

Supplementary Information

SET OUT BELOW ARE FURTHER INFORMATION RELATED TO BANKING OPERATIONS OF THE GROUP.

1. Management of risks

The Hongkong Chinese Bank, Limited (“HKCB”), a principal subsidiary of Hongkong Chinese Limited (“HKCL”, formerly known as The HKCB Bank Holding Company Limited, together with its subsidiaries, the “HKCL Group”), has established policies and procedures for risk management which are reviewed regularly by management and various management committees including the Asset and Liability Committee, Operations Committee, Credit Committee and Audit Committee to ensure the proper monitoring and control of all major risks arising from the HKCL Group’s activities at all times. The Asset and Liability Committee meets regularly to oversee the compliance of the HKCB’s activities with all the risk limits approved by the directors of HKCL Group. The Internal Auditors and Compliance Officers of the HKCL Group also perform regular reviews to supplement the various internal control measures adopted by management and different divisions to ensure compliance with these policies and procedures.

(a) Credit risk

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from lending, trade finance, treasury, derivatives and other activities undertaken by the HKCL Group.

The credit policies of HKCB and its subsidiaries set out in detail the credit approval and monitoring mechanism, the loan classification criteria and provisioning policy, which is established in accordance with the requirements and provisions of the Hong Kong Banking Ordinance and the relevant guidelines issued by the Hong Kong Monetary Authority.

The credit risk management function is independent of business units. It oversees the implementation of credit policies and ensures the quality of credit evaluation and approval. Credit approval is conducted in accordance with the HKCL Group’s credit policies, taking into account the type and tenor of loans, creditworthiness and repayment ability of prospective borrowers, collateral available and the resultant risk concentration in the context of the HKCL Group’s total assets.

Day-to-day credit management is performed by the Credit Committee. Decisions made by the Credit Committee are reviewed regularly by the executive directors of the HKCL Group and the HKCL Group’s board of directors, which also consists of non-executive directors who are independent of the day-to-day operations of the HKCL Group.

The HKCL Group has established guidelines to ensure that all new products are properly designed and reviewed prior to their approval. All relevant departments within the HKCL Group are required to involve and ensure that appropriate processes, systems and controls are in place before any new product is launched.

Supplementary Information

1. Management of risks *(continued)*

(b) Liquidity risk

HKCB manages the liquidity structure of its assets, liabilities and commitments in view of market conditions and its business needs, as well as to ensure that its operations meet with the statutory requirement on minimum liquidity ratio.

Management comprising executive directors and senior managers monitors the liquidity position of HKCB on an ongoing basis to ensure the availability of sufficient liquid funds to meet all obligations as they fall due and to make the most efficient use of the Group's financial resources.

(c) Capital

The HKCL Group maintains a strong capital base to support the development of its businesses and to comply with the statutory requirement on minimum capital adequacy ratio.

Capital is allocated to the various activities of the HKCL Group depending on the degree of risks associated with activity.

(d) Interest rate risk

Interest rate risk primarily results from timing differences in the repricing of interest bearing assets, liabilities and commitments. HKCB's interest rate positions arise mainly from treasury and commercial banking activities undertaken. HKCB has established policies and systems to monitor its interest-sensitive positions and net repricing gap. The interest rate risk is managed and monitored regularly by the Treasury Department (the "Treasury") under the guidelines and limits approved by the directors.

(e) Foreign exchange risk

Foreign exchange risk is the risk to earnings or capital arising from movements of foreign exchange rates.

HKCB's foreign exchange risk primarily arises from currency exposures originating from its commercial banking activities and foreign exchange dealings by the Treasury. Foreign exchange risk is managed and monitored on an ongoing basis by the Treasury under the guidelines and limits approved by the directors.

(f) Market risk

Market risk is the risk that changes in interest rates, foreign exchange rates, equity or commodity prices will affect the prices of financial instruments taken or held by HKCB. Financial instruments include foreign exchange contracts, interest rate contracts, equity and fixed income securities.

Supplementary Information

1. Management of risks *(continued)*

(f) Market risk (continued)

Market risk limits are approved by the HKCL Group's board of directors. Actual positions are compared with approved limits and monitored by the Assets and Liabilities Management Committee which is made up of executive directors, the treasurer and senior managers of HKCB. Exposures are measured and monitored on the basis of principal or notional amounts, outstanding balances and pre-determined stop-loss limits. All market risk trading positions are subject to periodic mark-to-market valuation, which is monitored and managed by the Treasury. With respect to the investment accounts, the HKCL Group has established evaluation procedures for the selection of fund managers and the Treasury performs regular reviews of the operation and performance of these investment accounts. The HKCL Group's Internal Auditors also perform regular reviews and testing to ensure compliance with the market risk limits and guidelines adopted by the HKCL Group.

The approximate average daily revenue earned from market risk-related activities was HK\$27,000 in 2001 (2000 – HK\$40,000). The standard deviation of such revenue was HK\$233,000 (2000 – HK\$151,000).

2. Segment information

On the basis of the location of the principal operations of the HKCL Group or, in the case of HKCB, on the location of the branches responsible for reporting the results or booking the assets, the HKCL Group operates predominantly in Hong Kong with over 90 per cent. of the HKCL Group's operating income, profit before taxation, total assets, total liabilities, contingent liabilities and commitments arise therefrom or booked therein.