



ICBC (Asia)
工 銀 亞 洲



Industrial and Commercial Bank of China (Asia) Limited

Interim Report

2001

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Directors of Industrial and Commercial Bank of China (Asia) Limited ("the Bank" or "ICBC (Asia)") are pleased to present the interim report and condensed accounts of the Bank and its subsidiaries ("the Group") for the six months ended 30 June 2001. The consolidated profit and loss account, consolidated cash flow statement and consolidated statement of recognised gains and losses for the Group for the six months ended 30 June 2001, and the consolidated balance sheet as at 30 June 2001 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 8 to 16 of this report.

Interim Results

The Directors of ICBC (Asia) are pleased to announce that the unaudited consolidated after tax profit of the Group for the six months ended 30 June 2001 was HKD111 million. This represented a 32% growth over the same period last year (First half of 2000: HKD84 million). Earnings per share for the six months ended 30 June 2001 was 25 HK cents (First half of 2000: 19 HK cents). Return on average equity improved to 8.66% (First Half of 2000: 4.87%).

Interim Dividend

The Directors are pleased to declare an interim dividend of 5 HK cents per ordinary and convertible preference share for the six months ended 2001 (First half of 2000 - nil). The interim dividend will be paid in cash to shareholders whose names are on the Register of Members at the close of business on 14 September 2001. The payment will be made by cheque to be dispatched to shareholders by ordinary mail on or about 28 September 2001.

Closure of Register of Members

The Register of Members of the Bank will be closed from Monday, 10 September 2001 to Friday, 14 September 2001, both days inclusive. During this period, no transfer of shares can be registered. In order to qualify for the above interim dividend, all transfers, accompanied by the share certificates, must be lodged for registration with Tengis Limited at 4/F Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 4:00 pm on Friday, 7 September 2001.

Financial Review

For the first six months of 2001, the Group achieved a consolidated profit attributable to shareholders of HKD111 million, representing an increase of 32% over that of HKD84 million for the corresponding period of 2000.

Operating profit after provisions grew significantly by 193% from HKD36 million in the first half of 2000 to HKD105 million in the first half of 2001, with earnings per share of 25 HK cents (First half of 2000: 19 HK cents).

Consolidated net interest income for the first half of 2001 increased by 11% to HKD194 million (First half of 2000: HKD175 million). This was mainly due to HKD3 billion growth in interest bearing assets and a reduction in funding costs. The persistent price war in mortgage and personal lending in Hong Kong and the 250 basis point reductions in prime lending rates in the first half of 2001 put tremendous pressures on our lending spreads. However the drop in the gross lending yield was largely compensated by the reduction in funding costs. As a result, the net interest margin only dropped 6 basis points to 1.80% (First half of 2000: 1.86%).

With very encouraging loan growth since the second quarter of 2001, continuing reduction in NPLs, and the good quality loan assets totalling HKD9,200 million transferred to the Bank from Industrial and Commercial Bank of China ("ICBC") Hong Kong Branch on 3 July 2001, the net interest revenue for the second half of 2001 should improve considerably.

Other operating income was up by 11% to HKD50 million (First half of 2000: HKD45 million). Other income in all areas of operations grew with the exception of securities brokerage income. The securities brokerage business recommenced only in March 2001 after the disposal of the securities broking subsidiary

in June 2000 as part and parcel of the Sale and Purchase Agreement between China Merchants Finance Holdings Company Limited, China Merchants Holdings Company Limited and ICBC. Excluding this, other fee income recorded a 34% growth notably by fees generated from trade finance, corporate loans, syndicated loans, L/Cs advising and remittances. The proportion of non-interest income to total operating income was 20% (First half of 2000: 20%).

On the other hand, operating expenses were 11% higher at HKD125 million (First half of 2000: HKD113 million) as the Bank incurred more investments in new business and new technology to enhance profitability and productivity in the long term. One-off expenses relating to fees paid to lawyers, financial advisors and various retail banking business product launching campaigns represented the bulk of the increases. Core expenses edged up due primarily to recruitment of additional professionals to manage new products such as hire-purchase and leasing, and securities brokerages and sales. Total number of staff was 518 as at 30 June 2001 compared with 504 as at 31 December 2000 and 500 as at 30 June 2000.

Net charge for bad and doubtful debts for the first half of 2001 declined substantially to only HKD14 million (First half of 2000: HKD71 million). Strong efforts by asset management teams, greatly assisted by ICBC Head Office and branches in the mainland, resulted in HKD387 million cash recoveries, HKD126 million collateral sales and HKD623 million re-negotiated facilities during the six months ended 30 June 2001.

Balance Sheet

Total assets were HKD23,362 million as at 30 June 2001, a 13% rise when compared with 31 December 2000. Amid the lacklustre lending environment in Hong Kong, the Bank's loan book grew by 15%. Residential mortgages increased 35% to HKD4,216 million accounting for 27% of the loan book. The newly formed Hire Purchase and Leasing Department attained HKD1,353 million growth in loan assets. Syndicated loans also achieved 21% growth by HKD415 million to HKD2,408 million whereas trade finance was up from HKD846 million to HKD1,083 million. Investment in quality debt securities grew by 7% to HKD3,075 million.

On the liabilities side, customers' deposits increased by 7% to HKD17,197 million (31 December 2000: HKD16,106 million). The remaining HKD175 million of certificates of deposit were redeemed during the first half of 2001. The adjusted loans to deposit ratio stood at an efficient level of 75% (31 December 2000: 66%).

Capital Adequacy and Liquidity

As at 30 June 2001, the capital adequacy ratio was 14.6% (31 December 2000: 17.8%) due to the enlarged balance sheet and accelerated loan growth. The liquidity position remained strong throughout the first half of 2001 with an average liquidity ratio of 41.8% (Average for the first half of 2000: 45.3%).

Bad and Doubtful Debts Provision

Compared to last year end, the gross non-performing loans (NPLs) as at 30 June 2001 dropped HKD443 million to HKD2,732 million, producing a 6% drop in NPL ratio to 17.3%. Overdue loans reduced by HKD168 million to HKD2,355 million. The debt coverage ratio (i.e. specific provision + collateral) for overdue loans was further raised from 88% as of 31 December 2000 to 92% as of 30 June 2001 with 85% coverage for UB China Business Management Co. Ltd.'s portfolio and full coverage for the Bank's remaining portfolio. As at 30 June 2001, the cumulative provisions for bad and doubtful debts were HKD1,624 million, comprising specific provision of HKD1,500 million and general provision of HKD124 million.

Connected Transactions

During the period, the Group entered into a number of transactions which in the opinion of the Directors constitute connected transactions under the Listing Rules. The details of these transactions have been set out in Notes 13 and 14 to the accounts.

Business Review

During the first half of 2001, the Bank co-arranged, underwrote and lead-managed 14 syndicated deals amounting to HKD16 billion. Apart from expanded activities in investment banking, treasury and commercial banking, retail banking also raised its market profile by aggressive marketing and by enriching its product mix. The retail branches now offer full-fledged products and services including Bancassurance, MPF, unit trust and equity-linked deposits. A new investment centre was opened in March 2001 which provides one-stop wealth management services to our customers. The hire purchase and leasing business also underwent rapid growth.

In order to broaden our deposit base and to lower cost of funds, two deposit programmes were launched. The Instant Rewards Plus Fixed Deposit Programme, proved popular and attracted HKD600 million deposits in less than six months. The other campaign aimed to encourage account opening through the provision of privileged services also led to a wider clientele.

As for the second half of 2001, the acquisition of the commercial banking business of the Hong Kong Branch of ICBC will assist the Bank in becoming the flagship of ICBC's banking business in Hong Kong. The asset injection move will also enable the Bank to optimize its product mix, client profile and asset portfolio. It will capitalize on ICBC's network of over 30,000 branches in China and overseas to grow trade finance, remittances, clearing and other transactional banking businesses. The capital market expertise of ICBC will also assist the Bank to secure more fee income from arranging and underwriting business.

The economic outlook for the second half of the year remains uncertain in view of the languishing U.S. economy and the lack of a growth engine in the increasingly globalized economy. Also, in an environment of fast deregulation and an over-saturated banking sector, reduced margins and tougher competition will become inevitable. However we expect good growth potential from the Mainland when China gains entry into the WTO. Leveraging on the close link with its parent in the Mainland, the Bank will enjoy unique access to abundant business opportunities in the Greater China area.

Directors' Interests in Equity or Debt Securities

As at 30 June 2001, the interests of the Directors and Chief Executive in the equity or debt securities of the Bank and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) (the "Associated Corporations"), as recorded in the register maintained by the Bank under Section 29 of the SDI Ordinance or as otherwise notified to the Bank and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Ordinary shares of HKD2 each in the Bank

	Number of shares	
	Personal interests	Total
Mr Chan Chi Keung, Chris	150,000	150,000
Mr Kiu Wai Ming	150,000	150,000

Save as disclosed above, as at 30 June 2001, none of the Directors or Chief Executive of the Bank nor their spouses or children under 18 years of age were granted, or had exercised, any rights to subscribe for any equity or debt securities of the Bank or any of its Associated Corporations.

Substantial Shareholders

As at 30 June 2001, so far as the Directors were aware, the following persons (other than a Director or Chief Executive of the Bank) were, directly or indirectly, interested in 10% or more of the issued share capital of the Bank as recorded in the register of substantial shareholders required to be kept under Section 16(1) of the SDI Ordinance.

<u>Name of shareholder</u>	<u>Number of ordinary shares</u>
Industrial and Commercial Bank of China	318,042,029

Apart from the aforesaid, as at 30 June 2001, the Bank had not been notified of any interest accounting to 10% or more of the issued share capital of the Bank required to be disclosed pursuant to the SDI Ordinance.

Risk Management

ICBC (Asia) has established policies and procedures for the identification, measurement, control and monitoring of credit, liquidity, foreign exchange, interest rate and market risks. The policies and procedures are reviewed on a regular basis by senior management and the relevant functional committees. The internal auditors also perform regular checks to ensure compliance with policies and procedures.

(a) Credit risk management

Credit risk arises from the possibility that borrowing customers or counterparties in a transaction may default on their payment obligations. It arises from the lending, trade finance, treasury, derivatives and other activities undertaken by the Group.

The Bank's credit policy defines credit extension criteria, the credit approval, review and monitoring processes, and the system of loan classification and provision.

The Group manages all types of credit risk on a prudent basis by evaluating the creditworthiness of various types of customers and counterparties based on an assessment of business, financial, market and industry sector and collateral information applicable to the types of credit extended. Day-to-day credit management is performed by the Credit Risk Management Department and their decisions are reviewed regularly by the Risk Management Department, the Credit Committee and the Executive Committee. Credit limits are set for each product, counterparty, country and industry sector and actual exposures are reviewed regularly by management and subject to checks by the internal audit function.

(b) Liquidity risk management

Liquidity risk is the risk that the Group cannot meet its current obligations as and when they fall due. The Bank's Asset and Liability Management Committee monitors on an ongoing basis, the Group's mix of loans and deposits, funding requirements and forecasts and maturity mismatches and maintenance of the statutory liquidity ratio. Appropriate limits are set to ensure that the Group would be able to meet all short-term funding requirements. As noted above, the Group's average liquidity ratio for the six months ended was 41.8%, well above the statutory minimum of 25%.

The Group also maintains sufficient standby facilities with other institutions to provide for unexpected liquidity needs and material cash outflows arising from its operations.

(c) Foreign exchange risk management

Foreign exchange risk is the risk that the net exposure positions in foreign currencies will adversely affect the Group as a result of a change in exchange rates. The Group's foreign exchange risk arise from foreign exchange dealing, commercial banking operations and foreign currency exposures taken on as part of the Group's business strategy. All foreign exchange positions are managed by the Group's treasury department on a daily basis within established limits approved by senior management.

Foreign currency balances arising from customer transactions are normally offset against other customer transactions or transactions with the market. Foreign currency funding used to fund Hong Kong dollar assets is hedged using currency swaps or forward exchange contracts to mitigate the foreign exchange risk.

(d) Interest rate risk management

Interest rate risk is the risk that the Group's position may be adversely affected by a change in market interest rates. The Group's interest rate risk arises mainly from the timing difference in the repricing of interest bearing assets and liabilities.

The Group manages its interest rate risk by way of entering into off-balance sheet interest rate hedging instruments to hedge a proportion of the Group's loans as determined by the Asset and Liability Management Committee upon consideration of market and interest rate conditions.

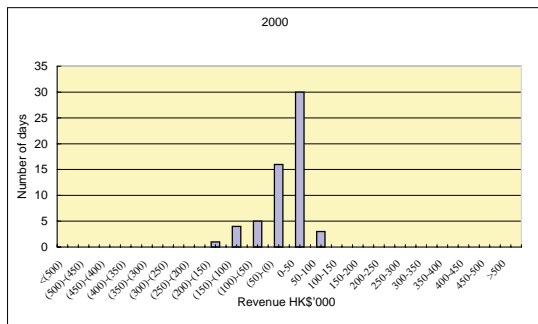
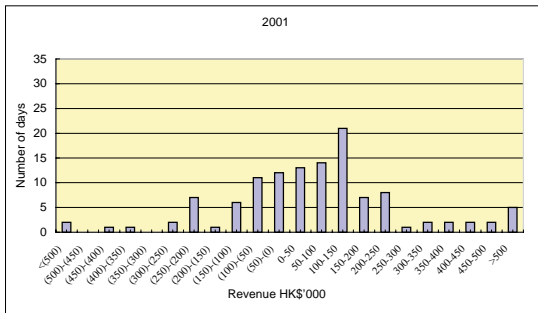
(e) Market risk management

Market risk is the risk of loss in assets, liabilities and commitments arising from the net effect of changes in market rates and prices, such as interest rates, foreign exchange rates, equity and commodity prices. The Group's market risk primarily arises from its positions in foreign exchange, investment securities and derivatives in its trading book.

The Group's market risk exposures in different activities are managed by way of limits established by the Asset and Liability Management Committee and approved by the Board of Directors. Exposures are measured and monitored on the basis of contractual or notional amount, outstanding balances and stop-loss limits. All market risk trading positions are subject to daily mark-to-market valuation, monitored and managed by the treasury department. Independent checks and reviews are conducted by the Group's internal audit function to ensure compliance with risk limits and Group's guidelines. All exceptions are reviewed and approved by the appropriate level of senior management and the Asset and Liability Management Committee.

The average daily revenue earned from the Group's market risk related activities during the period was HKD66,000 and the standard deviation for such daily revenue was HKD257,000.

The following histograms show the frequency distribution of daily revenues related to market risk activities of the Group for the six months ended 30 June 2001 and 2000:



Statement of Compliance

The Bank has fully complied with the disclosure requirements set out in the guideline entitled "Recommendations on Interim Financial Disclosure by Authorized Institutions Incorporated in Hong Kong" issued by the Hong Kong Monetary Authority on 13 June 2001.

Compliance with Code of Best Practice

The Bank has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months period ended 30 June 2001, except that the Non-executive Directors of the Bank are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Association of the Bank.

Audit Committee

The Bank has an Audit Committee which comprises three independent non-executive directors and another non-executive director. The Committee meets regularly in order to review the effectiveness both of the external and internal auditors as well as the accounting policies adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30 June 2001 with the Directors.

Purchase, Sale or Redemption of the Bank's Listed Securities

During the period, neither the Bank nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities.

Statutory Accounts

The information in this interim accounts is unaudited and does not constitute statutory accounts.

On behalf of the Board
Industrial and Commercial Bank of China (Asia) Limited
Dr Jiang Jianqing
Chairman

Hong Kong, 13 August 2001



CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 30 JUNE 2001

	Note	(Unaudited)		Change %
		Six Months Ended		
		30 Jun 2001 HK\$'000	30 Jun 2000 HK\$'000	
Interest income	16	636,320	660,045	
Interest expense		(442,250)	(485,094)	
Net interest income		194,070	174,951	11%
Other operating income		49,704	44,688	11%
Operating income		243,774	219,639	11%
Operating expenses		(124,890)	(112,589)	11%
Operating profit before provisions	2	118,884	107,050	11%
Charge for bad and doubtful debts	5/16	(13,733)	(71,145)	-81%
Operating profit after provisions	3	105,151	35,905	193%
Profit on disposal of fixed assets		1,417	—	
Profit on disposal of held-to-maturity securities		5,227	—	
Provision on held-to-maturity securities		(1,248)	—	
Profit on disposal of a subsidiary	6	—	48,660	
Share of results of associated company		2,040	661	209%
Profit before taxation	2	112,587	85,226	32%
Taxation	7			
Bank and subsidiaries				
— Hong Kong		—	(892)	
— Overseas		(1,244)	(21)	
Associated company		—	—	
Profit attributable to shareholders		111,343	84,313	32%
Proposed interim dividends	8	36,677	—	
Earnings per share	9			
— Basic		HK\$0.25	HK\$0.19	32%
— Diluted		N/A	N/A	
Proposed interim dividend per share	8	HK\$0.05	—	

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2001

		(Unaudited)	(Audited)	
	Note	30 Jun 2001	31 Dec 2000	Change
		HK\$'000	HK\$'000	%
Assets				
Cash and short term funds		4,486,187	3,445,894	30%
Placements with banks and financial institutions				
maturing between one and twelve months		128,349	1,308,712	-90%
Trade bills	11	50,699	39,077	30%
Certificates of deposit held		577,478	1,209,620	-52%
Trading securities		380,112	251,503	51%
Advances to customers and other accounts	11	14,863,696	12,231,354	22%
Tax prepaid		—	4,309	-100%
Held-to-maturity securities and				
non-trading securities		2,117,076	1,399,514	51%
Interests in an associated company		26,073	24,033	8%
Tangible fixed assets	10	732,652	742,971	-1%
		<u>23,362,322</u>	<u>20,656,987</u>	13%
Liabilities				
Deposits and balances of other banks		3,219,414	1,527,976	111%
Current, fixed, savings and				
other deposits of customers		17,197,063	16,106,119	7%
Certificates of deposit issued		—	175,019	-100%
Other accounts payable and accrued expenses		312,175	258,271	21%
Deferred taxation		6,289	6,289	0%
		<u>20,734,941</u>	<u>18,073,674</u>	15%
Capital Resources				
Share capital		901,744	901,744	0%
Reserves	12	1,725,637	1,681,569	3%
		<u>2,627,381</u>	<u>2,583,313</u>	2%
		<u>23,362,322</u>	<u>20,656,987</u>	13%



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2001**

	(Unaudited) Six Months Ended 30 Jun 2001 HK\$'000
Net cash inflow from operating activities	1,266,706
Net cash outflow from returns on investments and servicing of finance	(62,546)
Total taxation refunded	4,760
Net cash outflow from investing activities	(188)
Net cash outflow from financing	(175,049)
Increase in cash and cash equivalents	1,033,683
Cash and cash equivalents at 1 January	2,082,949
Cash and cash equivalents at 30 June	<u>3,116,632</u>
Analysis of the balances of cash and cash equivalents:	
	<i>HK\$'000</i>
Cash and balances with banks and other financial institutions	286,017
Money at call and short notice	3,744,077
Placements with banks and other financial institutions with original maturity within three months	952
Deposits and balances of banks and other financial institutions with original maturity within three months	(914,414)
	<u>3,116,632</u>

**CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES
FOR THE SIX MONTHS ENDED 30 JUNE 2001**

	(Unaudited) Six Months Ended	
	30 Jun 2001 HK\$'000	30 Jun 2000 HK\$'000
Profit for the period	111,343	84,313
Investment revaluation reserve realised on disposal of non-trading securities	(8,632)	—
Total recognised gains for the period	<u>102,711</u>	<u>84,313</u>

NOTES TO THE CONDENSED INTERIM ACCOUNTS

1 Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

These condensed interim accounts should be read in conjunction with the 2000 annual accounts.

The accounting policies used in preparing these condensed interim accounts are consistent with those adopted in the 2000 annual accounts except that a proposed dividend declared after the period end is not accrued as a liability in the Group's balance sheet. This is to comply with SSAP 9 (Revised) which becomes effective in 2001. Prior year adjustment on the opening balance of retained earnings of the Group were put through accordingly.

2 Segmental information

(a) By class of business

	30 Jun 2001 <i>HK\$'000</i>	30 Jun 2000 <i>HK\$'000</i>
<i>Operating profit before provisions</i>		
Commercial banking	25,478	33,690
Retail banking	52,107	57,894
Treasury	20,682	11,414
Corporate and investment banking	20,617	4,052
Total	<u>118,884</u>	<u>107,050</u>
<i>Profit before taxation</i>		
Commercial banking	25,764	24,588
Retail banking	40,982	47,417
Treasury	25,909	11,289
Corporate and investment banking	20,617	4,052
Others	(685)	(2,120)
Total	<u>112,587</u>	<u>85,226</u>

Commercial banking business includes the acceptance of deposits from and the extension of credit and trade finance facilities to commercial, industrial and institutional customers.

Retail banking business includes the acceptance of deposits from individual customers and extension of mortgage lending, personal loans and credit card services.

Treasury activities involve mainly the provision of foreign exchange services, cash management for deposit taking and lending activities and the overall funding of the Group.

Corporate and investment banking business includes the provision of debt capital market and corporate finance advisory services.

(b) By geographical areas

For the six months ended 30 June 2001 and 2000, over 90% of the Group's operating profit before provisions, profit before taxation, total assets, total liabilities and contingent liabilities and commitments arose from or booked in Hong Kong.

3 Analysis of operating profit after provisions

	30 Jun 2001 <i>HK\$'000</i>	30 Jun 2000 <i>HK\$'000</i>
Consolidated except for UBCBM	105,994	86,455
UB China Business Management Co. Ltd. ("UBCBM") (note 4)	(843)	(50,550)
	<u>105,151</u>	<u>35,905</u>

4 Highlights of the operating results of UBCBM which have been consolidated above as follows:

	30 Jun 2001 <i>HK\$'000</i>	30 Jun 2000 <i>HK\$'000</i>
Interest income	14,150	911
Interest expenses	—	—
Net interest income	<u>14,150</u>	911
Other operating income	<u>216</u>	—
Operating income	<u>14,366</u>	911
Operating expenses	—	—
Operating profit before provisions	<u>14,366</u>	911
Charge for bad and doubtful debts (note 5)	<u>(15,209)</u>	(51,461)
Operating loss after provisions	<u><u>(843)</u></u>	<u><u>(50,550)</u></u>

5 Analysis of charge for bad and doubtful debts

	30 Jun 2001 <i>HK\$'000</i>	30 Jun 2000 <i>HK\$'000</i>
UBCBM loans	(15,209)	(652,413)
Less: Write-down of junior performance-linked notes ("Junior PLNs") issued by UBCBM	—	600,952
	<u>(15,209)</u>	(51,461)
Non-UBCBM loans	<u>1,476</u>	(19,684)
	<u><u>(13,733)</u></u>	<u><u>(71,145)</u></u>
Additional provisions	<u>(81,607)</u>	(114,875)
Less: Provisions written-back	<u>67,874</u>	43,730
	<u><u>(13,733)</u></u>	<u><u>(71,145)</u></u>

UB China Business Management Co. Ltd. ("UBCBM") is a wholly-owned subsidiary established by the Bank as a special purpose asset management company for the purpose of maximising the level of recovery of certain classified loans of the Bank which were extended towards Mainland China related business (the "PRC NPL Portfolio") over a five-year term.

6 Profit on disposal of a subsidiary

The profit on disposal of subsidiary of HK\$48,660,000 recognised last year represented the disposal of U.B. Securities Limited, the then subsidiary wholly-owned by the Bank, for a consideration of HK\$75,000,000 to China Merchants Finance Holdings Company Limited and China Merchants Holdings Company Limited.

7 Taxation

No provision for Hong Kong profits tax has been made in the accounts of the Bank as there are tax losses brought forward from the previous year to set off against the estimated profit for the period.

Provision for Hong Kong profits tax has been made by other companies of the Group at the rate of 16% (2000: 16%) on the estimated assessable profits for the period.

Taxation on overseas profits has been calculated on the estimated assessable profits for the periods at the rates of taxation prevailing in the countries in which the Group operates.

There is no significant potential deferred tax liabilities for which provision has not been made.

8 Proposed interim dividends

	30 Jun 2001 <i>HK\$'000</i>	30 Jun 2000 <i>HK\$'000</i>
Proposed interim dividend to convertible preference shareholders, HK\$0.05 per share (2000: Nil)	10,111	—
Proposed interim dividend to ordinary shareholders, HK\$0.05 per share (2000: Nil)	<u>26,566</u>	<u>—</u>
	<u><u>36,677</u></u>	<u><u>—</u></u>

9 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders for the period of HK\$111,343,000 (2000: HK\$84,313,000) and on 450,871,855 (2000: 450,786,254) shares, being the weighted average number of ordinary shares in issue during the period. There is no diluted earnings per share shown for the periods ended 30 June 2001 and 2000 as there was no dilution effect for the periods.

10 Tangible fixed assets

	Bank premises & properties <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture & equipments <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:				
At beginning of year	722,782	68,616	92,052	883,450
Additions	—	6,283	5,296	11,579
Disposals	<u>(10,447)</u>	<u>(263)</u>	<u>(5,767)</u>	<u>(16,477)</u>
At 30 June 2001	<u>712,335</u>	<u>74,636</u>	<u>91,581</u>	<u>878,552</u>
Accumulated depreciation:				
At beginning of year	39,014	42,567	58,898	140,479
Charge for the period	3,819	3,485	4,620	11,924
Disposals	<u>(451)</u>	<u>(375)</u>	<u>(5,677)</u>	<u>(6,503)</u>
At 30 June 2001	<u>42,382</u>	<u>45,677</u>	<u>57,841</u>	<u>145,900</u>
Net book value:				
At 30 June 2001	<u>669,953</u>	<u>28,959</u>	<u>33,740</u>	<u>732,652</u>
At 31 December 2000	<u>683,768</u>	<u>26,049</u>	<u>33,154</u>	<u>742,971</u>

11 Total advances and other accounts

	30 Jun 2001			31 Dec 2000
	Consolidated except for UBCBM <i>HK\$'000</i>	UBCBM <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Advances to customers	13,916,578	1,779,626	15,696,204	13,622,558
Trade bills	50,985	—	50,985	50,819
Provision for bad and doubtful debts:				
— Specific	(456,704)	(1,043,770)	(1,500,474)	(1,551,916)
— General	<u>(121,473)</u>	<u>(2,527)</u>	<u>(124,000)</u>	<u>(124,000)</u>
	13,389,386	733,329	14,122,715	11,997,461
Accrued interest and other accounts	758,791	68,925	827,716	315,125
Provision for accrued interest	<u>(5,203)</u>	<u>(30,833)</u>	<u>(36,036)</u>	<u>(42,155)</u>
	<u>14,142,974</u>	<u>771,421</u>	<u>14,914,395</u>	<u>12,270,431</u>

(a) **Advances to customers — by geographical areas**

At 30 June 2001 and 31 December 2000, over 90% of the Group's advances to customers, non-performing loans and overdue loans were made to counterparties located in Hong Kong. In determining this analysis no account has been taken of transfer of risk with respect to claims guaranteed by a party in a country which is different from that of the counterparty.

(b) **Non-performing loans**

	Gross advances HK\$'000	% of total advances	Market value of collateral HK\$'000	Specific provision made HK\$'000	Interest suspended HK\$'000
As at 30 June 2001					
Consolidated except for UBCBM	1,194,558	7.5%	746,908	456,088	104,649
UBCBM	1,537,473	9.8%	283,856	1,043,770	273,959
Consolidated	<u>2,732,031</u>	<u>17.3%</u>	<u>1,030,764</u>	<u>1,499,858</u>	<u>378,608</u>
As at 31 December 2000					
Consolidated	<u>3,175,200</u>	<u>23.2%</u>	<u>1,301,197</u>	<u>1,509,641</u>	<u>335,551</u>

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

12 Reserves

	30 Jun 2001 HK\$'000	31 Dec 2000 HK\$'000
Share premium	782,417	782,447
Property revaluation reserve	412,631	412,631
Investment revaluation reserve	(2,188)	6,444
General reserve	219,200	219,200
Retained profits (<i>Note</i>)	313,577	260,847
	<u>1,725,637</u>	<u>1,681,569</u>
Proposed dividend not provided for	<u>36,677</u>	<u>58,613</u>
(<i>Note</i>) Retained profit as previously reported		202,234
Proposed final dividend restated		58,613
Retained profit restated		260,847

13 Balances with ultimate holding company

The Bank became a subsidiary of ICBC on 1 July 2000. Included in the following balance sheet captions are balances with the ultimate holding company:

	30 Jun 2001 HK\$'000	31 Dec 2000 HK\$'000
On-balance sheet		
Cash and short-term funds	1,194,393	31,594
Advances to customers and other accounts	4,450	1,835
	<u>1,198,843</u>	<u>33,429</u>
Deposits and balances of other banks	2,988,468	1,342,830
Other accounts payable and accrued expenses	31,560	8,782
	<u>3,020,028</u>	<u>1,351,612</u>
Off-balance sheet		
Interest rate swaps entered into with the ultimate holding company — notional principal	721,700	534,500

14 Related party transactions
(a) Acquisition of the commercial banking business of the Hong Kong Branch of ICBC

On 4 May 2001, the Bank entered into the Business Transfer Agreement with its parent company, ICBC, pursuant to which the Bank had conditionally agreed to acquire the branch commercial banking business of the Hong Kong Branch of ICBC for a consideration of approximately HK\$3,000 million which was to be satisfied as to approximately HK\$2,120 million by the issue and allotment of new ordinary shares and convertible preference shares by the Bank to ICBC, as to approximately HK\$580 million by the issuance of subordinated debt due to ICBC, and as to approximately HK\$300 million by cash. The acquisition was completed on 3 July 2001.

Simultaneously on 3 July 2001, ICBC and the Bank entered into a guarantee whereby ICBC agreed to guarantee the payment obligations of certain customers whose "large exposures" were transferred to the Bank pursuant to the Business Transfer Agreement and to indemnify the Bank in respect of any losses incurred if any obligation of such customers becomes unenforceable. In addition, ICBC and the Bank entered into a Collaboration Agreement which provides that all banking business presently undertaken by the Branch in Hong Kong is to be undertaken by the Bank unless the executive management of the Bank determines that it is not in the Bank's best interests to undertake such business. ICBC agrees to reimburse the Bank for such time costs and shall in addition pay a monthly service fee of HK\$100,000 per month in respect of services including processing and other administrative support given by the Bank to ICBC Hong Kong Branch for whatever business remains at ICBC Hong Kong Branch.

To demonstrate ICBC's support to the Bank, a Letter of Comfort was executed by ICBC, pursuant to which ICBC will provide the Bank with such funding as may be required by the Bank to ensure that it will maintain sufficient capital and liquidity levels.

(b) Other transactions

Save as disclosed above and in note 13, the Group entered into a number of transactions in the normal course of business with its holding company, its fellow subsidiaries and other related parties including the taking of deposits and other ordinary banking transactions. The Directors are of the opinion that these transactions were priced on the basis of the relevant market rates at the time of each transaction, and were under terms and conditions that would normally apply to independent customers of comparable standing.

- (i) For the period from 1 January 2001 to 30 June 2001 when the Bank is a subsidiary of ICBC:

	<i>HK\$'000</i>
Interest income	22,696
Interest expense (<i>Note (a)</i>)	<u>(72,048)</u>

- (a) Interest expense, calculated at market rates, were paid on the deposits received from ICBC and the Bank's utilisation of the HK\$3,000,000,000 stand-by credit facility (the "Facility") granted by ICBC to the Bank in June 2000 for working capital purposes. The Bank's utilization of the Facility as at 30 June 2001 was HK\$2,537,000,000 and is included in the balance sheet under "Deposits and balances of other banks".

- (ii) For the period from 1 January 2000 to 30 June 2000 when the Bank was a subsidiary of China Merchants Holdings Company Limited:

	<i>HK\$'000</i>
Interest income from	
Intermediate holding company	4,022
Fellow subsidiaries	4,487
Other related parties	<u>2,599</u>
	<u>11,108</u>
Interest expense on deposits from	
Intermediate holding company	1,501
Immediate holding company	1,889
Fellow subsidiaries	24,965
Other related parties	<u>448</u>
	<u>28,803</u>

15 Off-balance sheet exposures

(a) Contingent liabilities and commitments

The following is a summary of the contractual amount of each significant class of contingent liability and commitment:

	30 Jun 2001 <i>HK\$'000</i>	31 Dec 2000 <i>HK\$'000</i>
Direct credit substitutes	268,107	111,594
Trade-related contingencies	524,338	353,703
Other commitments		
— With an original maturity of under 1 year or which are unconditionally cancellable	1,348,273	1,359,376
— With an original maturity of 1 year and over	<u>1,810,482</u>	<u>824,993</u>
	<u>3,951,200</u>	<u>2,649,666</u>

(b) Derivatives

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

	30 Jun 2001 <i>HK\$'000</i>	31 Dec 2000 <i>HK\$'000</i>
Exchange rate contracts	4,929,975	1,917,228
Interest rate contracts	<u>903,600</u>	<u>739,796</u>
	<u>5,833,575</u>	<u>2,657,024</u>

The contractual or notional amounts of off-balance sheet instruments provide only an indication of the volume of business outstanding at the balance sheet date and bear little relation to the underlying risk of the exposures.

The aggregate replacement cost and credit risk weighted amounts of the above off-balance sheet exposures are:

	<u>30 Jun 2001</u>		<u>31 Dec 2000</u>	
	Replacement cost <i>HK\$'000</i>	Credit risk weighted amount <i>HK\$'000</i>	Replacement cost <i>HK\$'000</i>	Credit risk weighted amount <i>HK\$'000</i>
Contingent liabilities and commitments	—	1,150,207	—	502,995
Exchange rate contracts	1,072	10,327	712	4,108
Interest rate contracts	<u>4,204</u>	<u>1,789</u>	<u>5,342</u>	<u>1,759</u>
	<u>5,276</u>	<u>1,162,323</u>	<u>6,054</u>	<u>508,862</u>

There was no bilateral netting arrangement on the above off -balance sheet instruments.

16 Comparatives

Prior to 1 July 2000, interest recovered from non-interest accruing loans was credited to the profit and loss account as "interest income". With effect from 1 July 2000, such recoveries have been net off against the relevant loan balances whilst specific provision for bad and doubtful debt is made based on the net loan outstanding amount. To ensure the comparability of the 2000 interim results with those of the current year, "interest income" of HK\$37,040,000 has been reclassified as reduction in "charge for bad and doubtful debts" for the six months to 30 June 2000 using the revised practice.

SUPPLEMENTARY INFORMATION
1 Currency concentration

The US dollar net position constitutes more than 10% of the total net position in all foreign currencies and is reported as follows:

	(Unaudited) 30 Jun 2001 HK\$'000	(Unaudited) 31 Dec 2000 HK\$'000
Equivalent in Hong Kong dollars		
Spot assets	4,042,000	3,954,000
Spot liabilities	(8,139,000)	(5,584,000)
Forward purchases	5,167,000	2,457,000
Forward sales	(1,085,000)	(879,000)
Net short position	<u>(15,000)</u>	<u>(52,000)</u>

2 Advances to customers — by industry sectors

	(Unaudited) 30 Jun 2001		(Unaudited) 31 Dec 2000	
	Consolidated except for UBCBM HK\$'000	UBCBM HK\$'000	Consolidated HK\$'000	Consolidated HK\$'000
Loans for use in Hong Kong				
Industrial, commercial and financial				
— Property development	362,668	—	362,668	409,876
— Property investment	2,019,532	264,483	2,284,015	2,302,350
— Financial concerns	992,452	136,084	1,128,536	1,318,788
— Stockbrokers	25,957	—	25,957	15,285
— Wholesale and retail trade	789,246	604,500	1,393,746	1,450,817
— Manufacturing	913,875	4,861	918,736	732,765
— Transport and transport equipment	2,032,503	23,376	2,055,879	400,374
— Others	955,590	44,985	1,000,575	1,582,242
Individuals				
— Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	100,123	—	100,123	21,129
— Loans for the purchase of other residential properties	4,109,453	6,466	4,115,919	3,101,897
— Others	761,196	1,329	762,525	878,140
Trade finance	793,413	289,202	1,082,615	846,220
Loans for use outside Hong Kong	60,570	404,340	464,910	562,675
	<u>13,916,578</u>	<u>1,779,626</u>	<u>15,696,204</u>	<u>13,622,558</u>

3 Overdue advances

	Gross advances HK\$'000	% of total advances	Market value of collateral HK\$'000	Amount of secured balance HK\$'000	Amount of unsecured balance HK\$'000	Specific provision made HK\$'000
As at 30 June 2001						
(Unaudited)						
Consolidated except for						
UBCBM						
— 3 to 6 months overdue	93,943	0.6%	80,886	63,076	30,867	30,374
— 6 months to						
1 year overdue	174,636	1.1%	134,103	114,333	60,303	57,082
— Over 1 year overdue	655,573	4.2%	594,943	446,151	209,422	230,507
	<u>924,152</u>	<u>5.9%</u>	<u>809,932</u>	<u>623,560</u>	<u>300,592</u>	<u>317,963</u>
UBCBM						
— 3 to 6 months overdue	29,958	0.2%	664	664	29,294	24,392
— 6 months to						
1 year overdue	17,300	0.1%	7,233	6,472	10,828	10,121
— Over 1 year overdue	1,383,746	8.8%	255,058	235,222	1,148,524	939,572
	<u>1,431,004</u>	<u>9.1%</u>	<u>262,955</u>	<u>242,358</u>	<u>1,188,646</u>	<u>974,085</u>
Consolidated						
— 3 to 6 months overdue	123,901	0.8%	81,550	63,740	60,161	54,766
— 6 months to						
1 year overdue	191,936	1.2%	141,336	120,805	71,131	67,203
— Over 1 year overdue	2,039,319	13.0%	850,001	681,373	1,357,946	1,170,079
	<u>2,355,156</u>	<u>15.0%</u>	<u>1,072,887</u>	<u>865,918</u>	<u>1,489,238</u>	<u>1,292,048</u>
As at 31 December 2000						
(Unaudited)						
Consolidated						
— 3 to 6 months overdue	157,991	1.2%	141,106	122,974	35,017	20,992
— 6 months to						
1 year overdue	426,750	3.1%	295,583	227,766	198,984	128,479
— Over 1 year overdue	1,938,429	14.2%	751,873	635,670	1,302,759	1,086,224
	<u>2,523,170</u>	<u>18.5%</u>	<u>1,188,562</u>	<u>986,410</u>	<u>1,536,760</u>	<u>1,235,695</u>

4 Rescheduled advances

	(Unaudited) 30 Jun 2001		(Unaudited) 31 Dec 2000	
	Consolidated except for UBCBM HK\$'000	UBCBM HK\$'000	Consolidated HK\$'000	Consolidated HK\$'000
Rescheduled advances (net of overdue loans over 3 months)	<u>314,839</u>	<u>53,685</u>	<u>368,524</u>	<u>559,204</u>
% of total advances	2.0%	0.3%	2.3%	4.1%

5 Reconciliation

	(Unaudited) 30 Jun 2001		(Unaudited) 31 Dec 2000	
	Consolidated except for UBCBM HK\$'000	UBCBM HK\$'000	Consolidated HK\$'000	Consolidated HK\$'000
Overdue loans	924,152	1,431,004	2,355,156	2,523,170
Rescheduled loans	<u>314,839</u>	<u>53,685</u>	<u>368,524</u>	<u>559,204</u>
	<u>1,238,991</u>	<u>1,484,689</u>	<u>2,723,680</u>	<u>3,082,374</u>
Less: Overdue loans on which interest is still being accrued	(165,132)	—	(165,132)	(214,146)
Less: Rescheduled loans on which interest is still being accrued	(16,753)	—	(16,753)	(11,710)
Add: Non-performing loans which are not overdue or rescheduled	<u>137,452</u>	<u>52,784</u>	<u>190,236</u>	<u>318,682</u>
Total non-performing loans (note 11(b))	<u>1,194,558</u>	<u>1,537,473</u>	<u>2,732,031</u>	<u>3,175,200</u>

6 Capital adequacy ratio and capital base

	(Unaudited) 30 Jun 2001		(Audited) 31 Dec 2000	
	Unadjusted ratio	Adjusted ratio	Unadjusted ratio	Adjusted ratio
Capital adequacy ratio	<u>14.6%</u>	<u>14.6%</u>	<u>17.8%</u>	<u>17.8%</u>

The unadjusted capital adequacy ratio is computed on the consolidated basis which comprises the positions of the Bank and its subsidiaries as required by the Hong Kong Monetary Authority for its regulatory purposes, and is in accordance with the Third Schedule to the Banking Ordinance.

The adjusted capital adequacy ratio which takes into account market risks as at the balance sheet date is computed in accordance with the Guideline "Maintenance of Adequate Capital Against Market Risks" issued by the Hong Kong Monetary Authority and on the same consolidated basis as for unadjusted capital adequacy ratio.

The components of the total capital base after deductions include the following items:

	(Unaudited) 30 Jun 2001 HK\$'000	(Audited) 31 Dec 2000 HK\$'000
Core capital:		
Paid up ordinary share capital	901,744	901,744
Reserves	<u>1,233,406</u>	<u>1,168,700</u>
	<u>2,135,150</u>	<u>2,070,444</u>
Eligible supplementary capital:		
Reserves on revaluation of land and interests in land	173,944	173,944
General provisions for doubtful debts	<u>124,000</u>	<u>124,000</u>
	<u>297,944</u>	<u>297,944</u>
Total capital base before deductions	2,433,094	2,368,388
Deductions from total capital base	<u>(41,361)</u>	<u>(40,060)</u>
Total capital base after deductions	<u><u>2,391,733</u></u>	<u><u>2,328,328</u></u>

7 Liquidity ratio

	(Unaudited) 30 Jun 2001	(Unaudited) 30 Jun 2000
Average liquidity ratio for the six months ended	<u><u>41.8%</u></u>	<u><u>45.3%</u></u>

The average liquidity ratio for the period is the simple average of each calendar month's average liquidity ratio, which is computed on the consolidated basis as required by the Hong Kong Monetary Authority for its regulatory purposes, and is in accordance with the Fourth Schedule to the Banking Ordinance.

