,100	300,000
17 December 2003	2.198	3.925	454,986	207,000
18 December 2003	1.000	3.900	352,000	352,000
22 December 2003	2.217	4.125	739,613	333,610
			<b>17,291,736</b>	<b>9,051,970</b>

### 39 Loans to officers

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

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Balance outstanding at 31 December		
- By a subsidiary	<u><b>1,806</b></u>	<u>11,609</u>
Maximum aggregate amount outstanding during the year		
- By a subsidiary	<u><b>11,633</b></u>	<u>12,691</u>

There was no interest due but unpaid nor any provision made against these loans at 31 December 2003.

### 40 Assets pledged as security

On 31 December 2003, held-to-maturity securities amounting to \$125 million (2002: \$250 million) and money at call and short notice amounting to \$0.03 million (2002: \$0.6 million) have been pledged to the Office of the Comptroller of Currency in the USA as statutory deposits.

#### **41 Post balance sheet event**

On 18 March 2004, the Company entered into a Sale and Purchase Agreement with CITIC Group (formerly known as China International Trust and Investment Corporation), the ultimate holding company of the Company, in connection with the purchase by the Company of the total issued share capital in True Worth Investments Limited (“True Worth”) and the assignment to the Company of all Shareholder’s Loans owing by True Worth to CITIC Group (“Acquisition”). True Worth is a holding company for 25% of the total issued share capital in CITIC Capital Markets Holdings Limited (“CCMH”). The Company currently holds indirectly 25% of the total issued share capital in CCMH. Following completion of the Acquisition, the Group shall own 50% in aggregate of the total issued share capital of CCMH. The consideration payable by the Company for the Acquisition is HK\$500,000,000 in cash.

The completion of the Acquisition is conditional upon the passing of a resolution at the Extraordinary General Meeting by independent shareholders approving the Acquisition.

#### **42 Comparative figures**

Certain comparative figures have been adjusted as a result of the change in accounting policy for deferred taxation, details of which are set out in note 3.

#### **43 Ultimate holding company**

The directors consider the ultimate holding company at 31 December 2003 to be CITIC Group; which is incorporated in the People’s Republic of China.

#### **44 Approval of financial statements**

The financial statements were approved and authorised for issue by the Board of Directors on 18 March 2004.

**Unaudited supplementary financial information  
as at 31 December 2003**

*(Expressed in Hong Kong dollars unless otherwise indicated)*

**(a) Capital adequacy ratio**

	<b>2003</b>	2002 Restated
Unadjusted capital adequacy ratio	<u><b>18.41%</b></u>	<u>19.07%</u>

The unadjusted capital adequacy ratio is computed on the consolidated basis covering the Company and certain of its subsidiaries as required by the Hong Kong Monetary Authority (the "HKMA") for its regulatory purposes, and is in accordance with the Third Schedule to the Hong Kong Banking Ordinance.

**(b) Capital base after deductions**

	<b>2003</b>	2002 Restated
	<b>HK\$'000</b>	HK\$'000
<b>Core capital</b>		
Paid up ordinary share capital	<b>3,189,835</b>	3,035,313
Share premium	<b>1,831,406</b>	1,712,952
Reserves	<b>2,198,658</b>	1,977,537
Deduct : Goodwill	<u><b>(1,067,029)</b></u>	<u>(1,135,923)</u>
<b>Total core capital</b>	<u><b>6,152,870</b></u>	<u>5,589,879</u>
<b>Eligible supplementary capital</b>		
Reserves on revaluation of land and interests in land	<b>8,362</b>	8,362
General provisions for doubtful debts	<b>546,474</b>	498,137
Perpetual subordinated debt	<b>1,940,783</b>	1,950,078
Term subordinated debt	<u><b>1,397,364</b></u>	<u>2,340,094</u>
<b>Total eligible supplementary capital</b>	<u><b>3,892,983</b></u>	<u>4,796,671</u>

**Unaudited supplementary financial information  
as at 31 December 2003 (continued)**

**(b) Capital base after deductions (continued)**

	2003	2002
	HK\$'000	Restated HK\$'000
<b>Total capital base before deductions</b>	<b>10,045,853</b>	10,386,550
<b>Deductions from total capital base</b>	<b>(596,936)</b>	(221,256)
<b>Total capital base after deductions</b>	<b>9,448,917</b>	10,165,294

**(c) Segmental information**

**By geographical area**

**2003**

	The Group				
	* Profit HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Operating income HK\$'000	Contingent liabilities and commitments HK\$'000
Hong Kong	758,747	78,513,770	66,434,778	1,978,831	13,167,998
Mainland China	152	413,576	27,173	3,882	-
USA	13,185	1,911,002	1,855,577	43,689	686,159
Others	-	354,100	354,100	-	-
Less: Inter-segment items	-	(1,274,991)	(835,854)	(5,543)	-
	<u>772,084</u>	<u>79,917,457</u>	<u>67,835,774</u>	<u>2,020,859</u>	<u>13,854,157</u>

**2002 (Restated)**

	The Group				
	* Profit HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Operating income HK\$'000	Contingent liabilities and commitments HK\$'000
Hong Kong	617,313	74,977,766	63,375,426	2,119,377	11,964,847
Mainland China	(1,216)	6,301	6,985	96	-
USA	28,284	2,935,886	2,878,169	64,735	742,078
Others	-	508,788	508,788	-	-
Less: Inter-segment items	-	(2,234,448)	(2,238,474)	(1,049)	-
	<u>644,381</u>	<u>76,194,293</u>	<u>64,530,894</u>	<u>2,183,159</u>	<u>12,706,925</u>

The above geographical analysis has been classified by the location of the principal operations of the subsidiaries or branches of its subsidiaries.

\* Profit from ordinary activities before taxation

**Unaudited supplementary financial information  
as at 31 December 2003 (continued)**

(c) **Segmental information (continued)**

	<b>The Group</b>					
	<b>2003</b>			<b>2002</b>		
	<b>Advances to customers HK\$'000</b>	<b>Overdue loans and advances to customers HK\$'000</b>	<b>Non- performing loans HK\$'000</b>	<b>Advances to customers HK\$'000</b>	<b>Overdue loans and advances to customers HK\$'000</b>	<b>Non- performing loans HK\$'000</b>
Hong Kong	32,608,547	2,363,417	2,332,365	35,569,751	2,183,628	2,107,159
Mainland China	4,459,765	103,198	105,205	4,484,754	165,676	170,408
USA	609,229	51,754	51,754	763,757	60,650	79,143
Others	2,508,632	132,665	126,884	1,792,877	12,295	12,295
	<u>40,186,173</u>	<u>2,651,034</u>	<u>2,616,208</u>	<u>42,611,139</u>	<u>2,422,249</u>	<u>2,369,005</u>

The above geographical analysis are classified by the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated.

Non-performing advances to customers are those advances on which interest is being placed in suspense or on which interest accrual has ceased.



**Unaudited supplementary financial information  
as at 31 December 2003 (continued)**

**(d) Advances to customers - by industry sectors**

The analysis of advances to customers by industry sectors is based on categories and definitions used by the HKMA.

	<b>The Group</b>	
	<b>Gross advances to customers 2003 HK\$'000</b>	<b>2002 HK\$'000</b>
Loans for use in Hong Kong		
Industrial, commercial and financial		
- Property development	327,555	563,368
- Property investment	4,252,571	5,314,907
- Financial concerns	2,695,514	1,669,606
- Stockbrokers	20,519	27,590
- Wholesale and retail trade	2,347,275	2,643,303
- Manufacturing	3,506,532	3,318,627
- Transport and transport equipment	4,551,838	4,938,645
- Others	3,761,929	3,175,545
Individuals		
- Loans for the purchase of flats under the Home Ownership Scheme and Private Sector Participation Scheme and Tenant Purchase Scheme	23,979	30,990
- Loans for the purchase of other residential properties	10,920,086	13,246,473
- Credit card advances	426,249	335,647
- Others	1,462,017	1,342,079
Trade finance	2,088,069	2,170,421
Loans for use outside Hong Kong	<u>3,802,040</u>	<u>3,833,938</u>
	<u><b>40,186,173</b></u>	<u><b>42,611,139</b></u>

**Unaudited supplementary financial information  
as at 31 December 2003 (continued)**

**(e) Currency risk**

The information concerning the foreign currency exposures of the Group arising from trading, non-trading and structural positions is disclosed as follows. The net option position reported is calculated in accordance with the methods set out in the banking return "Foreign Currency Position" (MA(BS)6) submitted to the HKMA.

Equivalent in HK\$'000	2003				2002			
	US dollars	Renminbi	Other	Total	US dollars	Renminbi	Other	Total
Spot assets	26,366,749	598,834	5,558,178	32,523,761	26,509,120	457,537	1,912,922	28,879,579
Spot liabilities	(24,441,071)	(14,114)	(5,324,368)	(29,779,553)	(23,821,227)	(12,324)	(4,584,282)	(28,417,833)
Forward purchases	9,986,595	-	2,378,099	12,364,694	20,917,099	-	4,413,542	25,330,641
Forward sales	(8,239,058)	-	(2,621,242)	(10,860,300)	(19,641,958)	-	(1,691,793)	(21,333,751)
Net option position	23,051	-	128,193	151,244	3,959	-	53,442	57,401
Net long position	<u>3,696,266</u>	<u>584,720</u>	<u>118,860</u>	<u>4,399,846</u>	<u>3,966,993</u>	<u>445,213</u>	<u>103,831</u>	<u>4,516,037</u>

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

**(f) Cross-border claims**

Cross border claims are on-balance sheet exposures of counterparties based on the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, amounting to 10 per cent or more of the aggregate cross border claims are shown as follows.

	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
<b>2003</b>				
Asia and Pacific excluding Hong Kong	6,886,634	187,909	5,160,438	12,234,981
of which Australia	3,314,907	-	58,420	3,373,327
of which Mainland China	2,076,200	187,909	4,537,088	6,801,197
Western Europe	15,428,297	-	4,997,868	20,426,165
of which Germany	4,155,222	-	1,273,093	5,428,315
of which United Kingdom	<u>4,361,105</u>	<u>-</u>	<u>830,528</u>	<u>5,191,633</u>
<b>2002</b>				
Asia and Pacific excluding Hong Kong	5,339,220	83,160	6,285,620	11,708,000
of which Australia	3,073,500	-	8,550	3,082,050
of which Mainland China	1,364,770	83,160	5,382,708	6,830,638
Western Europe	9,363,950	-	5,709,212	15,073,162
of which Germany	3,546,310	-	1,219,750	4,766,060
of which United Kingdom	<u>2,226,590</u>	<u>-</u>	<u>1,153,503</u>	<u>3,380,093</u>

**Unaudited supplementary financial information  
as at 31 December 2003 (continued)**

**(g) Overdue and rescheduled assets**

**(i) Overdue advances to customers (net of suspended interest)**

The gross amount of advances, net of accrued interest that has been capitalised but accrued to a suspense account, which have been overdue for periods of:

	2003		2002	
	HK\$'000	%*	HK\$'000	%*
- 6 months or less but over 3 months	165,835	0.41	262,097	0.62
- 1 year or less but over 6 months	307,408	0.76	169,495	0.40
- over 1 year	2,177,791	5.42	1,990,657	4.67
Total	<u>2,651,034</u>	<u>6.59</u>	<u>2,422,249</u>	<u>5.69</u>
Secured overdue advance	1,742,648		1,517,331	
Unsecured overdue advance	908,386		904,918	
	<u>2,651,034</u>		<u>2,422,249</u>	
Market value of collateral held against the secured overdue advances	<u>2,104,234</u>		<u>2,197,901</u>	
Specific provisions made	<u>580,629</u>		<u>496,969</u>	

\* Based on total advances to customers

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 31 December 2003 and 31 December 2002.

**Unaudited supplementary financial information  
as at 31 December 2003 (continued)**

**(g) Overdue and rescheduled assets (continued)**

**(i) Overdue advances to customers (net of suspended interest) (continued)**

Reconciliation between overdue loans and advances and non-performing loans

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Advances to customers overdue for more than 3 months	<b>2,651,034</b>	2,422,249
Less: Amount overdue for more than 3 months and on which interest is still being accrued	<b>(247,895)</b>	(173,900)
Add: Amount overdue for 3 months or less, or not yet overdue and on which interest is being placed in suspense or on which interest accrual has ceased	<b>84,187</b>	75,591
Add: Rescheduled advances on which interest is being placed in suspense or on which interest accrual has ceased	<b>128,882</b>	45,065
	<hr/>	<hr/>
Advances to customers on which interest is being placed in suspense or on which interest accrual has ceased	<b><u>2,616,208</u></b>	<u>2,369,005</u>

**(ii) Other overdue assets**

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
The gross amount of trade bills and receivables which has been overdue for:		
- 6 months or less but over 3 months	-	282
- 1 year or less but over 6 months	<b>1,162</b>	-
- Over 1 year	-	12,864
	<hr/>	<hr/>
	<b><u>1,162</u></b>	<u>13,146</u>
Held-to-maturity securities which have been overdue for		
- 1 year or less but over 6 months	<b>69,409</b>	-
- Over 1 year	<b>15,526</b>	15,601
	<hr/>	<hr/>
	<b><u>84,935</u></b>	<u>15,601</u>

**Unaudited supplementary financial information  
as at 31 December 2003 (continued)**

**(g) Overdue and rescheduled assets (continued)**

**(iii) Rescheduled loans**

	<b>The Group</b>			
	<b>2003</b>		<b>2002</b>	
	<b>HK\$'000</b>	<b>%*</b>	<b>HK\$'000</b>	<b>%*</b>
Rescheduled loans	<b>517,916</b>	<b>1.29</b>	<b>80,520</b>	<b>0.19</b>

\* Based on total advances to customers

Rescheduled advances are those advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group. Rescheduled advances to customers are stated net of any advances that have subsequently become overdue for over 3 months and reported as overdue advances in note (g)(i).

There were no advances to banks and other financial institutions which were rescheduled as at 31 December 2003 and 31 December 2002.

**(h) Repossessed assets**

	<b>The Group</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Repossessed assets included in advances to customers and other accounts	<b>436,993</b>	<b>488,792</b>

**(i) Board Committees**

The Board of Directors (the "Board") of the Company has established the following committee:

**Audit Committee**

The Committee, being an independent body, assists the Board in monitoring compliance with the policies, procedures, and internal and statutory regulations. It provides oversight of the Company's internal and external auditors and assists the Board in providing independent review of the effectiveness of the Company's financial reporting process and internal control system.

Apart from the above committee, the following three committees were established under the Board of Directors of CITIC Ka Wah Bank Limited (the "Bank"), a major wholly-owned subsidiary of the Company:

**(i) Audit Committee**

The Committee, being an independent body, assists the Board of the Bank in monitoring compliance with the policies, procedures, and internal and statutory regulations. It provides oversight of 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.

**(ii) Executive Personnel Committee**

The Committee provides oversight of the appointment and removal, remuneration, and succession plan of the Bank's senior executives. It also assists the Board of the Bank in selecting and recommending candidates for vacancy on the Board of the Bank.

## **Unaudited supplementary financial information as at 31 December 2003 (continued)**

### **(i) Board Committees (continued)**

#### **(iii) Credit & Risk Management Committee**

The Committee oversees the Bank's risk management strategy, policies and mechanism. The risks concerned primarily include credit, market, interest rate, liquidity, operational, reputation, legal and strategic risks. The Committee carries out its oversight function on the Bank's risk management through various committees at Bank management level, including: Credit Committee, Non Performing Loan Committee, International Credit Committee, Asset & Liability Management Committee ("ALCO") and Operations & Control Committee.

### **(j) Risk management**

The Group has established policies and procedures for the control and monitoring of credit risk, liquidity, capital and market risk, which are reviewed regularly by the Board. The internal auditors also perform regular audits to assess the adequacy and effectiveness of controls for major risk areas and to ensure compliance with the policies and procedures.

In order to hedge some of the interest rate risks, the Group has used major interest rate derivatives: exchange traded instruments include interest rate futures and bond futures, and over-the-counter derivatives include interest rate swaps and options. With regard to foreign exchange risk, the Group has used FX swaps, forwards and options for hedging. The Group has used both types of derivatives, i.e. foreign exchange and interest rate derivatives, to hedge the respective risks in both the banking (accrual) book and the trading (marking to market) book. All interest rate risk and foreign exchange risk hedging strategies using major derivatives have been approved by the ALCO prior to their implementation.

#### **(i) Credit risk management**

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from the lending, trade finance, treasury, derivatives and other activities undertaken by the Group.

The Group's credit policy manual, which was approved by the Board, defines the credit approval hierarchy and delegation of approval authority, the credit extension criteria, the credit approval and monitoring process, the internal credit risk rating system, the loan classification system and provisioning policy. It also takes into account the requirements of the Hong Kong Banking Ordinance and the guidelines issued by the HKMA from time to time.

Specific credit policies manual are formulated, implemented and maintained at subsidiaries. At the level of the Bank and its subsidiaries, the credit risk management function is centralised and is overseen by the Credit & Risk Management Committee appointed by the Bank's Board of Directors. The Committee defines and delegates the approval authorities to various credit-related functional committees in respect of the approval of credit applications, policy exceptions, loan classifications, specific provisions, management of criticised credits and the control of interbank counterparty risks. These committees comprise the Chief Executive Officer, Chief Credit and Risk Officer, Head of Credit Department and other members of senior management.

**Unaudited supplementary financial information  
as at 31 December 2003(continued)**

**(j) Risk management (continued)**

**(i) Credit risk management (continued)**

Unlike on-balance sheet instruments, where the credit risk is generally represented by the principal value, the credit risk for derivatives is the positive replacement cost. The credit risk exposure for derivative is disclosed in Note 33.

**(ii) Liquidity management**

The Group manages its liquidity in order to meet all regulatory requirements and comply with the statutory liquidity ratio. More importantly, the Group must be able to meet all customer claims in both normal and emergency circumstances. Besides issuing long-dated certificates of deposits regularly, the Group has also arranged re-purchase agreement facilities in order to enhance its liquidity. The Group adopts a proactive approach towards managing liquidity.

**(iii) Capital management**

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to meet the statutory capital adequacy ratio. As disclosed in note (a) above, the Group's unadjusted capital adequacy ratio of 18.41% as at 31 December 2003 are well above the statutory minimum ratio.

Capital is allocated to the various activities of the Group depending on the risk taken by each business division. Certain financial subsidiaries, as specified by the HKMA, are subject to the HKMA's capital requirements for its regulatory supervision purposes.

**(iv) Market risk management**

The Group continues to manage its market risk effectively via the Market Risk Management Unit (the "Unit") of the Risk Management Department of the Bank. The Unit ensures that once the Group takes 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 Group's maximum limits on market risk exposures are established by ALCO of the Bank. Exposures are monitored and reported to management regularly.

The average daily profit and loss incurred from the Group's trading activities during 2003 was a loss of \$32,000 (2002 : gain of \$6,000).

**Unaudited supplementary financial information  
as at 31 December 2003 (continued)**

**(j) Risk management (continued)**

**(iv) Market risk management (continued)**

An analysis of the Group's trading revenue is shown below:

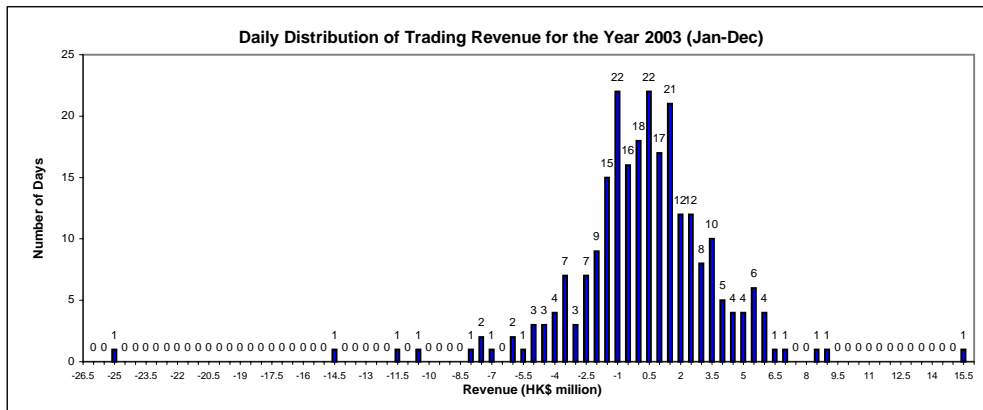


Figure: Daily distribution of trading revenue for the year ended 31 December 2003

This shows a maximum daily loss of HK\$25,364,000 and a maximum daily gain of HK\$15,483,000. There were 118 out of 248 trading days with losses. The most frequent results were daily gain of between \$0 and \$500,000 and daily loss of between \$1 million and \$1.5 million, both with 22 occurrences.

**(v) Foreign Exchange Risk Management**

The Group's foreign exchange risk stems from foreign exchange position taking, commercial dealing, investment in foreign currency securities and overseas branches. All foreign exchange positions are subject to the exposure limits approved by the ALCO. The average daily foreign exchange trading profit and loss for the year ended 31 December 2003 was a loss of \$84,000.

**(vi) Interest Rate Risk Management**

The Group's interest rate risk exists in both the banking book and the trading book. The risk entailed in the former is reviewed by the ALCO on a monthly basis and the latter is marked to market daily. The average daily profit and loss incurred in interest rate trading for the year ended 31 Dec 2003 was a loss of \$132,000.

**(vii) Other Trading Activities**

In 2003, the Group also involve in trading activities in equities and commodity, with commodity trading limited to gold. The Group's equity risk exists in the trading book. The equity risk entailed is marked to market daily. The total trading profit and loss for equities and commodity for the year were a gain of \$46,062,000 and a loss of \$443,000 respectively.