

## NOTES TO THE ACCOUNTS

### 1. Principal activities

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of banking and related financial services in Hong Kong.

### 2. Basis of preparation

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain investments in securities, off-balance sheet financial instruments, premises and investment properties, and in accordance with accounting principles generally accepted in Hong Kong and comply with the SSAPs issued by the HKICPA. In addition, these accounts comply fully with the requirements set out in the guideline on “Financial Disclosure by Locally Incorporated Authorized Institutions” under the Supervisory Policy Manual issued by the HKMA. These accounts also comply with the applicable disclosure provisions of the Listing Rules of the Stock Exchange.

The accounting policies and methods of computation used in the preparation of the accounts are consistent with those used in the preparation of the Group’s accounts for the year ended 31 December 2003.

### 3. Principal accounting policies

#### (a) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Group, directly and indirectly, controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between: a) the proceeds of the sale and, b) the Group’s share of its net assets together with any unamortised goodwill (or goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account) and any related accumulated foreign currency translation difference.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company’s balance sheet, the investment in a subsidiary is stated at cost less provision for impairment losses. The results of the subsidiary are accounted for by the Company on the basis of dividends received and receivable.

#### (b) Associates

An associate is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group’s share of the results of associates for the year. The consolidated balance sheet includes the Group’s share of the net assets of the associates plus goodwill/negative goodwill (net of accumulated amortisation) on acquisition and net of any provision for impairment losses.

### 3. Principal accounting policies (continued)

#### (b) *Associates (continued)*

Unless the Group has incurred obligations or guaranteed obligations in respect of the associate, its share of further losses is discontinued when the share of losses of an associate equals or exceeds the carrying value of the investment in the associate.

#### (c) *Revenue recognition*

Interest income is recognised in the profit and loss account as it accrues, except in the case of doubtful debts, where interest is credited to a suspense account which is netted in the balance sheet against the relevant balances.

Fees and commission income are recognised in the period when earned unless they relate to transactions involving an interest rate risk or other risks which extend beyond the current period, in which case they are amortised over the period of the transaction.

Dividend income is recognised when the right to receive payment is established.

Rental income under operating leases is recognised on a straight-line basis over the period of the lease unless another systematic basis is more representative of the pattern in which the benefit derived from the leased asset is used.

#### (d) *Advances*

Advances to customers, banks and other financial institutions are reported on the balance sheet at the principal amount outstanding net of provisions for bad and doubtful debts and suspended interest. Advances to banks and other financial institutions include placements with banks and other financial institutions of more than one year.

All advances are recognised when cash is advanced to the borrowers.

Assets acquired by repossession of collateral for realisation would continue to be reported as advances, except in the case of a loan restructuring where the asset acquired is part of the terms of a new loan agreement and the assets are recognised on the balance sheet under the relevant assets category.

When the repossessed asset is realised, the sales proceeds are applied against the outstanding advance and any shortfall is written off to the profit and loss account.

#### (e) *Provisions for bad and doubtful debts*

The Group internally classifies loans and advances into categories reflecting the Group's assessment of the borrower's capacity to repay and on the degree of doubt about the collectibility of interest and/or principal.

Provisions are made against specific loans and advances as and when the directors have doubt on the ultimate recoverability of principal or interest in full. Based on the directors' assessment of the potential losses on those identified loans and advances on a case-by-case basis, specific provision is made to reduce the carrying value of the assets, taking into account available collateral, to their expected net realisable value. Where it is not possible to reliably estimate the loss, the Group applies pre-determined provisioning levels to the unsecured portion of loans and advances based on the Group's loan classification procedures.

### 3. Principal accounting policies (continued)

#### (e) Provisions for bad and doubtful debts (continued)

In addition, amounts have been set aside as a general provision for bad and doubtful debts. Specific and general provisions are deducted from "Advances and other accounts" in the consolidated balance sheet. When there is no realistic prospect of recovery, the outstanding debt is written off against the balance sheet asset and provision in part, or in whole.

#### (f) Fixed assets

##### (i) Premises

Premises are stated at cost or valuation less accumulated impairment losses and accumulated depreciation calculated to write off the assets over their estimated useful lives on a straight-line basis as follows:

Leasehold land	Over the remaining period of lease
Buildings	Over the shorter of the remaining period of the lease and 15 to 50 years

Independent valuations are performed every three years on individual properties on the basis of open market values. In the intervening years, the directors review the carrying value of individual properties, by reference to the fair values of similar properties, and adjustment is made when they consider that there has been a material change. Increases in valuation are credited to the premises revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations in respect of the same individual asset and thereafter are debited to the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously debited, and then to the premises revaluation reserve. Upon disposal of premises, the relevant portion of the premises revaluation reserve realised in respect of previous valuations is released and transferred from the premises revaluation reserve to retained earnings.

The gain or loss on disposal of premises is the difference between the net sales proceeds and the carrying value of the relevant asset, and is recognised in the profit and loss account.

##### (ii) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are valued annually and independent valuations are performed at intervals of not more than three years; in each of the intervening years, valuations are undertaken by professionally qualified persons appointed by the Group. The valuations are on an open market value basis. Changes in the value of investment properties are treated as movements in the investment properties revaluation reserve, unless the total of the reserve is insufficient to cover a deficit on a portfolio basis. In such cases, the amount by which the deficit exceeds the total amount in the investment properties revaluation reserve is charged to the profit and loss account. Where a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is credited to the profit and loss account to the extent of the deficit previously charged.

### 3. Principal accounting policies (continued)

#### (f) Fixed assets (continued)

##### (ii) Investment properties (continued)

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining terms of the leases.

Upon the disposal of an investment property, the relevant portion of the investment properties revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

##### (iii) Property under development

Property under development is carried at cost less impairment losses. Cost includes development and construction expenditure incurred, interest and other direct costs attributable to the development. On completion, the property is transferred to premises or investment properties.

##### (iv) Equipment, fixtures and fittings

Equipment, fixtures and fittings are stated at cost less accumulated impairment losses and accumulated depreciation calculated on a straight-line basis to write off the assets over their estimated useful lives, which are generally between 3 and 15 years.

The gain or loss on disposal of equipment, fixtures and fittings is recognised in the profit and loss account.

##### (v) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to determine whether there is any indication that premises, equipment, fixtures and fittings are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of fixed assets is the difference between the net sales proceeds and the carrying value of the relevant assets, and is recognised in the profit and loss account.

#### (g) Investments in securities

##### (i) Held-to-maturity securities

Held-to-maturity securities are dated debt securities which the Group has the expressed intention and ability to hold to maturity. These securities are stated at cost adjusted for the amortisation of premiums or discounts arising on acquisition over the periods to maturity, less provision for impairment in their value which is other than temporary. Provisions are made for the amount of the carrying value which the Group does not expect to recover and are recognised as an expense in the profit and loss account as they arise.

The amortisation of premiums and discounts arising on acquisition of dated debt securities is included as part of interest income in the profit and loss account. Gain or loss on realisation of held-to-maturity securities is accounted for in the profit and loss account as they arise.

### 3. Principal accounting policies (continued)

#### (g) *Investments in securities (continued)*

##### (ii) **Investment securities**

Securities which are intended to be held on a continuing basis for an identified long-term purpose at the time of acquisition (for example, for strategic purposes), are stated in the balance sheet at cost less any provisions for impairment in value which is other than temporary.

The carrying value of investment securities are reviewed as at the balance sheet date in order to assess whether the fair value has declined below the carrying value. When such a decline has occurred, the carrying value is reduced to the fair value unless there is evidence that the decline is temporary. The amount of the reduction is recognised as an expense in the profit and loss account.

Fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

##### (iii) **Other investments in securities**

All other investments in securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise.

Provisions against the carrying value of held-to-maturity securities and investment securities are written back when the circumstances and events that led to the write-downs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. The amount written back is limited to the amount of the write-downs.

#### (h) *Operating leases*

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases net of any incentives received from the lessor are charged to the profit and loss account on a straight-line basis over the lease term.

Where the Group is the lessor, the assets subject to the lease are included in fixed assets in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned fixed assets. Rental income from operating leases is recognised on a straight-line basis over the lease term. Initial direct costs incurred specifically to earn revenue from an operating lease are recognised as an expense in the profit and loss account in the period in which they are incurred.

#### (i) *Provisions*

A provision is recognised when the Group has a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

A provision for restructuring costs is recognised when the above general recognition criteria are met and a detailed formal plan for the restructuring has been implemented, or has been announced and communicated to those affected by it in a sufficiently specific manner to raise a valid expectation that the restructuring will be carried out without long delay.

### 3. Principal accounting policies (continued)

#### (j) *Deferred taxation*

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. The principal temporary differences arise from depreciation on fixed assets, revaluations of properties, general provision for bad and doubtful debts and tax losses carried forward. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax is charged or credited in the profit and loss account except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax liabilities are provided in full on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

#### (k) *Foreign currency translation*

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries and associates expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate for the period. Exchange differences are dealt with as a movement in reserves.

#### (l) *Employee benefits*

##### (i) **Retirement benefit costs**

The Group contributes to defined contribution retirement schemes under either recognised ORSO schemes or MPF schemes that are available to the Group's employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries for the ORSO schemes and in accordance with the MPF rules for MPF schemes. The retirement benefit scheme costs are charged to the profit and loss account as incurred and represent contributions payable by the Group to the schemes. Forfeited contributions by those employees who leave the ORSO scheme prior to the full vesting of their contributions are used by the Group to reduce the existing level of contributions or to meet its expenses under the trust deed of the ORSO schemes.

The assets of the schemes are held in independently-administered funds separate from those of the Group.

##### (ii) **Leave entitlements**

Employee entitlements to annual leave and sick leave are recognised when they accrue to employees. A provision is made for the estimated liability for unused annual leave and the amount of sick leave expected to be paid as a result of services rendered by employees up to the balance sheet date.

Compensated absences other than annual leave and sick leave are non-accumulating; they lapse if the current period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the Group. Such compensated absences are recognised when the absences occur.

### 3. Principal accounting policies (continued)

#### (l) *Employee benefits (continued)*

##### (iii) **Bonus plans**

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

#### (m) *Off-balance sheet financial instruments*

Off-balance sheet financial instruments arise from futures, forwards, swaps, options and other transactions undertaken by the Group in the foreign exchange, interest rate, equity and other markets. The accounting for these instruments is dependent upon whether the transactions are undertaken for dealing or hedging purposes. The Group designates a derivative as held for dealing or hedging purposes when it enters into a derivative contract.

Transactions undertaken for dealing purposes are marked to market at fair value. For exchange traded contracts, fair value is based on quoted market prices. For non-exchange traded contracts, fair value is based on dealers' quotes, pricing models or quoted prices for instruments with similar characteristics. The gain or loss arising from changes in fair value is recognised in the profit and loss account as "Net gain/(loss) from foreign exchange activities" or "Net gain/(loss) from other dealing activities".

Unrealised gains on transactions which are marked to market are included in "Other assets". Unrealised losses on transactions which are marked to market are included in "Other accounts and provisions".

Hedging derivative transactions are designated as such at inception and the hedging instrument is required to be highly effective in accomplishing the objective of offsetting the risk being hedged throughout the life of the hedge. Hedging instruments are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging. Any profit or loss is recognised in the profit and loss account on the same basis as that arising from the related assets, liabilities or net positions.

If the derivative transaction no longer meets the criteria for a hedge, the derivative is deemed to be held for dealing purposes and is accounted for as set out above.

Assets and liabilities arising from derivative transactions are netted off only when the Group has entered into master netting agreements or other legally enforceable arrangements, which assures beyond doubt, the Group's right to insist on settlement with the same counterparty on a net basis in all situations of default by the other party or parties including insolvency of any parties to the contract.

Derivative transactions are not offset unless the related settlement currencies are the same, or are denominated in freely convertible currencies for which quoted exchange rates are available in an active market.

### 3. Principal accounting policies (continued)

#### (n) *Contingent liabilities and contingent assets*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, it will be recognised as an asset.

#### (o) *Cash and cash equivalents*

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including cash, balances with banks and other financial institutions, treasury bills, other eligible bills and certificates of deposit.

#### (p) *Dividends*

Dividends proposed or declared after the balance sheet date are disclosed as a post balance sheet event and are not recognised as a liability at the balance sheet date.

#### (q) *Recently issued accounting standards*

The HKICPA has issued a number of new and revised HKFRSs and HKASs (the "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted any of the new HKFRSs in the accounts for the year ended 31 December 2004. The effect of first-time adoption of the new HKFRSs will be reported by the Group as an adjustment to the opening balances of the relevant assets, liabilities, equity reserve or retained earnings in 2005.

The Group is in the process of making an assessment of the impact of these new HKFRSs, and has so far concluded that the following HKFRSs will have significant financial or presentation effects on the Group's accounts upon adoption in the areas as briefly described below:



### 3. Principal accounting policies (continued)

#### (q) Recently issued accounting standards (continued)

##### (i) HKAS39 "Financial Instruments: Recognition and Measurement"

###### *Classification of investments in securities*

The current accounting policy on investments in securities is set out in Note 3(g) above. Upon adoption of HKAS39, all investment securities other than investments in subsidiaries and associates are classified into one of the following three categories:

- held-to-maturity debt securities are measured at amortised cost using the effective interest method less any impairment loss;
- at fair value through profit or loss securities are measured at fair value with changes in fair value recognised in the profit and loss account;
- available-for-sale securities are measured at fair value, with the difference between fair value and amortised cost reported in the equity reserve directly.

Upon first-time adoption of HKAS39, the Group has reclassified its investment securities into the above categories. Majority of the Group's securities are classified as held-to-maturity or available-for-sale. The changes in fair value of available-for-sale securities will cause volatility to the equity reserve.

###### *Derivatives*

The current accounting policy on derivatives is set out in Note 3(m) above. Upon adoption of HKAS39, all derivatives are recognised separately as either assets or liabilities in the balance sheet and measured at fair value. The accounting for changes in the fair value of derivatives are recognised as follows:

For a derivative designated as fair value hedge, the gain or loss is recognised in the profit and loss account in the period of change together with the associated loss or gain on the hedged item;

For a derivative designated as cash flow hedge, the gain or loss on the derivative associated with the effective portion of the hedge is initially recognised in equity reserve and subsequently released into the profit and loss account in line with the recognition of the element of the recognised asset or liability which is being hedged. Any ineffective portion is recognised in the profit and loss account as it arises; and

For other derivatives (including for dealing purpose and for economic hedging purpose which do not qualify for hedge accounting), the gain or loss is recognised in the profit and loss account.

Volatility in income will become higher due to stricter requirements to qualify for hedge accounting treatment. The volatility in equity reserve will also increase due to change in fair value of derivatives designated as cash flow hedges.

### 3. Principal accounting policies (continued)

#### (q) Recently issued accounting standards (continued)

##### (i) HKAS39 “Financial instruments: Recognition and Measurement” (continued)

###### *Revenue recognition*

The current accounting policy on revenue recognition is set out in Note 3(c) above. Upon adoption of HKAS39, interest accrual on doubtful loans ceased previously will be recognised in the profit and loss account up to the extent of their outstanding carrying value net of impairment. Directly attributable loan origination fees and costs which were previously recognised as commission expenses will be recognised as interest income over the expected life of the loan as part of the effective interest calculation.

These changes in recognition and classification will have an effect on the Group’s net interest income and net interest margin.

###### *Provisions for bad and doubtful debts*

The current accounting policy on loan provisions is set out in Note 3(e) above. Upon adoption of HKAS39, loan impairment provisions are calculated using a discounted future cash flow analysis of loan repayments with significant carrying value. Collective assessment of impairment for individually insignificant items or items where no impairment has been identified on an individual basis is made by adopting formula-based approaches or statistical methods on groups of loan portfolio according to their credit characteristics.

Loan impairment provisions assessed individually and collectively will be presented in an aggregate amount as allowance for losses on loans and advances instead of specific provisions and general provisions.

##### (ii) HKAS17 “Leasing”

###### *Premises*

The current accounting policy on premises is set out in Note 3(f)(i) above. Upon adoption of HKAS17, the land element of a leasehold property held for own use would be recognised as operating lease if the land and building elements of the lease payment can be allocated reliably at the inception of the lease, otherwise both of the land and building elements will be recognised as finance lease. The land premiums and other related costs for acquiring the leasehold land will be amortised over the terms of the leases.

The Group will continue to adopt the fair value model. The financial impact of adopting HKAS17 to existing premises is not significant based on the preliminary assumption that the value of the land and building elements of the Group’s premises at inception of the leases cannot be separated. However, this preliminary assumption is subject to change pending further consultation with independent valuers.

### 3. Principal accounting policies (continued)

#### (q) Recently issued accounting standards (continued)

##### (iii) HKAS40 "Investment property"

###### *Investment properties*

The current accounting policy on investment properties is set out in Note 3(f)(ii) above. Upon adoption of HKAS40, change in fair value of investment properties will be recognised directly in the profit and loss account instead of equity reserve.

The Group will continue to adopt the fair value model. The change in fair value of investment properties will cause volatility in the profit and loss account.

##### (iv) HKAS12 "Income taxes" – HKAS Interpretation 21

###### *Deferred tax*

There is currently no deferred tax provided on revaluation surplus of investment properties. According to the HKAS Interpretation 21, the Group will calculate deferred tax on the change in fair value of investment properties based on the applicable profits tax rate. On transition, retained earnings will be reduced by the amount of deferred tax derived.

The Group will continue with the assessment of the other new HKFRSs and other significant changes may be identified as a result.

### 4. Interest income

	<b>2004</b>	2003
	<b>HK\$'m</b>	HK\$'m
Interest income from listed investments	<b>1,753</b>	1,669
Interest income from unlisted investments	<b>2,861</b>	3,059
Other interest income	<b>11,064</b>	13,031
	<b>15,678</b>	17,759

## 5. Other operating income

	2004 HK\$'m	2003 HK\$'m
Fees and commission income (Note)	4,307	3,855
Less: Fees and commission expenses	(1,086)	(858)
Net fees and commission income	3,221	2,997
Dividend income from investments in securities		
– unlisted investments	14	45
Net gain/(loss) from other investments in securities	29	(108)
Net gain from foreign exchange activities	1,056	965
Net gain from other dealing activities	82	42
Gross rental income from investment properties	210	241
Less: Outgoings in respect of investment properties	(69)	(80)
Others	121	277
	<b>4,664</b>	<b>4,379</b>

Note: Fees and commission income

	2004 HK\$'m	2003 HK\$'m
Securities brokerage	934	733
Credit cards	666	560
Bills commissions	547	556
Loan commissions	490	473
Payment services	349	315
Insurance	314	235
Asset management	233	211
Trust services	75	76
Guarantees	38	39
Others		
– safe deposit box	161	166
– low deposit balance accounts	63	106
– currency exchange	52	45
– BOC cards	35	40
– dormant accounts	28	24
– agency services	24	24
– postage and telegrams	25	19
– information search	33	16
– correspondent banking	18	15
– RMB business	26	–
– sundries	196	202
	<b>4,307</b>	<b>3,855</b>

## 6. Operating expenses

	<b>2004</b>	2003
	<b>HK\$'m</b>	HK\$'m
Staff costs (including directors' emoluments)		
– salaries and other costs	<b>3,049</b>	3,069
– termination benefit	<b>1</b>	1
– pension cost	<b>241</b>	246
	<b>3,291</b>	3,316
Premises and equipment expenses (excluding depreciation)		
– rental of premises	<b>226</b>	213
– information technology	<b>301</b>	310
– others	<b>198</b>	209
	<b>725</b>	732
Depreciation on owned fixed assets	<b>585</b>	611
Auditors' remuneration		
– audit services	<b>24</b>	29
– non-audit services	<b>16</b>	9
Other operating expenses	<b>864</b>	961
	<b>5,505</b>	5,658

## 7. Write-back of/(charge for) bad and doubtful debts

	<b>2004</b>	2003
	<b>HK\$'m</b>	HK\$'m
Net charge for bad and doubtful debts		
Specific provisions		
– new provisions	<b>(1,520)</b>	(3,834)
– releases	<b>1,851</b>	768
– recoveries (Note 23)	<b>1,356</b>	438
	<b>1,687</b>	(2,628)
General provisions (Note 23)	<b>(59)</b>	957
Net credit/(charge) to profit and loss account (Note 23)	<b>1,628</b>	(1,671)

**8. Net gain/(loss) from disposal/revaluation of fixed assets**

	<b>2004</b>	2003
	<b>HK\$'m</b>	HK\$'m
Net gain on disposal of premises	<b>29</b>	8
Net gain on disposal of investment properties	<b>196</b>	5
Loss on disposal of other fixed assets	<b>(3)</b>	(23)
Surplus/(deficit) on revaluation of premises (Note 26)	<b>1,337</b>	(741)
Surplus/(deficit) on revaluation of investment properties (Note 26)	<b>525</b>	(370)
	<b>2,084</b>	(1,121)

**9. Write-back of provision for impairment on held-to-maturity securities and investment securities**

	<b>2004</b>	2003
	<b>HK\$'m</b>	HK\$'m
Write-back of provision for impairment on held-to-maturity securities	–	29
Write-back of provision for impairment on investment securities	–	1
	–	30

**10. Taxation**

Taxation in the profit and loss account represents:

	<b>2004</b>	2003
	<b>HK\$'m</b>	HK\$'m
Hong Kong profits tax		
– current year taxation	<b>2,116</b>	1,470
– over-provision in prior years	<b>(91)</b>	(732)
Deferred tax charge	<b>152</b>	55
	<b>2,177</b>	793
Attributable share of estimated Hong Kong profits tax losses arising from investments in partnerships	<b>(203)</b>	(817)
	<b>1,974</b>	(24)
Investments in partnerships written off	<b>139</b>	600
Hong Kong profits tax	<b>2,113</b>	576
Overseas taxation	<b>17</b>	11
	<b>2,130</b>	587
Share of taxation attributable to associates	<b>1</b>	2
	<b>2,131</b>	589

## 10. Taxation (continued)

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

The Group has entered into a number of aircraft leasing and coupon strip transactions involving special purpose partnerships. As at 31 December 2004, the Group's investments in such partnerships, which are included in "Other assets" in the consolidated balance sheet, amounted to HK\$613 million (2003: HK\$1,474 million). The Group's investments in partnerships are amortised over the life of the partnerships in proportion to the taxation benefits resulting from those investments.

The total assets and liabilities of the aforementioned partnerships are as follows:

	<b>2004</b>	2003
	<b>HK\$'m</b>	HK\$'m
Assets	<b>2,356</b>	6,159
Liabilities	<b>1,655</b>	4,098

The taxation on the Group's profit before taxation that differs from the theoretical amount that would arise using the taxation rate of Hong Kong is as follows:

	<b>2004</b>	2003
	<b>HK\$'m</b>	HK\$'m
Profit before taxation	<b>14,252</b>	8,691
Calculated at a taxation rate of 17.5% (2003: 17.5%)	<b>2,494</b>	1,521
Effect of different taxation rates in other countries	<b>(41)</b>	(31)
Income not subject to taxation	<b>(2,089)</b>	(1,511)
Expenses not deductible for taxation purposes	<b>1,937</b>	1,518
Tax losses not recognised	<b>3</b>	5
Temporary differences not recognised	<b>–</b>	55
Utilisation of previously unrecognised tax losses	<b>(19)</b>	(21)
Over-provision in prior years	<b>(91)</b>	(732)
Tax benefits from partnerships	<b>(64)</b>	(217)
Share of taxation attributable to associates	<b>1</b>	2
Taxation charge	<b>2,131</b>	589

## 11. Profit attributable to shareholders

The profit of the Company for the year ended 31 December 2004 attributable to shareholders and dealt with in the accounts of the Company amounted to HK\$7,961 million (2003: HK\$5,810 million).

## 12. Dividends

	2004		2003	
	Per share HK\$	Total HK\$m	Per share HK\$	Total HK\$m
Interim dividend paid	0.320	3,383	0.195	2,062
Proposed final dividend	0.395	4,176	0.320	3,383
	<b>0.715</b>	<b>7,559</b>	0.515	5,445

At a meeting held on 19 August 2004, the Board declared an interim dividend of HK\$0.320 per ordinary share for the first half of 2004 amounting to approximately HK\$3,383 million.

At a meeting held on 23 March 2005, the Board proposed to declare a final dividend of HK\$0.395 per ordinary share for the year ended 31 December 2004 amounting to approximately HK\$4,176 million. This declared final dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

## 13. Earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders for the year ended 31 December 2004 of approximately HK\$11,963 million (2003: HK\$7,963 million) and on the ordinary shares in issue of 10,572,780,266 shares (2003: 10,572,780,266 ordinary shares).

There was no dilution of earnings per share as no potential ordinary shares were in issue for the year ended 31 December 2004 (2003: Nil).

## 14. Retirement benefit costs

The principal defined contribution schemes for the Group's employees are ORSO schemes exempted under the MPF Scheme Ordinance and the BOC-Prudential Easy Choice MPF Scheme. Under the ORSO schemes, employees make monthly contributions to the ORSO schemes equal to 5% of their basic salaries, while the employer makes monthly contributions equal to 5% to 15% of the employees' monthly basic salaries, depending on years of service. The employees are entitled to receive 100% of the employer's contributions upon termination of employment after completing 20 years of service, or at a scale ranging from 20% to 95% for employees who have completed between 3 to 20 years of service, on conditions of retirement, early retirement, permanent incapacity and ill-health or termination of employment other than summary dismissal.

With the implementation of the MPF Schemes Ordinance on 1 December 2000, the Group also participates in the BOC-Prudential Easy Choice MPF Scheme, of which the trustee is BOCI-Prudential Trustee and the investment manager is BOCI-Prudential Manager, which are related parties of the Company.

The Group's total contributions made to the ORSO schemes for the year ended 31 December 2004 amounted to approximately HK\$225 million (2003: approximately HK\$233 million), after a deduction of forfeited contributions of approximately HK\$21 million (2003: approximately HK\$19 million). For the MPF Scheme, the Group contributed approximately HK\$12 million (2003: approximately HK\$9 million) for the year ended 31 December 2004.



## 15. Share option schemes

### (a) *Share Option Scheme and Sharesave Plan*

The principal terms of the Share Option Scheme and the Sharesave Plan were approved and adopted by written resolutions of all the shareholders of the Company dated 10 July 2002.

The purpose of the Share Option Scheme is to provide the participants with the opportunity to acquire proprietary interests in the Company. The Board may, in its absolute discretion, offer to grant options under the Share Option Scheme to any person as the Board may select. The subscription price for the shares shall be determined on the date of grant by the Board as an amount per share calculated on the basis of established rules. An option may be exercised in whole or in part at any time after the date prescribed by the Board and from time to time as specified in the offer and on or before the termination date prescribed by the Board.

The purpose of the Sharesave Plan is to encourage broad-based employee ownership of the shares of the Company. The amount of the monthly contribution under the savings contract to be made in connection with an option shall be the amount which the relevant eligible employee is willing to contribute, which amount shall not be less than 1% and not more than 10% of the eligible employee's monthly salary as at the date of application or such other maximum or minimum amounts as permitted by the Board. When an option is exercised during an exercise period, it may be exercised in whole or in part.

No options were granted pursuant to the Share Option Scheme or the Sharesave Plan during the year.

## 15. Share option schemes (continued)

### (b) Pre-Listing Share Option Scheme

On 5 July 2002, several directors together with approximately 60 senior management personnel of the Group and employees of BOC were granted options by BOC (BVI), the immediate holding company of the Company, pursuant to a Pre-Listing Share Option Scheme to purchase from BOC (BVI) an aggregate of 31,132,600 existing issued shares of the Company.

Details of the share options outstanding as at 31 December 2004 are as follows:

	Directors	Senior management	Others*	Total number of share options
At 1 January 2004	12,001,800	14,705,700	–	26,707,500
Transfer	(3,181,200)	–	3,181,200	–
Less: Share options exercised during the year	(361,500)	(1,814,000)	–	(2,175,500)
Less: Share options lapsed during the year	–	(2,359,000)	(1,735,200)	(4,094,200)
At 31 December 2004	8,459,100	10,532,700	1,446,000	20,437,800
At 1 January 2003	13,737,000	17,221,600	–	30,958,600
Less: Share options exercised during the year	–	(1,591,000)	–	(1,591,000)
Less: Share options surrendered during the year	(1,735,200)	–	–	(1,735,200)
Less: Share options lapsed during the year	–	(924,900)	–	(924,900)
At 31 December 2003	12,001,800	14,705,700	–	26,707,500

\* Represented share options held by ex-directors of the Group.

The options granted under this scheme can be exercised at HK\$8.50 per share in respect of the option price of HK\$1.00. None of these options may be exercised within one year from the date on which dealings in the shares commenced on the Stock Exchange. These options have a vesting period of four years (25% of the number of shares subject to such options will vest at the end of each year) from the date on which dealings in the shares commenced on the Stock Exchange with a valid exercise period of ten years. No offer to grant any options under the Pre-Listing Share Option Scheme will be made on or after the date on which dealings in the shares commenced on the Stock Exchange.

## 16. Directors' and senior management's emoluments

### (a) Directors' emoluments

Details of the emoluments paid and payable to the directors of the Company in respect of their services rendered for managing the subsidiaries within the Group during the year are as follows:

	<b>2004</b> HK\$'m	2003 HK\$'m
Fees	<b>3</b>	2
Other emoluments		
– basic salaries and allowances	<b>3</b>	4
– others (including benefits in kind)	<b>1</b>	1
	<b>7</b>	7

Emoluments of the directors were within the following bands:

	<b>Number of directors</b>	
	<b>2004</b>	2003
Up to HK\$1,000,000	<b>11</b>	13
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$2,500,001 – HK\$3,000,000	–	1
HK\$4,000,001 – HK\$4,500,000	<b>1</b>	–

Fees of HK\$1.20 million (2003: HK\$0.70 million) were paid to the Independent Non-executive Directors during the year.

In July 2002, options were granted to several directors of the Company by the immediate holding company, BOC (BVI), under the Pre-Listing Share Option Scheme. Full details of the scheme are stated in Note 15(b). During the year, certain options were exercised, but no benefits arising from the granting of these share options were included in the directors' emoluments disclosed above or recognised in the profit and loss account.

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 1 director (2003: 1) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 4 individuals (2003: 4) during the year are as follows:

	<b>2004</b> HK\$'m	2003 HK\$'m
Basic salaries and allowances	<b>7</b>	9
Discretionary bonuses	<b>1</b>	1
Others (including pension contributions)	<b>1</b>	1
	<b>9</b>	11

**16. Directors' and senior management's emoluments (continued)****(b) Five highest paid individuals (continued)**

Emoluments of individuals were within the following bands:

	Number of individuals	
	2004	2003
HK\$2,000,001 – HK\$2,500,000	3	1
HK\$2,500,001 – HK\$3,000,000	1	2
HK\$3,000,001 – HK\$3,500,000	–	1

During the year, no director waived any emoluments and the Group has not paid any emoluments to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

**17. Cash and short-term funds**

	2004 HK\$'m	2003 HK\$'m
Cash	4,072	4,247
Balances with banks and other financial institutions	16,904	8,300
Money at call and short notice maturing within one month	70,892	100,987
Treasury bills (including Exchange Fund Bills)	10,779	20,572
	<b>102,647</b>	134,106
An analysis of treasury bills held is as follows:		
Unlisted, held-to-maturity, at amortised cost	8,947	17,867
Unlisted, other investments in securities, at fair value	1,832	2,705
	<b>10,779</b>	20,572

**18. Certificates of deposit held**

	2004 HK\$'m	2003 HK\$'m
Held-to-maturity, at amortised cost		
– Unlisted	22,132	6,585
Other investments in securities, at fair value		
– Unlisted	206	12,191
	<b>22,338</b>	18,776

## 19. Held-to-maturity securities

	2004 HK\$'m	2003 HK\$'m
Listed, at amortised cost	56,108	40,051
Less: Provision for impairment in value	(12)	(12)
	<b>56,096</b>	40,039
Unlisted, at amortised cost	<b>124,954</b>	61,026
Total	<b>181,050</b>	101,065
Listed, at amortised cost less provision		
– in Hong Kong	4,443	4,000
– outside Hong Kong	51,653	36,039
	<b>56,096</b>	40,039
Market value of listed securities	<b>56,480</b>	40,906
Held-to-maturity securities are analysed by issuers as follows:		
– Central governments and central banks	3,377	2,698
– Public sector entities	31,730	23,060
– Banks and other financial institutions	124,906	57,668
– Corporate entities	21,037	17,639
	<b>181,050</b>	101,065

## 20. Investment securities

	2004 HK\$'m	2003 HK\$'m
Equity securities		
– Listed in Hong Kong, at cost	–	16
Less: Provision for impairment in value	–	(14)
	–	2
– Listed outside Hong Kong, at cost	1	1
	1	3
– Unlisted, at cost	49	50
Total	<b>50</b>	53
Market value of listed equity securities	<b>5</b>	7
Investment securities are analysed by issuers as follows:		
– Banks and other financial institutions	1	1
– Corporate entities	49	52
	<b>50</b>	53

## 21. Other investments in securities

	2004 HK\$'m	2003 HK\$'m
At fair value		
Debt securities		
– Listed in Hong Kong	321	286
– Listed outside Hong Kong	4,655	25,440
	<b>4,976</b>	25,726
– Unlisted	3,291	45,629
	<b>8,267</b>	71,355
Equity securities		
– Listed in Hong Kong	20	41
– Unlisted	1	4
	<b>21</b>	45
Total	<b>8,288</b>	71,400
Other investments in securities are analysed by issuers as follows:		
– Central governments and central banks	759	3,192
– Public sector entities	1,387	4,873
– Banks and other financial institutions	5,732	62,395
– Corporate entities	410	940
	<b>8,288</b>	71,400

## 22. Advances and other accounts

	<b>2004</b>	2003
	<b>HK\$'m</b>	HK\$'m
Advances to customers	<b>313,226</b>	308,582
Accrued interest	<b>2,480</b>	1,905
	<b>315,706</b>	310,487
Provision for bad and doubtful debts		
– General (Note 23)	<b>(5,465)</b>	(5,406)
– Specific (Note 23)	<b>(2,320)</b>	(5,507)
	<b>(7,785)</b>	(10,913)
	<b>307,921</b>	299,574
Advances to banks and other financial institutions	<b>1,290</b>	520
	<b>309,211</b>	300,094
Non-performing loans are analysed as follows:		
Non-performing loans	<b>9,239</b>	17,832
Specific provisions made in respect of such advances	<b>2,269</b>	5,467
As a percentage of total advances to customers	<b>2.95%</b>	5.78%
Amount of interest in suspense	<b>172</b>	324

Non-performing loans are defined as loans and advances to customers on which interest is being placed in suspense or on which interest accrual has ceased. Specific provisions were made after taking into account the value of collateral in respect of such advances.

There were no advances to banks and other financial institutions on which interest has been placed in suspense or on which interest accrual has ceased as at 31 December 2004 (2003: Nil), nor were there any specific provisions made.

### 23. Provisions for bad and doubtful debts

	2004			
	Specific HK\$'m	General HK\$'m	Total HK\$'m	Suspended interest HK\$'m
At 1 January 2004	5,507	5,406	10,913	324
(Credited)/charged to profit and loss account (Note 7)	(1,687)	59	(1,628)	–
Amounts written off	(2,856)	–	(2,856)	(139)
Recoveries of advances written off in previous years (Note 7)	1,356	–	1,356	–
Interest suspended during the year	–	–	–	130
Suspended interest recovered	–	–	–	(143)
At 31 December 2004	2,320	5,465	7,785	172
Deducted from:				
– advances to customers	2,320	5,465	7,785	

  

	2003			
	Specific HK\$'m	General HK\$'m	Total HK\$'m	Suspended interest HK\$'m
At 1 January 2003	8,650	6,363	15,013	408
Charged/(credited) to profit and loss account (Note 7)	2,628	(957)	1,671	–
Amounts written off	(6,209)	–	(6,209)	(119)
Recoveries of advances written off in previous years (Note 7)	438	–	438	–
Interest suspended during the year	–	–	–	210
Suspended interest recovered	–	–	–	(175)
At 31 December 2003	5,507	5,406	10,913	324
Deducted from:				
– advances to customers	5,507	5,406	10,913	



## 24. Investment in a subsidiary

	<b>2004</b>	2003
	<b>HK\$'m</b>	HK\$'m
Unlisted shares, at cost	<b>52,864</b>	52,864

The particulars of all direct and indirect subsidiaries of the Company are set out in Appendix of the Annual Report, "Subsidiaries of the Company". The following is a list of principal subsidiaries as at 31 December 2004.

Name	Place of incorporation	Particulars of issued share capital	Interest held	Principal activities
Bank of China (Hong Kong) Limited	Hong Kong	43,042,840,858 ordinary shares of HK\$1 each	*100%	Banking business
Nanyang Commercial Bank, Limited	Hong Kong	6,000,000 ordinary shares of HK\$100 each	100%	Banking business
Chiyu Banking Corporation Limited	Hong Kong	3,000,000 ordinary shares of HK\$100 each	70.49%	Banking business
BOC Credit Card (International) Limited	Hong Kong	4,800,000 ordinary shares of HK\$100 each	100%	Credit card services
Po Sang Futures Limited	Hong Kong	250,000 ordinary shares of HK\$100 each	100%	Commodities brokerage

\* Shares held directly by the Company

Yien Yieh Finance Company Limited commenced members' voluntary winding up on 6 December 2004.

## 25. Interests in associates

	2004 HK\$'m	2003 HK\$'m
Share of net assets	67	155
Less: Provision for impairment in value	(5)	(17)
	62	138
Loans to associates (Note)	–	280
Less: Provision for loans to associates	–	(140)
	–	140
	62	278

Note: As at 31 December 2003, loans to associates were all on commercial terms and carried interest at the then prevailing market interest rates.

The following is a list of the principal associates as at 31 December 2004, all of which are corporate entities.

Name	Place of incorporation & establishment	Particulars of issued share capital	Group's equity interest held indirectly	Principal activities
Charleston Investments Company Limited	Hong Kong	100,000 ordinary shares of HK\$10 each	40%	Property investment
CJM Insurance Brokers Limited	Hong Kong	6,000,000 ordinary shares of HK\$1 each	33%	Insurance broker
Joint Electronic Teller Services Limited	Hong Kong	100,238 ordinary shares of HK\$100 each	19.96%	Operation of a private interbank message switching network in respect of ATM services
Trilease International Limited	Hong Kong	30,000,000 ordinary shares of HK\$1 each	40%	Provision of leasing finance

Kincheng-Tokyo Finance Company Limited had commenced members' voluntary winding up during the year and completed the winding up procedures on 28 January 2005.

Trilease International Limited commenced members' voluntary winding up in January 2005.

During the year, the Group disposed of its entire interest in Zhejiang Commercial Bank, Ltd. to an independent third party.

## 26. Fixed assets

	2004				
	Premises HK\$'m	Investment properties HK\$'m	Property under development HK\$'m	Equipment, fixtures and fittings HK\$'m	Total HK\$'m
Cost or valuation					
At 1 January 2004	11,632	4,994	39	3,596	20,261
Additions	-	-	-	450	450
Disposals	(125)	(858)	-	(171)	(1,154)
Revaluation	3,768	1,154	-	-	4,922
Reclassification	(91)	91	-	-	-
At 31 December 2004	15,184	5,381	39	3,875	24,479
Accumulated depreciation and impairment losses					
At 1 January 2004	166	-	7	2,506	2,679
Depreciation for the year	328	1	-	256	585
Disposals	(2)	-	-	(167)	(169)
Write-back on revaluation	(492)	(1)	-	-	(493)
At 31 December 2004	-	-	7	2,595	2,602
Net book value					
At 31 December 2004	15,184	5,381	32	1,280	21,877
At 31 December 2003	11,466	4,994	32	1,090	17,582
The analysis of cost or valuation of the above assets is as follows:					
At 31 December 2004					
At cost	-	-	39	3,875	3,914
At valuation	15,184	5,381	-	-	20,565
	15,184	5,381	39	3,875	24,479
At 31 December 2003					
At cost	-	-	39	3,596	3,635
At valuation	11,632	4,994	-	-	16,626
	11,632	4,994	39	3,596	20,261

## 26. Fixed assets (continued)

The carrying value of premises is analysed based on the remaining terms of the leases as follows:

	<b>2004</b>	2003
	<b>HK\$'m</b>	HK\$'m
Held in Hong Kong		
On long-term lease (over 50 years)	<b>9,493</b>	7,051
On medium-term lease (10-50 years)	<b>5,475</b>	4,152
On short-term lease (less than 10 years)	<b>3</b>	2
Held outside Hong Kong		
On long-term lease (over 50 years)	<b>42</b>	40
On medium-term lease (10-50 years)	<b>165</b>	215
On short-term lease (less than 10 years)	<b>6</b>	6
	<b>15,184</b>	11,466

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	<b>2004</b>	2003
	<b>HK\$'m</b>	HK\$'m
Held in Hong Kong		
On long-term lease (over 50 years)	<b>4,566</b>	4,070
On medium-term lease (10-50 years)	<b>681</b>	792
Held outside Hong Kong		
On long-term lease (over 50 years)	<b>34</b>	34
On medium-term lease (10-50 years)	<b>100</b>	98
	<b>5,381</b>	4,994

As at 31 December 2004, the premises and investment properties are included in the balance sheet at valuation carried out at 31 October 2004 on the basis of their open market value by an independent firm of chartered surveyors, Chesterton Petty Limited. Chesterton Petty Limited also confirmed that there has been no material change in valuations at 31 December 2004.

## 26. Fixed assets (continued)

As a result of the above-mentioned revaluations, changes in value of the Group's premises and investment properties were recognised in the Group's property revaluation reserves, the profit and loss account and minority interests respectively as follows:

	2004		
	Premises HK\$'m	Investment properties HK\$'m	Total HK\$'m
Increase in valuation credited to property revaluation reserves	2,895	629	3,524
Increase in valuation credited to profit and loss account (Note 8)	1,337	525	1,862
Increase in valuation credited to minority interests (Note 34(c))	28	1	29
	<b>4,260</b>	<b>1,155</b>	<b>5,415</b>

	2003		
	Premises HK\$'m	Investment properties HK\$'m	Total HK\$'m
Decrease in valuation debited to property revaluation reserves	(48)	–	(48)
Decrease in valuation charged to profit and loss account (Note 8)	(741)	(370)	(1,111)
	<b>(789)</b>	<b>(370)</b>	<b>(1,159)</b>

As at 31 December 2004, the net book value of premises that would have been included in the Group's balance sheet had the assets been carried at cost less accumulated depreciation and impairment losses were HK\$6,032 million (2003: HK\$5,653 million).

## 27. Hong Kong SAR currency notes in circulation

The Hong Kong SAR currency notes in circulation are secured by deposit of funds in respect of which the Hong Kong SAR Government certificates of indebtedness are held.

## 28. Deposits from customers

	2004 HK\$'m	2003 HK\$'m
Demand deposits and current accounts	32,470	26,974
Savings deposits	296,462	271,439
Time, call and notice deposits	302,398	302,229
	<b>631,330</b>	<b>600,642</b>

## 29. Assets pledged as security

As at 31 December 2004, liabilities of the Group amounting to HK\$1,982 million (2003: HK\$2,735 million) were secured by assets deposited with central depositories to facilitate settlement operations. The amount of assets pledged by the Group to secure these liabilities was HK\$2,170 million (2003: HK\$2,918 million) included in "Cash and short-term funds".

## 30. Other accounts and provisions

	2004 HK\$'m	2003 HK\$'m
Interest payable	959	850
Current taxation (Note 31(a))	901	355
Deferred taxation (Note 31(b))	947	341
Short positions in Exchange Fund Bills (Note 29)	1,982	2,735
Accruals and other payables	17,909	21,008
	<b>22,698</b>	25,289

## 31. Tax liabilities

	2004 HK\$'m	2003 HK\$'m
Current taxation (Note a)	901	355
Deferred taxation (Note b)	947	341
	<b>1,848</b>	696

Notes:

### (a) Current taxation

	2004 HK\$'m	2003 HK\$'m
Hong Kong profits tax	884	349
Overseas taxation	17	6
	<b>901</b>	355

### (b) Deferred taxation

During the year, deferred tax is recognised in respect of the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts according to SSAP 12 (revised) "Income taxes".

**31. Tax liabilities (continued)**

Notes: (continued)

**(b) Deferred taxation (continued)**

The major components of deferred tax assets and liabilities recorded in the consolidated balance sheet, and the movements during the year are as follows:

	2004					
	Accelerated tax depreciation	Asset revaluation	Losses	Provisions	Other temporary differences	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At 1 January 2004	262	984	(3)	(936)	18	325
Charged/(credited) to profit and loss account	16	173	(13)	1	(25)	152
Charged to equity and minority interests	–	458	–	–	–	458
At 31 December 2004	278	1,615	(16)	(935)	(7)	935
	2003					
	Accelerated tax depreciation	Asset revaluation	Losses	Provisions	Other temporary differences	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At 1 January 2003	247	1,043	(2)	(1,009)	2	281
Charged/(credited) to profit and loss account	15	(48)	(1)	73	16	55
Credited to equity	–	(11)	–	–	–	(11)
At 31 December 2003	262	984	(3)	(936)	18	325

Deferred tax assets and liabilities are offset on an individual entity basis when there is a legal right to set off current tax assets against current tax liabilities and when the deferred taxation relates to the same authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2004 HK\$'m	2003 HK\$'m
Deferred tax assets (Note)	(12)	(16)
Deferred tax liabilities	947	341
	935	325

Note: This amount has been included in "Other assets".

	2004 HK\$'m	2003 HK\$'m
Deferred tax assets to be recovered after more than twelve months	(971)	(961)
Deferred tax liabilities to be settled after more than twelve months	282	274
	(689)	(687)

### 32. Share capital

	2004 HK\$m	2003 HK\$m
Authorised: 20,000,000,000 ordinary shares of HK\$5.00 each	<b>100,000</b>	100,000
Issued and fully paid: 10,572,780,266 ordinary shares of HK\$5.00 each	<b>52,864</b>	52,864

### 33. Reserves

#### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 86 of the accounts.

#### (b) Company

Included in the Company's retained earnings was a final dividend of HK\$4,176 million (2003: HK\$3,383 million) which was proposed by the Board after the balance sheet date.



**34. Notes to consolidated cash flow statement****(a) Reconciliation of operating profit after provisions to operating cash outflow before taxation:**

	<b>2004</b>	2003
	<b>HK\$'m</b>	HK\$'m
Operating profit after provisions	<b>11,980</b>	9,924
Dividend income from investment securities	<b>(14)</b>	(32)
Depreciation	<b>585</b>	611
(Write-back of)/charge for bad and doubtful debts	<b>(1,628)</b>	1,671
Advances written off net of recoveries	<b>(1,500)</b>	(5,771)
Change in money at call and short notice with original maturity over three months	<b>19,452</b>	(17,420)
Change in treasury bills with original maturity over three months	<b>(467)</b>	372
Change in placements with banks and other financial institutions with original maturity over three months	<b>(33,856)</b>	(1,040)
Change in trade bills	<b>(395)</b>	(99)
Change in certificates of deposit held with original maturity over three months	<b>(3,639)</b>	103
Change in held-to-maturity securities	<b>(13,512)</b>	(6,809)
Change in other investments in securities	<b>(3,359)</b>	(7,040)
Change in advances and other accounts	<b>(5,989)</b>	12,338
Change in other assets	<b>873</b>	(4,061)
Change in deposits and balances of banks and other financial institutions repayable over three months	<b>(98)</b>	1,115
Change in deposits from customers	<b>30,688</b>	(335)
Change in certificates of deposit issued	<b>1,356</b>	2,432
Change in other accounts and provisions	<b>(3,743)</b>	7,758
Exchange difference	<b>(2)</b>	(1)
Operating cash outflow before taxation	<b>(3,268)</b>	(6,284)

### 34. Notes to consolidated cash flow statement (continued)

#### (b) Disposal of a subsidiary

	2004 HK\$'m	2003 HK\$'m
Net assets disposed of:		
– Fixed assets	–	158
– Loss on disposal	–	(1)
	–	157
Satisfied by:		
– Cash	–	157
Analysis of net cash inflow in respect of the disposal of a subsidiary:		
– Cash consideration received	–	157

#### (c) Analysis of changes in financing

	2004	
	Share capital HK\$'m	Minority interests HK\$'m
At 1 January 2004	52,864	1,156
Minority interests share of profits	–	158
Minority interests share of current year increase in property revaluation reserves (Note 26)	–	29
Dividends paid to minority shareholders	–	(99)
Released to deferred tax liabilities	–	(5)
At 31 December 2004	52,864	1,239

	2003	
	Share capital HK\$'m	Minority interests HK\$'m
At 1 January 2003	52,864	1,114
Minority interests share of profits	–	139
Dividends paid to minority shareholders	–	(97)
At 31 December 2003	52,864	1,156

**34. Notes to consolidated cash flow statement (continued)****(d) Analysis of the balances of cash and cash equivalents**

	<b>2004</b>	2003
	<b>HK\$'m</b>	HK\$'m
Cash and balances with banks and other financial institutions	<b>20,976</b>	12,547
Money at call and short notice with original maturity within three months	<b>54,281</b>	64,924
Treasury bills with original maturity within three months	<b>4,871</b>	15,131
Placements with banks and other financial institutions with original maturity within three months	<b>12,249</b>	16,764
Certificates of deposit held with original maturity within three months	<b>1,508</b>	1,585
Deposits and balances of banks and other financial institutions with original maturity within three months	<b>(30,977)</b>	(37,786)
	<b>62,908</b>	73,165

**(e) Major non-cash transactions**

During the year, "Other investments in securities" with fair value of HK\$66,471 million were transferred to "Held-to-maturity securities" to align with the Group's associated intention of holding.

### 35. Maturity profile

The maturity profile of assets and liabilities analysed by the remaining period as at 31 December to the contractual maturity dates is as follows:

	2004						
	Repayable on demand HK\$'m	3 months or less HK\$'m	1 year or less but over 3 months HK\$'m	5 years or less but over 1 year HK\$'m	Over 5 years HK\$'m	Undated HK\$'m	Total HK\$'m
<b>Assets</b>							
Treasury bills	-	7,812	2,967	-	-	-	10,779
Cash and other short-term funds	20,976	70,892	-	-	-	-	91,868
Placements with banks and other financial institutions	16	47,849	59,716	-	-	-	107,581
Certificates of deposit held	-	5,242	5,695	11,085	316	-	22,338
Debt securities included in:							
– held-to-maturity securities	-	31,479	36,755	101,053	11,743	32	181,062
– other investments in securities	-	506	730	6,150	881	-	8,267
Advances to customers	19,548	24,254	28,995	128,816	102,356	9,257	313,226
Advances to banks and other financial institutions	-	-	-	1,290	-	-	1,290
<b>Liabilities</b>							
Deposits and balances of banks and other financial institutions	14,990	16,818	2,632	-	-	-	34,440
Deposits from customers	332,194	273,580	20,768	4,476	312	-	631,330
Certificates of deposit issued	-	-	891	2,897	-	-	3,788

**35. Maturity profile (continued)**

	2003						
	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
<b>Assets</b>							
Treasury bills	–	18,923	1,649	–	–	–	20,572
Cash and other short-term funds	12,547	100,987	–	–	–	–	113,534
Placements with banks and other financial institutions	16	64,521	13,703	–	–	–	78,240
Certificates of deposit held	–	3,870	3,702	10,923	281	–	18,776
Debt securities included in:							
– held-to-maturity securities	–	13,358	9,161	71,227	7,297	34	101,077
– other investments in securities	–	12,122	12,521	44,938	1,774	–	71,355
Advances to customers	23,690	19,161	23,859	125,786	97,944	18,142	308,582
Advances to banks and other financial institutions	–	1	1	518	–	–	520
<b>Liabilities</b>							
Deposits and balances of banks and other financial institutions	6,800	32,151	2,396	–	–	–	41,347
Deposits from customers	303,335	278,509	17,586	1,212	–	–	600,642
Certificates of deposit issued	–	–	–	2,432	–	–	2,432

Apart from certain deferred tax assets and liabilities, the majority of other assets and other accounts and provisions are due within one year.

The above maturity classifications have been prepared in accordance with the guideline on “Financial Disclosure by Locally Incorporated Authorized Institutions” under the Supervisory Policy Manual issued by the HKMA. In accordance with the guideline, the Group has reported assets such as advances and debt securities which have been overdue for not more than one month as “Repayable on demand” and assets which are non-performing or which are overdue for more than one month as “Undated”. In the case of an asset that is repayable by different payments or instalments, only that portion of the asset that is actually overdue is reported as overdue. Any part of the asset that is not due is reported according to the residual maturity unless the repayment of the asset is in doubt in which case the amount is reported as “Undated”. The above assets are stated before deduction of provisions, if any.

The analysis of other investments in securities by remaining period to maturity is disclosed in order to comply with the guideline on “Financial Disclosure by Locally Incorporated Authorized Institutions” under the Supervisory Policy Manual issued by the HKMA. The disclosure does not imply that the securities will be held to maturity.

### 36. 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:

	2004 HK\$'m	2003 HK\$'m
Direct credit substitutes	1,132	1,264
Transaction-related contingencies	4,647	4,427
Trade-related contingencies	16,266	16,120
Other commitments with an original maturity of		
– under one year or which are unconditionally cancellable	90,947	78,291
– one year and over	41,460	49,037
	<b>154,452</b>	<b>149,139</b>

#### (b) Derivatives

The following is a summary of the notional amounts of each significant type of derivative:

	2004			2003		
	Trading HK\$'m	Hedging HK\$'m	Total HK\$'m	Trading HK\$'m	Hedging HK\$'m	Total HK\$'m
Exchange rate contracts						
Spot	14,954	–	14,954	14,673	–	14,673
Forward and futures contracts	886	–	886	950	–	950
Swaps	200,862	3,715	204,577	184,524	6,254	190,778
Foreign exchange option contracts						
– Currency options purchased	1,415	–	1,415	1,476	–	1,476
– Currency options written	2,851	–	2,851	4,435	–	4,435
	<b>220,968</b>	<b>3,715</b>	<b>224,683</b>	<b>206,058</b>	<b>6,254</b>	<b>212,312</b>
Interest rate contracts						
Interest rate swaps	5,349	17,166	22,515	381	21,087	21,468
Interest rate futures	389	–	389	–	–	–
Interest rate option contracts						
– Swaptions purchased	469	–	469	–	–	–
– Swaptions written	2,206	–	2,206	1,446	–	1,446
	<b>8,413</b>	<b>17,166</b>	<b>25,579</b>	<b>1,827</b>	<b>21,087</b>	<b>22,914</b>
Bullion contracts						
Bullion contracts	929	–	929	606	–	606
Gold option contracts						
– Gold options purchased	98	–	98	31	–	31
– Gold options written	65	–	65	30	–	30
	<b>1,092</b>	<b>–</b>	<b>1,092</b>	<b>667</b>	<b>–</b>	<b>667</b>
Equity contracts						
Equity option contracts						
– Equity options purchased	564	–	564	1,016	–	1,016
– Equity options written	450	–	450	829	–	829
	<b>1,014</b>	<b>–</b>	<b>1,014</b>	<b>1,845</b>	<b>–</b>	<b>1,845</b>
Total	<b>231,487</b>	<b>20,881</b>	<b>252,368</b>	<b>210,397</b>	<b>27,341</b>	<b>237,738</b>

**36. Off-balance sheet exposures (continued)****(b) Derivatives (continued)**

The trading transactions include positions arising from dealing activities and positions arising from the execution of trade orders from customers or transactions taken to hedge those positions. Interest rate swaps include both plain vanilla and non-standard swaps.

The replacement costs and credit risk weighted amounts of the above off-balance sheet exposures, which do not take into account the effects of bilateral netting arrangements are as follows:

	2004	2003	2004	2003
	Credit risk weighted amount		Replacement cost	
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Contingent liabilities and commitments	<b>26,303</b>	29,813	<b>N/A</b>	N/A
Derivatives				
– Exchange rate contracts	<b>694</b>	673	<b>1,264</b>	1,227
– Interest rate contracts	<b>57</b>	57	<b>97</b>	112
– Bullion contracts	<b>10</b>	10	<b>12</b>	33
– Equity contracts	<b>16</b>	29	<b>6</b>	9
	<b>777</b>	769	<b>1,379</b>	1,381
Total	<b>27,080</b>	30,582	<b>1,379</b>	1,381

The contract or notional amounts of these instruments indicate the volume of transactions outstanding as at 31 December 2004 and 31 December 2003; they do not represent the amounts at risk.

The credit risk weighted amounts are the amounts that have been calculated in accordance with the Third Schedule of the Banking Ordinance and guidelines issued by the HKMA. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

Replacement cost is the cost of replacing all contracts that have a positive value when marked to market (should the counterparty default on its obligations) and is obtained by marking contracts to market. Replacement cost is a close approximation of the credit risk for these contracts at the balance sheet dates.

### 37. Capital commitments

The Group has the following outstanding capital commitments not provided for in the accounts:

	2004 HK\$'m	2003 HK\$'m
Authorised and contracted for but not recorded	197	117
Authorised but not contracted for	17	–
	<b>214</b>	117

The above capital commitments mainly relate to commitments to purchase computer equipment and software; and to renovate the Group's premises.

### 38. Operating lease commitments

#### (a) The Group as lessee

The Group has commitments to make the following future minimum lease payments under non-cancellable operating leases:

	2004 HK\$'m	2003 HK\$'m
Land and buildings		
– not later than one year	200	183
– later than one year but not later than five years	188	182
– later than five years	3	9
	<b>391</b>	374
Computer equipment		
– not later than one year	1	1

Certain non-cancellable operating leases included in the above were subject to renegotiation and rent adjustment with reference to market rates prevailing at specified date agreed.

#### (b) The Group as lessor

The Group has contracted with tenants for the following future minimum lease receivables under non-cancellable operating leases:

	2004 HK\$'m	2003 HK\$'m
Land and buildings		
– not later than one year	135	168
– later than one year but not later than five years	102	132
	<b>237</b>	300

The Group leases its investment properties (Note 26) under operating lease arrangements, with leases typically run for a period from one to three years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. None of the leases includes contingent rentals.



### 39. Litigation

The Group is currently being served a number of claims and counterclaims by various independent parties. These claims and counterclaims are in relation to the normal commercial activities of the Group.

No material provision was made against these claims and counterclaims because the directors believe that the Group has meritorious defences against the claimants or the amounts involved in these claims are not expected to be material.

### 40. Segmental reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other business or geographical segments. The Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment and those that can be allocated on a reasonable basis to that segment. The allocation of revenue reflects the benefits of capital and other funding resources allocated to the business or geographical segments by way of internal capital allocations and fund transfer mechanisms.

**40. Segmental reporting (continued)**  
**(a) By class of business**

	2004					
	Commercial banking HK\$'m	Treasury HK\$'m	Unallocated HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
Net interest income	7,880	2,928	385	11,193	-	11,193
Other operating income	3,288	1,121	673	5,082	(418)	4,664
Operating income	11,168	4,049	1,058	16,275	(418)	15,857
Operating expenses	(4,317)	(159)	(1,447)	(5,923)	418	(5,505)
Operating profit/(loss) before provisions	6,851	3,890	(389)	10,352	-	10,352
Write-back of bad and doubtful debts	1,628	-	-	1,628	-	1,628
Operating profit/(loss) after provisions	8,479	3,890	(389)	11,980	-	11,980
Net gain from disposal/revaluation of fixed assets	-	-	2,084	2,084	-	2,084
Net gain from disposal of held-to-maturity securities	-	-	2	2	-	2
Net gain on disposal of an associate	-	-	50	50	-	50
Write-back of provision for impairment on interests in associates	-	-	152	152	-	152
Share of profits less losses of associates	-	-	(16)	(16)	-	(16)
Profit before taxation	8,479	3,890	1,883	14,252	-	14,252
<b>Assets</b>						
Segment assets	317,064	456,948	21,969	795,981	-	795,981
Interests in associates	-	-	62	62	-	62
Unallocated corporate assets	-	-	733	733	-	733
	317,064	456,948	22,764	796,776	-	796,776
<b>Liabilities</b>						
Segment liabilities	651,539	72,453	805	724,797	-	724,797
Unallocated corporate liabilities	-	-	2,219	2,219	-	2,219
	651,539	72,453	3,024	727,016	-	727,016
<b>Other information</b>						
Additions of fixed assets	-	-	450	450	-	450
Depreciation	-	-	585	585	-	585
Amortisation of premium/discount of held-to-maturity securities	-	207	-	207	-	207

**40. Segmental reporting (continued)**  
**(a) By class of business (continued)**

	2003					
	Commercial			Subtotal	Eliminations	Consolidated
	banking	Treasury	Unallocated			
HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	
Net interest income	9,392	2,982	500	12,874	-	12,874
Other operating income	3,116	918	832	4,866	(487)	4,379
Operating income	12,508	3,900	1,332	17,740	(487)	17,253
Operating expenses	(4,373)	(162)	(1,610)	(6,145)	487	(5,658)
Operating profit/(loss) before provisions	8,135	3,738	(278)	11,595	-	11,595
Charge for bad and doubtful debts	(1,671)	-	-	(1,671)	-	(1,671)
Operating profit/(loss) after provisions	6,464	3,738	(278)	9,924	-	9,924
Net loss from disposal/revaluation of fixed assets	-	-	(1,121)	(1,121)	-	(1,121)
Write-back of provision for impairment on held-to-maturity securities and investment securities	-	29	1	30	-	30
Net loss on disposal of a subsidiary	-	-	(1)	(1)	-	(1)
Provision for impairment on interests in associates	-	-	(132)	(132)	-	(132)
Share of profits less losses of associates	-	-	(9)	(9)	-	(9)
Profit/(loss) before taxation	6,464	3,767	(1,540)	8,691	-	8,691
<b>Assets</b>						
Segment assets	310,008	432,947	18,439	761,394	-	761,394
Interests in associates	-	-	278	278	-	278
Unallocated corporate assets	-	-	915	915	-	915
	310,008	432,947	19,632	762,587	-	762,587
<b>Liabilities</b>						
Segment liabilities	621,211	77,671	648	699,530	-	699,530
Unallocated corporate liabilities	-	-	1,640	1,640	-	1,640
	621,211	77,671	2,288	701,170	-	701,170
<b>Other information</b>						
Additions of fixed assets	-	-	369	369	-	369
Depreciation	-	-	611	611	-	611
Amortisation of premium/discount of held-to-maturity securities	-	544	-	544	-	544
Non-cash expenses other than depreciation/amortisation	1,671	-	-	1,671	-	1,671

Commercial banking business includes acceptance of deposits, mortgage lending, credit card advances, remittance, provision of securities brokerage and insurance agency services, commercial lending, trade finance and overdraft facilities.

#### 40. Segmental reporting (continued)

##### (a) By class of business (continued)

Treasury activities include money market, foreign exchange dealing and capital market activities. Treasury manages funding of the Group. Treasury provides funding to all other business segments and receives funds from commercial banking's deposit taking activities. These inter-segment funding transactions are priced either at market bid/offer rates as appropriate or at an internal funding rate as determined by the average funding requirements of other business segments and the average one-month inter-bank rates of the relevant financial year. In addition, the gains and losses on the foreign exchange activities of the Group are included in "Treasury". The profit and loss information presented in this note has been prepared using inter-segment charging/income transactions. The segmental assets and liabilities have not been adjusted to reflect the effect of inter-segment borrowing and lending (i.e. segmental profit and loss information is not comparable to segmental assets and liabilities information).

Unallocated items mainly comprise fixed assets of the Group, investment securities, interests in associates and other items that cannot be reasonably allocated to a specific business segment. The interest benefit of the capital of the Group is also included as unallocated within net interest income. Rental expenses are allocated to business segments based on a fixed rate per square footage occupied.

Operating expenses of a functional unit are allocated to the relevant business segment that is the predominant user of the services provided by the unit. Operating expenses of other shared services, which cannot be allocated to a specific business segment, are included in "Unallocated".

##### (b) By geographical area

No geographical reporting is provided as over 90% of the Group's revenues are derived from Hong Kong and over 90% of the Group's assets are originated from business decisions and operations based in Hong Kong.

#### 41. Loans to directors and officers

Particulars of advances made to directors and officers of the Company pursuant to section 161B(4C) of the Hong Kong Companies Ordinance are as follows:

	2004 HK\$'m	2003 HK\$'m
Aggregate amount of relevant loans outstanding at year end	185	35
Maximum aggregate amount of relevant loans outstanding during the year	193	100

#### 42. Significant related party transactions

Related parties are those parties that have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or other entities.

#### 42. Significant related party transactions (continued)

As detailed in Note 44, pursuant to the reorganisation of BOC on 26 August 2004, the PRC government established Huijin to hold the equity capital of BOC and the equity capital of certain other financial institutions previously held directly by the State. The stated purpose of Huijin is to exercise the rights of an equity investor on behalf of the State and not to have any commercial operations. In accordance with SSAP 20 "Related Party Disclosures", Huijin and financial institutions, other than BOC, that it controls have not been regarded as related parties, as such entities are acting on behalf of the State similar to government departments and agencies, simply by virtue of their normal dealings with the Company.

During the year, the Group entered into various transactions with related parties which are summarised as follows:

##### (a) Advances to third parties guaranteed by related parties

As at 31 December 2004, BOC, the intermediate holding company and fellow subsidiaries provided guarantees for loans in favour of the Group amounting to HK\$4,512 million (2003: HK\$2,886 million) to certain third parties. The intermediate holding company and fellow subsidiaries held equity interests of not more than 20% in these third parties.

##### (b) Summary of transactions entered into during the ordinary course of business with the related parties

The aggregate income and expenses arising from related party transactions with the immediate holding company, intermediate holding companies, fellow subsidiaries and associates of the Company as well as associates of an intermediate holding company are summarised as follows:

	Notes	2004 HK\$'m	2003 HK\$'m
Profit and loss items:			
Interest income	(i)	175	314
Interest expense	(ii)	(210)	(257)
Insurance commission received (net)	(iii)	149	123
Administrative services fees received/receivable	(iv)	55	45
Rental fees received/receivable	(iv)	19	30
Credit card commission paid/payable (net)	(v)	(66)	(44)
Securities brokerage commission paid/payable (net)	(v)	(113)	(119)
Rental, property management and letting agency fees paid/payable	(v)	(66)	(62)
Write-back of/(charge for) bad and doubtful debts		162	(125)
Funds selling commission received	(vi)	71	58
Correspondent banking fee received	(vii)	11	8
Loan services fees received	(viii)	7	11
Balance sheet items:			
Cash and short-term funds	(i)	11,587	27,913
Placements with banks and other financial institutions	(i)	22,726	9,535
Advances and other accounts	(i)	353	604
Other investments in securities	(i)	–	234
Other assets	(ix)	1,343	2,507
Deposits and balances of banks and other financial institutions	(ii)	19,549	19,779
Deposits from customers	(ii)	5,175	17,771
Other accounts and provisions	(ix)	1,183	2,270

## 42. Significant related party transactions (continued)

### (b) Summary of transactions entered into during the ordinary course of business with the related parties (continued)

Notes:

#### (i) Interest income

In the ordinary course of business, the Group enters into various transactions with an intermediate holding company, fellow subsidiaries and associates including deposit of cash and short-term funds, placement of interbank deposits, investments in securities and provision of loans and credit facilities. The transactions were conducted at prices and terms that are no more favourable than those charged to and contracted with other third party customers of the Group.

#### (ii) Interest expense

In the ordinary course of business, the Group accepts interbank deposits and current, fixed, savings and other deposits from the immediate holding company, intermediate holding companies and fellow subsidiaries of the Company as well as associates of an intermediate holding company at the relevant market rates at the time of the transactions.

#### (iii) Insurance commission received (net)

In the ordinary course of business, the Group provides insurance agency services to and purchases general and life insurance policies from fellow subsidiaries at the relevant market rates at the time of the transactions.

#### (iv) Administrative services fees and rental fees received/receivable

In the ordinary course of business, the Group receives administrative services fees for the provision of various administrative services including internal audit, technology, human resources support and training to the intermediate holding companies and fellow subsidiaries mainly on the basis of cost plus a margin of 5%, and receives office premises rental fees from the fellow subsidiaries at the relevant market rates at the time of the transactions.

#### (v) Commission, property management, letting agency fees and rental fees paid/payable

In the ordinary course of business, the Group pays commission fees for credit card administrative and promotional services, securities brokerage services, property management and letting agency fees to an intermediate holding company and fellow subsidiaries. The Group also pays rental fees to fellow subsidiaries. These transactions have been entered into in the ordinary course of business and were priced at the relevant market rates at the time of the transactions.

#### (vi) Funds selling commission received

In the ordinary course of business, the Group receives commission for engaging in promotion and sale of fund products of a fellow subsidiary to customers of the Group at the relevant market rates at the time of the transactions.

#### (vii) Correspondent banking fee received

In the ordinary course of business, an intermediate holding company provides services to the Group's customers including the remittance services and advising on and collecting letters of credit issued by the Group. The Group shares the fees paid by its customers with the intermediate holding company on the basis agreed between the parties from time to time.

**42. Significant related party transactions (continued)****(b) Summary of transactions entered into during the ordinary course of business with the related parties (continued)**

Notes: (continued)

**(viii) Loan services fees received**

In the ordinary course of business, the Group undertakes to service and administer the loans and the related securities transferred to fellow subsidiaries and an intermediate holding company in prior years at a fee agreed among the parties from time to time. Such loan service was ended in June 2004 when the loans were sold.

In prior year, the fellow subsidiary and the former ultimate holding company entered into a Deed of Assignment with another fellow subsidiary (the "Transferee"), to which the Group is also a party, pursuant to which the Group agrees to service the loans assigned to the Transferee, commencing in this year, for essentially the same compensation, adjusted on a pro rata basis, as contained in the original loan servicing agreements.

**(ix) Other assets and other accounts and provisions**

Included within "Other assets" and "Other accounts and provisions" are receivables from and payables to intermediate holding companies and fellow subsidiaries. The amounts mainly represent the accounts receivables from and payables to a fellow subsidiary in relation to dealing securities trading transactions on behalf of the Group's customers. The receivables and payables arose from transactions carried out in the normal course of business.

**(c) Off-balance sheet items****Contingent liabilities and commitments**

In the ordinary course of business, the Group provides loan facilities and trade finance services to, and guarantees for the obligations of an intermediate holding company, fellow subsidiaries and associates on normal commercial terms. As at 31 December 2004, the total undrawn loan commitments, trade finance-related contingencies and guarantees amounted to HK\$1,283 million (2003: HK\$1,132 million).

**Derivatives**

In the ordinary course of business, the Group enters into foreign exchange contracts and interest rate contracts with an intermediate holding company and fellow subsidiaries. The aggregate notional amount of such derivative transactions amounted to HK\$6,943 million as at 31 December 2004 (2003: HK\$19,323 million). These transactions are executed at the relevant market rates at the time of the transactions.

**(d) Key management personnel**

The Group accepts deposits from and grants loans and credit facilities to key management personnel in the ordinary course of business. During the year and that of the prior year, no material transaction was conducted with key management personnel of BOCHK, its holding companies and parties related to them.

### 43. Balances with group companies and associates

Included in the following balance sheet captions are balances with group companies:

	2004		
	Immediate and intermediate holding companies HK\$'m	Other group companies HK\$'m	Total HK\$'m
Cash and short-term funds	11,534	53	11,587
Placements with banks and other financial institutions	22,673	53	22,726
Advances and other accounts	15	338	353
Other assets	41	1,302	1,343
Deposits and balances of banks and other financial institutions	18,536	1,013	19,549
Deposits from customers	81	4,984	5,065
Other accounts and provisions	24	1,159	1,183

  

	2003		
	Immediate and intermediate holding companies HK\$'m	Other group companies HK\$'m	Total HK\$'m
Cash and short-term funds	27,789	124	27,913
Placements with banks and other financial institutions	9,532	3	9,535
Advances and other accounts	18	446	464
Other investments in securities	234	–	234
Other assets	35	2,472	2,507
Deposits and balances of banks and other financial institutions	19,066	710	19,776
Deposits from customers	14,426	3,269	17,695
Other accounts and provisions	29	2,241	2,270

As detailed in the Report of the Directors and Note 44, pursuant to the reorganisation on 26 August 2004, Huijin became the ultimate holding company of the Company. The Group did not have any balances with Huijin for the years ended 2003 and 2004 respectively.

There were no material balances with associates of the Group as at 31 December 2004 and 31 December 2003 respectively.



**44. Ultimate holding company**

With the approval of the State Council of the PRC, BOC, the former ultimate holding company of the Company, has been reorganised into a joint stock company with limited liability in the PRC (the "Reorganisation") and was renamed Bank of China Limited on 26 August 2004. Pursuant to the Reorganisation, Huijin becomes the owner of the entire equity interest in Bank of China Limited. Huijin is approved by State Council of the PRC to assume the rights and obligations of the equity owner on behalf of the State. Accordingly, Huijin, acting on behalf of the State, has become the ultimate holding company of the Company by virtue of its interest in Bank of China Limited immediately after the Reorganisation.

**45. Approval of accounts**

The accounts were approved and authorised for issue by the Board of Directors on 23 March 2005.