

Notes to the Accounts

1 Principal activities

The Bank and its subsidiary companies ("the Group") are engaged in the provision of banking and related financial services.

2 Principal accounting policies

(a) Basis of preparation

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain assets, and in accordance with generally accepted accounting principles in Hong Kong and comply with Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants ("HKSA").

(b) Basis of consolidation

The consolidated accounts include the accounts of the Group made up to 31st December.

Intercompany transactions and balances within the Group are eliminated on consolidation. Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Bank's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Bank on the basis of dividends received.

(c) Translation of foreign currencies

Transactions in foreign currencies are translated into Hong Kong Dollars at rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong Dollars at rates of exchange ruling at the balance sheet date. Exchange differences arising therefrom are dealt with in the profit and loss account.

The balance sheets of the overseas branches and subsidiary companies are translated into Hong Kong Dollars at rates of exchange ruling at the balance sheet date whilst their results are translated into Hong Kong Dollars at average exchange rates for the year. Exchange differences arising therefrom are dealt with as a movement in reserves.

(d) Income recognition

Interest income is recognised in the profit and loss account as it accrues. Interest accrual on non-performing loans is credited to a suspense account. Suspended interest will be recognised in the profit and loss account upon receipt of cash and the account has been upgraded to the performing loan category. Otherwise the suspended interest when deemed uncollectible is reversed in the balance sheet. Fees and commission income is accounted for in the period when earned. Dividend income is recognised in the accounts upon approval obtained in the subsidiary companies for appropriation according to the accounting practice stated in paragraph 11 of SSAP 9 "Events after the balance sheet date" issued by the HKSA.

(e) Provision for bad and doubtful debts

Provision is made for bad and doubtful debts as and when it is considered necessary by the Directors. In addition, an amount is set aside as general provision for doubtful debts to cover losses that are judged to be present in the lending portfolio at the balance sheet date, but which have not been specifically identified as such. These provisions are deducted from "Advances to customers and other accounts" and "Trade bills" in the balance sheet.

The Group internally classifies loans and advances into five categories: pass, special mention, substandard, doubtful and loss in accordance with the recommendation of the Hong Kong Monetary Authority. The classification of loans and advances is largely based on an assessment of the borrower's capacity to repay and on the degree of doubt about the collectibility of interest and/or principal. One important indicator of collectibility is the period that payments of interest and/or principal have been overdue. A specific provision ranging from 5% to 100% on the outstanding balances net of suspended interest, is made against loans and advances depending on the nature and value of the underlying securities pledged, and where there is doubt about the collectibility of interest and/or principal. When there is no realistic prospect of recovery, the outstanding debt is written off.

(f) Advances to customers

Advances to customers are stated on the balance sheet at the principal amount outstanding net of provision for bad and doubtful debts and suspended interest.

Assets acquired by repossession of collateral for realisation continue to be reported as advances. Provision is made on the shortfall between the expected sales proceeds from realisation of the repossessed assets and the outstanding advances.

2 Principal accounting policies (Continued)

(g) Fixed assets

(i) Bank premises

Land is stated at cost or valuation less accumulated depreciation and impairment losses. Land acquired in or before 1993 is stated at Directors' valuation after having due regard to independent professional valuations carried out in 1993. Increases in valuation of land are credited to the property revaluation reserve; decreases are first set off against increases on earlier valuations of the land and thereafter are debited to the profit and loss account. Additions made subsequent to the revaluation are stated at cost.

Upon disposal or depreciation of the land, the relevant portion of the revaluation reserve realised is released and transferred from the property revaluation reserve to retained profits.

In preparing these accounts, reliance has been made on the transitional provisions set out in paragraph 80 of SSAP 17 "Property, plant and equipment" issued by the HKSA, which provide exemption from the need to make regular revaluations of bank premises, with the effect that land has not been revalued to fair value at the balance sheet date.

Freehold land is not depreciated. Leasehold land is depreciated on a straight line basis over the unexpired terms of the leases.

Buildings are stated at cost less accumulated depreciation and impairment losses. Depreciation of buildings is provided annually by charging a sum sufficient to write down the cost of the buildings systematically, based on management's appraisal of the conditions of the buildings, which includes estimations of the remaining useful lives of the buildings, which are not expected to exceed 40 years.

The gain or loss on disposal of bank premises is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in the profit and loss account.

(ii) Furniture, fittings and equipment

Furniture, fittings and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation of furniture, fittings and equipment is calculated to write off the cost of the assets over their estimated useful lives on a reducing balance basis at a rate of 25% in the year of addition and at 20% per annum thereafter.

On disposal of furniture, fittings and equipment, the profit or loss is determined as the difference between the net sales proceeds and the carrying amount and is recognised in the profit and loss account.

(h) Securities held for dealing purposes

Securities held for dealing purposes are securities which are acquired for the purpose of generating a profit from short-term fluctuations in price, and are stated at market value at the balance sheet date with the gains and losses arising on revaluation being dealt with in the profit and loss account. Market value represents the quoted market price for securities that are actively traded in a liquid market.

(i) Held-to-maturity securities and non-trading securities

In preparing the accounts, the Group has adopted the alternative treatment set out in SSAP 24 "Accounting for Investments in Securities" issued by the HKSA.

Held-to-maturity securities are dated debt securities which the Group has the expressed intention and ability to hold to maturity. These securities are included in the balance sheet at cost, adjusted for the amortisation of premiums and accretion of discounts arising on acquisition over the periods to redemption, less provision for impairment in carrying value. Provisions are made for the amount of the carrying value which the Group does not expect to recover and are recognised as expense in the profit and loss account as they arise. The amortisation of premiums and accretion of discounts arising on acquisition of these securities is included as part of net interest income. Profits or losses on realisation of these securities are accounted for in the profit and loss account as they arise.

Non-trading securities are securities other than held-to-maturity securities or securities held for dealing purposes, which are intended to be held for long term and are included in the balance sheet at fair value. Net gains or losses arising from the change in fair values of these securities are accounted for as movements in the investment revaluation reserve until the security is disposed of or is determined to be impaired at which time its cumulative gain or loss is transferred from reserve to the profit and loss account. Market value represents the quoted market price for securities that are actively traded in a liquid market.

2 Principal accounting policies (Continued)

(j) Investments in jointly controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over economic activity.

The consolidated profit and loss account included the Group's share of the results of jointly controlled entities, and the consolidated balance sheet included the Group's share of the net assets of the jointly controlled entities.

In the Bank's balance sheet, the investments in jointly controlled entities is stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of jointly controlled entities are accounted for by the Bank on the basis of dividends received.

(k) Deferred taxation

Deferred taxation is provided, using the liability method, on timing differences between the accounting and taxation treatment of income and expenditure, except where, in the opinion of the Directors, no liability to taxation is expected to arise in the foreseeable future.

(l) Employee benefits

(i) Retirement benefit costs

The Group operates a defined benefit scheme, contributes to two defined contribution schemes and a Mandatory Provident Fund Scheme.

The defined benefit scheme is funded by payments from the Group by taking account recommendations of independent qualified actuaries. The defined benefit costs are assessed using the Attained Age Method and the cost of providing the benefit is charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries, who value the scheme once every three years.

The Group's contributions to the defined contribution schemes and the Mandatory Provident Fund are charged to the profit and loss account.

The assets of the Group's Mandatory Provident Fund Scheme, the defined contribution schemes and the defined benefit scheme are held separately from those of the Group in independently administered funds.

(ii) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. Employee entitlements to sick leave and maternity leave are recognised when the absences occur.

(m) Operating leases

Leases where substantially all of the rewards and risks of ownership of the assets remain with the lessor are accounted for as operating leases. Rentals applicable to operating leases are charged to the profit and loss account on a straight line basis over the lease term.

(n) Off balance sheet financial instruments

Off balance sheet financial instruments arise from forwards and swaps transactions undertaken by the Group in the foreign exchange and interest rate markets.

The accounting for these instruments is dependent upon whether the transactions are undertaken for trading purposes or to hedge risk.

Transactions undertaken for trading purposes are marked to market and the gains or losses arising are recognised in the profit and loss account. Transactions designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging. Any profits or losses are recognised in the profit and loss account on the same basis as those arising from the related assets, liabilities or net positions.

Unrealised gains on transactions which are marked to market are included in "Advances to customers and other accounts" in the balance sheet. Unrealised losses on transactions which are marked to market are included in "Other accounts and provisions".

2 Principal accounting policies (Continued)

(n) Off balance sheet financial instruments (Continued)

On the date a derivative contract is entered into, the Group may designate certain derivative transactions as hedges. Derivatives are classified as a hedge when the following criteria are met:

- (i) formal documentation of the hedging instrument and the hedged item is prepared; and
- (ii) the hedge is expected to be effective on an on-going basis.

If the derivative transaction no longer meets the criteria for a hedge set out above, the derivative is deemed to be held for trading purposes and is accounted for as set out above.

(o) Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence.

(p) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary company and jointly controlled entity at the date of acquisition.

Goodwill on acquisitions that occurred prior to 1st January 2001 were credited to or written off against reserves. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 issued by HKSA and goodwill previously credited to or written off against reserves have not been restated.

(q) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(r) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including cash, balances with banks and other financial institutions, treasury bills, other eligible bills and certificates of deposit.

3 Interest and other operating income

(a) Interest income

	The Group		The Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Interest income on listed investments	304,720	308,354	240,941	277,932
Interest income on unlisted investments	282,053	320,545	274,378	265,475
Other interest income	1,666,856	2,901,984	1,656,773	2,887,349
	<u>2,253,629</u>	<u>3,530,883</u>	<u>2,172,092</u>	<u>3,430,756</u>

(b) Other operating income

	The Group		The Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Fees and commission income	421,703	400,942	420,317	400,561
Less : Fees and commission expense	(22,321)	(20,535)	(22,441)	(20,583)
Net fees and commission income	399,382	380,407	397,876	379,978
Net gain on foreign exchange trading	72,061	65,865	69,810	63,711
Net loss on securities held for dealing purposes	(17,947)	(8,726)	(17,947)	(8,726)
Dividend income				
- listed investments	1,128	1,747	1,128	1,398
- unlisted investments	3,698	3,296	4,478	3,296
- subsidiary companies	-	-	82,600	193,670
Others	103,576	97,565	102,471	97,740
	<u>561,898</u>	<u>540,154</u>	<u>640,416</u>	<u>731,067</u>

4 Operating expenses

	The Group		The Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Staff costs				
Salaries and other costs (Note a)	467,354	505,756	460,342	498,541
Pension costs	25,922	27,888	25,560	27,534
Premises and equipment				
Rental of premises	56,127	56,077	57,173	57,425
Building expenses (Note b)	61,618	20,488	61,611	20,475
Depreciation	79,327	73,331	80,990	73,244
Auditors' remuneration	4,755	5,182	4,527	4,956
Other operating expenses				
Telegram and telephone	21,552	21,187	21,455	21,074
Credit card promotion	12,060	15,611	12,060	15,611
Postage	12,694	12,606	12,660	12,572
Repair and maintenance	12,803	13,376	12,823	13,361
Legal and consultancy	7,175	10,213	6,809	10,866
Water, heat and light	10,817	10,930	10,756	10,884
Printing and stationery	7,353	8,894	7,338	8,814
Computer rental and licence	7,042	7,263	7,042	7,263
Others	60,165	60,633	58,849	59,547
	<u>846,764</u>	<u>849,435</u>	<u>839,995</u>	<u>842,167</u>

Note:

- The amounts of the Group and the Bank for the year ended 31st December 2002 include Directors' fee of HK\$1,200,000 (2001: HK\$1,920,000).
- The amounts of the Group and the Bank for the year ended 31st December 2002 include HK\$46,546,000 for upgrading the Head Office Building in order to comply with local fire regulations (2001: HK\$10,000,000).

5 Directors' emoluments

	The Group and the Bank	
	2002 HK\$'000	2001 HK\$'000
Fees	1,200	1,920
Basic salaries, allowances and bonus	19,383	16,399
Contributions to pension schemes	824	709
	<u>21,407</u>	<u>19,028</u>

6 Charge for bad and doubtful debts

	The Group		The Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Specific provision charged/(credited) to profit and loss account and transferred from general provision				
new provisions (Note 15)	151,504	131,180	147,162	129,500
releases (Note 15)	-	(247)	-	(247)
transferred from general provision (Note 15)	-	63,237	-	61,268
	<u>151,504</u>	<u>194,170</u>	<u>147,162</u>	<u>190,521</u>
General provision charged/(credited) to profit and loss account less transferred to specific provision				
new provisions (Note 15)	23,663	12,382	22,836	12,382
releases (Note 15)	(1,200)	-	-	-
transferred to specific provision (Note 15)	-	(63,237)	-	(61,268)
	<u>22,463</u>	<u>(50,855)</u>	<u>22,836</u>	<u>(48,886)</u>
	<u>173,967</u>	<u>143,315</u>	<u>169,998</u>	<u>141,635</u>

7 Taxation

Hong Kong profits tax has been provided at the rate of 16% (2001 : 16%) on the estimated assessable profit for the year. Taxation on overseas profits has been provided on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	The Group		The Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong profits tax	113,472	140,340	111,767	138,011
Overseas taxation	4,674	2,699	4,664	2,672
	<u>118,146</u>	<u>143,039</u>	<u>116,431</u>	<u>140,683</u>

There is no material potential liability for Hong Kong deferred taxation as at 31st December 2002 (2001 : Nil). Included in "other accounts" are deferred tax assets of HK\$26,097,000 (2001: HK\$16,993,000) which have been set up for overseas operations in accordance with their local practices.

The Bank has entered into aircraft leverage lease arrangement as well as coupon bond transaction. The related amount credited to Hong Kong profits tax is HK\$21,645,000 for the year (2001: HK\$26,431,000). The unamortised carrying cost of these transactions were included in "other accounts". In addition, the current year taxation includes a reversal of overprovision for Hong Kong taxation of HK\$19,000,000 brought forward from prior year.

Notes to the Accounts

8 Dividend

	2002 HK\$'000	2001 HK\$'000
Proposed dividend of HK\$20 (2001 : HK\$20) per share	<u>400,000</u>	<u>400,000</u>

9 Cash and short-term funds

	The Group		The Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cash and balances with banks and other financial institutions	410,575	485,648	407,403	482,931
Money at call and short notice	19,609,074	18,872,951	19,609,074	18,872,951
Treasury bills (including Exchange Fund Bills), at amortised cost	<u>994,749</u>	<u>1,441,869</u>	<u>499,857</u>	<u>947,144</u>
	<u>21,014,398</u>	<u>20,800,468</u>	<u>20,516,334</u>	<u>20,303,026</u>

All treasury bills are unlisted held-to-maturity securities.

The maturity profile of treasury bills analysed by the remaining period as at 31st December to the contractual maturity dates is as follows:

	The Group		The Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Three months or less	994,749	1,395,326	499,857	900,601
One year or less but over three months	-	46,543	-	46,543
	<u>994,749</u>	<u>1,441,869</u>	<u>499,857</u>	<u>947,144</u>

10 Placements with banks and other financial institutions maturing between one and twelve months

The maturity profile of placements with banks and other financial institutions maturing between one and twelve months analysed by the remaining period as at 31st December to the contractual maturity dates is as follows:

	The Group and the Bank	
	2002 HK\$'000	2001 HK\$'000
Three months or less	3,894,909	4,789,302
One year or less but over three months	<u>35,630</u>	<u>1,625,893</u>
	<u>3,930,539</u>	<u>6,415,195</u>

11 Trade bills

	The Group and the Bank	
	2002	2001
	HK\$'000	HK\$'000
Trade bills	792,458	521,053
Provision for bad and doubtful debts		
General (Note 15)	(9,584)	(6,016)
Specific (Note 15)	(8,192)	(8,235)
	<u>774,682</u>	<u>506,802</u>

12 Certificates of deposit held

	The Group and the Bank	
	2002	2001
	HK\$'000	HK\$'000
Held-to-maturity securities, at amortised cost, unlisted and issued by:		
Banks and other financial institutions	3,539,453	2,082,546
Securities held for dealing purposes, at market value, unlisted and issued by:		
Banks and other financial institutions	-	38,985
	<u>3,539,453</u>	<u>2,121,531</u>

The maturity profile of certificates of deposit held analysed by the remaining period as at 31st December to the contractual maturity dates is as follows:

	The Group and the Bank	
	2002	2001
	HK\$'000	HK\$'000
Held-to-maturity securities:		
Three months or less	218,580	217,219
One year or less but over three months	1,139,015	514,706
Five years or less but over one year	2,181,858	1,350,621
	<u>3,539,453</u>	<u>2,082,546</u>
Securities held for dealing purposes:		
One year or less but over three months	-	38,985

13 Securities held for dealing purposes

	The Group and the Bank	
	2002	2001
	HK\$'000	HK\$'000
Debt securities, at market value:		
Listed outside Hong Kong	121,644	246,323
Unlisted	130,449	120,541
	<u>252,093</u>	<u>366,864</u>
Equity securities, at market value:		
Listed in Hong Kong	4,697	7,301
Listed outside Hong Kong	56,027	86,277
	<u>60,724</u>	<u>93,578</u>
Unlisted	-	3,441
	<u>60,724</u>	<u>97,019</u>
	<u>312,817</u>	<u>463,883</u>

	The Group and the Bank	
	2002	2001
	HK\$'000	HK\$'000
Debt securities issued by:		
Central governments and central banks	52,068	262,153
Public sector entities	153,731	41,823
Banks and other financial institutions	9,777	5,166
Corporate entities	36,517	57,722
	<u>252,093</u>	<u>366,864</u>
Equity securities issued by:		
Public sector entities	74	3,533
Banks and other financial institutions	3,808	273
Corporate entities	56,842	93,213
	<u>60,724</u>	<u>97,019</u>
	<u>312,817</u>	<u>463,883</u>

The maturity profile of debt securities included above and analysed by the remaining period as at 31st December to the contractual maturity dates is as follows:

	The Group and the Bank	
	2002	2001
	HK\$'000	HK\$'000
One year or less but over three months	2,407	1,612
Five years or less but over one year	167,267	197,327
Over five years	82,419	167,925
	<u>252,093</u>	<u>366,864</u>

14 Advances to customers and other accounts

	The Group		The Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Advances to customers	27,756,877	29,168,638	27,502,251	28,882,309
Provisions for bad and doubtful debts				
General (Note 15)	(364,305)	(344,516)	(361,746)	(341,584)
Specific (Note 15)	(187,151)	(185,665)	(179,840)	(182,837)
	<u>27,205,421</u>	<u>28,638,457</u>	<u>26,960,665</u>	<u>28,357,888</u>
Accrued interest	189,047	180,752	181,188	173,236
Other accounts	379,837	423,757	378,138	419,782
	<u>568,884</u>	<u>604,509</u>	<u>559,326</u>	<u>593,018</u>
	<u>27,774,305</u>	<u>29,242,966</u>	<u>27,519,991</u>	<u>28,950,906</u>

The amount of advances to customers on which interest is being placed in suspense or on which interest accrual has ceased are analysed as follows:

	The Group		The Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Gross advances	774,227	619,288	756,078	604,248
Less: suspended interest capitalised	(69,708)	(66,448)	(68,238)	(65,647)
	<u>704,519</u>	<u>552,840</u>	<u>687,840</u>	<u>538,601</u>
Specific provision (Note)	(139,485)	(126,335)	(132,267)	(123,621)
	<u>565,034</u>	<u>426,505</u>	<u>555,573</u>	<u>414,980</u>
Suspended interest (Note 15)	85,876	89,096	84,384	87,894
Percentage of such advances to total advances to customers	2.54%	1.90%	2.50%	1.86%

Note: The specific provisions were made after taking into account the value of collateral in respect of such advances as at 31st December.

The maturity profile of advances to customers included above and analysed by the remaining period as at 31st December to the contractual maturity dates is as follows:

	The Group		The Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Repayable on demand	2,290,713	2,120,391	2,290,392	2,120,092
Three months or less	3,940,563	3,402,945	3,905,074	3,371,937
One year or less but over three months	3,103,039	3,134,846	3,066,386	3,087,313
Five years or less but over one year	10,697,617	11,579,087	10,625,192	11,489,744
Over five years	7,443,262	8,655,247	7,348,967	8,541,031
Undated	281,683	276,122	266,240	272,192
	<u>27,756,877</u>	<u>29,168,638</u>	<u>27,502,251</u>	<u>28,882,309</u>

As of 31st December 2002, the overseas branches have pledged real estate loans totalling HK\$25,955,000 (2001: HK\$32,991,000) as collateral to the state of California in compliance with local regulatory requirements.

15 Provisions for bad and doubtful debts (against trade bills and advances to customers)

The Group

	Specific HK\$'000	General HK\$'000	Total HK\$'000	Suspended interest HK\$'000
At 1st January 2002	193,900	350,532	544,432	89,096
Amounts written off	(161,520)	-	(161,520)	(35,485)
Recoveries of advances written off in previous years	11,459	-	11,459	-
New provisions charged to profit and loss account (Note 6)	151,504	23,663	175,167	-
Provisions released back to profit and loss account (Note 6)	-	(1,200)	(1,200)	-
Interest suspended	-	-	-	44,676
Suspended interest recovered	-	-	-	(12,411)
Exchange adjustment	-	894	894	-
At 31st December 2002	<u>195,343</u>	<u>373,889</u>	<u>569,232</u>	<u>85,876</u>

Included in:

Trade bills (Note 11)	8,192	9,584	17,776
Advances to customers (Note 14)	187,151	364,305	551,456
	<u>195,343</u>	<u>373,889</u>	<u>569,232</u>

The Bank

	Specific HK\$'000	General HK\$'000	Total HK\$'000	Suspended interest HK\$'000
At 1st January 2002	191,072	347,600	538,672	87,894
Amounts written off	(160,883)	-	(160,883)	(35,485)
Recoveries of advances written off in previous years	10,681	-	10,681	-
New provisions charged to profit and loss account (Note 6)	147,162	22,836	169,998	-
Interest suspended	-	-	-	43,777
Suspended interest recovered	-	-	-	(11,802)
Exchange adjustment	-	894	894	-
At 31st December 2002	<u>188,032</u>	<u>371,330</u>	<u>559,362</u>	<u>84,384</u>

Included in:

Trade bills (Note 11)	8,192	9,584	17,776
Advances to customers (Note 14)	179,840	361,746	541,586
	<u>188,032</u>	<u>371,330</u>	<u>559,362</u>

The above suspended interest has been netted against "advances to customers" (capitalised interest) and "accrued interest" (non-capitalised interest) respectively in Note 14.

15 Provisions for bad and doubtful debts (against trade bills and advances to customers)

(Continued)

The Group

	Specific HK\$'000	General HK\$'000	Total HK\$'000	Suspended interest HK\$'000
At 1st January 2001	152,024	397,493	549,517	68,081
Amounts written off	(164,845)	-	(164,845)	(15,255)
Recoveries of advances written off in previous years	12,551	-	12,551	-
New provisions charged to profit and loss account (Note 6)	131,180	12,382	143,562	-
Provisions released back to profit and loss account (Note 6)	(247)	-	(247)	-
Transfers between general and specific provisions (Note 6)	63,237	(63,237)	-	-
Interest suspended	-	-	-	45,410
Suspended interest recovered	-	-	-	(9,140)
Transfer from provision for impairment	-	4,150	4,150	-
Exchange adjustment	-	(256)	(256)	-
At 31st December 2001	<u>193,900</u>	<u>350,532</u>	<u>544,432</u>	<u>89,096</u>

Included in:

Trade bills (Note 11)	8,235	6,016	14,251
Advances to customers (Note 14)	185,665	344,516	530,181
	<u>193,900</u>	<u>350,532</u>	<u>544,432</u>

The Bank

	Specific HK\$'000	General HK\$'000	Total HK\$'000	Suspended interest HK\$'000
At 1st January 2001	151,202	392,592	543,794	67,719
Amounts written off	(163,201)	-	(163,201)	(15,250)
Recoveries of advances written off in previous years	12,550	-	12,550	-
New provisions charged to profit and loss account (Note 6)	129,500	12,382	141,882	-
Provisions released back to profit and loss account (Note 6)	(247)	-	(247)	-
Transfers between general and specific provisions (Note 6)	61,268	(61,268)	-	-
Interest suspended	-	-	-	44,529
Suspended interest recovered	-	-	-	(9,104)
Transfer from provision for impairment	-	4,150	4,150	-
Exchange adjustment	-	(256)	(256)	-
At 31st December 2001	<u>191,072</u>	<u>347,600</u>	<u>538,672</u>	<u>87,894</u>

Included in:

Trade bills (Note 11)	8,235	6,016	14,251
Advances to customers (Note 14)	182,837	341,584	524,421
	<u>191,072</u>	<u>347,600</u>	<u>538,672</u>

16 Held-to-maturity securities and non-trading securities

The Group

	Book value		Market value	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Held-to-maturity securities, at amortised cost:				
Debt securities				
Listed in Hong Kong	1,790,739	1,715,954	1,894,436	1,724,809
Listed outside Hong Kong	3,656,349	3,901,085	3,666,187	3,962,816
	<u>5,447,088</u>	<u>5,617,039</u>	<u>5,560,623</u>	<u>5,687,625</u>
Unlisted	<u>6,606,380</u>	<u>3,961,122</u>		
	<u>12,053,468</u>	<u>9,578,161</u>		
Non-trading securities, at fair value:				
Debt securities				
Listed outside Hong Kong	810,235	118,738	810,235	118,738
Unlisted	<u>612,331</u>	<u>1,604</u>		
	<u>1,422,566</u>	<u>120,342</u>		
Equity securities				
Listed in Hong Kong	43,036	541	43,036	541
Unlisted	<u>234,214</u>	<u>232,769</u>		
	<u>277,250</u>	<u>233,310</u>		
	<u>13,753,284</u>	<u>9,931,813</u>		

There were disposals of held-to-maturity securities by the Group and the Bank during the year. The amortised cost of these securities was HK\$950,232,000 (2001: HK\$779,536,000). The related realised net gains on disposal was HK\$56,711,000 (2001: HK\$54,433,000). The disposals of these securities are to restructure the investment portfolio.

For non-trading debt securities, the amortised cost of the securities disposed by the Group and the Bank during the year was HK\$17,841,000 (2001: HK\$316,217,000) and the related realised net gains on disposal was HK\$979,000 (2001: HK\$17,844,000).

There was also a disposal of held-to-maturity securities by a subsidiary company during the year. The related realised net gain on disposal was HK\$11,064,000 (2001: Nil). There was no disposal of non-trading security by any subsidiary company and there was no relevant realised gain (2001: HK\$10,717,000). The revaluation deficit on the remaining securities was included in Note 24.

16 Held-to-maturity securities and non-trading securities (Continued)

The Bank

	Book value		Market value	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Held-to-maturity securities, at amortised cost:				
Debt securities				
Listed in Hong Kong	779,013	701,730	784,937	710,139
Listed outside Hong Kong	3,652,080	3,901,085	3,661,828	3,962,816
	4,431,093	4,602,815	4,446,765	4,672,955
Unlisted	6,606,380	3,809,409		
	11,037,473	8,412,224		
Non-trading securities, at fair value:				
Debt securities				
Listed outside Hong Kong	810,235	118,738	810,235	118,738
Unlisted	612,331	1,604		
	1,422,566	120,342		
Equity securities				
Listed in Hong Kong	43,036	541	43,036	541
Unlisted	234,214	232,769		
	277,250	233,310		
	12,737,289	8,765,876		

16 Held-to-maturity securities and non-trading securities (Continued)

	The Group		The Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Held-to-maturity securities:				
Debt securities issued by:				
Central governments and central banks	1,561,902	1,549,743	550,175	535,519
Public sector entities	1,092,075	1,493,026	1,092,075	1,493,026
Banks and other financial institutions	6,364,800	3,573,121	6,364,800	3,421,408
Corporate entities	3,034,691	2,962,271	3,030,423	2,962,271
	<u>12,053,468</u>	<u>9,578,161</u>	<u>11,037,473</u>	<u>8,412,224</u>
Non-trading securities:				
Debt securities issued by:				
Central governments and central banks	268,958	32,688	268,958	32,688
Public sector entities	934,241	-	934,241	-
Banks and other financial institutions	135,846	-	135,846	-
Corporate entities	83,521	87,654	83,521	87,654
	<u>1,422,566</u>	<u>120,342</u>	<u>1,422,566</u>	<u>120,342</u>
Equity securities issued by:				
Banks and other financial institutions	257,712	214,779	257,712	214,779
Corporate entities	19,538	18,531	19,538	18,531
	<u>277,250</u>	<u>233,310</u>	<u>277,250</u>	<u>233,310</u>
	<u>13,753,284</u>	<u>9,931,813</u>	<u>12,737,289</u>	<u>8,765,876</u>

The maturity profile of debt securities included above and analysed by the remaining period as at 31st December to the contractual maturity dates is as follows:

	The Group		The Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Held-to-maturity securities:				
Three months or less	106,684	483,427	106,684	483,427
One year or less but over three months	875,442	349,702	875,442	349,702
Five years or less but over one year	8,377,345	6,419,178	7,665,925	5,628,834
Over five years	2,693,997	2,325,854	2,389,422	1,950,261
	<u>12,053,468</u>	<u>9,578,161</u>	<u>11,037,473</u>	<u>8,412,224</u>
Non-trading securities:				
Five years or less but over one year	1,420,962	101,644	1,420,962	101,644
Over five years	-	17,094	-	17,094
Undated	1,604	1,604	1,604	1,604
	<u>1,422,566</u>	<u>120,342</u>	<u>1,422,566</u>	<u>120,342</u>

17 Investments in jointly controlled entities and subsidiary companies

(a) Investments in jointly controlled entities

	The Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	<u>126,468</u>	<u>140,962</u>
	The Bank	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	81,000	78,000
Provision for impairment in carrying value	(17,238)	(17,238)
Amount due by jointly controlled entities	<u>31,600</u>	<u>27,000</u>
	<u>95,362</u>	<u>87,762</u>

Details of the jointly controlled entities are as follows:

Name	Principal activities	Place of incorporation	Particulars of issued share capital	Percentage of ordinary share capital held
Joint Electronic Teller Services Limited	Automatic teller machine data processing services	Hong Kong	100,000 ordinary 'A' shares of HK\$100 each and 238 ordinary 'B' shares of HK\$100 each	20% of 'A' shares*
Bank Consortium Holding Limited	Provision of trustee, administration and custodian services for retirement schemes	Hong Kong	140,000,000 ordinary 'A' shares of HK\$1 each and 10,000,000 ordinary 'B' shares of HK\$1 each	14.29% of 'A' shares
BC Reinsurance Limited	Reinsurance	Hong Kong	100,000,000 ordinary shares of HK\$1 each	21%
Hong Kong Life Insurance Limited	Life insurance and reinsurance	Hong Kong	210,000,000 ordinary shares of HK\$1 each	16.67%
i-Tech Solutions Limited	Document processing services	Hong Kong	6,000,000 ordinary shares of HK\$1 each	50%

* During the year the Bank has received 2.88% of the total dividends paid by the company.

(b) Investments in subsidiary companies

	The Bank	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	30,003	29,998
Amounts due by subsidiary companies	1,917,191	1,830,610
Amounts due to subsidiary companies	<u>(476,405)</u>	<u>(221,024)</u>
	<u>1,470,789</u>	<u>1,639,584</u>

17 Investments in jointly controlled entities and subsidiary companies (Continued)

(b) Investments in subsidiary companies (Continued)

Details of the subsidiary companies are as follows:

Name	Principal activities	Place of incorporation	Particulars of issued share capital	Percentage of ordinary share capital held
Shacom Finance Limited	Deposit-taking and lending	Hong Kong	300,000 ordinary shares of HK\$100 each	100%
Shanghai Commercial Bank (Nominees) Limited	Nominee services	Hong Kong	100 ordinary shares of HK\$100 each	100%
Shanghai Commercial Bank Trustee Limited	Trustee services	Hong Kong	1,000 ordinary shares of HK\$10,000 each	60%
Shacom Futures Limited	Commodities trading	Hong Kong	100,000 ordinary shares of HK\$100 each	100%
Shacom Investment Limited	Investment in Exchange Fund Bills and Notes	Hong Kong	10,000 ordinary shares of HK\$100 each	100%
Shacom Investment Management Limited	Investment holding	Hong Kong	10,000 ordinary shares of HK\$1 each	100%
Shacom Property Holdings (BVI) Limited	Property holding	British Virgin Islands	2 ordinary shares of US\$1 each	100%
Shacom Property (NY) Inc.	Property holding	United States of America	10 ordinary shares of US\$1 each	100%
Shacom Property (CA) Inc.	Property holding	United States of America	10 ordinary shares of US\$1 each	100%
Shacom Assets Investments Limited	Investment in notes and bonds	Hong Kong	10,000 ordinary shares of HK\$1 each	100%
Infinite Financial Solutions Limited	I.T. application services provider	Hong Kong	500,000 ordinary shares of US\$1 each	80%

All subsidiary companies are held directly by the Bank.

18 Fixed assets

The Group

	Bank premises HK\$'000	Furniture, fittings and equipment HK\$'000	Total HK\$'000
Cost or valuation			
At 1st January 2002	2,085,902	431,303	2,517,205
Additions	25,117	79,217	104,334
Exchange adjustment	3,848	1,821	5,669
Write down on disposal of bank premises (Note 24)	(1,525)	-	(1,525)
Disposals	(5,425)	(33,329)	(38,754)
	<u>2,107,917</u>	<u>479,012</u>	<u>2,586,929</u>
At 31st December 2002			
Accumulated depreciation			
At 1st January 2002	222,594	264,967	487,561
Charge for the year	26,567	52,760	79,327
Exchange adjustment	431	1,331	1,762
Disposals	(1,717)	(26,234)	(27,951)
	<u>247,875</u>	<u>292,824</u>	<u>540,699</u>
At 31st December 2002			
Net book value			
At 31st December 2002	<u>1,860,042</u>	<u>186,188</u>	<u>2,046,230</u>
At 31st December 2001	<u>1,863,308</u>	<u>166,336</u>	<u>2,029,644</u>
The analysis of cost or valuation of the above assets is as follows:			
At 31st December 2002			
At cost	707,038	479,012	1,186,050
At valuation - 1993	<u>1,400,879</u>	-	<u>1,400,879</u>
	<u>2,107,917</u>	<u>479,012</u>	<u>2,586,929</u>
At 31st December 2001			
At cost	679,349	431,303	1,110,652
At valuation - 1993	<u>1,406,553</u>	-	<u>1,406,553</u>
	<u>2,085,902</u>	<u>431,303</u>	<u>2,517,205</u>

18 Fixed assets (Continued)

The Bank

	Bank premises HK\$'000	Furniture, fittings and equipment HK\$'000	Total HK\$'000
Cost or valuation			
At 1st January 2002	2,052,882	431,588	2,484,470
Additions	25,117	85,962	111,079
Exchange adjustment	88	1,714	1,802
Write down on disposal of bank premises (Note 24)	(1,525)	-	(1,525)
Disposals	(5,425)	(33,310)	(38,735)
At 31st December 2002	<u>2,071,137</u>	<u>485,954</u>	<u>2,557,091</u>
Accumulated depreciation			
At 1st January 2002	219,292	264,372	483,664
Charge for the year	26,134	54,856	80,990
Exchange adjustment	28	1,249	1,277
Disposals	(1,717)	(26,219)	(27,936)
At 31st December 2002	<u>243,737</u>	<u>294,258</u>	<u>537,995</u>
Net book value			
At 31st December 2002	<u>1,827,400</u>	<u>191,696</u>	<u>2,019,096</u>
At 31st December 2001	<u>1,833,590</u>	<u>167,216</u>	<u>2,000,806</u>
The analysis of cost or valuation of the above assets is as follows:			
At 31st December 2002			
At cost	670,258	485,954	1,156,212
At valuation - 1993	1,400,879	-	1,400,879
	<u>2,071,137</u>	<u>485,954</u>	<u>2,557,091</u>
At 31st December 2001			
At cost	646,329	431,588	1,077,917
At valuation - 1993	1,406,553	-	1,406,553
	<u>2,052,882</u>	<u>431,588</u>	<u>2,484,470</u>

The land portion of the Bank's premises stated at valuation were revalued in October 1993 by the Directors based on an independent professional valuation carried out by Jones Lang Wootton Ltd. on an open market value basis. The relevant revaluation surplus had been transferred to property revaluation reserve.

The carrying amount of land stated at valuation would have been HK\$65,475,000 (2001: HK\$67,697,000) had it been stated at cost less accumulated depreciation.

18 Fixed assets (Continued)

The net book value of bank premises comprises:

	The Group		The Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Freeholds	110,095	109,157	77,453	79,439
Leaseholds				
On long-term lease (over 50 years)				
- Held in Hong Kong	1,337,986	1,361,911	1,337,986	1,361,911
- Held outside Hong Kong	289	272	289	272
On medium-term lease (10 - 50 years)				
- Held in Hong Kong	411,672	391,968	411,672	391,968
	<u>1,860,042</u>	<u>1,863,308</u>	<u>1,827,400</u>	<u>1,833,590</u>

19 Deposits and balances of banks and other financial institutions

The maturity profile of deposits and balances of banks and other financial institutions analysed by the remaining period as at 31st December to the contractual maturity dates is as follows:

	The Group and the Bank	
	2002 HK\$'000	2001 HK\$'000
Repayable on demand	297,297	332,293
Three months or less	614,046	2,631,104
One year or less but over three months	24,000	-
Five years or less but over one year	<u>1,100,000</u>	<u>-</u>
	<u>2,035,343</u>	<u>2,963,397</u>

20 Deposits from customers

	The Group		The Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Demand deposits and current accounts	2,961,094	2,478,262	2,961,094	2,478,262
Savings deposits	12,467,687	10,896,650	12,467,687	10,896,650
Time, call and notice deposits	40,243,416	41,473,206	40,201,451	41,409,926
Deposits from Hong Kong Government Exchange Fund	390,000	389,850	390,000	389,850
	<u>56,062,197</u>	<u>55,237,968</u>	<u>56,020,232</u>	<u>55,174,688</u>

The maturity profile of deposits from customers analysed by the remaining period as at 31st December to the contractual maturity dates is as follows:

	The Group		The Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Repayable on demand	15,663,005	13,613,396	15,662,822	13,613,214
Three months or less	36,705,428	38,041,629	36,671,594	37,985,969
One year or less but over three months	3,627,204	3,520,984	3,619,256	3,513,546
Five years or less but over one year	66,560	61,959	66,560	61,959
	<u>56,062,197</u>	<u>55,237,968</u>	<u>56,020,232</u>	<u>55,174,688</u>

21 Certificates of deposit issued

The maturity profile of certificates of deposit issued analysed by the remaining period as at 31st December to the contractual maturity dates is as follows:

	The Group and the Bank	
	2002 HK\$'000	2001 HK\$'000
Three months or less	650,000	-
One year or less but over three months	500,000	1,120,000
Five years or less but over one year	2,938,000	1,750,000
	<u>4,088,000</u>	<u>2,870,000</u>

22 Other accounts and provisions

	The Group		The Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Interest payable	96,827	125,141	96,743	124,955
Margin deposits	336,038	204,422	336,038	204,422
Provision for staff gratuity (Note)	100,315	118,335	100,059	117,486
Other payables and accruals	327,024	388,118	325,608	386,990
	<u>860,204</u>	<u>836,016</u>	<u>858,448</u>	<u>833,853</u>

Note: Movement of provision for staff gratuity:

	The Group		The Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
At 1st January	118,335	143,978	117,486	142,955
Add: Additional accruals	88,280	104,787	88,273	103,969
Less: Payments for past year's services	(106,300)	(130,430)	(105,700)	(129,438)
At 31st December	<u>100,315</u>	<u>118,335</u>	<u>100,059</u>	<u>117,486</u>

23 Share capital

	2002 HK\$'000	2001 HK\$'000
Authorised:		
30,000,000 shares of HK\$100 each	<u>3,000,000</u>	<u>3,000,000</u>
Issued and fully paid:		
20,000,000 shares of HK\$100 each	<u>2,000,000</u>	<u>2,000,000</u>

24 Reserves

The Group

	Capital reserve on consolidation HK\$'000	Property revaluation reserve HK\$'000	Investment revaluation reserve/ (deficit) HK\$'000	General reserve* HK\$'000	Inner reserves* HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2002	28,220	1,256,392	(60,286)	5,441,454	58,066	1,017,013	7,740,859
Transfer from inner reserves	-	-	-	58,066	(58,066)	-	-
Transfer of property revaluation reserve to retained profits on disposal of bank premises	-	(2,548)	-	-	-	2,548	-
Reversal of property revaluation reserve on disposal of bank premises (Note 18)	-	(1,525)	-	-	-	-	(1,525)
Transfer of property revaluation reserve to retained profits on depreciation of revalued land	-	(12,649)	-	-	-	12,649	-
Investment revaluation reserve realised on disposal of non-trading securities	-	-	(1,379)	-	-	-	(1,379)
Change in fair value of non-trading securities	-	-	18,047	-	-	-	18,047
Exchange translation differences	-	-	-	3,802	-	(415)	3,387
Transfer from profit and loss account	-	-	-	505,000	-	(505,000)	-
Profit for the year	-	-	-	-	-	861,809	861,809
Dividend paid in the year	-	-	-	-	-	(400,000)	(400,000)
At 31st December 2002	<u>28,220</u>	<u>1,239,670</u>	<u>(43,618)</u>	<u>6,008,322</u>	<u>-</u>	<u>988,604</u>	<u>8,221,198</u>

Representing:

Retained profits at 31st December 2002

988,604

Dividend proposed for the year

(400,000)

At 31st December 2002

588,604

*General reserve and inner reserves are for general purposes.

24 Reserves (Continued)

The Bank

	Property revaluation reserve HK\$'000	Investment revaluation reserve/ (deficit) HK\$'000	General reserve* HK\$'000	Inner reserves* HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2002	1,256,392	(60,286)	5,191,454	58,066	967,807	7,413,433
Transfer from inner reserves	-	-	58,066	(58,066)	-	-
Transfer of property revaluation reserve to retained profits on disposal of bank premises	(2,548)	-	-	-	2,548	-
Reversal of property revaluation reserve on disposal of bank premises (Note 18)	(1,525)	-	-	-	-	(1,525)
Transfer of property revaluation reserve to retained profits on depreciation of revalued land	(12,649)	-	-	-	12,649	-
Investment revaluation reserve realised on disposal of non-trading securities	-	(1,379)	-	-	-	(1,379)
Change in fair value of non-trading securities	-	18,047	-	-	-	18,047
Exchange translation differences	-	-	3,804	-	183	3,987
Transfer from profit and loss account	-	-	500,000	-	(500,000)	-
Profit for the year	-	-	-	-	881,766	881,766
Dividend paid in the year	-	-	-	-	(400,000)	(400,000)
At 31st December 2002	<u>1,239,670</u>	<u>(43,618)</u>	<u>5,753,324</u>	<u>-</u>	<u>964,953</u>	<u>7,914,329</u>
Representing:						
Retained profits at 31st December 2002					964,953	
Dividend proposed for the year					(400,000)	
At 31st December 2002					<u>564,953</u>	

24 Reserves (Continued)

The Group

	Capital reserve on consolidation HK\$'000	Property revaluation reserve HK\$'000	Investment revaluation reserve/ (deficit) HK\$'000	General reserve* HK\$'000	Inner reserves* HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2001	28,220	1,271,877	(20,430)	4,932,636	58,066	924,118	7,194,487
Transfer of property revaluation reserve to retained profits on disposal of bank premises	-	(2,015)	-	-	-	2,015	-
Reversal of property revaluation reserve on disposal of bank premises	-	(746)	-	-	-	-	(746)
Transfer of property revaluation reserve to retained profits on depreciation of revalued land	-	(12,724)	-	-	-	12,724	-
Investment revaluation reserve realised on disposal of non-trading securities	-	-	(27,853)	-	-	-	(27,853)
Change in fair value of non-trading securities	-	-	(12,003)	-	-	-	(12,003)
Exchange translation differences	-	-	-	(1,182)	-	1	(1,181)
Transfer from profit and loss account	-	-	-	510,000	-	(510,000)	-
Profit for the year	-	-	-	-	-	988,155	988,155
Dividend paid in the year	-	-	-	-	-	(400,000)	(400,000)
At 31st December 2001	<u>28,220</u>	<u>1,256,392</u>	<u>(60,286)</u>	<u>5,441,454</u>	<u>58,066</u>	<u>1,017,013</u>	<u>7,740,859</u>
Representing:							
Retained profits at 31st December 2001						1,017,013	
Dividend proposed for the year						<u>(400,000)</u>	
At 31st December 2001						<u>617,013</u>	

24 Reserves (Continued)

The Bank

	Property revaluation reserve HK\$'000	Investment revaluation reserve/ (deficit) HK\$'000	General reserve* HK\$'000	Inner reserves* HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2001	1,271,877	(44,690)	4,692,636	58,066	784,836	6,762,725
Transfer of property revaluation reserve to retained profits on disposal of bank premises	(2,015)	-	-	-	2,015	-
Reversal of property revaluation reserve on disposal of bank premises	(746)	-	-	-	-	(746)
Transfer of property revaluation reserve to retained profits on depreciation of revalued land	(12,724)	-	-	-	12,724	-
Investment revaluation reserve realised on disposal of non-trading securities	-	(14,880)	-	-	-	(14,880)
Change in fair value of non-trading securities	-	(716)	-	-	-	(716)
Exchange translation differences	-	-	(1,182)	-	(158)	(1,340)
Transfer from profit and loss account	-	-	500,000	-	(500,000)	-
Profit for the year	-	-	-	-	1,068,390	1,068,390
Dividend paid in the year	-	-	-	-	(400,000)	(400,000)
At 31st December 2001	<u>1,256,392</u>	<u>(60,286)</u>	<u>5,191,454</u>	<u>58,066</u>	<u>967,807</u>	<u>7,413,433</u>
Representing:						
Retained profits at 31st December 2001					967,807	
Dividend proposed for the year					(400,000)	
At 31st December 2001					<u>567,807</u>	

25 Notes to the consolidated cash flow statement

(a) Reconciliation of profit before taxation to net cash inflow from operating activities

	2002 HK\$'000	2001 HK\$'000
Profit before taxation	980,365	1,131,266
Share of net losses of jointly controlled entities	21,314	7,300
Charge for bad and doubtful debts	173,967	143,315
Depreciation	79,327	73,331
Net losses on disposal of fixed assets	6,835	8,277
Profits less losses on disposal of held-to-maturity securities and non-trading securities	(68,754)	(82,994)
Amortisation of held-to-maturity securities	(3,516)	(25,030)
Interest income on held-to-maturity securities and non-trading securities	(565,296)	(532,913)
Dividend income on non-trading securities	(3,729)	(2,887)
Dividend income from a jointly controlled entity	-	(780)
Interest expenses on certificates of deposit issued	71,223	91,335
Operating cash inflow before changes in operating assets and liabilities	691,736	810,220
(Increase)/decrease in operating assets:		
Interest receivable, prepaid expenses and other accounts	(26,611)	(22,103)
Advances to customers, amounts written off and recoveries	1,261,700	(917,600)
Trade bills	(271,405)	117,005
Treasury bills with original maturity beyond three months	94,421	972,943
Securities held for dealing purposes	151,066	(214,794)
Money at call and short notice with original maturity beyond three months	(99,849)	-
Placements with banks and other financial institutions with original maturity beyond three months	3,349,583	(1,955,495)
Certificates of deposit held with original maturity beyond three months	(1,298,358)	(1,082,947)
Increase/(decrease) in operating liabilities:		
Interest payable, accrued expenses and other accounts	30,068	(325,061)
Deposits from customers	824,229	2,717,135
Deposits and balances of banks and other financial institutions with original maturity beyond three months	1,107,821	16,179
Exchange adjustment	(566,125)	191,784
Net cash inflow from operating activities before taxation	5,248,276	307,266
Hong Kong profits tax paid	(36,775)	(2,513)
Net overseas tax paid	(29,257)	(5,357)
Net cash inflow from operating activities	5,182,244	299,396

(b) Analysis of changes in financing during the year

	Certificates of deposit issued HK\$'000
Balance at 1st January 2001	1,890,000
Net cash inflow from financing	980,000
Balance at 31st December 2001	2,870,000
Net cash inflow from financing	1,218,000
Balance at 31st December 2002	4,088,000

25 Notes to the consolidated cash flow statement (Continued)

(c) Analysis of the balances of cash and cash equivalents

	2002 HK\$'000	2001 HK\$'000
Cash and balances with banks and other financial institutions	410,575	485,648
Money at call and short notice	19,509,225	18,872,951
Placements with banks and other financial institutions		
with original maturity within three months	2,284,562	1,419,635
Treasury bills with original maturity within three months	994,749	1,347,448
Certificates of deposit held with original maturity within three months	218,580	99,016
Less: Deposits and balances of banks and other financial institutions with original maturity within three months	<u>(911,343)</u>	<u>(2,947,218)</u>
	<u>22,506,348</u>	<u>19,277,480</u>

26 Off balance sheet exposures

(a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	The Group		The Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Direct credit substitutes	1,327,393	1,344,343	1,327,393	1,344,343
Trade-related contingencies	3,984,519	3,391,092	3,984,519	3,391,092
Other commitments with an original maturity of:				
- under 1 year or which are unconditionally cancellable	18,028,086	13,780,184	17,988,546	13,726,462
- 1 year and over	<u>3,151,568</u>	<u>2,872,756</u>	<u>3,151,568</u>	<u>2,872,756</u>
	<u>26,491,566</u>	<u>21,388,375</u>	<u>26,452,026</u>	<u>21,334,653</u>

(b) Derivatives

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

	The Group and the Bank	
	2002 HK\$'000	2001 HK\$'000
Exchange rate contracts		
Forward contracts	6,610,466	5,740,243
Interest rate contracts		
Interest rate swaps	<u>3,282,757</u>	<u>2,364,723</u>
	<u>9,893,223</u>	<u>8,104,966</u>

Exchange rate contracts mainly comprise transactions initiated in response to customer demand. No significant positions are maintained by the Group and the Bank.

The interest rate swaps were undertaken to hedge held-to-maturity securities. Interest income and expense are recognised on an accrual basis equivalent to the basis of the underlying asset being hedged.

The Group did not enter into any bilateral netting arrangements during the year and accordingly the following amounts are shown on a gross basis.

26 Off balance sheet exposures (Continued)

As at 31st December the contract amounts, credit risk weighted amounts and replacement costs of the above off balance sheet exposures are as follows:

The Group

	Contract amount 2002 HK\$'000	Credit risk weighted amount 2002 HK\$'000	Replacement cost 2002 HK\$'000	Contract amount 2001 HK\$'000	Credit risk weighted amount 2001 HK\$'000	Replacement cost 2001 HK\$'000
Contingent liabilities and commitments	26,491,566	3,646,370		21,388,375	3,421,776	
Derivatives						
- Exchange rate contracts	6,610,466	47,880	61,591	5,740,243	47,309	25,002
- Interest rate contracts	3,282,757	31,112	51,328	2,364,723	9,647	7,978
	<u>36,384,789</u>	<u>3,725,362</u>	<u>112,919</u>	<u>29,493,341</u>	<u>3,478,732</u>	<u>32,980</u>

The Bank

	Contract amount 2002 HK\$'000	Credit risk weighted amount 2002 HK\$'000	Replacement cost 2002 HK\$'000	Contract amount 2001 HK\$'000	Credit risk weighted amount 2001 HK\$'000	Replacement cost 2001 HK\$'000
Contingent liabilities and commitments	26,452,026	3,646,370		21,334,653	3,421,776	
Derivatives						
- Exchange rate contracts	6,610,466	47,880	61,591	5,740,243	47,309	25,002
- Interest rate contracts	3,282,757	31,112	51,328	2,364,723	9,647	7,978
	<u>36,345,249</u>	<u>3,725,362</u>	<u>112,919</u>	<u>29,439,619</u>	<u>3,478,732</u>	<u>32,980</u>

Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are therefore subject to the same credit origination, portfolio maintenance and collateral requirements as for customers applying for loans.

Off-balance sheet financial instruments arise from forward and swap transactions undertaken in the foreign exchange and interest rate markets.

The contract amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date; they do not represent the amounts at risk.

The credit risk weighted amounts are the amounts which 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 which have a positive value when marked to market (should the counterparty default on its obligations) and is obtained by marking to market contracts with a positive value. Replacement cost is a close approximation of the credit risk for these contracts at the balance sheet date.

27 Capital and lease commitments

(a) Capital commitments

	The Group		The Bank	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contracted but not provided for	13,252	55,846	18,018	55,846
Authorised but not contracted for	16,224	5,761	17,199	5,761
	<u>29,476</u>	<u>61,607</u>	<u>35,217</u>	<u>61,607</u>

(b) Lease commitments

At 31st December 2002 and 31st December 2001 respectively, the Group and the Bank had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	The Group		The Bank	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Land and buildings				
Within one year	33,196	47,485	34,704	48,393
In the second to fifth years inclusive	52,245	55,416	59,733	61,775
After the fifth year	4,264	2,196	13,000	11,720
	<u>89,705</u>	<u>105,097</u>	<u>107,437</u>	<u>121,888</u>

28 Loans to officers

The aggregate of loans made by the Bank to officers and disclosed pursuant to Section 161B(4B) of the Hong Kong Companies Ordinance are as follows:

	Balance outstanding at 31st December		Maximum balance during the year	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Aggregate amount outstanding in respect of principal and interest	<u>9,040</u>	<u>12,143</u>	<u>12,739</u>	<u>17,245</u>

29 Balances with group companies

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

	The Group and the Bank	
	2002	2001
	HK\$'000	HK\$'000
Cash and short-term funds	130	986
Trade bills	93	3,238
Held-to-maturity securities and non-trading securities	<u>32,172</u>	<u>31,818</u>
	<u>32,395</u>	<u>36,042</u>
Deposits and balances of banks and other financial institutions	347,209	42,114
Deposits from customers	-	11,519
	<u>347,209</u>	<u>53,633</u>

29 Balances with group companies (Continued)

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

	The Group and the Bank	
	2002	2001
	HK\$'000	HK\$'000
Deposits from customers	<u>278,529</u>	<u>275,355</u>

Included in the following balance sheet captions are balances with jointly controlled entities:

	The Group and the Bank	
	2002	2001
	HK\$'000	HK\$'000
Deposits from customers	<u>185,856</u>	<u>144,791</u>

Amounts due by/to subsidiary companies are included in Note 17(b) and amount due by jointly controlled entities is included in Note 17(a).

30 Balances with related parties

Included in the following balance sheet captions are balances with Directors and their relatives:

	The Group and the Bank	
	2002	2001
	HK\$'000	HK\$'000
Trade bills	78	25
Advances to customers and other accounts	<u>11,925</u>	<u>14,808</u>
	<u>12,003</u>	<u>14,833</u>
Deposits from customers	<u>194,049</u>	<u>179,624</u>

Included in the following balance sheet captions are balances with companies controlled by the Directors or their relatives:

	The Group and the Bank	
	2002	2001
	HK\$'000	HK\$'000
Advances to customers and other accounts	39,819	174,032
Held-to-maturity securities and non-trading securities	<u>2,000</u>	<u>2,000</u>
	<u>41,819</u>	<u>176,032</u>
Deposits from customers	<u>143,448</u>	<u>151,672</u>

The above balances arose from transactions which were entered into by the Group or the Bank in the normal course of business and at arm's length basis.

31 Ultimate holding company

The ultimate holding company is The Shanghai Commercial & Savings Bank, Ltd., which was incorporated in Shanghai, China in 1915 and is authorised to operate in Taipei, Taiwan since 1965.

32 Approval of accounts

The accounts on pages 16 to 53 were approved by the Board of Directors on 26th February 2003.