

**CITIC International Financial Holdings Limited**  
中信國際金融控股有限公司

31 December 2003

## Review of Operations

### CITIC KA WAH BANK LIMITED (the 'Bank')

#### Retail Banking

2003 marked another year of robust development for the Retail Banking Group ('RBG'). Committed to strengthening our retail franchise, we have strived to deliver exceptional value to our customers through the provision of pragmatic financial solutions. Building on our innovative **Financial Quotient (FQ)** platform, our wealth management services are tailored to the needs of customers throughout their different life stages.

During the year, we expanded our retail-banking customer and cardholder bases by 10% and 40% respectively. A variety of customer-centric products were launched, spanning mortgages, deposits and insurance.

#### *Bringing Delights to Customers*

We have redefined wealth management by managing both assets and liabilities. By helping our customers to achieve greater financial security while enhancing their comfort and standard of living, we hope to become their partner of choice in personal finance management.

**Supporting our Customers' Choices.** After pioneering the SuperFirst Mortgage for negative equity homeowners in 2002, we followed up with the launch of SuperFirst Home Switching Plan in early 2003 that allows customers to switch properties with an affordable cash outlay. Customers were presented with new innovative options to enhance their lifestyle. Under the plan, negative equity homeowners can trade down their property in order to ease their financial burden, or trade up for more living space and comfort.

**Solutions for Current Concerns.** The NOW Account was launched in February 2003 during a time of low interest rates and high unemployment. Combining the convenience of savings and checking into a single account, it offers customers a return comparable to that of time deposits along with free insurance coverage for involuntary redundancy and terminal illness. The product satisfied the needs of customers during such testing times, and was greeted with an overwhelming response, amassing HK\$9.5 billion in deposits from 20,000 customer accounts during the course of the year.

**Planning for a Comfortable Retirement.** With longer life expectancies and higher demands for quality of life, the need to plan for retirement has become an indispensable part of personal financial planning and management. To provide our customers with a comfortable and assured retirement life, RBG has developed and launched Annuity 100, a plan underwritten by Sun Life Financial (Hong Kong) Limited.

### ***Leveraging on the Strengths of the Group***

We have partnered with our sister company, CITIC Capital Markets Holdings Limited ('CCMH'), to provide customers with stock trading services. This cooperative relationship was further augmented with the launch of the CITIC Capital US Bond Fund in 2003. Leveraging on the expertise and resources of CCMH, we were able to offer our customers a top-ranking US bond investment product.

### ***Developing the China Banking Business***

In 2003, significant progress had been achieved in the development of our China business. We introduced China mortgages to selected customer segments during the third quarter and prepared for the launch of our personal Renminbi and China business enquiry services 'RMB+ China Linked Services' in 2004 following the signing of CEPA and the announcement to open up such services to local banks in November. The acquisition of China International Finance Company Limited (Shenzhen) ('CIFIC') also marked an important milestone in our development of the Mainland market.

The 'CITIC STAR' card, a Mainland Renminbi and dual currency (USD/RMB and HKD/RMB) credit card developed in collaboration with CITIC Industrial Bank ('CIB'), was launched in December 2003. It was the first colored gold card offered on the Mainland and the first international credit card that offered various designs on classic cards. We played a major consultancy role in the project, providing services that ranged from technical support, data analysis, to market positioning. With a secure, trendy, and prestigious image, CITIC STAR card has successfully carved a niche in China's growing consumer banking market. Our innovation and creativity was well recognized when CIB received the Outstanding Product Design Award 2003 from VISA International.

### ***Commitment to Professionalism***

Committed to providing our customers with the very best in professional financial services, we undertook a special human resources development initiative in 2003. In partnership with the Society of Registered Financial Planners in Hong Kong, we designed tailor-made educational programs to prepare our staff for the Registered Financial Planner examinations. By December 2003, over 34 staff members in our Sales and Distribution department successfully completed the program and earned the qualification of Registered Financial Planners.

### ***Recognition of Excellence***

We are pleased that our relentless efforts to create customer value have gained increased market recognition. The Bank was shortlisted as one of the top 5 regional finalists in the 'Innovation of the Year' category at the 2003 Asia Insurance Industry Awards for our

innovative use of title insurance to streamline processes for the seamless delivery of customer services in mortgage switching. The Bank also won the 2003 Hong Kong Award for Services: Innovation Award bestowed by the Hong Kong General Chamber of Commerce for our creation of customer value and social contribution through the delivery of innovative products.

Not only do the awards reassure us of the course we have taken, they will further encourage us to stride forward with innovative solutions that create the most value for our customers and shareholders.

## **Wholesale Banking**

During 2003, the Wholesale Banking Group ('WBG') implemented new initiatives aimed at perfecting our business models and ultimately adding value to our customers' businesses.

### ***Focus on Customer Satisfaction and Brand Building***

Over the course of the year, we recruited 22 new relationship managers and product specialists to further strengthen our business development and service capabilities. Working closely with our sister companies, including CIB, CITIC Securities, and CCMH, we succeeded in providing tailor-made solutions to meet our customers' financing needs. Leveraging on CITIC's established brand name and the Group's extensive business network throughout the region, we continued to further expand our business coverage both in Hong Kong and in the Mainland. Through proactive relationship management and our efforts to enrich our product offerings, we have boosted customer loyalty which will help propel our business to new heights as the economy gradually recovers.

### ***A Balanced and Quality Portfolio***

Our three major business groups: Hong Kong Corporates & Syndication, China Corporates, and Commercial Banking have all achieved satisfactory growth in 2003. Notwithstanding the very difficult operating environment which prevailed, we succeeded in upholding the quality of our loan portfolio. Assisted by new initiatives in the credit and risk management area, we achieved further risk diversification, which in turn also enabled us to establish a much broader and more sustainable revenue stream.

### ***Hong Kong Corporates & Syndication***

We continued to make progress in building our core customer base, and in strengthening existing customer relationships. In 2003, we concluded a number of major syndicated loan transactions as a sole arranger for an aggregate amount of HK\$1.5 billion. We also

worked jointly with CCMH to successfully complete a corporate privatization exercise for a major customer in Hong Kong.

Our priority in 2004 is to support our customers in realizing the immense business opportunities arising from CEPA. Specific niche businesses have been identified and new business programs are being implemented to meet our customers' needs. We shall continue to strengthen our brand through proactive relationship management and product innovation.

### ***China Corporates***

China business is a key focus of the WBG, and it is our objective to become a reputable financier for corporate and commercial customers in the Greater China Region. In pursuit of this goal, we acquired CIFIC in December 2003 which will act as our new service platform in Mainland China. We have developed a program for addressing the needs of the growing number of private enterprises in the Mainland. In Taiwan we have signed strategic partnership agreements with financial institutions in order to expand our reach to Taiwanese customers. On the product front, we have developed tailor-made programs to support our customers' real estate development and investments in China. Our close working relationship with CIB has facilitated the successful completion of a number of club deals in 2003, raising financing that totaled over HK\$1 billion for our customers.

In the year ahead, we shall further sharpen our onshore China focus through both CIFIC and branches of CIB. New investments will be made in the areas of people and technology to support our business growth in the region.

### ***Commercial Banking***

In 2003, one of the priorities was to complete the integration of the commercial customer portfolio formerly under the Hongkong Chinese Bank. The necessary realignment has been successfully concluded, from which we have realized substantial synergy benefits.

During the year, competition in the commercial banking sector intensified, with loan pricing under great pressure. We believe that professional risk management and efficient service delivery are crucial to our success in this particular market segment. We have accordingly upgraded our account management program to enhance the effectiveness and efficiency of underwriting and maintenance of the middle market and SME businesses. We are confident that these efforts will bring positive results in 2004 to the benefit of both the Bank and our commercial customers.

### ***Broadening Our Product Range***

We remain firmly abreast of market developments and tuned to our customers' needs. In 2003, we developed and launched a number of new products, including export factoring

financing, pre-approved corporate tax loans, and several liabilities products. Additionally, our electronic banking service capability has been expanded to include handling export trade document preparation. These new products greatly improve our customer satisfaction and expand our fee income generating capability.

### ***Positioning for New Opportunities***

After a long deflationary period, the Hong Kong economy is now on the path to recovery, with businesses in various sectors, from retailing, trading, transportation, property, logistics to hospitality showing encouraging signs of improvement. To promote sustainable economic recovery, Hong Kong must adopt a more proactive and progressive role in serving and integrating into the Mainland economy. We have strategically positioned our Wholesale Banking business to cater for these new challenges, and we shall increase our investments in people, products, technology, and infrastructure, ensuring that our customers will benefit from these new opportunities.

### **Treasury & Financial Institutions**

Our Treasury Department demonstrated its prudence and conservatism in its investment strategy during the year. With respect to selected portfolios already on hand, Treasury has put on hedges in alignment with its market risk sensitivity requisites.

### ***Prudent Management and Effective Risks Control***

Owing to the excess surplus fund ensued to a sagging loan demand, the need to search for viable investment opportunities have exacerbated especially in the first half of 2003. In this process, special consideration is given to short maturities in order to maintain a high degree of liquidity to pre-empt any swift resurgence of loan demand. Such conservative investment decisions have yielded favourable results given the superfluous liquidity in the market and a low interest rate environment.

We continued to maintain a well-balanced asset and liability mix by issuing various types of certificates of deposit and debts. Sizes, frequency and timing of such issuance exercises were controlled to ensure orderliness. With conscientious efforts, we have not only expanded our fund-raising channels but also gained access to a broader spectrum of investors, as evidenced by the myriad of participants in every issuance syndicate. As a result, we were able to reduce our funding costs by steadily narrowing credit spreads in each issue.

The Bank's liquidity and capital structure are soundly managed. Issuance of upper tier II capital instrument and subordinated debt in recent years bolstered the Bank's capital base for potential acquisition and organic expansion. The successful launch of these innovative capital instruments also raised our profile among international investors in Asia and Europe and set a capital funding benchmark for banks in Hong Kong.

Our treasury system has been upgraded to support seamless processing of existing as well as new products. Installation of a dedicated system has also enhanced our capability in offering FX options products. Independent monitoring and effective control of risks are ensured by the complete segregation of duties among back, middle and front offices. Sophisticated techniques are employed to better manage the overall credit, market and liquidity risks.

### ***Establishing a Cross-border Platform***

New initiatives for customer acquisition were executed through pro-active product development and closer cooperation between the Bank's business units. While the first half of 2003 was hit hard by the SARS pandemic, the latter half witnessed a rebounding demand for customer-driven products. This comeback has fortuitously coincided with a resurgence of volatility in the markets. On the retail front, wealth management products such as currency-linked deposits have been timely. Meanwhile, bespoke structured hedging products were offered to corporate clients. We continue to keep abreast of the development of market trends and support customers in capitalizing investment and hedging opportunities. However, we anticipate such fickleness to extend in the coming year. We are prepared not only to match our competitors' offerings but also to keep our fingers on the pulse of any changes in customer preferences.

To reinforce the Bank's marketing endeavors in the Mainland, we also marshaled our resources and energy to expanding our PRC customer base. Through strategic alliances with other companies within the CITIC Group in the Mainland, we have established an operative platform in channeling cross-border business between the Mainland and Hong Kong. The Hong Kong office serves to introduce international investment opportunities and instruments to our Mainland partners, who function to tap into the vast potential customer clientele using their local expertise and branch network in tandem with the deregulation process.

Throughout the year, we organized a number of seminars and relationship building functions for our Mainland partners as well as for their local customers. These activities included product training, relationship building workshops and workgroup conferences. The response of these gatherings and presentations was very encouraging. Going forward, we will continue our entrenched efforts in the Mainland by fostering closer ties with existing relationships. On the other hand, we will also seek after new strategic alliance opportunities that would accelerate and benefit our cause in the hinterland. This latter exercise is of particular priority in order to surpass our competitors in capitalizing on the opportunities presented by the continuous liberalization of the Mainland market, especially from CEPA.

Building on the improved relationship with interbank counterparties, our Financial Institutions Department succeeded in securing extension of counterparty limits. Augmented re-purchase facilities were established and mark-to-market security arrangements made with premier financial institutions to broaden the Bank's access to market liquidity.

### ***Broadening Our Revenue Base***

In the year ahead, interest rates could become more volatile amidst signs of a global economic recovery and subsequently stronger commodity prices. In this regard, we are well positioned for such perceivable interest rate fluctuations. Hedges have been built up with the objective of limiting any adverse impact while investment initiatives are being formulated. On the other hand, there is another camp in the market that expects interest rates could remain low in light of worldwide excess liquidity. On this front, we have augmented an initiative to explore a wider scope of income generators, including alternative investments and fostering closer ties with our business partners in the Mainland. While many of these new initiations are already underway, a prudent risk management is always a high priority to ensure that all pertinent internal guidelines and control processes will be strictly designed and implemented before execution.



## **CITIC INTERNATIONAL ASSETS MANAGEMENT LIMITED**

2003 represented a milestone year for CITIC International Assets Management Limited ('CIAM') – a year full of challenges, opportunities, and a year in which the company's active operations commenced.

Two major strategic directions guided the way CIAM operates, namely, to enhance the management of our existing non-performing assets portfolio and the deployment of funds for direct investments. Our overall objective is to ease the pressure on earnings related to non-performing assets, while simultaneously promulgating a new business line within the Group. The company's strategic objective is an integral part of the Group's mission to become a financial supermarket.

### ***Sound Operating Philosophy***

Our goal is to establish CIAM as an internationally recognized financial services provider specialized in assets management and related businesses. We are committed to providing our customers with comprehensive one-stop financial services, complemented by our pro-activeness, dynamism, receptiveness and responsiveness. We believe that 'change' management is the key to success in today's rapidly changing market environment and we will continue to realize synergies both within and outside the CITIC Group to achieve this.

To communicate our core values and strategic plans more thoroughly to our staff, an offsite meeting was convened in February 2003 to discuss and brainstorm CIAM's mission statement. All our staff were given the opportunity to participate and contribute to CIAM's operating philosophy, thereby fostering collaboration among the teams and ensuring an efficient and effective mode of operation throughout the entire value chain.

Regular management forums keep our senior management abreast of project status and market developments. Business strategies are constantly reviewed so that we can react swiftly and receptively to market trends.

### ***Making Significant Inroads in NPL Recoveries***

During 2003, we succeeded in making significant recoveries on our non-performing assets. The amount of gross non-performing advances was reduced from HK\$670 million at 31 December 2002 to HK\$526 million at 31 December 2003, representing a decrease of 21%, or HK\$144 million. Meanwhile, we continued to maintain a prudent provisioning level on our existing non-performing loan portfolio / recovered assets and as a result, new provisions for the year amounted to HK\$71 million. Through the efforts of our distressed assets management teams, we succeeded in generating a write-back of HK\$33 million, resulting in a net provisioning charge of HK\$38 million for the year.

With our satisfactory track record for recoveries and distressed assets management, combined with the CITIC Group's extensive network and resources, we are confident

that we will continue to achieve a high recovery rate on our non-performing loan portfolio and the ultimate exit of recovered assets through different means.

### ***Building a Quality Income Stream***

In terms of revenue generation, we have clearly defined a number of strategies to fuel both our short-term and long-term growth.

Market timing strategy is deployed with the aim of generating a higher yield on our free funds in the equity and derivatives markets. At the same time, we will capitalize on medium-term capital appreciation opportunities through direct investments, which are made after extensive research and prudent risk assessment processes. We offer a comprehensive package of financial services, including equity investments, extension of credits and provision of advisory services, in order to cater to the diverse financial needs of specific customers. The total investment amount in direct / structured investments amounted to HK\$123 million as of 31 December 2003, and we look forward to further expansion in this regime in 2004.

The establishment of strategic relationships with various customers / business partners is the lynchpin of our China Concept model that aims to enhance shareholders' return through direct investments. Whenever possible, CIAM actively seeks to utilize various listed platforms to improve the liquidity of these investments. Additionally, in order to attain a relatively long-term and sustainable return for our shareholders, we seek to form joint venture companies / invest in funds with a focus in specific industries or regions in Mainland China where we expect to see significant growth in the coming five years. Since the last quarter of 2003, the company has taken various initiatives in exploring opportunities along this line of business. In particular, we hold a positive view on the outlook of the automobile parts business as well as the food industry in the PRC, and we expect to see potential for economic growth in the areas of Tianjin and Chongqing. Feasibility study and extensive research are carried out continually to devise and adjust our investment strategies in this regime. As we continue to execute this strategy in 2004 with broader application, we are confident that these initiatives will enable CIAM to tap the opportunities that are emerging from the impressive economic growth in China and the higher levels of business activity between Hong Kong and the Mainland in the times ahead.

### ***Growing in Strength***

During the course of 2003, CIAM has successfully built a track record for our new line of business. Through the dedicated efforts of our staff and senior management, we have laid down a solid business foundation for the future.

Currently CIAM is considering a number of potential direct investment opportunities in China. The target aggregate investment for 2004 will be in the range of HK\$100 million to HK\$150 million. We are also proactively exploring opportunities in areas of distressed assets / sunken investments in the Mainland.

We expect to see an increase in business size and further differentiation in product development in the road ahead. As part of this vision, additional professional staff will be recruited and system enhancement will be implemented as an integral part of our business expansion plan.

Looking forward, CIAM will continue to leverage on the CITIC Group's strong capabilities in the China market and capitalize on the abundant opportunities emerging in Hong Kong and the Mainland. We will continue to manage our financial positions in a conservative manner while remaining alert and responsive to any opportunities that may arise in the Greater China region. With the expected gradual recovery in the global economy and continuing economic growth in the PRC, we hold a prudently optimistic stance for 2004 and look forward to another fruitful year marked with new milestones for CIAM.

## **CITIC CAPITAL MARKETS HOLDINGS LIMITED**

2003 was an outstanding year for CITIC Capital Markets Holdings Limited ('CCMH') in terms of our overall performance and progress made on business development. CCMH reported an impressive fivefold profit surge in 2003 over last year, recording consolidated profit after tax of approximately HK\$268.9 million. Given the challenging business and operating landscape of 2003 as a result of the SARS outbreak, this achievement marks a resounding success.

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

Our achievement in 2003 was a true reflection of our commitment to providing value-added services to our clients, the sound professionalism of our staff and our market competitiveness. We are of the firm belief that the key to long-term success is through the provision of value-added, reliable, innovative and competitive financial services to our clients to help them realize their goals and aspirations. In tandem with these objectives, we have continued to develop and expand our Institutional Sales, Private Equity and Corporate & Business Development divisions to enriching our servicing capabilities.

### ***Investment Banking***

Our investment banking services are provided through CITIC Capital Markets Limited ('CITIC Capital Markets') to clients, particularly those with a view to invest into or outward from China, that wish to raise funds, either in the debt or the equity capital markets of Hong Kong and other international financial centres. Our comprehensive range of services includes acting as advisor, arranger, placing agent, sponsor, manager and underwriter for a wide array of capital market transactions.

During the year, CITIC Capital Markets has gained strong market recognition for our innovative ideas, flexibility and efficiency in deal structuring and execution. Landmark transactions accomplished prior to 31 January 2004 include serving as joint-lead manager for a US\$180 million convertible bonds issuance for CITIC International Financial Holdings Limited and a US\$100 million zero coupon subordinated convertible note issuance for SINA Corporation, one of the leading internet portals in China. CITIC Capital Markets also acted as the coordinating arranger for a US\$110 million term loan facility for Tianjin Development Holdings Limited; the financial advisor, sole mandated arranger and agent of a HK\$908 million privatization for Pacific Concord Holdings Limited; the placing agent for a HK\$700 million top-up placement for Chaoda Modern Agriculture (Holdings) Limited and a HK\$413 million block trade for Jiangxi Copper Company Limited, one of the major copper producers in China. Furthermore, CITIC Capital Markets was the co-sponsor and co-lead manager of the HK\$198 million IPO for Dawnrays Pharmaceutical (Holdings) Limited. All these are only highlights of the team's numerous achievements.

### ***Asset Management***

In addition to investment banking services, CITIC Capital Markets is also engaged in asset management services. During 2003, we completed the infrastructure building for our asset management operations, thereby greatly enhanced the flexibility and diversification of our portfolio management capabilities.

The year also saw the launch of our first series of investment products to the market, namely, CITIC Capital Global Macro Fund, CITIC Capital China Plus Fund, CITIC Capital US Bond Fund and CITIC Capital Parallax Asia Fund. The market response to our funds was positive, attracting new funds of US\$66 million placed under our management during the year. Funds managed by CITIC Capital Markets all recorded excellent returns and outperformed relevant market benchmarks. As for private equity, CITIC Equity Partners, L.P. had its first close with substantial investment commitments came from renowned institutional investors, including a blue-chip Japanese financial institution.

### ***Brokerage***

CCMH provides securities and futures brokerage services through two wholly owned subsidiaries, respectively, CITIC Capital Securities Limited ('CCSL') and CITIC Capital Futures Limited ('CCFL'). These operators have established an efficient platform, upon which a wide range of listed investment products can be traded including not only those on Hong Kong, but also China, the US, Thailand, and Singapore. In addition, CCSL also provides established clients with margin financing facilities, giving them further flexibility in meeting their financial and investment needs. The product range has undergone steady expansion aiming to facilitate the two-way investment flows between China and other parts of the world.

The brokerage activity has capitalized upon the opportunities garnered by the market revival in the second half of 2003, expanding its coverage on both institutional and retail clients. Improvement on market share and industry ranking, as well as enhanced profitability, has been achieved as a result.

### ***Growing the Franchise***

Financial activities are on the rise as the demand and valuation of China stocks soars. As a devoted China-focused investment bank, CCMH will strive to provide the very best financial services to investors through our professionalism, dedication and enthusiasm to facilitate the efficiency and effectiveness of the two-way capital flows between China and the rest of the world.

CCMH is progressive on its business development, while at the same time also emphasizing on risk management and compliance controls. Going forward, we will increase our range of financial products and services and continue to strengthen our sales force through the recruitment of talented team players.

## CITIC FRONTIER CHINA RESEARCH LIMITED

Established in September 2003 as a 75%-owned subsidiary of CITIC International Financial Holdings Limited, CITIC Frontier China Research Limited ('CITIC Frontier') represents the Group's innovative initiative to spearhead independent China equity research as research independence increases in importance on the global equities agenda.

### *A One-Stop Shop for China Investment Advice*

Operating under its unique corporate structure, CITIC Frontier pioneers a new generation of agency-focused research in the Greater China region. The company positions itself as a one-stop shop for China-related investment advice through its unique combination of research on A-shares, B-shares, H-shares and Red Chips on a single cross-border platform.

Focusing on international and domestic institutional investors as its target clientele, CITIC Frontier enhances value through its comprehensive sectoral research approach and its cross-border service platform. On the one hand, our strong China focus and dedication to preventing conflicts of interest (from investment banking and proprietary trading) differentiates us from other leading international houses; while on the other hand, our international perspective and rigorous research standards bestow tremendous advantages over the majority of our domestic competitors.

Despite our short history, CITIC Frontier has received encouraging client feedback in Hong Kong and Mainland China. Investors can be fully confident that our research has fewer conflicts of interest with investment banking and proprietary trading. At the same time, our international and domestic competitors have been impressed by the quality of our services, made possible by our cross-border research and sales.

### *A Full Spectrum of Research Products and Investor Services*

CITIC Frontier's specialty lies in our China-focused research. Leveraging on the extensive cross border networks of the CITIC Group, and the well-developed China expertise of our professionals based in Hong Kong, Shanghai and Beijing, CITIC Frontier delivers a wide spectrum of dedicated research products and investor services to clients focusing on the China market.

- **Hong Kong market:** comprehensive sector and stock coverage of Hong Kong-listed China companies spanning H-shares, Red Chips, private enterprises and joint ventures. A dedicated SmallCap team has been formed to explore unrecognized investment potential.
- **Mainland market:** comprehensive stock, industry and sector research catering particularly to QFII investors.

- **Publications:** *China Portfolio Strategy* monthly, *Honey & Ashes SmallCap* weekly, *QFII Alert* weekly, along with frequently or daily updated editions and issues on thematic research, latest public policies and fundamental developments in China's economy, key industries and sectors, and major enterprises.
- **Custom research:** valuation of promising small-cap Hong Kong- and PRC-listed companies that are neglected by large investors and investment banks. This specialist research service enhances the investment potential and shareholder values of more than 1,000 SmallCap counters.
- **Advisory:** delivery of vital overseas market intelligence, networking services and in-house training to leading PRC institutional investors.

Matrix of Investor Services and CITIC Frontier Products

	<i>International Investors</i>	<i>PRC Investors</i>	<i>Hong Kong Corporates</i>	<i>PRC Stockbrokers</i>
<b>Agency Research</b>	<i>Hong Kong products, QFII products</i>			
<b>Custom Research</b>			<i>Valuation service</i>	<i>Valuation service</i>
<b>Advisory</b>		<i>QFII products, in-house training and networking</i>		

### ***Building a Cross-border Franchise***

The buoyant Hong Kong stock market in early 2004 has been a boon for the local securities industry. However, the valuation of China stocks are becoming increasingly demanding as global interest rates bottom out, and market volatility and thereby investment risks are on the rise. Consequently, much of the 'concept-driven' speculative activities prevalent in this bull market will inevitably give way to investment activities backed by sound fundamentals. In this regard, CITIC Frontier will strive to build up a solid platform to provide value-enhancing services to international investors geared towards the 'China theme'.

On the other hand, China's A-shares have exhibited signs of recovery on the back of determined efforts by the Central Government to revive and reform the market. Gradual implementation of the new QFII Program and possible introduction of the QDII Program are expected to create tremendous demand for comprehensive quality research services by international and domestic professional investors alike. CITIC Group's prominent franchise in China and abroad would greatly facilitate CITIC Frontier's efforts to provide cross-border networking and research services.

CITIC Frontier will complete its recruitment in Hong Kong and Shanghai by early 2004 and begin to roll out research products on market strategy, sector analysis and stock

investment ideas. In order to differentiate ourselves from our competitors, our services will be restricted to a selected group of clientele with a major emphasis on custom-made research and advisory services.