

1. PRINCIPAL ACTIVITIES

The principal activities of the Bank and its subsidiaries, which materially affect the results or comprise the assets of the Group, are the provision of banking and related financial services.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice (“SSAP”) and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance and comply fully with “Financial Disclosure by Locally Incorporated Authorised Institutions” issued by the Hong Kong Monetary Authority. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost except for the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Basis of consolidation

The consolidated accounts include the accounts of CITIC Ka Wah Bank Limited (the “Bank”) and all its subsidiaries (the “Group”) made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions and balances are eliminated on consolidation.

(d) Investments in subsidiaries

A subsidiary 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.

Investments in subsidiaries in the Bank’s balance sheet are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.

(e) Investments in associates

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

Investments in associates are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each associate individually. The results of the associates are included in the consolidated and the Bank’s profit and loss account to the extent of dividends received and receivable, providing the dividend is in respect of a period ending on or before the accounts of the Group and the Bank are approved by the directors. The results and reserves of associates are not equity accounted for in the consolidated accounts as they are considered by the directors to be immaterial to the Group.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) **Doubtful debts**

- (i) Specific provisions are made for doubtful debts as and when they are considered necessary by the directors and, in addition, amounts have been set aside as general provisions for doubtful debts. The specific element relates to individual banking facilities; the general element relates to other exposures not separately identified but known from experience to exist in any portfolio of banking facilities. These provisions are deducted from advances to customers, trade bills and other accounts. When there is no longer any realistic prospect of recovery, the outstanding debt is written off.
- (ii) Assets, other than equity and debt securities, acquired in exchange for advances in order to achieve an orderly realization are reclassified to other accounts. The assets acquired are recorded at the carrying value of the advance disposed of at the date of the exchange. Provisions, if necessary, are made to allow for declines in the estimated fair value of the assets acquired.
- (iii) Interest accrued on doubtful debts is credited to a suspense account which is netted in the balance sheet against the relevant balances.

(g) **Investments in securities**

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

- (i) Dated debt securities that the Group and/or the Bank have the ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less any provisions for diminution in value. Provisions are made when carrying amounts are not expected to be fully recovered and are recognised as an expense in the profit and loss account, 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 an expense in the profit and loss account, such provisions being determined for each investment individually.
- (iii) 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 profit and loss account 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.
- (iv) 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.
- (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 profit and loss account as they arise.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Tangible fixed assets and depreciation

- (i) In preparing these accounts, advantage has been taken of the transitional provisions set out in paragraph 72 of SSAP 17 “Property, plant and equipment” issued by the Hong Kong Society of Accountants, with the effect that premises have not been revalued to fair value at the balance sheet date. It is not the directors’ intention to revalue premises in the future.
- (ii) Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential.

Freehold land is not depreciated. Investment properties and 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.

- (iii) Furniture, fixtures and equipment are stated at cost less depreciation calculated on the straight-line basis to write off the assets over their estimated useful lives, which are generally between four and ten years.
- (iv) The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account. In determining the recoverable amount, expected future cash flows generated by the fixed assets are discounted to their present values.

When the circumstances and events that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of an asset is written back to the profit and loss account. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

- (v) 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 enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (vi) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Revenue recognition

- (i) Interest income and expenses are accrued on a time-apportioned basis on the principal outstanding and at the rate applicable. Fee income and expenses are recognised when earned or incurred.
- (ii) Interest income from dated debt securities intended to be held to maturity is recognised as it accrues, as adjusted by the amortisation of the premium or discount on acquisition, so as to achieve a constant rate of return over the period from the date of purchase to the date of maturity.
- (iii) Dividend income is recognised as follows:
 - dividends from listed investments are recognised when the share price of such investments goes ex-dividend; and
 - interim dividends from unlisted investments are recognised when the directors of such investments declare such dividends; final dividends from unlisted investments are recognised when the shareholders of such investments approve the dividends proposed by the directors at the general meeting.

(j) Finance leases and hire purchase transactions

Amounts due from lessees in respect of finance leases and hire purchase transactions, net of unearned interest, are included in the balance sheet as advances to customers.

Finance income implicit in the rentals receivable is credited to the account over the lease period so as to produce an approximately constant periodic rate of return on the net cash investment for each accounting period.

(k) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payable under operating leases are accounted for in the profit and loss account on a straight-line basis over the periods of the respective lease term.

(l) 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 profit and loss account.

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

(m) Deferred taxation

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Off-balance sheet financial instruments

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

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

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

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

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

(o) Retirement costs

The retirement costs are charged to the profit and loss account as and when the contributions fall due.

(p) Related parties

For the purposes of these accounts, 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.

(q) Cash equivalents

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

3. OPERATING PROFIT/(LOSS)

The operating profit/(loss) is stated after taking account of:

(a) Other revenue

	The Group	
	2000	1999
	HK\$'000	HK\$'000
Dividend income		
Listed investments	10	9
Unlisted investments	8,379	7,522
Rental income less outgoings	9,644	7,973
	18,033	15,504

(b) Other operating income

Net gain on other investments in securities	104,344	9,741
Net gain arising from dealing in foreign currencies	25,425	20,332
Net gain arising from other dealing activities	4,318	–
Others	22,014	23,459
	156,101	53,532

(c) Operating expenses

	The Group	
	2000	1999
	HK\$'000	HK\$'000
Staff costs		
Salaries and other staff costs	383,703	272,596
Retirement benefit costs (note 33)	21,250	16,919
Premises and equipment expenses		
Rental of premises	31,725	26,833
Depreciation (note 22)	62,052	54,852
Others	35,260	39,467
Auditors' remuneration	2,188	1,892
Others	111,874	68,055
	648,052	480,614

3. OPERATING PROFIT/(LOSS) (continued)

(d) The emoluments of the five highest paid individuals:

Of the Group's five highest paid individuals, two (1999: four) are directors whose remuneration is disclosed in note 5. The remuneration in respect of the other three employees (1999: one) is as follows:

	2000 HK\$'000	1999 HK\$'000
Salaries, allowances and benefits in kind	7,611	2,638
Pension contributions	363	213
Bonuses	8,192	900
	16,166	3,751

The remuneration of these three employees is within the following bands:

	2000 Number of individuals	1999 Number of individuals
HK\$3,500,001 – HK\$4,000,000	–	1
HK\$4,000,001 – HK\$4,500,000	2	–
HK\$7,500,001 – HK\$8,000,000	1	–
	3	1

4. CHARGE FOR BAD AND DOUBTFUL DEBTS

	2000		1999	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Specific provisions against				
– advances (note 15)	272,264		868,254	
– trade bills (note 15)	21		–	
– other accounts (note 15)	41,461		(169)	
		313,746		868,085
General provisions against				
– advances (note 15)	43,163		69,326	
– trade bills (note 15)	2,281		(267)	
		45,444		69,059
		359,190		937,144
Bad debts recovered		(46,373)		(1,154)
Bad debt expenses		5,754		1,598
		318,571		937,588

5. DIRECTORS' EMOLUMENTS

The aggregate emoluments of the directors of the Bank disclosed pursuant to section 161 of the Hong Kong Companies Ordinance were:

	The Bank	
	2000 HK\$'000	1999 HK\$'000
Fees	4,350	4,800
Salaries, allowances and benefits in kind	13,131	11,903
Pension contributions	775	787
Bonuses	3,867	2,816
	22,123	20,306

Included in the directors' remuneration were fees of HK\$900,000 (1999: HK\$900,000) paid to independent non-executive directors during the year.

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

The remuneration of the directors is within the following bands:

	2000 Number of directors	1999 Number of directors
HK\$ Nil – HK\$1,000,000	10	10
HK\$1,500,001 – HK\$2,000,000	2	2
HK\$2,500,001 – HK\$3,000,000	–	1
HK\$3,000,001 – HK\$3,500,000	1	1
HK\$3,500,001 – HK\$4,000,000	1	2
HK\$4,000,001 – HK\$4,500,000	2	–
	16	16

6. TAXATION

(a) Taxation in the consolidated profit and loss account represents:

	2000 HK\$'000	1999 HK\$'000
Provision for Hong Kong Profits Tax	53,249	786
Overseas taxation	134	697
	53,383	1,483

The provision for Hong Kong Profits Tax is based on an estimate of the assessable profits for the year ended 31 December 2000 at 16% (1999: 16%). Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the countries in which they operate.

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

	The Group		The Bank	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Provision for Hong Kong Profits Tax	14,022	12,097	2,274	2,274
Provision for overseas taxation	210	197	210	190
	14,232	12,294	2,484	2,464

- (c) No provision for deferred taxation has been made as there are no material timing differences which would result in a liability payable or an asset receivable in the foreseeable future.

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes an amount of HK\$462,329,000 (1999: HK\$63,994,000) which has been dealt with in the accounts of the Bank.

8. DIVIDENDS

	2000 HK\$'000	1999 HK\$'000
Interim dividend paid of HK\$0.02 (1999: HK\$ Nil) per share	51,897	–
Proposed final dividend of HK\$0.05 (1999: HK\$0.01) per share	129,743	25,945
	181,640	25,945

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$532,141,000 (1999: HK\$108,561,000) and on the weighted average of 2,594,622,100 shares (1999: 2,593,248,423 shares).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of HK\$532,141,000 (1999: HK\$108,561,000) and the weighted average of 2,596,384,250 shares (1999: 2,595,460,815 shares) after adjusting for the effects of all dilutive potential shares.

(c) Reconciliation

	2000 Number of shares	1999 Number of shares
Weighted average number of shares used in calculating basic earnings per share	2,594,622,100	2,593,248,423
Deemed issue of shares for no consideration	1,762,150	2,212,392
Weighted average number of shares used in calculating diluted earnings per share	2,596,384,250	2,595,460,815

10. CASH AND SHORT-TERM FUNDS

	The Group		The Bank	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Cash and balances with banks and other financial institutions	380,823	444,734	372,125	443,555
Money at call and short notice	7,095,295	11,199,585	6,885,540	11,199,585
Treasury bills (including Exchange Fund Bills)	228,405	228,457	228,405	228,457
	7,704,523	11,872,776	7,486,070	11,871,597

10. CASH AND SHORT-TERM FUNDS *(continued)*

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

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

	The Group and the Bank	
	2000	1999
	HK\$'000	HK\$'000
Held-to-maturity securities:		
Unlisted and issued by central governments and central banks	228,405	228,457

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

	The Group and the Bank	
	2000	1999
	HK\$'000	HK\$'000
3 months or less but not repayable on demand	228,405	228,457

11. TRADE BILLS LESS PROVISIONS

	The Group and the Bank	
	2000	1999
	HK\$'000	HK\$'000
Trade bills	291,323	76,958
Specific provisions for bad and doubtful debts (note 15)	(21)	–
General provisions for bad and doubtful debts (note 15)	(3,244)	(963)
	288,058	75,995

12. CERTIFICATES OF DEPOSIT

	The Group		The Bank	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Certificates of deposit	4,258,256	1,690,891	4,228,256	1,567,011

12. CERTIFICATES OF DEPOSIT (continued)

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

	The Group		The Bank	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
3 months or less but not repayable				
on demand	199,995	38,880	199,995	–
1 year or less but over 3 months	661,887	698,476	661,887	668,476
5 years or less but over 1 year	3,195,479	953,535	3,165,479	898,535
After 5 years	200,895	–	200,895	–
	4,258,256	1,690,891	4,228,256	1,567,011

13. OTHER INVESTMENTS IN SECURITIES

	The Group		The Bank	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Debt securities				
Listed outside Hong Kong	18,243	–	–	–
Unlisted	925,343	–	891,343	–
	943,586	–	891,343	–
Equity securities				
Listed in Hong Kong	9,751	417	7,650	1
Listed outside Hong Kong	7,904	18,566	–	–
Unlisted	124,887	11,600	80,489	11,600
	142,542	30,583	88,139	11,601
Total	1,086,128	30,583	979,482	11,601
Issued by:				
Banks and other financial institutions	625,079	18,566	616,739	–
Corporate entities	348,229	12,017	252,010	11,601
Public sector entities	112,820	–	110,733	–
	1,086,128	30,583	979,482	11,601

13. OTHER INVESTMENTS IN SECURITIES *(continued)*

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

	The Group		The Bank	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
5 years or less but over 1 year	388,758	–	348,515	–
After 5 years	554,828	–	542,828	–
	943,586	–	891,343	–

14. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS LESS PROVISIONS**(a) Advances to customers and other accounts**

	The Group		The Bank	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Advances to customers (note 14(d))	31,925,836	27,603,561	30,807,364	25,115,542
Specific provisions for bad and doubtful debts (note 15)	(499,955)	(723,969)	(364,007)	(552,754)
General provisions for bad and doubtful debts (note 15)	(351,027)	(308,854)	(304,527)	(264,346)
	31,074,854	26,570,738	30,138,830	24,298,442
Advances to banks and other financial institutions (note 14(d))	580,987	639,817	24,013	32,232
Accrued interest and other accounts	2,065,842	1,844,839	1,858,090	1,548,562
	33,721,683	29,055,394	32,020,933	25,879,236

14. **ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS LESS PROVISIONS** (continued)

(b) **Finance leases and hire purchase transactions**

Included in advances to customers are amounts due from lessees and due on hire purchase transactions.

The net investment in finance leases and hire purchase transactions is as follows:

	The Group and the Bank	
	2000	1999
	HK\$'000	HK\$'000
Finance leases	33,490	–
Hire purchase transactions	475,956	–
	509,446	–

Aggregate rentals receivable for the year amounted to:

	The Group	
	2000	1999
	HK\$'000	HK\$'000
Finance leases	4,803	–
Hire purchase transactions	20,266	–
	25,069	–

The cumulative cost of assets acquired for the purpose of letting under finance leases and hire purchase transactions is:

	The Group	
	2000	1999
	HK\$'000	HK\$'000
Finance leases	50,855	–
Hire purchase transactions	612,411	–
	663,266	–

14. **ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS LESS PROVISIONS** (continued)

(c) **The total advances on which interest has been placed in suspense are as follows:**

	The Group				The Bank			
	2000		1999		2000		1999	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Gross advances	1,517,266	4.63	1,555,450	5.49	1,117,533	3.59	1,087,530	4.31
Specific provisions	(442,003)		(514,767)		(309,735)		(356,421)	
	1,075,263		1,040,683		807,798		731,109	

The specific provisions were made after taking into account the value of collateral in respect of such advances totalling HK\$860,073,000 (1999: HK\$763,536,000).

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

	The Group		The Bank	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Advances to customers:				
Repayable on demand	2,421,999	1,593,613	2,402,861	1,558,232
3 months or less but not repayable on demand	4,223,570	1,878,082	3,999,723	1,776,012
1 year or less but over 3 months	4,575,858	5,461,669	4,148,098	4,375,196
5 years or less but over 1 year	9,042,697	8,676,425	8,762,539	7,747,081
After 5 years	10,877,810	8,228,729	10,814,032	8,157,026
Undated	783,902	1,765,043	680,111	1,501,995
	31,925,836	27,603,561	30,807,364	25,115,542
Placements with and advances to banks and other financial institutions:				
1 month or less but not repayable on demand	556,974	–	–	–
3 months or less but over 1 month	3,112,324	2,461,055	3,112,324	2,435,135
1 year or less but over 3 months	–	25,920	–	–
5 years or less but over 1 year	24,013	587,977	24,013	32,232
	3,693,311	3,074,952	3,136,337	2,467,367

14. **ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS LESS PROVISIONS** (continued)

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

	The Group		The Bank	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Representing:				
Placements with banks and other financial institutions maturing between one and twelve months	3,112,324	2,435,135	3,112,324	2,435,135
Advances to banks and other financial institutions (note 14(a))	580,987	639,817	24,013	32,232
	3,693,311	3,074,952	3,136,337	2,467,367

15. **PROVISIONS FOR BAD AND DOUBTFUL DEBTS**

The Group – 2000

	Specific HK\$'000	General HK\$'000	Total HK\$'000	Suspended interest HK\$'000
At 1 January	726,547	309,817	1,036,364	152,711
Amounts written off	(510,493)	–	(510,493)	(73,022)
Charge to profit and loss account (note 4)	313,746	45,444	359,190	–
Transfer between provisions	1,036	(1,036)	–	–
Interest suspended during the year	–	–	–	193,207
Suspended interest recovered	–	–	–	(48,854)
Exchange differences	24	46	70	(628)
At 31 December	530,860	354,271	885,131	223,414
Representing:				
Trade bills (note 11)	21	3,244	3,265	–
Advances to customers (note 14(a))	499,955	351,027	850,982	223,414
Other accounts	30,884	–	30,884	–
	530,860	354,271	885,131	223,414

15. PROVISIONS FOR BAD AND DOUBTFUL DEBTS (continued)

The Bank – 2000

	Specific HK\$'000	General HK\$'000	Total HK\$'000	Suspended interest HK\$'000
At 1 January	552,754	265,309	818,063	127,406
Amounts written off	(404,620)	–	(404,620)	(43,371)
Charge to profit and loss account	243,198	43,452	286,650	–
Transfer between provisions	1,036	(1,036)	–	–
Interest suspended during the year	–	–	–	143,553
Suspended interest recovered	–	–	–	(42,152)
Exchange differences	24	46	70	(703)
At 31 December	392,392	307,771	700,163	184,733
Representing:				
Trade bills (note 11)	21	3,244	3,265	–
Advances to customers (note 14(a))	364,007	304,527	668,534	184,733
Other accounts	28,364	–	28,364	–
	392,392	307,771	700,163	184,733

The Group – 1999

	Specific HK\$'000	General HK\$'000	Total HK\$'000	Suspended interest HK\$'000
At 1 January	763,785	262,642	1,026,427	108,979
Amounts written off	(927,310)	–	(927,310)	(167,143)
Charge to profit and loss account (note 4)	868,085	69,059	937,144	–
Transfer between provisions	21,952	(21,952)	–	–
Interest suspended during the year	–	–	–	239,388
Suspended interest recovered	–	–	–	(28,513)
Exchange differences	35	68	103	–
At 31 December	726,547	309,817	1,036,364	152,711

15. PROVISIONS FOR BAD AND DOUBTFUL DEBTS (continued)

The Group – 1999 (continued)

	Specific HK\$'000	General HK\$'000	Total HK\$'000	Suspended interest HK\$'000
Representing:				
Trade bills (note 11)	–	963	963	–
Advances to customers (note 14(a))	723,969	308,854	1,032,823	152,711
Other accounts	2,578	–	2,578	–
	726,547	309,817	1,036,364	152,711

The Bank – 1999

	Specific HK\$'000	General HK\$'000	Total HK\$'000	Suspended interest HK\$'000
At 1 January	613,259	217,134	830,393	102,240
Amounts written off	(702,111)	–	(702,111)	(163,860)
Charge to profit and loss account	630,619	59,059	689,678	–
Transfer between provisions	10,952	(10,952)	–	–
Interest suspended during the year	–	–	–	214,703
Suspended interest recovered	–	–	–	(25,677)
Exchange differences	35	68	103	–
At 31 December	552,754	265,309	818,063	127,406
Representing:				
Trade bills (note 11)	–	963	963	–
Advances to customers (note 14(a))	552,754	264,346	817,100	127,406
	552,754	265,309	818,063	127,406

16. 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 interbank deposits, participation in loan syndicates, correspondent banking transactions and foreign exchange transactions. The contracts were priced based on relevant market rates at the time of each transaction, and were under the same terms as those available to other counterparties and customers of the Group. In the opinion of the directors, these transactions were conducted on normal commercial terms.

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

(a) Income/(Expense)

	The Group		The Bank	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Interest income	25,792	18,243	22,368	18,243
Interest expense	(76,307)	(12,688)	(76,307)	(12,688)
Net interest (expense)/income	(50,515)	5,555	(53,939)	5,555

(b) Ultimate holding company

	The Group		The Bank	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Cash and short-term funds	156,006	–	156,006	–
Advances to customers and other accounts less provisions	142,004	130,000	74,753	66,173
	298,010	130,000	230,759	66,173
Current, fixed, savings and other deposits of customers	2,983,341	55,065	2,983,341	55,065
Other accounts and provisions	16,882	61	16,882	61
	3,000,223	55,126	3,000,223	55,126

16. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) Subsidiaries of the ultimate holding company

	The Group and the Bank	
	2000 HK\$'000	1999 HK\$'000
Cash and short-term funds	–	37,112
Advances to customers and other accounts less provisions	82,336	89,555
	82,336	126,667
Deposits and balances of banks and other financial institutions	81,800	19,900
Current, fixed, savings and other deposits of customers	2,433,764	477,354
Other accounts and provisions	21,664	1,687
	2,537,228	498,941

- (d) A subsidiary of the Bank owns 464,200 shares (1999: 941,200 shares) in equity securities listed outside Hong Kong at 31 December 2000. The cost of investment was HK\$18.88 per share (1999: HK\$18.82 per share) totalling HK\$9 million (1999: HK\$18 million). This investment's fair value at the year end was HK\$8 million (1999: HK\$19 million). The subsidiary entered into a put option with a subsidiary of the Bank's ultimate holding company, to sell to them these securities. The option has an exercise price of Thai Baht 93.93 per share (HK\$17.03 equivalent) and will expire on 28 April 2001.
- (e) A subsidiary of the ultimate holding company has opened Hong Kong dollar and Renminbi bank accounts in another subsidiary bank of the ultimate holding company in the PRC to receive repayments from the Group's borrowers located in the PRC. The balances of these accounts, which amounted to HK\$333 million (1999: HK\$248 million) at 31 December 2000, were held in trust on behalf of the Bank free of any encumbrances.
- (f) Included in held-to-maturity securities at 31 December 2000 is a credit-link-note security (the "security") of HK\$39 million (1999: HK\$39 million). A condition is attached to the security whereby the issuer of the security will not repurchase the security upon its maturity if the reference entity failed to repay the issuer the debt security acquired by the issuer from the reference entity. The security's reference entity is the Bank's ultimate holding company.

17. AMOUNTS DUE FROM SUBSIDIARIES

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

	The Bank	
	2000 HK\$'000	1999 HK\$'000
Money at call and short notice	1,488,179	1,018,009
Placements with banks and other financial institutions maturing between one and twelve months	689,011	2,215,198
Advances to banks and other financial institutions maturing over 12 months	25,351	–
Advances to customers and other accounts less provisions	18,585	329,195
	2,221,126	3,562,402

18. HELD-TO-MATURITY SECURITIES AND INVESTMENT SECURITIES

	The Group		The Bank	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Held-to-maturity securities – debt securities				
Listed in Hong Kong	79,799	86,946	79,799	79,690
Listed outside Hong Kong	449,011	562,441	321,196	373,633
	528,810	649,387	400,995	453,323
Unlisted	4,438,603	1,854,490	4,435,646	1,854,490
	4,967,413	2,503,877	4,836,641	2,307,813
Investment securities – debt securities				
Listed outside Hong Kong	–	61,541	–	61,541
Unlisted	486,667	8,651	481,183	3,417
	486,667	70,192	481,183	64,958

18. HELD-TO-MATURITY SECURITIES AND INVESTMENT SECURITIES (continued)

	The Group		The Bank	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Investment securities – equity securities				
Unlisted	9,801	9,801	9,801	9,801
Total	5,463,881	2,583,870	5,327,625	2,382,572
Issued by:				
Central governments and central banks	257,568	257,079	257,568	257,079
Banks and other financial institutions	3,951,241	1,598,747	3,951,241	1,598,747
Corporate entities	1,188,509	724,178	1,073,238	525,864
Public sector entities	59,662	–	44,161	–
Others	6,901	3,866	1,417	882
	5,463,881	2,583,870	5,327,625	2,382,572
Market value of listed securities				
Debt securities	495,102	677,575	389,286	502,106

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

	The Group		The Bank	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
3 months or less but not repayable on demand	485,950	58,880	446,948	58,880
1 year or less but over 3 months	838,199	301,892	838,199	280,203
5 years or less but over 1 year	3,264,593	1,598,781	3,188,324	1,424,406
After five years	378,671	550,700	363,170	550,700
Undated	486,666	63,816	481,182	58,582
	5,454,079	2,574,069	5,317,823	2,372,771

As part of the Group's newly established pro-active market risk management strategy, management has reviewed the security portfolio and a total of HK\$390 million credit-link-note securities were disposed of at a profit of HK\$10 million during the year.

19. INVESTMENTS IN SUBSIDIARIES, AT COST

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

Name of company	Place of incorporation	% of shares held	Principal activities	Issued ordinary share capital
Ka Wah International Merchant Finance Limited	Hong Kong	100%	Deposit-taking and provision of finance	HK\$432,500,000
Ka Wah Capital Limited *	Hong Kong	51%	Corporate finance services	HK\$5,000,000
Cargary Securities Limited	Hong Kong	51%	Securities brokerage services	HK\$28,000,000
KWB Investment Limited *	Hong Kong	100%	Project finance and investment holding	HK\$5,000,000
The Ka Wah Bank (Trustee) Limited	Hong Kong	100%	Trustee services	HK\$3,000,000
The Ka Wah Bank (Nominees) Limited	Hong Kong	100%	Nominee services	HK\$2
Ka Wah Credit Limited	Hong Kong	100%	Money lending	HK\$50,000,000
Ka Wah Assets Management Limited	Hong Kong	100%	Assets management	HK\$5,000,000
KWB Management Limited	Hong Kong	100%	Property management	HK\$2
Ka Wah International Services Limited *	Hong Kong	100%	Loan administration services	HK\$2
GCT Management Limited	USA	100%	Property management	No par value
Ka Wah China Management Limited *	British Virgin Islands	51%	Investment and advisory	US\$100

19. INVESTMENTS IN SUBSIDIARIES, AT COST (continued)

Name of company	Place of incorporation	% of shares held	Principal activities	Issued ordinary share capital
Win Rich Investments Limited *	British Virgin Islands	51%	Investment holding	US\$1
Chancery Assets Limited *	British Virgin Islands	51%	Investment holding	US\$1
CKW Financial Products Limited *	British Virgin Islands	51%	Financial services	US\$1
King Power Venture Ltd *	British Virgin Islands	51%	Financial consultancy	US\$1
KWB International Limited	Hong Kong	100%	Investment holding	HK\$2
California Investment, LLC **	USA	100%	Property development	US\$5,000,000

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

* Subsidiaries held indirectly by the Bank.

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

The subsidiaries' principal places of operation are the same as the places of incorporation.

20. INVESTMENTS IN ASSOCIATES

	The Group		The Bank	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	120,493	120,493	119,908	119,908
Loan to an associate	46	44	–	–
	120,539	120,537	119,908	119,908

Dividend received from an associate during the year amounted to HK\$7,380,000 (1999: HK\$6,217,000).

Details of the principal associates are as follows:

Name of company	Place of incorporation	Principal activities	% of shares held	Nominal value of issued shares
KWR Asset Management Limited	Cook Islands	Management services	50%	“A” US\$910
			100%	“B” US\$4,545
			0%	“C” US\$4,545
KWR Asset Management (HK) Limited	Hong Kong	Investment advisory services	50%	HK\$2
The Ka Wah Five Arrows China Hong Kong Fund Limited	Cook Islands	Investment holding	29.4%	US\$51,002

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

21. AMOUNTS DUE TO SUBSIDIARIES

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

	The Bank	
	2000	1999
	HK\$'000	HK\$'000
Deposits and balances of banks and other financial institutions	1,145,995	972,443
Current, fixed, savings and other deposits of customers	256,899	455,998
Other accounts and provisions	300,947	204,075
	1,703,841	1,632,516

22. TANGIBLE FIXED ASSETS

	The Group			
	Investment properties HK\$'000	Other premises HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost or valuation:				
At 1 January 2000	292,745	641,177	300,806	1,234,728
Exchange differences	38	80	30	148
Additions	–	–	67,291	67,291
Disposals	(7,753)	–	(31,506)	(39,259)
Transfers	(389)	389	–	–
At 31 December 2000	284,641	641,646	336,621	1,262,908
The analysis of cost or valuation of the above assets is as follows:				
At cost	277,275	420,483	336,621	1,034,379
At directors' valuation				
– 1985	7,366	71,423	–	78,789
– 1988	–	149,740	–	149,740
	284,641	641,646	336,621	1,262,908
Accumulated depreciation:				
At 1 January 2000	48,647	120,533	147,640	316,820
Exchange differences	1	3	16	20
Charge for the year (note 3(c))	6,775	18,012	37,265	62,052
Written back on disposals	(2,218)	–	(16,203)	(18,421)
Transfers	(251)	251	–	–
At 31 December 2000	52,954	138,799	168,718	360,471
Net book value:				
At 31 December 2000	231,687	502,847	167,903	902,437
At 31 December 1999	244,098	520,644	153,166	917,908

22. TANGIBLE FIXED ASSETS (continued)

	The Bank			
	Investment properties HK\$'000	Other premises HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost or valuation:				
At 1 January 2000	212,587	615,485	277,847	1,105,919
Exchange differences	–	–	29	29
Additions	–	–	61,551	61,551
Disposals	(7,753)	–	(23,550)	(31,303)
Transfers	(389)	389	–	–
At 31 December 2000	204,445	615,874	315,877	1,136,196
The analysis of cost or valuation of the above assets is as follows:				
At cost	197,079	394,711	315,877	907,667
At directors' valuation				
– 1985	7,366	71,423	–	78,789
– 1988	–	149,740	–	149,740
	204,445	615,874	315,877	1,136,196
Accumulated depreciation:				
At 1 January 2000	41,136	119,506	137,564	298,206
Exchange differences	–	–	16	16
Charge for the year	4,960	17,585	33,995	56,540
Written back on disposals	(2,218)	–	(11,693)	(13,911)
Transfers	(251)	251	–	–
At 31 December 2000	43,627	137,342	159,882	340,851
Net book value:				
At 31 December 2000	160,818	478,532	155,995	795,345
At 31 December 1999	171,451	495,979	140,283	807,713

22. **TANGIBLE FIXED ASSETS** (continued)

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

	The Group		The Bank	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Freeholds				
Held outside Hong Kong	220,053	226,310	184,294	190,038
Leaseholds				
Held in Hong Kong				
– Long term leases (over 50 years)	272,212	279,541	272,212	279,541
– Medium term leases (10 – 50 years)	240,083	251,015	180,658	189,975
Held outside Hong Kong				
– Long term leases (over 50 years)	–	5,620	–	5,620
– Medium term leases (10 – 50 years)	2,186	2,256	2,186	2,256
	734,534	764,742	639,350	667,430

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

	The Group		The Bank	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Net book value at 31 December	153,313	156,483	153,313	156,483

23. DEPOSITS AND BALANCES OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group and the Bank	
	2000	1999
	HK\$'000	HK\$'000
Repayable on demand	53,671	167,424
With agreed maturity dates or periods of notice, by remaining maturity:		
3 months or less but not repayable on demand	335,191	177,401
1 year or less but over 3 months	30,000	–
	418,862	344,825

24. CURRENT, FIXED, SAVINGS AND OTHER DEPOSITS OF CUSTOMERS

	The Group and the Bank	
	2000	1999
	HK\$'000	HK\$'000
Repayable on demand	4,943,923	4,091,442
With agreed maturity dates or periods of notice, by remaining maturity:		
3 months or less but not repayable on demand	38,073,321	32,625,013
1 year or less but over 3 months	1,041,196	1,501,087
5 years or less but over 1 year	2,566,226	1,510,623
	46,624,666	39,728,165

25. CERTIFICATES OF DEPOSIT ISSUED

	The Group		The Bank	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
With agreed maturity dates or periods of notice, by remaining maturity:				
3 months or less but not repayable on demand	15,601	1,010,886	15,601	1,010,886
1 year or less but over 3 months	769,447	427,683	769,447	427,683
5 years or less but over 1 year	868,534	15,552	883,534	15,552
	1,653,582	1,454,121	1,668,582	1,454,121

26. ISSUED DEBT SECURITIES

	The Group and the Bank	
	2000 HK\$'000	1999 HK\$'000
With agreed maturity dates or earlier redeemable dates at the holders' option, by remaining maturity:		
3 months or less but not repayable on demand	–	58,320
1 year or less but over 3 months	–	–
5 years or less but over 1 year	398,197	464,000
	398,197	522,320

27. SHARE CAPITAL

	2000 HK\$'000	1999 HK\$'000
Authorised:		
3,000,000,000 ordinary shares of HK\$1 each	3,000,000	3,000,000
Issued and fully paid:		
At 1 January: 2,594,461,444 (1999: 2,592,513,174) ordinary shares of HK\$1 each	2,594,461	2,592,513
Shares issued under the Option Scheme	400	1,948
At 31 December: 2,594,861,444 (1999: 2,594,461,444) ordinary shares of HK\$1 each	2,594,861	2,594,461

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

27. **SHARE CAPITAL** (continued)

Details of the share options granted are as follows:

Date of grant	Subscription price	No. of options	Exercisable period	No. of shares acquired on exercise of options	No. of options lapsed	No. of options outstanding as at 31 December 2000
30 March 1995	HK\$1.00	15,000,000	30 March 1995 to 29 March 2005	11,800,000	3,000,000	200,000
10 April 1996	HK\$1.00	1,361,000	11 April 1996 to 29 March 2005	862,000	375,000	124,000
8 May 1997	HK\$1.00	1,186,500	9 May 1997 to 29 March 2005	511,625	421,875	253,000
6 May 1998	HK\$1.00	1,427,448	7 May 1998 to 29 March 2005	35,145	1,002,375	389,928
16 April 1999	HK\$1.68	2,450,000	6 August 1999 to 29 March 2005	1,100,000	–	1,350,000
17 August 1999	HK\$2.30	19,600,000	31 October 1999 to 29 March 2005	400,000	–	19,200,000
29 February 2000	HK\$2.044	2,000,000	18 January 2002 to 29 March 2005	–	–	2,000,000
16 March 2000	HK\$1.896	1,200,000	16 March 2001 to 29 March 2005	–	–	1,200,000
28 March 2000	HK\$1.824	1,700,000	31 March 2000 to 29 March 2005	–	–	1,700,000
19 May 2000	HK\$1.57	2,000,000	26 April 2002 to 29 March 2005	–	–	2,000,000
27 June 2000	HK\$1.744	1,000,000	5 June 2002 to 29 March 2005	–	–	1,000,000
10 August 2000	HK\$2.28	700,000	11 August 2001 to 29 March 2005	–	–	700,000
23 August 2000	HK\$2.296	200,000	24 August 2001 to 29 March 2005	–	–	200,000
5 December 2000	HK\$1.812	2,300,000	22 October 2001 to 29 March 2005	–	–	2,300,000

28. RESERVES

	The Group		The Bank	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
(a) Share premium				
At 1 January	1,425,026	1,424,265	1,419,026	1,418,265
Share premium on shares issued during the year	520	785	520	785
Share issue expenses	(4)	(24)	(4)	(24)
At 31 December	1,425,542	1,425,026	1,419,542	1,419,026
(b) Property revaluation reserve				
At 1 January and 31 December	11,945	11,945	11,945	11,945
(c) Capital reserves				
At 1 January and 31 December	37,500	37,500	–	–
(d) General reserve				
At 1 January and 31 December	100,000	100,000	100,000	100,000
(e) Exchange differences				
At 1 January	191	48	–	–
Current year	131	143	–	–
At 31 December	322	191	–	–
(f) Retained profits				
At 1 January	1,192,766	1,110,150	510,508	472,459
Profit for the year	350,501	82,616	280,689	38,049
At 31 December	1,543,267	1,192,766	791,197	510,508
Total reserves	3,118,576	2,767,428	2,322,684	2,041,479

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

29. 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		The Bank	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Direct credit substitutes	609,289	435,501	711,692	903,184
Transaction-related contingencies	63,060	–	63,060	–
Trade-related contingencies	820,910	613,922	820,910	613,922
Other commitments				
– with an original maturity of under 1 year or which are unconditionally cancellable	7,403,679	7,668,932	7,403,679	7,668,932
– with an original maturity of 1 year and over	387,652	326,672	387,652	320,117
	9,284,590	9,045,027	9,386,993	9,506,155

The above amounts include the following guarantees:

- (i) continuing guarantees to a wholly owned subsidiary, Ka Wah International Merchant Finance Limited (“KWIMF”), to secure the collectibility of principal and related interest in respect of loans granted by KWIMF to third parties. As at 31 December 2000, the balances due from these companies amounted to HK\$102 million (1999: HK\$468 million).
- (ii) guarantees for credit facilities granted by third parties to certain subsidiaries amounting to HK\$40 million as at 31 December 2000 (1999: HK\$43 million).

29. OFF-BALANCE SHEET EXPOSURES (continued)

(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 derivative entered into by:

	The Group					
	Trading HK\$'000	2000 Hedging HK\$'000	Total HK\$'000	Trading HK\$'000	1999 Hedging HK\$'000	Total HK\$'000
Exchange rate contracts						
Forwards	320,801	559,576	880,377	428,400	489,698	918,098
Swaps	–	42,189,304	42,189,304	–	17,484,727	17,484,727
Interest rate contracts						
Swaps	–	510,918	510,918	–	427,679	427,679
Equity contracts						
Options	–	7,904	7,904	–	–	–
	320,801	43,267,702	43,588,503	428,400	18,402,104	18,830,504
	The Bank					
	Trading HK\$'000	2000 Hedging HK\$'000	Total HK\$'000	Trading HK\$'000	1999 Hedging HK\$'000	Total HK\$'000
Exchange rate contracts						
Forwards	320,801	559,576	880,377	428,400	489,698	918,098
Swaps	–	42,189,304	42,189,304	–	17,484,727	17,484,727
Interest rate contracts						
Swaps	–	432,917	432,917	–	217,729	217,729
	320,801	43,181,797	43,502,598	428,400	18,192,154	18,620,554

29. **OFF-BALANCE SHEET EXPOSURES** (continued)

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

	The Group			
	2000		1999	
	Replacement cost	Credit risk weighted amount	Replacement cost	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments	N/A	830,773	N/A	627,642
Exchange rate contracts	123,912	115,474	28,304	46,658
Interest rate contracts	24,805	5,799	3,844	1,454
	148,717	952,046	32,148	675,754

	The Bank			
	2000		1999	
	Replacement cost	Credit risk weighted amount	Replacement cost	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments	N/A	933,176	N/A	1,092,047
Exchange rate contracts	123,912	115,474	28,304	46,658
Interest rate contracts	24,805	5,760	3,844	1,220
	148,717	1,054,410	32,148	1,139,925

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

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

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

29. OFF-BALANCE SHEET EXPOSURES (continued)

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

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

(d) Capital commitments

Capital commitments for acquisition of property, plant and equipment outstanding at 31 December not provided for in the accounts were as follows:

	The Group		The Bank	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Expenditure contracted for	126,252	18,940	126,252	18,835
Expenditure authorised but not contracted for	5,343	–	1,443	–
	131,595	18,940	127,695	18,835

(e) Lease commitments

Commitments under non-cancellable operating leases payable during the next year:

	The Group		The Bank	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Premises				
<i>Leases expiring:</i>				
– within one year	–	1,392	–	1,392
– after one year but within five years	41,878	24,083	38,689	24,083
– after five years	–	–	1,282	1,278
	41,878	25,475	39,971	26,753
Equipment				
<i>Leases expiring:</i>				
– within one year	80	–	80	–
– after one year but within five years	98	–	17	–
	178	–	97	–

30. RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2000 HK\$'000	1999 HK\$'000
Profit from ordinary activities before taxation	636,045	110,044
Provisions for bad and doubtful debts	359,190	937,144
Dividend received from an associated company	(7,379)	(6,217)
Loss/(Profit) on disposal of tangible fixed assets	1,999	(188)
Profit on disposal of held-to-maturity securities	(10,433)	–
Profit on disposal of interest in subsidiaries	–	(396,909)
Provision made for diminution in value of held-to-maturity securities and investment securities	5,694	18,737
Amortisation of expenses on issue of certificates of deposit	2,644	4,134
Depreciation	62,052	54,852
Dividend income on equity investment securities	(1,000)	(1,305)
Net cash inflow from trading activities	1,048,812	720,292
Decrease/(Increase) in placements with banks and other financial institutions (repayable beyond three months)	923,693	(217,996)
Increase in treasury bills (repayable beyond three months)	(19,608)	(29,888)
(Increase)/Decrease in trade bills	(214,365)	57,843
(Increase)/Decrease in certificates of deposit	(2,566,881)	155,583
(Increase)/Decrease in other investments in securities	(994,151)	8,292
Increase in advances to customers	(5,045,034)	(3,458,890)
Decrease in advances to banks and other financial institutions	58,830	58,052
Increase in interest receivable and other assets	(242,658)	(325,774)
Increase/(Decrease) in certificates of deposit issued	199,218	(1,649,884)
Decrease in debt securities issued	(98,320)	(757,824)
Increase in interest payable and other liabilities	321,043	241,259
Increase/(Decrease) in deposits and balances of banks and other financial institutions (repayable beyond three months)	30,000	(592,585)
Increase in deposits of customers	6,896,501	6,932,175
Exchange differences	(18,385)	(80,848)
Net cash inflow from operating activities	278,695	1,059,807

31. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	2000	1999
	Share capital (including share premium)	Share capital (including share premium)
	HK\$'000	HK\$'000
At 1 January	4,019,487	4,016,778
Cash inflow from issue of share capital	920	2,733
Share issue expenses	(4)	(24)
At 31 December	4,020,403	4,019,487

32. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2000	1999
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	380,823	444,734
Money at call and short notice	7,095,295	11,199,585
Treasury bills repayable within three months	178,909	198,569
Placements with banks and other financial institutions repayable within three months	3,112,324	1,511,442
Deposits and balances of banks and other financial institutions repayable within three months	(388,862)	(344,825)
	10,378,489	13,009,505

33. STAFF RETIREMENT SCHEME

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

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

During the year, the Group and the Bank contributed approximately HK\$21 million (1999: HK\$17 million) (note 3(c)) and HK\$20 million (1999: HK\$17 million) respectively to these schemes.

34. LOANS TO OFFICERS

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

	2000 HK\$'000	1999 HK\$'000
Balance outstanding at 31 December		
– By the Bank	38,168	11,329
Maximum aggregate amount outstanding during the year		
– By the Bank	48,969	12,795
– By a subsidiary	–	5,288
	48,969	18,083

35. ASSETS PLEDGED AS SECURITY

On 31 December 2000, certificates of deposit amounting to HK\$172 million (1999: HK\$139 million) and investment securities amounting to HK\$97 million (1999: HK\$175 million) have been pledged to the Office of the Comptroller of Currency in the USA as statutory deposits.

36. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 December 2000 to be China International Trust and Investment Corporation, which is incorporated in the People's Republic of China.

37. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 12 February 2001.