

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

20. PROPERTY AND EQUIPMENT - continued

Land and buildings owned by the Group and by the Bank were revalued at 31 December 2004 on an open market value basis by Vigers Hong Kong Limited, independent professionally qualified valuers.

If land and buildings had not been revalued, they would have been included in the financial statements of the Group and the Bank at historical cost less accumulated depreciation of HK\$291,430,000 (2003: HK\$287,449,000).

21. DEPOSITS FROM CUSTOMERS

	THE GROUP		THE BANK	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Demand deposits and current accounts	2,803,982	2,029,869	2,803,982	2,029,869
Savings deposits	8,954,061	7,568,026	8,954,061	7,568,026
Time, call and notice deposits	22,193,588	22,993,695	22,183,307	22,976,290
	<u>33,951,631</u>	<u>32,591,590</u>	<u>33,941,350</u>	<u>32,574,185</u>

Included in the balances is an aggregate amount of approximately HK\$86,297,000 (2003: HK\$39,935,000) representing deposits of companies having significant influence on the Bank and their subsidiaries placed with the Group and the Bank.

22. SHARE CAPITAL

	2004 & 2003 HK\$'000
Authorised: 600,000,000 shares of HK\$0.50 each	300,000
Issued and fully paid: 435,000,000 shares of HK\$0.50 each	217,500

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23. RESERVES

	Share premium HK\$'000	Investment property revaluation reserve HK\$'000	Land and buildings revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE BANK									
At 1 January 2003	1,542,817	29,344	539,142	(2,207)	1,378,500	265	152,250	1,597,075	5,237,186
Revaluation movements	-	-	-	60,000	-	-	-	-	60,000
Currency re-alignment	-	-	-	-	-	(291)	-	-	(291)
Deferred taxation arising from the change in tax rate (Note 24)	-	-	(9,670)	-	-	-	-	-	(9,670)
Net (losses) gains not recognised in the income statement	-	-	(9,670)	60,000	-	(291)	-	-	50,039
Profit for the year	-	-	-	-	-	-	-	298,071	298,071
Dividends paid	-	-	-	-	-	-	(152,250)	(65,250)	(217,500)
Proposed dividend	-	-	-	-	-	-	152,250	(152,250)	-
At 31 December 2003	1,542,817	29,344	529,472	57,793	1,378,500	(26)	152,250	1,677,646	5,367,796
Revaluation movements	-	3,492	92,576	48,675	-	-	-	-	144,743
Currency re-alignment	-	-	-	-	-	106	-	-	106
Deferred taxation arising from revaluation movements (Note 24)	-	-	(15,967)	-	-	-	-	-	(15,967)
Reversal of deferred taxation arising from disposal (Note 24)	-	-	1,006	-	-	-	-	-	1,006
Net gains not recognised in the income statement	-	3,492	77,615	48,675	-	106	-	-	129,888
Reversal of reserves upon disposal	-	-	(5,747)	3,701	-	-	-	5,747	3,701
Profit for the year	-	-	-	-	-	-	-	314,702	314,702
Dividends paid	-	-	-	-	-	-	(152,250)	(73,950)	(226,200)
Proposed dividend	-	-	-	-	-	-	174,000	(174,000)	-
At 31 December 2004	1,542,817	32,836	601,340	110,169	1,378,500	80	174,000	1,750,145	5,589,887

The Bank's reserves available for distribution to the shareholders as at 31 December 2004 comprised retained profits of HK\$1,750,145,000 (2003: HK\$1,677,646,000), general reserve of HK\$1,378,500,000 (2003: HK\$1,378,500,000) and dividend reserve of HK\$174,000,000 (2003: HK\$152,250,000).

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24. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation HK\$'000	Revaluation of properties HK\$'000	General provisions for bad and doubtful debts HK\$'000	Others HK\$'000	Total HK\$'000
THE GROUP					
At 1 January 2003	5,207	104,069	(32,706)	3,059	79,629
Charge (credit) to income statement for the year (Note 9)	530	(95)	(538)	(1,907)	(2,010)
Effect of change in tax rate:					
Charge to land and buildings revaluation reserve for the year	-	10,454	-	-	10,454
Charge (credit) to income statement for the year (Note 9)	488	(697)	(3,066)	287	(2,988)
Balance at 1 January 2004	6,225	113,731	(36,310)	1,439	85,085
Charge (credit) to income statement for the year (Note 9)	4,789	(866)	3,417	(1,439)	5,901
Charge to land and buildings revaluation reserve for the year	-	15,967	-	-	15,967
Acquisition of a subsidiary	232	-	-	-	232
Credit to equity for the year	-	(1,006)	-	-	(1,006)
At 31 December 2004	<u>11,246</u>	<u>127,826</u>	<u>(32,893)</u>	<u>-</u>	<u>106,179</u>
THE BANK					
At 1 January 2003	5,207	95,710	(32,673)	3,059	71,303
Charge (credit) to income statement for the year	530	(95)	(552)	(1,907)	(2,024)
Effect of change in tax rate:					
Charge to land and buildings revaluation reserve for the year (Note 23)	-	9,670	-	-	9,670
Charge (credit) to income statement for the year	488	(697)	(3,064)	287	(2,986)
Balance at 1 January 2004	6,225	104,588	(36,289)	1,439	75,963
Charge (credit) to income statement for the year	4,789	(866)	3,407	(1,439)	5,891
Charge to land and buildings revaluation reserve for the year (Note 23)	-	15,967	-	-	15,967
Credit to equity for the year (Note 23)	-	(1,006)	-	-	(1,006)
At 31 December 2004	<u>11,014</u>	<u>118,683</u>	<u>(32,882)</u>	<u>-</u>	<u>96,815</u>

25. SHARE OPTION SCHEME

The Bank's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 25 April 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 24 April 2012. Under the Scheme, the Board of Directors of the Bank may grant options to eligible employees, including directors of the Bank and its subsidiaries, to subscribe for shares in the Bank. Additionally, the Bank may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Bank.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Bank in issue at the date of approval of the Scheme, without prior approval from the Bank's shareholders. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the shares of the Bank in issue at any point in time, without prior approval from the Bank's shareholders.

Options granted must be taken up within 28 days of the date of offer, upon payment of HK\$10 per option. Options may be exercised at any time from the date of grant of the share option to the fifth anniversary of the date of grant. The exercise price is determined by the Board of Directors of the Bank, and will be the highest of the closing price of the Bank's shares on the date of offer, the average closing price of the shares for the five trading days immediately preceding the date of offer and the nominal value of the shares.

No options have been granted under the above-mentioned scheme since the Scheme was adopted.

26. LOANS TO OFFICERS

The aggregate relevant loans to officers disclosed pursuant to Section 161B(4B) of the Companies Ordinance are as follows:

	THE GROUP AND THE BANK	
	2004	2003
	HK\$'000	HK\$'000
Aggregate balance of all relevant loans outstanding at the balance sheet date	<u>118,514</u>	<u>105,554</u>
Maximum aggregate balance of relevant loans during the year	<u>287,579</u>	<u>135,502</u>