



中信國際金融控股有限公司

CITIC INTERNATIONAL FINANCIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

ANNOUNCEMENT OF 2003 INTERIM RESULTS

SUMMARY OF RESULTS

The Board of Directors of CITIC International Financial Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2003 together with the comparative figures for the corresponding period in the previous year as follows:–

CONSOLIDATED INCOME STATEMENT

	The Group		Variance %
	Six months ended 30 June		
	2003	2002	
	Unaudited	Unaudited Restated	
	HK\$'000	HK\$'000	
Interest income	1,417,465	1,549,137	(8.50)
Interest expense	(629,832)	(695,238)	(9.41)
Net interest income	<u>787,633</u>	<u>853,899</u>	(7.76)
Fees and commission income	172,713	215,451	(19.84)
Fees and commission expense	(20,863)	(25,326)	(17.62)
Other operating income	<u>67,630</u>	<u>61,331</u>	10.27
Non-interest income	<u>219,480</u>	<u>251,456</u>	(12.72)
Total operating income	1,007,113	1,105,355	(8.89)
Operating expenses	<u>(466,942)</u>	<u>(527,441)</u>	(11.47)
Operating profit before provisions	540,171	577,914	(6.53)
Charge for bad and doubtful debts	<u>(235,027)</u>	<u>(210,968)</u>	11.40
Operating profit	305,144	366,946	(16.84)
Net profit/(loss) on disposal of tangible fixed assets	68	(151)	
Net profit on disposal of subsidiaries and associate	–	27,303	
Provision write back/(made) on held-to-maturity securities and investment securities	2,264	(2,073)	
Share of profits less losses of associates	<u>63,268</u>	<u>7,995</u>	
Profit from ordinary activities before taxation	370,744	400,020	(7.32)

Tax on profit from ordinary activities (<i>Note 2 & 3</i>)			
– Hong Kong	(57,129)	(58,346)	(2.09)
– Overseas	(947)	(1,153)	(17.87)
– Associates	(5,715)	(1,203)	
	<u>306,953</u>	<u>339,318</u>	(9.54)
Profit from ordinary activities after taxation			
Minority interests	–	(1,403)	(100.00)
	<u>306,953</u>	<u>337,915</u>	(9.16)
Profit attributable to shareholders			
Interim dividends declared 3 cents (2002: 3 cents) per share	95,432	90,956	
	<u>95,432</u>	<u>90,956</u>	
Earnings per share			
Basic (<i>Note 4</i>)	10.00¢	11.20¢	
	<u>10.00¢</u>	<u>11.20¢</u>	
Diluted (<i>Note 5</i>)	10.00¢	11.19¢	
	<u>10.00¢</u>	<u>11.19¢</u>	

CONSOLIDATED BALANCE SHEET

	The Group	
	As at 30 June 2003 Unaudited HK\$'000	As at 31 December 2002 Audited Restated HK\$'000
Assets		
Cash and short-term funds	5,488,324	5,946,661
Placements with banks and other financial institutions maturing after one month	919,916	221,006
Trade bills less provisions	477,230	374,942
Certificates of deposit	1,070,162	1,030,944
Other investments in securities	4,178,568	3,219,559
Advances to customers and other accounts less provisions	41,840,995	43,531,505
Held-to-maturity securities and investment securities	22,058,814	18,621,468
Deferred tax assets	65,464	78,090
Investments in associates	410,870	358,002
Goodwill	1,106,030	1,135,923
Tangible fixed assets	1,636,775	1,676,193
	<u>79,253,148</u>	<u>76,194,293</u>
Total assets		
Liabilities		
Deposits and balances of banks and other financial institutions	2,715,740	2,120,181
Deposits from customers	58,485,464	55,535,460
Certificates of deposit issued	5,069,630	5,832,513
Deferred tax liabilities	18	20
Other accounts and provisions	1,150,591	1,042,720
	<u>67,421,443</u>	<u>64,530,894</u>
Total liabilities		

Capital resources		
Share capital	3,181,081	3,035,313
Reserves	4,360,452	4,337,914
	<hr/>	<hr/>
Shareholders' funds	7,541,533	7,373,227
Loan capital	4,290,172	4,290,172
	<hr/>	<hr/>
Total capital resources	<u>11,831,705</u>	<u>11,663,399</u>
	<hr/>	<hr/>
Total liabilities and capital resources	<u>79,253,148</u>	<u>76,194,293</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	The Group	
	As at 30 June 2003 Unaudited <hr/>HK\$'000	As at 30 June 2002 Unaudited Restated <hr/>HK\$'000
Shareholders' equity at 1 January		
– As previously reported	7,426,293	6,253,677
– Prior year adjustment in respect of deferred taxation	(53,066)	21,235
	<hr/>	<hr/>
– As restated	<u>7,373,227</u>	<u>6,274,912</u>
	<hr/>	<hr/>
Exchange differences	1	2
	<hr/>	<hr/>
Net gain not recognised in the income statement	<u>1</u>	<u>2</u>
	<hr/>	<hr/>
Profit attributable to shareholders		
– As previously reported	306,953	375,908
– Prior year adjustment in respect of deferred taxation	–	(37,993)
	<hr/>	<hr/>
– As restated	<u>306,953</u>	<u>337,915</u>
	<hr/>	<hr/>
Dividends approved during the period	<u>(394,630)</u>	<u>(75,753)</u>
	<hr/>	<hr/>
Movements in share capital:		
Shares issued under the Option Scheme	298	3,783
Shares issued under scrip dividends	145,470	–
Shares issued under rights issue	–	432,585
Net share premium received	110,214	289,886
	<hr/>	<hr/>
	<u>255,982</u>	<u>726,254</u>
	<hr/>	<hr/>
Shareholders' equity at 30 June	<u>7,541,533</u>	<u>7,263,330</u>

Notes:

- (1) The financial information in this interim results announcement is unaudited and does not constitute statutory financial statements.

The financial information included in this interim results announcement relating to the financial year ended 31 December 2002 does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2002 are available from the Company's registered office. The external auditors expressed an unqualified opinion on those financial statements in their report dated 12 March 2003.

- (2) The interim results announcement is prepared on a basis consistent with the accounting policies adopted by the Group in the 2002 statutory financial statements excepted as mentioned below:

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with Statement of Standard Accounting Practice ("SSAP") 12 (revised) issued by the Hong Kong Society of Accountants ("HKSA"), the Group adopted a new policy for deferred tax.

As a result of the adoption of this accounting policy, the profit for the period has decreased by HK\$9,173,000 (six months ended 30 June 2002: decreased by HK\$37,993,000) and the assets and liabilities as of 30 June 2003 have decreased by HK\$62,221,000 and increased by HK\$18,000 respectively (31 December 2002: decreased by HK\$53,046,000 and increased by HK\$20,000). The new accounting policy has been adopted retrospectively, with the opening balances of retained profits and reserves and comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.

Under the new accounting policy, income tax for the period comprises current and deferred tax. Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

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

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

- (3) The provision for Hong Kong profits tax is calculated at 17.5% (2002:16%) of the estimated assessable profits for the six months ended 30 June 2003. Taxation for overseas branches and subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries in which they operate.
- (4) The calculation of basic earnings per share for the six months ended 30 June 2003 is based on profit attributable to shareholders of HK\$306,953,000 (2002 restated: HK\$337,915,000) and on the weighted average of 3,068,479,114 (2002: 3,017,076,639) ordinary shares in issue during the period.
- (5) The calculation of diluted earnings per share for the six months ended 30 June 2003 is based on profit attributable to shareholders of HK\$306,953,000 (2002 restated: HK\$337,915,000) and on the weighted average of 3,069,671,310 (2002: 3,020,368,832) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(1) Summary of financial position

	The Group		
	As at	As at	Variance
	30 June	31 December	
	2003	2002	
	Restated		
	HK\$'000	HK\$'000	%
Loans and advances	41,599,347	42,989,233	(3.23)
Loans loss provision	1,136,298	1,112,643	2.13
Total assets	79,253,148	76,194,293	4.01
Total interest earning assets	75,066,791	71,879,587	4.43
Total deposits	63,555,094	61,367,973	3.56
Shareholders' funds	7,541,533	7,373,227	2.28
<i>Financial ratios</i>			
Capital adequacy – unadjusted*	19.30%	19.07%	
Capital adequacy – adjusted**	18.62%	18.24%	
Average consolidated liquidity***			
1/1-31/10/02	N/A	46.29%	
1/1-30/6/02	N/A	45.86%	
Average solo liquidity***			
1/11-31/12/02	N/A	547.32%	
1/1-30/6/03	917.02%	N/A	
Loans to deposits	65.45%	70.05%	
Loans to total assets	52.49%	56.42%	
General provision coverage	1.11%	1.16%	
Property lending	43.88%	44.88%	
Cost to income (before goodwill)	43.40%	45.31%	
Cost to income (after goodwill)	46.36%	48.05%	
Return on assets	0.79%	0.80%	
Return on shareholders' funds	8.23%	7.91%	

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

** The adjusted capital adequacy ratio which takes into account market risks as at the balance sheet date is computed in accordance with the Guideline "Maintenance of Adequate Capital Against Market Risks" issued by the HKMA and on the same consolidated basis as for unadjusted capital adequacy ratio.

*** The average consolidated liquidity ratio is computed on the consolidated basis covering the Company and certain of its subsidiaries for the period from January 2002 to October 2002 as required by the HKMA. After 25 November 2002, the Company is only required to compute the average liquidity ratio on a solo basis. The average liquidity ratios are computed in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

(2) Advances to customers and other accounts less provisions

	The Group		
	As at 30 June 2003	As at 31 December 2002	Variance
	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Advances to customers	41,118,965	42,611,139	(3.50)
Specific provisions for bad and doubtful debts	(672,945)	(614,506)	9.51
General provisions for bad and doubtful debts	(460,201)	(494,985)	(7.03)
	39,985,819	41,501,648	
Advances to banks and other financial institutions	63,212	79,872	(20.86)
Accrued interest and other accounts less provisions	1,791,964	1,949,985	(8.10)
	41,840,995	43,531,505	

(3) Reserves

	The Group		
	As at 30 June 2003	As at 31 December 2002	Variance
	<i>HK\$'000</i>	<i>Restated</i> <i>HK\$'000</i>	%
Share premium	1,823,166	1,712,952	6.43
General reserve	100,000	100,000	–
Other property revaluation reserve	11,945	11,945	–
Capital reserve	37,500	37,500	–
Exchange differences	320	319	0.31
Retained profits	2,387,521	2,475,198	(3.54)
Total	4,360,452	4,337,914	0.52
Proposed dividends, not provided for	95,432	394,591	(75.81)

(4) Advances to customers – By industry sectors

	The Group				
	As at 30 June 2003		As at 31 December 2002		Variance
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	%
Loans for use in Hong Kong					
<i>Industrial, commercial and financial</i>					
– property development	718,295	1.75	563,368	1.32	27.50
– property investment	4,956,877	12.05	5,314,907	12.47	(6.74)
– financial concerns	1,969,430	4.79	1,669,606	3.92	17.96
– stockbrokers	33,549	0.08	27,590	0.06	21.60
– wholesale and retail trade	2,483,217	6.04	2,643,303	6.20	(6.06)
– manufacturing	3,117,601	7.58	3,318,627	7.79	(6.06)
– transport and transport equipment	4,774,491	11.62	4,938,645	11.59	(3.32)
– others	3,691,501	8.98	3,175,545	7.45	16.25
<i>Individuals</i>					
– loans for the purchase of flats under the Home Ownership Scheme and Private Sector Participation Scheme and Tenants Purchase Scheme	24,616	0.06	30,990	0.07	(20.57)
– loans for the purchase of other residential properties	12,367,174	30.08	13,246,473	31.10	(6.64)
– credit card advances	334,280	0.81	335,647	0.79	(0.41)
– others	1,025,822	2.49	1,342,079	3.15	(23.56)
Trade finance	2,120,898	5.16	2,170,421	5.09	(2.28)
Loans for use outside Hong Kong	3,501,214	8.51	3,833,938	9.00	(8.68)
TOTAL	41,118,965	100.00	42,611,139	100.00	(3.50)

(5) Loans on which interest is placed in suspense

	The Group				
	Total amount of loans on which interest is placed in suspense		Pledged amount for loans on which interest is placed in suspense	Specific provisions in respect of loans on which interest is placed in suspense	Amount of interest suspense
	<i>HK\$'000</i>	%*	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 30 June 2003	2,383,984	5.80	1,394,771	618,045	399,172
As at 31 December 2002	2,369,005	5.56	1,443,100	574,349	370,032

* Based on total advances to customers

There were no advances to banks and other financial institutions on which interest is being placed in suspense or on which interest accrual has ceased as at 30 June 2003 and 31 December 2002, nor were there any specific provisions made for them on these two days.

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

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

	The Group			
	As at 30 June 2003		As at 31 December 2002	
	<i>HKD'000</i>	<i>%*</i>	<i>HKD'000</i>	<i>%*</i>
– 6 months or less but over 3 months	236,180	0.57	262,097	0.62
– 1 year or less but over 6 months	330,318	0.80	169,495	0.40
– over 1 year	1,818,485	4.42	1,990,657	4.67
Total	<u>2,384,983</u>	<u>5.79</u>	<u>2,422,249</u>	<u>5.69</u>
Secured overdue advance	1,435,301		1,517,331	
Unsecured overdue advance	949,682		904,918	
	<u>2,384,983</u>		<u>2,422,249</u>	
Market value of collateral held against the secured overdue advances	<u>1,726,037</u>		<u>2,197,901</u>	
Specific provisions made	<u>566,859</u>		<u>496,969</u>	

* Based on total advances to customers

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 30 June 2003 and 31 December 2002.

(7) **Reconciliation**

	The Group	
	As at 30 June 2003	As at 31 December 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Advances to customers overdue for more than 3 months	2,384,983	2,422,249
<i>Less:</i> Amount overdue for more than 3 months and on which interest is still being accrued	(137,529)	(173,900)
<i>Add:</i> Amount overdue for 3 months or less, or not yet overdue and on which interest is being placed in suspense or on which interest accrual has ceased	81,289	75,591
<i>Add:</i> Rescheduled advances on which interest is being placed in suspense or on which interest accrual has ceased	<u>55,241</u>	<u>45,065</u>
Advances to customers on which interest is being placed in suspense or on which interest accrual has ceased	<u>2,383,984</u>	<u>2,369,005</u>

(8) Other overdue assets

	The Group	
	As at 30 June 2003	As at 31 December 2002
	HK\$'000	HK\$'000
The gross amount of trade bills which has been overdue for:		
– 6 months or less but over 3 months	1,911	282
– over 1 year	–	12,864
	<u>1,911</u>	<u>13,146</u>
Other investments in securities which have been overdue for over 1 year	–	4,081
Held-to-maturity securities which have been overdue for over 1 year	<u>15,601</u>	<u>15,601</u>

(9) Rescheduled loans

	The Group			
	As at 30 June 2003		As at 31 December 2002	
	HK\$'000	%*	HK\$'000	%*
Rescheduled loans	<u>973,326</u>	<u>2.37</u>	<u>80,520</u>	<u>0.19</u>

* Based on total advances to customers

There were no advances to banks and other financial institutions which were rescheduled as at 30 June 2003 and 31 December 2002.

(10) 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	
	As at 30 June 2003	As at 31 December 2002
	HK\$'000	HK\$'000
Direct credit substitutes	804,360	1,187,756
Transaction-related contingencies	38,993	38,994
Trade-related contingencies	1,805,132	1,262,930
Forward forward deposits placed	75,000	–
Other commitments:		
– with an original maturity of under 1 year or which are unconditionally cancellable	9,786,726	9,294,444
– with an original maturity of 1 year and over	<u>1,014,801</u>	<u>922,801</u>
	<u>13,525,012</u>	<u>12,706,925</u>

(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:

	The Group					
	As at 30 June 2003			As at 31 December 2002		
	Trading	Hedging	Total	Trading	Hedging	Total
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Exchange rate contracts						
Forwards	967,010	–	967,010	1,095,192	–	1,095,192
Swaps	12,554,245	6,873,640	19,427,885	34,890,559	4,999,417	39,889,976
Options purchased	366,272	–	366,272	66,884	–	66,884
Options written	328,028	–	328,028	40,490	–	40,490
Interest rate contracts						
Forwards and futures	17,327,000	–	17,327,000	2,262,090	–	2,262,090
Swaps	2,420,047	9,471,045	11,891,092	2,127,535	9,526,349	11,653,884
Options purchased	931,162	–	931,162	931,162	–	931,162
Options written	1,028,666	178,003	1,206,669	931,162	–	931,162
Equity contracts						
Futures	38,336	–	38,336	–	–	–
Options purchased	–	23,732	23,732	–	18,372	18,372
Options written	–	23,732	23,732	–	18,371	18,371
	35,960,766	16,570,152	52,530,918	42,345,074	14,562,509	56,907,583

(c) The replacement cost and credit risk weighted amount of the above off-balance sheet exposures are as follows. These amounts do not take into account the effects of bilateral netting arrangements and accordingly these amounts are shown on a gross basis.

	The Group			
	As at 30 June 2003		As at 31 December 2002	
	Replacement cost	Credit risk weighted amount	Replacement cost	Credit risk weighted amount
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Contingent liabilities and commitments	N/A	1,318,328	N/A	1,332,425
Exchange rate contracts	128,828	75,922	135,779	118,904
Interest rate contracts	682,516	187,633	601,457	171,752
Equity contracts	146	1,497	104	792
	811,490	1,583,380	737,340	1,623,873

(11) Segmental information*(a) By geographical area*

	The Group			
	Six months ended 30 June			
	2003	2002	2003	2002
	—	Restated	—	Restated
*Profit/(Loss)	*Profit/(Loss)	Operating Income	Operating Income	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Hong Kong	366,415	395,789	985,599	1,082,257
Mainland China	(1,727)	225	—	800
USA	6,056	4,006	22,860	23,644
Less: inter-segment items	—	—	(1,346)	(1,346)
	370,744	400,020	1,007,113	1,105,355

* Profit from ordinary activities before taxation

Profit from Hong Kong included share of profits of associates amounting to HK\$63,268,000 (2002: HK\$7,995,000).

	The Group					
	As at 30 June 2003			As at 31 December 2002 (Restated)		
	Total assets	Total liabilities	Contingent liabilities	Total assets	Total liabilities	Contingent liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	78,159,002	66,512,116	12,864,581	74,977,766	63,375,426	11,964,847
Mainland China	387,976	212,645	—	6,301	6,985	—
USA	2,011,641	1,961,875	660,431	2,935,886	2,878,169	742,078
Others	511,268	511,268	—	508,788	508,788	—
Less: Inter-segment items	(1,816,739)	(1,776,461)	—	(2,234,448)	(2,238,474)	—
	79,253,148	67,421,443	13,525,012	76,194,293	64,530,894	12,706,925

The comparative figures of segmental information have been restated to reclassify group elimination to various geographical area segments, which was included in "Intra-group items" previously to better reflect the geographical area segment assets and liabilities and results.

The above geographical analysis has been classified by the location of the principal operations of the subsidiaries or associates, in case of the Company itself, of the location of the branches responsible for reporting the results or booking the assets.

The Group

	As at 30 June 2003			As at 31 December 2002		
	Overdue	Non-		Overdue	Non-	
	Advances to	performing	Advances to	Advances to	performing	Advances to
customers	loans	customers	customers	loans	customers	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	33,647,672	2,129,262	2,127,766	35,569,751	2,183,628	2,107,159
Mainland China	4,679,395	169,284	169,284	4,484,754	165,676	170,408
USA	539,618	59,602	59,602	763,757	60,650	79,143
Others	2,252,280	26,835	27,332	1,792,877	12,295	12,295
	41,118,965	2,384,983	2,383,984	42,611,139	2,422,249	2,369,005

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

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

(b) *By class of business*

	The Group			
	Six months ended 30 June			
	2003	2002	2003	2002
		Restated		Restated
	*Profit/(Loss)	*Profit/(Loss)	Operating	Operating
	HK\$'000	HK\$'000	Income	Income
			HK\$'000	HK\$'000
Retail banking	138,652	52,818	518,662	467,011
Wholesale banking	110,781	127,717	381,648	359,066
Investment banking	22,896	5,174	–	22,275
Treasury	236,837	259,201	278,220	310,585
Unallocated	(138,422)	(44,890)	(169,891)	(52,074)
Less: inter-segment items	–	–	(1,526)	(1,508)
	370,744	400,020	1,007,113	1,105,355

* Profit from ordinary activities before taxation

Profit from investment banking and unallocated included share of profits of associates amounting to HK\$22,900,000 and HK\$40,368,000 respectively (2002: HK\$7,995,000 and Nil).

The comparative figures of segmental information have been restated to reclassify group elimination to various business segments, which was included in “Intra-group items” previously to better reflect the business segment results.

(12) Capital base after deductions

	As at 30 June 2003	As at 31 December 2002 Restated
	<u>HK\$'000</u>	<u>HK\$'000</u>
Core capital		
Paid up ordinary share capital	3,181,081	3,035,313
Share premium	1,823,166	1,712,952
Reserves	2,135,352	1,977,537
Deduct: Goodwill	(1,106,030)	(1,135,923)
Total core capital	<u>6,033,569</u>	<u>5,589,879</u>
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	8,362	8,362
General provisions for doubtful debts	463,353	498,137
Perpetual subordinated debt	1,950,078	1,950,078
Term subordinated debt	1,872,075	2,340,094
Total eligible supplementary capital	<u>4,293,868</u>	<u>4,796,671</u>
Total capital base before deductions	<u>10,327,437</u>	10,386,550
Deductions from total capital base	<u>(221,254)</u>	<u>(221,256)</u>
Total capital base after deductions	<u>10,106,183</u>	<u>10,165,294</u>

(13) Foreign currency exposures

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

	The Group					
	As at 30 June 2003			As at 31 December 2002		
	US dollars	Renminbi	Total	US dollars	Renminbi	Total
<i>Equivalent in HK\$'000</i>						
Spot assets	26,340,134	670,974	27,011,108	29,010,348	525,602	29,535,950
Spot liabilities	(25,593,521)	(81,318)	(25,674,839)	(26,322,455)	(80,389)	(26,402,844)
Forward purchases	11,760,615	-	11,760,615	20,917,099	-	20,917,099
Forward sales	(8,721,953)	-	(8,721,953)	(19,641,958)	-	(19,641,958)
Net option position	32,431	-	32,431	3,959	-	3,959
Net long position	<u>3,817,706</u>	<u>589,656</u>	<u>4,407,362</u>	<u>3,966,993</u>	<u>445,213</u>	<u>4,412,206</u>

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

STATEMENT OF COMPLIANCE

This interim results announcement complies fully with the Guideline "Interim Financial Disclosure by Locally Incorporated Authorised Institutions" issued by the HKMA.

INTERIM DIVIDENDS

The Board are pleased to declare an interim dividend of HK\$0.03 (2002: HK\$0.03) per share. The interim dividends will be paid on Wednesday, 24 September 2003 to all shareholders whose names are on the Register of Members of the Company on Friday, 19 September 2003.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 16 September 2003 to Friday, 19 September 2003, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividends, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:00 p.m. on Monday, 15 September 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Review of Operations

The Hong Kong banking industry continued to experience difficulties in the first half of 2003. Battered by high unemployment and bankruptcies, the weak local economy is further exacerbated by the Severe Acute Respiratory Syndrome ("SARS") outbreak during the second quarter of the year. Operating under such challenging conditions, CITIC International Financial Holdings Limited ("CIFH") focused on asset quality and remained conservative in its lending practices. The Group also effectively reduced overhead expenses and improved operating efficiency.

2. Business Performance

The Group's operating profit before provisions for the six months ended June 2003 was HK\$540 million, representing a fall of 6.5% from the same period last year. Net profit attributable to shareholders fell 9.2% to HK\$307 million partly as a result of a higher effective tax rate.

(1) Net interest income

In the first half of 2003, the net interest income of the Group dropped 7.8% to HK\$788 million over the corresponding period of 2002 owing to a 3.2% fall in total loans outstanding to HK\$41.6 billion and a 23 basis point contraction in net interest margin to 2.16%.

(2) Non-interest income

The Group's non-interest income fell by 12.7% to HK\$219 million against the same period of last year. This was mainly due to the reduction of interests in Ka Wah Capital (currently known as CITIC Capital Markets) and Cargary Securities (currently known as CITIC Capital Securities) from 51% to 25% in May 2002, resulting in their contribution no longer being consolidated at the subsidiary level this year. The reduction in new personal loans as a result of prudent credit policies amid a weak local economy also resulted in lower loan fees.

(3) Operating expenses

In the first-half of 2003, operating costs fell 11.4% to HK\$467 million. The fall in operating expenses was attributable to a reduction in staff costs, rental expenses, advertising and legal expenses. The cost-to-income ratio improved to 46.4% from 48% in the same period last year.

(4) Charge for bad and doubtful debts

In view of the continued economic uncertainties, the Group adopted a prudent provisioning policy and increased the charge for bad and doubtful debts by 11.4% to HK\$235 million.

3. Asset Quality

(1) Loans, deposits and asset size

As at 30 June 2003, the Group's total assets reached HK\$79.3 billion, representing an increase of HK\$3.1 billion, or 4%, compared with HK\$76.2 billion at the end of 2002. Total loans and total deposits were HK\$41.6 billion and HK\$63.6 billion respectively, representing a 3.2% decrease and a 3.6% increase respectively from the same period of last year. Mainland loans rose slightly to 11.4% from 10.5% of total loans.

(2) Problem loans

The Group resolved HK\$727 million problem loans in the first half of this year. Non-performing loan was HK\$2,384 million as the NPL ratio rose slightly to 5.8% at the end of June 2003.

(3) Financial position

As at the end of June 2003, the Group's unadjusted capital adequacy ratio was 19.3%; the loans to deposit ratio was 65.5%; and the loans to total assets ratio was 52.5%.

Asset Quality Indicators

	Group indicators as at the end of June 2003	Group indicators as at the end of 2002
NPL	5.8%	5.6%
Coverage	89.9%	91.0%
Loan Loss Coverage	47.5%	46.8%
Unadjusted Capital Adequacy	19.3%	19.1%
Loans to Deposits	65.5%	70.1%
Loans to Total Assets	52.5%	56.4%

4. Core Business Development

(1) Commercial Banking

i. Business Performance

a. Earnings

For the six months ended 30 June 2003, CKWB's operating profit before provisions was HK\$559 million. The exhaustion of tax losses from The Hongkong Chinese Bank, Limited ("HKCB"), the change of corporate tax rate to 17.5% and deferred tax impact as per Statement of Standard Accounting Practice 12 have led to a higher effective tax rate. This, coupled with the impact of declining value of properties, resulted in a profit attributable to shareholders of HK\$317 million.

In the first half of 2003, CKWB recorded synergies of HK\$103 million from the integration, 67.8% of which came from cost savings and 32.2% from increased revenues. Through the rationalization of branch network, CKWB has enhanced its branch operating efficiency. The number of retail branches was reduced from 50 after the acquisition of HKCB to 36 by the end of June 2003. The number of staff was also reduced from approximately 1,600 to approximately 1,300. Following the integration, better performance was recorded from business referrals and cross-selling of products.

b. Net interest income

CKWB's net interest income for the first half of 2003 reached HK\$780 million, mainly due to the interest income derived from loans and high quality fixed income securities invested by the Treasury Department. Net interest margin was 2.19%.

- c. **Non-interest income**
 Non-interest income for the first half of 2003 reached HK\$206 million. Despite the impact of SARS during the period, CKWB still registered satisfactory sales of wealth management products. Unit trust sales were the most outstanding among such products, with the relevant fee income surging 51% from the same period last year to HK\$33 million. Adding onto other retail banking-related fees and commissions, the total non-interest income from retail banking reached HK\$83 million, accounting for 40.3% of total non-interest income. During the period, fee income from corporate loans and trade bills totaled HK\$75 million, accounting for approximately 36.4% of total non-interest income.
 - d. **Operating expenses**
 CKWB successfully reined in operating expenses during the first half of 2003 as a result of strict observance of the guidelines issued by the 'Expense Control Committee' on the control of operating costs and benefiting from the cost synergies from the integration with HKCB. The Bank's operating expenses was HK\$428 million, with a further improved cost to income ratio of 43.4% versus 46.7% at the end of 2002.
 - e. **Charge for bad and doubtful debts**
 In view of rising unemployment and falling property prices, CKWB adopted a prudent provisioning policy by making a HK\$223 million charge for bad and doubtful debts in the first half of 2003. This included HK\$33 million in provisions against the decline in value of collateral & repossessed properties and HK\$29 million for further discount on collateral values. In addition, the general provision coverage was maintained at 1.13%.
- ii. **Asset Quality**
- a. **Loans, deposits and asset size**
 At the end of June 2003, total assets of CKWB reached HK\$76.7 billion, an increase of 5.2% versus 2002 year-end. Total loans and advances amounted to HK\$40.9 billion, a drop of 3.3% compared to 2002 year end. The decline was mainly due to the contraction in property investment, mortgage and consumer lending. The decrease in total loans reflected the overall sluggish loan demand, as well as CKWB's stringent credit approval policy in view of tighter spreads in the market, rising personal bankruptcies and high unemployment. Total deposits increased by 4.8% to HK\$63.6 billion compared to 2002 year end. The increase primarily came from NOW Account, an integrated savings and checking account launched in February 2003.

 In the first half of 2003, CKWB issued HK\$1,038 million worth of certificates of deposit, which effectively lowered the overall cost of funds, and spreaded out the maturity profile in the longer term to attain a better liability structure. During the period, matured certificates of deposit totaled HK\$1,800 million.
 - b. **Asset quality indicators**
 In the first half of 2003, CKWB continued to enhance its overall asset quality. During the period, CKWB resolved HK\$677 million of problem loans. The non-performing loan ratio increased slightly to 4.3% from 4.1% at the end of 2002. Coverage ratio stood at 89.5% at the end of June 2003.
 - c. **Financial position**
 At the end of June 2003, CKWB's unadjusted capital adequacy ratio was 17.2%. The loans to deposits ratio was 64.3%. The loans to total assets ratio was 53.3%. The average liquidity ratio was 48.3%.

Asset Quality Indicators

CKWB indicators
as at the end of June 2003

NPL	4.3%
Coverage	89.5%
Loan Loss Coverage	54.7%
Mainland Loans to Total Loans	11.2%
Unadjusted Capital Adequacy	17.2%
Loans to Deposits	64.3%
Loans to Total Assets	53.3%
Average Liquidity	48.3%

iii. Continued Business Development

During the first half of 2003, CKWB launched on average two new products and services every month. New products from the Retail Banking Group include “NOW Account”, “CITIC Ka Wah SEED Credit Card” and the enhanced “140% Mortgage Refinancing Service”, while the Wholesale Banking Group offered “DocPrep” export document preparation system service and ‘Dividend Payment Service’.

New Products and Services Launched during the first half of 2003

Month	New Products and Services
January	<ul style="list-style-type: none">• “DocPrep” export document preparation system service• “Dividend Payment Service”
February	<ul style="list-style-type: none">• “NOW Account”
March	<ul style="list-style-type: none">• Credit Card “Interest Free Flexi Installment Plan” – 2% Cash Rebate Promotion• “FUTURITY Guaranteed Interest Fund”
April	<ul style="list-style-type: none">• SME Loan Guarantee Scheme – “Business Installations and Equipment Loans” and “Associated Working Capital Loans”• Participated in “Film Guarantee Fund”
May	<ul style="list-style-type: none">• CITIC Ka Wah SEED Credit Card• Participated in Government’s HK\$3.5 Billion Loan Guarantee Scheme for Severe Acute Respiratory Syndrome Impacted Industries
June	<ul style="list-style-type: none">• Enhanced 140% Mortgage Refinancing Service• “ANNUITY 100 Retirement Plan”• SME Loan Guarantee Scheme – “Accounts Receivable Loans”

It is worth mentioning that the NOW Account, an integrated savings and checking account offering a savings rate of 1% p.a, received favourable responses in the market as it satisfies customers’ need of higher return in a low interest rate environment, and offers free premium protection for redundancy and terminal illness coverage that is unique in the market. As at the end of June, more than 15,000 new accounts were opened under the programme. The new product also attracted HK\$6 billion of deposits, of which 50% were from new customers. The average deposit size was approximately HK\$380,000. The product created enormous cross-selling opportunities of wealth management products for CKWB.

iv. China Banking

To capitalize on the vast business opportunities arising from China’s fast growing economy, CKWB continued to commit resources for the development of its China business, and has made solid progress in a number of business areas through close collaboration with CITIC Industrial Bank. In respect of the credit card business jointly developed by CKWB and

CITIC Industrial Bank, a RMB card as well as RMB/HKD and RMB/USD dual-currency cards are expected to be launched in the fourth quarter this year, with an issue target of 300,000 cards during the first year of launch. The credit card centre has been established in Shenzhen, with an approximate headcount of 60, which is expected to increase to 200 by the end of this year.

On wholesale banking, CKWB and CITIC Industrial Bank continued to strengthen their co-operation in the corporate loan business. During the first half of the year, the two parties jointly participated in 8 club deals and syndicated loan facilities, contributing approximately HK\$9 million of non-interest income for CKWB. In addition, CKWB has been offering corporate customers with RMB loans through CITIC Industrial Bank since the beginning of 2000. Such business continued to generate non-interest income for CKWB.

Building on the foundation of the separate memorandum of understanding signed between CIFH and four Taiwanese banks at the end of 2002, CKWB continued to co-operate with these Taiwanese banks, with a view to providing a comprehensive range of banking services for Taiwanese companies operating in the Mainland, either directly or in collaboration with CITIC Industrial Bank. CKWB expects the first financial product targeting this market segment to be launched in the second half of 2003.

v. Future Development

Going forward, CKWB will continue to develop its business in Hong Kong, and strive to capitalize on the opportunities brought about by the Closer Economic Partnership Arrangement (“CEPA”) entered into between Hong Kong and China in June, and actively expand its Greater China business. At the same time, CKWB will adopt a Business Excellence Model with a view to building sustainable leadership and a world-class business management system.

a. Business development

Hong Kong market development

The operating environment for the second half of 2003 is expected to remain challenging amid persistent deflation and high unemployment. CKWB will remain prudent when implementing its business growth strategies, while at the same time adhere to the spirit of innovation, and strive to achieve business breakthroughs and develop new revenue generators. CKWB will also consider merger and acquisition opportunities with a view to further expanding business scale.

Mainland market development

CKWB firmly believes that the Mainland economy will continue to grow vigorously over the next few years, and the mainland market is crucial for the long-term development of Hong Kong’s banking industry. Following the implementation of CEPA, CKWB plans to enter the mainland market under its own brand, and will use the Pearl River Delta as a base to expand its distribution network to better serve its corporate customers operating in the region. CKWB will actively position itself to capitalize on the vast business opportunities arising from the gradual integration of the Mainland and Hong Kong economies.

b. Enhancing management effectiveness

CKWB’s winning of “The Hong Kong Retail Management Association Customer Service Award” in 2002 marks the success of its Business Excellence Model under implementation. To further strengthen its business management, CKWB has been extending this model throughout the organization, The model emphasizes 7 arenas including leadership, strategic planning, customer service, information analysis, HR focus, process management and business results. Its implementation is expected to upgrade CKWB’s business management system to world class standard.

(2) *Asset Management*

Established in late 2002 as a separate entity from CKWB, CITIC International Assets Management Limited (“**CIAM**”) has completed its first half-year of operation with satisfactory results. Thanks to the strong China capabilities of the team and firm backing from CITIC Group, CIAM has been making steady progress to cultivate new lines of business with the goal of developing alternative sources of quality earnings for the Group.

Recovery of Non-performing loans

The company boosts recovery efforts for the historical NPL on the one hand and capitalizes its expertise and experiences to expand the business scope in related areas on the other. NPL has been on the track of running down, about HK\$150 million to HK\$200 million of which is expected to be resolved by the end of 2003. Utilizing the vast CITIC network and strong China capability, CIAM has positioned itself to tap the tremendous business opportunities from the huge distressed assets market on the mainland. CIAM is in the process of negotiations with various mainland and overseas financial institutions with the aim of drawing in outside investors and managing portfolios of non-performing loans for these institutions in the future.

Direct Investment Activities

CIAM has also been active in nurturing its private equity business during this period. It has been the company’s target to build a diversified portfolio composing of short term and medium term investments. As planned, CIAM has made direct investments reaching HK\$100 million, a few of which are selected later stage investments and may begin to bear fruit in the near future. There are a few more projects in the final stage of feasibility study and another HK\$50 million to HK\$100 million investments may add to the portfolio by the turn of this year. The official approval granted earlier this year by Shenzhen Municipal Government for the incorporation of Shenzhen Guocheng Century Venture Capital Co Ltd (“**Shenzhen Guocheng**”) marked the milestone for CIAM. Shenzhen Guocheng has been operating smoothly since its inception and is planning to invest in 2 to 3 projects with a total sum of HK\$20 – HK\$30 million. Shenzhen Guocheng, a co-investment entered between CIAM and Shenzhen Guocheng Venture Capital Co Ltd, is the first of its kind approved under the hi-tech venture capital fund regulations in Shenzhen. Besides, CIAM is proactively negotiating with a number of potential partners to set up a second joint venture fund in areas under consideration.

Outlook

Having laid a solid foundation for future business development, CIAM will continue to co-operate closely with various units within the CITIC Group whilst exploring business partnerships with outside parties. The company is on track in establishing itself as a specialized China-focused investment boutique that will enhance value for its shareholders and clients in the long run.

(3) *Investment Banking*

CITIC Capital Markets Holdings Limited (“**CCMH**”) performed spectacularly amid a challenging economic environment, reporting HK\$77.7 million in consolidated profit after tax for the first half of 2003.

i. **Corporate Finance**

In the first 6 months of 2003, CCMH successfully raised over US\$700 million for clients. This included US\$100 million in zero coupon subordinated convertible notes for Sina Corporation, one of the leading internet portals in China. CCMH also participated in a number of corporate finance transactions such as the IPOs of Sinotrans, Lianhua Supermarket, Vedan International and Baoye Group.

ii. **Asset Management**

CCMH will launch and market a number of retail and institutional investment funds in the second half of the year under the CITIC Capital brand. Our private equity joint venture has secured new investments from major international financial institutions such as Sumitomo

Trust Bank. Having achieved double-digit returns during a pre-launch trial run period for six months, our new hedge fund products will be ready for marketing in the coming months. This expanding range of fund products is expected to generate a steady stream of quality revenue for CCMH in the long term.

iii. **Securities Brokerage**

CCMH's market share of brokerage transactions on the Stock Exchange of Hong Kong continued to increase in the first half of 2003 as CITIC Capital Securities expanded its clientele. Following the introduction of futures trading, our product range has further expanded to cover non-Hong Kong instruments such as Thai and China B shares. The company will begin to offer U.S. share brokerage services in the near future. The ultimate goal of CCMH is to provide a one-stop shop offering for a wide range of products that cater for our clients' diverse needs in this increasingly competitive market.

5. Future Development

With an expanded product range and a much-reduced cost base, CIFH is in a unique position to capitalize on an expected recovery in the regional economy during the second half of 2003. The Group will continue to develop its core businesses with an eye on cost control and asset quality while actively exploring new opportunities in the region brought about by increased cross-strait economic activities as well as the Closer Economic Partnership Arrangement ("CEPA") between mainland China and Hong Kong.

As the financial flagship of CITIC outside the mainland, CIFH will actively consider other initiatives for future expansion including the injection of CITIC's financial businesses and increasing its interests in CCMH. Leveraging on the vast resources of the CITIC Group, CIFH is dedicated to a strategy of developing the Greater China market in ways that will enhance value for its shareholders in the long term.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its listed securities during this interim period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during this interim period.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

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

By Order of the Board
CITIC International Financial Holdings Limited
Chang Zhenming
Director and Chief Executive Officer

Hong Kong, 28 August 2003.

A more detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course.