

**INTERIM REPORT 2004**

**CHIYU BANKING CORPORATION LIMITED**

**CHIYU BANKING CORPORATION LIMITED**

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

			(Audited) Half- year ended 30 June 2003 HK\$'000
	Note	Half- year ended 30 June 2004 HK\$'000	
Interest income		337,184	376,153
Interest expense		(72,397)	(92,564)
<b>Net interest income</b>		<b>264,787</b>	<b>283,589</b>
Other operating income	2	120,739	92,701
<b>Operating income</b>		<b>385,526</b>	<b>376,290</b>
Operating expenses	3	(103,328)	(97,148)
<b>Operating profit before provisions</b>		<b>282,198</b>	<b>279,142</b>
Write-back of/(charge for) bad and doubtful debts	4	16,282	(34,137)
<b>Operating profit after provisions</b>		<b>298,480</b>	<b>245,005</b>
Net loss from disposal/revaluation of fixed assets		(23)	(3,971)
Net gain from disposal of investment securities		-	106
Provision for impairment losses on investment securities		-	(120)
<b>Profit before taxation</b>		<b>298,457</b>	<b>241,020</b>
Taxation	5	(43,026)	(26,070)
<b>Profit attributable to shareholders</b>		<b>255,431</b>	<b>214,950</b>
<b>Dividends</b>	6	<b>150,000</b>	<b>150,000</b>

**CHIYU BANKING CORPORATION LIMITED**

**CONSOLIDATED BALANCE SHEET**

			(Audited)
	Note	At 30 June 2004 HK\$'000	At 31 December 2003 HK\$'000
<b>Assets</b>			
Cash and short-term funds		<b>6,326,954</b>	11,069,635
Placements with banks and other financial institutions maturing between one and twelve months		<b>3,584,529</b>	1,926,803
Trade bills		<b>140,211</b>	56,456
Certificates of deposit held		<b>2,015,026</b>	1,331,471
Held-to-maturity securities		<b>7,219,920</b>	5,970,524
Investment securities		<b>20,919</b>	20,924
Advances and other accounts	7	<b>9,148,296</b>	8,877,282
Fixed assets		<b>397,132</b>	399,047
Other assets		<b>400,370</b>	1,159,294
Total assets		<b>29,253,357</b>	30,811,436
<b>Liabilities</b>			
Deposits and balances of banks and other financial institutions		<b>1,519,697</b>	1,146,023
Deposits from customers	8	<b>23,067,756</b>	24,273,634
Certificates of deposit issued		<b>415,046</b>	414,328
Other accounts and provisions	9	<b>920,009</b>	1,751,943
Total liabilities		<b>25,922,508</b>	27,585,928
<b>Capital resources</b>			
Share capital	11	<b>300,000</b>	300,000
Reserves	12	<b>3,030,849</b>	2,925,508
Shareholders' funds		<b>3,330,849</b>	3,225,508
Total liabilities and capital resources		<b>29,253,357</b>	30,811,436

# CHIYU BANKING CORPORATION LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Premises revaluation reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Translation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2003 as previously reported	300,000	152,238	269	241	2,817,726	3,270,474
Effect of adoption of SSAP12 (revised)	-	(24,087)	-	-	21,426	(2,661)
At 1 January 2003, as restated	300,000	128,151	269	241	2,839,152	3,267,813
Currency translation differences	-	-	-	(2)	3	1
Net profit for the first half of 2003	-	-	-	-	214,950	214,950
2002 final dividend paid	-	-	-	-	(180,000)	(180,000)
Transfer on disposal of properties	-	(88)	-	-	88	-
Revaluation of properties	-	(18,745)	(269)	-	-	(19,014)
Release from deferred tax liabilities	-	1,282	-	-	-	1,282
At 30 June 2003	300,000	110,600	-	239	2,874,193	3,285,032
At 1 July 2003	300,000	110,600	-	239	2,874,193	3,285,032
Currency translation differences	-	-	-	169	1	170
Net profit for the second half of 2003	-	-	-	-	270,478	270,478
2003 first interim dividend paid	-	-	-	-	(150,000)	(150,000)
2003 second interim dividend declared	-	-	-	-	(186,000)	(186,000)
Transfer on disposal of properties	-	-	6,566	-	-	6,566
Revaluation of properties	-	-	(876)	-	-	(876)
Release from deferred tax liabilities	-	138	-	-	-	138
At 31 December 2003	300,000	110,738	5,690	408	2,808,672	3,225,508
At 1 January 2004	300,000	110,738	5,690	408	2,808,672	3,225,508
Currency translation differences	-	-	-	(175)	-	(175)
Net profit for the first half of 2004	-	-	-	-	255,431	255,431
2004 interim dividend declared	-	-	-	-	(150,000)	(150,000)
Release from deferred tax liabilities	-	85	-	-	-	85
At 30 June 2004	300,000	110,823	5,690	233	2,914,103	3,330,849

**CHIYU BANKING CORPORATION LIMITED**

**CONSOLIDATED CASH FLOW STATEMENT**

		<b>Half- year ended</b>	(Audited) Half- year ended
	Note	<b>30 June 2004</b>	30 June 2003
		<b>HK\$'000</b>	HK\$'000
<b>Cash flow from operating activities</b>			
Operating cash (outflow)/inflow before taxation	13	<b>(3,458,574)</b>	1,354,110
Hong Kong profits tax refunded/(paid)		<b>849</b>	(174)
Overseas profits tax paid		<b>(828)</b>	(846)
<b>Net cash (outflow)/ inflow from operating activities</b>		<b><u>(3,458,553)</u></b>	<u>1,353,090</u>
<b>Cash flow from investing activities</b>			
Purchase of fixed assets		<b>(4,348)</b>	(3,645)
Proceeds from disposal of fixed assets		-	171
Proceeds from disposal of investment securities		-	8,142
Dividends received from investment securities		<b>696</b>	498
<b>Net cash (outflow)/ inflow from investing activities</b>		<b><u>(3,652)</u></b>	<u>5,166</u>
<b>Cash outflow from financing activities</b>			
Dividends paid		<b>(186,000)</b>	(180,000)
<b>(Decrease)/Increase in cash and cash equivalents</b>		<b>(3,648,205)</b>	1,178,256
Cash and cash equivalents at 1 January		<b><u>11,049,659</u></b>	<u>10,119,803</u>
<b>Cash and cash equivalents at 30 June</b>	13	<b><u><u>7,401,454</u></u></b>	<u><u>11,298,059</u></u>

## CHIYU BANKING CORPORATION LIMITED

### NOTES

#### 1 Basis of preparation and accounting policies

Chiyu Banking Corporation Limited (hereinafter as the “Bank”) was incorporated under the law of Hong Kong. The Bank and its subsidiaries collectively referred as the Group.

This unaudited interim report is prepared in accordance with Statement of Standard Accounting Practice 25 (SSAP 25) “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants and should be read in conjunction with the Group’s Annual Report 2003.

These unaudited consolidated interim financial statements have been prepared on a basis consistent with the accounting policies and methods of computation used in the Group’s accounts for the year ended 31 December 2003.

#### 2 Other operating income

	<b>Half- year ended 30 June 2004 HK\$’000</b>	Half- year ended 30 June 2003 HK\$’000
Fees and commission income (Note)	<b>106,641</b>	81,196
Less: Fees and commission expenses	<b>(10,081)</b>	(8,148)
Net fees and commission income	<b>96,560</b>	73,048
Dividend income from investments in securities		
- listed investments	<b>36</b>	-
- unlisted investments	<b>660</b>	498
Net gain from foreign exchange activities	<b>22,545</b>	16,413
Gross rental income from investment properties	<b>655</b>	689
Less: Outgoing in respect of investment properties	<b>(23)</b>	-
Others	<b>306</b>	2,053
	<b>120,739</b>	92,701

# CHIYU BANKING CORPORATION LIMITED

## NOTES

### 2 Other operating income (Continued)

Note:

Fees and commission income

	Half- year ended 30 June 2004 HK\$'000	Half- year ended 30 June 2003 HK\$'000
Securities brokerage	34,960	16,101
Credit cards	284	389
Bills commissions	21,255	20,318
Loan commissions	10,857	7,007
Payment services	6,591	6,196
Insurance	5,010	4,157
Asset management	3,416	2,291
Guarantees	837	1,003
Others		
- safe deposit box	5,238	5,311
- low deposit balance accounts	1,548	3,009
- currency exchange	141	104
- BOC cards	653	770
- dormant accounts	551	340
- agency services	234	147
- postage and telegrams	499	383
- information search	761	219
- correspondent banking	785	710
- sundries	13,021	12,741
	<u>106,641</u>	<u>81,196</u>

# **CHIYU BANKING CORPORATION LIMITED**

## **NOTES**

### **3 Operating expenses**

	<b>Half- year ended 30 June 2004 HK\$'000</b>	Half- year ended 30 June 2003 HK\$'000
Staff costs (including directors' emoluments)	<b>65,349</b>	62,666
Premises and equipment expenses (excluding depreciation)		
- rental of premises	<b>6,804</b>	6,067
- information technology	<b>9,741</b>	9,069
- others	<b>2,701</b>	2,653
Depreciation on owned fixed assets	<b>6,240</b>	6,097
Auditors' remuneration	<b>183</b>	400
Other operating expenses	<b>12,310</b>	10,196
	<b>103,328</b>	97,148

### **4 Write-back of/(charge for) bad and doubtful debts**

	<b>Half- year ended 30 June 2004 HK\$'000</b>	Half- year ended 30 June 2003 HK\$'000
Net credit/(charge for) bad and doubtful debts		
Specific provisions		
- new provisions	<b>(26,952)</b>	(40,139)
- releases	<b>34,175</b>	5,433
- recoveries	<b>17,180</b>	569
	<b>24,403</b>	(34,137)
General provisions	<b>(8,121)</b>	-
Net credit/ (charge) to profit and loss account	<b>16,282</b>	(34,137)



# CHIYU BANKING CORPORATION LIMITED

## NOTES

### 5 Taxation

Taxation in the profit and loss account represents:

	Half- year ended 30 June 2004 HK\$'000	Half- year ended 30 June 2003 HK\$'000
Hong Kong profits tax		
- current period taxation	49,705	39,160
- over-provision in prior years	(5,000)	(18,823)
Deferred taxation (credit)/charge	(2,600)	5,058
	<hr/>	<hr/>
Hong Kong profits tax	42,105	25,395
Overseas taxation	921	675
	<hr/>	<hr/>
	43,026	26,070
	<hr/>	<hr/>

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the first half of 2004. Taxation on overseas profits has been calculated on the estimated assessable profit for the first half of 2004 at the rates of taxation prevailing in the countries in which the Group operates.

The Group has entered into a number of aircraft leasing and coupon strip transactions involving special purpose partnerships. As at 30 June 2004, the Group's investments in such partnerships, which are included in "Other assets" in the consolidated balance sheet amounted approximately to HK\$111million (31 December 2003: HK\$61million). The Group's investments in partnerships are amortised over the life of the partnerships in proportion to the taxation benefits resulting from those investments.

The taxation on the Group's profit before taxation that differs from the theoretical amount that would arise using the taxation rate of Hong Kong is as follows:

	Half- year ended 30 June 2004 HK\$'000	Half- year ended 30 June 2003 HK\$'000
Profit before taxation	298,457	241,020
	<hr/>	<hr/>
Calculated at a taxation rate of 17.5%	52,230	42,178
Effect of different taxation rates in other countries	470	(502)
Income not subject to taxation	(5,169)	(5,350)
Expenses not deductible for taxation purposes	3,095	3,509
Temporary differences not recognized	(2,600)	5,058
Over-provision in prior years	(5,000)	(18,823)
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Taxation charge	43,026	26,070
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# CHIYU BANKING CORPORATION LIMITED

## NOTES

### 6 Dividends

	Half- year ended 30 June 2004		Half- year ended 30 June 2003	
	Per share HK\$	Total HK\$'000	Per share HK\$	Total HK\$'000
Interim dividend	<u>50.00</u>	<u>150,000</u>	<u>50.00</u>	<u>150,000</u>

### 7 Advances and other accounts

	At 30 June 2004 HK\$'000	At 31 December 2003 HK\$'000
Advances to customers	9,300,293	9,041,421
Accrued interest	<u>109,505</u>	<u>98,783</u>
	<u>9,409,798</u>	<u>9,140,204</u>
Provision for bad and doubtful debts		
- General	(167,133)	(159,012)
- Specific	<u>(94,369)</u>	<u>(103,910)</u>
	<u>(261,502)</u>	<u>(262,922)</u>
	<u>9,148,296</u>	<u>8,877,282</u>

Non-performing loans are analysed as follows:

	At 30 June 2004 HK\$'000	At 31 December 2003 HK\$'000
Non-performing loans	263,215	387,631
As a percentage to total advances to customers	2.83%	4.29%
Specific provisions made in respect of such advances	94,368	103,910
Amount of interest in suspense	<u>3,795</u>	<u>3,542</u>

Non-performing loans are defined as loans and advances to customers on which interest is being placed in suspense or on which interest accrual has ceased. Specific provisions were made after taking into account the value of collateral in respect of such advances.

There were no advances to banks and other financial institutions on which interest has been placed in suspense or on which interest accrual has ceased as at 30 June 2004 and 31 December 2003, nor were there any specific provisions made.

# **CHIYU BANKING CORPORATION LIMITED**

## **NOTES**

### **8 Deposits from customers**

	<b>At 30 June 2004 HK\$'000</b>	<b>At 31 December 2003 HK\$'000</b>
Demand deposits and current accounts	<b>1,402,266</b>	1,229,623
Savings deposits	<b>10,885,165</b>	11,318,253
Time, call and notice deposits	<b>10,780,325</b>	11,725,758
	<b><u>23,067,756</u></b>	<b><u>24,273,634</u></b>

### **9 Other accounts and provisions**

	<b>At 30 June 2004 HK\$'000</b>	<b>At 31 December 2003 HK\$'000</b>
Interest payable	<b>25,754</b>	21,238
Dividend payable	<b>150,404</b>	186,404
Current taxation (Note 10(a))	<b>71,865</b>	26,218
Deferred taxation (Notes 10(b))	-	414
Accruals and other payables	<b>671,986</b>	1,517,669
	<b><u>920,009</u></b>	<b><u>1,751,943</u></b>

### **10 Tax liabilities**

	<b>At 30 June 2004 HK\$'000</b>	<b>At 31 December 2003 HK\$'000</b>
Current taxation (Note a)	<b>71,865</b>	26,218
Deferred taxation (Note b)	-	414
	<b><u>71,865</u></b>	<b><u>26,632</u></b>

# CHIYU BANKING CORPORATION LIMITED

## NOTES

### 10 Tax liabilities (Continued)

#### (a) Current taxation

	At 30 June 2004 HK\$'000	At 31 December 2003 HK\$'000
Hong Kong profits tax	71,930	26,376
Overseas taxation	(65)	(158)
	<u>71,865</u>	<u>26,218</u>

#### (b) Deferred taxation

In the current period, deferred tax is recognized in respect of the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts according to SSAP 12 (revised) "Income taxes". The major components of deferred tax assets and liabilities recorded in the consolidated balance sheet and the movements during the first half of 2004 are as follows:

	2004					
	Accelerated tax depreciation HK\$'000	Assets revaluation HK\$'000	Losses HK\$'000	Provisions HK\$'000	Other temporary difference HK\$'000	Total HK\$'000
At 1 January 2004	2,781	22,667	(255)	(27,705)	2,874	362
Charged/ (credited) to profit and loss account	526	-	-	(1,421)	(1,705)	(2,600)
Credited to equity	-	(85)	-	-	-	(85)
At 30 June 2004	<u>3,307</u>	<u>22,582</u>	<u>(255)</u>	<u>(29,126)</u>	<u>1,169</u>	<u>(2,323)</u>
	2003					
	Accelerated tax depreciation HK\$'000	Assets revaluation HK\$'000	Losses HK\$'000	Provisions HK\$'000	Other temporary difference HK\$'000	Total HK\$'000
At 1 January 2003, as previously reported	-	-	-	-	-	-
Effect of adoption of SSAP 12 (revised)	4,669	24,087	(207)	(25,888)	-	2,661
At 1 January 2003, as restated	4,669	24,087	(207)	(25,888)	-	2,661
(Credited)/ charged to profit and loss account	(1,888)	-	(48)	(1,817)	2,874	(879)
Credited to equity	-	(1,420)	-	-	-	(1,420)
At 31 December 2003	<u>2,781</u>	<u>22,667</u>	<u>(255)</u>	<u>(27,705)</u>	<u>2,874</u>	<u>362</u>

Deferred tax assets and liabilities are offset on an individual entity basis when there is a legal right to set off current tax assets against current tax liabilities and when the deferred taxation relates to the same authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheets:

# **CHIYU BANKING CORPORATION LIMITED**

## **NOTES**

### **10 Tax liabilities (Continued)**

#### **(b) Deferred taxation (Continued)**

	<b>At 30 June 2004 HK\$'000</b>	At 31 December 2003 HK\$'000
Deferred tax assets (Note)	(2,323)	(52)
Deferred tax liabilities	-	414
	<u>(2,323)</u>	<u>362</u>

Note: This amount has been included in "Other assets"

	<b>At 30 June 2004 HK\$'000</b>	At 31 December 2003 HK\$'000
Deferred tax assets to be recovered after more than twelve months	(29,380)	(27,960)
Deferred tax liabilities to be settled after more than twelve months	3,307	3,950
	<u>3,307</u>	<u>3,950</u>

### **11 Share capital**

	<b>At 30 June 2004 HK\$'000</b>	At 31 December 2003 HK\$'000
Authorised:		
3,000,000 ordinary shares of HK\$100 each	300,000	300,000
Issued and fully paid:		
3,000,000 ordinary shares of HK\$100 each	300,000	300,000

### **12 Reserves**

	<b>At 30 June 2004 HK\$'000</b>	At 31 December 2003 HK\$'000
Premises revaluation reserve	110,823	110,738
Investment properties revaluation reserve	5,690	5,690
Translation reserve	233	408
Retained earnings	2,914,103	2,808,672
	<u>3,030,849</u>	<u>2,925,508</u>

# **CHIYU BANKING CORPORATION LIMITED**

## **NOTES**

### **13 Notes to consolidated cash flow statement**

#### **(a) Reconciliation of operating profit after provisions to operating cash (outflow)/inflow before taxation**

	Half- year ended 30 June 2004 HK\$'000	Half- year ended 30 June 2003 HK\$'000
Operating profit after provisions	298,480	245,005
Depreciation	6,240	6,097
(Charge for)/write-back of bad and doubtful debts	(16,282)	34,137
Advances written off net of recoveries	14,862	(9,951)
Dividends income from investment securities	(696)	(498)
Change in placements with banks and other financial institutions with original maturity over three months	(470,494)	520,719
Change in money at call and short notice with original maturity over three months	211,887	746,951
Change in trade bills	(83,755)	(47,341)
Change in certificates of deposit held with original maturity over three months	(683,555)	(150,072)
Change in held-to-maturity securities	(1,249,396)	(747,470)
Change in advances and other accounts	(269,594)	(268,371)
Change in deposits and balances of banks and other financial institutions repayable over three months	69,030	37,586
Change in other assets	761,248	58,226
Change in deposits from customers	(1,205,878)	833,331
Change in certificates of deposit issued	(500)	-
Change in other accounts and provisions	(841,219)	95,776
Currency translation differences	1,048	(15)
Operating cash (outflow)/inflow before taxation	(3,458,574)	1,354,110

#### **(b) Analysis of the balances of cash and cash equivalents**

	At 30 June 2004 HK\$'000	At 30 June 2003 HK\$'000
Cash and balances with banks and other financial institutions	972,703	377,200
Money at call and short notice with original maturity within three months	5,189,259	8,199,834
Treasury bills with original maturity within three months	-	321,992
Placements with banks and other financial institutions with original maturity within three months	2,496,694	3,129,773
Deposits and balances of banks and other financial institution with original maturity within three months	(1,257,202)	(730,740)
	7,401,454	11,298,059

# CHIYU BANKING CORPORATION LIMITED

## NOTES

### 14 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:

	At 30 June 2004 HK\$'000	At 31 December 2003 HK\$'000
Direct credit substitutes	14,483	59,040
Transaction-related contingencies	80,767	22,916
Trade-related contingencies	1,104,534	1,213,670
Other commitments with an original maturity of:		
- under one year or which are unconditionally cancellable	3,224,723	2,933,877
- one year and over	637,976	884,117
	<b>5,062,483</b>	<b>5,113,620</b>

#### (b) Derivatives

The following is a summary of the notional amounts of each significant type of derivative:

	At 30 June 2004			At 31 December 2003		
	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000
Exchange rate contracts						
Spots and forwards	329,081	-	329,081	78,944	-	78,944
Swaps	9,466	10,734	20,200	-	10,889	10,889
Foreign exchange option contracts						
- currency options purchased	95,473	-	95,473	124,175	-	124,175
- currency options written	95,473	-	95,473	124,175	-	124,175
Interest rate contracts						
Interest rate swaps	265,772	38,998	304,770	138,183	38,816	176,999
Interest rate option contracts						
- swaption written	206,156	-	206,156	205,710	-	205,710
Equity contracts						
Equity option contracts						
- equity options purchased	101,025	-	101,025	154,718	-	154,718
- equity options written	101,025	-	101,025	154,718	-	154,718
	<b>1,203,471</b>	<b>49,732</b>	<b>1,253,203</b>	<b>980,623</b>	<b>49,705</b>	<b>1,030,328</b>

# CHIYU BANKING CORPORATION LIMITED

## NOTES

### 14 Off-balance sheet exposures (Continued)

#### (b) Derivatives (continued)

The trading transactions include positions arising from dealing activities and positions arising from the execution of trade orders from customers or transactions taken to hedge those positions.

The replacement costs and credit risk weighted amounts of the above off-balance sheet exposures, which do not take into account the effects of bilateral netting arrangements are as follows:

	At 30 June 2004	At 31 December 2003	At 30 June 2004	At 31 December 2003
	Credit risk weighted amount		Replacement cost	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments	555,031	689,145	N/A	N/A
Derivatives:				
- Exchange rate contracts	808	170	1,534	130
- Interest rate contracts	383	338	-	415
	<u>556,222</u>	<u>689,653</u>	<u>1,534</u>	<u>545</u>

The contract or notional amounts of these instruments indicate the volume of transactions outstanding as at 30 June 2004 and 31 December 2003, they do not represent the amounts at risk.

The credit risk weighted amounts are the amounts that have been calculated in accordance with the Third Schedule of the Banking Ordinance and guidelines issued by the Hong Kong Monetary Authority. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

Replacement cost is the cost of replacing all contracts that have a positive value when marked to market (should the counterparty default on its obligations) and is obtained by marking contracts to market. Replacement cost is a close approximation of the credit risk for these contracts at the balance sheet dates.

### 15 Segmental reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other business or geographical segments. The Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment and those that can be allocated on a reasonable basis to that segment. The allocation of revenue reflects the benefits of capital and other funding resources allocated to the business or geographical segments by way of internal capital allocations and fund transfer mechanisms.



# CHIYU BANKING CORPORATION LIMITED

## NOTES

### 15 Segmental reporting (Continued)

#### (a) By class of business

	Half-year ended 30 June 2004					
	Commercial Banking	Treasury	Unallocated	Subtotal	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income	139,045	127,619	(1,877)	264,787	-	264,787
Other operating income	114,223	4,783	12,983	131,989	(11,250)	120,739
Operating income	253,268	132,402	11,106	396,776	(11,250)	385,526
Operating expenses	(83,084)	(1,480)	(30,014)	(114,578)	11,250	(103,328)
Operating profit/(loss) before provisions	170,184	130,922	(18,908)	282,198	-	282,198
Write-back of bad and doubtful debts	16,282	-	-	16,282	-	16,282
Operating profit/(loss) after provisions	186,466	130,922	(18,908)	298,480	-	298,480
Net loss from disposal/revaluation of fixed assets	-	-	(23)	(23)	-	(23)
Profit/(loss) before taxation	186,466	130,922	(18,931)	298,457	-	298,457
At 30 June 2004						
Segment assets	9,514,414	19,195,161	543,782	29,253,357	-	29,253,357
Segment liabilities	24,096,007	1,572,574	253,927	25,922,508	-	25,922,508
	Half- year ended 30 June 2003					
	Commercial Banking	Treasury	Unallocated	Subtotal	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income	190,918	97,055	(4,384)	283,589	-	283,589
Other operating income	90,177	145	14,709	105,031	(12,330)	92,701
Operating income	281,095	97,200	10,325	388,620	(12,330)	376,290
Operating expenses	(84,840)	(1,530)	(23,108)	(109,478)	12,330	(97,148)
Operating profit/(loss) before provisions	196,255	95,670	(12,783)	279,142	-	279,142
Charge for bad and doubtful debts	(34,137)	-	-	(34,137)	-	(34,137)
Operating profit/(loss) after provisions	162,118	95,670	(12,783)	245,005	-	245,005
Net loss from disposal/revaluation of fixed assets	-	-	(3,971)	(3,971)	-	(3,971)
Net gain from disposal of investment securities	-	-	106	106	-	106
Provision for impairment in investment securities	-	-	(120)	(120)	-	(120)
Profit/(loss) before taxation	162,118	95,670	(16,768)	241,020	-	241,020
At 31 December 2003						
Segment assets	9,827,917	20,393,230	590,289	30,811,436	-	30,811,436
Segment liabilities	26,078,421	1,257,634	249,873	27,585,928	-	27,585,928

## CHIYU BANKING CORPORATION LIMITED

### NOTES

#### 15 Segmental reporting (Continued)

##### (a) By class of business (Continued)

Commercial banking business includes acceptance of deposits, mortgage lending, remittance, provision of securities brokerage and insurance agency services, commercial lending, trade finance and overdraft facilities.

Treasury activities include money market, foreign exchange dealing and capital market activities. Treasury manages funding of the Group. Treasury provides funding to all other business segments and receives funds from commercial banking's deposit taking activities. These inter-segment funding transactions are priced either at market bid/offer rates as appropriate or at an internal funding rate as determined by the average funding requirements of other business segments and the average one-month inter-bank rates of the relevant financial period. In addition, the gains and losses on the foreign exchange activities of the Group are included in "Treasury". The profit and loss information presented in this note has been prepared using inter-segment charging/income transactions. The segmental assets and liabilities have not been adjusted to reflect the effect of inter-segment borrowing and lending (i.e. segmental profit and loss information is not comparable to segmental assets and liabilities information).

Unallocated items mainly comprised fixed assets of the Group, investment securities and other items that cannot be reasonably allocated to a specific business segment. Rental expenses are allocated to business segments based on a fixed rate per square footage occupied.

Operating expenses of a functional unit are allocated to the relevant business segment that is the predominant user of the services provided by the unit. Operating expenses of other shared services, which cannot be allocated to a specific business segment, are included in "Unallocated".

##### (b) By geographical area

No geographical reporting is provided as over 90% of the Group's revenue are derived from Hong Kong and over 90% of the Group's assets are originated from business decisions and operations based in Hong Kong.

#### 16 Significant related party transactions

Related parties are those parties that have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or other entities.

During the period, the Group entered into various transactions with related parties including the ultimate holding company, immediate holding company and fellow subsidiaries and entities, directly or indirectly, controlled or significantly influenced by the ultimate holding company, in the normal course of the Group's business and on commercial terms.

# **CHIYU BANKING CORPORATION LIMITED**

## **NOTES**

### **16 Significant related party transactions (Continued)**

#### **(a) Summary of transactions entered into during the ordinary course of business with the related parties**

The aggregate income and expenses arising from related party transactions with the ultimate holding company, immediate holding company and fellow subsidiaries are summarized as follows:

	<b>Half- year ended 30 June 2004 HK\$'000</b>	Half- year ended 30 June 2003 HK\$'000
Profit and loss items:		
Interest income	15,750	50,913
Interest expense	1,280	7,833
Other operating income	28,572	14,940
Operating expenses	11,647	10,701
	<u>At 30 June 2004 HK\$'000</u>	<u>At 31 December 2003 HK\$'000</u>
Balance sheet items:		
Cash and short-term funds	2,303,276	2,219,234
Placement with banks and other financial institutions	1,909,842	450,823
Advances and other accounts	320,162	255,588
Other assets	78,714	513,816
Deposits from and balance of banks and other financial Institution	1,090,049	1,106,139
Deposits from customers	940,113	866,593
Other accounts and provisions	184,749	530,378
	<u>At 30 June 2004 HK\$'000</u>	<u>At 31 December 2003 HK\$'000</u>
Off-balance sheet items:		
Derivatives	544,335	499,146
Contingent liabilities and commitments	463,693	-

# **CHIYU BANKING CORPORATION LIMITED**

## **NOTES**

### **16 Significant related party transactions (Continued)**

#### **(b) Balances with the group companies**

Included in the following balance sheet captions are balances with the ultimate holding company:

	<b>At 30 June 2004 HK\$'000</b>	At 31 December 2003 HK\$'000
Cash and short-term funds	<b>1,380,799</b>	1,732,594
Placements with banks and other financial institutions	<b>1,649,473</b>	389,495
Advances and other accounts	<b>2,634</b>	-
Deposits and balances of banks and other financial institutions	<b>511,362</b>	147,318
Other accounts and provisions	<b>55</b>	-
	<b>=====</b>	<b>=====</b>

Included in the following balance sheet captions are balances with the immediate holding company:

	<b>At 30 June 2004 HK\$'000</b>	At 31 December 2003 HK\$'000
Cash and short-term funds	<b>840,724</b>	446,374
Placements with banks and other financial institutions	<b>80,976</b>	-
Advances and other accounts	<b>49</b>	-
Other assets	<b>27,846</b>	91,309
Deposits and balances of banks and other financial institutions	<b>578,687</b>	958,821
Other accounts and provisions	<b>149,193</b>	171,686
	<b>=====</b>	<b>=====</b>

Included in the following balance sheet captions are balances with fellow subsidiaries:

	<b>At 30 June 2004 HK\$'000</b>	At 31 December 2003 HK\$'000
Cash and short-term funds	<b>81,753</b>	40,266
Placements with banks and other financial institutions	<b>179,393</b>	61,328
Advances and other accounts	<b>317,479</b>	255,588
Other assets	<b>50,868</b>	422,507
Deposits from customers	<b>940,113</b>	866,593
Other accounts and provisions	<b>35,501</b>	358,692
	<b>=====</b>	<b>=====</b>

# CHIYU BANKING CORPORATION LIMITED

## SUPPLEMENTARY FINANCIAL INFORMATION

### (1) Capital adequacy ratio

	At 30 June 2004	At 31 December 2003
Capital adequacy ratio	<u>26.35%</u>	<u>25.31%</u>
Adjusted capital adequacy ratio	<u>26.34%</u>	<u>25.30%</u>

The capital adequacy ratio is computed on the combined basis, as specified by the Hong Kong Monetary Authority for its regulatory purposes, and is in accordance with the Third Schedule of the Banking Ordinance.

The adjusted capital adequacy ratio taking into account market risk exposure as at the balance sheet date is computed in accordance with the guideline of “Maintenance of Adequate Capital Against Market Risks” under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority and on the same basis as for the unadjusted capital adequacy ratio.

### (2) Components of capital base after deductions

The capital base after deductions used in the calculation of the above capital adequacy ratios as at 30 June 2004 and 31 December 2003 and reported to the Hong Kong Monetary Authority is analysed as follows:

	At 30 June 2004 HK\$'000	At 31 December 2003 HK\$'000
Core capital:		
Paid up ordinary share capital	300,000	300,000
Reserves	2,767,533	2,619,428
Profit and loss account	105,354	148,105
	<u>3,172,887</u>	<u>3,067,533</u>
Supplementary capital:		
Premises and investment properties revaluation reserves	224	224
General provisions for bad and doubtful debts	155,630	156,664
	<u>155,854</u>	<u>156,888</u>
Total capital base	<u>3,328,741</u>	<u>3,224,421</u>
Deductions from total capital base:		
Shareholdings in subsidiaries or holding company	(3,913)	(3,913)
Exposures to connected companies	(75,916)	(75,720)
Investments in the capital of other banks or other financial institutions	(653)	(653)
Total capital base after deductions	<u>3,248,259</u>	<u>3,144,135</u>

# CHIYU BANKING CORPORATION LIMITED

## SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

### (3) Liquidity ratio

	Half- year ended 30 June 2004	Half- year ended 30 June 2003
Average liquidity ratio	<b>55.03%</b>	59.92%

The average liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of the Bank for the period.

The liquidity ratio is computed on the solo basis (the Hong Kong offices only) and is in accordance with the Forth Schedule of the Banking Ordinance.

### (4) Currency concentrations

The following is a summary of the major foreign currency exposures arising from trading, non-trading and structural positions. The net position is calculated based on the worst-case approach set out in the prudential return "Foreign Currency Position" issued by the Hong Kong Monetary Authority.

At 30 June 2004							
	US Dollars HK\$'000	Pound Sterling HK\$'000	New Zealand HK\$'000	Australian Dollars HK\$'000	Japanese Yen HK\$'000	Others HK\$'000	Total HK\$'000
Equivalent in Hong Kong dollars							
Spot assets	6,239,073	114,594	476,365	1,196,006	194,885	607,280	8,828,203
Spot liabilities	(5,378,864)	(113,816)	(467,250)	(1,158,263)	(574,046)	(779,978)	(8,472,217)
Forward purchases	131,835	24,346	1,475	21,806	421,621	235,031	836,114
Forward sales	(267,288)	(24,823)	(9,170)	(58,821)	(43,070)	(62,124)	(465,296)
Net long/(short) position	<b>724,756</b>	<b>301</b>	<b>1,420</b>	<b>728</b>	<b>(610)</b>	<b>209</b>	<b>726,804</b>

  

At 31 December 2003							
	US Dollars HK\$'000	Pound Sterling HK\$'000	New Zealand HK\$'000	Australian Dollars HK\$'000	Japanese Yen HK\$'000	Others HK\$'000	Total HK\$'000
Equivalent in Hong Kong dollars							
Spot assets	5,792,701	146,604	483,273	1,006,772	215,527	494,030	8,138,907
Spot liabilities	(5,296,278)	(144,042)	(477,126)	(1,035,123)	(781,825)	(715,751)	(8,450,145)
Forward purchases	51,895	346	2,037	40,081	581,559	257,363	933,281
Forward sales	(385,230)	(2,132)	(7,662)	(7,580)	(16,142)	(39,713)	(458,459)
Net long/(short) position	<b>163,088</b>	<b>776</b>	<b>522</b>	<b>4,150</b>	<b>(881)</b>	<b>(4,071)</b>	<b>163,584</b>

There were no significant net structural positions for the Group as at 30 June 2004 and 31 December 2003.

# CHIYU BANKING CORPORATION LIMITED

## SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

### (5) Segmental information

#### (a) Sectoral analysis of gross advances to customers

The information concerning gross advances to customers has been analysed into loans used inside or outside Hong Kong and by industry sectors of the borrowers as follows:

	At 30 June 2004 HK\$'000	At 31 December 2003 HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
- Property development	431,449	490,529
- Property investment	1,637,232	1,503,078
- Financial concerns	302,430	300,163
- Stockbrokers	6,774	3,481
- Wholesale and retail trade	836,607	795,173
- Manufacturing	951,824	725,395
- Transport and transport equipment	119,259	63,298
- Others	661,999	855,061
Individuals		
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	166,183	174,042
- Loans for the purchase of other residential properties	2,605,950	2,655,325
- Others	294,733	394,972
Total loans for use in Hong Kong	<u>8,014,440</u>	<u>7,960,517</u>
Trade finance	657,986	671,294
Loans for use outside Hong Kong	<u>627,867</u>	<u>409,610</u>
Gross advances to customers	<u><u>9,300,293</u></u>	<u><u>9,041,421</u></u>

**CHIYU BANKING CORPORATION LIMITED**

**SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)**

**(5) Segmental information (continued)**

**(b) Geographical analysis of gross advances to customers, overdue advances and non-performing loans**

The following geographical analysis of gross advances to customers, advances overdue for over three months and non-performing loans is based on the location of the counterparties, after taking into account the transfer of risk in respect of such advances where appropriate.

**(i) Gross advances to customers**

	<b>At 30 June 2004 HK\$'000</b>	<b>At 31 December 2003 HK\$'000</b>
Hong Kong	<b>8,659,860</b>	8,565,803
Mainland China	<b>640,433</b>	475,618
	<b><u>9,300,293</u></b>	<b><u>9,041,421</u></b>

**(ii) Advances overdue for over three months**

	<b>At 30 June 2004 HK\$'000</b>	<b>At 31 December 2003 HK\$'000</b>
Hong Kong	<b>158,331</b>	242,537
Mainland China	<b>74,052</b>	94,013
	<b><u>232,383</u></b>	<b><u>336,550</u></b>

**(iii) Non-performing loans**

	<b>At 30 June 2004 HK\$'000</b>	<b>At 31 December 2003 HK\$'000</b>
Hong Kong	<b>189,775</b>	294,413
Mainland China	<b>73,440</b>	93,218
	<b><u>263,215</u></b>	<b><u>387,631</u></b>



**CHIYU BANKING CORPORATION LIMITED**

**SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)**

**(6) Cross-border claims**

The information on cross-border claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country, which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country. Only regions constituting 10% or more of the aggregate cross-border claims are analysed by geographical areas and disclosed as follows:

At 30 June 2004			
	Banks and other financial institutions HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	<b>5,464,000</b>	<b>818,000</b>	<b>6,282,000</b>
Western Europe	<b>7,985,000</b>	<b>59,000</b>	<b>8,044,000</b>
At 31 December 2003			
	Banks and other financial institutions HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	4,562,000	395,000	4,957,000
Western Europe	10,348,000	474,000	10,822,000

**CHIYU BANKING CORPORATION LIMITED**

**SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)**

**(7) Overdue and rescheduled assets**

**(a) Overdue and non-performing loans**

	<b>At 30 June 2004</b>		<b>At 31 December 2003</b>	
	<b><u>Amount</u></b>	<b><u>% of gross</u></b>	<b><u>Amount</u></b>	<b><u>% of gross</u></b>
	<b><u>HK\$'000</u></b>	<b><u>advances to</u></b>	<b><u>HK\$'000</u></b>	<b><u>advances to</u></b>
		<b><u>customers</u></b>		<b><u>customers</u></b>
Gross advances to customers which have been overdue for:				
- six months or less but over three months	<b>10,444</b>	<b>0.11%</b>	12,320	0.14%
- one year or less but over six months	<b>4,439</b>	<b>0.05%</b>	7,185	0.08%
- over one year	<b>217,500</b>	<b>2.34%</b>	317,045	3.50%
Advances overdue for over three months	<b>232,383</b>	<b>2.50%</b>	336,550	3.72%
Less:				
Advances overdue for more than three months and on which interest is still being accrued	<b>(1,226)</b>	<b>(0.01%)</b>	(825)	(0.01%)
Add:				
Advances overdue for three months or less and on which interest is being placed in suspense or on which interest accrual has ceased				
- included in rescheduled advances	<b>4,224</b>	<b>0.04%</b>	11,235	0.13%
- others	<b>27,834</b>	<b>0.30%</b>	40,671	0.45%
Gross non-performing loans	<b>263,215</b>	<b>2.83%</b>	387,631	4.29%

At 30 June 2004 and 31 December 2003, there were no advances to banks and other financial institutions which were overdue for over three months.

**CHIYU BANKING CORPORATION LIMITED**

**SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)**

**(7) Overdue and rescheduled assets (continued)**

**(b) Rescheduled advances to customers net of amounts included in overdue advances**

	<u>At 30 June 2004</u>		<u>At 31 December 2003</u>	
	<u>Amount</u>	<u>% of gross</u>	<u>Amount</u>	<u>% of gross</u>
	<u>HK\$'000</u>	<u>advances to</u>	<u>HK\$'000</u>	<u>advances to</u>
		<u>customers</u>		<u>customers</u>
Rescheduled advances to customers	<u>4,224</u>	<u>0.04%</u>	<u>12,961</u>	<u>0.14%</u>

Advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid. Advances repayable by regular instalments are classified as overdue when an instalment payment is overdue and remains unpaid. Advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction or when the advances have remained continuously outside the approved limit that was advised to the borrower.

Rescheduled advances are those advances that have been restructured or renegotiated because of a deterioration in the financial position of the borrower or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms, either of interest or of repayment period, are non-commercial. Rescheduled advances which have been overdue for more than three months under the revised repayment terms are included under overdue advances. Rescheduled advances are stated after deduction of accrued interest that has been charged to customers but accrued to a suspense account and before deduction of specific provisions.

As at 30 June 2004 and 31 December 2003, there were no rescheduled advances to banks and other financial institutions.

**(8) Repossessed assets held**

	<u>At 30 June</u>	<u>At 31 December</u>
	<u>2004</u>	<u>2003</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Reposessed assets held	<u>74,862</u>	<u>118,583</u>

Reposessed assets are properties or securities in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the borrowers concerned) for release in full or in part of the obligations of the borrowers. Upon repossession of the assets, the related loans and advances will continue to be recorded as loans and advances until all collection efforts have been exhausted and the reposessed assets are realised. Specific provisions will be made after taking into account the market value of the reposessed assets which are yet to be disposed. Upon disposal of the reposessed assets, any specific provisions previously made will be utilised to write off the loans and advances.

**CHIYU BANKING CORPORATION LIMITED**

**SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)**

**(9) Compliance with the guideline on “Interim Financial Disclosure by Locally Incorporated Authorized Institutions”**

The interim report for the first half of 2004 fully complies with the requirements set out in the guideline on “Interim Financial Disclosure by Locally Incorporated Authorized Institutions” under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority.

**(10) Compliance with SSAP 25**

The interim report for the first half of 2004 complies with SSAP 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

## **CHIYU BANKING CORPORATION LIMITED**

### **REVIEW AND PROSPECTS BY MANAGEMENT**

In the first half of 2004, the Hong Kong economy achieved an encouraging result. Benefiting from the improvement of the worldwide economy, the 'Closer Economic Partnership Arrangement' ('CEPA') with Mainland China and a surge in the Mainland tourists, both the external trade and domestic sectors of Hong Kong reported satisfactory growths. The tourism, hotel and retail industry demonstrated a robust recovery. The positive economic factors promoted further the property and stock trading. The unemployment rate and deflation have been improved.

Nevertheless, the ongoing restructure of the business sector has brought about challenges as well as opportunities. The banking industry has been facing abundance of market capitals, low market rates and a weak demand for loans. In effect, the net interest margin of the industry was under pressure. By contrast, the increasing demand for wealth management products has attracted bankers' competitive efforts.

In response to the ever-changing needs of our customers, the Bank proactively put extra efforts in promoting professional standard services. To tap the different needs of the individual market, the Bank launched a range of wealth management products with different rates of return. We also served the commercial customers with customized financing services and cash management products.

In the first half of 2004, the profit after tax amounted to HK\$255million, an increase of 18.8% compared with the same period last year. Return on average shareholders' fund and return on average assets were 15.66% and 1.71% respectively.

Due to the declining market interest rate and competitive loan market, net interest margin narrowed by 21 basis points to 1.81%, net interest income fell by 6.6% to HK\$265 million compared with the same period last year. In the first half of year, the Bank offered a range of wealth management products. It also upgraded both the branch networks and the internet banking services, which enhanced the segmented customer services. Benefiting from the efforts, other operating income increased by 30.3% to HK\$121 million; the non-interest income to total revenue rose to 31.32% compared with 24.60% the previous year. The total operating income achieved HK\$386 million, an increase of 2.5% compared with the same period in last year.

Through effective utilization of resources and cost controls, a comparatively low cost to income ratio of 26.80% has been maintained. To cope with the future business conditions, the bank has injected additional resources in improving customer services and upgrading technology application. Consequently, the operating expenses increased by 6.4% to HK\$103 million compared with the same period last year.

The Bank has achieved its target on improving asset quality and enhancing credit risks control. The ratio of non-performing loans dropped from 4.29% to 2.83% compared with the end of 2003. The charge for bad and doubtful debts decreased by HK\$50.42 million compared with the same period last year.

By the end of June, the consolidated total assets decreased HK\$1.56 billion to HK\$29.25 billion compared with the end of 2003. Loans and advances to customers increased by 2.9% to HK\$93 billion and customer deposits decreased by 4.9% to 23.48 billion compared with the end of 2003.

## **CHIYU BANKING CORPORATION LIMITED**

### **REVIEW AND PROSPECTS BY MANAGEMENT (Continued)**

Looking forward the second half of 2004, the Hong Kong economy will still be undergoing a restructuring process. During the process, the landscape of business sector will be highly competitive. The unemployment will be eased but still high when compared to the past low level, due to the relocation of production to the Mainland China. Nevertheless, Hong Kong will continue to be benefited from the economic momentum of China. The further relaxation of entry barrier for the Mainland individuals will effectively push the domestic economy forward. The capital market will be further developed while the local stock market continues to be a fund raising channel for the Chinese enterprises.

The Bank will exploit every opportunity arising from the economic recovery and adopt a customer oriented business strategy. We will launch a new wealth management platform aiming to provide more personalized products and services. To meet the business needs of our corporate customers, we strive to offer a customized mix of financing and cash management products. With our expertise in trade services, equipment financing and experience in the China market, we are well prepared to serve our corporate customers who are developing their business in China. The Bank will also allocate resources to ensure that the corporate governance is in line with international best practices. May we take this opportunity to express our thanks to our valued customers for their years support. We are committed to serve with our superior services all the time.

**August, 2004**

**INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF  
CHIYU BANKING CORPORATION LIMITED**  
(incorporated in Hong Kong with limited liability)

**Introduction**

We have been instructed by the Chiyu Banking Corporation Limited and its subsidiaries (“the Group”) to review the interim financial report set out on pages 1 to 19.

**Respective responsibilities of directors and auditors**

The directors are responsible for the preparation of an interim financial report to be in compliance with SSAP 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and the interim financial report has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**Review work performed**

We conducted our review in accordance with SAS 700 “Engagements to review interim financial reports” issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of the Group’s management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

**Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2004.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 18 August 2004