(1) The provisions for bad and doubtful debts for the period comprise:

<table>
<thead>
<tr>
<th></th>
<th>6 months ended</th>
<th></th>
<th>6 months ended</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>30 June 2003</td>
<td>HK$’000</td>
<td>30 June 2002</td>
<td>HK$’000</td>
</tr>
<tr>
<td>Special</td>
<td>39,703</td>
<td>55,830</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General</td>
<td>(775)</td>
<td>1,627</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(2) a. Hong Kong profits tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the period. Taxation outside Hong Kong is calculated at the rates prevailing in the relevant jurisdictions.

b. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(3) The calculation of earnings per share is based on the profit attributable to shareholders of HK$147,616,000 (2002: HK$163,387,000) and on 435,000,000 (2002: 435,000,000) ordinary shares in issue during the period.

(4) With effect from 1 January 2003, the Group has adopted the Statement of Standard Accounting Practice 12 (revised) (“SSAP12”) on “Income Taxes” issued by the Hong Kong Society of Accountants.

The principal effect of the implementation of SSAP 12 (revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

The accounting policy for deferred tax has been changed and applied retrospectively. Comparative figures for 2002 have been restated to conform with the current period’s presentation accordingly. The opening balance of retained profits as at 1 January 2002 and 2003 have been increased by HK$29,957,000 and HK$31,874,000 respectively. The deferred tax liabilities as at 31 December 2002 have been increased by HK$79,629,000. The opening balance of the Group’s land and building revaluation reserve as at 1 January 2002 and 2003 have been decreased by HK$113,964,000 and HK$111,503,000 respectively, representing the deferred tax liability recognised in respect of the revaluation surplus on the Group’s properties at that date. The effect of the change is a reduced charge to income taxes in the current period of HK$5,634,000 (2002: HK$2,349,000).

Except the adoption of SSAP 12 (revised), the accounting policies and methods of computation used in the preparation of the interim statement are consistent with those used in the annual accounts for the year ended 31 December 2002.
(5) Risk management

The Group has established policies, procedures, and controls for measuring, monitoring and controlling risks arising from the banking and related financial services business. These policies, procedures, and controls are implemented by various committees and departments of the Group and are regularly reviewed by the Board of Directors. The internal auditors also play an important role in the risk management process by performing regular, as well as sporadic compliance audits.

The management of assets and liabilities of the Group is conducted under the guidance of the Asset and Liability Management Committee (the “ALCO”). The ALCO comprises executive directors and senior managers representing major operations of the Group. It holds weekly meetings, and more frequent meetings when required, to review and direct the relevant policies, and to monitor the bank-wide positions. The day-to-day management of the liquidity risk, foreign exchange, interest rate and other market risks, and the compliance with the ALCO policies are monitored by the Treasury Management and the Finance Departments with the assistance of various qualitative and quantitative analyses.

a. Capital management

The Group has adopted a policy of maintaining a strong capital base to support its business growth. Capital adequacy ratio has remained at over 19% for the past five financial years, well above the statutory minimum ratio of 8%.

b. Credit risk

Credit risk is the risk that a customer or counter-party may fail to meet a commitment when it falls due.

The Group’s lending policy sets out in detail the credit approval and monitoring mechanism, the loan classification system and provisioning policy, which is established in accordance with the requirements and provisions of the Banking Ordinance and the guidelines issued by the Hong Kong Monetary Authority.

Day-to-day credit management is performed by the Loans Committee with reference to the creditworthiness, and concentration risk of and the collateral pledged by the counterparties. Decisions made by the Loans Committee are reviewed regularly by the Executive Loans Committee comprising executive directors.

c. Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due.

The Group has laid down liquidity policy which is reviewed regularly by the Board of Directors, and the ALCO. This policy requires the Group to maintain a conservative level of liquid funds on a daily basis to ensure the availability of adequate liquid funds to meet all obligations, and the compliance with the statutory liquidity ratio requirement. The liquidity position is monitored through statutory liquidity ratio, loan-to-deposit ratio, maturity profile of assets and liabilities, and inter-bank transactions undertaken by the Group.

d. Market risk

Market risk is the risk of losses in assets, liabilities and off-balance sheet positions arising from movement in market rates and price.

Market risk arising from the trading book is considered immaterial, as the Group does not maintain significant positions of financial instruments leading to foreign exchange, interest rate, commodity and equity exposures. Structural foreign exchange exposure is explained further under (e) foreign exchange risk.
(一) 風險管理 (續)

5. 外匯風險

由於本集團可帶來貿易之外匯交易極小，故無任何重大之外匯風險。源於投資海外分行、附屬公司及聯營公司之結構性外匯風險轉為儲備額，每日外匯管理工作由資金管理部負責，並維持在管理層所訂下之限額內。

6. 利率風險

利率風險為市場利率變動對本集團帶來負面影響之風險。

本集團之營運前內並無任何利率儲備。利率風險源於負債資產、負債及承擔在再定息時之差及不同之定息機制及期限。利率風險影響本集團，有定期利率風險及監控利率風險之風險，分析方法乃根據資產及負債之結構性利率及定息之影響，計算其再定息差額及不同定息機制之情況。

7. 營運及法律風險

營運風險涉及人為錯誤，系統失誤，服務或內部控制不足及程序不當所引致不可預見之損失。

常務董事、部門主管、行內法律顧問及稽核部通過適當之人力資源政策、下放權力、分工及掌握適時及精確之管理資訊，建立營運風險及法律風險。高級管理層及稽核委員會負責為全體董事會維持一穩定及有系統的監管環境，方向確保營運及法律風險得以妥善管理。

一套完善的審慎計劃現已制定，以確保主要業務能正常操作。一旦受到任何商業干預日常運作亦可有效地回復正常。

8. 信譽風險

信譽風險乃指公眾負面意見對領導或資本造成之風險。

透過適當及及時的溝通及公關工作，本集團之信譽得以提高，信譽風險亦受到管理。一個由高級管理層包括常務董事及高級經理負責的風險管理機制現已成立，以處理與傳媒之溝通、客戶及有關團體之投訴及建議，並確保新增的商業活動及由本集團作代理人之業務不會損害本集團之信譽。

(六) 業務

企業及零售銀行服務包括對客戶提供之信貸、貿易融資、客戶融資、存款往來、透殼金融服務、定期存款、活期儲蓄戶口、信用卡、保險及個人財富管理服務。本集團亦為客戶提供全面電腦化之電話銀行服務及網上銀行服務。其他金融服務包括匯款、外幣兌換、保管箱、自動轉帳及直接付款服務。

財務業務主要包括銀行同業拆借，統一利率風險管理，本集團流動資金及中央現金管理，來自外匯業務的收入乃源於代客從事外匯及期貨合約買賣。

本集團其他業務包括投資控股、證券交易、股票經紀、商品及期貨經紀，其他投資顧問服務及物業投資。
(6) Business - continued

a. Segment information about these businesses for the six months ended 30 June 2003 is presented below:

<table>
<thead>
<tr>
<th>Corporate and retail banking activities</th>
<th>Treasury and foreign exchange activities</th>
<th>Other activities</th>
<th>Eliminations</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
<td>HK$’000</td>
</tr>
<tr>
<td>Interest income</td>
<td>351,171</td>
<td>193,089</td>
<td>–</td>
<td>544,260</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(194,541)</td>
<td>(3,630)</td>
<td>–</td>
<td>(198,171)</td>
</tr>
<tr>
<td>Inter-segment income</td>
<td>68,039</td>
<td>–</td>
<td>(68,039)</td>
<td>–</td>
</tr>
<tr>
<td>Inter-segment expenses</td>
<td>–</td>
<td>(68,039)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Net interest income</td>
<td>224,669</td>
<td>121,420</td>
<td>–</td>
<td>346,089</td>
</tr>
<tr>
<td>Other operating income</td>
<td>43,476</td>
<td>14,048</td>
<td>32,029</td>
<td>89,553</td>
</tr>
<tr>
<td>Operating income</td>
<td>268,145</td>
<td>135,468</td>
<td>32,029</td>
<td>435,642</td>
</tr>
</tbody>
</table>

Inter-segment pricing is charged at prevailing customer deposits interest rates.

 Charge for bad and doubtful debts: (38,928)
 Net (losses) / gains from disposal of property and equipment: (1,455)
 Gains less losses from disposal of other securities: –
 Operating expenses: (133,000)
 Result: Segment profit 94,762
 Unallocated corporate expenses: (71,743)
 Profit from operations: 171,536
 Share of results of jointly controlled entities: (2,000)
 Profit from ordinary activities before taxation: 169,536
 Taxation: (21,920)
 Net profit for the period: 147,616

Profit for the period: 147,616