



# 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 FINAL RESULTS

The Board of Directors of CITIC International Financial Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2003 as follows:-

### (A) CONSOLIDATED INCOME STATEMENT

	The Group		Variance %
	2003 HK\$'000	2002 Restated HK\$'000	
Interest income	2,523,226	2,968,114	(14.99)
Interest expense	(961,655)	(1,288,670)	(25.38)
Net interest income	1,561,571	1,679,444	(7.02)
Fees and commission income	416,276	429,453	(3.07)
Fees and commission expense	(39,000)	(48,267)	(19.20)
Other operating income	82,012	122,529	(33.07)
Non-interest income	459,288	503,715	(8.82)
Total operating income	2,020,859	2,183,159	(7.43)
Operating expenses	(1,015,485)	(1,049,049)	(3.20)
Operating profit before provisions	1,005,374	1,134,110	(11.35)
Charge for bad and doubtful debts	(513,781)	(539,802)	(4.82)
Operating profit	491,593	594,308	(17.28)
Net loss on disposal of tangible fixed assets	(16,017)	(4,000)	300.43
Net surplus/(deficit) on revaluation of investment properties	24,461	(35,033)	169.82
Net profit on disposal of subsidiaries and associates	-	33,303	N/A
Net profit on disposal of held-to-maturity securities	124,823	54,099	130.73
Provision written back/(made) on held-to-maturity securities and investment securities	169	(8,390)	102.01
Impairment loss on other premises	(27,617)	-	N/A
Share of profits less losses of associates	174,672	10,094	1,630.45
Profit from ordinary activities before taxation	772,084	644,381	19.82
Income tax (Note 2)	(115,318)	(104,336)	10.53
Profit from ordinary activities after taxation	656,766	540,045	21.61
Minority interests	(188)	(1,402)	(86.59)
Profit attributable to shareholders	656,578	538,643	21.89
Dividends attributable to the year			
Interim dividend declared and paid during the year	95,465	90,962	
Final dividend paid in respect of previous year	39	52	
Final dividend proposed after the balance sheet date	200,960	394,591	
	296,464	485,605	
Earnings per share			
Basic (Note 3)	21.00¢	17.81¢	
Diluted (Note 4)	20.84¢	17.79¢	
Interim dividend per share	3.00¢	3.00¢	
Proposed final dividend per share	6.30¢	13.00¢	
Total dividends per share	9.30¢	16.00¢	

**(B) CONSOLIDATED BALANCE SHEET**

	<b>The Group</b>		
	As at 31 Dec 2003	As at 31 Dec 2002 Restated	Variance
	<i>HK\$'000</i>	<i>HK\$'000</i>	%
<b>Assets</b>			
Cash and short-term funds	7,511,643	5,946,661	26.32
Placements with banks and other financial institutions maturing after one month	646,373	221,006	192.47
Trade bills less provisions	452,489	374,942	20.68
Certificates of deposit	2,059,100	1,030,944	99.73
Other investments in securities	2,511,606	3,219,559	(21.99)
Advances to customers and other accounts less provisions	41,073,517	43,531,505	(5.65)
Held-to-maturity securities and investment securities	22,454,176	18,621,468	20.58
Interest in associates	490,444	358,002	36.99
Goodwill	1,077,587	1,135,923	(5.14)
Deferred tax assets	87,477	78,090	12.02
Tangible fixed assets	1,553,045	1,676,193	(7.35)
<b>Total assets</b>	<b>79,917,457</b>	<b>76,194,293</b>	4.89
<b>Liabilities</b>			
Deposits and balances of banks and other financial institutions	3,486,079	2,120,181	64.42
Deposits from customers	56,847,606	55,535,460	2.36
Certificates of deposit issued	4,711,175	5,832,513	(19.23)
Convertible bonds issued	1,397,364	–	N/A
Current taxation	17,071	2,772	515.84
Deferred tax liabilities	15	20	(25.00)
Other accounts and provisions	1,376,464	1,039,948	32.36
<b>Total liabilities</b>	<b>67,835,774</b>	<b>64,530,894</b>	5.12
<b>Capital resources</b>			
Share capital	3,189,835	3,035,313	5.09
Reserves	4,621,935	4,337,914	6.55
Shareholders' funds	7,811,770	7,373,227	5.95
Minority interests	191	–	N/A
Loan capital	4,269,722	4,290,172	(0.48)
<b>Total capital resources</b>	<b>12,081,683</b>	<b>11,663,399</b>	3.59
<b>Total liabilities and capital resources</b>	<b>79,917,457</b>	<b>76,194,293</b>	4.89

**(C) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

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

**Notes:**

(1) The financial information in this financial results announcement does not constitute statutory financial statements.

The financial information relating to the financial year ended 31 December 2003 included in this preliminary final results announcement does not constitute the Group's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2003 will be available from the Company's registered office. The external auditors expressed an unqualified opinion on those financial statements in their report dated 18 March 2004.

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

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

(3) The calculation of basic earnings per share for the year ended 31 December 2003 is based on profit attributable to shareholders of HK\$656,578,000 (2002 restated: HK\$538,643,000) and on the weighted average of 3,126,742,217 (2002: 3,024,987,708) ordinary shares in issue during the year.

(4) The calculation of diluted earnings per share for the year ended 31 December 2003 is based on adjusted profit attributable to shareholders of HK\$656,811,000 (2002 restated: HK\$538,643,000) and on the weighted average number of ordinary shares of 3,151,682,576 (2002: 3,027,464,639) after adjusting for the effects of all dilutive potential ordinary shares.

## SUPPLEMENTARY FINANCIAL INFORMATION

### (1) Summary of financial position

	The Group		Variance
	As at 31 Dec 2003	As at 31 Dec 2002 Restated	
	HK\$'000	HK\$'000	%
Loans and advances	40,643,233	42,989,233	(5.46)
Loans loss provision	1,236,975	1,112,643	11.17
Total assets	79,917,457	76,194,293	4.89
Total interest earning assets	75,380,878	71,879,587	4.87
Total deposits	61,558,781	61,367,973	0.31
Shareholders' funds	7,811,770	7,373,227	5.95
<i>Financial ratios</i>			
Loans to deposits	66.02%	70.05%	
Loans to total assets	50.86%	56.42%	
General provision coverage	1.34%	1.16%	
Property lending	38.57%	44.88%	
Cost to income (before goodwill)	47.29%	45.31%	
Cost to income (after goodwill)	50.25%	48.05%	
Return on assets	0.84%	0.80%	
Return on shareholders' funds	8.65%	7.91%	

### (2) Operating profit

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

#### (a) Other revenue

	The Group		Variance
	2003	2002	
	HK\$'000	HK\$'000	%
Dividend income	357	–	N/A
Listed investments	13,105	18,722	(30.00)
Unlisted investments	13,736	12,024	14.24
Rental income less outgoings	27,198	30,746	(11.54)

#### (b) Other net income

	The Group		Variance
	2003	2002	
	HK\$'000	HK\$'000	%
Net gain on other investments in securities	15,409	89,116	(82.71)
Net gain arising from dealing in foreign currencies	7,590	13,084	(41.99)
Net gain/(loss) arising from other dealing activities	14,058	(56,591)	124.84
Others	17,757	46,174	(61.54)
	54,814	91,783	(40.28)
Total	82,012	122,529	(33.07)

### (3) Income tax in the consolidated income statement

	The Group		Variance
	2003	2002 Restated	
	HK\$'000	HK\$'000	%
<b>Current tax – Provision for Hong Kong Profits Tax</b>			
Tax for the year	94,709	23,028	311.28
Over provision in respect of prior years	(1,501)	(3,280)	(54.24)
	93,208	19,748	371.99
<b>Current tax – Overseas</b>			
Tax for the year	5,177	2,619	97.67
<b>Deferred tax</b>			
Origination and reversal of temporary differences	(2,073)	81,203	(102.55)
Effect of increase in tax rate on deferred tax balances at 1 January	(7,319)	–	N/A
	(9,392)	81,203	(111.57)
Share of associates' taxation	26,325	766	3,336.68
Total income tax expense	115,318	104,336	10.53

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

**(4) Advances to customers and other accounts less provisions**

	<b>The Group</b>		
	As at 31 Dec 2003	As at 31 Dec 2002	Variance
	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Advances to customers	<b>40,186,173</b>	42,611,139	(5.69)
Specific provisions for bad and doubtful debts	<b>(690,501)</b>	(614,506)	12.37
General provisions for bad and doubtful debts	<b>(541,903)</b>	(494,985)	9.48
	<b>38,953,769</b>	41,501,648	(6.14)
Advances to banks and other financial institutions	<b>40,000</b>	79,872	(49.92)
Accrued interest and other accounts less provisions	<b>2,079,748</b>	1,949,985	6.65
	<b>41,073,517</b>	43,531,505	(5.65)

**(5) Reserves**

	<b>The Group</b>		
	As at 31 Dec 2003	As at 31 Dec 2002 Restated	Variance
	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Share premium	<b>1,831,406</b>	1,712,952	6.92
General reserve	<b>100,000</b>	100,000	0.00
Other property revaluation reserve	<b>11,945</b>	11,945	0.00
Capital reserve	<b>2,818</b>	37,500	(92.49)
Exchange differences	<b>(597)</b>	319	(287.15)
Retained profits	<b>2,676,363</b>	2,475,198	8.13
Total	<b>4,621,935</b>	4,337,914	6.55
Proposed dividends, not provided for	<b>200,960</b>	394,591	(49.07)

**(6) Advances to customers – By industry sectors**

	<b>The Group</b>					
	As at 31 December 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	327,555	0.82	563,368	1.32	(41.86)	
– property investment	4,252,571	10.58	5,314,907	12.47	(19.99)	
– financial concerns	2,695,514	6.71	1,669,606	3.92	61.45	
– stockbrokers	20,519	0.05	27,590	0.06	(25.63)	
– wholesale and retail trade	2,347,275	5.84	2,643,303	6.20	(11.20)	
– manufacturing	3,506,532	8.73	3,318,627	7.79	5.66	
– transport and transport equipment	4,551,838	11.33	4,938,645	11.59	(7.83)	
– others	3,761,929	9.35	3,175,545	7.45	18.47	
<i>Individuals</i>						
– loans for the purchase of flats under the Home Ownership Scheme and Private Sector Participation Scheme and Tenants Purchase Scheme	23,979	0.06	30,990	0.07	(22.62)	
– loans for the purchase of other residential properties	10,920,086	27.17	13,246,473	31.09	(17.56)	
– credit card advances	426,249	1.06	335,647	0.79	26.99	
– others	1,462,017	3.64	1,342,079	3.15	8.94	
Trade finance	2,088,069	5.20	2,170,421	5.10	(3.79)	
Loans for use outside Hong Kong	3,802,040	9.46	3,833,938	9.00	(0.83)	
Total	<b>40,186,173</b>	<b>100.00</b>	42,611,139	100.00	(5.69)	

**(7) Advances to customers – by geographical areas**

The 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.

	<b>The Group</b>					
	Total advances to customers		Non-performing loans		Overdue loans and advances to customers	
	As at 31 Dec 2003	As at 31 Dec 2002	As at 31 Dec 2003	As at 31 Dec 2002	As at 31 Dec 2003	As at 31 Dec 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	32,608,547	35,569,751	2,332,365	2,107,159	2,363,417	2,183,628
Mainland China	4,459,765	4,484,754	105,205	170,408	103,198	165,676
USA	609,229	763,757	51,754	79,143	51,754	60,650
Others	2,508,632	1,792,877	126,884	12,295	132,665	12,295
	<b>40,186,173</b>	42,611,139	<b>2,616,208</b>	2,369,005	<b>2,651,034</b>	2,422,249

(8) 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
	HK\$'000	%*	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2003	<u>2,616,208</u>	<u>6.51</u>	<u>2,018,580</u>	<u>657,620</u>	<u>389,638</u>
As at 31 December 2002	<u>2,369,005</u>	<u>5.56</u>	<u>1,443,100</u>	<u>574,349</u>	<u>370,032</u>

\* Based on total advances to customers

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

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

(9) 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 31 Dec 2003		As at 31 Dec 2002	
	HK\$'000	%*	HK\$'000	%*
- 6 months or less but over 3 months	165,835	0.41	262,097	0.62
- 1 year or less but over 6 months	307,408	0.76	169,495	0.40
- over 1 year	2,177,791	5.42	1,990,657	4.67
Total	<u>2,651,034</u>	<u>6.59</u>	<u>2,422,249</u>	<u>5.69</u>
Secured overdue advance	1,742,648		1,517,331	
Unsecured overdue advance	908,386		904,918	
	<u>2,651,034</u>		<u>2,422,249</u>	
Market value of collateral held against the secured overdue advances	<u>2,104,234</u>		<u>2,197,901</u>	
Specific provisions made	<u>580,629</u>		<u>496,969</u>	

\* Based on total advances to customers

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

(10) Reconciliation between overdue loans & advances and non-performing loans

	The Group	
	As at 31 Dec 2003	As at 31 Dec 2002
	HK\$'000	HK\$'000
Advances to customers overdue for more than 3 months	2,651,034	2,422,249
Less: Amount overdue for more than 3 months and on which interest is still being accrued	(247,895)	(173,900)
Add: Amount overdue for 3 months or less, or not yet overdue and on which interest is being placed in suspense or on which interest accrual has ceased	84,187	75,591
Add: Rescheduled advances on which interest is being placed in suspense or on which interest accrual has ceased	128,882	45,065
Advances to customers on which interest is being placed in suspense or on which interest accrual has ceased	<u>2,616,208</u>	<u>2,369,005</u>

(11) Other overdue assets

	The Group	
	As at 31 Dec 2003	As at 31 Dec 2002
	HK\$'000	HK\$'000
The gross amount of trade bills and receivables which has been overdue for:		
- 6 months or less but over 3 months	-	282
- 1 year or less but over 6 months	1,162	-
- over 1 year	-	12,864
	<u>1,162</u>	<u>13,146</u>
Held-to-maturity securities which have been overdue for		
- 1 year or less but over 6 months	69,409	-
- Over 1 year	15,526	15,601
	<u>84,935</u>	<u>15,601</u>

**(12) Rescheduled loans**

	<b>The Group</b>			
	As at 31 Dec 2003		As at 31 Dec 2002	
	<i>HK\$'000</i>	%*	<i>HK\$'000</i>	%*
Rescheduled loans	<b>517,916</b>	<b>1.29</b>	<b>80,520</b>	<b>0.19</b>

\* Based on total advances to customers

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

**(13) 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:

	<b>The Group</b>	
	As at 31 Dec 2003	As at 31 Dec 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Direct credit substitutes	<b>1,096,253</b>	1,187,756
Transaction-related contingencies	–	38,994
Trade-related contingencies	<b>1,635,365</b>	1,262,930
Other commitments:		
– with an original maturity of under 1 year or which are unconditionally cancellable	<b>10,387,731</b>	9,294,444
– with an original maturity of 1 year and over	<b>734,808</b>	922,801
	<b>13,854,157</b>	12,706,925

**(b) Derivatives**

The following is a summary of the notional amounts of each significant type of derivatives entered into by the Group.

	<b>The Group</b>					
	As at 31 December 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>
<b>Exchange rate contracts</b>						
Forwards	1,059,391	–	1,059,391	1,095,192	–	1,095,192
Swaps	12,416,034	4,966,108	17,382,142	34,890,559	4,999,417	39,889,976
Options purchased	172,189	–	172,189	66,884	–	66,884
Options written	142,182	–	142,182	40,490	–	40,490
<b>Interest rate contracts</b>						
Forwards and futures	2,173,677	–	2,173,677	2,262,090	–	2,262,090
Swaps	3,060,615	8,992,439	12,053,054	2,127,535	9,526,349	11,653,884
Options purchased	1,853,448	–	1,853,448	931,162	–	931,162
Options written	1,853,448	177,631	2,031,079	931,162	–	931,162
<b>Equity contracts</b>						
Options purchased	–	12,044	12,044	–	18,372	18,372
Options written	–	12,044	12,044	–	18,371	18,371
	<b>22,730,984</b>	<b>14,160,266</b>	<b>36,891,250</b>	<b>42,345,074</b>	<b>14,562,509</b>	<b>56,907,583</b>

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

	<b>The Group</b>			
	As at 31 Dec 2003		As at 31 Dec 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	1,414,021	N/A	1,332,425
Exchange rate contracts	120,536	71,464	135,779	118,904
Interest rate contracts	459,238	133,659	601,457	171,752
Equity contracts	50	599	104	792
	<b>579,824</b>	<b>1,619,743</b>	<b>737,340</b>	<b>1,623,873</b>

**(14) Segmental reporting**

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format as the directors consider that this is more relevant to the Group's internal financial reporting.

**(a) Business segments**

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

Commercial banking business: It mainly comprises banking business, which includes retail banking, corporate banking and treasury activities.

Asset management: It mainly comprises direct investment and distressed assets management.

Investment banking: It comprises merchant banking, fund management and securities brokerage and dealing.

Unallocated: It mainly comprises the premises and any items which cannot be reasonably allocated to specific business segments.

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

**2003**

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

2002 (Restated)

The Group

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

(b) Geographical segments

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

2003

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

2002 (Restated)

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

(15) Capital adequacy ratio

	The Group	
	As at 31 Dec 2003	As at 31 Dec 2002 Restated
Unadjusted Capital adequacy ratio*	<b>18.41%</b>	19.07%

\* 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.

**(16) Capital base after deductions**

	<b>The Group</b>	
	<b>As at 31 Dec 2003</b>	<b>As at 31 Dec 2002 Restated</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Core capital</b>		
Paid up ordinary share capital	3,189,835	3,035,313
Share premium	1,831,406	1,712,952
Reserves	2,198,658	1,977,537
Deduct: Goodwill	(1,067,029)	(1,135,923)
<b>Total core capital</b>	<b>6,152,870</b>	<b>5,589,879</b>
<b>Eligible supplementary capital</b>		
Reserves on revaluation of land and interests in land	8,362	8,362
General provisions for doubtful debts	546,474	498,137
Perpetual subordinated debt	1,940,783	1,950,078
Term subordinated debt	1,397,364	2,340,094
<b>Total eligible supplementary capital</b>	<b>3,892,983</b>	<b>4,796,671</b>
<b>Total capital base before deductions</b>	<b>10,045,853</b>	<b>10,386,550</b>
<b>Deductions from total capital base</b>	<b>(596,936)</b>	<b>(221,256)</b>
<b>Total capital base after deductions</b>	<b>9,448,917</b>	<b>10,165,294</b>

**(17) Currency risk**

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

	<b>The Group</b>					
	<b>As at 31 December 2003</b>			<b>As at 31 December 2002</b>		
	<b>US dollars</b>	<b>Renminbi</b>	<b>Total</b>	<b>US dollars</b>	<b>Renminbi</b>	<b>Total</b>
<b>Equivalent in HK\$'000</b>						
Spot assets	26,366,749	598,834	26,965,583	26,509,120	457,537	26,966,657
Spot liabilities	(24,441,071)	(14,114)	(24,455,185)	(23,821,227)	(12,324)	(23,833,551)
Forward purchases	9,986,595	-	9,986,595	20,917,099	-	20,917,099
Forward sales	(8,239,058)	-	(8,239,058)	(19,641,958)	-	(19,641,958)
Net option position	23,051	-	23,051	3,959	-	3,959
<b>Net long position</b>	<b>3,696,266</b>	<b>584,720</b>	<b>4,280,986</b>	<b>3,966,993</b>	<b>445,213</b>	<b>4,412,206</b>

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

**MANAGEMENT DISCUSSION AND ANALYSIS****1.0 Review of Operations**

2003 was a challenging year. The Severe Acute Respiratory Syndrome ("SARS") outbreak during the second quarter devastated an already weak local economy and negatively impacted all sectors. Nonetheless, the economy stabilized and rebounded in the second half of the year, following the signing and gradual implementation of the Closer Economic Partnership Arrangement ("CEPA"). While the financial industry continued to face challenges including weak credit demand and narrowing interest margins, the overall operating environment had improved. CITIC International Financial Holdings Limited (the "Group") remained conservative in its business practices during the year with particular focus on asset quality and cost control. To fully capitalize on the tremendous business opportunities opened up by CEPA, the Group issued US\$180 million five-year convertible bonds to provide for the needs of its future business development.

**2.0 Business Performance****2.1 Profit**

The Group's operating profit before provisions for the year ended 31 December 2003 was HK\$1,005 million, representing a fall of 11.4% from 2002. Due to improvement in the property market, the Group recorded HK\$24 million in revaluation surplus on its investment properties while profit from the sale of held-to-maturity securities more than doubled to HK\$125 million. During the year, CITIC Ka Wah Bank Limited ("CKWB") increased its interest in CITIC Capital Active Partner Fund Limited (formerly The Ka Wah Five Arrows China Hong Kong Fund Limited). Due to the satisfactory performance of the fund as well as of CITIC Capital Markets Holdings Limited, net profit from associates rose sharply to HK\$175 million. Net profit attributable to shareholders rose 21.9% to HK\$657 million.

**2.2 Net interest income**

The Group's net interest income for 2003 amounted to HK\$1,562 million, 7.0% below that of 2002, as a result of subdued loan demand amid a weak local economy and conservative lending policies by CKWB. Outstanding loans fell 5.5% to HK\$40.6 billion while net interest margin contracted 20 basis points to 2.12%.

**2.3 Non-interest income**

The Group's non-interest income fell 8.8% from the 2002 level to HK\$459 million. This was due to the reduction of interests in Ka Wah Capital Limited (currently known as CITIC Capital Markets Limited) and Cargary Securities Limited (currently known as CITIC Capital Securities Limited) from 51% to 25% in May 2002, resulting in their contribution no longer being consolidated at the subsidiary level. Reduction in new loans during the year also resulted in lower loan fees, which impacted on the overall non-interest income.

**2.4 Operating expenses**

Operating expenses in 2003 fell 3.2% to HK\$1,015 million. This was attributable to a reduction in staff costs, rental expenses, advertising and legal expenses.

**2.5 Charge for bad and doubtful debts**

The Group lent conservatively and strived to maintain its asset quality amid a weak economic environment. As a result, specific provisions fell 14.9% during the year while the charge for bad and doubtful debts dropped 4.8% to HK\$514 million. General provision coverage was 1.34%.

**2.6 Final Dividend**

The Board of Directors proposed a final dividend of HK\$0.063 per share. Together with an interim dividend of HK\$0.03 per share, total dividend for 2003 reached HK\$0.093. The year's total dividend pay-out ratio was 45.1%.

### 3.0 Asset Quality

#### 3.1 Assets, loans and deposits size

As at 31 December 2003, the Group's total assets reached HK\$79.9 billion, representing an increase of 4.9% from the HK\$76.2 billion recorded at the end of 2002. Total loans fell 5.5% from the 2002 level to HK\$40.6 billion mainly due to a fall in residential mortgages, property investment, as well as transport and transport equipment loans. The proportion of mainland loans to total customer advances increased from 10.5% in 2002 to 11.1%. Total deposits amounted to HK\$61.6 billion, of which HK\$56.8 billion were customer deposits, representing a 2.4% increase from 2002.

#### 3.2 Asset quality indicators

The Group resolved HK\$1,100 million in problem loans during 2003. Non-performing loans amounted to HK\$2,616 million. The NPL ratio was 6.5% while the coverage ratio rose from 90.5% in 2002 to 94.1% in 2003.

#### 3.3 Financial position

The Group completed its issuance of US\$180 million five-year convertible bonds in December 2003, providing resources for future business development. The bond's 0.25% annual coupon rate would effectively lower the Group's funding cost. As at 31 December 2003, the Group's unadjusted capital adequacy ratio was 18.4%, the loans to deposits ratio was 66.0%, and the loans to total assets ratio was 50.9%.

#### CITIC International Financial Holdings Asset Quality Indicators

	31 December 2003	31 December 2002
Unadjusted Capital Adequacy	18.4%	19.1%
Loans to Deposits	66.0%	70.1%
Loans to Total Assets	50.9%	56.4%
Coverage	94.1%	90.5%
Loan Loss Coverage	47.1%	46.8%
General Provision Coverage	1.34%	1.16%
NPL	6.5%	5.6%
Mainland Loans to Total Customer Advances	11.1%	10.5%

### 4.0 Core Business Development

#### 4.1 Commercial Banking – CITIC Ka Wah Bank Limited

##### 4.11 Awards

Following receipt of the "Hong Kong Retail Management Association Customer Service Award" and selection of the Bank's Perpetual Upper Tier II Capital Security as the "Best Hybrid Bank Bond Deal" by The Asset, a finance magazine in 2002, CITIC Ka Wah Bank Limited ("CKWB") continued to receive various awards during 2003, including the "2003 Hong Kong Awards for Services – Innovation Award" bestowed by the Hong Kong General Chamber of Commerce. It became one of the top 5 finalists for the "Asia Insurance Industry Awards 2003 – Innovation of the Year". As CKWB continues to bring value-enhancing proposals to its customers with remarkable creativity, the awards reflected the market's recognition of CKWB's innovativeness and progressive spirit. At the same time, the 2002 annual report of CKWB received the Bronze award in the financial services category of the U.S. Galaxy Awards 2003. In community services, CKWB was awarded the "Caring Company Logo" by the Hong Kong Council of Social Service for its enduring efforts in caring for the community.

##### 4.12 Business Performance

##### 4.121 Earnings

For the year ended 31 December 2003, CKWB's operating profit before provisions was HK\$1,029 million, representing an 11.4% fall from 2002. Due to improvement in the property market, CKWB recorded approximately HK\$8 million in revaluation surplus on its investment properties while profit from the sale of held-to-maturity securities soared 1.4 times to HK\$124 million. During the period, CKWB increased its interest in CITIC Capital Active Partner Fund Limited (formerly The Ka Wah Five Arrows China Hong Kong Fund Limited). Due to satisfactory performance of the fund, CKWB's share of the associate's profit was HK\$95 million. Profit attributable to shareholders rose 14.1% to HK\$654 million.

During 2003, CKWB recorded synergies of HK\$207 million from the integration with The Hongkong Chinese Bank, Limited, 70% of which came from cost savings and 30% from revenue increase.

##### 4.122 Net interest income

As a result of a 36-basis point contraction in net interest margin to 2.14%, net interest income fell 9.4% from the level of 2002 to HK\$1,547 million in 2003. Net interest income mainly comprised interest income from loans and high quality fixed income securities invested by the Treasury Department.

##### 4.123 Non-interest income

Amid continued economic uncertainties during the year, CKWB adopted a cautious approach in lending, resulting in a reduction in new loans and a corresponding fall in loan fees. Coupled with less than satisfactory contribution from foreign exchange dealing and other securities investments, non-interest income fell 15.2% to HK\$400 million in 2003. It is noteworthy that wealth management services continued to register satisfactory growth, with related fee income increasing 36.3% from the 2002 level. The most outstanding performance came from the sale of unit trust, which brought in HK\$77 million in fee income, a 64.0% jump from the 2002 level. During 2003, wealth management and other retail banking activities generated HK\$202 million in fees and commissions income or 50.6% of total non-interest income; wholesale banking including trade bills contributed HK\$182 million in fee income or 45.5% of total non-interest income.

##### 4.124 Operating expenses

CKWB continued to control its cost effectively in 2003. Operating expenses fell 9.8% during the period to HK\$918 million with most of the savings arising from staff costs, rental expenses, advertising, and legal expenses. Cost-to-income ratio was 47.1%.

##### 4.125 Charge for bad and doubtful debts

CKWB was able to reduce its charge for bad and doubtful debts by 7.0% to HK\$474 million in 2003. The fall arose mainly from a reduction in specific provisions, of which retail banking provisions fell 40%. During the year, CKWB made provisions totalling HK\$64.5 million against the decline in and further discount of collateral values. The general provision coverage was 1.36%.

##### 4.13 Asset Quality

##### 4.131 Assets, loans and deposits size

At the end of December 2003, total assets of CKWB reached HK\$77.4 billion, an increase of 6.2% from 2002. Total loans and advances fell 5.3% to HK\$40.1 billion. Total deposits increased 3.9% to HK\$63.1 billion, of which customer deposits rose 6.4% to HK\$58.4 billion. Current account deposits surged 8.6 times to HK\$12.3 billion, driven by inflow of funds into NOW Accounts.

During 2003, CKWB issued HK\$1,448 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 year, matured certificates of deposit totalled HK\$2,567 million.

##### 4.132 Asset quality indicators

CKWB continued to enhance its overall asset quality in 2003. During the year, CKWB resolved HK\$966 million of problem loans. Non-performing loans increased HK\$391 million mainly due to a rescheduled loan that is fully secured. CKWB is currently in negotiations with the borrower to refinance the loan or realize the collateral. It is expected that the non-performing loan ratio will decline from the 5.3% level at the end of 2003. Coverage ratio stood at 92.9% at the end of 2003.

#### 4.133 Financial position

At the end of December 2003, CKWB's unadjusted capital adequacy ratio was 16.3%. The loans to deposits ratio was 63.5%. The loans to total assets ratio was 51.8%. The average liquidity ratio was 49.2%.

##### CITIC Ka Wah Bank Asset Quality Indicators

	31 December 2003	31 December 2002
Unadjusted Capital Adequacy	16.3%	17.4%
Loans to Deposits	63.5%	69.7%
Loans to Total Assets	51.8%	58.0%
Average Liquidity	49.2%	Jan-Oct 46.9% Nov-Dec 47.1%
Coverage	92.9%	90.3%
Loan Loss Coverage	50.5%	55.2%
General Provision Coverage	1.36%	1.18%
NPL	5.3%	4.1%
Mainland Loans to Total Customer Advances	11.1%	10.3%

#### 4.14 Continued Business Development

In 2003, CKWB launched more than two new products and services every month on average. New products from the Retail Banking Group included "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, "Dividend Payment Service" and factoring service.

##### New Products and Services Launched in 2003

Month	New Products and Services
January	<ul style="list-style-type: none"> <li>• "DocPrep" export document preparation system service</li> <li>• "Dividend Payment Service"</li> </ul>
February	<ul style="list-style-type: none"> <li>• "NOW Account"</li> </ul>
March	<ul style="list-style-type: none"> <li>• Credit Card "Interest Free Flexi Installment Plan" – 2% Cash Rebate Promotion</li> <li>• "FUTURITY Guaranteed Interest Fund"</li> </ul>
April	<ul style="list-style-type: none"> <li>• SME Loan Guarantee Scheme – "Business Installations and Equipment Loans" and "Associated Working Capital Loans"</li> <li>• Participated in "Film Guarantee Fund"</li> </ul>
May	<ul style="list-style-type: none"> <li>• CITIC Ka Wah SEED Credit Card</li> <li>• Participated in Government's HK\$3.5 Billion Loan Guarantee Scheme for Severe Acute Respiratory Syndrome Impacted Industries</li> </ul>
June	<ul style="list-style-type: none"> <li>• Enhanced 140% Mortgage Refinancing Service</li> <li>• "ANNUITY 100 Retirement Plan"</li> <li>• SME Loan Guarantee Scheme – "Accounts Receivable Loans"</li> </ul>
July	<ul style="list-style-type: none"> <li>• Factoring Service</li> </ul>
August	<ul style="list-style-type: none"> <li>• Credit Card "Reward Cash Rebate"</li> </ul>
September	<ul style="list-style-type: none"> <li>• "Growth Builder" Life Insurance Plan</li> <li>• "Life Savings Plus" Life Insurance Plan</li> <li>• "Warmth" Retirement Plan</li> <li>• Credit Card Usage Spending Promotion</li> </ul>
October	<ul style="list-style-type: none"> <li>• Non-Delivery Foreign Exchange Forward Contract</li> <li>• New Wealth Management System</li> </ul>
November	<ul style="list-style-type: none"> <li>• One Stop Business Support Services</li> <li>• Pre-approved Profit Tax Loan</li> <li>• Credit Card "Flexi-Installment for Tax Payment"</li> </ul>
December	<ul style="list-style-type: none"> <li>• CITIC STAR Credit Card in Collaboration With CITIC Industrial Bank</li> <li>• Credit Card "Interest Free Installment Cash-in Scheme" and "Easy Cash-in Scheme"</li> <li>• Credit Card Christmas Spending Gift Redemption Plan</li> </ul>

Launched in February 2003, the NOW Account received overwhelming customer response as the product satisfied customers' need for a higher return and offered free premium protection for redundancy that was unique in the market. 20,000 new accounts had been opened by the end of 2003, attracting HK\$9.5 billion of deposits with an average deposit size of HK\$480,000. The NOW Account created enormous cross-selling opportunities of wealth management products for CKWB.

#### 4.15 China Banking

##### 4.151 China International Finance Company Limited (Shenzhen)

Marking the first milestone in CKWB's development of the Mainland market, the Bank gained approval from the China Banking Regulatory Commission to acquire the entire equity in China International Finance Company Limited (Shenzhen) ("CIFIC") in December 2003. CIFIC had already turned a profit in 2003 and will be able to apply for a renminbi license by early 2005 provided that it continues to be profitable in 2004. This will give CKWB a valuable lead-time in securing a renminbi license for entry into the renminbi market.

Following regulatory approval of the acquisition, CKWB has enlarged the paid-up capital of CIFIC from RMB100 million to RMB400 million. Besides focusing on foreign currency lending and deposit services at the current stage, CIFIC has been actively promoting Hong Kong Dollar and US Dollar China mortgages to non-Mainland residents including Hong Kong and Macau residents, Taiwanese and other foreign residents.

With legal entity status on the Mainland, CIFIC may engage in direct investments, thereby providing additional flexibility for the future development of CKWB. CIFIC is currently in discussion with various Shenzhen banks to form strategic alliances that can foster cooperative development at multiple levels and create win-win situations.

##### 4.152 Credit Card Business

During the fourth quarter of 2003, "CITIC STAR" card, a Mainland credit card CKWB developed in collaboration with CITIC Industrial Bank, was launched. CKWB plays a consultancy role on the project, providing services that range from technical support, data analysis, to market positioning. Business performance has already exceeded expectations as "CITIC STAR" issued more than 20,000 cards with total transaction volume approaching RMB34 million by the end of 2003.

#### 4.16 Business Management

During 2003, CKWB extended its Business Excellence Model throughout the organization. The model emphasizes 7 arenas including leadership; strategic planning; customer and market focus; measurement, analysis and knowledge management; human resources focus; process management; and business results. With the gradual implementation of this plan, CKWB is establishing for itself a superb leadership model and a world-class business management system.

#### 4.17 Future Development

Going forward, CKWB will strive to capitalize on the various opportunities brought about by CEPA and develop a successful business model for the Greater China region. This includes opening a branch in Shanghai, expanding its presence on the Mainland market and developing its Taiwanese client base. At the same time, CKWB also plans to reposition and strengthen its wealth management business in order to raise the contribution from non-interest income as a proportion of total operating income. CKWB will also strengthen its credit and risk management with a view to improving its asset quality.

#### 4.2 Asset Management – CITIC International Assets Management Limited

##### 4.21 Business Performance

2003 represented a milestone year for CITIC International Assets Management Limited (“CIAM”). Faced with various challenges and opportunities, CIAM strived to resolve non-performing assets while effectively allocating funds for direct investments, enabling the company to record its first year of profit since operation as a separate entity in late 2002. For the year ended December 2003, CIAM reported operating profit before provisions of HK\$48 million. During the year, CIAM adopted prudent provisioning policies, making new provisions of HK\$71 million while writing back HK\$33 million in provisions, resulting in a net provisioning charge of HK\$38 million. Profit before tax was HK\$10 million for the year.

##### 4.22 Direct Investment

Basic operations of the direct investment business has already commenced with total investment amounting to HK\$120 million for the year, of which selected projects may begin to contribute profit by the second half of 2004. With the aim of enhancing return for shareholders, CIAM has formulated a series of investment strategies to promote the company’s growth in profitability, including short term cash management strategies and the active pursuit of opportunities to form joint venture companies and invest in funds on the Mainland in industries or regions where growth is expected to be robust. CIAM plans to invest a further HK\$100 million to HK\$150 million during 2004.

At the same time, CIAM is offering a series of comprehensive financial services, including investment, credit and advisory services to satisfy various financial needs of its customers and to broaden its income base.

##### 4.23 Non-performing loans

CIAM has recorded satisfactory performance in the recoveries of problem loans during 2003. By the end of December 2003, the total amount of NPL for CIAM has fallen to HK\$530 million, 21% below the HK\$670 million level at the end of 2002. Leveraging on its experience in recoveries and distressed assets management as well as the vast network and resources of the CITIC Group, CIAM will continue to actively manage recovered assets through various means, with the ultimate goal of continuously lowering its NPL ratio.

#### 4.3 Investment Banking – CITIC Capital Markets Holdings Limited

##### 4.31 Business Performance

CITIC Capital Markets Holdings Limited (“CCMH”) performed spectacularly in 2003. For the year ended December 2003, consolidated profit after tax was HK\$269 million, representing a five-fold increase from the year before.

##### 4.32 Investment Banking

During 2003, CITIC Capital Markets Limited (“CITIC Capital Markets”) acted as joint-lead manager for two large scale convertible bond issuance, including the US\$180 million convertible bond issued by the Group and the US\$100 million zero coupon subordinated convertible note issued by Sina Corporation, one of the leading internet portals in China. CITIC Capital Markets also participated in a number of corporate finance activities, with corporate clients comprising Tianjin Development Holdings Limited, Pacific Concord Holdings Limited, Jiangxi Copper Company Limited and Dawnrays Pharmaceutical (Holdings) Limited, effectively raising the company’s market share and profile.

##### 4.33 Asset Management

CITIC Capital Markets completed the infrastructure building for its asset management operations, effectively enhancing its portfolio management capabilities. At the same time, it launched a series of investment products that attracted US\$66 million in new funds and expanded its customer base. During 2003, funds managed by CITIC Capital Markets had all recorded double-digit returns.

##### 4.34 Securities Brokerage

Benefiting from the improvement in investment sentiments for the Asian financial markets, CCMH’s securities brokerage business also achieved exceptional performance. Securities brokerage income of CITIC Capital Securities Limited (“CITIC Capital Securities”) more than doubled during 2003, as the company’s share of the Hong Kong market expanded 70% to the 1% level by the end of December 2003. During the year, CITIC Capital Securities restructured its branch network and opened new branches in North Point and Yuen Long to cater to its expanding customer base and enhance its distribution capability. At the same time, CITIC Capital Securities further diversified its income base following the addition of a number of institutional clients and the launch of various products.

#### 4.4 Securities Research – CITIC Frontier China Research Limited

The Group established CITIC Frontier China Research Limited (“CITIC Frontier”) as a 75%-owned subsidiary in September 2003. In light of increased demand for research independence in the global market, CITIC Frontier aims to combine comprehensive research on A-shares, B-shares, H-shares and Red Chips into a single cross-border research services platform, providing a one stop shop for China investment advisory services to international and local institutional investors. 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. The purpose is to build a new profit center for the Group through the provision of custom-made research and advisory services to a selected group of clientele.

## 5.0 Future Development

With an expanded product range and a reduced cost base, the Group is in a unique position to capitalize on the expected economic recovery. It will actively explore new business opportunities brought about by cross-strait economic activities as well as CEPA. As the financial flagship of CITIC outside the Mainland, the Group will actively pursue other initiatives including increasing its interests in CCMH and further strengthening its synergistic cooperation with other financial institutions within the CITIC Group with the aim to develop itself into a one stop financial supermarket and a cross-strait financial bridge.

## FINAL DIVIDEND

At the annual general meeting to be held on Thursday, 20 May 2004 (“Annual General Meeting”), the Directors will propose a final dividend of HK\$0.063 per share which, together with the interim dividend of HK\$0.03 per share paid in September 2003, will constitute a total dividend of HK\$0.093 per share for the year 2003. Shareholders whose names are on the Register of Members at the close of business on Thursday, 20 May 2004 will be entitled to the proposed final dividend. The dividend warrants will be sent to Shareholders by ordinary mail on or about Thursday, 27 May 2004.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 17 May 2004 to Thursday, 20 May 2004, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the final dividend, all transfers, accompanied by the relevant share certificates, must be lodged 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 for registration not later than 4:00 p.m. on Friday, 14 May 2004.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s listed securities during the year.

**COMPLIANCE WITH THE CODE OF BEST PRACTICE**

The Company had complied throughout the year with the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited 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**  
*Chief Executive Officer*

Hong Kong, 18 March 2004

*Remark:* A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange will be subsequently published on the website of the Stock Exchange in due course.