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As one of the leading banks in providing financing services to the small and medium-sized enterprises in the local market, the Bank actively participates in public functions relating to SME financing.

作為對本地中小型企業提供融資服務的主要銀行，本銀行積極參與各項有關的公開活動。



## Five-Year Financial Summary

	2003	2002	2001	2000	1999
<b>For The Year (In HK\$ Million)</b>					
Net interest income	<b>1,400</b>	1,399	1,516	1,584	1,513
Other operating income	<b>694</b>	562	540	561	467
Operating expenses	<b>736</b>	847	849	813	851
Operating profit	<b>1,192</b>	940	1,064	1,204	1,040
Profit attributable to shareholders	<b>1,013</b>	867	988	1,073	952
Dividend	<b>400</b>	400	400	400	320

### At Year End (In HK\$ Million)

Shareholders' funds	<b>10,678</b>	10,077	9,741	9,194	8,058
Total assets	<b>74,804</b>	73,272	71,653	65,465	57,764
Total deposits	<b>59,948</b>	60,150	58,108	54,411	48,008
Total loans and advances	<b>28,149</b>	27,757	29,169	28,247	23,758

### Financial Ratios

Capital adequacy ratio	<b>23%</b>	22%	22%	23%	26%
Liquidity ratio	<b>74%</b>	66%	57%	57%	59%
Loan to deposit ratio*	<b>53.25%</b>	52.65%	56.34%	56.21%	52.73%
Dividend payout ratio	<b>39.49%</b>	46.14%	40.48%	37.27%	33.62%
Return on assets	<b>1.37%</b>	1.20%	1.44%	1.74%	1.69%

\* 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-third Annual General Meeting of the Members of the Bank will be held at its Registered Office, 12 Queen's Road Central, Hong Kong on Thursday, 15th April 2004 at 11:40 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 2003;
- (2) To declare Dividend in respect of the year 2003;
- (3) To elect Directors;
- (4) To approve the payment of Directors' fees for the year ended 31st December 2003;
- (5) To re-appoint Auditors and to authorise the Directors to fix their remuneration;
- (6) To consider and, if thought fit, pass the following resolution as a Special Resolution:

"That subject to consent from the Registrar of Companies, the Company shall change its existing name by adopting a Chinese name '上海商業銀行有限公司' in addition to the existing name 'Shanghai Commercial Bank Limited'."

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 Thursday, 8th April 2004 to Thursday, 15th April 2004, both days inclusive.

By Order of the Board

Edward Kawah Chu

Assistant General Manager & Corporate Secretary

Hong Kong, 18th February 2004

## Board of Directors



Front row from right to left:

Dr. Philip Kin Hang Wong  
Mr. David Joseph Zuercher  
Mr. Hung-ching Yung  
Mr. John Kam-pak Yan  
Mr. Jung-sen Lee  
Mr. Shen Ruolei  
Mr. Robert Law Joss

Back row from right to left:

Mr. Ernesto Tang-fai Ng  
Mr. Johnson Mou Daid Cha  
Mr. Frank Kai-shu Lau  
Mr. Lincoln Chu Kuen Yung  
Dr. Richard Lee  
Mr. David Sek-chi Kwok  
Mr. Edward Kawah Chu  
Corporate Secretary

John Kam-pak Yan

Chairman & Managing Director

Jung-sen Lee, OBE, LLD

Hung-ching Yung, JP

Frank Kai-shu Lau

Ernesto Tang-fai Ng

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)

Fu Jianhua

(Zhang Qi, Alternate)



Mr. Fu Jianhua

# Management

## Executives

Chairman & Managing Director

General Manager

Deputy General Managers

Assistant General Managers

Assistant General Manager

& Corporate Secretary

Assistant General Manager

& Chief Financial Controller

Senior Manager

Chief Auditor

Managers

John Kam-pak Yan

Frank Kai-shu Lau

Ernesto Tang-fai Ng

David Sek-chi Kwok

Ambrose Kwong-chung Chan

Chun-yiu Chan

Francis Wai-choi Cheung

Edward Kawah Chu

Henry Koon-man To

Chun-sum Chan

Pui-man Yeung

John Shing-sang Sia

Albert Tak-wo Leung

Tony Kwok-leung Mak

John Yu-kam Chow

Paul Kun-kow Wong

Daniel Kwok-hung Chan

Henry Siu-chuen Lau

Stella Pik-san Lau

Hon-ming Mak

Elizabeth Po-san Ng

Burton Chi-shan Cheng

Alvin Kwok-kit Lau

Vincent Chi-wing Man

Raymond Pui-kam Tse

## 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 62. 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 88. 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 81. 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 61. 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 60. A Deputy General Manager of the Bank. Joined the Bank in June 1967. Appointed a Director in March 1996.

### **Mr. Lincoln Chu Kuen Yung, JP**

Aged 58. 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 58. 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 71. Appointed a Director of the Bank in March 2001. A consultant of a Hong Kong firm of solicitors and also a Notary Public, Hong Kong SAR and a China Appointed Attesting Officer.

### **Mr. David Joseph Zuercher**

Aged 57. 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.

## Biographical Details of Directors and Senior Management

### **Dr. Richard Lee**

Aged 66. Appointed a Director of the Bank in April 2001. Chairman of TAL Apparel Limited and a Director of Jardine Matheson Holdings Limited, Hongkong Land Holdings Limited and Mandarin Oriental International Limited.

### **Mr. Johnson Mou Daid Cha**

Aged 52. 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 50. A Deputy General Manager of the Bank. Joined the Bank in October 1971. Appointed a Director in October 2001. Alternate Chief Executive since January 2004.

### **Mr. Robert Law Joss**

Aged 62. 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. Fu Jianhua**

Aged 52. Appointed a Director of the Bank in January 2004. Vice Chairman and President of Bank of Shanghai (Elected Chairman of Bank of Shanghai on 23rd February 2004). A Director of Shanghai United International Investment Ltd.

### **Mr. Ignatius Wooi-kean Choong**

Aged 42. 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, Wells Fargo Bank, N.A.

### **Dr. Lam Chat Yu**

Aged 52. 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 9 years in Asia. He is an Executive Director of The Mingly Corporation Limited.



**Mr. Michael Gallagher**

Aged 42. 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.

**Mr. Zhang Qi**

Aged 30. Appointed an Alternate Director to Mr. Fu Jianhua in January 2004. Senior Supervisor of the General Administration Department of Bank of Shanghai. Secretary of the Board of Directors of Shanghai United International Investment Ltd.

**Senior Management**

**Mr. John Kam-pak Yan**

(Biographical details are set out on page 7)

**Mr. Frank Kai-shu Lau**

(Biographical details are set out on page 7)

**Mr. Ernesto Tang-fai Ng**

(Biographical details are set out on page 7)

**Mr. David Sek-chi Kwok**

(Biographical details are set out on page 8)

**Mr. Ambrose Kwong-chung Chan**

Aged 62. An Assistant General Manager of the Bank. Joined the Bank in August 1959.

**Mr. Chun-yiu Chan**

Aged 55. An Assistant General Manager of the Bank. Joined the Bank in January 1968.

**Mr. Francis Wai-choi Cheung**

Aged 53. An Assistant General Manager of the Bank. Joined the Bank in July 1969.

**Mr. Edward Kawah Chu**

Aged 48. Assistant General Manager and Corporate Secretary of the Bank. Joined the Bank in December 1979.

**Mr. Henry Koon-man To**

Aged 51. Assistant General Manager and Chief Financial Controller of the Bank. Joined the Bank in December 1988.



President Theatre Branch  
總統分行

Tsuen Wan Branch  
荃灣分行



TVB Office  
電視城辦事處



Jordan Road Branch  
佐敦道分行

By relocating and redesigning its branch offices, the Bank provides a more comfortable environment to serve its customers.

分行選址另遷，裝修設計，煥然一新，客戶更感舒適。

## Message to Shareholders

The Hong Kong economy went through a roller coaster in 2003, as it rebounded distinctly in the second half of the year, from the setback caused by the outbreak of Severe Acute Respiratory Syndrome (“SARS”) in the second quarter of 2003. The turning point emerged following the fading out of the SARS epidemic, the signing of the Mainland and Hong Kong Closer Economic Partnership Arrangement (“CEPA”) on 29th June 2003 as well as the relaxation of the travel restrictions by the Mainland authorities on Mainland individual visitors to Hong Kong in late July 2003. Thereafter, market sentiment improved dramatically and overall economic activity staged a progressive upturn. The unemployment rate, after reaching a record high of 8.7 per cent in mid-2003, receded to 7.3 per cent at year-end. The local property market showed a conspicuous turnaround in the last quarter of the year, as residential property prices seemed to have bottomed out on the back of rises in both prices and transaction levels. Meanwhile, although the consumer price deflation continued, with the Composite Consumer Price Index having fallen by an average of 2.6 per cent in 2003, there were already signs of moderation towards the end of 2003.

Despite marked improvement in the economic condition of Hong Kong in the second half of 2003, the operating environment of the local banking sector continued to be difficult, with abundant liquidity in the banking system but limited credit expansion opportunities. The net interest margin continued to decline during the year, reflecting sluggish loan demand and narrowing lending spreads caused by intense competition, especially in the mortgage market. Significant inflow of funds into Hong Kong in the last quarter of 2003 pushed the Hong Kong dollar interest rates to historical low level which adversely affected the yield on banks’ free funds. On the other hand, the asset quality of banks generally improved with the number of bankruptcy petitions as well as the number and value of residential mortgage loans in negative equity declining noticeably towards the end of 2003.

As for your Bank, the consolidated profit attributable to shareholders rose by 16.8 per cent in the year of 2003. The improvement in the profit of the Bank in 2003 was principally attributable to a decrease in the operating expenses and an increase in the fees and commission income. During the year, the asset quality of the Bank improved while its capital position remained strong. Reaping the benefits of the Bank’s strategic move to decentralize the stock brokerage business to its local branches which matched perfectly with the buoyancy in the local stock market during the second half of 2003, the stock brokerage business of the Bank achieved a considerable growth in 2003. Meanwhile, the Bank continued to increase its distribution of more variety of unit trusts, bonds and structured investment products, thereby creating a competitive platform for providing a comprehensive range of wealth management products to suit the different investment appetites of its customers. This contributed favourably to the Bank’s commission income in 2003. Moreover, the establishment of Shacom Insurance Brokers Ltd. in the second half of 2003 has allowed the Bank to further expand the insurance services provided to its clients. Furthermore, the Bank continued to work hard on maintaining its special niche in trade financing and promoting its services to the small and medium-sized enterprises. In particular, the Bank participated actively in the SME Loan Guarantee Scheme which was sponsored and launched by the Hong Kong SAR Government in March 2003. As to the Bank’s Corporate Internet Banking service, more new features and functions in the areas of trade

finance, money transfer and cash management have been implemented during 2003 to further facilitate the Bank's corporate customers to conduct banking transactions via the Internet, with the number of new accounts and the usage continuing to rise. For the credit card business, the SCB VISA Platinum Card was launched by the Bank to its valued customers in the first quarter of 2003. The Bank is all set for the provision of personal Renminbi service to its clients upon the official launching of that service in Hong Kong on 25th February 2004, and the Bank is also working on the preparatory work for the issuance of Renminbi credit card.

In order to capture the business opportunities in Mainland China arising from the signing of CEPA, the Bank has applied for the upgrade of its Shenzhen Representative Office to branch status, and the China Banking Regulatory Commission has already agreed to process the application. The preparatory work for the setting up of this new branch is proceeding smoothly.

Dr. Liu Jinbao resigned as a Director on 28th May 2003 because of personal reasons. On the other hand, we extend our warm welcome to a new member of the Board, Mr. Fu Jianhua who brings with him vast experience in the area of banking and management.

For the coming year, the momentum of the economic recovery in Hong Kong is expected to accelerate, barring unexpected shocks in the domestic and external environment. Nevertheless, the operating environment of banks in Hong Kong will remain challenging in view of the extremely intense competition. Looking ahead, apart from devoting further efforts in increasing its fees and commission income, the Bank will strive to continue to work hard on increasing its net interest income by extending more new loans and advances under the favourable macroeconomic conditions. The Bank will also try its best to maintain the net interest margin at a reasonable level. In order to cope with the expected expansion in its business volume, the Bank will continue to recruit more suitable staff and upgrade its staff quality.

Taking this opportunity, we would like to express our gratitude to the shareholders for their support, our fellow Directors for their counsel, and our entire staff for their devotion during the year under review.

John Kam-pak Yan  
Chairman & Managing Director

Frank Kai-shu Lau  
General Manager

Hong Kong, 18th February 2004

# Report of the Directors

The Directors have pleasure in submitting their report together with the audited accounts for the year ended 31st December 2003.

## 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		1,013,030
Deduct: Profit retained by jointly controlled entities		(1,970)
Profit retained by subsidiary companies		<u>(4,238)</u>
Profit dealt with in the accounts of the Bank		1,006,822
Add: Retained profits of the Bank brought forward		621,958
Transfer from property revaluation reserve		12,501
Deduct: Exchange translation differences		<u>(2,594)</u>
		1,638,687
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>738,687</u></u>

## Reserves

Movements in the reserves of the Group and the Bank during the year are set out in Note 25 to the accounts.

## Donations

During the year donations made by the Bank and its subsidiary companies for charitable and other purposes amounted to HK\$770,000.

## 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

(resigned on 28th May 2003)

(Law Man Wah, Alternate)

(resigned on 28th May 2003)

Lincoln Chu Kuen Yung

Shen Ruolei

Dr. Philip Kin Hang Wong

David Joseph Zuercher

(Michael Gallagher, Alternate)

(appointed on 30th January 2003)

Dr. Richard Lee

Johnson Mou Daid Cha

(Dr. Lam Chat Yu, Alternate)

David Sek-chi Kwok

Robert Law Joss

(Ignatius Wooi-kean Choong, Alternate)

Fu Jianhua

(appointed on 13th January 2004)

(Zhang Qi, Alternate)

(appointed on 13th January 2004)

In accordance with Article 104(A) of the Bank's Articles of Association, Mr. Lincoln Chu Kuen Yung, Mr. Shen Ruolei, Dr. Philip Kin Hang Wong and Mr. David Joseph Zuercher shall retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 95 of the Bank's Articles of Association, Mr. Fu Jianhua shall retire at the forthcoming Annual General Meeting and, being eligible, offer himself 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, 18th February 2004



# Auditors' Report to the Shareholders of Shanghai Commercial Bank Limited

(Incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 18 to 61 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 solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinances, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## **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 2003 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, 18th February 2004

# Consolidated Profit and Loss Account

for the year ended 31st December 2003

	Note	2003 HK\$'000	As restated* 2002 HK\$'000
Interest income	3(a)	2,011,656	2,253,629
Interest expense		(611,511)	(855,036)
Net interest income		1,400,145	1,398,593
Other operating income	3(b)	694,110	561,898
Operating income		2,094,255	1,960,491
Operating expenses	4	(736,250)	(846,764)
Operating profit before provisions		1,358,005	1,113,727
Charge for bad and doubtful debts	6	(165,701)	(173,967)
Operating profit		1,192,304	939,760
Net losses on disposal of fixed assets		(3,794)	(6,835)
Profits less losses on disposal of held-to-maturity securities and non-trading securities		17,568	68,754
Share of net profits/(losses) of jointly controlled entities		1,970	(21,314)
Profit before taxation		1,208,048	980,365
Taxation	7	(194,619)	(113,084)
Profit after taxation		1,013,429	867,281
Minority interests		(399)	(410)
Profit attributable to shareholders	25	1,013,030	866,871
Dividend	8 and 25	400,000	400,000

\* The amount of "taxation" for 2002 has been restated to reflect the adoption of Statement of Standard Accounting Practice 12 on Income Taxes, details of which are set out in the principal accounting policy Note 2(k).

# Profit and Loss Account

for the year ended 31st December 2003

	Note	2003 HK\$'000	As restated* 2002 HK\$'000
Interest income	3(a)	<b>1,940,251</b>	2,172,092
Interest expense		<b>(612,117)</b>	(855,175)
Net interest income		<b>1,328,134</b>	1,316,917
Other operating income	3(b)	<b>749,774</b>	640,416
Operating income		<b>2,077,908</b>	1,957,333
Operating expenses	4	<b>(726,989)</b>	(839,995)
Operating profit before provisions		<b>1,350,919</b>	1,117,338
Charge for bad and doubtful debts	6	<b>(164,006)</b>	(169,998)
Operating profit		<b>1,186,913</b>	947,340
Net losses on disposal of fixed assets		<b>(3,794)</b>	(6,833)
Profits less losses on disposal of held-to-maturity securities and non-trading securities		<b>17,568</b>	57,690
Profit before taxation		<b>1,200,687</b>	998,197
Taxation	7	<b>(193,865)</b>	(111,369)
Profit after taxation	25	<b>1,006,822</b>	886,828
Dividend	8 and 25	<b>400,000</b>	400,000

\* The amount of "taxation" for 2002 has been restated to reflect the adoption of Statement of Standard Accounting Practice 12 on Income Taxes, details of which are set out in the principal accounting policy Note 2(k).

# Consolidated Balance Sheet

as at 31st December 2003

	Note	2003 HK\$'000	As restated* 2002 HK\$'000
<b>Assets</b>			
Cash and short-term funds	9	20,890,532	21,014,398
Placements with banks and other financial institutions maturing between one and twelve months	10	3,383,278	3,930,539
Trade bills	11	958,650	774,682
Certificates of deposit held	12	2,894,547	3,539,453
Securities held for dealing purposes	13	336,272	312,817
Advances to customers and other accounts	14	28,422,745	27,774,305
Held-to-maturity securities and non-trading securities	16	15,774,469	13,753,284
Investments in jointly controlled entities	17(a)	127,863	126,468
Fixed assets	18	2,015,145	2,046,230
<b>Total assets</b>		<b>74,803,501</b>	<b>73,272,176</b>
<b>Liabilities</b>			
Deposits and balances of banks and other financial institutions	19	3,028,043	2,035,343
Deposits from customers	20	57,010,293	56,062,197
Certificates of deposit issued	21	2,938,000	4,088,000
Other accounts and provisions	22	1,143,871	1,004,143
<b>Total liabilities</b>		<b>64,120,207</b>	<b>63,189,683</b>
<b>Capital resources</b>			
Minority interests		5,353	5,234
Share capital	24	2,000,000	2,000,000
Reserves	25	8,677,941	8,077,259
Shareholders' funds		<b>10,677,941</b>	<b>10,077,259</b>
<b>Total capital resources</b>		<b>10,683,294</b>	<b>10,082,493</b>
John Kam-pak Yan ----- Chairman	Hung-ching Yung ----- Director		
Philip Kin Hang Wong ----- Director	Frank Kai-shu Lau ----- General Manager		
<b>Total liabilities and capital resources</b>		<b>74,803,501</b>	<b>73,272,176</b>

\* The figures in "other accounts and provisions" and "reserves" for 2002 have been restated to reflect the adoption of Statement of Standard Accounting Practice 12 on Income Taxes, details of which are set out in the principal accounting policy Note 2(k).

# Balance Sheet

as at 31st December 2003

	Note	2003 HK\$'000	As restated* 2002 HK\$'000
<b>Assets</b>			
Cash and short-term funds	9	20,887,211	20,516,334
Placements with banks and other financial institutions maturing between one and twelve months	10	3,383,278	3,930,539
Trade bills	11	958,650	774,682
Certificates of deposit held	12	2,894,547	3,539,453
Securities held for dealing purposes	13	336,272	312,817
Advances to customers and other accounts	14	28,211,844	27,519,991
Held-to-maturity securities and non-trading securities	16	14,130,837	12,737,289
Investments in jointly controlled entities	17(a)	95,362	95,362
Investments in subsidiary companies	17(b)	1,559,337	1,470,789
Fixed assets	18	1,986,527	2,019,096
<b>Total assets</b>		<b>74,443,865</b>	<b>72,916,352</b>
<b>Liabilities</b>			
Deposits and balances of banks and other financial institutions	19	3,028,043	2,035,343
Deposits from customers	20	56,976,126	56,020,232
Certificates of deposit issued	21	2,938,000	4,088,000
Other accounts and provisions	22	1,140,550	1,002,387
<b>Total liabilities</b>		<b>64,082,719</b>	<b>63,145,962</b>
<b>Capital resources</b>			
Share capital	24	2,000,000	2,000,000
Reserves	25	8,361,146	7,770,390
Shareholders' funds		<b>10,361,146</b>	<b>9,770,390</b>
John Kam-pak Yan ----- Chairman	Hung-ching Yung ----- Director		
Philip Kin Hang Wong ----- Director	Frank Kai-shu Lau ----- General Manager		
<b>Total liabilities and capital resources</b>		<b>74,443,865</b>	<b>72,916,352</b>

\* The figures in "other accounts and provisions" and "reserves" for 2002 have been restated to reflect the adoption of Statement of Standard Accounting Practice 12 on Income Taxes, details of which are set out in the principal accounting policy Note 2(k).

# Consolidated Statement of Changes in Equity

for the year ended 31st December 2003

	Note	2003		As restated*	
		Share capital HK\$'000	Reserves HK\$'000	Share capital HK\$'000	Reserves HK\$'000
Balances at 1st January, as previously reported	24, 25	2,000,000	8,221,198	2,000,000	7,740,859
Effect of changes in accounting policy on deferred taxation	25	—	(143,939)	—	(149,066)
Balances at 1st January, as restated		<u>2,000,000</u>	<u>8,077,259</u>	<u>2,000,000</u>	<u>7,591,793</u>
Change in fair value of non-trading securities	25	—	28,912	—	18,047
Exchange translation differences	25	—	(11,135)	—	3,387
Net gains not recognised in the profit and loss account		—	17,777	—	21,434
Profit for the year	25	—	1,013,030	—	866,871
Reversal of property revaluation reserve on disposal of bank premises	25	—	—	—	(1,525)
Reduction of valuation of investment property upon reclassification	25	—	(3,000)	—	—
Investment revaluation reserve realised on disposal of non-trading securities	25	—	(9,237)	—	(1,379)
Share of reserve of a jointly controlled entity	25	—	205	—	—
Effect of deferred taxation	25	—	(18,093)	—	65
Dividend paid in the year	25	—	(400,000)	—	(400,000)
Balances at 31st December	24, 25	<u>2,000,000</u>	<u>8,677,941</u>	<u>2,000,000</u>	<u>8,077,259</u>

\* Certain figures for 2002 as set out above have been restated to reflect the adoption of Statement of Standard Accounting Practice 12 on Income Taxes, details of which are set out in the principal accounting policy Note 2(k).

# Consolidated Cash Flow Statement

for the year ended 31st December 2003

	Note	2003 HK\$'000	2002 HK\$'000
<b>Net cash inflow from operating activities</b>	26(a)	<u>1,251,047</u>	<u>5,182,244</u>
<b>Cash flows from investing activities</b>			
Interest received on held-to-maturity securities and non-trading securities		652,990	572,847
Dividends received on non-trading securities		12,420	3,729
Dividend received from a jointly controlled entity		780	780
Purchase of held-to-maturity securities and non-trading securities		(7,066,189)	(7,248,211)
Sale/redemption of held-to-maturity securities and non-trading securities		5,334,215	3,620,038
Payment for investments in and advances to jointly controlled entities		–	(7,600)
Purchase of fixed assets		(48,890)	(104,334)
Sale of fixed assets		113	3,968
<b>Net cash outflow from investing activities</b>		<u>(1,114,561)</u>	<u>(3,158,783)</u>
<b>Net cash inflow before financing activities</b>		<u>136,486</u>	<u>2,023,461</u>
<b>Cash flows from financing activities</b>			
Interest paid on certificates of deposit issued		(54,635)	(73,828)
Dividend paid		(400,000)	(400,000)
Dividend paid to a minority shareholder of a subsidiary company		(280)	(200)
Redemption of certificates of deposit issued	26(b)	(1,150,000)	(1,282,000)
Issue of certificates of deposit	26(b)	–	2,500,000
<b>Net cash (outflow)/inflow from financing activities</b>		<u>(1,604,915)</u>	<u>743,972</u>
Effect of exchange rate changes on cash and cash equivalents		<u>693,315</u>	<u>461,435</u>
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(775,114)</b>	<b>3,228,868</b>
<b>Cash and cash equivalents at 1st January</b>		<u>22,506,348</u>	<u>19,277,480</u>
<b>Cash and cash equivalents at 31st December</b>	26(c)	<u>21,731,234</u>	<u>22,506,348</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 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.

- (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.



## 2 Principal accounting policies (Continued)

(e) Provision for bad and doubtful debts (Continued)

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.

(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. 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.

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

## 2 Principal accounting policies (Continued)

(g) Fixed Assets (Continued)

(i) Bank premises (Continued)

Investment properties are stated at their estimated open market value as determined by the management in November 2002 based on valuation obtained from an independent professional valuer. The Group has taken advantage of paragraphs 12 and 13 of SSAP 13 issued by the HKSA which allow unlisted companies with investment properties the estimated open market value of which in aggregate is less than HK\$50 million or less than 15 per cent of the carrying amount of total assets of the company to be exempted from valuation at their open market value in the balance sheet. Investment properties are not depreciated except where the unexpired term of the lease is 20 years or less in which case depreciation is provided on the carrying amount over the remaining term of the lease.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to 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 the 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 are 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

The Group has adopted SSAP 12 (Revised) Income Taxes. Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. The principal temporary differences arise from depreciation on fixed assets, revaluations of certain non-current assets and of investments, provisions for bad and doubtful debts and tax efficient schemes. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, 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. The adoption of the new SSAP 12 in the current year represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in Note 25 to the accounts, opening retained profits for the Group and the Bank at 1st January 2002 and 2003 have been increased by HK\$51,943,000 and HK\$57,005,000 respectively which represent the adjustment for unprovided net deferred tax assets. The opening property revaluation reserve for the Group and the Bank at 1st January 2002 and 2003 have been decreased by HK\$201,023,000 and HK\$198,348,000 respectively, while opening investment revaluation reserve/(deficit) for the Group and the Bank at 1st January 2002 and 2003 have been increased by HK\$14,000 and decreased by HK\$2,596,000 respectively. These changes have resulted in a net increase in the Group's and the Bank's deferred tax liabilities at 31st December 2002 by HK\$149,047,000 and has increased the Group's and the Bank's deferred tax liabilities at 31st December 2003 to HK\$161,419,000 and HK\$161,362,000 respectively (Note 23 (a)). The profit after tax and amount credited to the Group's and the Bank's revaluation reserves for the year ended 31st December 2002 have been increased by HK\$5,062,000 and HK\$65,000 respectively.

The effect of the change for the current year is an increase in the Group's and the Bank's profit after tax by HK\$9,530,000 and HK\$9,587,000 respectively and a charge to the Group's and the Bank's revaluation reserves of HK\$18,093,000.

## 2 Principal accounting policies (Continued)

(l) Employee benefits

(i) Retirement benefit costs

The Group operates a defined benefit scheme and 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".

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.

## 2 Principal accounting policies (Continued)

(n) Off balance sheet financial instruments (Continued)

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.

(s) Comparative figures

Comparative figures have been restated to reflect the change in accounting policy. Details are set out in Notes 23 and 25.

### 3 Interest and other operating income

(a) Interest income

	The Group		The Bank	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Interest income on listed investments	326,851	304,720	269,440	240,941
Interest income on unlisted investments	283,557	282,053	277,089	274,378
Other interest income	1,401,248	1,666,856	1,393,722	1,656,773
	<u>2,011,656</u>	<u>2,253,629</u>	<u>1,940,251</u>	<u>2,172,092</u>

(b) Other operating income

	The Group		The Bank	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Fees and commission income	488,108	421,703	486,194	420,317
Less: Fees and commission expense	(21,443)	(22,321)	(21,242)	(22,441)
Net fees and commission income	466,665	399,382	464,952	397,876
Net gain on foreign exchange trading	85,891	72,061	83,922	69,810
Net profit/(loss) on securities held for dealing purposes	19,285	(17,947)	19,285	(17,947)
Dividend income				
– listed investments	2,702	1,128	2,702	1,128
– unlisted investments	10,203	3,698	10,983	4,478
– subsidiary companies	–	–	63,920	82,600
Others	109,364	103,576	104,010	102,471
	<u>694,110</u>	<u>561,898</u>	<u>749,774</u>	<u>640,416</u>

## 4 Operating expenses

	The Group		The Bank	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Staff costs				
Salaries and other costs (Note a)	443,629	467,354	433,993	460,342
Pension costs	24,360	25,922	23,922	25,560
Premises and equipment				
Rental of premises	36,853	56,127	38,501	57,173
Building expenses (Note b)	10,522	61,618	10,519	61,611
Building management fee	5,395	6,078	5,297	5,929
Depreciation	76,395	79,327	79,241	80,990
Auditors' remuneration	4,932	4,755	4,677	4,527
Other operating expenses				
Telegram and telephone	21,090	21,552	21,009	21,455
Credit card business promotion	9,856	18,060	9,856	18,060
Postage	12,227	12,694	12,218	12,660
Repair and maintenance	12,766	12,803	12,593	12,823
Legal and consultancy	4,885	7,175	3,837	6,809
Water, heat and light	11,061	10,817	10,990	10,756
Printing and stationery	7,354	7,353	7,301	7,338
Computer rental and licence	6,950	7,042	7,358	7,042
Others	47,975	48,087	45,677	46,920
	<u>736,250</u>	<u>846,764</u>	<u>726,989</u>	<u>839,995</u>

Note:

- The amounts of the Group and the Bank for the year ended 31st December 2003 include Directors' fee of HK\$1,130,000 (2002: HK\$1,200,000).
- The amounts of the Group and the Bank for the year ended 31st December 2003 include HK\$726,000 for upgrading the Head Office Building in order to comply with local fire regulations (2002: HK\$46,546,000).

## 5 Directors' emoluments

	The Group and the Bank	
	2003 HK\$'000	2002 HK\$'000
Fees	1,130	1,200
Basic salaries, allowances and bonus	21,243	19,383
Contributions to pension schemes	824	824
	<u>23,197</u>	<u>21,407</u>

## 6 Charge for bad and doubtful debts

	The Group		The Bank	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Specific provision charged/(credited) to profit and loss account				
New provisions (Note 15)	<b>129,713</b>	151,504	<b>128,724</b>	147,162
Releases (Note 15)	<b>(1,246)</b>	–	<b>(1,246)</b>	–
	<b>128,467</b>	151,504	<b>127,478</b>	147,162
General provision charged/(credited) to profit and loss account				
New provisions (Note 15)	<b>37,234</b>	23,663	<b>36,528</b>	22,836
Releases (Note 15)	–	(1,200)	–	–
	<b>37,234</b>	22,463	<b>36,528</b>	22,836
	<b>165,701</b>	173,967	<b>164,006</b>	169,998

## 7 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 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 amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	The Group		The Bank	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Current taxation:				
– Hong Kong profits tax	<b>170,231</b>	131,613	<b>168,835</b>	129,908
– Overseas taxation	<b>38,474</b>	13,414	<b>37,930</b>	13,404
– Over provisions in prior years	<b>(4,556)</b>	(19,000)	<b>(3,313)</b>	(19,000)
Deferred taxation:				
– Hong Kong deferred tax (Note 23(a))	<b>(5,721)</b>	(4,203)	<b>(5,778)</b>	(4,203)
– Overseas deferred tax (Note 23(b))	<b>(3,809)</b>	(8,740)	<b>(3,809)</b>	(8,740)
	<b>194,619</b>	113,084	<b>193,865</b>	111,369



## 7 Taxation (Continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rates of the countries in which the Group operates as follows:

	The Group		The Bank	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Profit before taxation	<u>1,208,048</u>	<u>980,365</u>	<u>1,200,687</u>	<u>998,197</u>
Calculated at applicable taxation rates	244,181	166,610	242,893	169,464
Income not subject to taxation	(53,579)	(45,602)	(54,063)	(50,336)
Expenses not deductible for taxation purposes	38,753	32,721	38,528	32,886
Net effect of investment in partnerships (Note)	(30,180)	(21,645)	(30,180)	(21,645)
Over provisions in prior years	<u>(4,556)</u>	<u>(19,000)</u>	<u>(3,313)</u>	<u>(19,000)</u>
Taxation charge	<u>194,619</u>	<u>113,084</u>	<u>193,865</u>	<u>111,369</u>

Note:

The Bank has entered into aircraft leverage lease arrangement as well as coupon bond transaction, involving special purpose partnerships in which the Bank is the majority general partner. The partnerships are held exclusively with a view to their subsequent disposal in the near future and consequently they are not consolidated in the Bank's accounts. As of 31st December 2003, the unamortised carrying cost of the investments in such partnerships, which was included in "other accounts", amounted to HK\$511,963,000 (2002: HK\$269,770,000). The Bank's investments in partnerships are amortised over the life of the partnerships.

## 8 Dividend

	2003 HK\$'000	2002 HK\$'000
Proposed dividend of HK\$20 (2002: HK\$20) per share	<u>400,000</u>	<u>400,000</u>

## 9 Cash and short-term funds

	The Group		The Bank	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and balances with banks and other financial institutions	478,220	410,575	474,899	407,403
Money at call and short notice	20,412,312	19,609,074	20,412,312	19,609,074
Treasury bills (including Exchange Fund Bills), at amortised cost	–	994,749	–	499,857
	<u>20,890,532</u>	<u>21,014,398</u>	<u>20,887,211</u>	<u>20,516,334</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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Three months or less	–	994,749	–	499,857

## 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	
	2003 HK\$'000	2002 HK\$'000
Three months or less	3,377,913	3,894,909
One year or less but over three months	5,365	35,630
	<u>3,383,278</u>	<u>3,930,539</u>

## 11 Trade bills

	The Group and the Bank	
	2003 HK\$'000	2002 HK\$'000
Trade bills	971,799	792,458
Provision for bad and doubtful debts		
General (Note 15)	(10,124)	(9,584)
Specific (Note 15)	(3,025)	(8,192)
	<u>958,650</u>	<u>774,682</u>

## 12 Certificates of deposit held

	<b>The Group and the Bank</b>	
	2003	2002
	HK\$'000	HK\$'000
Held-to-maturity securities, at amortised cost, unlisted and issued by:		
Banks and other financial institutions	<u>2,894,547</u>	<u>3,539,453</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:

	<b>The Group and the Bank</b>	
	2003	2002
	HK\$'000	HK\$'000
Held-to-maturity securities:		
Three months or less	149,972	218,580
One year or less but over three months	921,795	1,139,015
Five years or less but over one year	<u>1,822,780</u>	<u>2,181,858</u>
	<u>2,894,547</u>	<u>3,539,453</u>

## 13 Securities held for dealing purposes

	<b>The Group and the Bank</b>	
	2003	2002
	HK\$'000	HK\$'000
Debt securities, at market value:		
Listed outside Hong Kong	129,843	121,644
Unlisted	<u>112,858</u>	<u>130,449</u>
	<u>242,701</u>	<u>252,093</u>
Equity securities, at market value:		
Listed in Hong Kong	5,435	4,697
Listed outside Hong Kong	<u>88,136</u>	<u>56,027</u>
	<u>93,571</u>	<u>60,724</u>
	<u>336,272</u>	<u>312,817</u>

**13 Securities held for dealing purposes (Continued)**

	<b>The Group and the Bank</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Debt securities issued by:		
Central governments and central banks	<b>105,002</b>	52,068
Public sector entities	<b>67,326</b>	153,731
Banks and other financial institutions	<b>29,949</b>	9,777
Corporate entities	<b>40,424</b>	36,517
	<b>242,701</b>	252,093
	-----	-----
Equity securities issued by:		
Public sector entities	<b>92</b>	74
Banks and other financial institutions	<b>5,291</b>	3,808
Corporate entities	<b>88,188</b>	56,842
	<b>93,571</b>	60,724
	-----	-----
	<b>336,272</b>	312,817
	=====	=====

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:

	<b>The Group and the Bank</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
One year or less but over three months	<b>567</b>	2,407
Five years or less but over one year	<b>158,528</b>	167,267
Over five years	<b>83,606</b>	82,419
	<b>242,701</b>	252,093
	=====	=====

**14 Advances to customers and other accounts**

	<b>The Group</b>		<b>The Bank</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Advances to customers	<b>28,149,225</b>	27,756,877	<b>27,943,717</b>	27,502,251
Provisions for bad and doubtful debts				
General (Note 15)	<b>(401,572)</b>	(364,305)	<b>(398,307)</b>	(361,746)
Specific (Note 15)	<b>(180,069)</b>	(187,151)	<b>(174,688)</b>	(179,840)
	<b>27,567,584</b>	27,205,421	<b>27,370,722</b>	26,960,665
	-----	-----	-----	-----
Accrued interest	<b>206,391</b>	189,047	<b>195,924</b>	181,188
Other accounts	<b>648,770</b>	379,837	<b>645,198</b>	378,138
	<b>855,161</b>	568,884	<b>841,122</b>	559,326
	-----	-----	-----	-----
	<b>28,422,745</b>	27,774,305	<b>28,211,844</b>	27,519,991
	=====	=====	=====	=====

**14 Advances to customers and other accounts (Continued)**

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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Gross advances	<b>654,033</b>	774,227	<b>639,031</b>	756,078
Less: suspended interest capitalised/received	<b>(61,755)</b>	(69,708)	<b>(59,657)</b>	(68,238)
	<b>592,278</b>	704,519	<b>579,374</b>	687,840
Specific provisions (Note)	<b>(108,154)</b>	(139,485)	<b>(103,053)</b>	(132,267)
	<b>484,124</b>	565,034	<b>476,321</b>	555,573
Suspended interest (Note 15)	<b>68,455</b>	85,876	<b>66,340</b>	84,384
Percentage of such advances to total advances to customers	<b>2.10%</b>	2.54%	<b>2.07%</b>	2.50%

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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Repayable on demand	<b>2,289,394</b>	2,290,713	<b>2,289,253</b>	2,290,392
Three months or less	<b>4,482,908</b>	3,940,563	<b>4,455,045</b>	3,905,074
One year or less but over three months	<b>2,591,497</b>	3,103,039	<b>2,561,987</b>	3,066,386
Five years or less but over one year	<b>11,448,424</b>	10,697,617	<b>11,384,106</b>	10,625,192
Over five years	<b>7,109,120</b>	7,443,262	<b>7,033,386</b>	7,348,967
Undated	<b>227,882</b>	281,683	<b>219,940</b>	266,240
	<b>28,149,225</b>	27,756,877	<b>27,943,717</b>	27,502,251

In the United States of America, asset pledges are required according to the requirements of the California and New York Financial Codes and regulatory reserve requirements.

As of 31st December 2003, certain of the United States branches have pledged held-to-maturity securities (Note 16) totalling HK\$295,743,000 (2002: HK\$267,171,000 and real estate loans of HK\$25,955,000) to the state of California and with the comptroller of the currency in compliance with the above 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 2003	195,343	373,889	569,232	85,876
Amounts written off	(149,215)	–	(149,215)	(37,274)
Recoveries of advances written off in previous years	8,499	–	8,499	–
New provisions charged to profit and loss account (Note 6)	129,713	37,234	166,947	–
Provisions released back to profit and loss account (Note 6)	(1,246)	–	(1,246)	–
Interest suspended	–	–	–	35,064
Suspended interest recovered	–	–	–	(15,211)
Exchange adjustment	–	573	573	–
	<u>183,094</u>	<u>411,696</u>	<u>594,790</u>	<u>68,455</u>
At 31st December 2003	<u>183,094</u>	<u>411,696</u>	<u>594,790</u>	<u>68,455</u>
Included in:				
Trade bills (Note 11)	3,025	10,124	13,149	
Advances to customers (Note 14)	180,069	401,572	581,641	
	<u>183,094</u>	<u>411,696</u>	<u>594,790</u>	

### The Bank

	Specific HK\$'000	General HK\$'000	Total HK\$'000	Suspended interest HK\$'000
At 1st January 2003	188,032	371,330	559,362	84,384
Amounts written off	(146,278)	–	(146,278)	(37,262)
Recoveries of advances written off in previous years	8,481	–	8,481	–
New provisions charged to profit and loss account (Note 6)	128,724	36,528	165,252	–
Provisions released back to profit and loss account (Note 6)	(1,246)	–	(1,246)	–
Interest suspended	–	–	–	34,322
Suspended interest recovered	–	–	–	(15,104)
Exchange adjustment	–	573	573	–
	<u>177,713</u>	<u>408,431</u>	<u>586,144</u>	<u>66,340</u>
At 31st December 2003	<u>177,713</u>	<u>408,431</u>	<u>586,144</u>	<u>66,340</u>
Included in:				
Trade bills (Note 11)	3,025	10,124	13,149	
Advances to customers (Note 14)	174,688	398,307	572,995	
	<u>177,713</u>	<u>408,431</u>	<u>586,144</u>	

## 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 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	-
	<u>195,343</u>	<u>373,889</u>	<u>569,232</u>	<u>85,876</u>
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	-
	<u>188,032</u>	<u>371,330</u>	<u>559,362</u>	<u>84,384</u>
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.

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

### The Group

	Book value		Market value	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Held-to-maturity securities, at amortised cost:				
Debt securities				
Listed in Hong Kong	1,563,365	1,790,739	1,661,459	1,894,436
Listed outside Hong Kong	3,748,860	3,656,349	3,793,561	3,666,187
	<u>5,312,225</u>	<u>5,447,088</u>	<u>5,455,020</u>	<u>5,560,623</u>
Unlisted	5,573,766	6,606,380		
	<u>10,885,991</u>	<u>12,053,468</u>		
Non-trading securities, at fair value:				
Debt securities				
Listed outside Hong Kong	2,474,617	810,235		
Unlisted	2,098,236	612,331		
	<u>4,572,853</u>	<u>1,422,566</u>		
Equity securities				
Listed in Hong Kong	78,242	43,036		
Unlisted	237,383	234,214		
	<u>315,625</u>	<u>277,250</u>		
	<u>15,774,469</u>	<u>13,753,284</u>		

There were disposals of held-to-maturity securities by the Group and the Bank during the year. The amortised cost of these securities was HK\$156,675,000 (2002: HK\$950,232,000). The related realised net gains on disposal was HK\$7,570,000 (2002: HK\$56,711,000). 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\$186,299,000 (2002: HK\$17,841,000) and the related realised net gains on disposal was HK\$8,504,000 (2002: HK\$979,000).

There was also a disposal of non-trading equity security by the Group and the Bank during the year. The related realised net gain on disposal was HK\$520,000 (2002: Nil). The revaluation reserve or deficit on the remaining securities was included in Note 25.

There was no disposal of held-to-maturity securities by any subsidiary company during the year (2002: gain on disposal HK\$11,064,000). The revaluation reserve or deficit on the remaining securities was included in Note 25.

As detailed in Note 14, as of 31st December 2003, certain of the United States branches have pledged held-to-maturity securities amounting to HK\$295,743,000 (2002: HK\$267,171,000) to the state of California and with the comptroller of the currency in compliance with local regulatory requirements.



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

	Book value		Market value	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Held-to-maturity securities, at amortised cost:				
Debt securities				
Listed in Hong Kong	248,297	779,013	251,326	784,937
Listed outside Hong Kong	3,744,693	3,652,080	3,789,256	3,661,828
	<u>3,992,990</u>	<u>4,431,093</u>	<u>4,040,582</u>	<u>4,446,765</u>
Unlisted	5,573,766	6,606,380		
	<u>9,566,756</u>	<u>11,037,473</u>		
Non-trading securities, at fair value:				
Debt securities				
Listed outside Hong Kong	2,474,617	810,235		
Unlisted	1,773,839	612,331		
	<u>4,248,456</u>	<u>1,422,566</u>		
Equity securities				
Listed in Hong Kong	78,242	43,036		
Unlisted	237,383	234,214		
	<u>315,625</u>	<u>277,250</u>		
	<u>14,130,837</u>	<u>12,737,289</u>		

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

	The Group		The Bank	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Held-to-maturity securities, at amortised cost:				
Debt securities issued by:				
Central governments and central banks	1,902,559	1,561,902	587,490	550,175
Public sector entities	1,195,362	1,092,075	1,195,362	1,092,075
Banks and other financial institutions	5,589,729	6,364,800	5,589,729	6,364,800
Corporate entities	2,198,341	3,034,691	2,194,175	3,030,423
	<u>10,885,991</u>	<u>12,053,468</u>	<u>9,566,756</u>	<u>11,037,473</u>
Non-trading securities, at fair value:				
Debt securities issued by:				
Central governments and central banks	542,567	268,958	542,567	268,958
Public sector entities	951,341	934,241	951,341	934,241
Banks and other financial institutions	2,475,812	135,846	2,151,415	135,846
Corporate entities	603,133	83,521	603,133	83,521
	<u>4,572,853</u>	<u>1,422,566</u>	<u>4,248,456</u>	<u>1,422,566</u>
Equity securities issued by:				
Banks and other financial institutions	296,155	257,712	296,155	257,712
Corporate entities	19,470	19,538	19,470	19,538
	<u>315,625</u>	<u>277,250</u>	<u>315,625</u>	<u>277,250</u>
	<u>15,774,469</u>	<u>13,753,284</u>	<u>14,130,837</u>	<u>12,737,289</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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Held-to-maturity securities, at amortised cost:				
Three months or less	295,065	106,684	295,065	106,684
One year or less but over three months	933,183	875,442	753,314	875,442
Five years or less but over one year	7,229,491	8,377,345	6,699,553	7,665,925
Over five years	2,428,252	2,693,997	1,818,824	2,389,422
	<u>10,885,991</u>	<u>12,053,468</u>	<u>9,566,756</u>	<u>11,037,473</u>
Non-trading securities, at fair value:				
Five years or less but over one year	3,586,522	1,420,962	3,586,522	1,420,962
Over five years	984,727	–	660,330	–
Undated	1,604	1,604	1,604	1,604
	<u>4,572,853</u>	<u>1,422,566</u>	<u>4,248,456</u>	<u>1,422,566</u>

## 17 Investments in jointly controlled entities and subsidiary companies

### (a) Investments in jointly controlled entities

	<b>The Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Share of net assets	<u><b>127,863</b></u>	<u>126,468</u>
	<b>The Bank</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>81,000</b>	81,000
Provision for impairment in carrying value	<b>(17,238)</b>	(17,238)
Amounts due by jointly controlled entities	<b>31,600</b>	31,600
	<u><b>95,362</b></u>	<u>95,362</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 dividends paid by the company.

### (b) Investments in subsidiary companies

	<b>The Bank</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>30,942</b>	30,003
Amounts due by subsidiary companies	<b>1,985,085</b>	1,917,191
Amounts due to subsidiary companies	<b>(456,690)</b>	(476,405)
	<u><b>1,559,337</b></u>	<u>1,470,789</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%
Shacom Insurance Brokers Limited	Insurance broker	Hong Kong	1,000,000 ordinary shares of HK\$1 each	100%

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 2003	2,107,917	479,012	2,586,929
Additions	1,442	47,448	48,890
Exchange adjustment	3,434	1,800	5,234
Reclassification of assets	(3,738)	3,738	-
Reduction of valuation of investment property (Note 25)	(3,000)	-	(3,000)
Reduction recognised on reclassification of investment property	(2,612)	-	(2,612)
Disposals	-	(26,743)	(26,743)
	<u>2,103,443</u>	<u>505,255</u>	<u>2,608,698</u>
At 31st December 2003	<u>2,103,443</u>	<u>505,255</u>	<u>2,608,698</u>
Accumulated depreciation			
At 1st January 2003	247,875	292,824	540,699
Charge for the year	26,890	49,505	76,395
Exchange adjustment	448	1,459	1,907
Charge off on reclassification of investment property	(2,612)	-	(2,612)
Disposals	-	(22,836)	(22,836)
	<u>272,601</u>	<u>320,952</u>	<u>593,553</u>
At 31st December 2003	<u>272,601</u>	<u>320,952</u>	<u>593,553</u>
Net book value			
At 31st December 2003	<u>1,830,842</u>	<u>184,303</u>	<u>2,015,145</u>
At 31st December 2002	<u>1,860,042</u>	<u>186,188</u>	<u>2,046,230</u>
The analysis of cost or valuation of the above assets is as follows:			
At 31st December 2003			
At cost	708,009	505,255	1,213,264
At valuation - 1993	1,395,434	-	1,395,434
	<u>2,103,443</u>	<u>505,255</u>	<u>2,608,698</u>
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>

**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 2003	2,071,137	485,954	2,557,091
Additions	1,442	52,174	53,616
Exchange adjustment	(379)	1,690	1,311
Reclassification of assets	(3,738)	3,738	-
Reduction of valuation of investment property (Note 25)	(3,000)	-	(3,000)
Reduction recognised on reclassification of investment property	(2,612)	-	(2,612)
Disposals	-	(26,738)	(26,738)
At 31st December 2003	<u>2,062,850</u>	<u>516,818</u>	<u>2,579,668</u>
Accumulated depreciation			
At 1st January 2003	243,737	294,258	537,995
Charge for the year	26,421	52,820	79,241
Exchange adjustment	(19)	1,367	1,348
Charge off on reclassification of investment property	(2,612)	-	(2,612)
Disposals	-	(22,831)	(22,831)
At 31st December 2003	<u>267,527</u>	<u>325,614</u>	<u>593,141</u>
Net book value			
At 31st December 2003	<u>1,795,323</u>	<u>191,204</u>	<u>1,986,527</u>
At 31st December 2002	<u>1,827,400</u>	<u>191,696</u>	<u>2,019,096</u>
The analysis of cost or valuation of the above assets is as follows:			
At 31st December 2003			
At cost	667,416	516,818	1,184,234
At valuation – 1993	1,395,434	-	1,395,434
	<u>2,062,850</u>	<u>516,818</u>	<u>2,579,668</u>
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>

\* The land portion of the Bank's premises (other than an investment property included therein) stated at valuation were revalued in October 1993 by the Directors based on an independent professional valuation carried out by Jones Lang LaSalle Ltd. on an open market value basis. The relevant revaluation surplus had been transferred to property revaluation reserve.

## 18 Fixed assets (Continued)

The land portion of a bank premises was revalued by an independent professional valuer DTZ Debenham Tie Leung Limited on an open market value basis in November 2002 before being reclassified to investment property, resulting in a HK\$3,000,000 reduction in the revaluation reserve previously set up for this premises which was reversed upon reclassification in Note 25. As of 31st December 2003, the Bank's premises included an investment property amounting to HK\$33,286,000 (2002: Nil).

The carrying amount of land stated at valuation would have been HK\$64,420,000 (2002: HK\$65,475,000) had it been stated at cost less accumulated depreciation.

The net book value of bank premises comprises:

	The Group		The Bank	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Freeholds	110,570	110,095	75,051	77,453
Leaseholds				
On long-term lease (over 50 years)				
– Held in Hong Kong	1,322,929	1,337,986	1,322,929	1,337,986
– Held outside Hong Kong	304	289	304	289
On medium-term lease (10 – 50 years)				
– Held in Hong Kong	397,039	411,672	397,039	411,672
	<u>1,830,842</u>	<u>1,860,042</u>	<u>1,795,323</u>	<u>1,827,400</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	
	2003 HK\$'000	2002 HK\$'000
Repayable on demand	547,532	297,297
Three months or less	1,380,511	614,046
One year or less but over three months	–	24,000
Five years or less but over one year	1,100,000	1,100,000
	<u>3,028,043</u>	<u>2,035,343</u>

## 20 Deposits from customers

	The Group		The Bank	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Demand deposits and current accounts	4,629,212	2,961,094	4,629,212	2,961,094
Savings deposits	16,946,024	12,467,687	16,946,024	12,467,687
Time, call and notice deposits	35,047,057	40,243,416	35,012,890	40,201,451
Deposits from Hong Kong Government Exchange Fund	388,000	390,000	388,000	390,000
	<u>57,010,293</u>	<u>56,062,197</u>	<u>56,976,126</u>	<u>56,020,232</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	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Repayable on demand	22,364,748	15,663,005	22,363,466	15,662,822
Three months or less	32,064,350	36,705,428	32,032,726	36,671,594
One year or less but over three months	2,549,198	3,627,204	2,547,937	3,619,256
Five years or less but over one year	31,997	66,560	31,997	66,560
	<u>57,010,293</u>	<u>56,062,197</u>	<u>56,976,126</u>	<u>56,020,232</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	
	2003	2002
	HK\$'000	HK\$'000
Three months or less	–	650,000
One year or less but over three months	1,698,000	500,000
Five years or less but over one year	1,240,000	2,938,000
	<u>2,938,000</u>	<u>4,088,000</u>



## 22 Other accounts and provisions

	The Group		The Bank	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Interest payable	71,336	96,827	71,309	96,743
Margin deposits	347,176	336,038	347,176	336,038
Provision for staff gratuity (Note)	98,247	100,315	97,500	100,059
Deferred tax liabilities (Note 23(a))	161,419	149,047	161,362	149,047
Other payables and accruals	465,693	321,916	463,203	320,500
	<u>1,143,871</u>	<u>1,004,143</u>	<u>1,140,550</u>	<u>1,002,387</u>

Note: Movement of provision for staff gratuity:

	The Group		The Bank	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1st January	100,315	118,335	100,059	117,486
Add: Additional accruals	99,463	88,280	98,200	88,273
Less: Written back	(13,129)	-	(13,129)	-
Less: Payments for past year's services	(88,402)	(106,300)	(87,630)	(105,700)
At 31st December	<u>98,247</u>	<u>100,315</u>	<u>97,500</u>	<u>100,059</u>

## 23 Deferred taxation

Deferred taxation for Hong Kong operations is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%) whereas overseas deferred taxation is calculated at the prevailing tax rate in the countries in which the Group operates. The movement on the deferred tax (liabilities)/assets is as follows:

### (a) Deferred tax liabilities

The following deferred tax liabilities have been included in "Other accounts and provisions" in Note 22.

#### The Group

	General provisions for bad and doubtful debts HK\$'000	Accelerated tax depreciation HK\$'000	Reserves HK\$'000	Others HK\$'000	Total HK\$'000
At 1st January 2003	64,484	(7,673)	(200,944)	(4,914)	(149,047)
Credited/(charged) to profit and loss account (Note 7)	14,376	(4,454)	-	(4,201)	5,721
Charged to reserves (Note 25)	-	-	(18,093)	-	(18,093)
At 31st December 2003	<u>78,860</u>	<u>(12,127)</u>	<u>(219,037)</u>	<u>(9,115)</u>	<u>(161,419)</u>

**23 Deferred taxation (Continued)**

## (a) Deferred tax liabilities (Continued)

**The Bank**

	General provisions for bad and doubtful debts HK\$'000	Accelerated tax depreciation HK\$'000	Reserves HK\$'000	Others HK\$'000	Total HK\$'000
At 1st January 2003	64,484	(7,673)	(200,944)	(4,914)	(149,047)
Credited/(charged) to profit and loss account (Note 7)	14,376	(4,397)	–	(4,201)	5,778
Charged to reserves (Note 25)	–	–	(18,093)	–	(18,093)
At 31st December 2003	<u>78,860</u>	<u>(12,070)</u>	<u>(219,037)</u>	<u>(9,115)</u>	<u>(161,362)</u>

**The Group and the Bank**

At 1st January 2002	63,002	(11,395)	(201,009)	(3,913)	(153,315)
Credited/(charged) to profit and loss account (Note 7)	1,482	3,722	–	(142)	5,062
Credited to reserves (Note 25)	–	–	65	–	65
Reclassification from provision for corporation tax (Note 7)	–	–	–	(859)	(859)
At 31st December 2002	<u>64,484</u>	<u>(7,673)</u>	<u>(200,944)</u>	<u>(4,914)</u>	<u>(149,047)</u>

The effect of change in tax rates from 16% to 17.5% in Hong Kong during the year has resulted in a net increase of HK\$13,493,000 in deferred tax liabilities brought forward from last year.

**23 Deferred taxation (Continued)**

## (b) Deferred tax assets

The following deferred tax assets have been included in "Other accounts" in Note 14.

**The Group and the Bank**

	General provisions for bad and doubtful debts HK\$'000	Accelerated tax depreciation HK\$'000	Others HK\$'000	Total HK\$'000
At 1st January 2003	27,831	(1,894)	160	26,097
Credited/(charged) to profit and loss account (Note 7)	1,417	(267)	2,659	3,809
Exchange differences	132	(91)	(10)	31
At 31st December 2003	<u>29,380</u>	<u>(2,252)</u>	<u>2,809</u>	<u>29,937</u>
At 1st January 2002	16,215	(1,588)	2,366	16,993
Credited/(charged) to profit and loss account (Note 7)	11,348	(211)	(2,397)	8,740
Exchange differences	268	(95)	191	364
At 31st December 2002	<u>27,831</u>	<u>(1,894)</u>	<u>160</u>	<u>26,097</u>

The deferred taxation charged/(credited) to reserves during the year is as follows:

	2003 HK\$'000	2002 HK\$'000
Reserves in shareholders' equity		
– property revaluation reserve (Note 25)	15,881	(2,675)
– investment revaluation deficit (Note 25)	2,212	2,610
	<u>18,093</u>	<u>(65)</u>

Deferred taxation of HK\$2,188,000 (2002: HK\$2,432,000) was transferred within shareholders' equity from property revaluation reserve to retained profits. This represents deferred taxation on the difference between the actual depreciation on premises and the equivalent depreciation based on historical cost of premises.

The effect of change in tax rates from 16% to 17.5% in Hong Kong during the year has resulted in an increase in the deferred tax charge to property revaluation reserve and investment revaluation deficit brought forward from last year by HK\$18,594,000 and HK\$243,000 respectively.

## Notes to the Accounts

### 24 Share capital

	2003 HK\$'000	2002 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>

### 25 Reserves

#### The Group

	Capital reserve on consolidation HK\$'000	Property revaluation reserve HK\$'000	Investment revaluation reserve/ (deficit) HK\$'000	General reserve* HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2003, as restated (Note 2(k))	28,220	1,041,322	(46,214)	6,008,322	1,045,609	8,077,259
Share of reserve of a jointly controlled entity	205	-	-	-	-	205
Transfer of property revaluation reserve to retained profits on depreciation of revalued land	-	(12,501)	-	-	12,501	-
Reduction of valuation of investment property upon reclassification (Note 18)	-	(3,000)	-	-	-	(3,000)
Investment revaluation reserve realised on disposal of non-trading securities	-	-	(9,237)	-	-	(9,237)
Change in fair value of non-trading securities	-	-	28,912	-	-	28,912
Effect of deferred taxation (Note 23)	-	(15,881)	(2,212)	-	-	(18,093)
Exchange translation differences	-	-	-	(7,934)	(3,201)	(11,135)
Transfer from profit and loss account	-	-	-	505,000	(505,000)	-
Profit for the year	-	-	-	-	1,013,030	1,013,030
Dividend paid in the year	-	-	-	-	(400,000)	(400,000)
At 31st December 2003	<u>28,425</u>	<u>1,009,940</u>	<u>(28,751)</u>	<u>6,505,388</u>	<u>1,162,939</u>	<u>8,677,941</u>

#### Representing:

Retained profits at 31st December 2003	1,162,939
Dividend proposed for the year	(400,000)

At 31st December 2003 762,939

\* General reserve and inner reserves are for general purposes.

**25 Reserves (Continued)****The Bank**

	Property revaluation reserve HK\$'000	Investment revaluation reserve/ (deficit) HK\$'000	General reserve* HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2003, as restated (Note 2(k))	1,041,322	(46,214)	5,753,324	1,021,958	7,770,390
Transfer of property revaluation reserve to retained profits on depreciation of revalued land	(12,501)	-	-	12,501	-
Reduction of valuation of investment property upon reclassification (Note 18)	(3,000)	-	-	-	(3,000)
Investment revaluation reserve realised on disposal of non-trading securities	-	(9,237)	-	-	(9,237)
Change in fair value of non-trading securities	-	24,800	-	-	24,800
Effect of deferred taxation (Note 23)	(15,881)	(2,212)	-	-	(18,093)
Exchange translation differences	-	-	(7,942)	(2,594)	(10,536)
Transfer from profit and loss account	-	-	500,000	(500,000)	-
Profit for the year	-	-	-	1,006,822	1,006,822
Dividend paid in the year	-	-	-	(400,000)	(400,000)
	<u>1,009,940</u>	<u>(32,863)</u>	<u>6,245,382</u>	<u>1,138,687</u>	<u>8,361,146</u>
At 31st December 2003					
Representing:					
Retained profits at 31st December 2003				1,138,687	
Dividend proposed for the year				(400,000)	
				<u>738,687</u>	
At 31st December 2003					

## 25 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 2002, as previously reported	28,220	1,256,392	(60,286)	5,441,454	58,066	1,017,013	7,740,859
Prior year's adjustment for deferred taxation on adoption of SSAP 12 (Note 2(k))	-	(201,023)	14	-	-	51,943	(149,066)
At 1st January 2002, as restated	28,220	1,055,369	(60,272)	5,441,454	58,066	1,068,956	7,591,793
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	-	(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
Effect of deferred taxation (Note 23)	-	2,675	(2,610)	-	-	-	65
Exchange translation differences	-	-	-	3,802	-	(415)	3,387
Transfer from profit and loss account	-	-	-	505,000	-	(505,000)	-
Profit for the year	-	-	-	-	-	866,871	866,871
Dividend paid in the year	-	-	-	-	-	(400,000)	(400,000)
At 31st December 2002	<u>28,220</u>	<u>1,041,322</u>	<u>(46,214)</u>	<u>6,008,322</u>	<u>-</u>	<u>1,045,609</u>	<u>8,077,259</u>
Representing:							
Retained profits at 31st December 2002						1,045,609	
Dividend proposed for the year						(400,000)	
At 31st December 2002						<u>645,609</u>	

## 25 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, as previously reported	1,256,392	(60,286)	5,191,454	58,066	967,807	7,413,433
Prior year's adjustment for deferred taxation on adoption of SSAP 12 (Note 2(k))	(201,023)	14	-	-	51,943	(149,066)
At 1st January 2002, as restated	1,055,369	(60,272)	5,191,454	58,066	1,019,750	7,264,367
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	(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
Effect of deferred taxation (Note 23)	2,675	(2,610)	-	-	-	65
Exchange translation differences	-	-	3,804	-	183	3,987
Transfer from profit and loss account	-	-	500,000	-	(500,000)	-
Profit for the year	-	-	-	-	886,828	886,828
Dividend paid in the year	-	-	-	-	(400,000)	(400,000)
At 31st December 2002	<u>1,041,322</u>	<u>(46,214)</u>	<u>5,753,324</u>	<u>-</u>	<u>1,021,958</u>	<u>7,770,390</u>
Representing:						
Retained profits at 31st December 2002					1,021,958	
Dividend proposed for the year					(400,000)	
At 31st December 2002					<u>621,958</u>	

## 26 Notes to the consolidated cash flow statement

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

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	1,208,048	980,365
Share of net (profits)/losses of jointly controlled entities	(1,970)	21,314
Charge for bad and doubtful debts	165,701	173,967
Depreciation	76,395	79,327
Net losses on disposal of fixed assets	3,794	6,835
Profits less losses on disposal of held-to-maturity securities and non-trading securities	(17,568)	(68,754)
Amortisation of held-to-maturity securities	12,449	(3,516)
Interest income on held-to-maturity securities and non-trading securities	(609,951)	(565,296)
Dividend income on non-trading securities	(12,420)	(3,729)
Interest expenses on certificates of deposit issued	50,838	71,223
Operating cash inflow before changes in operating assets and liabilities	<u>875,316</u>	691,736
(Increase)/decrease in operating assets:		
Interest receivable, prepaid expenses and other accounts	(459,837)	(26,611)
Advances to customers, amounts written off and recoveries	(533,064)	1,261,700
Trade bills	(179,341)	(271,405)
Treasury bills with original maturity beyond three months	-	94,421
Securities held for dealing purposes	(23,455)	151,066
Money at call and short notice with original maturity beyond three months	(337,244)	(99,849)
Placements with banks and other financial institutions with original maturity beyond three months	1,468,537	3,349,583
Certificates of deposit held with original maturity beyond three months	426,326	(1,298,358)
Increase/(decrease) in operating liabilities:		
Interest payable, accrued expenses and other accounts	114,279	30,068
Deposits from customers	948,096	824,229
Deposits and balances of banks and other financial institutions with original maturity beyond three months	(24,000)	1,107,821
Exchange adjustment	(974,066)	(566,125)
Net cash inflow from operating activities before taxation	<u>1,301,547</u>	5,248,276
Hong Kong profits tax paid	(24,901)	(36,775)
Overseas tax paid	(25,599)	(29,257)
Net cash inflow from operating activities	<u><u>1,251,047</u></u>	<u><u>5,182,244</u></u>

(b) Analysis of changes in financing during the year

	Certificates of deposit issued HK\$'000
Balance at 1st January 2003	4,088,000
Net cash outflow from financing	<u>(1,150,000)</u>
Balance at 31st December 2003	<u><u>2,938,000</u></u>
Balance at 1st January 2002	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>



**26 Notes to the consolidated cash flow statement (Continued)**

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

	2003 HK\$'000	2002 HK\$'000
Cash and balances with banks and other financial institutions	478,220	410,575
Money at call and short notice	19,975,219	19,509,225
Placements with banks and other financial institutions		
with original maturity within three months	3,205,838	2,284,562
Treasury bills with original maturity within three months	-	994,749
Certificates of deposit held with original maturity within three months	-	218,580
Less: Deposits and balances of banks and other financial institutions with original maturity within three months	<u>(1,928,043)</u>	<u>(911,343)</u>
	<u>21,731,234</u>	<u>22,506,348</u>

**27 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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Direct credit substitutes	1,554,755	1,327,393	1,554,755	1,327,393
Trade-related contingencies	4,610,936	3,984,519	4,610,936	3,984,519
Other commitments with an original maturity of:				
- under 1 year or which are unconditionally cancellable	17,908,037	18,028,086	17,875,967	17,988,546
- 1 year and over	<u>2,899,403</u>	<u>3,151,568</u>	<u>2,899,403</u>	<u>3,151,568</u>
	<u>26,973,131</u>	<u>26,491,566</u>	<u>26,941,061</u>	<u>26,452,026</u>

- (b) Derivatives

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

	The Group and the Bank	
	2003 HK\$'000	2002 HK\$'000
Exchange rate contracts		
Forward contracts	7,139,069	6,610,466
Interest rate contracts		
Interest rate swaps	<u>2,618,677</u>	<u>3,282,757</u>
	<u>9,757,746</u>	<u>9,893,223</u>

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

**27 Off balance sheet exposures (Continued)**

## (b) Derivatives (Continued)

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.

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 2003 HK\$'000	Credit risk weighted amount 2003 HK\$'000	Replacement cost 2003 HK\$'000	Contract amount 2002 HK\$'000	Credit risk weighted amount 2002 HK\$'000	Replacement cost 2002 HK\$'000
Contingent liabilities and commitments	26,973,131	3,865,839		26,491,566	3,646,370	
Derivatives						
- Exchange rate contracts	7,139,069	82,778	125,874	6,610,466	47,880	61,591
- Interest rate contracts	2,618,677	7,813	3,954	3,282,757	31,112	51,328
	<u>36,730,877</u>	<u>3,956,430</u>	<u>129,828</u>	<u>36,384,789</u>	<u>3,725,362</u>	<u>112,919</u>

**The Bank**

	Contract amount 2003 HK\$'000	Credit risk weighted amount 2003 HK\$'000	Replacement cost 2003 HK\$'000	Contract amount 2002 HK\$'000	Credit risk weighted amount 2002 HK\$'000	Replacement cost 2002 HK\$'000
Contingent liabilities and commitments	26,941,061	3,865,839		26,452,026	3,646,370	
Derivatives						
- Exchange rate contracts	7,139,069	82,778	125,874	6,610,466	47,880	61,591
- Interest rate contracts	2,618,677	7,813	3,954	3,282,757	31,112	51,328
	<u>36,698,807</u>	<u>3,956,430</u>	<u>129,828</u>	<u>36,345,249</u>	<u>3,725,362</u>	<u>112,919</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.

## 27 Off balance sheet exposures (Continued)

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.

## 28 Capital and lease commitments

### (a) Capital commitments

	The Group		The Bank	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Contracted but not provided for	<b>10,958</b>	13,252	<b>13,199</b>	18,018
Authorised but not contracted for	<b>4,486</b>	16,224	<b>4,486</b>	17,199
	<b>15,444</b>	29,476	<b>17,685</b>	35,217

### (b) Lease commitments

At 31st December 2003 and 31st December 2002 respectively, the Group and the Bank had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	The Group		The Bank	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Land and buildings				
Within one year	<b>30,604</b>	33,196	<b>32,267</b>	34,704
In the second to fifth years inclusive	<b>39,584</b>	52,245	<b>47,446</b>	59,733
After the fifth year	<b>841</b>	4,264	<b>8,416</b>	13,000
	<b>71,029</b>	89,705	<b>88,129</b>	107,437

## 29 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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Aggregate amount outstanding in respect of principal and interest	<u>2,623</u>	<u>9,040</u>	<u>3,369</u>	<u>12,739</u>

## 30 Balances with group companies

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

	The Group and the Bank	
	2003 HK\$'000	2002 HK\$'000
Cash and short-term funds	541	130
Trade bills	6,667	93
Held-to-maturity securities and non-trading securities	36,485	32,172
	<u>43,693</u>	<u>32,395</u>
Deposits and balances of banks and other financial institutions	<u>414,969</u>	<u>347,209</u>
Contingent liabilities arising from letters of guarantee and letters of credit issued	<u>240,141</u>	<u>201,843</u>

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

	The Group and the Bank	
	2003 HK\$'000	2002 HK\$'000
Deposits from customers	<u>276,752</u>	<u>278,529</u>

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

	The Group and the Bank	
	2003 HK\$'000	2002 HK\$'000
Deposits from customers	<u>266,904</u>	<u>185,856</u>

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

### 31 Balances with related parties

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

	<b>The Group and the Bank</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Trade bills	–	78
Advances to customers and other accounts	<u>12,932</u>	<u>12,994</u>
	<u>12,932</u>	<u>13,072</u>
Deposits from customers	<u>212,234</u>	<u>194,049</u>

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

	<b>The Group and the Bank</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Trade bills	15	–
Advances to customers and other accounts	505,856	432,731
Held-to-maturity securities and non-trading securities	<u>2,000</u>	<u>2,000</u>
	<u>507,871</u>	<u>434,731</u>
Deposits from customers	<u>473,911</u>	<u>197,162</u>
Contingent liabilities arising from letters of guarantee and letters of credit issued	<u>57,151</u>	<u>48,677</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.

### 32 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.

### 33 Approval of accounts

The accounts on pages 18 to 61 were approved by the Board of Directors on 18th February 2004.

# 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.
- (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 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 members of the Audit Committee are Dr. Philip 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, Mr. Henry Koon-man To, Mr. Chun-yiu Chan, Mr. Francis Wai-choi Cheung and Mr. Edward Kawah Chu.
  - (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.
  - (v) Operational Risk Management Committee  
The Operational Risk Management Committee meets quarterly to establish and to review operational risk management policies, processes and procedures for managing operational risk in all of the Bank’s material products, activities, processes and systems. The Operational Risk Management Committee is also responsible for overseeing the identification, assessment, monitoring and control of operational risk exposures. The members of the Operational Risk Management Committee are Mr. Frank Kai-shu Lau (Chairman), Mr. Ernesto Tang-fai Ng, Mr. David Sek-chi Kwok, Mr. Ambrose Kwong-chung Chan, Mr. Burton Chi-shan Cheng, Mr. Wai-chau Tang, Ms. Iris Ka-yin Kwok, Mr. Kwong-yiu Chong and Mr. Shek-kwan Lai.

## 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, foreign exchange and operational 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, the Credit Committee and the Operational Risk Management 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.

### (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 2003 for the Group and the Bank is not significant.

### 2 Qualitative information on management of risks (Continued)

(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

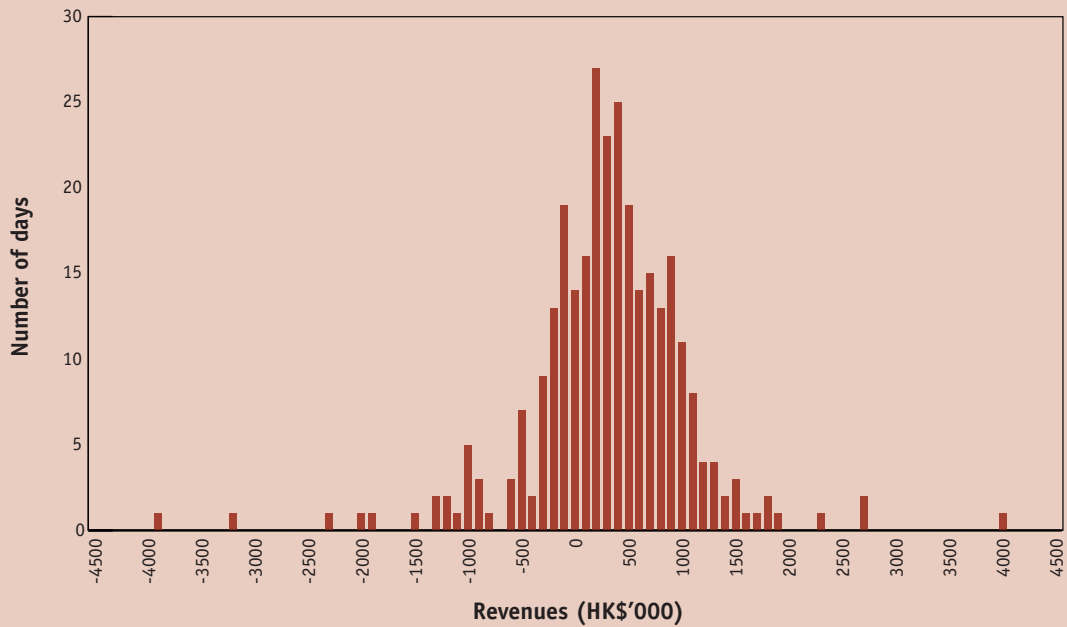
The Group uses different types of derivatives to manage foreign exchange and interest rate sensitivity primarily to hedge its underlying positions. The types of derivatives used by the Group include forward exchange rate and interest rate swap contracts which are typically made over-the-counter and are managed within limits approved by the Directors 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.



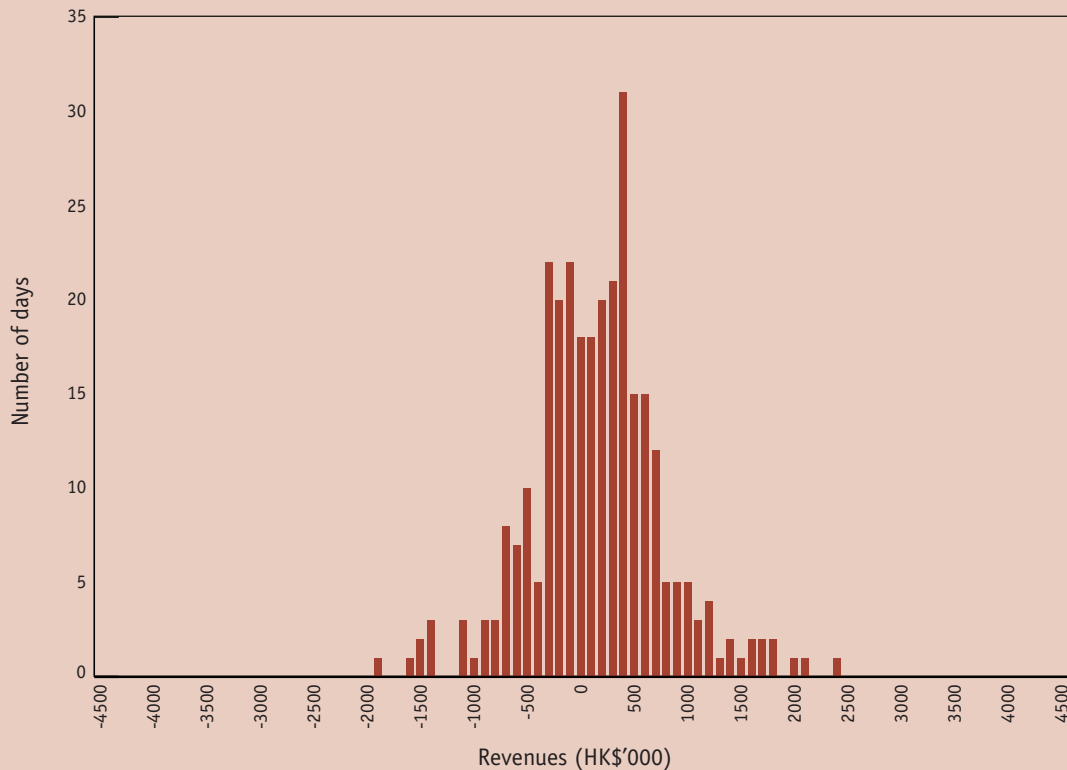
**3 Quantitative information on market risk**

The average daily revenue arising from foreign exchange, equity and other financial instruments exposures in the year was HK\$0.36 million (2002: HK\$0.20 million). The standard deviation of these daily revenues was HK\$0.77 million (2002: HK\$0.63 million). The highest daily revenue was HK\$4.09 million (2002: HK\$2.44 million) and the maximum daily loss was HK\$3.89 million (2002: HK\$1.82 million).

**Daily distribution of market risk revenues in 2003**



**Daily distribution of market risk revenues in 2002**



## Supplementary Financial Information

### 4 Capital adequacy and liquidity ratios

	2003	As restated 2002
Capital adequacy ratio	<u>23%</u>	<u>22%</u>
Adjusted capital adequacy ratio	<u>23%</u>	<u>22%</u>
Liquidity ratio	<u>74%</u>	<u>66%</u>

The capital adequacy ratio as at 31st December 2003 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 Hong Kong Monetary Authority are as follows:

	2003 HK\$'000	As restated 2002 HK\$'000
Core capital		
Paid up ordinary share capital	2,000,000	2,000,000
Reserves	6,669,396	6,162,076
Profit and loss account	613,483	491,432
	<u>9,282,879</u>	<u>8,653,508</u>
Supplementary capital		
Reserves on revaluation of land and interests in land	706,958	728,925
Reserves on revaluation of holding of securities not held for trading purposes	(28,751)	(46,214)
General provisions for doubtful debts	411,696	373,889
	<u>1,089,903</u>	<u>1,056,600</u>
Total gross and eligible value of supplementary capital	<u>1,089,903</u>	<u>1,056,600</u>
Total capital base before deductions	<u>10,372,782</u>	<u>9,710,108</u>
Deductions from total capital base		
Shareholdings in subsidiaries or holding company	(57,375)	(52,082)
Exposures to connected companies	(87,493)	(87,487)
Equity investments of 20% or more in jointly controlled entities	(24,600)	(24,600)
Investments in the capital of other banks and financial institutions	(259,670)	(225,540)
	<u>(429,138)</u>	<u>(389,709)</u>
Total capital base after deductions	<u>9,943,644</u>	<u>9,320,399</u>

**5 Segmental information**

(a) Gross advances to customers by industry sector

	The Group		The Bank	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	1,166,997	1,488,449	1,166,997	1,488,449
– Property investment	4,614,325	4,599,702	4,582,983	4,551,472
– Financial concerns	15,359	32,698	15,359	32,698
– Stockbrokers	5,565	4,519	5,565	4,519
– Wholesale and retail trade	479,857	503,991	478,085	501,833
– Manufacturing	910,452	908,630	907,547	900,402
– Transport and transport equipment	189,447	232,493	166,935	211,031
– Telecommunication	608	800	608	800
– Hotels, boarding houses and catering	1,062,662	1,444,508	1,062,662	1,444,508
– Others	3,264,354	2,548,464	3,239,951	2,524,523
Individuals				
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	709,580	891,242	698,342	877,954
– Loans for the purchase of other residential properties	5,086,666	5,631,539	4,999,231	5,526,730
– Credit card advances	337,038	370,677	337,038	370,677
– Others	1,068,873	1,133,178	1,046,982	1,104,186
Trade finance	4,423,032	3,743,558	4,423,032	3,743,558
Loans for use outside Hong Kong	4,814,410	4,222,429	4,812,400	4,218,911
	<u>28,149,225</u>	<u>27,756,877</u>	<u>27,943,717</u>	<u>27,502,251</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**

	Total advances		Non-performing advances		Overdue advances	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	23,356,000	23,349,000	592,000	691,000	159,000	195,000
North America	3,805,000	3,205,000	–	14,000	–	14,000

**The Bank**

	Total advances		Non-performing advances		Overdue advances	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	23,151,000	23,094,000	579,000	674,000	154,000	194,000
North America	3,805,000	3,205,000	–	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 2003

	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia & Pacific excluding Hong Kong	6,010,000	–	546,000	6,556,000
North America	6,288,000	2,350,000	710,000	9,348,000
Western Europe	19,849,000	97,000	828,000	20,774,000

#### 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

#### (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.

#### 2003

	Hong Kong HK\$'000	Europe HK\$'000	Americas HK\$'000	Intersegment eliminations HK\$'000	Consolidated HK\$'000
Operating income	<u>1,896,726</u>	<u>44,311</u>	<u>153,218</u>	–	<u>2,094,255</u>
Profit before taxation	1,082,845	27,943	97,260	–	1,208,048
Taxation	(159,954)	(7,787)	(26,878)	–	(194,619)
Minority interests	(399)	–	–	–	(399)
Segment results	<u>922,492</u>	<u>20,156</u>	<u>70,382</u>	–	<u>1,013,030</u>
Segment assets	<u>65,010,439</u>	<u>6,878,550</u>	<u>5,974,006</u>	<u>(3,059,494)</u>	<u>74,803,501</u>
Segment liabilities	<u>54,854,699</u>	<u>6,861,184</u>	<u>5,266,305</u>	<u>(2,861,981)</u>	<u>64,120,207</u>
Segment contingent liabilities and commitments	<u>25,022,986</u>	<u>164,119</u>	<u>1,786,026</u>	–	<u>26,973,131</u>

**5 Segmental information** (Continued)(d) By geographical area (Continued)  
2002 (As restated)

	Hong Kong HK\$'000	Europe HK\$'000	Americas HK\$'000	Intersegment eliminations HK\$'000	Consolidated HK\$'000
Operating income	<u>1,772,005</u>	<u>46,602</u>	<u>141,884</u>	<u>-</u>	<u>1,960,491</u>
Profit before taxation	919,254	31,356	29,755	-	980,365
Taxation	(108,410)	(8,000)	3,326	-	(113,084)
Minority interests	(410)	-	-	-	(410)
Segment results	<u>810,434</u>	<u>23,356</u>	<u>33,081</u>	<u>-</u>	<u>866,871</u>
Segment assets	<u>63,970,962</u>	<u>6,960,596</u>	<u>5,777,165</u>	<u>(3,436,547)</u>	<u>73,272,176</u>
Segment liabilities	<u>54,423,173</u>	<u>6,939,801</u>	<u>5,136,311</u>	<u>(3,309,602)</u>	<u>63,189,683</u>
Segment contingent liabilities and commitments	<u>24,719,207</u>	<u>107,845</u>	<u>1,664,514</u>	<u>-</u>	<u>26,491,566</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.

**2003****The Group**

	Retail and corporate banking HK\$'000	Bills HK\$'000	Treasury HK\$'000	Others HK\$'000	Total HK\$'000
Operating income	<u>1,273,388</u>	<u>311,246</u>	<u>303,325</u>	<u>206,296</u>	<u>2,094,255</u>
Operating profit before provisions	<u>935,547</u>	<u>183,770</u>	<u>249,702</u>	<u>(11,014)</u>	<u>1,358,005</u>
Operating profit	<u>785,868</u>	<u>167,748</u>	<u>249,702</u>	<u>(11,014)</u>	<u>1,192,304</u>
Profit before taxation	<u>784,064</u>	<u>166,936</u>	<u>267,186</u>	<u>(10,138)</u>	<u>1,208,048</u>
Segment assets	<u>26,834,417</u>	<u>4,025,273</u>	<u>43,263,112</u>	<u>680,699</u>	<u>74,803,501</u>

## Supplementary Financial Information

### 5 Segmental information (Continued)

(e) By class of business (Continued)

2003 (Continued)

#### The Bank

	Retail and corporate banking HK\$'000	Bills HK\$'000	Treasury HK\$'000	Others HK\$'000	Total HK\$'000
Operating income	<u>1,268,894</u>	<u>311,246</u>	<u>298,573</u>	<u>199,195</u>	<u>2,077,908</u>
Operating profit before provisions	<u>934,817</u>	<u>183,770</u>	<u>245,012</u>	<u>(12,680)</u>	<u>1,350,919</u>
Operating profit	<u>786,833</u>	<u>167,748</u>	<u>245,012</u>	<u>(12,680)</u>	<u>1,186,913</u>
Profit before taxation	<u>785,267</u>	<u>166,936</u>	<u>262,496</u>	<u>(14,012)</u>	<u>1,200,687</u>
Segment assets	<u>26,524,822</u>	<u>4,002,738</u>	<u>43,265,033</u>	<u>651,272</u>	<u>74,443,865</u>

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>

#### 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>

## 5 Segmental information (Continued)

(f) Fees and commission income by product lines

	The Group		The Bank	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Import and export	178,415	170,553	178,415	170,553
Retail banking operation and custodian	177,402	118,064	176,712	118,361
Credit cards	36,241	39,702	36,241	39,702
Remittances	44,934	44,936	44,934	44,936
Credit facilities	49,206	45,277	48,064	43,664
Others	1,910	3,171	1,828	3,101
Total	<u>488,108</u>	<u>421,703</u>	<u>486,194</u>	<u>420,317</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

	2003		2002	
	HK\$'000	%	HK\$'000	%
Gross amount of advances which have been overdue for				
– six months or less but over three months	52,988	0.19	77,347	0.28
– one year or less but over six months	41,773	0.15	44,394	0.16
– over one year	64,287	0.23	87,430	0.31
	<u>159,048</u>	<u>0.57</u>	<u>209,171</u>	<u>0.75</u>
Secured overdue advances	137,177		159,768	
Unsecured overdue advances	21,871		49,403	
	<u>159,048</u>		<u>209,171</u>	
Market value of security held against the secured overdue advances	<u>161,635</u>		<u>209,395</u>	
Specific provisions made	<u>28,051</u>		<u>50,343</u>	

## The Bank

	2003		2002	
	HK\$'000	%	HK\$'000	%
Gross amount of advances which have been overdue for				
– six months or less but over three months	47,833	0.17	77,142	0.28
– one year or less but over six months	41,743	0.15	43,722	0.16
– over one year	64,287	0.23	87,423	0.32
	<u>153,863</u>	<u>0.55</u>	<u>208,287</u>	<u>0.76</u>
Secured overdue advances	132,147		158,904	
Unsecured overdue advances	21,716		49,383	
	<u>153,863</u>		<u>208,287</u>	
Market value of security held against the secured overdue advances	<u>155,846</u>		<u>206,601</u>	
Specific provisions made	<u>27,648</u>		<u>50,254</u>	

## 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

	2003		2002	
	HK\$'000	%	HK\$'000	%
Rescheduled advances	<u>154,427</u>	0.55	<u>222,792</u>	0.80

#### The Bank

	2003		2002	
	HK\$'000	%	HK\$'000	%
Rescheduled advances	<u>149,548</u>	0.54	<u>210,364</u>	0.76

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

	The Group		The Bank	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Gross amount of overdue advances (item 6(a) above)	159,048	209,171	153,863	208,287
Less: gross amount of advances which are overdue for more than three months and on which interest is still being accrued	30,347	9,011	25,316	8,885
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>463,577</u>	<u>504,359</u>	<u>450,827</u>	<u>488,438</u>
Gross amount of non-performing advances (Note 14)	<u>592,278</u>	<u>704,519</u>	<u>579,374</u>	<u>687,840</u>



**6 Overdue and rescheduled advances (Continued)**

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

	<b>The Group and the Bank</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
– six months or less but over three months	<u>161</u>	<u>2,736</u>

**7 The amount of repossessed assets held**

	<b>The Group and the Bank</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Repossessed assets	<u>13,270</u>	<u>19,010</u>

**8 Foreign currency position****2003****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	34,048,000	(29,567,000)	2,976,000	(2,795,000)	4,662,000
Pound Sterling	1,805,000	(1,794,000)	80,000	(48,000)	43,000
Japanese Yen	324,000	(128,000)	203,000	(386,000)	13,000
Other currencies and gold	7,563,000	(7,541,000)	1,629,000	(1,632,000)	19,000
	<u>43,740,000</u>	<u>(39,030,000)</u>	<u>4,888,000</u>	<u>(4,861,000)</u>	<u>4,737,000</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	34,041,000	(29,567,000)	2,976,000	(2,795,000)	4,655,000
Pound Sterling	1,805,000	(1,794,000)	80,000	(48,000)	43,000
Japanese Yen	324,000	(128,000)	203,000	(386,000)	13,000
Other currencies and gold	7,560,000	(7,541,000)	1,629,000	(1,632,000)	16,000
	<u>43,730,000</u>	<u>(39,030,000)</u>	<u>4,888,000</u>	<u>(4,861,000)</u>	<u>4,727,000</u>

## Supplementary Financial Information

### 8 Foreign currency position (Continued)

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>

# 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
President Theatre Branch	Shop A, G/F., 517 Jaffe Road
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

Jordan Road Branch	Shop 2, G/F., Sino Cheer Plaza, 23 Jordan 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
Sanpokong Branch	28 Hong Keung Street
Sham Shui Po 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
Waterloo Road Branch	84K Waterloo Road
Whampoa Garden Branch	Shop 9, Palm Mansions, Whampoa Garden, Site 4

## Branches and Subsidiary Companies

### 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	405 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
TVB Office	2/F., Workshop Block, TVB City, No. 77 Chun Choi Street, Tseung Kwan O Industrial Estate
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 Insurance Brokers 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