

SHANGHAI COMMERCIAL BANK LIMITED
(INCORPORATED IN HONG KONG WITH LIMITED LIABILITY)
GROUP INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE 2003

I CONSOLIDATED PROFIT AND LOSS INFORMATION

	Note	Six months ended 30/6/2003 (audited) HK\$'000	As restated Six months ended 30/6/2002 (audited) HK\$'000
Interest income		1,036,982	1,128,900
Interest expense		<u>(344,225)</u>	<u>(430,539)</u>
Net interest income		692,757	698,361
Other operating income	3	<u>322,505</u>	<u>269,198</u>
Operating income		1,015,262	967,559
Operating expenses	4	<u>(356,695)</u>	<u>(423,741)</u>
Operating profit before provisions		658,567	543,818
Charge for bad and doubtful debts		<u>(107,277)</u>	<u>(61,016)</u>
Operating profit		551,290	482,802
Net losses on disposal of fixed assets		(874)	(148)
Profits less losses on disposal of held-to-maturity securities and non-trading securities	1	12,608	57,515
Share of net losses of jointly controlled entities		<u>(1,326)</u>	<u>(12,270)</u>
Profit before taxation		561,698	527,899
Taxation	2	<u>(86,431)</u>	<u>(44,661)</u>
Profit after taxation		475,267	483,238
Minority interests		<u>1</u>	<u>168</u>
Profit attributable to shareholders		475,268	483,406
Retained profits brought forward		1,045,609	1,068,956
Exchange translation differences		(334)	555
Transfer from property revaluation reserve		6,318	8,879
Dividend		<u>(400,000)</u>	<u>(400,000)</u>
Retained profits carried forward		<u><u>1,126,861</u></u>	<u><u>1,161,796</u></u>

Note:

1 Profits less losses on disposal of held-to-maturity securities and non-trading securities

	Six months ended 30/6/2003 (audited) HK\$'000	Six months ended 30/6/2002 (audited) HK\$'000
Profits less losses on disposal of:		
Held-to-maturity securities	7,313	56,567
Non-trading securities	<u>5,295</u>	<u>948</u>
	<u><u>12,608</u></u>	<u><u>57,515</u></u>

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I CONSOLIDATED PROFIT AND LOSS INFORMATION (CONTINUED)

Note: (continued)

2 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2002 : 16%) on the estimated assessable profit for the period. Taxation on overseas profits has been provided on the estimated assessable profit for the period 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:

	Six months ended 30/6/2003 (audited) HK\$'000	Six months ended 30/6/2002 (audited) HK\$'000
Current taxation :		
- Hong Kong profits tax	80,932	58,100
- Overseas taxation	16,584	15,532
- Over provisions in prior years	(520)	(22,500)
Deferred taxation :		
- Hong Kong	(9,000)	(2,101)
- Overseas	(1,565)	(4,370)
	<u>86,431</u>	<u>44,661</u>

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:

	Six months ended 30/6/2003 (audited) HK\$'000	Six months ended 30/6/2002 (audited) HK\$'000
Profit before taxation	<u>561,698</u>	<u>527,899</u>
Calculated at applicable taxation rates	107,368	93,652
Income not subject to taxation	(27,433)	(22,531)
Expenses not deductible for taxation purposes	10,393	9,540
Net effect of investment in partnerships	(3,377)	(13,500)
Over provisions in prior years	(520)	(22,500)
Taxation charge	<u>86,431</u>	<u>44,661</u>

The bank has entered into aircraft leverage lease arrangement as well as coupon bond transaction. The unamortised carrying cost of these transactions were included in "other accounts".

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, associates 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 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 SSAP12 in the current period 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.

The effect of this change has been to increase retained profits at 1st January 2002 and 2003 by HK\$ 51,943,000 and HK\$ 57,005,000 respectively which represent the adjustment for unprovided net deferred tax assets. This change has resulted in an increase in deferred tax liabilities at 31st December 2002 and 30th June 2003 by HK\$ 149,047,000 and HK\$ 160,442,000 respectively. The profit and amount credited to equity 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 period is an increase in profit of HK\$ 10,565,000 and a charge to equity of HK\$ 20,395,000.

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I CONSOLIDATED PROFIT AND LOSS INFORMATION (CONTINUED)

Note: (continued)

3 Other operating income

	Six months ended 30/6/2003 (audited) HK\$'000	Six months ended 30/6/2002 (audited) HK\$'000
Fees and commission income	221,523	206,860
Less : Fees and commission expense	<u>(9,952)</u>	<u>(10,211)</u>
Net fees and commission income	211,571	196,649
Net gain on foreign exchange trading	38,846	35,883
Net profit/(loss) on securities held for dealing purposes	13,245	(14,091)
Dividend income		
- listed investments	1,414	552
- unlisted investments	9,001	1,807
Others	<u>48,428</u>	<u>48,398</u>
	<u>322,505</u>	<u>269,198</u>

4 Operating expenses

	Six months ended 30/6/2003 (audited) HK\$'000	Six months ended 30/6/2002 (audited) HK\$'000
Staff costs		
Salaries and other costs	214,462	243,712
Pension costs	12,426	13,437
Premises and equipment		
Rental of premises	19,512	28,785
Building expenses (Note)	5,284	25,388
Depreciation	35,093	34,966
Auditors' remuneration	2,565	2,601
Other operating expenses		
Telegram and telephone	10,452	10,501
Credit card promotion	2,425	6,787
Postage	6,033	6,257
Repair and maintenance	6,000	6,313
Legal and consultancy	2,737	1,471
Water, heat and light	5,210	5,098
Printing and stationery	3,494	3,863
Computer rental and licence	3,436	3,474
Others	<u>27,566</u>	<u>31,088</u>
	<u>356,695</u>	<u>423,741</u>

Note:

Building expenses of the Group for the six months ended 30th June 2003 include HK\$726,000 for upgrading the Head Office Building in order to comply with local fire regulations (2002: HK\$18,000,000).

II CONSOLIDATED BALANCE SHEET INFORMATION

	Note	30/6/2003 (audited) HK\$'000	As restated 31/12/2002 (audited) HK\$'000
ASSETS			
Cash and short-term funds		17,443,735	21,014,398
Placements with banks and other financial institutions maturing between one and twelve months		3,456,651	3,930,539
Trade bills		912,004	774,682
Certificates of deposit held		3,362,578	3,539,453
Securities held for dealing purposes		452,035	312,817
Advances to customers and other accounts	a, o	28,929,731	27,774,305
Held-to-maturity securities and non-trading securities		15,226,152	13,753,284
Investments in jointly controlled entities		124,362	126,468
Fixed assets		<u>2,030,432</u>	<u>2,046,230</u>
TOTAL ASSETS		<u><u>71,937,680</u></u>	<u><u>73,272,176</u></u>
LIABILITIES			
Deposits and balances of banks and other financial institutions		2,540,159	2,035,343
Deposits from customers	b	54,745,658	56,062,197
Certificates of deposit issued		3,438,000	4,088,000
Other accounts and provisions	o	<u>1,063,884</u>	<u>1,004,143</u>
TOTAL LIABILITIES		<u>61,787,701</u>	<u>63,189,683</u>
CAPITAL RESOURCES			
Minority interests		<u>4,953</u>	<u>5,234</u>
Share capital		2,000,000	2,000,000
Reserves			
General reserve		6,007,216	6,008,322
Property revaluation reserve		1,017,516	1,041,322
Other reserves		(6,567)	(17,994)
Proposed final dividend		-	400,000
Retained profits		<u>1,126,861</u>	<u>645,609</u>
Shareholders' funds		<u>10,145,026</u>	<u>10,077,259</u>
TOTAL CAPITAL RESOURCES		<u><u>10,149,979</u></u>	<u><u>10,082,493</u></u>
TOTAL LIABILITIES AND CAPITAL RESOURCES		<u><u>71,937,680</u></u>	<u><u>73,272,176</u></u>

III SUPPLEMENTARY INFORMATION

a Advances to customers and other accounts

	30/6/2003 (audited) HK\$'000	31/12/2002 (audited) HK\$'000
Advances to customers	28,923,452	27,756,877
Provisions for bad and doubtful debts		
General	(376,010)	(364,305)
Specific	<u>(270,352)</u>	<u>(187,151)</u>
	28,277,090	27,205,421
Accrued interest	185,528	189,047
Other accounts	<u>467,113</u>	<u>379,837</u>
	652,641	568,884
	<u>28,929,731</u>	<u>27,774,305</u>

b Deposits from customers

	30/6/2003 (audited) HK\$'000	31/12/2002 (audited) HK\$'000
Demand deposits and current accounts	3,222,554	2,961,094
Savings deposits	13,503,089	12,467,687
Time, call and notice deposits	37,630,115	40,243,416
Deposits from Hong Kong Government Exchange Fund	<u>389,900</u>	<u>390,000</u>
	<u>54,745,658</u>	<u>56,062,197</u>

c Gross advances to customers by industry sector

	30/6/2003 (unaudited) HK\$'000	31/12/2002 (unaudited) HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
- Property development	1,256,282	1,488,449
- Property investment	4,912,909	4,599,702
- Financial concerns	18,348	32,698
- Stockbrokers	5,419	4,519
- Wholesale and retail trade	529,758	503,991
- Manufacturing	930,795	908,630
- Transport and transport equipment	188,860	232,493
- Telecommunication	909	800
- Others	4,263,132	3,935,462
Individuals		
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	810,749	891,242
- Loans for the purchase of other residential properties	5,348,465	5,689,049
- Credit card advances	326,228	370,677
- Others	1,320,930	1,133,178
Trade finance	4,420,833	3,743,558
Loans for use outside Hong Kong	<u>4,589,835</u>	<u>4,222,429</u>
	<u>28,923,452</u>	<u>27,756,877</u>

d The amount of advances to customers on which interest is being placed in suspense or on which interest accrual has ceased and the percentages of such advances to total advances to customers are analysed as follows:

	30/6/2003 (audited)		31/12/2002 (audited)	
	HK\$'000	%	HK\$'000	%
Gross advances	889,690	2.80	774,227	2.54
Less: suspended interest capitalised/received	<u>(79,603)</u>		<u>(69,708)</u>	
	810,087		704,519	
Specific provisions (Note)	<u>(204,030)</u>		<u>(139,485)</u>	
	<u>606,057</u>		<u>565,034</u>	
Suspended interest	<u>96,595</u>		<u>85,876</u>	

Note :

The specific provisions were made after taking into account the value of collateral in respect of such advances as at 30th June 2003 and 31st December 2002.

e 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:

	30/6/2003 (unaudited)		31/12/2002 (unaudited)	
	HK\$'000	%	HK\$'000	%
Gross amount of advances which have been overdue for				
- six months or less but over three months	104,913	0.36	77,347	0.28
- one year or less but over six months	57,589	0.20	44,394	0.16
- over one year	<u>85,555</u>	<u>0.30</u>	<u>87,430</u>	<u>0.31</u>
	<u>248,057</u>	<u>0.86</u>	<u>209,171</u>	<u>0.75</u>
Secured overdue advances	168,221		159,768	
Unsecured overdue advances	<u>79,836</u>		<u>49,403</u>	
	<u>248,057</u>		<u>209,171</u>	
Market value of security held against the secured overdue advances	<u>197,015</u>		<u>209,395</u>	
Specific provisions made	<u>84,871</u>		<u>50,343</u>	

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

	30/6/2003 (unaudited)		31/12/2002 (unaudited)	
	HK\$'000	%	HK\$'000	%
Rescheduled advances	<u>202,297</u>	0.70	<u>222,792</u>	0.80

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

	30/6/2003 (unaudited) HK\$'000	31/12/2002 (unaudited) HK\$'000
Gross amount of overdue advances (item e)	248,057	209,171
Less: gross amount of advances which are overdue for more than three months and on which interest is still being accrued	20,351	9,011
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>582,381</u>	<u>504,359</u>
Gross amount of non-performing advances (item d)	<u>810,087</u>	<u>704,519</u>

h The amount of trade bills which have been overdue for:

	30/6/2003 (unaudited) HK\$'000	31/12/2002 (unaudited) HK\$'000
- six months or less but over three months	<u>790</u>	<u>2,736</u>

i Off balance sheet exposures

(1) Contingent liabilities and commitments

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

	30/6/2003 (audited) HK\$'000	31/12/2002 (audited) HK\$'000
Direct credit substitutes	1,542,466	1,327,393
Trade-related contingencies	4,014,537	3,984,519
Other commitments with an original maturity of:		
- under 1 year or which are unconditionally cancellable	17,901,402	18,028,086
- 1 year and over	<u>2,859,107</u>	<u>3,151,568</u>
	<u>26,317,512</u>	<u>26,491,566</u>

(2) Derivatives

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

	30/6/2003 (audited) HK\$'000	31/12/2002 (audited) HK\$'000
Exchange rate contracts		
Forward contracts	5,047,044	6,610,466
Interest rate contracts		
Interest rate swaps	<u>2,948,460</u>	<u>3,282,757</u>
	<u>7,995,504</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.

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 period and accordingly the following amounts are shown on a gross basis.

As at 30th June 2003 and 31st December 2002 the contract amounts, credit risk weighted amounts and replacement costs of the above off balance sheet exposures are as follows:

	Contract amount 30/6/2003 (audited) HK\$'000	Credit risk weighted amount 30/6/2003 (audited) HK\$'000	Replacement cost 30/6/2003 (audited) HK\$'000	Contract amount 31/12/2002 (audited) HK\$'000	Credit risk weighted amount 31/12/2002 (audited) HK\$'000	Replacement cost 31/12/2002 (audited) HK\$'000
Contingent liabilities and commitments	26,317,512	3,727,162		26,491,566	3,646,370	
Derivatives						
- Exchange rate contracts	5,047,044	47,407	67,411	6,610,466	47,880	61,591
- Interest rate contracts	<u>2,948,460</u>	<u>17,256</u>	<u>20,387</u>	<u>3,282,757</u>	<u>31,112</u>	<u>51,328</u>
	<u>34,313,016</u>	<u>3,791,825</u>	<u>87,798</u>	<u>36,384,789</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.

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.

j Capital adequacy and liquidity ratios

	30/6/2003 (unaudited)	As restated 31/12/2002 (unaudited)
Capital adequacy ratio	<u>23%</u>	<u>22%</u>
Adjusted capital adequacy ratio	<u>23%</u>	<u>22%</u>

The capital adequacy ratio at the end of the financial period 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 at the end of the financial period computed in accordance with the Guideline "Maintenance of Adequate Capital Against Market Risks" issued by the Hong Kong Monetary Authority.

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

	30/6/2003 (unaudited) HK\$'000	As restated 31/12/2002 (unaudited) HK\$'000
Core capital		
Paid up ordinary share capital	2,000,000	2,000,000
Reserves	6,663,211	6,162,076
Profit and loss account	<u>478,635</u>	<u>491,432</u>
	9,141,846	8,653,508
	-----	-----
Supplementary capital		
Reserves on revaluation of land and interests in land	712,261	728,925
Reserves on revaluation of holding of securities not held for trading purposes	(34,787)	(46,214)
General provisions for doubtful debts	<u>386,709</u>	<u>373,889</u>
Total gross and eligible value of supplementary capital	<u>1,064,183</u>	<u>1,056,600</u>
	-----	-----
Total capital base before deductions	10,206,029	9,710,108
	-----	-----
Deductions from total capital base		
Shareholdings in subsidiaries or holding company	(51,198)	(52,082)
Exposures to connected companies	(87,489)	(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	<u>(224,696)</u>	<u>(225,540)</u>
	(387,983)	(389,709)
	-----	-----
Total capital base after deductions	<u>9,818,046</u>	<u>9,320,399</u>
	-----	-----
	Six months ended 30/6/2003 (unaudited)	Six months ended 30/6/2002 (unaudited)
Liquidity ratio	<u>75%</u>	<u>61%</u>

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

k 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:

	Total advances		Non-performing advances		Overdue advances	
	30/6/2003	31/12/2002	30/6/2003	31/12/2002	30/6/2003	31/12/2002
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	24,268,000	23,349,000	810,000	691,000	247,000	195,000
North America	3,397,000	3,205,000	-	14,000	1,000	14,000

l 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):

30/6/2003

	Banks and	Public	Others	Total
	other financial	sector entities	(unaudited)	(unaudited)
	institutions	(unaudited)	(unaudited)	(unaudited)
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Asia & Pacific excluding Hong Kong	5,912,000	-	433,000	6,345,000
North America	3,613,000	2,876,000	600,000	7,089,000
Western Europe	17,500,000	89,000	753,000	18,342,000

31/12/2002

	Banks and	Public	Others	Total
	other financial	sector entities	(unaudited)	(unaudited)
	institutions	(unaudited)	(unaudited)	(unaudited)
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	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

m The amount of repossessed assets held

	30/6/2003	31/12/2002
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Repossessed assets	22,141	19,010

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.

n Foreign currency position

30/6/2003

	Spot assets (unaudited) HK\$'000	Spot liabilities (unaudited) HK\$'000	Forward purchases (unaudited) HK\$'000	Forward sales (unaudited) HK\$'000	Net long/ (short) positions (unaudited) HK\$'000
US Dollars	30,970,000	(28,413,000)	2,258,000	(2,373,000)	2,442,000
Pound Sterling	1,742,000	(1,758,000)	85,000	(42,000)	27,000
Canadian Dollars	1,946,000	(1,956,000)	34,000	(22,000)	2,000
Other currencies and gold	5,112,000	(5,193,000)	1,423,000	(1,396,000)	(54,000)
	<u>39,770,000</u>	<u>(37,320,000)</u>	<u>3,800,000</u>	<u>(3,833,000)</u>	<u>2,417,000</u>

31/12/2002

	Spot assets (unaudited) HK\$'000	Spot liabilities (unaudited) HK\$'000	Forward purchases (unaudited) HK\$'000	Forward sales (unaudited) HK\$'000	Net long positions (unaudited) 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>

o 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:

(1) Deferred tax liabilities

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

	General provisions for bad and doubtful debts (audited) HK\$'000	Accelerated tax depreciation (audited) HK\$'000	Reserves (audited) HK\$'000	Others (audited) HK\$'000	Total (audited) HK\$'000
At 1st January 2003	64,484	(7,673)	(200,944)	(4,914)	(149,047)
Credited /(charged) to profit and loss account	12,039	(871)	-	(2,168)	9,000
Charged to equity	-	-	(20,395)	-	(20,395)
At 30th June 2003	<u>76,523</u>	<u>(8,544)</u>	<u>(221,339)</u>	<u>(7,082)</u>	<u>(160,442)</u>
	General provisions for bad and doubtful debts (audited) HK\$'000	Accelerated tax depreciation (audited) HK\$'000	Reserves (audited) HK\$'000	Others (audited) HK\$'000	Total (audited) HK\$'000
At 1st January 2002	63,002	(11,395)	(201,009)	(3,913)	(153,315)
Credited /(charged) to profit and loss account	1,482	3,722	-	(142)	5,062
Credited to equity	-	-	65	-	65
Reclassification from provision for corporation tax	-	-	-	(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 six months ended 30th June 2003 has resulted in a net increase of HK\$13,493,000 in deferred tax liabilities brought forward from last year.

o Deferred taxation (continued)

(2) Deferred tax assets

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

	General provisions for bad and doubtful debts (audited) HK\$'000	Accelerated tax depreciation (audited) HK\$'000	Others (audited) HK\$'000	Total (audited) HK\$'000
At 1st January 2003	27,831	(1,894)	160	26,097
Credited to profit and loss account	876	-	689	1,565
Exchange differences	80	(31)	(1)	48
At 30th June 2003	<u>28,787</u>	<u>(1,925)</u>	<u>848</u>	<u>27,710</u>
	General provisions for bad and doubtful debts (audited) HK\$'000	Accelerated tax depreciation (audited) HK\$'000	Others (audited) HK\$'000	Total (audited) HK\$'000
At 1st January 2002	16,215	(1,588)	2,366	16,993
Credited /(charged) to profit and loss account	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 equity during the financial period is as follows:

	Six months ended 30/6/2003 (audited) HK\$'000	Six months ended 30/6/2002 (audited) HK\$'000
Reserves in shareholders' equity		
- property revaluation reserve	17,488	(1,338)
- investment revaluation reserve / (deficit)	2,907	1,305
	<u>20,395</u>	<u>(33)</u>

Deferred taxation of HK\$1,106,000 (2002: HK\$1,216,000) was transferred within shareholders' equity from property revaluation reserve to retained profits. This represents deferred taxation on the difference between the actual depreciation on properties and the equivalent depreciation based on historical cost of properties.

The effect of change in tax rates from 16% to 17.5% for Hong Kong during the period 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.

REVIEW OF OPERATIONS

Shanghai Commercial Bank Limited (“the Group”) registered a decrease of 1.7% in its consolidated profit attributable to shareholders for the first half of 2003. The net interest income of the Group decreased by 0.8% as compared with the first half of 2002, whereas the Group’s other operating income increased by 19.8%. Meanwhile, the operating expenses of the Group decreased by 15.8% because of decreases in staff expenses, building expenses and rental expenses. As bad debts inevitably rise as a result of increasing business failures, rising unemployment and falling value of collateral properties, the charge for bad and doubtful debts of the Group for the first half of 2003 increased by 75.8% from that of the same period in 2002.

During the first half of 2003, the operating environment of the local banking sector turned out to be much worse than what had been originally expected especially because of the outbreak of severe acute respiratory syndrome (“SARS”) which had an adverse impact on the Group’s efforts to solicit new business and enlarge its customer base. The Group continued to offer a comprehensive range of financing services for the small and medium-sized enterprises (“SME”). The Group participated in both the Small and Medium Enterprises Loan Guarantee Scheme and the Loan Guarantee Scheme for Severe Acute Respiratory Syndrome Impacted Industries, which were launched by the Hong Kong SAR Government in March 2003 and April 2003 respectively. Enhancements were made to the functions of the Group’s Corporate Internet Banking services which had become increasingly popular among its corporate clients because of its advanced functions. Meanwhile, the Group managed to increase its fees and commission income notwithstanding that its efforts to market wealth management and insurance products had been hampered by the reduction in branch traffic because of the SARS epidemic.

STATEMENT OF COMPLIANCE

The above information is prepared in accordance with and fully complies with the recommended disclosures set out in the “Interim Financial Disclosure by Locally Incorporated Authorized Institutions ” issued by the Hong Kong Monetary Authority on 8th November 2002.