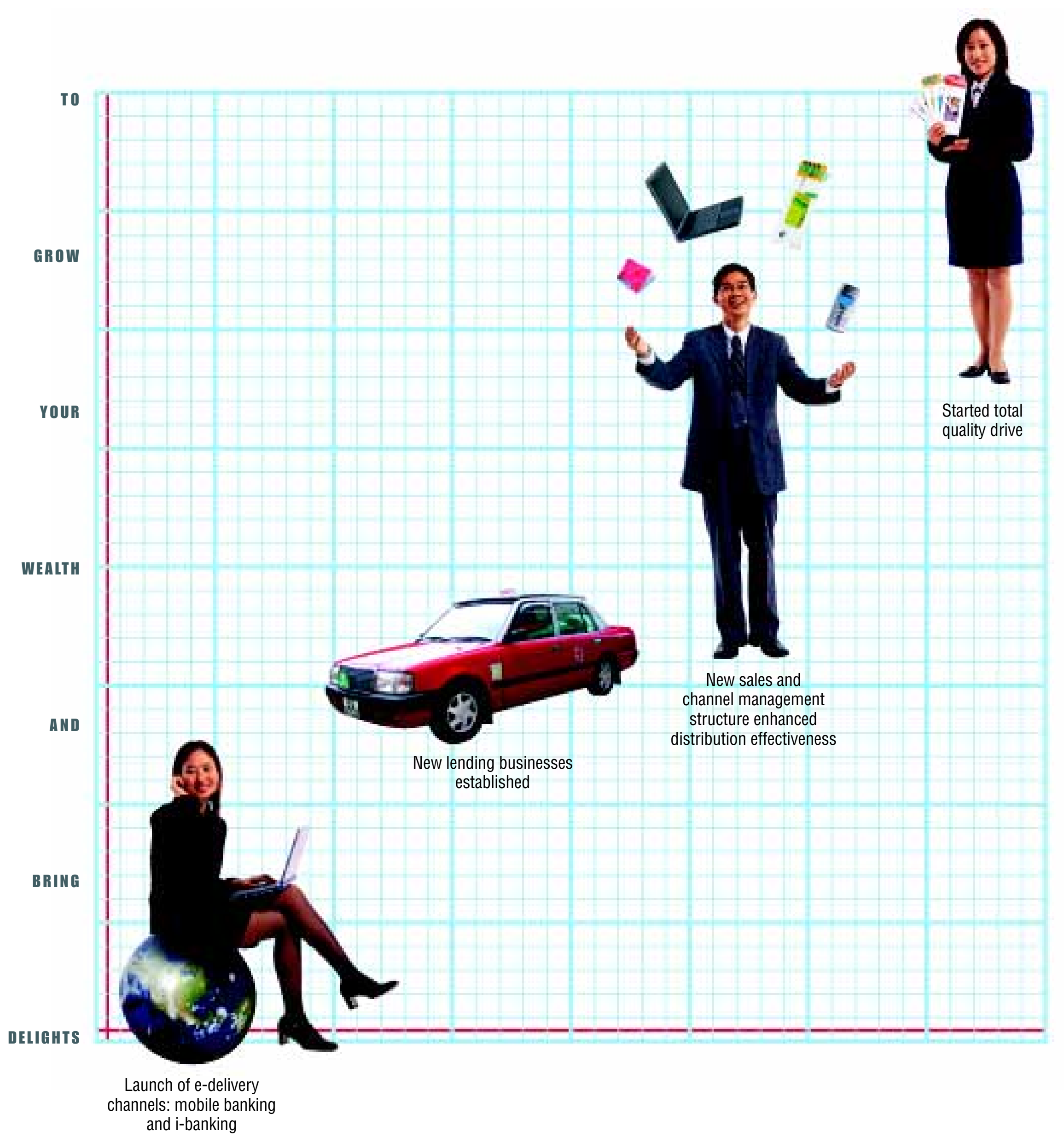
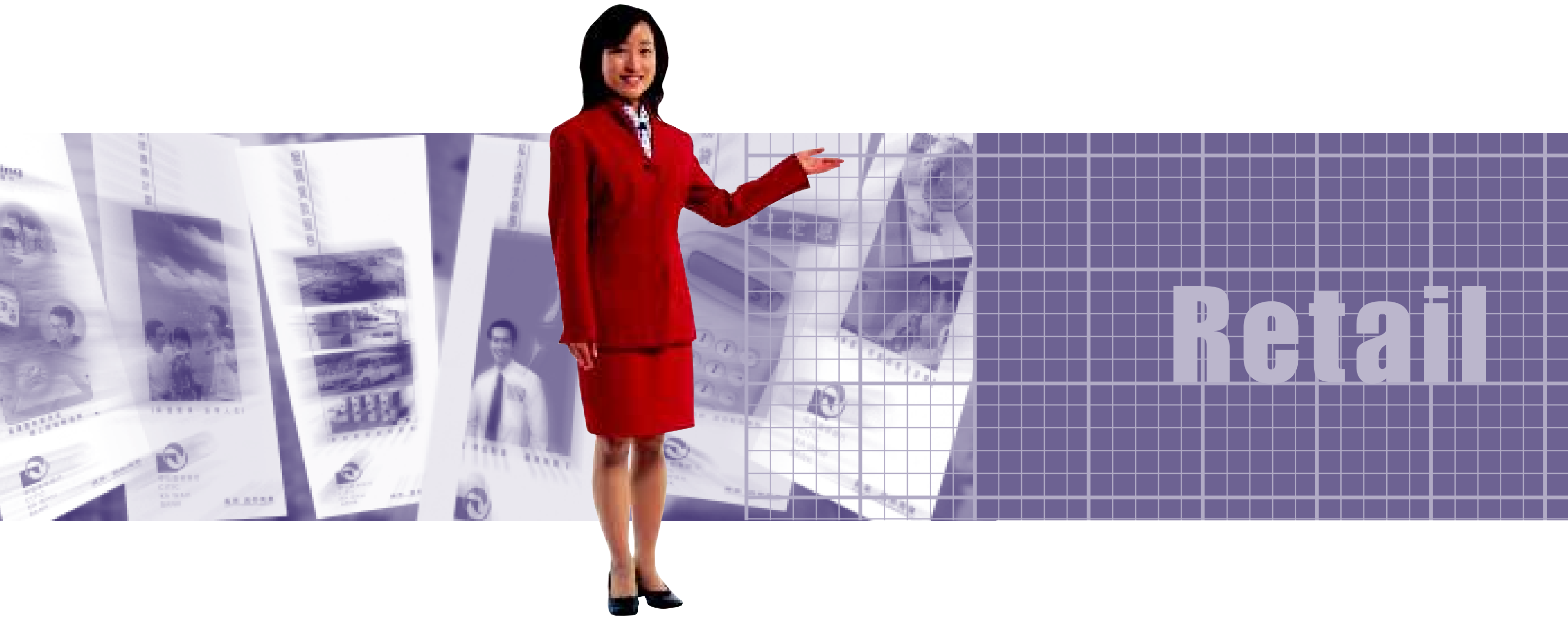
To grow your wealth and bring delights

The Retail Banking Group is fully attuned to the evolving competitive landscape and the ever-changing needs of its customers. The seamless integration of strategy, products, processes, systems and people has resulted in new business models and resilient value propositions. These in turn have enabled us to create greater wealth for our customers, our shareholders and our employees, while offering an experience that is refreshingly different and brings delights to retail banking customers.

32%
INCREASE IN ASSETS


TO
GROW
YOUR
WEALTH
AND
BRING
DELIGHTS
Started total quality drive
New sales and channel management structure enhanced distribution effectiveness
New lending businesses established
Launch of e-delivery channels: mobile banking and i-banking



Retail Banking

In 1998, the Bank revamped its retail banking business and established the Retail Banking Group ('RBG'), which has successfully established itself as a major player in the competitive retail banking landscape. The seamless integration of strategy, products, processes, systems and people has resulted in new business models and resilient value propositions that led to outstanding results and momentous growth.

In 2000, RBG continued to adopt a three-pronged strategy for building its business. This involved the creation of new revenue generators, strengthening of the retail organization, and the drive for total quality.

CREATION OF NEW REVENUE GENERATORS

During the year, we have greatly enhanced our revenue generating capability through the launch of a comprehensive range of interest and fee income generating products. This brought in a satisfactory 32% growth in assets while our active customer base soared by 50% over the last two years. Our mortgage business continued to demonstrate substantial growth, registering a 28% increase in portfolio outstanding. The launch of a first-in-market 'Overdraft Balance Transfer Service' in September brought in quality customers and firmly established the Bank as an innovative operator in the personal lending market. To boost our range of high yield products and services, the Hire Purchase and Leasing Department was founded in the third quarter, providing customers with access to hire purchase and leasing facilities for machinery and vehicles. At the end of 2000, our hire purchase and leasing portfolio reached the HK$500 million mark. Another lending business, Ka Wah Credit Limited, was established in the fourth quarter to tap into a different segment of the personal loan market. Both businesses are expected to provide more prominent returns in 2001, further improving the yield on RBG's loan portfolio. In terms of fee income, we achieved over 50% growth that was mainly attributable to a very encouraging breakthrough in the distribution of unit trusts.

Banking

STRENGTHENING OF THE RETAIL ORGANIZATION

New impetus was achieved in our drive to sharpen our sales and service focus. A district management structure and a sales management structure were put in place, working synergistically with the aim of optimizing the effectiveness and efficiency of our front-end distribution. By mid-2000, we have transformed our distribution from a single branch channel dependency into a multi- 'click-and-brick' capability, resulting in greater cost efficiency and distribution effectiveness. In addition to a strong network of 27 branches, an experienced direct sales team, and a brand new Call Center, which was set up to boost sales and service quality, we launched our mobile banking and i-banking services in the first half of the year. These enable our customers to enjoy the convenience and flexibility of our full range of banking services at anytime and anywhere. To ensure a seamless delivery, we have, at the same time, restructured and strengthened our back-end operations and improved operational control. Furthermore, a Retail Project Planning and Management Department was established to focus on improved productivity as well as the planning, co-ordination and management of retail projects.

DRIVING FOR TOTAL QUALITY

A lot of effort was devoted to team-building and imbedding the retail mission and value system among our people. We introduced Total Quality Management ('TQM') to build sustainable leadership and a world-class business management system. A roadmap was developed with emphasis placed on eight categories: vision and values, customer satisfaction, alignment, performance measures, improvement of processes and systems, people competency, performance tracking and review, reward and recognition. A Quality Board, sponsored by the CEO and chaired by the Head of RBG, was formed to drive and monitor the implementation of the TQM model. To continuously enhance the quality of our people, we have established a Learning and Development Council to redefine job specifications, build new competency models, and provide relevant training for our staff. At the same time, Quality Improvement Teams ('QITs') were established to drive for ongoing improvement in processes. In October, we conducted a customer satisfaction survey to gauge feedback from our customers, the results of which will serve as benchmarks for future service monitoring.

In 2001, we envisage that the retail banking sector will become increasingly competitive and margins will come under threat as a result of the imminent deregulation of interest rates. On the other hand, the forthcoming deregulation presents an opportunity for further acquisition and the expansion of our base in the lower, less costly deposit categories. New revenue generators, encompassing individual wealth management, bancassurance and unsecured lending will be developed to boost our earnings potential and help build a franchised positioning. We will launch credit card, design innovative mortgage plans, and develop the small business segment. Internally, we will continue to drive towards total quality, establish customer-focused management practices, improve multi-channel distribution effectiveness, and enhance productivity. Through these initiatives, we aim to establish a leading-edged differentiation that will enable us to create greater wealth for our customers, our shareholders and our employees, while offering a retail banking experience that brings delights.

A quantum leap forward in customer satisfaction and profitability

The Corporate Banking Group achieved outstanding results in the year 2000. Strong profitability was achieved through a solid customer base, a professional relationship management team, an enhanced product range, and improved operating efficiency. Now the Corporate Banking Group is ready for another quantum leap forward in the year 2001.

GROWTH IN FEE INCOME

47%

A

QUANTUM

LEAP

FORWARD

IN

CUSTOMER

SATISFACTION

AND

PROFITABILITY

Achieved through a professional
relationship management team

Corporate Banking

Corporate Banking Group ('CBG') implemented many progressive changes in the year 2000 to reposition and strengthen its business. In line with our objective to provide professional customer services of the highest standard, substantial investments were made in the areas of human resources and systems enhancement.

During the year, CBG's headcount increased by 25%, mainly comprising qualified Relationship Managers newly recruited from the market. At the same time, infrastructural changes were made in the support areas to cater for the envisaged growth in business. Through these developments, we are now better equipped to provide proactive and dedicated service to our customers.

As a result of these cohesive measures, CBG achieved a substantial growth in operating profitability as compared to 1999. Fee income also registered a 47% increase from the previous year. What was worthy of special note was the minimal debt provisions made for new businesses booked during the past two years.

These significant developments are a good reflection of the concerted efforts made by CBG staff in ensuring good asset quality while expanding our business. The wider spectrum of business we have successfully built up in the past year has helped to reduce risk concentration. The vigilant monitoring and control exercised by our Relationship Managers has been conducive to the early identification of potential problems, leading to appropriate remedial action and effective safeguarding of the Bank's assets.

ESTABLISHING A FOCUSED ORGANIZATIONAL STRUCTURE

At the start of the year 2001, CBG engaged upon an organizational restructuring exercise. The new structure encompasses four new Marketing Groups: Local Corporates, PRC Corporates, Trade

Banking

Finance and Multinational, and SME. In addition, two strengthened Support Units were established, the overall objectives being as follows:

i. To sharpen the focus and the effectiveness of our corporate banking business development activities through proper market segmentation.

ii. To strengthen our customer relationship management capabilities through the development of specialized and distinct skills in the four Marketing Groups.

iii. To enhance CBG's product development and management abilities so as to substantially expand our product range, to meet customers' needs, and to broaden our earnings base.

iv. To simplify and streamline the workflow in the Marketing Groups so as to improve operating efficiency.

COMMITMENT TO TOTAL CUSTOMER SATISFACTION

CBG will continue to invest in the areas of electronic banking and product management. Through the recruitment of high-caliber professionals and continued infrastructural development, we aim to provide our corporate customers with a wide range of sophisticated electronic banking products and a one-stop trade finance service. Our new trade finance system and core banking system will come into operation in mid-2001, and will substantially enhance our product delivery capabilities.

Simultaneously, we shall conduct a thorough and comprehensive study of our internal operation procedures to identify opportunities for further quality improvements and increased efficiency. Our commitment is to achieve total customer satisfaction and to create a challenging and rewarding environment for our people to work in.

EXPANDING THE BUSINESS WHILE MANAGING RISK AND DIVERSITY

Leveraging on the solid foundation that has been laid in 2000, CBG's Relationship Management Teams will intensify their business development efforts in the new year. By working closely with both existing and prospective customers in the corporate and trade finance sectors, and by capitalizing on our extensive connections with the other members of the CITIC Group, we shall widen our business coverage, both in Hong Kong and in the neighboring regions. In our pursuit of new opportunities we shall continue to focus on asset quality and risk diversification, which are essential tenets of our business philosophy.

With true and sharpened market focus, which in turn is supported by professional relationship management, a range of new products and infrastructural systems enhancement, our corporate banking business is ready for a quantum leap in the year 2001.

Higher profits, enhanced market risk management

The Treasury and Financial Institutions Group achieved a year of sustained profit growth that was underpinned by proactive marketing efforts, enhanced market risk control, and prudent asset and liability management. Professionalism and a well-developed reputation have earned us the support of top-notch financial institutions for our HK$15 Billion CD issuance facility. With innovative resources and a solid infrastructure in place, the Treasury and Financial Institutions Group has gone from strength to strength and is well positioned for further business expansion and profit growth.

ESTABLISHED
HKD
15 Billion
CD ISSUANCE FACILITY


HIGHER
PROFITS,
ENHANCED
MARKET
RISK
MANAGEMENT

Treasury & Financial Institutions

The year 2000 was a year of sustained growth for our Treasury and Financial Institutions. In addition to bringing into play its professional expertise to enhance prudent asset and liability management of the Bank's portfolio, Treasury also capitalized on interest rate trends through various investments and hedging products. These led to greater profits and enhanced risk management.

LIABILITY MANAGEMENT

In 2000, the Bank continued to grow from a strong customer deposit base. Although in a highly liquid situation, we implemented the key strategy of restructuring the liability mix by issuing certificates of deposit ('CDs') to spread out the maturity profile in the longer term, while controlling the overall cost of funds at the same time. This carefully considered initiative was designed to take advantage of liquid market conditions, which had driven long-term cost of funds lower in the second half of 2000, and to raise the Bank's profile in the capital market. This was successfully achieved through the establishment of an innovative HK$15 billion CD issuance facility. The two key elements were 'flexibility' and 'investor driven', by which we mean CDs would be issued in a flexible format that would suit investors' needs as well as the Bank's objectives, although not necessarily at the time when the Bank requires the funds. Eight international banks, each of which could single-handedly underwrite, arrange and distribute our CDs, joined the facility's dealer panel. This not only demonstrated recognition of the excellent investment value of our CDs, but also it highlighted the tremendous support the Bank enjoys from top-notch players in the capital market; it is a ringing endorsement of our strategy to professionally manage our liability mix.

In November, we launched a HK$800 million floating rate certificate of deposit ('FRCD') issue, the first issue drawn under the HK$15 billion CD issuance facility. This received an active response from the market and widened the Bank's funding

Institutions

sources, as well as lifting the proportion of institutional investors in our deposit base. The outstanding amount in issue as at year-end was HK$1.65 billion.

ASSET MANAGEMENT

Treasury investments were extremely cautious and focused on the optimization of revenue based on interest rate forecasts. Careful analysis on interest rate trends led to the conclusion that interest rate levels had peaked by the middle of 2000. Prudent liquidity management was coupled with switching a relatively large portion of short-term inter-bank placements to liquid fixed income papers, which brought in substantial returns. Besides improving returns, this switching strategy boosted our liquidity further as re-purchase facilities of these fixed income papers had been established with various premier financial institutions.

CUSTOMER ACQUISITION

During 2000, a marketing infrastructure was set up in both Treasury and Financial Institutions with a view to expanding the business through proactive development of customer relationships. To leverage the Bank's competitive advantage, initial marketing efforts focused mainly on China and Hong Kong. Business co-operation agreements were signed with reputable financial institutions in China to enhance business relationships and development. In addition to developing closer ties with banking institutions, we expanded our customer base to include insurance companies, fund managers, finance companies and quasi-governmental institutions. At the same time, product development capabilities were enhanced to support customer acquisition efforts through the offering of a full range of treasury, cash management and trade finance services.

Given the volatile nature of interest rates expected in 2001, the predominant emphasis will be asset and liability management. A new treasury system will be in operation in mid-2001 to improve operational efficiency and further strengthen market risk management. Credit risk management on financial institutional exposure will be further enhanced. With innovative resources and a solid infrastructure in place, the Treasury and Financial Institutions Group is well positioned for further business expansion and profit growth.

Poised for Growth

Capital is a scarce resource. At Ka Wah Capital, we do more than simply raise capital for our clients; we provide them with solutions. Through this far-sighted approach, together with our stockbroking arm, Cargary Securities, we achieved an aggregate profit in excess of HK$100 million. With a team of seasoned professionals operating on sound business fundamentals, the Investment Banking Group is well poised for growth and becoming one of the leading players in the Greater China area.

PROFIT EXCEEDED HKD

100 Million

POISED

FOR

GROWTH

DEBT CAPITAL MARKET TRANSACTIONS

Peace Mark Holdings Limited
HK$ 85,000,000
Term Loan Facility
Sole Mandated
Arranger and Agent
April 2000

China Merchants Holdings Company
US$ 200,000,000
Notes Issuance Program
Sole Mandated
Arranger and Agent
April 2000

COSCO (Hong Kong) Group Limited
US$ 200,000,000
Notes Issuance Program
Sole Mandated
Arranger and Agent
April 2000

CITIC Ka Wah Bank Limited
HK$ 2,000,000,000
CD Issuance Program
Sole Mandated
Arranger and Agent
May 2000

Top Glory Holdings Limited
US$ 70,000,000
Term Loan Facility
Arranger
May 2000

Orient Power Holdings Limited
HK$ 115,000,000
Term Loan Facility
Sole Mandated
Arranger and Agent
June 2000

Tianjin Development Holdings Limited
US$ 30,000,000
Term Loan Facility
Sole Mandated
Arranger and Agent
September 2000

Commercial Plaza Securitisation Limited
HK$ 1,480,000,000
Mortgage Backed Securitisation
Co-Lead Manager
Sole Book Runner for Series D and E Notes
September 2000

CITIC Ka Wah Bank Limited
HK$ 15,000,000,000
CD Issuance Program
Mandated Joint
Arranger and Agent
October 2000

Asia Satellite Telecommunications Company Limited
US$ 250,000,000
Term Loan Facility
Lead Arranger
November, 2000

Shanghai Industrial Investment (Holdings) Company Limited
US$ 125,000,000
Floating Rate Notes
Mandated Joint
Lead Manager
December, 2000

Shun Tak Holdings Limited
HKD 2,385,000,000
Revolving and Term Facilities
Mandated
Co-ordinating Arranger
December, 2000

EQUITY CORPORATE FINANCE TRANSACTIONS

Beijing Capital International Airport Company Limited
HK$ 2,517,300,500
Initial Public Offer
Co-Lead Manager
January 2000

Fortune Tele.com Holdings Limited
HK$ 187,600,000
Initial Public Offer
Co-Lead Manager
February 2000

PetroChina Company Limited
HK$ 1,139,276,180
Initial Public Offer
Co-Manager
April 2000

China Unicom Limited
HK$ 1,899,694,400
Initial Public Offer
Underwriter
June 2000

Sega.com Asia Limited
Subscription of New Shares and Connected Transaction
Financial Advisor
June 2000

China Insurance International Holdings Limited
HK$ 427,978,520
Initial Public Offer
Co-Sponsor
June 2000

MTR Corporation Limited
HK$ 1,878,800,000
Initial Public Offer
Co-Manager
September 2000

China Mobile (Hong Kong) Limited
US$ 11,917,852,320
Placement of Asian Tranche Shares
Co-Manager
November 2000

Ka Wah Capital

With the support of senior management and through co-operation with other departments, Ka Wah Capital Limited ('Ka Wah Capital') continued to pursue its mission of becoming a leading local investment bank. Our primary objective is to assist middle-market and PRC related companies to raise funds in both local and international capital markets.

2000 was an impressive year for Ka Wah Capital. Net profit rose by 26% while return on equity reached 32%. The Debt Capital Market Team continued to raise our profile in the capital market through arranging a number of major transactions in loan syndication and debt issuance. During the year, we raised over HK$6 billion (1999: HK$1.9 billion) in debt capital for our customers by way of syndicated loans, floating rate notes ('FRNs') and floating rate certificates of deposit ('FRCDs'). We were the co-ordinating arranger for HK$2.38 billion revolving credit and term loan facilities guaranteed by Shun Tak Holdings Limited, and joint lead manager for US$125 million FRNs guaranteed by Shanghai Industrial Investment (Holdings) Company Limited. We also acted as the sole mandated arranger and agent for the notes issuance programs for China Merchants Holdings Company, COSCO (Hong Kong) Group Limited and CITIC Ka Wah Bank. Similarly, we were the sole mandated arranger and agent for the term loan facility of Orient Power Holdings Limited and Tianjin Development Holdings Limited. Also, through the joint effort with a European investment bank, we underwrote and distributed two of the senior tranches in a securitization issue for Paliburg group.

In March, Ka Wah Capital expanded its scope of operations with the formation of an Equity Corporate Finance Team to undertake the raising of equity in the primary market. In June, for the first time we co-sponsored the Initial Public Offering ('IPO') for China Insurance International Holdings Limited on the Stock Exchange of Hong Kong ('HKSE'). With the completion of another co-sponsor mandate in January 2001, Ka Wah Capital is now fully qualified to act as sole sponsor for IPOs on the HKSE.

Our Ka Wah Five Arrows China Hong Kong Fund continues to perform consistently. During the year, new investments in bonds and Hong Kong stocks were made to increase its return to shareholders.

Our affiliation with CITIC in the area of investment banking was strengthened following CITIC's acquisition of a 49% stake in Ka Wah Capital in December 1999. The transaction has enabled us to leverage on CITIC's strengths while, at the same time, boosting our market standing in Hong Kong and China. Backed by the vast resources of CITIC and a team of seasoned investment banking professionals, Ka Wah Capital is well positioned to enhance its profile as one of the leading players in the Greater China area.

DEBT CAPITAL MARKET

	2000	1999
Amount Arranged (HK$ billion)	**6.0**	1.9
Number of Mandates	**9**	2

Banking

EQUITY CAPITAL MARKET

	2000	1999
Number of IPOs Participated	**13**	n/a
Number of IPOs Co-sponsored	**1**	n/a
Number of Financial Advisory Mandates	**7**	n/a

Cargary Securities

The securities broking business of the Bank is managed by Cargary Securities Limited ('Cargary'). The principal function of this subsidiary of the Bank is to provide securities trading and margin financing services for our customers. All transactions are processed through a fully automated securities trading and settlement system designed to provide customers with a secure and efficient securities trading service.

In 2000, Cargary achieved satisfactory operating results – partly attributable to the high trading volume in the stock market recorded in the first quarter. The operating profit before tax surged 113.7% over 1999's figure. Despite the stock market remained bearish during the second half of the year, Cargary's total value of transactions increased by nearly 40%. Our client base, transaction volume, and registered new accounts also saw satisfactory growth.

In order to meet its long-term business objectives, and to prepare itself for the challenges posed by the introduction of 'The Securities & Futures Bill' and the impending deregulation of stockbrokers' minimum commission in April 2002, Cargary appointed KPMG to conduct a comprehensive operational review to improve business efficiency and customer satisfaction. The findings have provided Cargary with many useful indicators and recommendations for future reforms.

Following the successful launch of its Tai Po branch in October 2000, emphasis will be placed on enhancing Cargary's distribution capability and further enlargement of its customer base through the recruitment of a strong sales team and establishment of new branch outlets. The existing fully automated securities trading system will be enhanced to accommodate the third-generation Automated Matching and Execution System ('AMS/3'). This will be released in early 2001. Furthermore, a new range of products and services will be launched to expand Cargary's scope of business, with a view to establishing itself as a diverse and comprehensive one-stop financial institution.

	2000	1999	% Change
Total Value of Transactions (HK$ million)	**20,856.9**	14,967.5	39.3
Operating Profit Before Tax (HK$ million)	**68.6***	32.1	113.7
Number of Transactions	**242,422**	196,179	23.6

* *including the disposal of Hong Kong Stock Exchange shares*

e-initiatives

Management has long recognized the pivotal role that Internet technology plays in the development and delivery of financial services. Therefore, back in 1999, we began to put together a web-enabled infrastructure and invested in the installation of state-of-the-art IT systems and software. During 2000, we launched a number of e-initiatives to build and strengthen customer relationships. These included the launch of a fully automated stock-trading system and 24-hour phone banking and mobile banking services. We have also redesigned and revamped the Bank's corporate web site, www.citickawahbank.com, which provides bank news, financial reports and services information.

In May, the Bank established a specialized i-banking department that is charged with the development of a business model that will form the basis for a long-term business strategy and direction for the technology platform. In June 2000, the Bank launched the first phase of its i-banking services, providing customers with on-line securities trading services and enabling them to perform general banking transactions and credit applications through an efficient, reliable and secure Internet platform. New service additions such as on-line bill payment and instant property valuation, which were launched later in the year, further enhanced our i-banking portfolio.

A list of e-initiatives designed to provide our retail banking customers with cost-effective and value-added solutions is already underway. It includes the further development of our fully automated trading system to accommodate the third-generation Automated Matching and Execution System ('AMS/3'). Furthermore we will establish a Customer Relationship Management System ('CRM') geared to effectively and efficiently manage customers' requirements, as well as matching product development more closely to their individual needs. We will explore Wireless Internet Banking and upgrade the system architecture to enhance our service performance. We will also look at forming strategic alliances with leading institutions, thereby achieving synergies and leverage on each other's expertise so that we will be able to offer leading-edge i-banking services to our customers.

Our Corporate Banking Group ('CBG') has also looked for ways to enhance its operation in the wake of the advent of Internet technology. During 2000, CBG has successfully test-launched 'Click2Trade Station' – a secure Internet-based communication platform that delivers trade finance and cash management services to our corporate customers.

Fully aware of the critical role of human capital and technology in the successful development and operation of e-business, CBG is devoted to continuously upgrading its workforce to ensure that it will always stay at the forefront of technological advancement. With the full commitment and support of the Bank's senior management, CBG is revolutionizing its business model with the introduction of a one-stop e-business solution for its corporate clients. Not only does this improve customer service and reduce costs, it also boosts competitiveness and generates additional revenue.

In 2001, CBG plans to implement a number of new initiatives to fully exploit the opportunities in the e-business era so as to ensure further business growth. The goal is to create effective synergy by offering our customers a comprehensive range of one-stop e-business solutions. This will encompass portal construction and the provision of an integrated trade service that brings value to the customer's entire import-export value chain. With our one-stop e-business solution, customers will be able to successfully carry out their business-to-business ('B2B') exchanges with their various counterparts. They will also be able to initiate, conduct and settle international trade transactions securely over our payment gateways at anytime and anywhere, without having to invest heavily in creating their own B2B exchange platform.

Overseas Operations

The Bank's overseas operations are managed by its two branches in the United States, one in New York City, the other in Los Angeles. Both branches, for bank regulatory purposes, are governed by the Office of the Comptroller of the Currency ('OCC'). The New York branch, located in Manhattan's 'Chinatown', is a full service branch and a member of the Federal Deposit Insurance Corporation ('FDIC'). The Los Angeles Branch is located in a densely Asian-populated area within the State of California.

Major banking services provided by at least one, if not both, of our US branches, include a comprehensive range of commercial and/or retail deposits, commercial loans, mortgage loans, personal loans, funds transfer and/or remittances, foreign exchange, and safe deposit box. The two branches also actively participate in loan syndication and offer offshore deposit services, international payments and trade-finance services to the Bank's customers located in the Asian region. While providing high quality services to their customers in these areas, our US branches recognize the need to further diversify their foreign business risks through expanding their business and customer bases in the domestic market.

In 2000, both branches registered record-high net profits as a result of strong earnings and assets growth, improved net interest margins and tightened cost controls. The financial performance ratios of both branches have continued to improve, while those of the New York branch have consistently exceeded US banking industry norms, reflecting the capability of its management. As a result of the newly appointed management that advocates a more centralized and co-ordinated management structure, both branches have been working closely together to achieve common business goals. Increasing interaction and co-ordination are evidenced between the two branches, including the sharing of a common system platform. Further enhancement has been made in all aspects of risk management, in particular the strengthening of credit risk management and operational controls.

In 2001, both branches will strive for maintaining a healthy growth rate, while emphasis will be placed on achieving quality growth in assets and earnings. There will be further collaboration between the branches in terms of business referrals and system enhancement.

	2000	1999	1998	% Change
Loans (US$ million)	**181.0**	130.6	121.4	38.6
Deposits (US$ million)	**318.0**	336.2	384.8	-5.4
Number of Loan Accounts	**380**	415	555	-8.4
Number of Deposit Accounts	**3,216**	2,990	2,719	7.6