

Notes to the Interim Financial Report – Unaudited

(1) Basis of preparation

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, and fully complied with the recommendations in the Guideline on 'Interim Financial Disclosure by Locally Incorporated Authorised Institutions' issued by the Hong Kong Monetary Authority ('HKMA') and Statement of Standard Accounting Practice ('SSAP') 25 'Interim Financial Reporting' issued by the Hong Kong Society of Accountants ('HKSA').

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 'Engagements to Review Interim Financial Reports', issued by the HKSA. KPMG's independent review report to the Board of Directors is included on page 80.

The financial information relating to the financial year ended 31 December 2000 included in the interim financial report does not constitute the Bank's statutory accounts for that financial year but is based on those accounts after adjustment of the dividends proposed or declared as mentioned below. Statutory accounts for the year ended 31 December 2000 are available from the Bank's registered office. The auditors expressed an unqualified opinion on those accounts in their report dated 12 February 2001.

This interim financial report is prepared on a basis consistent with the accounting policies adopted in the 2000 statutory accounts except that the dividends proposed or declared after the balance sheet date are no longer recognised as part of liabilities of the Group, but treated as part of its shareholders' funds, in order to comply with revised SSAP 9 'Events After the Balance Sheet Date' issued by the HKSA in January 2001. The accounting policy has been applied retrospectively in accordance with the revised SSAP 2 'Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies' issued by the HKSA. As a result, liabilities as of 30 June 2001 and 31 December 2000 have been reduced by HK\$78 million and HK\$130 million respectively. Prior period adjustments on the opening balances of retained earnings of the Group were put through accordingly.

Notes to the Interim Financial Report – Unaudited (cont'd)

(2) Segmental information

(a) By geographical area

The Group			
Six months ended 30 June			
2001	2000	2001	2000
*Profit/ (Loss)	*Profit/ (Loss)	Operating income	Operating income
HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	259,312	1,395,642	714,459
Mainland China	0	2	0
United States of America	13,551	36,246	33,106
Less: Intra-group items	0	(585,164)	(4,336)
362,075	272,863	846,726	743,229

The above geographical analysis has been classified by the location of the principal operations of the subsidiaries or, in the case of the Bank itself, of the location of the branches responsible for reporting the results.

(b) By class of business

The Group			
Six months ended 30 June			
2001	2000	2001	2000
*Profit	*Profit	Operating income	Operating income
HK\$'000	HK\$'000	HK\$'000	HK\$'000
Commercial banking	186,726	1,322,116	606,043
Investment banking	28,516	73,820	77,363
Securities business	2,273	21,918	61,750
Other business	55,348	14,036	2,409
Less: Intra-group items	0	(585,164)	(4,336)
362,075	272,863	846,726	743,229

* Profit from ordinary activities before taxation

Notes to the Interim Financial Report – Unaudited (cont'd)

(3) (a) Other operating income

		The Group	
		Six months ended 30 June	
	2001	2000	
	HK\$'000	HK\$'000	
Net gain on other investments in securities	42,555	31,465	
Net gain arising from dealing in foreign currencies	12,629	13,873	
Net gain arising from other dealing activities	4,636	0	
Others	32,230	14,793	
	92,050	60,131	

(b) Operating expenses

Operating expenses included depreciation amounting to HK\$33,685,000 (2000: HK\$30,390,000).

(4) Taxation

Taxation in the consolidated profit and loss account represents:

		The Group	
		Six months ended 30 June	
	2001	2000	
	HK\$'000	HK\$'000	
Provision for Hong Kong Profits Tax	32,458	10,320	
Overseas taxation	748	(389)	
	33,206	9,931	

The provision for Hong Kong Profits Tax is based on an estimate of the assessable profits for the six months ended 30 June 2001 at 16% (2000: 16%). Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the countries in which they operate.

No provision for deferred tax is made as there are no material timing differences which would result in a liability payable or an asset receivable in the foreseeable future.

Notes to the Interim Financial Report – Unaudited (cont'd)

(5) Interim dividends

The following dividends were declared by the Board of Directors after 30 June 2001 and have not been provided for in the interim financial report.

The Group	
Six months ended 30 June	
2001	2000
HK\$'000	HK\$'000
77,859	51,889

Interim dividends declared of HK\$0.03
(2000: HK\$0.02) per share

(6) Basic and diluted earnings per share

- (a) The calculation of basic earnings per share for the six months ended 30 June 2001 is based on profit attributable to shareholders of HK\$306,511,000 (2000: HK\$231,182,000) and on the weighted average of 2,594,873,875 (2000: 2,594,461,444) ordinary shares in issue during the period.
- (b) The calculation of diluted earnings per share for the six months ended 30 June 2001 is based on profit attributable to shareholders of HK\$306,511,000 (2000: HK\$231,182,000) and on the weighted average of 2,598,123,114 (2000: 2,594,898,076) after adjusting for the effects of all dilutive potential ordinary shares.

(7) Cash and short-term funds

The Group	
As at 30 June 2001	As at 31 December 2000
HK\$'000	HK\$'000
787,099	380,823
5,236,061	7,095,295
1,379,713	228,405
7,402,873	7,704,523

Cash and balances with banks and other financial institutions
Money at call and short notice
Treasury bills (including Exchange Fund Bills)

Notes to the Interim Financial Report – Unaudited (cont'd)

(7) Cash and short-term funds (cont'd)

- (a) Money at call and short notice represents deposits of up to a maximum of one month maturity.
- (b) The analysis of treasury bills (including Exchange Fund Bills) is as follows:

		The Group	
		As at 30 June 2001	As at 31 December 2000
		HK\$'000	HK\$'000
Held-to-maturity securities – unlisted	496,394	228,405	
Other investments in securities – unlisted	883,319	0	
	1,379,713	228,405	
Issued by:			
Central governments and central banks	1,379,713	228,405	

The maturity profile of treasury bills included above and analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

		The Group	
		As at 30 June 2001	As at 31 December 2000
		HK\$'000	HK\$'000
3 months or less but not repayable on demand	816,922	228,405	
1 year or less but over 3 months	562,791	0	
	1,379,713	228,405	

Notes to the Interim Financial Report – Unaudited (cont'd)

(8) Placements with banks and other financial institutions maturing between one and twelve months

The maturity profile of placements with banks and other financial institutions analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

The Group	
As at 30 June 2001	As at 31 December 2000
HK\$'000	HK\$'000
156,006	3,112,324

3 months or less but over 1 month

(9) Certificates of deposit

The maturity profile of certificates of deposit analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

The Group	
As at 30 June 2001	As at 31 December 2000
HK\$'000	HK\$'000
134,451	199,995
2,514,691	661,887
945,708	3,195,479
0	200,895
3,594,850	4,258,256

3 months or less but not repayable on demand

1 year or less but over 3 months

5 years or less but over 1 year

After 5 years

Notes to the Interim Financial Report – Unaudited (cont'd)

(10) Other investments in securities

	The Group	
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
Debt securities		
Listed in Hong Kong at market value	34,716	0
Listed outside Hong Kong at market value	551,446	18,243
Unlisted	980,293	925,343
	1,566,455	943,586
Equity securities		
Listed in Hong Kong at market value	7,336	9,751
Listed outside Hong Kong at market value	7,508	7,904
Unlisted	72,850	124,887
	87,694	142,542
Total	1,654,149	1,086,128
Issued by:		
Banks and other financial institutions	1,039,584	625,079
Corporate entities	532,947	348,229
Public sector entities	81,618	112,820
	1,654,149	1,086,128

The maturity profile of debt securities included above and analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	The Group	
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
5 years or less but over 1 year	1,459,132	388,758
After 5 years	107,323	554,828
	1,566,455	943,586

Notes to the Interim Financial Report – Unaudited (cont'd)

(11) Advances to customers and other accounts less provisions

	The Group	
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
Advances to customers	32,800,215	31,925,836
Advances to banks and other financial institutions	19,853	580,987
Accrued interest and other accounts	2,034,055	2,065,842
Provisions for bad and doubtful debts		
– Specific	(563,692)	(499,955)
– General	(362,297)	(351,027)
	33,928,134	33,721,683

- (a) The maturity profile of advances to customers included above and analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	The Group	
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
Repayable on demand	2,501,640	2,421,999
3 months or less but not repayable on demand	3,411,631	4,223,570
1 year or less but over 3 months	3,446,552	4,575,858
5 years or less but over 1 year	11,465,292	9,042,697
After 5 years	10,941,193	10,877,810
Undated	1,033,907	783,902
	32,800,215	31,925,836

Notes to the Interim Financial Report – Unaudited (cont'd)

(11) Advances to customers and other accounts less provisions (cont'd)

- (b) The maturity profile of advances to banks and other financial institutions included above and analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

		The Group	
		As at 30 June 2001	As at 31 December 2000
		HK\$'000	HK\$'000
1 month or less but not repayable on demand		0	556,974
5 years or less but over 1 year		19,853	24,013
		19,853	580,987

(c) Loans on which interest is placed in suspense

		The Group				
Total amount of loans on which interest is placed in suspense		Pledge amount for loans on which interest is placed in suspense	Specific provisions in respect of loans on which interest is placed in suspense	Amount of interest placed in suspense		
HK\$'000	%*	HK\$'000	HK\$'000	HK\$'000		
As at 30 June 2001		1,802,558	5.50	1,025,386	554,955	269,145
As at 31 December 2000		1,517,266	4.75	860,073	442,003	223,414

* Based on total advances to customers

There were no advances to banks and other financial institutions on which interest is being placed in suspense or on which interest accrual has ceased as at 30 June 2001 and 31 December 2000, nor were there any specific provisions made for them on these two days.

Notes to the Interim Financial Report – Unaudited (cont'd)

(12) Held-to-maturity securities and investment securities

	The Group	
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
Held-to-maturity securities – debt securities		
Listed in Hong Kong	359,809	79,799
Listed outside Hong Kong	1,667,648	449,011
	2,027,457	528,810
Unlisted	3,621,093	4,438,603
	5,648,550	4,967,413
Investment securities – debt securities		
Listed outside Hong Kong	3,923,948	0
Unlisted	1,449,023	486,667
	5,372,971	486,667
Investment securities – equity securities		
Unlisted	9,801	9,801
Total	11,031,322	5,463,881
Issued by:		
Central governments and central banks	186,959	257,568
Banks and other financial institutions	5,196,527	3,951,241
Corporate entities	5,301,317	1,188,509
Public sector entities	339,618	59,662
Others	6,901	6,901
	11,031,322	5,463,881
Market value of listed securities		
Debt securities	6,098,688	495,102

Notes to the Interim Financial Report – Unaudited (cont'd)

(12) Held-to-maturity securities and investment securities (cont'd)

The maturity profile of debt securities included above and analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

		The Group	
		As at 30 June 2001	As at 31 December 2000
		HK\$'000	HK\$'000
3 months or less but not repayable on demand		139,970	485,950
1 year or less but over 3 months		2,392,431	838,199
5 years or less but over 1 year		2,311,973	3,264,593
After 5 years		804,176	378,671
Undated		5,372,971	486,667
		11,021,521	5,454,080

(13) Deposits and balances of banks and other financial institutions

		The Group	
		As at 30 June 2001	As at 31 December 2000
		HK\$'000	HK\$'000
Repayable on demand		91,411	53,671
With agreed maturity dates or periods of notice, by remaining maturity:			
3 months or less but not repayable on demand		1,274,983	335,191
1 year or less but over 3 months		0	30,000
		1,366,394	418,862

Notes to the Interim Financial Report – Unaudited (cont'd)

(14) Current, fixed, savings and other deposits of customers

		The Group	
		As at 30 June 2001	As at 31 December 2000
		HK\$'000	HK\$'000
Repayable on demand		5,268,476	4,943,923
With agreed maturity dates or periods of notice, by remaining maturity:			
3 months or less but not repayable on demand		35,272,761	38,073,321
1 year or less but over 3 months		4,157,059	1,041,196
5 years or less but over 1 year		2,250,428	2,566,226
		46,948,724	46,624,666

(15) Certificates of deposit issued

		The Group	
		As at 30 June 2001	As at 31 December 2000
		HK\$'000	HK\$'000
With agreed maturity dates or periods of notice, by remaining maturity:			
3 months or less but not repayable on demand		399,533	15,601
1 year or less but over 3 months		194,216	769,447
5 years or less but over 1 year		2,298,152	868,534
		2,891,901	1,653,582

(16) Issued debt securities

		The Group	
		As at 30 June 2001	As at 31 December 2000
		HK\$'000	HK\$'000
With agreed maturity dates or earlier redeemable dates at the holders' option, by remaining maturity:			
1 year or less but over 3 months		357,987	0
5 years or less but over 1 year		0	398,197
		357,987	398,197

Notes to the Interim Financial Report – Unaudited (cont'd)

(17) Reserves

The Group							
As at 30 June 2001							
	Share premium	Property revaluation reserve	Capital reserve	General reserve	Exchange revaluation reserve	Retained profits Restated	Total Restated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2001							
As previously reported	1,425,542	11,945	37,500	100,000	322	1,543,267	3,118,576
Prior year adjustment in respect of dividends	0	0	0	0	0	129,743	129,743
As restated	1,425,542	11,945	37,500	100,000	322	1,673,010	3,248,319
Share premium on shares issued during the period	492	0	0	0	0	0	492
Dividend payment	0	0	0	0	0	(129,743)	(129,743)
Profit for the period	0	0	0	0	0	306,511	306,511
At 30 June 2001	1,426,034	11,945	37,500	100,000	322	1,849,778	3,425,579

The Group							
As at 31 December 2000							
	Share premium	Property revaluation reserve	Capital reserve	General reserve	Exchange revaluation reserve	Retained profits Restated	Total Restated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2000							
As previously reported	1,425,026	11,945	37,500	100,000	191	1,192,766	2,767,428
Prior year adjustment in respect of dividends	0	0	0	0	0	25,945	25,945
As restated	1,425,026	11,945	37,500	100,000	191	1,218,711	2,793,373
Share premium on shares issued during the year	520	0	0	0	0	0	520
Share issue expenses	(4)	0	0	0	0	0	(4)
Exchange adjustments	0	0	0	0	131	0	131
Dividend payment	0	0	0	0	0	(77,842)	(77,842)
Profit for the year	0	0	0	0	0	532,141	532,141
At 31 December 2000	1,425,542	11,945	37,500	100,000	322	1,673,010	3,248,319

Notes to the Interim Financial Report – Unaudited (cont'd)

(18) Off-balance sheet exposures

(a) Contingent liabilities and commitments

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

	The Group	
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
Direct credit substitutes	872,186	609,289
Transaction-related contingencies	54,832	63,060
Trade-related contingencies	817,871	820,910
Other commitments:		
with an original maturity of under 1 year or which are unconditionally cancellable	6,675,318	7,403,679
with an original maturity of 1 year and over	395,121	387,652
	8,815,328	9,284,590

The above amounts include the guarantees for credit facilities granted by third parties to certain subsidiaries amounting to HK\$40 million as at 30 June 2001 (31 December 2000: HK\$40 million).

Notes to the Interim Financial Report – Unaudited (cont'd)

(18) Off-balance sheet exposures (cont'd)

(b) Derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices.

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

	The Group					
	As at 30 June 2001			As at 31 December 2000		
	Trading	Hedging	Total	Trading	Hedging	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts						
Forwards	361,427	623,688	985,115	320,801	559,576	880,377
Swaps	0	69,088,097	69,088,097	0	42,189,304	42,189,304
Interest rate contracts						
Swaps	0	3,014,818	3,014,818	0	510,918	510,918
Forward rate agreement	0	100,000	100,000	0	0	0
Equity contracts						
Options	0	41,348	41,348	0	7,904	7,904
	361,427	72,867,951	73,229,378	320,801	43,267,702	43,588,503

Notes to the Interim Financial Report – Unaudited (cont'd)

(18) Off-balance sheet exposures (cont'd)

- (c) The replacement costs and credit risk weighted amounts of the above off-balance sheet exposures are as follows. These amounts do not take into account the effects of bilateral netting arrangements.

	The Group			
	As at 30 June 2001		As at 31 December 2000	
	Replacement cost	Credit risk weighted amount	Replacement cost	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments	N/A	891,344	N/A	830,773
Exchange rate contracts	41,823	148,820	123,912	115,474
Interest rate contracts	189,749	44,766	24,805	5,799
Equity contracts	3,931	2,003	0	0
	235,503	1,086,933	148,717	952,046

(19) Assets subject to sale and repurchase transactions

The following assets are subject to sale and repurchase transactions:

	The Group	
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
Held-to-maturity securities and investment securities	898,575	0

Notes to the Interim Financial Report – Unaudited (cont'd)

(19) Assets subject to sale and repurchase transactions (cont'd)

The following liabilities are subject to sale and repurchase transactions:

		The Group	
		As at 30 June 2001	As at 31 December 2000
		HK\$'000	HK\$'000
Deposits and balances of banks and other financial institutions		898,575	0

(20) Material related party transactions

During the period, the Group entered into a number of transactions with its ultimate holding company and the ultimate holding company's subsidiaries, in the ordinary course of its banking business including, inter alia, lending, the acceptance and placement of interbank deposits, participation in loan syndicates, correspondent banking transactions and foreign exchange transactions. The contracts were priced based on relevant market rates at the time of transaction, and were under the same terms as those available to other counterparties and customers of the Group. In the opinion of the directors, these transactions were conducted on normal commercial terms.

Information relating to income and expense from related party transactions during the period and balances outstanding as at 30 June 2001 is set out below:

(a) Income/(expense)

		The Group	
		Six months ended 30 June	
		2001	2000
		HK\$'000	HK\$'000
Interest income		4,893	13,678
Interest expense		(146,047)	(21,724)
Net interest expense		(141,154)	(8,046)

Notes to the Interim Financial Report – Unaudited (cont'd)

(20) Material related party transactions (cont'd)

(b) Ultimate holding company

	The Group	
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
Cash and short-term funds	0	156,006
Advances to customers and other accounts less provisions	199,733	142,004
	199,733	298,010
Current, fixed, savings and other deposits of customers	1,881,370	2,983,341
Other accounts and provisions	29,960	16,882
	1,911,330	3,000,223

Notes to the Interim Financial Report – Unaudited (cont'd)

(20) Material related party transactions (cont'd)

(c) Subsidiaries of the ultimate holding company

	The Group	
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
Advances to customers and other accounts less provisions	64,740	82,336

	The Group	
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
Deposits and balances of banks and other financial institutions	153,346	81,800
Current, fixed, savings and other deposits of customers	2,198,878	2,433,764
Other accounts and provisions	44,991	21,664
	2,397,215	2,537,228

- (d) A subsidiary of the Bank owns 464,200 shares (31 December 2000: 464,200 shares) in equity securities listed outside Hong Kong at 30 June 2001. The cost of investment was HK\$18.88 per share (31 December 2000: HK\$18.88 per share) totalling HK\$9 million (31 December 2000: HK\$9 million). This investment's fair value at 30 June 2001 was HK\$8 million (31 December 2000: HK\$8 million). The subsidiary entered into a put option with a subsidiary of the Bank's ultimate holding company, to sell to them these securities. The option has an exercise price of Thai Baht 93.93 per share (HK\$16.17 equivalent) and will expire on 29 April 2002.
- (e) A subsidiary of the ultimate holding company has opened Hong Kong dollar and Renminbi bank accounts in another subsidiary bank of the ultimate holding company in the PRC to receive repayments from the Group's borrowers located in the PRC. The balances of these accounts, which amounted to HK\$359 million (31 December 2000: HK\$333 million) at 30 June 2001, were held in trust on behalf of the Bank free of any encumbrances.