

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 1. PRINCIPAL ACCOUNTING POLICIES

The interim financial statements are unaudited, condensed and have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA") except that no comparative figures have been presented in the condensed consolidated cash flow statement as permitted under Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the first cash flow statement to be included in the interim financial statements relating to accounting periods ending on or after 1st July, 2000.

The accounting policies adopted in the preparation of the interim financial statements are consistent with those adopted in the Group's audited financial statements for the year ended 31st December, 2000 except that the Group has changed certain of its accounting policies as a result of the adoption of the following SSAPs issued by HKSA which are effective for accounting periods commencing on or after 1st January, 2001:

SSAP 9 (revised): Events after the balance sheet date

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that portion of the final dividend and special dividend, as the case may be, proposed by certain subsidiaries of the Company for the year ended 31st December, 2000 attributable to minority interests, totalling HK\$56,704,000, previously recorded as current liabilities of the Group as at 31st December, 2000 has been restated and included under minority interests in the balance sheet.

SSAP 30: Business combinations

Goodwill/Negative goodwill arising on acquisition of subsidiaries and associates were previously eliminated against reserves and realised and released to the profit and loss account upon disposal of such subsidiaries or associates.

Following the adoption of SSAP 30, goodwill is capitalised as an asset and amortised over its estimated useful life not exceeding 20 years. Negative goodwill which relates to identifiable future losses and expenses is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the identifiable non-monetary assets acquired, is recognised in the profit and loss account over the weighted average useful life of the identifiable acquired depreciable/amortisable assets. Negative goodwill in excess of the fair values of such identifiable non-monetary assets is recognised immediately in the profit and loss account.

The Group has adopted the transitional provision as permitted under SSAP 30 not to restate any goodwill/negative goodwill arisen in periods prior to 1st January, 2001. However, any impairment losses in respect of such goodwill are recognised retrospectively in the period when such impairment loss occurred in accordance with the requirements of SSAP 31 "Impairment of assets".

As a result, impairment losses totalling HK\$481,640,000 were quantified and recognised in periods prior to 1st January, 2001, comprising HK\$468,400,000 and HK\$13,240,000 in respect of goodwill arising on acquisition of subsidiaries and associates, respectively. Accordingly, special capital reserve and capital reserve as at 1st January, 2001 were restated and increased by HK\$396,403,000 and HK\$85,237,000, respectively, with retained earnings restated and decreased by HK\$481,640,000 with details as set out in Note 9 to the interim financial statements.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

## 2. TURNOVER AND SEGMENT INFORMATION

Turnover represents the aggregate of gross rental income, gross proceeds from sales of properties and investments, gross income from fund management, underwriting and securities broking, interest and dividend income, sales income from food businesses, gross premiums from insurance business and net interest income, commissions, dealing income and other revenues from a banking subsidiary, after elimination of all significant intra-group transactions.

An analysis of the Group's turnover and contribution to profit/(loss) from operating activities by principal activity and geographical location is set out below:

## Principal activity

	Turnover Six months ended 30th June,		Contribution Six months ended 30th June,	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Property investment and development	51,211	55,471	20,504	23,059
Securities investment	148,243	51,827	(48,367)	(34,636)
Food businesses	242,120	267,406	(3,626)	(8,110)
Interest income	152,046	146,271	76,526	60,545
Fund management and securities broking	39,171	53,842	9,715	13,337
Banking businesses (Note)	247,464	248,509	67,657	32,791
Other	24,628	24,934	11,692	18,915
	<b>904,883</b>	<b>848,260</b>	<b>134,101</b>	<b>105,901</b>
Unallocated items:				
Other revenue			860	7,312
Finance costs			(42,814)	(93,111)
Corporate expenses			(44,606)	(37,989)
Profit/(Loss) from operating activities			<b>47,541</b>	<b>(17,887)</b>

Note: Turnover attributable to banking businesses represents turnover generated from a banking subsidiary and is analysed as follows:

	Six months ended 30th June,	
	2001 HK\$'000	2000 HK\$'000
Interest income	629,765	756,962
Interest expenses	(435,186)	(556,599)
Commission income	24,028	34,073
Commission expenses	(3,149)	(3,297)
Net dealing income and other revenues	32,006	17,370
	<b>247,464</b>	<b>248,509</b>

**NOTES TO THE INTERIM FINANCIAL STATEMENTS** *(continued)*

2. **TURNOVER AND SEGMENT INFORMATION** *(continued)*

**Geographical location**

	<b>Turnover</b>		<b>Contribution</b>	
	<b>Six months ended</b>		<b>Six months ended</b>	
	<b>30th June,</b>		<b>30th June,</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Hong Kong	485,050	528,013	140,801	127,494
Republic of Singapore	379,299	293,922	(31,541)	13,402
People's Republic of China	31,036	19,438	18,429	5,533
Republic of Indonesia	—	—	1,712	(45,807)
Other	9,498	6,887	4,700	5,279
	<b>904,883</b>	<b>848,260</b>	<b>134,101</b>	<b>105,901</b>
Unallocated items:				
Other revenue			860	7,312
Finance costs			(42,814)	(93,111)
Corporate expenses			(44,606)	(37,989)
Profit/(Loss) from operating activities			<b>47,541</b>	<b>(17,887)</b>

3. **PROFIT FROM OPERATING ACTIVITIES BEFORE FINANCE COSTS**

Profit from operating activities before finance costs is arrived at after crediting/(charging):

	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Dividend income from listed investments	2,573	246
Net unrealised holding gain/(loss) on investment securities:		
Listed	3,112	(49,353)
Unlisted	(24,750)	1,758
Net realised and unrealised holding gain/(loss) on other investments in securities:		
Listed	(33,338)	28,721
Unlisted	1,256	—
Unrealised holding gain/(loss) on listed held-to-maturity securities	1,550	(10,323)
Depreciation:		
Banking operations	(24,902)	(20,058)
Other	(16,459)	(16,927)
Gain/(Loss) on disposal of fixed assets:		
Banking operations	(78)	(835)
Other	(1,866)	838
Loss on sale of properties	—	(53)
Cost of inventories sold	(165,324)	(184,976)
Cost of properties for sale sold	—	(4,063)

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

## 4. TAX

	Six months ended 30th June,	
	2001 HK\$'000	2000 HK\$'000
The Company and its subsidiaries:		
Provision for the period:		
Hong Kong	6,256	7,177
Overseas	48	3,086
	<u>6,304</u>	<u>10,263</u>
Under/(Over) provisions for prior years:		
Hong Kong	2,551	—
Overseas	(209)	—
	<u>2,342</u>	<u>—</u>
	<u>8,646</u>	<u>10,263</u>
Associates:		
Provision for the period:		
Overseas	42	2,102
	<u>42</u>	<u>2,102</u>
Tax charge for the period	<u>8,688</u>	<u>12,365</u>

Hong Kong profits tax has been provided for at the rate of 16 per cent. (2000 – 16 per cent.) on the estimated assessable profits arising in Hong Kong for the period. Overseas tax has been calculated on the estimated assessable profits for the period at the tax rates prevailing in the countries in which the Group operates. No tax provision was required for the jointly controlled entity of the Group as it did not earn any assessable profit for the period (2000 – Nil).

There is no material potential liability for deferred taxation as at 30th June, 2001 (2000 – Nil).

## 5. LOSS PER SHARE

## (a) Basic loss per share

Basic loss per share is calculated based on (i) the net loss from ordinary activities attributable to shareholders of HK\$37,368,000 (2000 – HK\$95,090,000); and (ii) the number of 9,201,089,000 shares (2000 – weighted average number of 6,134,043,000 shares) in issue during the period.

## (b) Diluted loss per share

No diluted loss per share is presented for the periods ended 30th June, 2001 and 2000 as there were no dilutive potential ordinary shares.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

## 6. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS

Due to the dissimilar nature of banking and non-banking operations, assets less liabilities attributable to banking operations are shown separately in the consolidated interim financial statements. The financial information in respect of banking operations shown below is based on the unaudited consolidated interim financial statements of The HKCB Bank Holding Company Limited ("HKCB Holding", together with its subsidiaries, the "HKCB Holding Group"), a listed subsidiary of the Company, for the six months ended 30th June, 2001.

		30th June, 2001 HK\$'000	Restated 31st December, 2000 HK\$'000
	Note		
Cash and short-term funds	(a)	6,473,452	8,739,852
Placements with banks and other financial institutions maturing between one and twelve months		650,849	783,432
Certificates of deposit held		698,904	606,512
Other investments in securities	(b)	235,688	235,035
Advances, trade bills and other accounts	(c)	13,373,714	13,257,183
Held-to-maturity securities	(d)	293,409	295,395
Investment securities	(e)	25,832	24,943
Interests in associates		55,832	55,515
Fixed assets		1,288,857	1,298,146
		<b>23,096,537</b>	<b>25,296,013</b>
Deposits and balances of banks and other financial institutions		(308,174)	(324,336)
Loan from a financial institution		(45,000)	(45,000)
Current, fixed, savings and other deposits of customers		(15,803,594)	(18,438,392)
Certificates of deposit issued		(1,610,508)	(1,048,890)
Other accounts and provisions		(827,476)	(841,802)
Subordinated floating rate notes issued	(f)	(98,421)	(231,716)
		<b>(18,693,173)</b>	<b>(20,930,136)</b>
		<b>4,403,364</b>	<b>4,365,877</b>

Note:

(a) Cash and short-term funds

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Cash and balances with banks and other financial institutions	220,756	204,544
Money at call and short notice	5,673,530	7,881,709
Treasury bills	579,166	653,599
	<b>6,473,452</b>	<b>8,739,852</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

## 6. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS (continued)

## (b) Other investments in securities

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Debt securities:		
Listed, at market value	3,549	18,386
Unlisted, at fair value	28,820	15,801
	<u>32,369</u>	<u>34,187</u>
Equity securities:		
Listed, at market value	44,395	41,930
Unlisted, at fair value	123,720	123,720
	<u>168,115</u>	<u>165,650</u>
Unlisted investment funds, at fair value	35,204	35,198
	<u>235,688</u>	<u>235,035</u>

## (c) Advances, trade bills and other accounts

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Advances to customers	13,421,310	13,248,632
Advances to banks and other financial institutions	16,709	16,707
Trade bills	132,722	151,736
Other accounts	136,130	217,355
Accrued interest	86,221	133,986
Provisions for bad and doubtful debts	(419,378)	(511,233)
	<u>13,373,714</u>	<u>13,257,183</u>

Non-performing loans, which represent the gross amount of advances net of suspended interest, on which interest has been placed in suspense or has ceased to accrue, are as follows:

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Non-performing loans:		
Gross advances	931,985	1,204,109
Less: Specific provisions	(251,170)	(277,348)
	<u>680,815</u>	<u>926,761</u>
Secured non-performing loans	485,931	694,877
Unsecured non-performing loans	446,054	509,232
	<u>931,985</u>	<u>1,204,109</u>
Market value of collateral held	<u>511,446</u>	<u>733,555</u>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

## 6. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS (continued)

## (d) Held-to-maturity securities

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Debt securities, at amortised cost:		
Listed	186,522	186,970
Unlisted	142,024	140,433
	<b>328,546</b>	<b>327,403</b>
Less: Provisions for impairments in values	(35,137)	(32,008)
	<b>293,409</b>	<b>295,395</b>
Market value of listed debt securities	<b>157,229</b>	<b>158,604</b>
An analysis of the issuers of the held-to-maturity securities is as follows:		
Central governments and central banks	110,731	110,760
Banks and other financial institutions	—	7,741
Corporate entities	216,206	207,245
Other	1,609	1,657
	<b>328,546</b>	<b>327,403</b>

## (e) Investment securities

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Unlisted debt securities, at cost	11,590	10,690
Unlisted equity securities, at cost	14,242	14,253
	<b>25,832</b>	<b>24,943</b>
An analysis of the issuers of the investment securities is as follows:		
Club debentures	11,590	10,690
Other	14,242	14,253
	<b>25,832</b>	<b>24,943</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

## 6. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS (continued)

## (f) Subordinated floating rate notes issued

These notes are unsecured, wholly repayable in March 2007 and carry interest at the London Interbank Offered Rate ("LIBOR") plus 1.375 per cent. per annum up to March 2002 and at LIBOR plus 3 per cent. per annum thereafter. They are listed on the Luxembourg Stock Exchange and were recognised by the Hong Kong Monetary Authority ("HKMA") as supplementary capital for the purpose of calculating capital adequacy ratio of the HKCB Holding Group up to March 2001.

The HKCB Holding Group is entitled to redeem these notes on any interest payment date, while the holders of these notes are entitled to require the HKCB Holding Group to redeem the notes upon the occurrence of certain events relating to changes in the shareholding structure of the HKCB Holding Group. Redemptions of the notes are also subject to the prior approval of the HKMA.

During the six months ended 30th June, 2001, the HKCB Holding Group repurchased, with the approval of the HKMA, US\$17.2 million (year ended 31st December, 2000 – US\$8.1 million) of the notes which were subsequently cancelled. At 30th June, 2001, the outstanding amount of the notes issued by the HKCB Holding Group is US\$12.7 million (31st December, 2000 – US\$29.9 million).

## (g) Supplementary information on banking operations included in the consolidated profit and loss account

	Six months ended 30th June,	
	2001 HK\$'000	2000 HK\$'000
Interest income	754,258	849,985
Interest expenses	(445,195)	(566,936)
Net gain on foreign exchange trading	4,650	6,581
Realised and unrealised holding gain on other investments in securities	9,667	53,646
Dividend income from listed investments	2,301	–
Net loss from other dealing activities	(434)	(1,305)
Charge for bad and doubtful debts	(62,257)	(111,384)
Provisions made on held-to-maturity securities	(3,136)	(7,764)

## (h) Operating income by division

	Six months ended 30th June,	
	2001 HK\$'000	2000 HK\$'000
Commercial and retail banking	254,447	209,540
Treasury and investment activities	107,626	111,267
Corporate finance and securities brokerage	26,322	29,388
Other businesses	18,872	76,447
	<b>407,267</b>	<b>426,642</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

## 6. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS (continued)

## (i) Maturity profile of major assets and liabilities

	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
<b>At 30th June, 2001</b>							
<b>Assets</b>							
Treasury bills (including Exchange Fund Bills)	–	267,982	311,184	–	–	–	579,166
Cash and other short-term funds	220,756	5,673,530	–	–	–	–	5,894,286
Placements with banks and other financial institutions maturing between one and twelve months	–	460,349	190,500	–	–	–	650,849
Certificates of deposit held	–	279,576	129,984	289,344	–	–	698,904
<b>Debt securities:</b>							
Other investments in securities	–	15,860	5,272	39	–	11,198	32,369
Held-to-maturity securities	–	38,913	45,678	201,382	11,602	30,971	328,546
Investment securities	–	–	–	–	–	11,590	11,590
Advances to customers	687,258	2,046,836	1,339,547	2,763,631	5,413,140	1,170,898	13,421,310
Advances to banks and other financial institutions	8,129	–	–	8,580	–	–	16,709
	<u>916,143</u>	<u>8,783,046</u>	<u>2,022,165</u>	<u>3,262,976</u>	<u>5,424,742</u>	<u>1,224,657</u>	<u>21,633,729</u>
<b>Liabilities</b>							
Deposits and balances of banks and other financial institutions	267,012	39,602	1,560	–	–	–	308,174
Loan from a financial institution	–	45,000	–	–	–	–	45,000
Current, fixed, savings and other deposits of customers	1,706,968	13,138,534	956,881	1,211	–	–	15,803,594
Certificates of deposit issued	–	201,901	418,000	990,607	–	–	1,610,508
Subordinated floating rate notes issued	–	–	–	–	98,421	–	98,421
	<u>1,973,980</u>	<u>13,425,037</u>	<u>1,376,441</u>	<u>991,818</u>	<u>98,421</u>	<u>–</u>	<u>17,865,697</u>
<b>At 31st December, 2000</b>							
<b>Assets</b>							
Treasury bills (including Exchange Fund Bills)	99,697	99,032	454,870	–	–	–	653,599
Cash and other short-term funds	204,544	7,881,709	–	–	–	–	8,086,253
Placements with banks and other financial institutions maturing between one and twelve months	–	783,432	–	–	–	–	783,432
Certificates of deposit held	–	105,980	385,997	114,535	–	–	606,512
<b>Debt securities:</b>							
Other investments in securities	–	8,013	–	39	–	26,135	34,187
Held-to-maturity securities	–	27,119	86,251	171,463	11,602	30,968	327,403
Investment securities	–	–	–	–	–	10,690	10,690
Advances to customers	1,352,049	1,244,653	932,805	2,939,414	5,310,346	1,469,365	13,248,632
Advances to banks and other financial institutions	8,128	–	–	8,579	–	–	16,707
	<u>1,664,418</u>	<u>10,149,938</u>	<u>1,859,923</u>	<u>3,234,030</u>	<u>5,321,948</u>	<u>1,537,158</u>	<u>23,767,415</u>
<b>Liabilities</b>							
Deposits and balances of banks and other financial institutions	236,492	85,504	2,340	–	–	–	324,336
Loan from a financial institution	–	45,000	–	–	–	–	45,000
Current, fixed, savings and other deposits of customers	1,565,663	14,909,844	1,962,795	90	–	–	18,438,392
Certificates of deposit issued	–	–	619,901	428,989	–	–	1,048,890
Subordinated floating rate notes issued	–	–	–	–	231,716	–	231,716
	<u>1,802,155</u>	<u>15,040,348</u>	<u>2,585,036</u>	<u>429,079</u>	<u>231,716</u>	<u>–</u>	<u>20,088,334</u>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

## 6. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS (continued)

- (j) Further details of the related off-balance sheet exposures are disclosed in Note 13(b) to the interim financial statements.

## 7. DEBTORS, PREPAYMENTS AND DEPOSITS

Included in the balances are trade debtors with ageing analysis as follows:

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Outstanding balances with ages:		
Within 30 days	43,642	53,978
Between 31 and 60 days	35,657	46,604
Between 61 and 90 days	21,347	28,012
Between 91 and 180 days	9,724	8,816
Between 181 and 360 days	439	45
Over 360 days	1,196	1,365
	<b>112,005</b>	<b>138,820</b>

Trading terms with customers are either on cash basis or on credit. For those customers who trade on credit, invoices are normally payable within 30-60 days of issuance. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.

## 8. SHARE CAPITAL

## Shares

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
<i>Authorised:</i>		
28,000,000,000 (31st December, 2000 – 28,000,000,000) shares of HK\$0.10 each	<b>2,800,000</b>	<b>2,800,000</b>
<i>Issued and fully paid:</i>		
9,201,088,716 (31st December, 2000 – 9,201,088,716) shares of HK\$0.10 each	<b>920,109</b>	<b>920,109</b>

## Share options

Pursuant to the Share Option Scheme for Employees of the Company (the "Scheme") approved and adopted by the shareholders of the Company on 2nd May, 1994, the Directors of the Company may, at their discretion, grant to any employees (including Directors) of the Group options to subscribe for shares in the Company.

As at 1st January, 2001, certain Directors and employees of the Group held a total of 5,800,000 share options under the Scheme. The holder of each option was entitled to subscribe for six shares of HK\$0.10 each in the Company on or before 23rd June, 2007 at an exercise price of HK\$0.883 per share (subject to adjustment). The above share options were granted on 23rd June, 1997 at a consideration of HK\$1.00 per grantee under the Scheme. During the six months ended 30th June, 2001, no share options were cancelled or exercised. The exercise in full of the 5,800,000 share options would, under the capital structure of the Company as at 30th June, 2001, result in the issue of 34,800,000 shares of HK\$0.10 each in the Company and cash proceeds, before expenses, of HK\$30,728,000.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

## 8. SHARE CAPITAL (continued)

## Warrants

As at 1st January, 2001, there were outstanding warrants in an aggregate subscription value of HK\$429,356,000. The warrants entitle the registered holders to subscribe in cash for up to 1,341,738,000 new shares of HK\$0.10 each in the Company at a subscription price of HK\$0.32 per share (subject to adjustment). The warrants are exercisable at any time within a period of three years commencing on and including 23rd July, 1999. During the six months ended 30th June, 2001, no warrants were cancelled or exercised. The exercise in full of the outstanding warrants with an aggregate subscription value of HK\$429,356,000 would, under the capital structure of the Company as at 30th June, 2001, result in the issue of 1,341,738,000 shares of HK\$0.10 each in the Company.

## 9. RESERVES

	Share premium HK\$'000	Special capital reserve HK\$'000	Capital reserve HK\$'000	Investment property revaluation reserve HK\$'000	Other asset revaluation reserve HK\$'000	Exchange equalisation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 2001								
As previously reported	785,257	1,507,986	(21,823)	12,110	373,224	(149,745)	1,393,545	3,900,554
Prior period adjustment on impairment losses in respect of goodwill previously eliminated against reserves	-	396,403	85,237	-	-	-	(481,640)	-
As restated	785,257	1,904,389	63,414	12,110	373,224	(149,745)	911,905	3,900,554
Transfer of portion of depreciation charge on leasehold properties attributable to the related revaluation surplus to retained profits	-	-	-	-	(3,997)	-	3,997	-
Exchange difference on consolidation	-	-	-	-	-	(20,756)	-	(20,756)
Loss for the period	-	-	-	-	-	-	(37,368)	(37,368)
At 30th June, 2001	785,257	1,904,389	63,414	12,110	369,227	(170,501)	878,534	3,842,430

Pursuant to a special resolution passed at an extraordinary general meeting of the Company on 2nd December, 1997 and the confirmation by the court on 22nd December, 1997, the entire amount standing to the credit of the share premium account of the Company in the amount of HK\$849,149,000 was cancelled on 23rd December, 1997 (the "Cancellation").

The credit arising from the Cancellation was transferred to a special capital reserve account. A summary of the terms of the undertaking given by the Company (the "Undertaking") in respect of the application of the special capital reserve is set out below:

- (1) The reserve is to be used for eliminating goodwill which has already arisen on the acquisition of subsidiaries and associates at the date of the Cancellation and that arising as a result of future acquisitions.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

## 9. RESERVES (continued)

- (2) The reserve (a) shall not be treated as realised profits and (b) shall be treated as an undistributable reserve for so long as there shall remain any outstanding debts or claims which were in existence on the date of the Cancellation provided that:
- (i) the Company shall be at liberty to apply the reserve for the same purposes as a share premium account may be applied; and
  - (ii) the amount of the reserve may be reduced by the amount of any future increase in the share capital and the share premium account. Any part of the reserve so reduced is released from the terms of the Undertaking and the Company may apply that part so released as a distributable reserve.

Pursuant to a special resolution passed at an extraordinary general meeting of the Company on 23rd December, 1998 and the confirmation by the court on 26th January, 1999, the issued and fully paid-up share capital of the Company was reduced from HK\$1,533,498,000 divided into 3,066,996,246 shares of HK\$0.50 each to HK\$306,700,000 divided into 3,066,996,246 shares of HK\$0.10 each and an amount standing to the credit of the share capital account of the Company of HK\$1,226,799,000 was cancelled on 27th January, 1999 and the credit arising therefrom was transferred to a special capital reserve account, the application of which is subject to the same conditions as specified in (2)(a) and (2)(b)(ii) of the terms of the above Undertaking.

As previously reported, the balance of the special capital reserve subject to the Undertaking amounted to HK\$111,194,000 as at 31st December, 2000. As a result of the prior period adjustment as referred to in Note 1 to the interim financial statements, an amount of HK\$396,403,000 of the goodwill previously eliminated against this reserve account was realised and added back to the account. Accordingly, the balance of the special capital reserve subject to the Undertaking as at 31st December, 2000 was increased by HK\$396,403,000 and restated at HK\$507,597,000. There was no movement of the special capital reserve subject to the Undertaking during the period, the balance of which remained unchanged as at 30th June, 2001.

## 10. BANK LOANS

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Bank loans, secured (Note)	1,063,622	1,157,169
Portion due within one year included under current liabilities	<u>(227,430)</u>	<u>(285,225)</u>
Long term portion	<u>836,192</u>	<u>871,944</u>
The maturities of bank loans are as follows:		
Within one year	227,430	285,225
In the second year	416,806	297,357
In the third to fifth years, inclusive	232,193	348,395
After five years	<u>187,193</u>	<u>226,192</u>
	<u>1,063,622</u>	<u>1,157,169</u>

Note: The bank loans are secured by shares in certain subsidiaries of the Group, first legal mortgages over certain investment properties and leasehold land and buildings of the Group.

## 11. LOAN NOTE

As at 1st January, 2001, the Group had an outstanding loan note of HK\$110,000,000 ("Loan Note") due to Lippo Limited ("Lippo"), an intermediate holding company of the Company. The Loan Note is repayable immediately upon Lippo's issuing a written notice of not less than 10 days, interest-bearing at Hong Kong Dollar prime rate and the interest thereon is payable monthly. During the period, the Group redeemed HK\$6,500,000 of the Loan Note at par in cash. As at 30th June, 2001, after the above redemption, the Group had an outstanding Loan Note of HK\$103,500,000.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

## 12. CREDITORS, ACCRUALS AND DEPOSITS RECEIVED

Included in the balances are trade creditors with ageing analysis as follows:

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Outstanding balances with ages:		
Within 30 days	25,643	30,573
Between 31 and 60 days	27,354	23,053
Between 61 and 90 days	5,219	7,409
Between 91 and 180 days	7,973	11,147
Between 181 and 360 days	37	—
	<b>66,226</b>	<b>72,182</b>

## 13. CONTINGENT LIABILITIES

At the balance sheet date, the Group had the following contingent liabilities:

## (a) Guarantees in respect of banking facilities

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Guarantees provided in respect of banking facilities granted to:		
An associate	60,000	60,000
A jointly controlled entity	26,338	—
Investee companies	602,925	602,925
	<b>689,263</b>	<b>662,925</b>

## (b) Details of off-balance sheet exposures related to banking operations

## (i) Contingent liabilities and commitments

The following is a summary of the contract amounts of each significant type of contingent liabilities and commitments outstanding:

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Direct credit substitutes	20,158	40,003
Transaction-related contingencies	41,210	33,903
Trade-related contingencies	233,817	214,997
Forward asset purchases	31,000	31,000
Forward forward deposits	884,513	983,758
Other commitments with an original maturity of:		
Under one year or which are unconditionally cancellable	2,613,464	2,809,127
One year and over	17,337	20,398
	<b>3,841,499</b>	<b>4,133,186</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

## 13. CONTINGENT LIABILITIES (continued)

## (b) Details of off-balance sheet exposures related to banking operations (continued)

## (ii) Derivatives

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

	30th June, 2001			31st December, 2000		
	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000
Exchange rate contracts:						
Forward contracts	438,129	–	438,129	179,451	–	179,451
Currency swaps	70,202	30,889	101,091	35,097	30,885	65,982
Interest rate contracts:						
Interest rate swaps	–	123,907	123,907	–	120,194	120,194
	<b>508,331</b>	<b>154,796</b>	<b>663,127</b>	<b>214,548</b>	<b>151,079</b>	<b>365,627</b>

The contract/notional amounts, credit risk weighted amounts, and replacement costs of the above off-balance sheet exposures are as follows:

	30th June, 2001			31st December, 2000		
	Contract/ notional amount HK\$'000	Credit risk weighted amount HK\$'000	Replace- ment cost HK\$'000	Contract/ notional amount HK\$'000	Credit risk weighted amount HK\$'000	Replace- ment cost HK\$'000
Contingent liabilities and commitments	3,841,499	255,621	N/A	4,133,186	259,254	N/A
Derivatives:						
Exchange rate contracts	539,220	2,968	8,086	245,433	1,766	5,149
Interest rate contracts	123,907	1,865	3,419	120,194	1,217	2,509
	<b>4,504,626</b>	<b>260,454</b>	<b>11,505</b>	<b>4,498,813</b>	<b>262,237</b>	<b>7,658</b>

## 14. COMMITMENTS

As at 30th June, 2001, the Group had the following capital commitments:

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
(a) Capital commitments in respect of property, plant and equipment:		
Contracted, but not provided for	6,913	32,163
Authorised, but not contracted for	15,700	23,090
	<b>22,613</b>	<b>55,253</b>
Other capital commitments:		
Contracted, but not provided for	6,240	22,618
	<b>28,853</b>	<b>77,871</b>
(b) Share of capital commitments of a jointly controlled entity in respect of property, plant and equipment:		
Contracted, but not provided for	12,867	12,867

## NOTES TO THE INTERIM FINANCIAL STATEMENTS (continued)

## 15. RELATED PARTY TRANSACTIONS

- (a) As at 30th June, 2001, the Group had the following balances with The HKCB Bank Holding Company Limited ("HKCB Holding"), a listed subsidiary of the Company, and its subsidiaries, which have not been eliminated on consolidation:

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Included under the following item as referred to in Note 6 to the interim financial statements:		
Current, fixed, savings and other deposits of customers	<u>94,437</u>	<u>233,976</u>

As at 30th June, 2001, related parties of the Group, including holding companies, fellow subsidiaries and a substantial shareholder of a subsidiary of the Company and their related companies, had the following balances with HKCB Holding and its subsidiaries:

	30th June, 2001 HK\$'000	31st December, 2000 HK\$'000
Included under the following item as referred to in Note 6 to the interim financial statements:		
Current, fixed, savings and other deposits of customers	<u>3,514,210</u>	<u>4,908,320</u>

The Directors are of the opinion that these transactions were undertaken on terms similar to those offered to unrelated customers in the ordinary course of business of the relevant companies.

As at 30th June, 2001, the Group had amounts due from associates in a total of HK\$356,476,000 (31st December, 2000 – HK\$350,137,000), amounts due to associates in a total of HK\$2,016,000 (31st December, 2000 – HK\$2,020,000) and an amount due from a jointly controlled entity of HK\$67,489,000 (31st December, 2000 – HK\$124,709,000). The balances with the associates and the jointly controlled entity are unsecured, interest-free and have no fixed terms of repayment.

- (b) During the period, the Group received rental income amounting to HK\$2,108,000 (2000 – HK\$2,460,000) from Lippo Limited ("Lippo"), an intermediate holding company of the Company. The rental was determined by reference to open market rentals.
- (c) During the period, the Group paid interest of HK\$4,194,000 (2000 – HK\$23,158,000) to Lippo. The interest was paid on the Loan Note due to Lippo as referred to in Note 11 to the interim financial statements. The interest rate was determined by reference to the then market lending rates.