

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2001

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. 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.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the year.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Operating leases

Rental costs under operating leases are charged to the income statement on a straight line basis over the lease term.

Financial derivative products

Financial derivative products, which include financial futures and forward contracts, interest rate swaps, options and similar derivative products, are recognised on a trade date basis and are initially measured at cost. Financial derivative products outstanding at the year end, except for those designated as hedges, are valued at market rate, with realised gains and losses included in the income statement. Gains and losses related to these derivative products that are designated as hedges are dealt with in accordance with the accounting treatment applicable to the position hedged.

Fiduciary assets

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

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for the year ended 31 December 2001

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Retirement benefits scheme

A non-contributory defined benefit scheme (the “Scheme”) has been in operation for all eligible employees since 1995. In December 2000, most of the Scheme members have chosen to enroll in a defined contribution mandatory provident fund scheme (the “MPF Scheme”) in replacement of the Scheme.

Retirement benefits scheme contributions charged to the income statement represent payments made in respect of the Scheme and the MPF Scheme.

Payments in respect of the Scheme are calculated by reference to the recommendations made by professionally qualified actuaries so as to spread the costs of providing retirement benefits over the service lives of employees in such a way that the cost is a substantially level percentage of current and expected future pensionable payroll.

Payments in respect of the MPF Scheme are based on specified rates in compliance with the Mandatory Provident Fund Schemes Ordinance.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into three operating divisions - corporate and retail banking, treasury and foreign exchange activities and other activities. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

The corporate and retail banking services provided by the Group are principally lending and trade finance facilities, consumer financing, chequing facilities and the provision of fixed deposits and savings accounts. The Group also provides fully automated telephone and internet banking services to its customers. Other financial services offered include remittance and money exchange, safe deposit boxes, mandatory provident fund services, life insurance and mutual funds agency.

Treasury activities mainly comprise inter-bank placement and deposit transactions, management of overall interest rate risk and liquidity of the Group and centralised cash management. Income from foreign exchange activities is generated from services provided to customers in the form of foreign exchange trading and forward contracts.

Other business activities of the Group include investment holding, securities trading, stockbroking, commodities and future broking, other investment advisory services and property investment.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued

(a) Business segments - continued

- (i) Segment information about these businesses for the year ended 31 December 2001 is presented below:

INCOME STATEMENT

	Corporate and retail banking HK\$'000	Treasury and foreign exchange activities HK\$'000	Other activities HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	1,246,716	732,479	-	-	1,979,195
Interest expense to external customers	(1,145,697)	(36,817)	-	-	(1,182,514)
Inter-segment income	463,549	-	-	(463,549)	-
Inter-segment expense	-	(463,549)	-	463,549	-
Net income	564,568	232,113	-	-	796,681
Other operating income	71,398	16,184	68,912	-	156,494
Operating income	635,966	248,297	68,912	-	953,175
Inter-segment pricing is charged at prevailing customer deposits interest rates.					
Charge for bad and doubtful debts	(136,437)	-	-	-	(136,437)
Net losses from disposal of property and equipment	(843)	-	-	-	(843)
Gains less losses from disposal of other securities	-	-	15,926	-	15,926
Gains less losses from disposal of held-to-maturity securities	-	5,088	-	-	5,088
Result					
Segment profit	227,217	239,327	58,150	-	524,694
Unallocated corporate expenses	-	-	-	-	(111,467)
Profit from operations	-	-	-	-	413,227
Share of results of jointly controlled entities	-	-	(18,882)	-	(18,882)
Profit from ordinary activities before taxation	-	-	-	-	394,345
Taxation	-	-	-	-	(48,458)
Net profit for the year	-	-	-	-	345,887