

浙江第一有限公司

CHEKIANG FIRST LIMITED

(前名為浙江第一銀行有限公司)
(formerly known as CHEKIANG FIRST BANK LTD.)
(Incorporated in Hong Kong)

Accountants' Report for the six months ended 30 June 2003

The following is the text of a report, prepared by and received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong. A copy of the accountants' report is available for inspection.



8th Floor
Prince's Building
10 Chater Road
Hong Kong

20 December 2004

The Directors
Wing Hang Bank, Limited

Dear Sirs,

Pursuant to a conditional acquisition agreement (the "Acquisition Agreement") entered into between Wing Hang Bank, Limited ("WHB") and Mizuho Corporate Bank, Ltd ("Mizuho") dated 31 July 2003, WHB agreed to acquire the entire issued share capital of Chekiang First Limited (formerly known as Chekiang First Bank Limited) ("CFB" or "the Bank") for a consideration of HK\$4,800 million.

We set out below our report on the financial information relating to CFB and its subsidiaries (hereinafter collectively referred to as the "CFB Group"), including the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement of the CFB Group for the six months ended 30 June 2003 (the "Relevant Period"), the consolidated balance sheet of the CFB Group and the balance sheet of CFB as at 30 June 2003, and the notes thereto (collectively, the "Financial Information").

We have examined the audited financial statements of the CFB Group for the Relevant Period in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountants" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The financial statements of the CFB Group for the year ended 31 December 2002 were audited by Deloitte Touche Tahmatsu.

The directors of the Bank are responsible for the preparation of the Financial Information which gives a true and fair view. The Financial Information has been prepared based on the audited financial statements on the basis set out in Section A below, after making such adjustments as are appropriate. In preparing the Financial Information and financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

In our opinion, for the purpose of this report, and on the basis of presentation set out in Section A below, all adjustments considered necessary have been made and the Financial Information gives a true and fair view of the consolidated results and cash flows of the CFB Group for the Relevant Period and of the state of affairs of CFB and the CFB Group as at 30 June 2003 and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong.

A. Basis of presentation

The Financial Information has been prepared by the Directors of the Bank (the "Directors") based on the audited financial statements and, where appropriate, the unaudited management accounts of the CFB Group. Adjustments have been made, for the purpose of this report, to restate the financial statements of CFB in accordance with the basis set out in note 3 of Section C below to conform with accounting principles generally accepted in Hong Kong ("HK GAAP") and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Financial Information for the six months ended 30 June 2002 is unaudited and is included for reference only.

B. Consolidated Financial Statements

1. Consolidated income statement

For the six months ended 30 June 2003

(Expressed in Hong Kong dollars)

		2003	2002
		'000	(unaudited) (restated) '000
	Note		
Interest income		\$ 371,186	\$ 409,092
Interest expense		(133,679)	(171,226)
Net interest income		<u>\$ 237,507</u>	<u>\$ 237,866</u>
Commission income		\$ 62,527	\$ 56,294
Commission expense		(1,881)	(2,088)
Net commission income		<u>\$ 60,646</u>	<u>\$ 54,206</u>
Other operating income	5	<u>\$ 43,401</u>	<u>\$ 27,630</u>
Operating income		<u>\$ 341,554</u>	<u>\$ 319,702</u>
Operating expenses	6	<u>(178,645)</u>	<u>(183,760)</u>
Operating profit before provisions		\$ 162,909	\$ 135,942
Charge for bad and doubtful debts			
– general provision	15	2,844	–
– specific provision	15	(63,669)	(10,418)
Operating profit		<u>\$ 102,084</u>	<u>\$ 125,524</u>
Loss on disposal of fixed assets		(11,556)	(1,178)
Deficit on revaluation of properties		(8,098)	–
Impairment loss on fixed assets		<u>(58,588)</u>	<u>–</u>
Profit from operations		\$ 23,842	\$ 124,346
Net share of results of jointly controlled entities		<u>(1,365)</u>	<u>–</u>
Profit from ordinary activities before taxation		\$ 22,477	124,346
Income tax	8	<u>(15,329)</u>	<u>(23,264)</u>
Profit attributable to the shareholders		<u>\$ 7,148</u>	<u>\$ 101,082</u>
Earnings per share	11	<u>HK\$ 0.29</u>	<u>HK\$ 4.04</u>

2. **Consolidated balance sheet as at 30 June 2003**
(Expressed in Hong Kong dollars)

		30 June 2003	31 December 2002 (restated)
	Note	'000	'000
Assets			
Cash and short-term funds	12	\$ 8,910,633	\$ 9,959,167
Placements with banks and financial institutions maturing between one and twelve months		2,101,781	3,166,619
Certificates of deposit held	13	30,000	127,990
Bills receivable		178,489	157,253
Advances to customers and other accounts	14	13,514,775	13,262,247
Interests in jointly controlled entities	17	75,134	76,500
Investments in securities	18	326,952	319,946
Fixed assets	19	509,369	663,676
		<u> </u>	<u> </u>
Total assets		<u><u>\$ 25,647,133</u></u>	<u><u>\$ 27,733,398</u></u>
Liabilities			
Deposits and balances of banks and financial institutions		\$ 1,098,735	\$ 1,167,108
Deposits from customers	20	20,271,929	22,104,554
Certificates of deposit issued		100,000	100,000
Bills payable		148,740	185,566
Deferred tax liabilities		23,133	32,061
Other accounts and provisions	21	182,255	212,794
		<u> </u>	<u> </u>
Total liabilities		<u><u>\$ 21,824,792</u></u>	<u><u>\$ 23,802,083</u></u>
Capital resources			
Share capital	22	\$ 2,500,000	\$ 2,500,000
Reserves	23	1,322,341	1,431,315
		<u> </u>	<u> </u>
Shareholders' funds		<u><u>\$ 3,822,341</u></u>	<u><u>\$ 3,931,315</u></u>
		<u> </u>	<u> </u>
Total liabilities and capital resources		<u><u>\$ 25,647,133</u></u>	<u><u>\$ 27,733,398</u></u>

3. **Balance sheet as at 30 June 2003**
(Expressed in Hong Kong dollars)

	Note	30 June 2003 '000	31 December 2002 (restated) '000
Assets			
Cash and short-term funds	12	\$ 8,810,627	\$ 9,861,212
Placements with banks and financial institutions maturing between one and twelve months		2,101,781	3,166,619
Certificates of deposit held	13	30,000	127,990
Bills receivable		178,489	157,253
Advances to customers and other accounts	14	13,502,092	13,265,565
Amounts due from subsidiary companies		102,201	110,720
Investments in subsidiary companies	16	146,907	146,907
Interests in jointly controlled entities	17	99,425	99,425
Investments in securities	18	326,952	319,946
Fixed assets	19	325,377	455,209
Total assets		\$ 25,623,851	\$ 27,710,846
Liabilities			
Deposits and balances of banks and financial institutions		\$ 1,098,735	\$ 1,167,108
Deposits from customers	20	19,513,539	21,342,217
Certificates of deposit issued		100,000	100,000
Bills payable		148,740	185,566
Deferred tax liabilities		11,395	23,607
Other accounts and provisions	21	154,868	200,860
Amounts due to subsidiary companies		926,711	950,123
Total liabilities		\$ 21,953,988	\$ 23,969,481
Capital resources			
Share capital	22	\$ 2,500,000	\$ 2,500,000
Reserves	23	1,169,863	1,241,365
Shareholders' funds		\$ 3,669,863	\$ 3,741,365
Total liabilities and capital resources		\$ 25,623,851	\$ 27,710,846

4. **Consolidated statement of changes in equity for the six months ended 30 June 2003**
(Expressed in Hong Kong dollars)

	2003	2002
	'000	(unaudited) (restated) '000
Balance at 1 January		
– As previously reported	\$ 3,940,570	\$ 3,863,962
– Prior period adjustment arising from change in accounting policy for deferred tax	(9,255)	(17,096)
	<u>3,931,315</u>	<u>3,846,866</u>
– As restated	\$ 3,931,315	\$ 3,846,866
Surplus on revaluation of premises held for own use, net of deferred tax		
– As previously reported		\$ (65)
– Prior period adjustment arising from change in accounting policy for deferred tax		126
		<u>126</u>
(Deficit)/surplus on revaluation of premises held for own use, net of deferred tax (2002: as restated)	\$ (58,547)	\$ 61
Surplus/(deficit) on revaluation of investment properties	9,769	(40)
Realised profit on disposal of investment properties	660	627
Exchange differences on translation of the financial statements of overseas branches and subsidiaries	(4)	–
	<u>(48,122)</u>	<u>648</u>
Net (losses)/gains not recognised in the income statement	\$ (48,122)	\$ 648
Net profit for the period		
– As previously reported		\$ 101,396
– Prior period adjustment in respect of deferred taxation		(314)
		<u>101,082</u>
– Profit attributable to shareholders (2002: as restated)	\$ 7,148	\$ 101,082
Appropriations		
Final dividends paid	\$ (68,000)	\$ (75,000)
	<u>(68,000)</u>	<u>(75,000)</u>
Balance at 30 June	<u>\$ 3,822,341</u>	<u>\$ 3,873,596</u>

5. **Consolidated cash flow statement for the six months ended 30 June 2003**
(Expressed in Hong Kong dollars)

	2003	2002
	'000	(unaudited) '000
Operating activities		
Profit from operations	\$ 23,842	\$ 124,346
Adjustments for:		
– Charge for bad and doubtful debts	60,825	10,418
– Depreciation	26,016	24,973
– Impairment loss on fixed assets	58,588	–
– Loss on disposal of fixed assets	12,221	1,178
– Deficit on revaluation of properties	8,098	–
– Dividend income from investments in securities	(1,180)	(1,830)
– Gain on disposal of investments in securities	(105)	–
	<hr/>	<hr/>
Operating cash flows before movements in working capital	\$ 188,305	\$ 159,085
(Increase)/decrease in placements with banks and financial institutions maturing after three months when acquired	(19,202)	602,495
Decrease in certificates of deposit held	97,990	–
Increase in bills receivable	(21,236)	(32,561)
Increase in advances to customers and other accounts	(293,793)	(749,285)
Decrease in deposits and balances of banks and financial institutions repayable after three months from the date of advance	(102,869)	–
Decrease in deposits from customers	(1,832,625)	(449,888)
(Decrease)/increase in bills payable	(36,826)	41,629
Decrease in other accounts and provisions	(79,182)	(292,354)
Exchange adjustments	1,040	1,301
	<hr/>	<hr/>
Cash used in operations carried forward	\$ (2,098,398)	\$ (719,578)
Hong Kong Profits Tax paid	(325)	(16,223)
Overseas tax paid	–	(189)
Tax refund	4,430	–
	<hr/>	<hr/>
Net cash used in operating activities	\$ (2,094,293)	\$ (735,990)
	-----	-----
Investing activities		
Purchase of fixed assets	\$ (14,901)	\$ (31,647)
Purchases of held-to-maturity securities	(7,086)	(38,984)
Proceeds from redemption of held-to-maturity securities	73	–
Proceeds from disposal of investments in securities	112	–
Proceeds from disposal of fixed assets	15,845	4,677
Dividend received from investments in securities	1,180	1,830
	<hr/>	<hr/>
Net cash used in investing activities	\$ (4,777)	\$ (64,124)
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	2003 '000	2002 (unaudited) '000
Financing activities		
Dividends paid	\$ (68,000)	\$ (75,000)
	<u> </u>	<u> </u>
Net cash used in financing activities	<u>\$ (68,000)</u>	<u>\$ (75,000)</u>
	<u> </u>	<u> </u>
Net decrease in cash and cash equivalents	\$ (2,167,070)	\$ (875,114)
Cash and cash equivalents at 1 January	<u>11,282,390</u>	<u>11,391,743</u>
Cash and cash equivalents at 30 June	<u>\$ 9,115,320</u>	<u>\$ 10,516,629</u>
Analysis of the balances of cash and cash equivalents		
Cash and balances with banks and other financial institutions	\$ 7,100,792	\$ 8,474,084
Placements with banks and financial institutions maturing within three months when acquired	1,303,422	1,333,982
Treasury bills with original maturity within 3 months	711,106	708,563
	<u> </u>	<u> </u>
	<u>\$ 9,115,320</u>	<u>\$ 10,516,629</u>
Reconciliation with the consolidated balance sheet		
Cash and short-term funds	\$ 8,910,633	\$ 10,109,304
Placements with banks and other financial institutions maturing between one and twelve months	2,101,781	2,655,070
Certificates of deposit held	30,000	139,000
	<u> </u>	<u> </u>
Amount shown in the consolidated balance sheet	\$ 11,042,414	\$ 12,903,374
Less: Amounts with an original maturity of beyond three months	1,927,094	2,386,745
	<u> </u>	<u> </u>
Cash and cash equivalents in the consolidated cash flow statements	<u>\$ 9,115,320</u>	<u>\$ 10,516,629</u>
Cash flows from operating activities include:		
Interest received	\$ 374,773	\$ 433,476
Interest paid	140,761	184,359
	<u> </u>	<u> </u>

C. **Notes to the Financial Statements**
(Expressed in Hong Kong dollars)

1. **General**

Chekiang First Limited (formerly known as Chekiang First Bank Limited) (“CFB”) is a public limited company incorporated in Hong Kong. It is a licensed bank under the Hong Kong Banking Ordinance. Its ultimate holding company is Mizuho Holdings, Inc., incorporated and listed in Japan, and its immediate holding company is Mizuho Corporate Bank, Ltd., incorporated in Japan.

2. **Principal activities**

The principal activities of the Group are the provision of banking and related financial services.

3. **Significant accounting policies**

(a) *Statement of compliance*

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice (“SSAP”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

(b) *Basis of preparation of the financial information*

The measurement basis used in the preparation of the financial information is historical cost modified by the revaluation of premises and investment properties, and the marking to market of certain investments in securities and derivative financial instruments as explained in the accounting policies set out below.

(c) *Revenue recognition*

Interest income is recognised in the income statement as it accrues. Interest income ceases to be accrued for those debts where the contractual payments of principal and/or interest are more than three months in arrears, irrespective of the net realisable value of collateral.

When interest has been placed in suspense or has ceased to be accrued, accrual of interest to the income statement is resumed only if all arrears of principal and interest from the borrower have been cleared and it is probable that the customer is capable of fully servicing his obligations for the foreseeable future.

Fee and commission income is accounted for in the period when receivable, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised on an appropriate basis over the relevant period.

Dividend income from investments is recognised when the Group’s right to receive payment has been established.

(d) *Investments in subsidiaries*

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Bank, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of its board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise. The results of subsidiaries acquired during the period are included in the consolidated income statement from the date of their acquisition.

Investments in subsidiaries are included in the Bank’s balance sheet as cost less any identified impairment loss. Intra-group balances and transactions are eliminated in preparing the consolidated financial statements.

(e) *Jointly controlled entities*

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

The Bank's investments in jointly controlled entities are stated at cost, as reduced by any identified impairment loss. The results of jointly controlled entities are accounted for by the Bank on the basis of dividends received and receivable.

(f) *Fixed assets and depreciation*

Fixed assets other than investment properties are stated at cost or valuation less depreciation and accumulated impairment losses.

Bank premises are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed by professionally qualified valuers with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of bank premises is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is provided to write off the cost or valuation of fixed assets other than investment properties over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, at the following rates per annum:

Land held on leases	Over the terms of the lease
Buildings	2% – 5%
Other properties	Over 18 years from the date of acquisition
Other fixed assets	5% – 20%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the net sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Investment properties are completed properties which are held for their investment potential and any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on professional valuation at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

Profit or loss on disposal of investment properties is calculated as the sale proceeds less the carrying value of the properties. The portion of the revaluation reserve realised in respect of previous valuations is transferred from the investment property revaluation reserve to the income statement for the determination of profit or loss on disposal of investment properties.

(g) *Impairment of assets*

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

(h) *Translation of foreign currencies*

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of overseas subsidiaries which are denominated in currencies other than Hong Kong dollar are translated at the rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. All exchange differences arising on consolidation are dealt with in reserves.

(i) *Advances to customers and other accounts*

Advances to customers, accrued interest and other accounts are stated in the balance sheet after deducting provision for estimated losses. Incentives on advances are amortised over a period of three years.

Provision for bad and doubtful debts is made, having regard to both specific and general risks.

The specific element of the provision relates to those loans that have been individually reviewed and specifically identified as bad or doubtful. Factors which are considered in the determination of specific provision include expected cash flows, financial condition of the borrower and current economic conditions.

The general element of the provision relates to those losses that, although not yet specifically identified, are known from experience to be present in the Group's portfolio of loans and advances. In determining the level of the provision required, management considers numerous factors including, but not limited to, domestic and international economic conditions, the composition of the loan portfolio and prior loan loss experience.

Provisions are applied to write off advances when all securities have been realised and further recoveries are considered unlikely.

Loans with a specific due date are classified as overdue when the principal or interest is overdue and remains unpaid as at the period-end date. Loans repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid as at the period-end date. Loans repayable on demand are categorised as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction or, the loan has remained continuously outside the approved limit that is advised to the borrower for the period in question.

Rescheduled advances refer to those loans that have been restructured or renegotiated due to the deterioration in the financial position of the borrower or the inability of the borrower to meet the original repayment schedule.

Rescheduled advances which have been overdue for more than three months under the revised repayment terms are classified as overdue advances and not as rescheduled advances.

Assets acquired in exchange for advances in order to achieve an orderly realisation continue to be reported as advances. The asset acquired is recorded at the carrying value of the advance disposed of at the date of the exchange and provisions are based on any subsequent deterioration in its value.

(j) *Investments in securities*

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect the irrecoverable amount. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

(k) *Income tax*

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in reserves.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purpose and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax assets and liabilities are not discounted. The carrying amount of deferred tax assets/liabilities is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Bank or the Group has the legally enforceable right to set off current tax assets against current tax liabilities. The principle of offsetting usually applies to income tax levied by the same tax authority on the same taxable entity.

(l) *Employee benefits*

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) The Group operates a defined contribution provident fund and a Mandatory Provident Fund Scheme. Contributions are charged to the income statement as and when the contributions fall due.

(iii) Termination benefits are recognized when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(m) *Cash and cash equivalents*

Cash and cash equivalents comprise cash and balances with banks and other financial institutions, and short-term, highly liquid inter-bank placements and investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(n) *Off-balance sheet financial instruments*

Off-balance sheet financial instruments, which include forward contracts, interest rate swaps and similar derivative products, are recognised on a trade date basis and are initially measured at cost. Off-balance sheet financial instruments outstanding at the period end, except for those designated as hedges, are valued at fair value, with unrealised gains and losses included in the income statement. Gains and losses related to those financial instruments that are designated as hedges are dealt with in accordance with the accounting treatment applicable to the position hedged. To qualify as a hedge, the derivative must effectively reduce the price or interest rate risk of the asset, liability or anticipated transaction to which it is linked and be designated as a hedge at inception of the derivative contract. Accordingly, changes in the market value of the derivative must be highly correlated with changes in the market value of the underlying hedged item at inception of the hedge and over the life of the hedge contract.

(o) *Fiduciary assets*

The assets of staff provident funds and assets held in trust in a fiduciary capacity are not assets of the Group and accordingly are not included in the financial statements.

(p) *Provisions and contingent liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the Bank or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) *Related parties*

For the purposes of these financial information, 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. Related parties may be individuals or other entities.

4. **Change in accounting policies**

In prior periods, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) issued by the Hong Kong Institute of Certified Public Accountants, the Group adopted a new policy for deferred tax as set out in note 3(k). As a result of the adoption of this accounting policy, the Group's profit for the period has been increased by \$8,605,000 (2002: \$314,000) and the net assets as at the period/year end have been decreased by \$23,133,000 (2002: \$9,255,000).

The new accounting policy has been adopted retrospectively, with the opening balances of retained profits and reserves and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.

5. Other operating income	Six months ended 30 June	
	2003	2002
	'000	(unaudited) '000
Net gain from dealing in foreign currencies	\$ 13,762	\$ 10,737
Net gain on other investments	105	16
Dividend income from investments in unlisted securities	1,180	1,830
Rental income	5,071	1,327
Other income	23,283	13,720
	<u>\$ 43,401</u>	<u>\$ 27,630</u>

6. Operating expenses	Six months ended 30 June	
	2003	2002
	'000	(unaudited) '000
Staff costs	\$ 92,552	\$ 101,944
Premises and equipment		
Rental of premises under operating leases	\$ 11,504	\$ 7,745
Depreciation	26,016	24,973
Other expenses	17,640	14,887
	<u>\$ 55,160</u>	<u>\$ 47,605</u>
Other operating expenses		
Auditors' remuneration	\$ 727	\$ 675
Printing and stationery	2,525	3,605
Bank and other licences	4,436	4,615
Business promotion	1,333	2,349
Newspaper and subscriptions	3,285	3,166
Problem loan expenses	1,787	1,808
Travelling and car expenses	1,285	1,442
Clearing house fee	1,597	1,689
Credit card expenses	3,139	3,002
Others	10,819	11,860
	<u>\$ 30,933</u>	<u>\$ 34,211</u>
	<u>\$ 178,645</u>	<u>\$ 183,760</u>

7. **Directors' and employees' emoluments**

(a) *Directors' emoluments*

	June 2003			June 2002 (unaudited)		
	Executive '000	Others '000	Total '000	Executive '000	Others '000	Total '000
Directors						
Fees	\$ 750	\$ 1,180	\$ 1,930	\$ 203	\$ 449	\$ 652
Other emoluments:						
– Salaries and other benefits	18,568	871	19,439	11,162	956	12,118
– Contributions to retirement benefits scheme	418	23	441	363	23	386
	<u>418</u>	<u>23</u>	<u>441</u>	<u>363</u>	<u>23</u>	<u>386</u>
Total emoluments	<u>\$ 19,736</u>	<u>\$ 2,074</u>	<u>\$ 21,810</u>	<u>\$ 11,728</u>	<u>\$ 1,428</u>	<u>\$ 13,156</u>

Included in the directors' remuneration were fees of \$480,000 (2002: \$195,000) paid to independent non-executive directors during the period.

The remuneration of the directors were within the following bands:

	Number of directors	
	2003	2002
Nil – \$1,000,000	8	7
\$1,000,001 – \$1,500,000	1	2
\$1,500,001 – \$2,000,000	1	–
\$2,000,001 – \$2,500,000	–	1
\$5,000,001 – \$5,500,000	1	1
\$11,000,001 – \$11,500,000	1	–
	<u>1</u>	<u>–</u>

(b) *Individuals with highest emoluments*

The five highest paid employees for the period include four directors, details of whose emoluments are set out in note 7(a) above. The emoluments of the remaining individual are as follows:

	June 2003	June 2002 (unaudited)
	'000	'000
Salaries and other emoluments	<u>\$ 1,443</u>	<u>\$ 1,290</u>

The emoluments of the executive are within the following band:

	Number of executives	
	2003	2002 (unaudited)
\$1,000,001 – \$1,500,000	<u>1</u>	<u>1</u>

8. **Income tax**

(a) *Taxation in the consolidated income statement represents:*

	2003 '000	2002 (unaudited) '000
Current tax – Provision for Hong Kong Profits Tax		
Tax for the period	\$ 14,294	\$ 22,177
Under-provision in respect of prior periods	9,237	119
	<u>\$ 23,531</u>	<u>\$ 22,296</u>
Current tax – Overseas		
Tax for the period	\$ 403	\$ 654
	<u>403</u>	<u>654</u>
Deferred tax		
Origination and reversal of temporary differences	\$ (8,336)	\$ 314
Effect of increase in tax rate on deferred tax balances at 1 January	(269)	–
	<u>\$ (8,605)</u>	<u>\$ 314</u>
	<u>\$ 15,329</u>	<u>\$ 23,264</u>

In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase is taken into account in the preparation of the Group's 2003 financial statements. Accordingly, the provision for Hong Kong Profits Tax for 2003 is calculated at 17.5% (2002: 16%) of the estimated assessable profits for the period. Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

(b) *Reconciliation between tax expense and accounting profit at applicable tax rates:*

	2003		2002 (unaudited)	
	'000	%	'000	%
Profit before tax	<u>\$ 22,477</u>		<u>\$ 124,346</u>	
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	\$ 4,595	20.4	\$ 20,418	16.4
Tax effect of non-deductible expenses	1,457	6.5	1,924	1.5
Tax effect of non-taxable revenue	(742)	(3.2)	(69)	–
Tax effect of unused tax losses not recognised	8	–	–	–
Effect on opening deferred tax balances resulting from an increase in tax rate during the period	(269)	(1.2)	–	–
Tax effect of unused tax losses utilised this period	(60)	(0.3)	(91)	–
Under-provision in prior periods	9,237	41.1	119	0.1
Others	1,103	4.9	963	0.7
	<u>\$ 15,329</u>	<u>68.2</u>	<u>\$ 23,264</u>	<u>18.7</u>
Actual tax expense				

(c) Tax provision in the balance sheets are as follows:

	The Group		The Bank	
	2003	2002	2003	2002
	'000	(restated) '000	'000	(restated) '000
Included in "Other accounts and provisions"				
Current tax payable	<u>\$ 48,533</u>	<u>\$ 19,448</u>	<u>\$ 32,533</u>	<u>\$ 5,570</u>

All current tax payable are expected to be settled within 1 year.

(d) *Deferred tax assets and liabilities recognised:*

The Group

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the period/year are as follows:

	Depreciation allowances in excess of related depreciation '000	Revaluation of properties '000	Provisions '000	Total '000
Deferred tax arising from:				
At 1 January 2003				
– as previously reported	\$ 22,806	\$ –	\$ –	\$ 22,806
– prior period adjustments	(4,492)	34,934	(21,187)	9,255
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
– as restated	\$ 18,314	\$ 34,934	\$ (21,187)	\$ 32,061
Charged/(credited) to consolidated income statement	(9,022)	–	417	(8,605)
Credited to reserves	–	(323)	–	(323)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 June 2003	<u>\$ 9,292</u>	<u>\$ 34,611</u>	<u>\$ (20,770)</u>	<u>\$ 23,133</u>
At 1 January 2002				
– as previously reported	\$ 14,402	\$ –	\$ –	\$ 14,402
– prior period adjustments	3,351	35,585	(21,840)	17,096
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
– as restated	\$ 17,753	\$ 35,585	\$ (21,840)	\$ 31,498
Charged to consolidated income statement	561	–	653	1,214
Credited to reserves	–	(651)	–	(651)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2002	<u>\$ 18,314</u>	<u>\$ 34,934</u>	<u>\$ (21,187)</u>	<u>\$ 32,061</u>

The Bank

The components of deferred tax (assets)/liabilities recognised in the balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of related depreciation '000	Revaluation of properties '000	Provisions '000	Total '000
Deferred tax arising from:				
At 1 January 2003				
– as previously reported	\$ 21,904	\$ –	\$ –	\$ 21,904
– prior period adjustments	(1,835)	24,725	(21,187)	1,703
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
– as restated	\$ 20,069	\$ 24,725	\$ (21,187)	\$ 23,607
Charged/(credited) to income statement	(9,603)	–	417	(9,186)
Credited to reserves	–	(3,026)	–	(3,026)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 June 2003	<u>\$ 10,466</u>	<u>\$ 21,699</u>	<u>\$ (20,770)</u>	<u>\$ 11,395</u>
At 1 January 2002				
– as previously reported	\$ 13,500	\$ –	\$ –	\$ 13,500
– prior period adjustments	5,343	25,152	(21,840)	8,655
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
– as restated	\$ 18,843	\$ 25,152	\$ (21,840)	\$ 22,155
Charged to income statement	1,226	–	653	1,879
Credited to reserves	–	(427)	–	(427)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2002	<u>\$ 20,069</u>	<u>\$ 24,725</u>	<u>\$ (21,187)</u>	<u>\$ 23,607</u>
	The Group		The Bank	
	2003	2002	2003	2002
	'000	'000	'000	'000
Net deferred tax liabilities recognised on the balance sheet	<u>\$ 23,133</u>	<u>\$ 32,061</u>	<u>\$ 11,395</u>	<u>\$ 23,607</u>

(e) *Deferred tax assets not recognised:*

The Group has not recognised deferred tax assets in respect of tax losses of \$226,000 (2002: \$214,000). The tax losses do not expire under current tax legislation.

9. Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a profit of \$21,985,000 (2002 (unaudited): \$95,935,000) which has been dealt with in the financial statements of the Bank.

10. Dividends

	Six months ended 30 June	
	2003 '000	2002 '000
Interim dividend declared		
– \$Nil and \$1.40 per share for each of the six months ended 30 June 2003 and 2002 respectively	<u>\$ –</u>	<u>\$ 35,000</u>

11. Earnings per share

The calculation of earnings per share is based on the consolidated profit attributable to shareholders for periods ended 30 June 2003 and 30 June 2002 of \$7,148,000 and \$101,082,000 respectively and on 25,000,000 ordinary shares in issue as at 30 June 2003 and 30 June 2002.

12. Cash and short-term funds*(a)*

	The Group		The Bank	
	As at 30 June 2003 '000	As at 31 December 2002 '000	As at 30 June 2003 '000	As at 31 December 2002 '000
Cash in hand and balances with banks and financial institutions maturing within one month	\$ 141,003	\$ 166,049	\$ 138,893	\$ 164,406
Money at call and short notice	8,058,524	9,085,728	7,960,628	8,989,416
Treasury bills (including Exchange Fund Bills)	711,106	707,390	711,106	707,390
	<u>\$ 8,910,633</u>	<u>\$ 9,959,167</u>	<u>\$ 8,810,627</u>	<u>\$ 9,861,212</u>

(b) The analysis of treasury bills (including Exchange Fund Bills) is as follows:

	The Group and the Bank	
	As at 30 June 2003 '000	As at 31 December 2002 '000
Held-to-maturity securities – unlisted	<u>\$ 711,106</u>	<u>\$ 707,390</u>
Issued by: Central governments and central banks	<u>\$ 711,106</u>	<u>\$ 707,390</u>

13. Certificates of deposit held

	The Group and the Bank	
	As at 30 June 2003 '000	As at 31 December 2002 '000
Unlisted held-to-maturity, at amortised cost	<u>\$ 30,000</u>	<u>\$ 127,990</u>

14. **Advances to customers and other accounts**

(a) *Advances to customers and other accounts are as follows:*

	The Group		The Bank	
	As at 30 June 2003 '000	As at 31 December 2002 '000	As at 30 June 2003 '000	As at 31 December 2002 '000
Gross advances to customers (note 31)	\$13,642,091	\$13,311,019	\$13,641,431	\$13,310,087
Less: Provision for bad and doubtful debts (note 15)				
– General	121,366	124,210	121,268	124,112
– Specific	124,972	63,465	124,972	63,465
	<u>\$13,395,753</u>	<u>\$13,123,344</u>	<u>\$13,395,191</u>	<u>\$13,122,510</u>
Accrued interest	39,776	43,362	39,783	43,370
Other accounts	79,246	95,541	67,118	99,685
	<u>\$13,514,775</u>	<u>\$13,262,247</u>	<u>\$13,502,092</u>	<u>\$13,265,565</u>

(b) *Non-performing advances to customers on which interest has been placed in suspense or on which interest accrual has ceased are as follows:*

	The Group		The Bank	
	As at 30 June 2003 '000	As at 31 December 2002 '000	As at 30 June 2003 '000	As at 31 December 2002 '000
Gross non-performing advances to customers	\$ 328,917	\$ 382,648	\$ 328,917	\$ 382,648
Less: Specific provision	108,469	62,874	108,469	62,874
	<u>\$ 220,448</u>	<u>\$ 319,774</u>	<u>\$ 220,448</u>	<u>\$ 319,774</u>
Gross non-performing advances as a % of gross advances to customers	<u>2.4%</u>	<u>2.9%</u>	<u>2.4%</u>	<u>2.9%</u>

15. Provision for bad and doubtful debts

	Six months ended 30 June 2003			Suspended interest '000
	Specific '000	General '000	Total '000	
The Group				
At 1 January 2003	\$ 63,465	\$ 124,210	\$ 187,675	\$ 1,689
Interest suspended	–	–	–	242
Amounts written off	(2,162)	–	(2,162)	(13)
Amounts recovered	–	–	–	(22)
Charge to income statement	63,669	(2,844)	60,825	–
	<u>\$ 124,972</u>	<u>\$ 121,366</u>	<u>\$ 246,338</u>	<u>\$ 1,896</u>
At 30 June 2003	<u>\$ 124,972</u>	<u>\$ 121,366</u>	<u>\$ 246,338</u>	<u>\$ 1,896</u>
The Bank				
At 1 January 2003	\$ 63,465	\$ 124,112	\$ 187,577	\$ 1,689
Interest suspended	–	–	–	242
Amounts written off	(2,162)	–	(2,162)	(13)
Amounts recovered	–	–	–	(22)
Charge to income statement	63,669	(2,844)	60,825	–
	<u>\$ 124,972</u>	<u>\$ 121,268</u>	<u>\$ 246,240</u>	<u>\$ 1,896</u>
At 30 June 2003	<u>\$ 124,972</u>	<u>\$ 121,268</u>	<u>\$ 246,240</u>	<u>\$ 1,896</u>
	Year ended 31 December 2002			Suspended interest '000
	Specific '000	General '000	Total '000	
The Group				
At 1 January 2002	\$ 59,836	\$ 123,820	\$ 183,656	\$ 1,444
Interest suspended	–	–	–	312
Amounts written off	(28,328)	–	(28,328)	(40)
Amounts recovered	–	–	–	(27)
Charge to income statement	31,957	390	32,347	–
	<u>\$ 63,465</u>	<u>\$ 124,210</u>	<u>\$ 187,675</u>	<u>\$ 1,689</u>
At 31 December 2002	<u>\$ 63,465</u>	<u>\$ 124,210</u>	<u>\$ 187,675</u>	<u>\$ 1,689</u>
The Bank				
At 1 January 2002	\$ 59,836	\$ 123,722	\$ 183,558	\$ 1,444
Interest suspended	–	–	–	312
Amounts written off	(28,328)	–	(28,328)	(40)
Amounts recovered	–	–	–	(27)
Charge to income statement	31,957	390	32,347	–
	<u>\$ 63,465</u>	<u>\$ 124,112</u>	<u>\$ 187,577</u>	<u>\$ 1,689</u>
At 31 December 2002	<u>\$ 63,465</u>	<u>\$ 124,112</u>	<u>\$ 187,577</u>	<u>\$ 1,689</u>

16. Investments in subsidiary companies

	As at 30 June 2003 '000	As at 31 December 2002 '000
The Bank		
Unlisted shares, at cost	<u>\$ 146,907</u>	<u>\$ 146,907</u>

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 3(d) and have been consolidated into the Group's financial statements.

Name	Place of incorporation and operation	Principal activities	Issued ordinary share capital
C.F. Finance Company Limited	Hong Kong	Financial services	HK\$25,000,000
C.F. Overseas, Inc	Delaware, U.S.A.	Property investment	US\$4,500,000
Chekiang First Bank (Luxembourg) S.A.	Luxembourg	Banking and related financial service	US\$10,000,000
Chekiang First Bank (Nominees) Limited	Hong Kong	Nominee service	HK\$10,000
Chekiang First Bank (Trustees) Limited	Hong Kong	Trustee service	HK\$3,000,000
Honfirst Investment Limited	Hong Kong	Futures trading	HK\$13,000,000
Honfirst Land Limited	Hong Kong	Property investment	HK\$27,000,000
Honfirst Property Agency Limited	Hong Kong	Property agency	HK\$5,000,000
Chekiang First Securities Co. Limited	Hong Kong	Share dealing	HK\$6,000,000

The issued share capital of the subsidiary companies is wholly-owned by the Bank directly.

17. Interests in jointly controlled entities

	The Group		The Bank	
	As at 30 June 2003 '000	As at 31 December 2002 '000	As at 30 June 2003 '000	As at 31 December 2002 '000
Unlisted shares, at cost	\$ 59,500	\$ 59,500	\$ 59,500	\$ 59,500
Share of post-acquisition results	(17,480)	(22,925)	–	–
Loans to jointly controlled entities (Note)	39,925	39,925	39,925	39,925
Less: Impairment loss	(6,811)	–	–	–
	<u>\$ 75,134</u>	<u>\$ 76,500</u>	<u>\$ 99,425</u>	<u>\$ 99,425</u>

Note: These loans are unsecured, non-interest bearing, and have no fixed repayment terms, except for a loan amounting to \$31,000,000 which is repayable in 2008.

The following list contains only the particulars of jointly controlled entities which principally affected the results or assets of the Group. All are unlisted.

Name	Form of business structure	Place of incorporation and operation	Principal activities	Class of share held	Proportion of nominal value of issued capital held by the Bank
Joint Electronic Teller Services Limited	Corporate	Hong Kong	Shared ATM network	Ordinary	Note
Bank Consortium Holding Limited	Corporate	Hong Kong	Investment holding	Ordinary	13.33%
Card Alliance Company Limited	Corporate	Hong Kong	Card Transaction processing	Ordinary	33.33%
Net Alliance Co. Limited	Corporate	Hong Kong	Internet banking services	Ordinary	15.00%
Hong Kong Life Insurance Limited	Corporate	Hong Kong	Insurance and reinsurance services	Ordinary	16.67%

Note: The Bank is one of the five founding members which together have a controlling interest in the company. The Bank holds 19.95% of the 'A' ordinary shares issued by the company to its founding members, and is entitled to 2.88% of dividends declared.

18. Investments in securities

Treasury bills and held-to-maturity certificates of deposit are disclosed in notes 12 and 13 respectively. Other held-to-maturity debt securities and investment securities are disclosed as follows:

	The Group and the Bank	
	As at 30 June 2003 '000	As at 31 December 2002 '000
Held-to-maturity debt securities		
At amortised cost less provisions for impairment:		
Listed in Hong Kong	\$ 77,990	\$ 77,990
Listed outside Hong Kong	<u>110,661</u>	<u>103,649</u>
Unlisted	<u>\$ 188,651</u>	<u>\$ 181,639</u>
	144,281	144,281
At amortised cost before provision (<i>note 31</i>)	\$ 332,932	\$ 325,920
Provision for held-to-maturity securities	<u>(6,239)</u>	<u>(6,239)</u>
	<u>\$ 326,693</u>	<u>\$ 319,681</u>
Issued by:		
Central governments and central banks	\$ 20,973	\$ 13,960
Public sector entities	136,482	136,483
Corporate entities	<u>175,477</u>	<u>175,477</u>
	<u>\$ 332,932</u>	<u>\$ 325,920</u>
Market value of listed securities	<u>\$ 204,565</u>	<u>\$ 196,826</u>
Investment securities		
Equity shares:		
Unlisted	<u>\$ 259</u>	<u>\$ 265</u>
Issued by:		
Corporate entities	<u>\$ 259</u>	<u>\$ 265</u>
Total investment in securities	<u>\$ 326,952</u>	<u>\$ 319,946</u>

19. Fixed assets
(a) The Group

	Six months ended 30 June 2003				
	Bank premises '000	Investment properties '000	Other properties '000	Furniture, fixtures, equipment and motor vehicles '000	Total '000
Cost or valuation:					
At 1 January 2003	\$ 367,721	\$ 73,173	\$ 37,022	\$ 412,173	\$ 890,089
Additions	5,320	90	–	9,491	14,901
Disposals	–	(840)	(37,022)	(17,942)	(55,804)
Reclassification	(3,800)	3,611	–	–	(189)
Surplus/(deficit) on revaluation	(102,683)	13,232	–	–	(89,451)
At 30 June 2003	<u>\$ 266,558</u>	<u>\$ 89,266</u>	<u>\$ –</u>	<u>\$ 403,722</u>	<u>\$ 759,546</u>
Comprising:					
At cost	\$ –	\$ –	\$ –	\$ 403,722	\$ 403,722
At valuation in 2003	<u>266,558</u>	<u>89,266</u>	<u>–</u>	<u>–</u>	<u>355,824</u>
	<u>\$ 266,558</u>	<u>\$ 89,266</u>	<u>\$ –</u>	<u>\$ 403,722</u>	<u>\$ 759,546</u>
Accumulated depreciation:					
At 1 January 2003	\$ 22,482	\$ 4,139	\$ 15,110	\$ 184,682	\$ 226,413
Charge for the period	5,719	101	458	19,738	26,016
Impairment loss on fixed assets	–	–	–	58,588	58,588
Written back on disposal	–	–	(15,568)	(12,831)	(28,399)
Reclassification	(189)	–	–	–	(189)
Elimination on revaluation	(28,012)	(4,240)	–	–	(32,252)
At 30 June 2003	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 250,177</u>	<u>\$ 250,177</u>
Net book values:					
At 30 June 2003	<u>\$ 266,558</u>	<u>\$ 89,266</u>	<u>\$ –</u>	<u>\$ 153,545</u>	<u>\$ 509,369</u>
At 31 December 2002	<u>\$ 345,239</u>	<u>\$ 69,034</u>	<u>\$ 21,912</u>	<u>\$ 227,491</u>	<u>\$ 663,676</u>

(b) *The Bank*

	Six months ended 30 June 2003				
	Bank premises '000	Investment properties '000	Other properties '000	Furniture, fixtures, equipment and motor vehicles '000	Total '000
Cost or valuation:					
At 1 January 2003	\$ 213,259	\$ 3,300	\$ 37,022	\$ 404,793	\$ 658,374
Additions	5,047	–	–	9,440	14,487
Disposals	–	–	(37,022)	(17,702)	(54,724)
Reclassification	(3,800)	3,611	–	–	(189)
Deficit on revaluation	(45,556)	(711)	–	–	(46,267)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 June 2003	\$ 168,950	\$ 6,200	\$ –	\$ 396,531	\$ 571,681
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Comprising:					
At cost	\$ –	\$ –	\$ –	\$ 396,531	\$ 396,531
At valuation in 2003	168,950	6,200	–	–	175,150
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>\$ 168,950</u>	<u>\$ 6,200</u>	<u>\$ –</u>	<u>\$ 396,531</u>	<u>\$ 571,681</u>
Accumulated depreciation:					
At 1 January 2003	\$ 7,066	\$ –	\$ 15,111	\$ 180,988	\$ 203,165
Charge for the period	3,554	–	457	19,425	23,436
Impairment loss on fixed assets	–	–	–	58,588	58,588
Written back on disposal	–	–	(15,568)	(12,697)	(28,265)
Reclassification	(189)	–	–	–	(189)
Elimination on revaluation	(10,431)	–	–	–	(10,431)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 June 2003	\$ –	\$ –	\$ –	\$ 246,304	\$ 246,304
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net book values:					
At 30 June 2003	<u>\$ 168,950</u>	<u>\$ 6,200</u>	<u>\$ –</u>	<u>\$ 150,227</u>	<u>\$ 325,377</u>
At 31 December 2002	<u>\$ 206,193</u>	<u>\$ 3,300</u>	<u>\$ 21,911</u>	<u>\$ 223,805</u>	<u>\$ 455,209</u>

(c) *The analysis of net book value of bank premises and investment properties are as follow:*

	The Group		The Bank	
	As at 30 June 2003 '000	As at 31 December 2002 '000	As at 30 June 2003 '000	As at 31 December 2002 '000
In Hong Kong				
– Long leases	\$ 193,749	\$ 276,874	\$ 59,850	\$ 97,639
– Medium-term leases	123,080	121,436	115,300	111,854
Outside Hong Kong				
– Long leases	38,995	15,963	–	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>\$ 355,824</u>	<u>\$ 414,273</u>	<u>\$ 175,150</u>	<u>\$ 209,493</u>

A long lease is defined as a lease with an unexpired term of not less than fifty years, while a medium-term lease is defined as a lease with a term of ten to fifty years to run at the balance sheet date.

- (d) The Group's and the Bank's investment properties in Hong Kong and overseas were revalued as at 30 June 2003 by an independent firm of surveyors, DTZ Debenham Tie Leung Limited, and a certified general appraiser Paul J. James respectively, on an open market value basis calculated by reference to the comparable market transactions. The total revaluation surplus and deficit of \$17,472,000 and \$711,000 was noted for the Group and the Bank respectively, of which \$17,472,000 and \$711,000 has been transferred to the Group's investment properties revaluation reserves and charged to the Bank's income statement respectively.
- (e) The Group's and the Bank's premises were revalued at 30 June 2003 by DTZ Debenham Tie Leung Limited, at their open market value calculated by reference to the comparable market transactions. The total revaluation deficit of \$74,671,000 and \$35,124,000 was noted in the Group and the Bank respectively, of which \$66,573,000 and \$28,509,000 have been transferred to the premises revaluation reserve of the Group and the Bank respectively and \$8,098,000 and \$6,615,000 have been charged to the Group's and Bank's income statement respectively.

The carrying amount of the premises of the Group and the Bank at 30 June 2003 would have been \$165,033,000 (2002: \$115,254,000) and \$90,019,000 (2002: \$95,489,000) respectively had they been carried at cost less accumulated depreciation.

- (f) The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to three years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

The gross carrying amounts of investment properties of the Group and the Bank held for use in operating leases were \$79,006,000 (2002: \$55,405,000) and \$6,200,000 (2002: \$3,300,000) respectively.

The Group's total future minimum lease payments under non-cancellable operating leases are as follows:

	As at 30 June 2003 '000	As at 31 December 2002 '000
Within 1 year	\$ 4,835	\$ 5,174
After 1 year but within 5 years	6,977	6,221
After 5 years	183	733
	<u>\$ 11,995</u>	<u>\$ 12,128</u>

- (g) The impairment loss of HK\$58,588,000 in 2003 was related to a decrease in the recoverable amount of computer systems as estimated by management.

20. Deposits from customers

	The Group		The Bank	
	As at 30 June 2003 '000	As at 31 December 2002 '000	As at 30 June 2003 '000	As at 31 December 2002 '000
Demand and current	\$ 1,101,662	\$ 1,063,898	\$ 1,101,662	\$ 1,063,898
Savings	3,035,381	2,892,979	3,031,806	2,888,974
Time, call and notice	16,134,886	18,147,677	15,380,071	17,389,345
	<u>\$20,271,929</u>	<u>\$22,104,554</u>	<u>\$19,513,539</u>	<u>\$21,342,217</u>

21. Other accounts and provisions

	The Group		The Bank	
	As at 30 June 2003 '000	As at 31 December 2002 '000 (restated)	As at 30 June 2003 '000	As at 31 December 2002 '000 (restated)
Interest payable	\$ 24,402	\$ 31,484	\$ 24,727	\$ 31,889
Others	157,853	181,310	130,141	168,971
	<u>\$ 182,255</u>	<u>\$ 212,794</u>	<u>\$ 154,868</u>	<u>\$ 200,860</u>

22. Share capital

	As at 30 June 2003 '000	As at 31 December 2002 '000
<i>Authorised:</i>		
At 1 January and 30 June/31 December 30,000,000 (2002: 30,000,000) ordinary shares of \$100 each	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>
<i>Issued and fully paid:</i>		
At 1 January and 30 June/31 December 25,000,000 (2002: 25,000,000) ordinary shares of \$100 each	<u>\$ 2,500,000</u>	<u>\$ 2,500,000</u>

23. Reserves
The Group

	Six months ended 30 June 2003						
	General reserve '000	Dividend reserve '000	Capital reserve '000	Investment property revaluation reserve '000	Property revaluation reserve '000	Retained profits '000	Total '000
Balance at 1 January 2003	\$ 750,000	\$ 68,000	\$ 15,000	\$ 10,595	\$ 216,661	\$ 380,314	\$ 1,440,570
– as originally stated							
– prior period adjustment (Note 4)	–	–	–	(269)	(34,665)	25,679	(9,255)
– as restated	<u>\$ 750,000</u>	<u>\$ 68,000</u>	<u>\$ 15,000</u>	<u>\$ 10,326</u>	<u>\$ 181,996</u>	<u>\$ 405,993</u>	<u>\$ 1,431,315</u>
Surplus/(deficit) on revaluation	–	–	–	17,472	(66,573)	–	(49,101)
Realised on disposal of properties	–	–	–	660	–	–	660
Deferred tax adjustment	–	–	–	(7,703)	8,026	–	323
Transfer	–	–	29,000	–	–	(29,000)	–
Profit for the period	–	–	–	–	–	7,148	7,148
Exchange adjustment	–	–	–	–	–	(4)	(4)
2002 final dividend paid	–	(68,000)	–	–	–	–	(68,000)
Balance at 30 June 2003	<u>\$ 750,000</u>	<u>\$ –</u>	<u>\$ 44,000</u>	<u>\$ 20,755</u>	<u>\$ 123,449</u>	<u>\$ 384,137</u>	<u>\$ 1,322,341</u>

	Year ended 31 December 2002						
	General reserve '000	Dividend reserve '000	Capital reserve '000	Investment property revaluation reserve '000	Property revaluation reserve '000	Retained profits '000	Total '000
Balance at 1 January 2002							
– as originally stated	\$ 750,000	\$ 75,000	\$ 15,000	\$ 31,135	\$ 217,437	\$ 275,390	\$1,363,962
– prior period adjustment (Note 4)	–	–	–	(794)	(34,791)	18,489	(17,096)
– as restated	\$ 750,000	\$ 75,000	\$ 15,000	\$ 30,341	\$ 182,646	\$ 293,879	\$1,346,866
Deficit on revaluation	–	–	–	(21,567)	(65)	–	(21,632)
Deferred tax adjustment	–	–	–	525	126	–	651
Realised on disposal of properties	–	–	–	1,027	(711)	711	1,027
Exchange adjustment	–	–	–	–	–	29	29
Profit for the year	–	–	–	–	–	–	–
– as previously reported	–	–	–	–	–	207,184	207,184
– prior year adjustment in respect of deferred taxation	–	–	–	–	–	7,190	7,190
Appropriations							
– Interim dividend	–	35,000	–	–	–	(35,000)	–
– Proposed final dividend	–	68,000	–	–	–	(68,000)	–
2001 final dividend paid	–	(75,000)	–	–	–	–	(75,000)
2002 interim dividend paid	–	(35,000)	–	–	–	–	(35,000)
Balance at 31 December 2002	<u>\$ 750,000</u>	<u>\$ 68,000</u>	<u>\$ 15,000</u>	<u>\$ 10,326</u>	<u>\$ 181,996</u>	<u>\$ 405,993</u>	<u>\$1,431,315</u>

The Bank

	Six months ended 30 June 2003					
	General reserve '000	Dividend reserve '000	Investment property revaluation reserve '000	Property revaluation reserve '000	Retained profits '000	Total '000
Balance at 1 January 2003						
– as originally stated	\$ 750,000	\$ 68,000	\$ –	\$ 156,770	\$ 268,298	\$1,243,068
– prior period adjustment (Note 4)	–	–	358	(25,083)	23,022	(1,703)
– as restated	\$ 750,000	\$ 68,000	\$ 358	\$ 131,687	\$ 291,320	\$1,241,365
Deficit on revaluation	–	–	–	(28,509)	–	(28,509)
Deferred tax adjustment	–	–	389	2,637	–	3,026
Profit for the period	–	–	–	–	21,985	21,985
Exchange adjustment	–	–	–	–	(4)	(4)
2002 final dividend paid	–	(68,000)	–	–	–	(68,000)
Balance at 30 June 2003	<u>\$ 750,000</u>	<u>\$ –</u>	<u>\$ 747</u>	<u>\$ 105,815</u>	<u>\$ 313,301</u>	<u>\$1,169,863</u>

	Year ended 31 December 2002					Total '000
	General reserve '000	Dividend reserve '000	Investment property revaluation reserve '000	Property revaluation reserve '000	Retained profits '000	
Balance at 1 January 2002						
– as originally stated	\$ 750,000	\$ 75,000	\$ –	\$ 157,199	\$ 118,212	\$ 1,100,411
– prior period adjustment (Note 4)	–	–	–	(25,152)	16,497	(8,655)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(25,152)</u>	<u>16,497</u>	<u>(8,655)</u>
– as restated	\$ 750,000	\$ 75,000	\$ –	\$ 132,047	\$ 134,709	\$ 1,091,756
Deficit on revaluation	–	–	–	(65)	–	(65)
Deferred tax adjustment	–	–	358	69	–	427
Exchange adjustment	–	–	–	–	(5)	(5)
Realised on disposal of properties	–	–	–	(364)	364	–
Profit for the year						
– as previously reported	–	–	–	–	252,727	252,727
– prior year adjustment in respect of deferred taxation	–	–	–	–	6,525	6,525
Appropriations						
– Interim dividend	–	35,000	–	–	(35,000)	–
– Proposed final dividend	–	68,000	–	–	(68,000)	–
2001 final dividend paid	–	(75,000)	–	–	–	(75,000)
2002 interim dividend paid	–	(35,000)	–	–	–	(35,000)
	<u>–</u>	<u>(75,000)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(75,000)</u>
	<u>–</u>	<u>(35,000)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(35,000)</u>
Balance at 31 December 2002	<u>\$ 750,000</u>	<u>\$ 68,000</u>	<u>\$ 358</u>	<u>\$ 131,687</u>	<u>\$ 291,320</u>	<u>\$ 1,241,365</u>

24. **Transactions with group companies and related parties**

Included in the balance sheets and consolidated income statement are balances and transactions with group companies and related parties as follows:

(a) *Amounts due from/(to) immediate holding company*

	The Group		The Bank	
	As at 30 June 2003 '000	As at 31 December 2002 '000	As at 30 June 2003 '000	As at 31 December 2002 '000
Cash and short-term funds				
– Cash in hand and balances with banks and financial institutions maturing within one month	\$ 26,587	\$ 10,144	\$ 25,879	\$ 9,794
Money at call and short notice	<u>–</u>	<u>113,588</u>	<u>–</u>	<u>113,588</u>
Placements with banks and financial institutions maturing between one and twelve months	<u>\$ –</u>	<u>\$ 140,000</u>	<u>\$ –</u>	<u>\$ 140,000</u>
Deposits and balances of banks and financial institutions	<u>\$ (268,739)</u>	<u>\$ (202,780)</u>	<u>\$ (268,739)</u>	<u>\$ (202,780)</u>

(b) *Amounts due from/(to) fellow subsidiary companies*

	The Group		The Bank	
	As at 30 June 2003 '000	As at 31 December 2002 '000	As at 30 June 2003 '000	As at 31 December 2002 '000
Cash and short-term funds				
– Cash in hand and balances with banks and financial institutions maturing within one month	\$ 1,096	\$ 883	\$ 100	\$ 86
Money at call and short notice	<u>83,617</u>	<u>80,638</u>	<u>–</u>	<u>–</u>
Placements with banks and financial institutions maturing between one and twelve months	<u>\$ –</u>	<u>\$ 7,799</u>	<u>\$ –</u>	<u>\$ 7,799</u>
Deposits and balances of banks and financial institutions	<u>\$ (2,349)</u>	<u>\$ (5,737)</u>	<u>\$ (2,349)</u>	<u>\$ (5,737)</u>

(c) *Transactions with group companies*

During the period, the Bank had normal inter-bank lending and borrowing transactions with its immediate holding company and fellow subsidiary companies. Interest income from immediate holding company and fellow subsidiary companies amounted to \$1,866,000 and \$17,126,000 for the period/year ended 30 June 2003 and 31 December 2002 respectively. Interest expenses to immediate holding company and fellow subsidiary companies amounted to \$582,000 and \$1,808,000 for the period/year ended 30 June 2003 and 31 December 2002 respectively. All transactions were carried out on mutually agreed terms.

25. **Loans to officers**

The aggregate of relevant loans to officers disclosed pursuant to Section 161B(4B) of the Hong Kong Companies Ordinance is as follows:

	The Group and the Bank	
	As at 30 June 2003 '000	As at 31 December 2002 '000
Aggregate balance of relevant loans outstanding	<u>\$ 27,617</u>	<u>\$ 28,789</u>
Maximum aggregate amount of relevant loans outstanding during the period/year	<u>\$ 47,392</u>	<u>\$ 53,763</u>

26. **Pledge of assets**

	The Group and the Bank	
	As at 30 June 2003 '000	As at 31 December 2002 '000
Aggregate amount of pledged assets	<u>\$ 7,799</u>	<u>\$ 7,799</u>

The amount represents a time deposit amounting to US\$1,000,000 at the end of period/year ended 30 June 2003 and 31 December 2002 pledged as collateral with the State of California in compliance with the statutory requirements of the State of California.

27. Capital commitments

Capital commitments outstanding at 30 June 2003/31 December 2002 not provided for in the financial information were as follows:

	The Group and the Bank	
	As at 30 June 2003 '000	As at 31 December 2002 '000
Capital expenditure in respect of acquisition of fixed assets contracted for but not provided in the financial statements	\$ 1,873	\$ 9,930

28. Operating lease commitments

At the balance sheet date, the total future minimum lease payments under non-cancellable operating lease are payable as follows:

	The Group		The Bank	
	As at 30 June 2003 '000	As at 31 December 2002 '000	As at 30 June 2003 '000	As at 31 December 2002 '000
Within one year	\$ 12,034	\$ 11,015	\$ 18,033	\$ 23,460
After 1 year but within 5 years	8,835	12,350	9,424	13,953
	<u>\$ 20,869</u>	<u>\$ 23,365</u>	<u>\$ 27,457</u>	<u>\$ 37,413</u>

The Group and the Bank lease a number of properties under operating leases. Lease payments are usually adjusted annually to reflect market rentals. None of the leases includes contingent rentals.

29. Retirement benefit schemes

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Schemes Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme established under the Mandatory Provident Fund Ordinance in December 2000.

The total costs charged to income statement for the periods ended 30 June 2003 and 30 June 2002 of \$2,664,000 and \$5,530,000, respectively, represent contributions payable to the schemes by the Group in respect of the relevant periods. As at the balance sheet date, there were no contributions due in respect of the reporting period which has not been paid over to the schemes.

The Group operated a defined benefit plan for qualifying employees, under which the employees who were members of the plan were entitled to retirement benefits based on the final salary upon attainment of retirement age. The defined benefit plan was terminated on 5 December 2002, with arrangements made for the Group to discharge all of its obligations and liabilities under the plan. Employees who were members of the plan were offered a choice of taking a 20% payment from the plan and transferring the remaining balance of the augmented benefit to the ORSO Scheme, or switching the entire augmented benefit to the ORSO Scheme.

30. 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:

	As at 30 June 2003 '000	As at 31 December 2002 '000
Direct credit substitutes	\$ 232,664	\$ 296,898
Transaction-related contingencies	30,453	26,265
Trade-related contingencies	504,987	553,540
Other commitments		
– With an original maturity of under one year or which are unconditionally cancellable	1,904,471	1,989,643
– With an original maturity of over one year	1,048,934	527,447
	<u>\$ 3,721,509</u>	<u>\$ 3,393,793</u>

(b) *Derivatives*

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

	As at 30 June 2003			As at 31 December 2002		
	Hedging '000	Trading '000	Total '000	Hedging '000	Trading '000	Total '000
Forward exchange rate contracts	\$ 4,320,643	\$ –	\$ 4,320,643	\$ 18,049,667	\$ –	\$ 18,049,667
Exchange rate option contracts purchased	–	286,918	286,918	–	155,979	155,979
Exchange rate option contracts written	–	286,918	286,918	–	155,979	155,979
Interest rate swap contracts	353,468	–	353,468	353,468	–	353,468
Equity option contracts purchased	–	52,439	52,439	–	51,819	51,819
Equity option contracts written	–	52,439	52,439	–	51,819	51,819
	<u>\$ 4,674,111</u>	<u>\$ 678,714</u>	<u>\$ 5,352,825</u>	<u>\$ 18,403,135</u>	<u>\$ 415,596</u>	<u>\$ 18,818,731</u>

Note: At 31 December 2002 out of the \$18,049,667,000 forward exchange rate contracts, \$17,173,000,000 was related to customer – initiated positions which have been fully hedged by the Bank.

The above transactions are undertaken by the Group and the Bank in the foreign exchange, interest rate and equity markets. The notional amounts of these instruments indicate the volume of transactions outstanding and do not represent amounts at risk.

(c) *Replacement cost and credit risk weighted amounts of contingent liabilities and commitments*

The replacement costs and credit risk weighted amounts of the above off-balance-sheet exposures of the Group and the Bank are as follows. The Group did not enter into any bilateral netting arrangements during the period/year and accordingly these amounts are shown on a gross basis.

	As at 30 June 2003		As at 31 December 2002	
	Replacement cost '000	Credit risk weighted amount '000	Replacement cost '000	Credit risk weighted amount '000
Contingent liabilities and commitments	\$ –	\$ 870,896	\$ –	\$ 675,227
Forward exchange rate contracts	7,932	16,585	14,874	68,155
Exchange rate option contracts	–	1,435	–	781
Interest rate swap contracts	4,656	1,382	3,034	1,058
Equity option contracts	–	1,573	–	1,555
	<u>\$ 12,588</u>	<u>\$ 891,871</u>	<u>\$ 17,908</u>	<u>\$ 746,776</u>

The replacement cost represents the cost of replacing all contracts which have a positive value when marked to market.

The credit risk-weighted amounts refer to the amounts as computed in accordance with the Third Schedule to the Hong Kong Banking Ordinance on capital adequacy and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments, and from 0% to 50% for exchange rate and interest rate contracts and from 0% to 100% for other derivatives contracts.

31. Maturity profile

The maturity profile of certain assets and liabilities of the Group and the Bank as at 30 June 2003 are analysed as follows:

	Repayable on demand '000	Repayable within 3 months or less (except those repayable on demand) '000	Repayable after 3 months but within 1 year '000	Repayable after 1 year but within 5 years '000	Repayable after 5 years '000	Undated '000	Total '000
The Group							
<i>Assets</i>							
Placements with banks and financial institutions	\$ -	\$ 1,644,921	\$ 456,860	\$ -	\$ -	\$ -	\$ 2,101,781
Certificates of deposit held	-	-	-	30,000	-	-	30,000
Held-to-maturity debt securities (<i>note 18</i>)	-	19,498	58,492	156,418	98,524	-	332,932
Advances to customers (<i>note 14(a)</i>)	<u>1,374,156</u>	<u>2,464,104</u>	<u>1,205,562</u>	<u>3,704,412</u>	<u>4,815,203</u>	<u>78,654</u>	<u>13,642,091</u>
<i>Liabilities</i>							
Deposits and balances of banks and financial institutions	\$ 155,025	\$ 943,710	\$ -	\$ -	\$ -	\$ -	\$ 1,098,735
Deposits from customers	4,779,576	14,548,107	914,416	29,830	-	-	20,271,929
Certificates of deposit issued	-	-	-	100,000	-	-	100,000
The Bank							
<i>Assets</i>							
Placements with banks and financial institutions	\$ -	\$ 1,644,921	\$ 456,860	\$ -	\$ -	\$ -	\$ 2,101,781
Certificates of deposit held	-	-	-	30,000	-	-	30,000
Held-to-maturity debt securities (<i>note 18</i>)	-	19,498	58,492	156,418	98,524	-	332,932
Advances to customers (<i>note 14(a)</i>)	<u>1,374,146</u>	<u>2,463,967</u>	<u>1,205,271</u>	<u>3,704,190</u>	<u>4,815,203</u>	<u>78,654</u>	<u>13,641,431</u>
<i>Liabilities</i>							
Deposits and balances of banks and financial institutions	\$ 155,025	\$ 943,710	\$ -	\$ -	\$ -	\$ -	\$ 1,098,735
Deposits from customers	4,776,001	13,855,413	852,295	29,830	-	-	19,513,539
Certificates of deposit issued	-	-	-	100,000	-	-	100,000

The maturity profile of certain assets and liabilities of the Group and the Bank as at 31 December 2002 are analysed as follows:

	Repayable on demand '000	Repayable within 3 months or less (except those repayable on demand) '000	Repayable after 3 months but within 1 year '000	Repayable after 1 year but within 5 years '000	Repayable after 5 years '000	Undated '000	Total '000
The Group							
<i>Assets</i>							
Placements with banks and financial institutions	\$ –	\$ 2,782,943	\$ 383,676	\$ –	\$ –	\$ –	\$ 3,166,619
Certificates of deposit held	–	–	127,990	–	–	–	127,990
Held-to-maturity debt securities (<i>note 18</i>)	–	–	77,990	155,980	91,950	–	325,920
Advances to customers (<i>note 14(a)</i>)	1,108,656	2,120,585	1,441,777	3,650,966	4,932,673	56,362	13,311,019
	<u>1,108,656</u>	<u>2,120,585</u>	<u>1,441,777</u>	<u>3,650,966</u>	<u>4,932,673</u>	<u>56,362</u>	<u>13,311,019</u>
<i>Liabilities</i>							
Deposits and balances of banks and financial institutions	\$ 26,147	\$ 1,140,961	\$ –	\$ –	\$ –	\$ –	\$ 1,167,108
Deposits from customers	4,523,266	16,354,426	1,197,993	28,869	–	–	22,104,554
Certificates of deposit issued	–	–	–	100,000	–	–	100,000
	<u>–</u>	<u>–</u>	<u>–</u>	<u>100,000</u>	<u>–</u>	<u>–</u>	<u>100,000</u>
The Bank							
<i>Assets</i>							
Placements with banks and financial institutions	\$ –	\$ 2,782,943	\$ 383,676	\$ –	\$ –	\$ –	\$ 3,166,619
Certificates of deposit held	–	–	127,990	–	–	–	127,990
Held-to-maturity debt securities (<i>note 18</i>)	–	–	77,990	155,980	91,950	–	325,920
Advances to customers (<i>note 14(a)</i>)	1,108,647	2,120,422	1,441,380	3,650,603	4,932,673	56,362	13,310,087
	<u>1,108,647</u>	<u>2,120,422</u>	<u>1,441,380</u>	<u>3,650,603</u>	<u>4,932,673</u>	<u>56,362</u>	<u>13,310,087</u>
<i>Liabilities</i>							
Deposits and balances of banks and financial institutions	\$ 26,147	\$ 1,140,961	\$ –	\$ –	\$ –	\$ –	\$ 1,167,108
Deposits from customers	4,519,262	15,621,178	1,172,908	28,869	–	–	21,342,217
Certificates of deposit issued	–	–	–	100,000	–	–	100,000
	<u>–</u>	<u>–</u>	<u>–</u>	<u>100,000</u>	<u>–</u>	<u>–</u>	<u>100,000</u>

Note: The maturity profile is based on the remaining period to the contractual maturity date as at the balance sheet date. According to the guidelines of Hong Kong Monetary Authority, undated advances mean overdue advances, including performing loans that are classified as overdue for technical reasons, for more than one month.

32. Segment reporting

(a) Business segments

Retail banking activities include acceptance of deposits, residential mortgages, hire purchase and consumer loans.

Corporate banking activities include advance of commercial and industrial loans, trade financing and institutional banking.

Treasury activities include foreign exchange services, management of investment securities and trading activities.

Other business activities include insurance business, stockbroking activities and services for retirement schemes.

Unallocated items mainly comprise the shareholders' funds, investments in premises and property investment and other activities which cannot be reasonably allocated to specific business segments.

	The Group					
	Retail banking '000	Corporate banking '000	Treasury '000	Other '000	Unallocated '000	Total '000
2003						
<i>For the six months ended</i>						
<i>30 June:</i>						
Net interest income	\$ 98,630	\$ 21,647	\$ 12,173	\$ –	\$ 105,057	\$ 237,507
Other operating income	21,837	42,563	8,865	10,241	20,541	104,047
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Operating income	\$ 120,467	\$ 64,210	\$ 21,038	\$ 10,241	\$ 125,598	\$ 341,554
Operating expenses	(63,009)	(33,584)	(11,004)	(5,356)	(65,692)	(178,645)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Operating profit before provisions	\$ 57,458	\$ 30,626	\$ 10,034	\$ 4,885	\$ 59,906	\$ 162,909
Charge for bad and doubtful debts	(24,634)	(36,191)	–	–	–	(60,825)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Operating profit	\$ 32,824	\$ (5,565)	\$ 10,034	\$ 4,885	\$ 59,906	\$ 102,084
Impairment loss on fixed assets	–	–	–	–	(58,588)	(58,588)
Losses on revaluation of investment properties and disposal of tangible fixed assets	–	–	–	–	(19,654)	(19,654)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Profit on ordinary activities	\$ 32,824	\$ (5,565)	\$ 10,034	\$ 4,885	\$ (18,336)	\$ 23,842
Net share of results of jointly controlled entities	–	–	–	(1,296)	(69)	(1,365)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Profits before taxation	\$ 32,824	\$ (5,565)	\$ 10,034	\$ 3,589	\$ (18,405)	\$ 22,477
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Depreciation (note 6)	\$ 9,176	\$ 4,891	\$ 1,602	\$ 780	\$ 9,567	\$ 26,016
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

	The Group					
	Retail banking '000	Corporate banking '000	Treasury '000	Other '000	Unallocated '000	Total '000
<i>As at 30 June:</i>						
Segment assets	\$ 6,679,328	\$ 7,035,917	\$ 1,068,058	\$ 74,054	\$ 10,714,642	\$ 25,571,999
Interests in jointly controlled entities	–	–	–	55,072	20,062	75,134
Total assets	<u>\$ 6,679,328</u>	<u>\$ 7,035,917</u>	<u>\$ 1,068,058</u>	<u>\$ 129,126</u>	<u>\$ 10,734,704</u>	<u>\$ 25,647,133</u>
Total liabilities	<u>\$ 20,271,929</u>	<u>\$ 100,000</u>	<u>\$ –</u>	<u>\$ 8,890</u>	<u>\$ 1,443,973</u>	<u>\$ 21,824,792</u>
Capital expenditure	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 14,901</u>	<u>\$ 14,901</u>
<i>2002 (restated)</i>						
<i>For the six months ended 30 June:</i>						
Net interest income	\$ 111,308	\$ (3,404)	\$ 6,940	\$ –	\$ 123,022	\$ 237,866
Other operating income	17,403	40,009	8,777	10,385	5,262	81,836
Operating income	\$ 128,711	\$ 36,605	\$ 15,717	\$ 10,385	\$ 128,284	\$ 319,702
Operating expenses	(73,981)	(21,040)	(9,034)	(5,969)	(73,736)	(183,760)
Operating profit before provisions	\$ 54,730	\$ 15,565	\$ 6,683	\$ 4,416	\$ 54,548	\$ 135,942
Charge for bad and doubtful debts	(4,219)	(6,199)	–	–	–	(10,418)
Operating profit	\$ 50,511	\$ 9,366	\$ 6,683	\$ 4,416	\$ 54,548	\$ 125,524
Losses on revaluation of investment properties and disposal of tangible fixed assets	–	–	–	–	(1,178)	(1,178)
Profit before taxation	<u>\$ 50,511</u>	<u>\$ 9,366</u>	<u>\$ 6,683</u>	<u>\$ 4,416</u>	<u>\$ 53,370</u>	<u>\$ 124,346</u>
Depreciation (<i>note 6</i>)	<u>\$ 10,054</u>	<u>\$ 2,859</u>	<u>\$ 1,228</u>	<u>\$ 811</u>	<u>\$ 10,021</u>	<u>\$ 24,973</u>
<i>As at 31 December:</i>						
Segment assets	\$ 7,051,192	\$ 6,395,454	\$ 1,155,326	\$ 113,667	\$ 12,941,259	\$ 27,656,898
Interests in jointly controlled entities	–	–	–	56,368	20,132	76,500
Total assets	<u>\$ 7,051,192</u>	<u>\$ 6,395,454</u>	<u>\$ 1,155,326</u>	<u>\$ 170,035</u>	<u>\$ 12,961,391</u>	<u>\$ 27,733,398</u>
Total liabilities	<u>\$ 22,104,554</u>	<u>\$ 100,000</u>	<u>\$ –</u>	<u>\$ 14,986</u>	<u>\$ 1,582,543</u>	<u>\$ 23,802,083</u>
Capital expenditure	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 31,647</u>	<u>\$ 31,647</u>

(b) *By geographical area*

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

The Group
Six months ended 30 June 2003

	Total operating income '000	Profit before taxation '000	Total assets '000	Total liabilities '000	Total contingent liabilities and commitments '000
Hong Kong	\$ 332,534	\$ 20,749	\$25,083,660	\$18,405,601	\$ 3,697,488
Luxembourg	1,767	1	100,947	774,540	–
U.S.A.	7,253	1,727	462,526	2,644,651	24,021
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Group total	<u>\$ 341,554</u>	<u>\$ 22,477</u>	<u>\$25,647,133</u>	<u>\$21,824,792</u>	<u>\$ 3,721,509</u>

The Group
Year ended 31 December 2002

	Total operating income '000	Profit before taxation '000	Total assets '000	Total liabilities '000	Total contingent liabilities and commitments '000
Hong Kong	\$ 629,230	\$ 245,953	\$27,252,593	\$20,307,075	\$ 3,365,672
Luxembourg	4,276	780	99,153	777,942	–
U.S.A.	13,729	5,010	381,652	2,717,066	28,121
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Group total	<u>\$ 647,235</u>	<u>\$ 251,743</u>	<u>\$27,733,398</u>	<u>\$23,802,083</u>	<u>\$ 3,393,793</u>

33. Post balance sheet event

Subsequent to the balance sheet date, Mizuho Corporate Bank, Ltd entered into a share purchase agreement with Wing Hang Bank Limited (“WHB”) selling the entire issued share capital of CFB to WHB. The share purchase transaction was completed on 30 September 2003 and CFB became a wholly owned subsidiary of WHB since then.

According to Wing Hang Bank, Limited (Merger) Ordinance, the undertakings of CFB were transferred to and vested in WHB on 9 August 2004. On the same day, Chekiang First Bank Limited was renamed Chekiang First Limited and became dormant.

D. Unaudited supplementary financial information for the Group
(Expressed in Hong Kong dollars)

1. Capital adequacy and liquidity ratios
(a) *Capital adequacy ratio*

	As at 30 June 2003 %	As at 31 December 2002 %
Capital adequacy ratio	<u>26.55</u>	<u>26.67</u>

The capital adequacy ratio is computed on the consolidated basis of the Bank and certain of its financial subsidiaries as specified by the Hong Kong Monetary Authority (“HKMA”) for its regulatory purposes, and is in accordance with the Third Schedule to the Hong Kong Banking Ordinance.

The Bank meets all of the de minimis exemption criteria for reporting market risk as set out in the Guideline “Maintenance of Adequate Capital Against Market Risks” issued by the Hong Kong Monetary Authority and is not required to maintain capital against market risk. Hence, the Bank is exempted from disclosing the adjusted capital adequacy ratio computed in accordance with the above-mentioned Guideline.

The components of the total capital base after deductions as reported under Part I of the Capital Adequacy Return (MA(BS)3) are as follows:

	As at 30 June 2003 '000	As at 31 December 2002 '000
Core capital		
– Paid up ordinary share capital	\$ 2,500,000	\$ 2,500,000
– Reserves	1,114,616	837,993
– Profit and loss	10,063	260,790
	<u>\$ 3,624,679</u>	<u>\$ 3,598,783</u>
Eligible supplementary capital		
– Reserves on revaluation of land	\$ 74,594	\$ 109,649
– General provisions for doubtful debts	121,365	124,210
	<u>\$ 195,959</u>	<u>\$ 233,859</u>
Total capital base before deductions	<u>\$ 3,820,638</u>	<u>\$ 3,832,642</u>
Deductions from capital base		
– Shareholdings in subsidiary companies	\$ 60,107	\$ 60,107
– Exposures to connected companies	182,029	189,945
– Equity investments in non-subsidiary companies	1,000	1,000
	<u>\$ 243,136</u>	<u>\$ 251,052</u>
Total capital base after deductions	<u>\$ 3,577,502</u>	<u>\$ 3,581,590</u>

(b) *Liquidity ratio*

	Group	
	Six months ended 30 June	
	2003	2002
	%	%
Average liquidity ratio for the period	<u>55.34</u>	<u>60.00</u>

The average liquidity ratio is computed as the simple average of each calendar month's average ratio and in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance. The ratio includes the liquidity positions of all overseas branches and Hong Kong offices, which is the basis of computation agreed with the HKMA.

2. **Advances to customers**

Advances to customers by industry sectors are categorised as follows according to the industry sectors in which the customers predominately operate and are stated gross of any provisions.

	Gross advances to customers			
	The Group		The Bank	
	As at 30 June 2003 '000	As at 31 December 2002 '000	As at 30 June 2003 '000	As at 31 December 2002 '000
Loans for use in Hong Kong Industrial, commercial and financial				
– Property development	\$ 616,750	\$ 334,517	\$ 616,750	\$ 334,517
– Property investment	2,147,870	2,169,179	2,147,870	2,169,179
– Financial concerns	30,825	30,930	30,825	30,930
– Stockbrokers	775	801	775	801
– Wholesale and retail trade	929,166	942,499	929,166	942,499
– Manufacturing	682,665	623,376	682,586	623,226
– Transport and transport equipment	493,822	512,093	493,241	511,311
– Others	1,719,209	1,520,426	1,719,209	1,520,426
	<u>\$ 6,621,082</u>	<u>\$ 6,133,821</u>	<u>\$ 6,620,422</u>	<u>\$ 6,132,889</u>
Individuals				
– Loans for the purchase of flats in the Home Ownership Scheme and Private Sector Participation Scheme	\$ 1,505,531	\$ 1,599,469	\$ 1,505,531	\$ 1,599,469
– Loans for the purchase of other residential properties	2,946,292	3,150,522	2,946,292	3,150,522
– Credit Card advances	38,399	41,981	38,399	41,981
– Others	876,553	890,256	876,553	890,256
	<u>\$ 5,366,775</u>	<u>\$ 5,682,228</u>	<u>\$ 5,366,775</u>	<u>\$ 5,682,228</u>
Trade finance	\$ 1,052,763	\$ 947,256	\$ 1,052,763	\$ 947,256
Loans for use outside Hong Kong	601,471	547,714	601,471	547,714
	<u>\$ 1,654,234</u>	<u>\$ 1,494,970</u>	<u>\$ 1,654,234</u>	<u>\$ 1,494,970</u>
	<u>\$13,642,091</u>	<u>\$13,311,019</u>	<u>\$13,641,431</u>	<u>\$13,310,087</u>

3. Advances to customers – by geographical area

Advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when an advance is guaranteed by a party in an area which is different from that of the counterparty. At 30 June 2003, over 90 per cent of the Group's and the Bank's advances to customers and the related non-performing advances and overdue advances were classified under the area of Hong Kong (unchanged from positions at 31 December 2002).

Non-performing advances to customers are those advances on which interest is being placed in suspense or on which interest accruals has ceased.

4. Foreign exchange exposure

Foreign exchange exposures arising from structural position, with an individual currency constituting 10% or more of the total net position in all foreign currencies, are shown as follows:

	The Group			
	As at 30 June 2003		As at 31 December 2002	
	US\$	EUR	US\$	EUR
Equivalent in thousands of HK\$				
Spot assets	\$ 11,722,389	\$ 881,674	\$ 13,206,082	\$ 912,092
Spot liabilities	(12,495,546)	(937,517)	(13,529,723)	(967,846)
Forward purchases	2,525,485	67,252	9,105,841	46,680
Forward sales	(1,689,710)	(23,460)	(8,678,477)	(6,788)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net long/(short) position	\$ 62,618	\$ (12,051)	\$ 103,723	\$ (15,862)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net structural position	\$ (52,569)	\$ 14,279	\$ (52,271)	\$ 15,674
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

5. **Overdue and rescheduled assets**

(i) *Overdue advances to customers*

	The Group			
	As at 30 June 2003	As at 31 December 2002	As at 30 June 2003	As at 31 December 2002
	'000	'000	% of advances	% of advances
Gross advances to customers* which have been overdue with respect to either principal or interest for periods of:				
– 6 months or less but over 3 months	45,653	87,861	0.33%	0.66%
– 1 year or less but over 6 months	65,509	54,512	0.48%	0.41%
– Over 1 year	130,294	113,404	0.95%	0.85%
	<u>241,456</u>	<u>255,777</u>	<u>1.76%</u>	<u>1.92%</u>
<i>Add: Rescheduled advances to customers (note 5(iii))</i>	<u>26,067</u>	<u>544</u>		
Total overdue and rescheduled advances to customers	267,523	256,321		
<i>Add: Advances overdue for 3 months or less, or not yet overdue, and on which interest has been suspended</i>	70,239	133,955		
<i>Less: Advances overdue over 3 months and on which interest is still being accrued</i>	<u>(8,845)</u>	<u>(7,628)</u>		
Gross non-performing advances to customers	<u>328,917</u>	<u>382,648</u>		

* *Stated after deduction of interest in suspense*

Advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the period-end. Advances repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid at period-end. Advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the advances have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

Non-performing advances to customers are those advances on which interest is being placed in suspense or on which interest accrual has ceased.

(ii) The value of the security and specific provision for the overdue advances of the Group is analysed as follows:

Overdue advances	As at 30 June 2003				
	Outstanding loan amount '000	Market value of security '000	Secured amount '000	Unsecured amount '000	Specific provisions '000
Customers	<u>\$ 241,456</u>	<u>\$ 156,035</u>	<u>\$ 135,110</u>	<u>\$ 106,346</u>	<u>\$ 103,024</u>

Overdue advances	As at 31 December 2002				
	Outstanding loan amount '000	Market value of security '000	Secured amount '000	Unsecured amount '000	Specific provisions '000
Customers	<u>\$ 255,777</u>	<u>\$ 175,727</u>	<u>\$ 167,515</u>	<u>\$ 88,262</u>	<u>\$ 63,172</u>

(iii) Rescheduled advances to customers

Rescheduled advances (note 5(i))	The Group			
	As at 30 June 2003 '000	% of advances	As at 31 December 2002 '000	% of advances
	<u>\$ 26,067</u>	<u>0.19%</u>	<u>\$ 544</u>	<u>–%</u>

Rescheduled advances are those advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group. Rescheduled advances to customers are stated net of any advances that have subsequently become overdue for over 3 months and reported as overdue advances in note 5(i) above.

6. Repossessed assets

	The Group		The Bank	
	As at 30 June 2003 '000	As at 31 December 2002 '000	As at 30 June 2003 '000	As at 31 December 2002 '000
Repossessed assets included in advances to customers and other accounts	<u>\$ 62,217</u>	<u>\$ 70,500</u>	<u>\$ 62,217</u>	<u>\$ 70,500</u>

7. Risk management

The Board of Directors has the overall responsibility for the management of the Bank. In the delivery of its responsibility, the Board has established various committees to manage, monitor and control different types of risks. The Board or the relevant committees would review and approve policies and procedures for the identification, measurement, control and monitoring of both financial and non-financial risks. Such policies and procedures are reviewed by the relevant committees or senior management on a regular basis.

The Audit Committee, comprising non-executive directors, convenes regular meetings to ensure compliance with accounting standards, legal requirements and bank policies and procedures. The Internal Audit Department, which reports directly to the Audit Committee, performs regular audits to ensure compliance with policies, guidelines and limits.

The Executive Committee, comprising executive directors and senior advisors of the Bank, has been delegated the authority to oversee and guide the management in the control of different types of risks. The Executive Committee meets at least once a month.

The Management Committee, comprising executive directors and senior management, convenes regular meetings to monitor and control various risks, including credit, liquidity, operational, interest rate, foreign exchange and market risks arising from on-balance sheet and off-balance sheet activities.

The Large Loan Committee and Credit Committee, both comprising executive directors and senior management, convene regular meetings to monitor and control all credit-related risks. Both committees have the authority to approve credit within their respective credit limits.

The Problem Loan Committee, comprising executive directors and senior management, convenes regular meetings to review and monitor all problem loan accounts on an individual basis and decides on the appropriate actions in each case.

The Asset and Liability Management Committee, comprising executive directors and senior management, convenes regular meetings to monitor and control market risk, liquidity risk, interest rate risk, foreign exchange risk, and funding requirements.

Market risk

Market risk is defined as the risk of losses in on and off-balance sheet positions arising from adverse movements in market rates or prices.

In the ordinary course of business, the Bank enters into various types of financial instruments, mainly forward exchange contracts and interest rate swap contracts. These contracts are entered into for hedging of customers-driven forward exchange position and interest rate risk exposures in funding management. The market risk exposure of the Bank is not material and the Bank is exempted from the maintenance of adequate capital against market risk under the de Minimis Criteria.

Credit risk

Credit risk arising from customers is closely monitored by Credit Committee, Large Loan Committee and Management Committee.

Special attention is paid to the management of problem loans by Problem Loan Committee.

All applications for lines of credit need the approval of Credit Committee, with duties of initial assessment of the borrower delegated to officers at the appropriate levels. For applications for lines of credit of substantial amounts, approval from Large Loan Committee is required. Credit risks are kept to a minimum through the application of an effective credit policy and the use of collaterals and guarantees.

A thorough credit review on every advance to customer is carried out at least once a year, while more frequent monitoring on problem loans is performed throughout the year. Such a credit review procedure excludes standalone mortgage loans. Every advance to customer is classified according to a comprehensive credit rating system, with factors including financial condition of the borrower and repayment history taken into account.

Credit risk arising from money market, foreign exchange and capital market counterparts is controlled by respective credit facilities granted and approved by the Asset and Liability Management Committee.

Liquidity risk

Statutory liquidity ratio, mismatch ratio and loan-to-deposit ratio are regularly reviewed by the Asset and Liability Management Committee to control liquidity.

Interest rate risk

Interest rate exposures are managed by the Asset and Liability Management Committee and are governed by strict internal guidelines. Positions are hedging in nature with limited short-term mismatch.

Foreign exchange risk

Foreign exchange risk is controlled by imposing specific limits, such as day-trade position limit, overnight position limit, dealing limits for individual dealers and cut-loss limit, on trading activities.

8. Cross-border claims

Cross border claims are on-balance sheet exposures of counterparties based on the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate cross border claims as at 30 June 2003 are shown as follows:

		The Group	
	Banks and other financial institutions '000	Others '000	Total '000
(1) Western Europe – Germany	\$ 2,283,741	\$ 3,322	\$ 2,287,063
(2) Western Europe – United Kingdom	1,217,063	114,866	1,331,929
(3) Western Europe – Luxembourg	1,018,293	877	1,019,170
	<u>\$ 4,519,097</u>	<u>\$ 119,065</u>	<u>\$ 4,638,162</u>

The geographical disclosure of cross-border claims by types of counterparties, which constitute 10% or more of the aggregate cross-border claims as at 31 December 2002 are as follows:

		The Group	
	Banks and other financial institutions '000	Others '000	Total '000
(1) Western Europe – Germany	\$ 2,893,544	\$ 1,240	\$ 2,894,784
(2) Western Europe – United Kingdom	1,766,674	62,214	1,828,888
	<u>\$ 4,660,218</u>	<u>\$ 63,454</u>	<u>\$ 4,723,672</u>

9. Other overdue assets

Apart from overdue advances, there are no other assets overdue for more than three months at the balance sheet date.

10. Corporate governance

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.

E. Directors’ Remuneration

Please refer to note 7 of Section C for details.

F. Subsequent Events

Please refer to note 33 of Section C for details.

G. Subsequent Financial Statements

We have audited the financial statements of the CFB Group for the year ended 31 December 2003.

Yours faithfully,
KPMG
Certified Public Accountants