



SHANGHAI COMMERCIAL BANK LIMITED

ANNUAL REPORT *2002*

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Five-Year Financial Summary

	2002	2001	2000	1999	1998
For the Year (In HK\$ Million)					
Net interest income	1,399	1,516	1,584	1,513	1,388
Other operating income	562	540	561	467	532
Operating expenses	847	849	813	851	867
Operating profit	940	1,064	1,204	1,040	936
Profit attributable to shareholders	862	988	1,073	952	831
Dividend	400	400	400	320	286

At Year End (In HK\$ Million)

Shareholders' funds	10,221	9,741	9,194	8,058	7,446
Total assets	73,272	71,653	65,465	57,764	55,173
Total deposits	60,150	58,108	54,411	48,008	45,951
Total loans and advances	27,757	29,169	28,247	23,758	25,427

Financial Ratios

Capital adequacy ratio	23%	22%	23%	26%	25%
Liquidity ratio	66%	57%	57%	59%	58%
Loan to deposit ratio*	52.65%	56.34%	56.21%	52.73%	56.88%
Dividend payout ratio	46.41%	40.48%	37.27%	33.62%	34.42%
Return on assets	1.19%	1.44%	1.74%	1.69%	1.55%

* Loan to deposit ratio is stated based on total loans and advances, trade bills and holdings of debt securities issued by corporations to total deposits.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Fifty-second Annual General Meeting of the Members of the Bank will be held at its Registered Office, 12 Queen's Road Central, Hong Kong on Tuesday, 25th March 2003 at 11:45 a.m. to transact the following business:

- (1) To receive and consider the audited accounts and the Reports of the Directors and of the Auditors for the year ended 31st December 2002;
- (2) To declare Dividend in respect of the year 2002;
- (3) To elect Directors;
- (4) To approve the payment of Directors' fees for the year ended 31st December 2002;
- (5) To re-appoint Auditors and to authorise the Directors to fix their remuneration.

A Member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not also be a Member.

The Register of Members of the Bank will be closed from Tuesday, 18th March 2003 to Tuesday, 25th March 2003, both days inclusive.

By Order of the Board
Edward Kawah Chu
Corporate Secretary

Hong Kong, 22nd January 2003

New Development in a New Era

新時代 新發展



The new look of the Bank's Head Office Building provides the highlight of the Bank's new development.

本銀行總行大廈換上新裝，為本銀行的新發展添上姿彩。





Board of Directors

John Kam-pak Yan, Chairman & Managing Director

Jung-sen Lee, OBE, LLD

Hung-ching Yung, JP

Frank Kai-shu Lau

Ernesto Tang-fai Ng

Dr. Liu Jinbao

(Law Man Wah, Alternate)

Lincoln Chu Kuen Yung, JP

Shen Ruolei

Dr. Philip Kin Hang Wong, GBS, JP, LLD, DH

David Joseph Zuercher

(Michael Gallagher, Alternate)

Dr. Richard Lee

Johnson Mou Daid Cha

(Dr. Lam Chat Yu, Alternate)

David Sek-chi Kwok

Robert Law Joss

(Ignatius Wooi-kean Choong, Alternate)

Management

General Management

Chairman & Managing Director

General Manager

Deputy General Managers

Assistant General Manager

Corporate Secretary

Chief Accountant

Chief Auditor

John Kam-pak Yan

Frank Kai-shu Lau

Ernesto Tang-fai Ng

David Sek-chi Kwok

Ambrose Kwong-chung Chan

Edward Kawah Chu

Henry Koon-man To

Pui-man Yeung

Business Divisions

Senior Managers

Chun-yiu Chan

Stanley Po-pun Mo

Francis Wai-choi Cheung

Managers

John Shing-sang Sia

Daniel Kwok-hung Chan

Anthony Chit-wing Chan

Henry Siu-chuen Lau

Albert Tak-wo Leung

Stella Pik-san Lau

Tony Kwok-leung Mak

Hon-ming Mak

John Yu-kam Chow

Elizabeth Po-san Ng

Paul Kun-kow Wong

Burton Chi-shan Cheng

Edith Hang-lin Wong

Alvin Kwok-kit Lau

Chun-sum Chan

Mainland Representative Offices

Shanghai Representative Office

Chief Representative

Alvin Kwok-kit Lau

Shenzhen Representative Office

Chief Representative

Xing-ping Wang

Overseas Branches

London Branch

Manager

Frederick Yan Chu

Los Angeles Branch

Senior Vice President & Manager

Ching-hsing Kao

New York Branch

Vice President & Manager

Timothy Kam-tim Chan

San Francisco Branch

Vice President & Manager

Philip She-hoi Lee

Biographical Details of Directors and Senior Management

Directors

Mr. John Kam-pak Yan

Aged 61. Chairman and Managing Director of the Bank. Joined the Bank in August 1959. Appointed a Director in February 1988 and as Managing Director in October 1997. Chief Executive since April 2000. Elected Chairman in September 2001.

Mr. Jung-sen Lee, OBE, LLD

Aged 87. Appointed a Director of the Bank in May 1952. A Director of Lee Gardens International Holdings Limited and Television Broadcasts Limited.

Mr. Hung-ching Yung, JP

Aged 80. Appointed a Director of the Bank in March 1973. Managing Director and General Manager of Nanyang Holdings Limited and Chairman of The Shanghai Commercial & Savings Bank, Ltd.

Mr. Frank Kai-shu Lau

Aged 60. General Manager of the Bank. First joined the Bank in August 1959 and resigned in November 1972. Rejoined the Bank in August 1977. Appointed a Director in March 1996. Alternate Chief Executive since April 2000.

Mr. Ernesto Tang-fai Ng

Aged 59. A Deputy General Manager of the Bank. Joined the Bank in June 1967. Appointed a Director in March 1996.

Dr. Liu Jinbao

Aged 50. Appointed a Director of the Bank in September 1998. Vice Chairman and Chief Executive of BOC Hong Kong (Holdings) Limited and Bank of China (Hong Kong) Limited.

Mr. Lincoln Chu Kuen Yung, JP

Aged 57. Appointed a Director of the Bank in September 1998. He has extensive experience in the textile industry, banking and investment. Currently he serves as a Director of Nanyang Holdings Limited, The Shanghai Commercial & Savings Bank, Ltd. and Tai Ping Carpets International Limited.

Mr. Shen Ruolei

Aged 57. Appointed a Director of the Bank in March 1999. Chairman of Shanghai United International Investment Ltd.

Dr. Philip Kin Hang Wong, GBS, JP, LLD, DH

Aged 70. Appointed a Director of the Bank in March 2001. A consultant of a Hong Kong firm of solicitors and also a Notary Public and a China Appointed Attesting Officer.

Mr. David Joseph Zuercher

Aged 56. Appointed an Alternate Director to Professor Chang-Lin Tien in January 1999 and resigned in March 2001 when he was appointed a Director of the Bank. Executive Vice President of Wells Fargo Bank, N.A.

Dr. Richard Lee

Aged 65. Appointed a Director of the Bank in April 2001. Chairman of TAL Apparel Limited and a Director of Trinity Textiles Limited.

Mr. Johnson Mou Daid Cha

Aged 51. Appointed a Director of the Bank in September 2001. Managing Director of The Mingly Corporation Limited, and also a Director of HKR International Limited, Hanison Construction Holdings Limited and China International Capital Corporation Limited, and a member of the Council of Advisors on Innovation and Technology for the Government of Hong Kong SAR.

Mr. David Sek-chi Kwok

Aged 49. A Deputy General Manager of the Bank. Joined the Bank in October 1971. Appointed a Director in October 2001.

Mr. Robert Law Joss

Aged 61. Served as a Director of the Bank from April 1979 to March 1984 and also from July 1985 to March 1993. Appointed an Alternate Director to Mr. David Joseph Zuercher in March 2001 and resigned in April 2002 when he was appointed a Director of the Bank. A Director of Wells Fargo & Company. Dean of the Graduate School of Business at Stanford University.

Mr. Law Man Wah

Aged 51. Appointed an Alternate Director to Dr. Liu Jinbao in July 2001. Chief Financial Officer of BOC Hong Kong (Holdings) Limited and Bank of China (Hong Kong) Limited, and a Director of Nanyang Commercial Bank, Limited.

Mr. Ignatius Wooi-kean Choong

Aged 41. Served as an Alternate Director to Mr. Paul Mandeville Hazen from January 1997 to March 2001 and also as an Alternate Director to Professor Chang-Lin Tien from March 2001 to March 2002. Appointed an Alternate Director to Mr. Robert Law Joss in April 2002. Managing Director, Asia Investment Management, of Wells Fargo Bank, N.A.

Dr. Lam Chat Yu

Aged 51. Appointed an Alternate Director to Mr. Johnson Mou Daid Cha in May 2002. He has more than 20 years of investment experience, including 13 years in Silicon Valley, California and 8 years in Asia. He is an Executive Director of The Mingly Corporation Limited.

Mr. Michael Gallagher

Aged 41. Appointed an Alternate Director to Mr. David Joseph Zuercher in January 2003. Senior Vice President and Regional Manager of Asia Regional Office, Wells Fargo Bank, N.A.

Senior Management

Mr. John Kam-pak Yan

(Biographical details are set out on page 8)

Mr. Frank Kai-shu Lau

(Biographical details are set out on page 8)

Mr. Ernesto Tang-fai Ng

(Biographical details are set out on page 8)

Mr. David Sek-chi Kwok

(Biographical details are set out above)

Mr. Ambrose Kwong-chung Chan

Aged 61. Assistant General Manager of the Bank. Joined the Bank in August 1959.

Message to Shareholders

The Hong Kong economy remained weak in 2002. Although there was a pick-up in the external trade performance, the domestic economy remained sluggish throughout the year. The unemployment rate soared to a high of 7.8 per cent in mid-2002, while local asset prices depreciated further during the year. The deflationary environment persisted for the fourth consecutive year, with the Composite Consumer Price Index falling by an average of 3 per cent in 2002.

The operating environment of the local banking sector in 2002 continued to be very difficult. Record low interest rates failed to stimulate domestic loan demand, resulting in a further squeeze on lending margins under the situation of excess liquidity. The high unemployment rate and rising personal bankruptcies led to a sharp rise in credit card and consumer loan defaults.

As for your Bank, the consolidated profit attributable to shareholders fell by 12.8 per cent in the year of 2002. The decrease in profit was principally attributable to the fall in the net interest income caused by a further contraction in the net interest margin. Apart from working hard to control its operating expenses, the Bank continued its efforts to solicit new business and enlarge its customer base to increase its non-interest income during the year under review. For the insurance business, in addition to the active distribution of life insurance products offered by Hong Kong Life Insurance Limited, the Bank started to market general insurance products offered by Pafoong Insurance Co. (Hong Kong) Ltd. using the Bank's own brand name. The first product, named SCB "Travelplus" Travel Insurance Plan, was launched to the market in May 2002. Subsequently, SCB "PA PLUS" Personal Accident Insurance Plan and SCB "MediExpress" China Medical Card were also launched to the market in July 2002 and September 2002 respectively. Besides, the Bank reached an agreement with Assicurazioni Generali S.p.A., the third largest insurance group in Europe, to become its agent in Hong Kong in the general insurance business. To meet the growing needs and desire of the parents in nurturing their children to have a promising future, the Bank launched the "Grow Our Sprouts" Plan in August 2002, which consists of a well-structured package of services aiming at providing cover for both the present and future well-being of the children of its personal customers. During the year under review, the Bank also broadened the range of wealth management products offered to its customers. Meanwhile, the Bank is in the process of issuing SCB VISA Platinum Card to its valued customers.

On the other hand, the Bank continued to work hard on maintaining its special niche in trade financing by offering a comprehensive range of financing services for the small and medium-sized enterprises. Apart from registering a growth in its trade finance business during 2002, the Bank achieved satisfactory results in its own Corporate Tax Loan scheme as well as the SME Business Installations and Equipment Loan Guarantee Scheme sponsored and launched by the Hong Kong SAR Government in December 2001. As to the Bank's Corporate Internet Banking service, its functions in the areas of trade finance, money transfer and cash management have been constantly upgraded to better serve the needs of the Bank's corporate customers in conducting banking transactions via the Internet. Because of its advanced features and functions which incorporate in-depth know-how of business logic, the Bank's Corporate Internet Banking System was a winner of the IT Excellence Awards 2002 organized by the Hong Kong Computer Society.

Nob Hill Banking Centre was established by the Bank at a shopping arcade near Mei Foo Sun Chuen in October 2002. The renovation project of the Head Office Building was completed in September 2002 as scheduled. The redevelopment project of the Tsuen Wan Building was completed in the fourth quarter of 2002. The building is currently undergoing interior fitting-out works, and the Tsuen Wan Branch is expected to move back into the building in the third quarter of 2003.

We are pleased that Mr. Robert Law Joss, a veteran banker who is presently Dean of the Graduate School of Business at Stanford University, has rejoined the Board of the Bank.

We record with deep sorrow the passing away of Professor Chang-Lin Tien, who served as a Director of the Bank during January 1999 to March 2002, on 29th October 2002.

Looking ahead, it is expected that the geopolitical tension and the prospects of war would result in an even greater volatility in the world financial markets in 2003, and that the Hong Kong economy would continue to suffer from deflation and weak domestic demand in the coming year. As a result, the local banking sector will most likely go through another difficult year. The Bank will continue to focus its efforts on controlling expenses and increasing revenue especially the non-interest income, while maintaining its vigilance in the area of credit control. The Bank will also continue to upgrade its staff quality and implement the re-engineering process on the deployment of human resources such that suitable staff are designated to concentrate on a particular functional area to optimize their output. We are confident that with the support of the shareholders, the counsel of the Directors, the trust of the customers and the devotion of the staff members, the Bank will be able to surmount the challenges ahead.

John Kam-pak Yan
Chairman & Managing Director

Frank Kai-shu Lau
General Manager

Hong Kong, 26th February 2003

Report of the Directors

The Directors have pleasure in submitting their report together with the audited accounts for the year ended 31st December 2002.

Principal activities

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

Profit and appropriations

	HK\$'000	HK\$'000
The Group profit for the year after taxation and minority interests amounted to		861,809
Add: Losses retained by jointly controlled entities		21,314
Deduct: Profit retained by subsidiary companies		<u>(1,357)</u>
Profit dealt with in the accounts of the Bank		881,766
Add: Retained profits of the Bank brought forward		567,807
Exchange translation differences		183
Transfer from property revaluation reserve		<u>15,197</u>
		1,464,953
which the Directors propose to appropriate as follows:		
Transfer to general reserve	(500,000)	
Proposed dividend of HK\$20 per share	<u>(400,000)</u>	<u>(900,000)</u>
Retained profits of the Bank carried forward		<u><u>564,953</u></u>

Reserves

Movements in the reserves of the Group and the Bank during the year are set out in Note 24 to the accounts.

Donations

During the year donations made by the Bank and its subsidiary companies for charitable and other purposes amounted to HK\$1,594,000.

Fixed assets

Details of the movements in fixed assets of the Group and the Bank are shown in Note 18 to the accounts.

Directors

The Directors of the Bank during the year and at the date of this report are:

Jung-sen Lee

Hung-ching Yung

John Kam-pak Yan

Frank Kai-shu Lau

Ernesto Tang-fai Ng

Dr. Liu Jinbao

(Law Man Wah, Alternate)

Professor Chang-Lin Tien

(retired on 27th March 2002)

(Ignatius Wooi-kean Choong, Alternate)

(resigned on 27th March 2002)

Lincoln Chu Kuen Yung

Shen Ruolei

Dr. Philip Kin Hang Wong

David Joseph Zuercher

(Robert Law Joss, Alternate)

(resigned on 4th April 2002)

(Michael Gallagher, Alternate)

(appointed on 30th January 2003)

Dr. Richard Lee

Johnson Mou Daid Cha

(Dr. Lam Chat Yu, Alternate)

(appointed on 30th May 2002)

David Sek-chi Kwok

Robert Law Joss

(elected on 27th March 2002 and
appointment took effect on 4th April 2002)

(Ignatius Wooi-kean Choong, Alternate)

(appointed on 4th April 2002)

In accordance with Article 104(A) of the Bank's Articles of Association, Mr. Jung-sen Lee, Mr. Hung-ching Yung, Mr. Frank Kai-shu Lau and Mr. Ernesto Tang-fai Ng shall retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Directors' interests

No contracts of significance in relation to the Group's business to which the Bank, its subsidiary companies, its fellow subsidiaries or its holding companies was a party and in which a Director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the Bank, its subsidiary companies, its fellow subsidiaries or its holding companies a party to any arrangements to enable the Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

Management contracts

No substantial contracts concerning the management and administration of the whole or any substantial part of the business of the Bank were entered into or existed during the year.

Financial disclosures

The Bank has fully complied with the requirements set out in the guideline on “Financial Disclosure by Locally Incorporated Authorized Institutions” issued by the Hong Kong Monetary Authority in November 2002.

Compliance with the Code of Best Practice

According to Article 123 of the Bank's Articles of Association, the Bank adopts the guidelines set out in the Code of Best Practice contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Code of Best Practice”). The Bank has fully complied with the Code of Best Practice throughout the year except for paragraphs 6, 7, 12 and 14 as the Bank, being a private company, cannot comply with these paragraphs in practice.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
John Kam-pak Yan
Chairman

Hong Kong, 26th February 2003

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		<u>(855,175)</u>	<u>(2,015,855)</u>
Net interest income		1,316,917	1,414,901
Other operating income	3(b)	<u>640,416</u>	<u>731,067</u>
Operating income		1,957,333	2,145,968
Operating expenses	4	<u>(839,995)</u>	<u>(842,167)</u>
Operating profit before provisions		1,117,338	1,303,801
Charge for bad and doubtful debts	6	<u>(169,998)</u>	<u>(141,635)</u>
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		<u>-</u>	<u>(17,238)</u>
Profit before taxation		998,197	1,209,073
Taxation	7	<u>(116,431)</u>	<u>(140,683)</u>
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	<u>15,197</u>	<u>14,739</u>
		1,464,953	1,467,807
Appropriations			
Transfer to general reserve	24	(500,000)	(500,000)
Dividend	8 and 24	<u>(400,000)</u>	<u>(400,000)</u>
Retained profits carried forward	24	<u>564,953</u>	<u>567,807</u>

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
Total liabilities and capital resources		72,916,352	71,255,371

John Kam-pak Yan
Chairman

Hung-ching Yung
Director

Philip Kin Hang Wong
Director

Frank Kai-shu Lau
General Manager

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>

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	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	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	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	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
	<u>-</u>	<u>38,985</u>

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
	5,447,088	5,617,039	5,560,623	5,687,625
Unlisted	6,606,380	3,961,122		
	12,053,468	9,578,161		
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		
	13,753,284	9,931,813		

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	1,400,879	-	1,400,879
	<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	1,406,553	-	1,406,553
	<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	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	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	2001
	HK\$'000	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	<u>691,736</u>	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	<u>5,248,276</u>	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	<u><u>5,182,244</u></u>	<u><u>299,396</u></u>

(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	<u>980,000</u>
Balance at 31st December 2001	2,870,000
Net cash inflow from financing	<u>1,218,000</u>
Balance at 31st December 2002	<u><u>4,088,000</u></u>

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.

Supplementary Financial Information

The following information is disclosed as part of the accompanying information to the accounts and does not form part of the audited accounts.

1 Corporate governance

(a) The Bank has fully complied with the requirements set out in the guideline on “Corporate Governance of Locally Incorporated Authorized Institutions” issued by the Hong Kong Monetary Authority throughout the year except for the following two points. While the Audit Committee of the Bank prior to 18th September 2002 consisted mainly of non-executive directors who are not independent, changes to the composition of members were made on 18th September 2002 and the majority of the Audit Committee now consists of independent members. As for the requirement on attendance by directors, all Directors of the Bank attended more than half of the board meetings held in 2002, either personally or represented by the alternate, except for Mr. David Joseph Zuercher who attended five out of eleven board meetings held in 2002.

(b) Key specialised committees established under the Board of Directors (the “Board”)

(i) Executive Committee

The Executive Committee meets monthly and operates as a general management committee under the direct authority of the Board to review the management and performance of the Bank. The current members of the Executive Committee are Mr. John Kam-pak Yan (Chairman), Mr. Hung-ching Yung, Mr. Frank Kai-shu Lau, Mr. Ernesto Tang-fai Ng, Mr. Shen Ruolei, Mr. David Sek-chi Kwok and Mr. Robert Law Joss.

(ii) Audit Committee

The Audit Committee meets quarterly to consider the nature and scope of audit reviews, review the Bank’s financial statements, the findings of both internal and external auditors and the effectiveness of the internal control systems of the Bank. The current members of the Audit Committee are Dr. Phillip Kin Hang Wong (Chairman), Mr. Lincoln Chu Kuen Yung and Mr. Jung-sen Lee.

(iii) Asset and Liability Committee

The Asset and Liability Committee meets monthly to oversee the Bank’s operations relating to interest rate risk and liquidity risk and in particular to ensure that the Bank has adequate funds to meet its obligations. The members of the Asset and Liability Committee are Mr. John Kam-pak Yan (Chairman), Mr. Frank Kai-shu Lau, Mr. Ernesto Tang-fai Ng, Mr. David Sek-chi Kwok, Mr. Ambrose Kwong-chung Chan and Mr. Henry Koon-man To.

(iv) Credit Committee

The Credit Committee meets monthly to ensure that the Bank’s lending policies are adequate and lending activities are conducted in accordance with established policies and relevant laws and regulations. The Credit Committee is also responsible for establishing credit policies, monitoring loan portfolio quality, ensuring compliance with statutory and internal lending limits, and evaluating credit applications and making credit decisions. The members of the Credit Committee are Mr. Frank Kai-shu Lau (Chairman), Mr. Ernesto Tang-fai Ng, Mr. David Sek-chi Kwok and Mr. Chun-sum Chan.

2 Qualitative information on management of risks

The Bank has in place policies and procedures for the control and monitoring of credit, liquidity, market, interest rate and foreign exchange risks. One of the major functions of the Board is to ensure that the Bank establishes policies, procedures and controls to manage the various types of risk with which it faces. The Board has delegated its powers to the Executive Committee, the Audit Committee, the Asset and Liability Committee and the Credit Committee for the supervision of major functional areas, and in particular, the Executive Committee has been delegated the authority to oversee and guide the management of different risks. Senior management is always watchful for changes in economic, political and market conditions in which the Bank operates and the inherent risks the Bank faces. The Internal Audit Department performs regular audits to ensure compliance with the policies and procedures. The Risk Manager is responsible for monitoring the overall risk management of the Bank’s operations, except for credit risk, which is managed by the Credit Committee. Reconciliation procedures are also in place to ensure that the systems capture all necessary data. All of the above arrangements ensure that the risk management processes are operating effectively.

2 Qualitative information on management of risks (Continued)

(a) Credit risk management

Credit risk is the risk that a customer or counterparty of the Bank will be unable or unwilling to meet a commitment when it falls due. It arises from the lending, trade finance, treasury and other activities undertaken by the Bank. Credit approval and review procedures and guidelines, delegated approval authorities and an effective credit control system are used to maintain the high quality of the loan portfolio and other risk assets. The Bank manages the credit risk of its counterparties within a conservative framework by evaluating the creditworthiness of its counterparties, and setting credit limits on individual counterparty, country and industry sector. The Bank's credit risk is managed and monitored by the Credit Committee under limits and guidelines approved by the Directors.

(b) Liquidity risk management

Liquidity risk is the risk that the Bank will be unable to meet payment obligations when they fall due. The liquidity of the Bank is managed and monitored in accordance with the guidelines and procedures laid down in the liquidity management policy approved by the Directors, which has regard to a variety of factors, including liquidity ratio, loan to deposit ratio, liquefiable assets to be kept in Hong Kong, maturity mismatch profile, diversity and stability of the deposits base and ability to borrow in the interbank market. An adequate stock of high quality liquid assets is being maintained at all times, in order to enable the Bank to meet deposit withdrawals, to repay interbank borrowings, and to make new loans and investments as and when required in a timely and cost effective manner. Liquefiable assets held comprise mainly marketable debt securities and interbank placements. The Bank's liquidity risk is managed by the Treasury Department and monitored by management and the Asset and Liability Committee under guidelines and procedures approved by the Directors.

(c) Market risk management

Market risk is the risk that interest rates, foreign exchange rates or equity prices will move relative to positions taken, resulting in profits or losses. In the ordinary course of business, the Bank enters into various types of financial instruments, mainly forward exchange contracts, that are mainly customers-driven and are entered into on behalf of customers. The measuring procedures and limit systems used for market risk management have been approved by the Directors. The Bank's market risk is managed by the Treasury Department and monitored by management. The transactions included in the trading book as at 31st December 2002 for the Group and the Bank is not significant.

(d) Interest rate risk management

Interest rate risk is the risk that the Bank's position may be adversely affected by a change of market interest rates. The Bank's interest rate risk arises primarily from the timing differences in the repricing of interest bearing assets, liabilities and commitments. The primary objective of interest rate risk management is to limit the potential adverse effects of interest rate movement on net interest income by closely monitoring the net repricing gap of the Bank's assets and liabilities. The interest rate risk is managed by the Treasury Department and monitored by management and the Asset and Liability Committee under limits approved by the Directors.

(e) Foreign exchange risk management

Foreign exchange risk is the risk that the holding of foreign currencies will affect the Bank's position as a result of a change in foreign currency exchange rates. The Bank's foreign exchange risk arises primarily from currency exposures originated by the Bank's commercial banking businesses. The foreign exchange risk is managed by the Treasury Department and monitored by management and the Asset and Liability Committee within position limits approved by the Directors.

(f) Capital management

The Bank's policy is to maintain a strong capital base to support the development of the Bank's business and to ensure compliance with the statutory capital adequacy ratio requirement, a requirement used to assess the capital adequacy of banks. Capital is allocated to the various activities of the Bank depending on the risk taken by each business division. Where the subsidiaries or branches are directly regulated by other regulators, they are required to maintain capital according to the rules of these regulators.

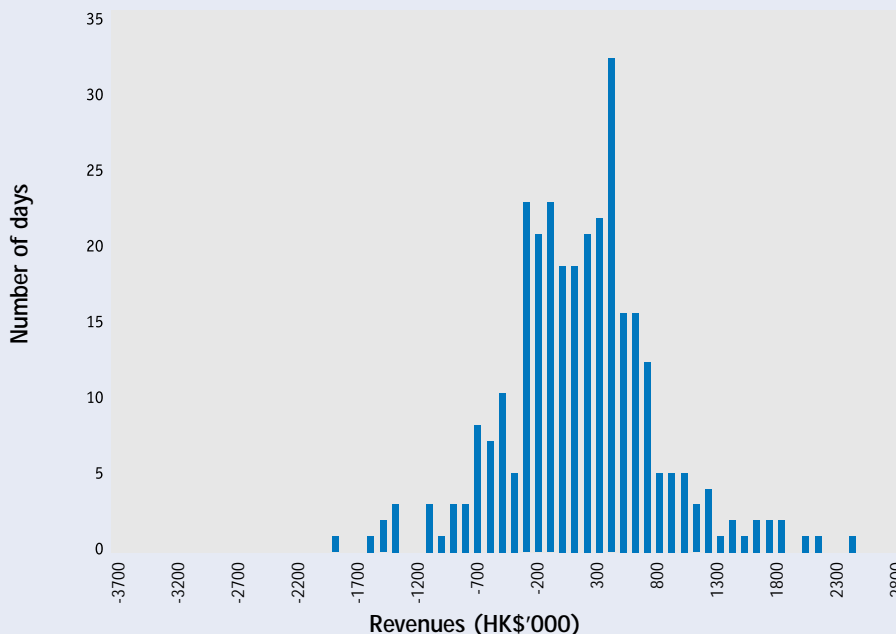
(g) Objectives, policies and strategies for the use of derivatives

The Group uses different types of derivatives to manage foreign exchange and interest rate sensitivity primarily to hedge its underlying positions. The types of derivatives used by the Group include forward exchange rate and interest rate swap contracts and are managed within approved limits or with prior approval obtained from the Executive Committee. The policy on the use of derivatives is reviewed by the Executive Committee and recommended changes and amendments are submitted to the Board for consideration.

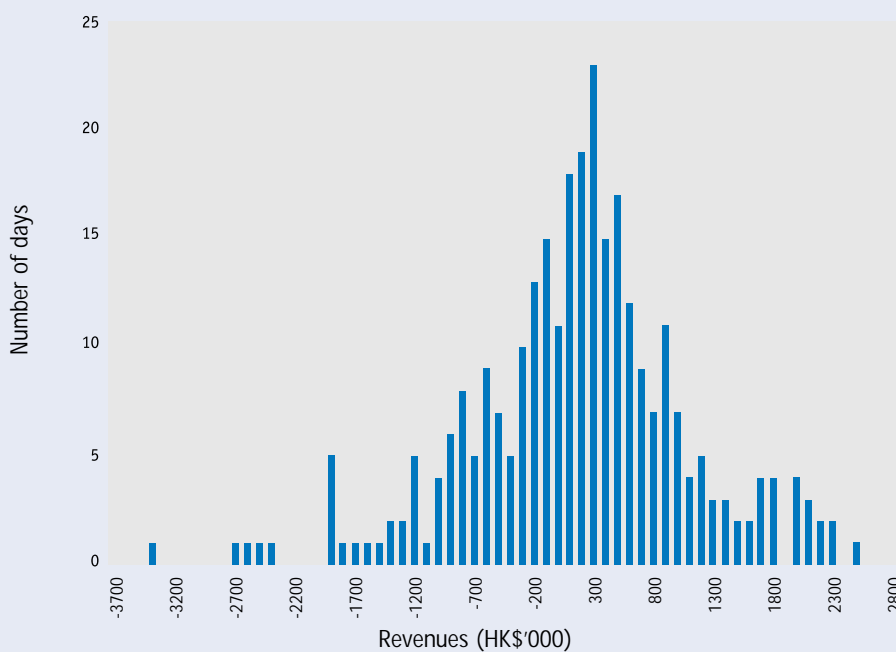
3 Quantitative information on market risk

The average daily revenue arising from foreign exchange, equity and other financial instruments exposures in the year was HK\$0.20 million (2001: HK\$0.21 million). The standard deviation of these daily revenues was HK\$0.63 million (2001: HK\$0.93 million). The highest daily revenue was HK\$2.44 million (2001: HK\$2.53 million) and the maximum daily loss was HK\$1.82 million (2001: HK\$3.39 million).

Daily distribution of market risk revenues in 2002



Daily distribution of market risk revenues in 2001



Supplementary Financial Information

4 Capital adequacy and liquidity ratios

	2002	2001
Capital adequacy ratio	<u>23%</u>	<u>22%</u>
Adjusted capital adequacy ratio	<u>23%</u>	<u>22%</u>
Liquidity ratio	<u>66%</u>	<u>57%</u>

The capital adequacy ratio as at 31st December 2002 represents the consolidated ratio of the Bank, Shacom Finance Limited, Shacom Investment Limited, Shacom Investment Management Limited, Shacom Property Holdings (BVI) Limited, Shacom Property (NY) Inc., Shacom Property (CA) Inc. and Shacom Assets Investments Limited, computed in accordance with the Third Schedule of the Banking Ordinance.

The adjusted capital adequacy ratio represents the capital adequacy ratio adjusted to take into account market risk as at the balance sheet date computed in accordance with the Guideline "Maintenance of Adequate Capital Against Market Risks" issued by the Hong Kong Monetary Authority.

The liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio for the twelve months of the financial year for the Bank and Shacom Finance Limited computed in accordance with the Fourth Schedule of the Banking Ordinance.

The components of the total capital base after deductions as reported in the calculation of the capital adequacy ratio as at 31st December and reported to the Hong Kong Monetary Authority are as follows:

	2002 HK\$'000	2001 HK\$'000
Core capital		
Paid up ordinary share capital	2,000,000	2,000,000
Reserves	6,110,133	5,513,620
Profit and loss account	<u>486,370</u>	<u>582,499</u>
	<u>8,596,503</u>	<u>8,096,119</u>
Supplementary capital		
Reserves on revaluation of land and interests in land	867,769	879,474
Reserves on revaluation of holding of securities not held for trading purposes	(43,618)	(60,286)
General provisions for doubtful debts	<u>373,889</u>	<u>350,532</u>
Total gross and eligible value of supplementary capital	<u>1,198,040</u>	<u>1,169,720</u>
Total capital base before deductions	<u>9,794,543</u>	<u>9,265,839</u>
Deductions from total capital base		
Shareholdings in subsidiaries or holding company	(52,082)	(51,726)
Exposures to connected companies	(87,487)	(82,455)
Equity investments of 20% or more in jointly controlled entities	(24,600)	(21,000)
Investments in the capital of other banks and financial institutions	<u>(225,540)</u>	<u>(182,961)</u>
	<u>(389,709)</u>	<u>(338,142)</u>
Total capital base after deductions	<u>9,404,834</u>	<u>8,927,697</u>

Supplementary Financial Information

5 Segmental information

(a) Gross advances to customers by industry sector

	The Group		The Bank	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	1,488,449	1,938,005	1,488,449	1,938,005
- Property investment	4,599,702	4,955,298	4,551,472	4,903,260
- Financial concerns	32,698	54,004	32,698	53,765
- Stockbrokers	4,519	2,472	4,519	2,472
- Wholesale and retail trade	503,991	617,383	501,833	612,162
- Manufacturing	908,630	910,270	900,402	896,641
- Transport and transport equipment	232,493	143,958	211,031	130,688
- Telecommunication	800	1,226	800	1,226
- Others	3,935,462	4,352,264	3,911,521	4,326,028
Individuals				
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	891,242	1,048,390	877,954	1,036,202
- Loans for the purchase of other residential properties	5,689,049	6,547,441	5,584,240	6,429,533
- Credit card advances	370,677	404,775	370,677	404,775
- Others	1,133,178	974,703	1,104,186	931,582
Trade finance	3,743,558	3,345,173	3,743,558	3,345,173
Loans for use outside Hong Kong	4,222,429	3,873,276	4,218,911	3,870,797
	<u>27,756,877</u>	<u>29,168,638</u>	<u>27,502,251</u>	<u>28,882,309</u>

(b) Gross advances to customers by location of counterparty or guarantor if the advances are guaranteed by a party in a location which is different from that of the counterparty are as follows:

	The Group		Non-performing advances		Overdue advances	
	Total advances		2002		2001	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	23,349,000	24,624,000	691,000	553,000	195,000	275,000
North America	3,205,000	3,015,000	14,000	-	14,000	-
	The Bank		Non-performing advances		Overdue advances	
	Total advances		2002		2001	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	23,094,000	24,337,000	674,000	539,000	194,000	259,000
North America	3,205,000	3,015,000	14,000	-	14,000	-

Supplementary Financial Information

5 Segmental information (Continued)

(c) Cross-border claims

Cross-border claims which include financial claims on balances due from banks and other financial institutions, treasury bills, loans and advances, trade bills, certificates of deposit held and investments in securities by location and type of counterparties are as follows (in general, risk transfer should only be made 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):

The Group and the Bank 2002

	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia & Pacific excluding Hong Kong	7,944,000	4,000	390,000	8,338,000
North America	1,385,000	2,051,000	382,000	3,818,000
Western Europe	21,178,000	17,000	956,000	22,151,000

2001

	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia & Pacific excluding Hong Kong	7,414,000	227,000	547,000	8,188,000
North America	3,170,000	688,000	1,004,000	4,862,000
Western Europe	17,557,000	13,000	842,000	18,412,000

(d) By geographical area

The information concerning geographical analysis has been classified by the location of the principal operations of the subsidiary, or in the case of the Bank itself, on the location of the branch responsible for reporting the results or booking the assets.

2002

	Hong Kong HK\$'000	Europe HK\$'000	Americas HK\$'000	Intersegment eliminations HK\$'000	Consolidated HK\$'000
Operating income	1,772,005	46,602	141,884	-	1,960,491
Profit before taxation	919,254	31,356	29,755	-	980,365
Taxation	(113,472)	(8,000)	3,326	-	(118,146)
Minority interests	(410)	-	-	-	(410)
Segment results	805,372	23,356	33,081	-	861,809
Segment assets	63,970,962	6,960,596	5,777,165	(3,436,547)	73,272,176
Segment liabilities	54,279,234	6,939,801	5,136,311	(3,309,602)	63,045,744
Segment contingent liabilities and commitments	24,719,207	107,845	1,664,514	-	26,491,566

Supplementary Financial Information

5 Segmental information (Continued)

(d) By geographical area (Continued) 2001

	Hong Kong HK\$'000	Europe HK\$'000	Americas HK\$'000	Intersegment eliminations HK\$'000	Consolidated HK\$'000
Operating income	<u>1,883,157</u>	<u>37,771</u>	<u>135,671</u>	-	<u>2,056,599</u>
Profit before taxation	1,033,376	22,413	75,477	-	1,131,266
Taxation	(140,340)	(2,672)	(27)	-	(143,039)
Minority interests	(72)	-	-	-	(72)
Segment results	<u>892,964</u>	<u>19,741</u>	<u>75,450</u>	-	<u>988,155</u>
Segment assets	<u>62,817,919</u>	<u>6,849,496</u>	<u>5,646,960</u>	<u>(3,661,111)</u>	<u>71,653,264</u>
Segment liabilities	<u>53,570,984</u>	<u>6,831,379</u>	<u>5,039,423</u>	<u>(3,534,405)</u>	<u>61,907,381</u>
Segment contingent liabilities and commitments	<u>20,075,475</u>	<u>68,407</u>	<u>1,244,493</u>	-	<u>21,388,375</u>

(e) By class of business

The Group and the Bank are engaged predominantly in banking and related financial activities. It comprises retail and corporate banking, bills, treasury and other classes of business.

The "Others" business mainly comprises remittance, share dealing, provision of trustee, wealth management and insurance agency services.

For the purpose of class of business analysis, the allocation of revenue, besides the direct revenue generated by the business, also includes the benefits of funding resources derived from the other businesses by way of internal fund transfer pricing mechanisms. Cost allocation is based on the direct cost incurred by the class of business and internal allocation of management overheads. Asset allocation is based on the assets directly attributable to the class of business and internal allocation of assets.

2002

The Group

	Retail and corporate banking HK\$'000	Bills HK\$'000	Treasury HK\$'000	Others HK\$'000	Total HK\$'000
Operating income	<u>1,269,856</u>	<u>296,010</u>	<u>251,621</u>	<u>143,004</u>	<u>1,960,491</u>
Operating profit before provisions	<u>843,339</u>	<u>132,815</u>	<u>202,916</u>	<u>(65,343)</u>	<u>1,113,727</u>
Operating profit	<u>672,733</u>	<u>129,454</u>	<u>202,916</u>	<u>(65,343)</u>	<u>939,760</u>
Profit before taxation	<u>649,756</u>	<u>128,934</u>	<u>271,200</u>	<u>(69,525)</u>	<u>980,365</u>
Segment assets	<u>26,674,025</u>	<u>3,469,249</u>	<u>42,554,021</u>	<u>574,881</u>	<u>73,272,176</u>

Supplementary Financial Information

5 Segmental information (Continued)

(e) By class of business (Continued)

2002

The Bank

	Retail and corporate banking HK\$'000	Bills HK\$'000	Treasury HK\$'000	Others HK\$'000	Total HK\$'000
Operating income	<u>1,257,904</u>	<u>296,010</u>	<u>263,103</u>	<u>140,316</u>	<u>1,957,333</u>
Operating profit before provisions	<u>834,687</u>	<u>132,815</u>	<u>214,398</u>	<u>(64,562)</u>	<u>1,117,338</u>
Operating profit	<u>668,050</u>	<u>129,454</u>	<u>214,398</u>	<u>(64,562)</u>	<u>947,340</u>
Profit before taxation	<u>663,776</u>	<u>128,934</u>	<u>271,618</u>	<u>(66,131)</u>	<u>998,197</u>
Segment assets	<u>26,336,834</u>	<u>3,452,826</u>	<u>42,560,054</u>	<u>566,638</u>	<u>72,916,352</u>

2001

The Group

	Retail and corporate banking HK\$'000	Bills HK\$'000	Treasury HK\$'000	Others HK\$'000	Total HK\$'000
Operating income	<u>1,163,902</u>	<u>282,092</u>	<u>481,766</u>	<u>128,839</u>	<u>2,056,599</u>
Operating profit before provisions	<u>670,214</u>	<u>112,584</u>	<u>428,547</u>	<u>(4,181)</u>	<u>1,207,164</u>
Operating profit	<u>543,552</u>	<u>95,931</u>	<u>428,547</u>	<u>(4,181)</u>	<u>1,063,849</u>
Profit before taxation	<u>532,107</u>	<u>95,196</u>	<u>511,034</u>	<u>(7,071)</u>	<u>1,131,266</u>
Segment assets	<u>28,709,662</u>	<u>2,935,613</u>	<u>39,666,889</u>	<u>341,100</u>	<u>71,653,264</u>

The Bank

	Retail and corporate banking HK\$'000	Bills HK\$'000	Treasury HK\$'000	Others HK\$'000	Total HK\$'000
Operating income	<u>1,150,390</u>	<u>282,092</u>	<u>585,946</u>	<u>127,540</u>	<u>2,145,968</u>
Operating profit before provisions	<u>660,253</u>	<u>112,584</u>	<u>532,727</u>	<u>(1,763)</u>	<u>1,303,801</u>
Operating profit	<u>535,270</u>	<u>95,932</u>	<u>532,727</u>	<u>(1,763)</u>	<u>1,162,166</u>
Profit before taxation	<u>512,758</u>	<u>95,197</u>	<u>604,497</u>	<u>(3,379)</u>	<u>1,209,073</u>
Segment assets	<u>28,315,873</u>	<u>2,925,298</u>	<u>39,677,774</u>	<u>336,426</u>	<u>71,255,371</u>

Supplementary Financial Information

5 Segmental information (Continued)

(f) Fees and commission income by product lines

	The Group		The Bank	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Import and export	170,553	171,911	170,553	171,911
Retail banking operation and custodian	118,064	100,817	118,361	100,655
Credit cards	39,702	44,087	39,702	44,087
Remittances	44,936	42,158	44,936	42,158
Credit facilities	45,277	39,176	43,664	39,129
Others	3,171	2,793	3,101	2,621
Total	<u>421,703</u>	<u>400,942</u>	<u>420,317</u>	<u>400,561</u>

6 Overdue and rescheduled advances

(a) The amount of overdue advances to customers (net of suspended interest capitalised) and the percentage of such advances to total advances to customers are as follows:

The Group

	2002		2001	
	HK\$'000	%	HK\$'000	%
Gross amount of advances which have been overdue for				
- six months or less but over three months	77,347	0.28	130,411	0.45
- one year or less but over six months	44,394	0.16	91,806	0.31
- over one year	87,430	0.31	54,459	0.19
	<u>209,171</u>	<u>0.75</u>	<u>276,676</u>	<u>0.95</u>
Secured overdue advances	159,768		225,699	
Unsecured overdue advances	49,403		50,977	
	<u>209,171</u>		<u>276,676</u>	
Market value of security held against the secured overdue advances	209,395		268,615	
Specific provisions made	50,343		64,251	

The Bank

	2002		2001	
	HK\$'000	%	HK\$'000	%
Gross amount of advances which have been overdue for				
- six months or less but over three months	77,142	0.28	119,762	0.42
- one year or less but over six months	43,722	0.16	87,423	0.30
- over one year	87,423	0.32	54,451	0.19
	<u>208,287</u>	<u>0.76</u>	<u>261,636</u>	<u>0.91</u>
Secured overdue advances	158,904		214,555	
Unsecured overdue advances	49,383		47,081	
	<u>208,287</u>		<u>261,636</u>	
Market value of security held against the secured overdue advances	206,601		257,471	
Specific provisions made	50,254		61,537	

Supplementary Financial Information

6 Overdue and rescheduled advances (Continued)

(b) The amount of rescheduled advances to customers (net of those which have been overdue for over three months and reported in item (a) above) and the percentages of such advances to total advances to customers are as follows:

The Group

	2002		2001	
	HK\$'000	%	HK\$'000	%
Rescheduled advances	<u>222,792</u>	0.80	<u>213,620</u>	0.73

The Bank

	2002		2001	
	HK\$'000	%	HK\$'000	%
Rescheduled advances	<u>210,364</u>	0.76	<u>213,620</u>	0.74

(c) Reconciliation between overdue advances and non-performing advances to customers (net of suspended interest capitalised):

	The Group		The Bank	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Gross amount of overdue advances (item 6(a) above)	209,171	276,676	208,287	261,636
Less: gross amount of advances which are overdue for more than three months and on which interest is still being accrued	9,011	34,302	8,885	33,501
Add: gross amount of advances which are overdue for three months or less or not yet overdue and on which interest is being placed in suspense or on which interest accrual has ceased	<u>504,359</u>	<u>310,466</u>	<u>488,438</u>	<u>310,466</u>
Gross amount of non-performing advances (Note 14)	<u>704,519</u>	<u>552,840</u>	<u>687,840</u>	<u>538,601</u>

(d) The amount of trade bills which have been overdue for:

	The Group and the Bank	
	2002	2001
	HK\$'000	HK\$'000
- six months or less but over three months	2,736	39
- one year or less but over six months	-	1,230
	<u>2,736</u>	<u>1,269</u>

7 The amount of repossessed assets held

	The Group and the Bank	
	2002	2001
	HK\$'000	HK\$'000
Repossessed assets	<u>19,010</u>	<u>13,770</u>

Supplementary Financial Information

8 Foreign currency position

2002

The Group

	Spot assets HK\$'000	Spot liabilities HK\$'000	Forward purchases HK\$'000	Forward sales HK\$'000	Net long positions HK\$'000
US Dollars	32,022,000	(29,538,000)	2,906,000	(3,015,000)	2,375,000
Pound Sterling	1,865,000	(1,845,000)	52,000	(31,000)	41,000
Canadian Dollars	1,547,000	(1,548,000)	15,000	(10,000)	4,000
Other currencies and gold	4,722,000	(4,680,000)	1,227,000	(1,263,000)	6,000
	<u>40,156,000</u>	<u>(37,611,000)</u>	<u>4,200,000</u>	<u>(4,319,000)</u>	<u>2,426,000</u>

The Bank

	Spot assets HK\$'000	Spot liabilities HK\$'000	Forward purchases HK\$'000	Forward sales HK\$'000	Net long positions HK\$'000
US Dollars	32,015,000	(29,538,000)	2,906,000	(3,015,000)	2,368,000
Pound Sterling	1,865,000	(1,845,000)	52,000	(31,000)	41,000
Canadian Dollars	1,547,000	(1,548,000)	15,000	(10,000)	4,000
Other currencies and gold	4,719,000	(4,680,000)	1,227,000	(1,263,000)	3,000
	<u>40,146,000</u>	<u>(37,611,000)</u>	<u>4,200,000</u>	<u>(4,319,000)</u>	<u>2,416,000</u>

2001

The Group

	Spot assets HK\$'000	Spot liabilities HK\$'000	Forward purchases HK\$'000	Forward sales HK\$'000	Net long positions HK\$'000
US Dollars	32,658,000	(30,163,000)	2,520,000	(2,550,000)	2,465,000
Pound Sterling	1,773,000	(1,731,000)	68,000	(73,000)	37,000
Japanese Yen	512,000	(528,000)	89,000	(72,000)	1,000
Other currencies and gold	4,639,000	(4,591,000)	668,000	(712,000)	4,000
	<u>39,582,000</u>	<u>(37,013,000)</u>	<u>3,345,000</u>	<u>(3,407,000)</u>	<u>2,507,000</u>

The Bank

	Spot assets HK\$'000	Spot liabilities HK\$'000	Forward purchases HK\$'000	Forward sales HK\$'000	Net long positions HK\$'000
US Dollars	32,654,000	(30,163,000)	2,520,000	(2,550,000)	2,461,000
Pound Sterling	1,773,000	(1,731,000)	68,000	(73,000)	37,000
Japanese Yen	512,000	(528,000)	89,000	(72,000)	1,000
Other currencies and gold	4,637,000	(4,591,000)	668,000	(712,000)	2,000
	<u>39,576,000</u>	<u>(37,013,000)</u>	<u>3,345,000</u>	<u>(3,407,000)</u>	<u>2,501,000</u>

Branches and Subsidiary Companies

Head Office

12 Queen's Road Central
Telephone: (852) 2841 5415
Fax: (852) 2810 4623
Telex: 73390; 73650 SCBK HX
SWIFT: SCBK HK HH
Web Site: <http://www.shacombank.com.hk>

Hong Kong Island Branches

Aberdeen Branch	118 Aberdeen Main Road
Causeway Bay Branch	18 Pennington Street
Hennessy Road Branch	Shop LG 16, C.C. Wu Building, 302 Hennessy Road
North Point Branch	486 King's Road
Paterson Street Branch	8A Kingston Street
Shaukiwan Branch	136 Shaukiwan Main Street East
Sheung Wan Branch	19-25 Jervois Street
Siu Sai Wan Branch	Shop 9, G/F., Harmony Garden, 9 Siu Sai Wan Road
Taikoo Shing Branch	G502, Tai Yue Avenue, Taikoo Shing
Victoria Centre Branch	G7, Victoria Centre, 15 Watson Road
Wanchai Branch	19-21 Hennessy Road
West Point Branch	47 Catchick Street

Kowloon Branches

Austin Road Branch	140-142 Austin Road
Kowloon Bay Branch	Telford House, 16 Wang Hoi Road
Kowloon Tong Branch	G28, Franki Centre, 320 Junction Road
Kwun Tong Branch	57-61 Hong Ning Road
Laichikok Branch	Shops 5-8, G/F., Lai Kwan Court, 438 Castle Peak Road
Mei Foo Sun Chuen (Stage 1) Branch	29D Broadway, Mei Foo Sun Chuen
Mei Foo Sun Chuen (Stage 4) Branch	83B Broadway, Mei Foo Sun Chuen
Mongkok Branch	666 Nathan Road
Ping Shek Estate Branch	115, Tsuen Shek House, Ping Shek Estate
San Po Kong Branch	28 Hong Keung Street
Shamshuipo Branch	141 Cheung Sha Wan Road
Tokwawan Branch	60 Tokwawan Road
Tsimshatsui Branch	7 Hankow Road
Tsimshatsui East Branch	G27, Houston Centre, 63 Mody Road
TVB Office	Production Block HK-TVB Studio, Lot 214, Clear Water Bay
Waterloo Road Branch	84K Waterloo Road
Whampoa Garden Branch	Shop 9, Palm Mansions, Whampoa Garden, Site 4

New Territories and Outlying Island Branches

Kingswood Villa Branch	Shop G08, G/F., Phase 2, Kingswood Ginza, 18 Tin Yan Road
Kwai Chung Branch	Shop 3, Hutchison Estate, 482 Castle Peak Road
Ma On Shan Branch	Shop 308, Level 3, Ma On Shan Plaza, 608 Sai Sha Road
Shatin Branch	Shop 70B, Level 3, Shatin Centre, Wang Pok Street
Sheung Shui Branch	126 San Fung Avenue
Texaco Road Branch	Shops B128-131, East Asia Commercial Centre, 36-60 Texaco Road
Tseung Kwan O Branch	Shop G1-2, G/F., Metro City Plaza III, The Metropolis, 8 Mau Yip Road
Tsuen Wan Branch	Shop 3B, Level 1, Discovery Park Commercial Centre, 398 Castle Peak Road
Tuen Mun Branch	Shop 4A, Level Two (South Wing), Trend Plaza
Tung Chung Branch	Shop 1&2, Block 5, Tung Chung Crescent
Yuen Long Branch	17 Hong Lok Road

Banking Centre

Nob Hill Banking Centre	Shop 127, 1/F., The Household Centre, 8 King Lai Path, Laichikok
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Mainland Representative Offices

Shanghai Representative Office	Room 09-13, 9/F., China Merchants Tower, 161 Lu Jia Zui Road (E), Pu Dong, Shanghai 200120, P.R.C.
Shenzhen Representative Office	26/F., Shenzhen International Financial Building, 2022 Jianshe Road, Shenzhen 518001, P.R.C.

Overseas Branches

London Branch	65 Cornhill, London EC3V 3NB, U.K.
Los Angeles Branch	383 E. Valley Boulevard, Alhambra, CA 91801, U.S.A.
New York Branch	125 East 56th Street, New York, NY 10022, U.S.A.
San Francisco Branch	231 Sansome Street, San Francisco, CA 94104, U.S.A.

Wholly-owned Subsidiary Companies

Shacom Assets Investments Limited
Shacom Finance Limited
Shacom Futures Limited
Shacom Investment Limited
Shacom Investment Management Limited
Shacom Property (CA) Inc.
Shacom Property (NY) Inc.
Shacom Property Holdings (BVI) Limited
Shanghai Commercial Bank (Nominees) Limited

Subsidiary Companies

Infinite Financial Solutions Limited
Shanghai Commercial Bank Trustee Limited