

Auditors' Report to the Shareholders of Shanghai Commercial Bank Limited

(Incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 16 to 53 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of Directors and Auditors

The Hong Kong Companies Ordinance requires the Directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Bank and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Bank and the Group as at 31st December 2002 and of the profit of the Bank and the Group and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 26th February 2003

Consolidated Profit and Loss Account

for the year ended 31st December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Interest income	3(a)	2,253,629	3,530,883
Interest expense		<u>(855,036)</u>	<u>(2,014,438)</u>
Net interest income		1,398,593	1,516,445
Other operating income	3(b)	<u>561,898</u>	<u>540,154</u>
Operating income		1,960,491	2,056,599
Operating expenses	4	<u>(846,764)</u>	<u>(849,435)</u>
Operating profit before provisions		1,113,727	1,207,164
Charge for bad and doubtful debts	6	<u>(173,967)</u>	<u>(143,315)</u>
Operating profit		939,760	1,063,849
Net losses on disposal of fixed assets		<u>(6,835)</u>	<u>(8,277)</u>
Profits less losses on disposal of held-to-maturity securities and non-trading securities		68,754	82,994
Share of net losses of jointly controlled entities		<u>(21,314)</u>	<u>(7,300)</u>
Profit before taxation		980,365	1,131,266
Taxation	7	<u>(118,146)</u>	<u>(143,039)</u>
Profit after taxation		862,219	988,227
Minority interests		<u>(410)</u>	<u>(72)</u>
Profit attributable to shareholders	24	861,809	988,155
Retained profits brought forward	24	617,013	524,118
Exchange translation differences	24	(415)	1
Transfer from property revaluation reserve	24	<u>15,197</u>	<u>14,739</u>
		1,493,604	1,527,013
Appropriations			
Transfer to general reserve	24	<u>(505,000)</u>	<u>(510,000)</u>
Dividend	8 and 24	<u>(400,000)</u>	<u>(400,000)</u>
Retained profits carried forward	24	<u>588,604</u>	<u>617,013</u>

Profit and Loss Account

for the year ended 31st December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Interest income	3(a)	2,172,092	3,430,756
Interest expense		(855,175)	(2,015,855)
Net interest income		1,316,917	1,414,901
Other operating income	3(b)	640,416	731,067
Operating income		1,957,333	2,145,968
Operating expenses	4	(839,995)	(842,167)
Operating profit before provisions		1,117,338	1,303,801
Charge for bad and doubtful debts	6	(169,998)	(141,635)
Operating profit		947,340	1,162,166
Net losses on disposal of fixed assets		(6,833)	(8,132)
Profits less losses on disposal of held-to-maturity securities and non-trading securities		57,690	72,277
Impairment of investment in a jointly controlled entity		-	(17,238)
Profit before taxation		998,197	1,209,073
Taxation	7	(116,431)	(140,683)
Profit after taxation	24	881,766	1,068,390
Retained profits brought forward	24	567,807	384,836
Exchange translation differences	24	183	(158)
Transfer from property revaluation reserve	24	15,197	14,739
		1,464,953	1,467,807
Appropriations			
Transfer to general reserve	24	(500,000)	(500,000)
Dividend	8 and 24	(400,000)	(400,000)
Retained profits carried forward	24	564,953	567,807

Consolidated Balance Sheet

as at 31st December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Assets			
Cash and short-term funds	9	21,014,398	20,800,468
Placements with banks and other financial institutions maturing between one and twelve months	10	3,930,539	6,415,195
Trade bills	11	774,682	506,802
Certificates of deposit held	12	3,539,453	2,121,531
Securities held for dealing purposes	13	312,817	463,883
Advances to customers and other accounts	14	27,774,305	29,242,966
Held-to-maturity securities and non-trading securities	16	13,753,284	9,931,813
Investments in jointly controlled entities	17(a)	126,468	140,962
Fixed assets	18	2,046,230	2,029,644
Total assets		73,272,176	71,653,264
Liabilities			
Deposits and balances of banks and other financial institutions	19	2,035,343	2,963,397
Deposits from customers	20	56,062,197	55,237,968
Certificates of deposit issued	21	4,088,000	2,870,000
Other accounts and provisions	22	860,204	836,016
Total liabilities		63,045,744	61,907,381
Capital resources			
Minority interests		5,234	5,024
Share capital	23	2,000,000	2,000,000
Reserves	24	8,221,198	7,740,859
Shareholders' funds		10,221,198	9,740,859
Total capital resources		10,226,432	9,745,883
John Kam-pak Yan		Hung-ching Yung	
Chairman		Director	
Philip Kin Hang Wong		Frank Kai-shu Lau	
Director		General Manager	
Total liabilities and capital resources		73,272,176	71,653,264

Balance Sheet

as at 31st December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Assets			
Cash and short-term funds	9	20,516,334	20,303,026
Placements with banks and other financial institutions maturing between one and twelve months	10	3,930,539	6,415,195
Trade bills	11	774,682	506,802
Certificates of deposit held	12	3,539,453	2,121,531
Securities held for dealing purposes	13	312,817	463,883
Advances to customers and other accounts	14	27,519,991	28,950,906
Held-to-maturity securities and non-trading securities	16	12,737,289	8,765,876
Investments in jointly controlled entities	17(a)	95,362	87,762
Investments in subsidiary companies	17(b)	1,470,789	1,639,584
Fixed assets	18	2,019,096	2,000,806
Total assets		72,916,352	71,255,371
Liabilities			
Deposits and balances of banks and other financial institutions	19	2,035,343	2,963,397
Deposits from customers	20	56,020,232	55,174,688
Certificates of deposit issued	21	4,088,000	2,870,000
Other accounts and provisions	22	858,448	833,853
Total liabilities		63,002,023	61,841,938
Capital resources			
Share capital	23	2,000,000	2,000,000
Reserves	24	7,914,329	7,413,433
Shareholders' funds		9,914,329	9,413,433
John Kam-pak Yan Chairman	Hung-ching Yung Director		
Philip Kin Hang Wong Director	Frank Kai-shu Lau General Manager		
Total liabilities and capital resources		72,916,352	71,255,371

Consolidated Statement of Changes in Equity

for the year ended 31st December 2002

	Note	2002		2001	
		Share capital HK\$'000	Reserves HK\$'000	Share capital HK\$'000	Reserves HK\$'000
Balances at 1st January	23, 24	<u>2,000,000</u>	<u>7,740,859</u>	<u>2,000,000</u>	<u>7,194,487</u>
Change in fair value of non-trading securities	24	-	18,047	-	(12,003)
Exchange translation differences	24	-	3,387	-	(1,181)
Net profit/(loss) not recognised in the profit and loss account		-	21,434	-	(13,184)
Profit for the year	24	-	861,809	-	988,155
Reversal of property revaluation reserve on disposal of bank premises	24	-	(1,525)	-	(746)
Investment revaluation reserve realised on disposal of non-trading securities	24	-	(1,379)	-	(27,853)
Dividend paid in the year	24	-	(400,000)	-	(400,000)
Balances at 31st December	23, 24	<u>2,000,000</u>	<u>8,221,198</u>	<u>2,000,000</u>	<u>7,740,859</u>

Consolidated Cash Flow Statement

for the year ended 31st December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Net cash inflow from operating activities	25(a)	<u>5,182,244</u>	<u>299,396</u>
Cash flows from investing activities			
Interest received on held-to-maturity securities and non-trading securities		572,847	494,913
Dividends received on non-trading securities		3,729	2,887
Dividend received from a jointly controlled entity		780	780
Purchase of held-to-maturity securities and non-trading securities		(7,248,211)	(7,605,843)
Sale/redemption of held-to-maturity securities and non-trading securities		3,620,038	3,734,806
Payment for investments in and advances to jointly controlled entities		(7,600)	(62,000)
Purchase of fixed assets		(104,334)	(69,972)
Sale of fixed assets		3,968	3,979
Net cash outflow from investing activities		<u>(3,158,783)</u>	<u>(3,500,450)</u>
Net cash inflow/(outflow) before financing activities		<u>2,023,461</u>	<u>(3,201,054)</u>
Cash flows from financing activities			
Interest paid on certificates of deposit issued		(73,828)	(99,752)
Dividend paid		(400,000)	(400,000)
Dividend paid to a minority shareholder of a subsidiary company		(200)	(280)
Redemption of certificates of deposit issued	25(b)	(1,282,000)	(120,000)
Issue of certificates of deposit	25(b)	2,500,000	1,100,000
Net cash inflow from financing activities		<u>743,972</u>	<u>479,968</u>
Effect of exchange rate changes on cash and cash equivalents		<u>461,435</u>	<u>(154,073)</u>
Increase/(decrease) in cash and cash equivalents		<u>3,228,868</u>	<u>(2,875,159)</u>
Cash and cash equivalents at 1st January		<u>19,277,480</u>	<u>22,152,639</u>
Cash and cash equivalents at 31st December	25(c)	<u>22,506,348</u>	<u>19,277,480</u>