



中銀香港(控股)有限公司

BOC HONG KONG (HOLDINGS) LIMITED

(incorporated in Hong Kong with limited liability under the Companies Ordinance)

2003 INTERIM RESULTS ANNOUNCEMENT

Chairman's Statement

The results of BOC Hong Kong (Holdings) Limited (the "Company") and its subsidiaries (the "Group") for the six months to 30 June 2003 were fully audited. Following concerns voiced by the investing community and the public regarding a certain loan granted by our principal subsidiary Bank of China (Hong Kong) Limited ("BOCHK") and the departure of our former Chief Executive, we promptly decided to commission the audit. Under the unusual circumstances, we considered this a vital and necessary step because as a publicly listed financial institution that aspires to be among top-tier banks in the world, our top priority is to ensure good corporate governance and be fully accountable and transparent to our shareholders. As a result of this full audit, our financial statements for the six months to 30 June 2003 have been validated, with a view to dispelling any possible doubt that could have arisen.

The first six months of 2003 continued to pose formidable challenges to the Hong Kong economy. Recovery still seemed far off as unemployment figures kept climbing to record highs, deflation persisted, consumer credit demand further weakened and property prices continued to decline. The onslaught of Severe Acute Respiratory Syndrome ("SARS") towards the end of the first quarter added further uncertainties to the economy by dampening interest in investment and consumer spending. As a result, competition within the banking sector was intensifying and margins inevitably narrowed.

Notwithstanding all these challenges, business remained as usual for the Group during the interim period and our business performance on the whole remained quite stable. Two of our key growth areas, namely, treasury operations and wealth management performed exceptionally well. On the other hand, higher cost efficiency meant that we managed to achieve considerable savings in operating expenses and human resources spending while maintaining our productivity and quality of service. Before provisions, our operating profit in fact rose by 2.28%. However, the gains we achieved were offset chiefly by the negative result of property revaluation that revealed a further decline in the market value of property during the period under review. In addition, our net interest income also decreased whereas our net charge for bad and doubtful debts declined as well. As a result, the Group's profit before taxation decreased by 22.94% to HK\$3,245 million and profit attributable to shareholders was HK\$3,012 million, representing a decrease of 11.80%. Our earnings per share were HK\$28.49 cents. The Board of Directors (the "Board") declared an interim dividend of HK\$19.50 cents per share.

Notwithstanding this temporary drop in profit, the Group operates on a solid foundation. Our merger and restructuring exercise in October 2001 has greatly enhanced our competitive strengths and enabled us to position ourselves as a full-service financial institution that is integrated, efficient and forward-looking. We now operate under a sound corporate governance framework and management system. We firmly believe that good

corporate governance is of paramount importance in ensuring that the interests of our shareholders, customers and employees are properly safeguarded.

The New Nongkai Loan incident, while having some short-term impact on us, has given rise to an excellent opportunity for us to conduct a review of our corporate governance, credit approval procedure, risk management and internal control mechanism. A Special Committee was established in early June for the purpose under the convenership of Senior Adviser Mr. Anthony Neoh, SC, and with Independent Non-executive Directors Dr. Victor Fung Kwok King and Mr. Shan Weijian as members. In accordance with its terms of reference, the Special Committee subsequently invited Mr. Richard Farrant, an internationally renowned banking expertise and currently Non-Executive Chairman of the UK Banking Standards Board, as Special Adviser. KPMG and Moores Rowland were also engaged to undertake different aspects of the review. The makeup and terms of reference of this Special Committee ensured that the review was comprehensive, objective and impartial.

The Special Committee duly completed its task and submitted its report to the Hong Kong Monetary Authority (“HKMA”) and the Company’s Board. More importantly, we are committed to embracing these findings and recommendations so that we can further improve our corporate governance, credit approval procedure, risk management and internal control. Furthermore, we will keep these functions under constant review, with a view to seeking improvement to our operational systems on a continuous basis. This is what we mean by reaching for higher standards.

On behalf of the Group, I wish to thank the Special Committee and everybody involved for their time, dedication and impeccable quality of work.

While the Hong Kong economy is gradually improving, we would expect the operating environment as a whole to remain difficult in the second half of the year as domestic demand continues to be weak and deflation and high unemployment persist. Under this economic climate, our strategy is to focus on the development of our wealth management business to meet customers’ needs through product and service innovations, continue to reduce cost and improve overall operational efficiency in order to maximise shareholder value. The progress we have made in those areas so far speaks for the rightness of that strategy.

I am fully confident that our business model, strategy and people will help us realise our long-term potential. In the longer term, we have reason to believe that the operating environment for Hong Kong’s banking sector will progressively improve, particularly under Closer Economic Partnership Arrangement (“CEPA”). At the same time, the growth of economic activities resulting from the further integration of Hong Kong with the Pearl River Delta will provide a new impetus for corporate and retail banking. The Group is well positioned to capitalise on all these new opportunities. On the back of gradual economic recovery and barring unforeseen circumstances, we are confident that our business development will stay on track.

I would like to take this opportunity to welcome again the appointment of Mr. He Guangbei, Executive Vice President of Bank of China (“BOC”) and Director of the Company, as Executive Director, Vice Chairman and Chief Executive of the Company on 28 May 2003. Mr. He’s banking expertise and international experience will be invaluable to us as we reach for newer and higher standards and go on to the next level of growth and development.

I wish to thank the Board of Directors for their counsel and guidance during a challenging period. Mr. Chia Pei-yuan retired from the Board in July 2003 for personal reasons. We thank him for his valuable contribution during his tenure and wish him all the best. I would also like to thank our shareholders and customers for their continued trust and support. Last but not least, a special vote of thanks must be extended to our staff for their hard work and devotion. I know I can continue to count on them for the Group's long-term success.

XIAO Gang
Chairman

Hong Kong, 5 September 2003

Chief Executive's Report

The first half of 2003 was highly demanding for Hong Kong's banking sector as a whole. The weak economic and market conditions were further exacerbated by the outbreak of SARS in March. The New Nongkai Loan episode, which occurred at the end of May, has aroused great concern about our Group's risk management system and corporate governance. The Board then proactively adopted a series of measures to address the issues and has gained full support from our management and staff during the course of their execution. Against this backdrop, we continued to develop our business in accordance with our strategy, streamline our operation in order to achieve higher cost-efficiency, and improve the diversity and quality of our service to meet customers' needs. We also continued to focus on delivering our promises to shareholders at the time of our Initial Public Offering and creating long-term shareholder value.

Half-year Performance

For the six months to 30 June 2003, the Group's operating profit before provisions was HK\$6,139 million, up 2.28%, whereas operating profit after provisions was HK\$4,470 million, up 5.52%. Profit attributable to shareholders was HK\$3,012 million, a decrease of 11.80%. Earnings per share stood at HK\$28.49 cents.

Notwithstanding the adverse economic environment, our business operations remained stable and we were able to continue with product and service innovation and explore opportunities for business development. Higher operating profit in the first half of the year was mainly attributable to the growth in other operating income and cost containment.

As a result of the growth in wealth management income and profit from treasury operations, our other operating income increased by 12.04% to HK\$2,252 million. Leveraging our distribution channels, which have been integrated and strengthened under the BOCHK brand name after our restructuring and merger, we were able to increase our wealth management income, including income from the distribution of insurance products and fees from the sales of investment funds and retail bonds. By optimising our investment portfolio and launching new treasury products and services, net gains from other investments in securities, foreign exchange and dealing activities increased by 36.76% in the highly volatile markets.

These were offset by the decrease in net interest income of 4.46% to HK\$6,584 million. Net interest margin decreased by 10 basis points resulting from a reduction of 6 basis points in net interest spread and a decrease of 4 basis points in the contribution from net free funds in the low interest rate environment.

On the other hand, we continued to streamline operating expenses, thereby achieving better cost efficiency. During the interim period, operating expenses decreased by 6.97% as a result of a reduction in staff costs by 7.21%. The total number of employees, including all the subsidiary companies, was 13,020 at 30 June 2003, compared to 13,439 at 31 December 2002. Savings from the reduction in rental expenses and from consolidation of business operations also helped to improve efficiency across the board. The cost to income ratio decreased by 2.05 percentage points to 30.52% for the first half of 2003, one of the lowest in the industry.

While the credit environment in Hong Kong remained one of the greatest concerns for the banking industry, the credit quality of our loan portfolio continued to improve and contribute to our profit. Net charge for bad and doubtful debts decreased by 5.49% to HK\$1,669 million. New specific provisions for the Group decreased, reflecting the improvement in the overall quality of the loan portfolio despite additional provisions made for collateral devaluation and the negative impact of SARS.

The non-performing loan (“NPL”) ratio improved from 7.99% at 31 December 2002 to 7.80% at 30 June 2003 — a result of credit controls, bad debt collection efforts and write-offs. We continued to maintain a high coverage for NPLs. The loan loss reserve ratio increased to 60.56%. The specific provisions and collateral coverage ratio for classified loans also increased to 90.87% at 30 June 2003.

After provisions, our operating result improved by 5.52%. However, the Group’s overall results inevitably reflected the prevailing property market conditions, like other local banks.

During this period, we incurred a revaluation loss of HK\$1,223 million on premises and investment properties. While the cost of our revaluation is not out of the norm, its impact on our profit attributable to shareholders is much more dramatic because little property revaluation reserves are available for offset against the fall in market value of the properties concerned as a result of the restructuring and merger on 1 October 2001. We will continue to review our portfolio of properties and make necessary adjustments in accordance with the Group’s accounting policies.

For these main reasons, profit before taxation decreased by 22.94% to HK\$3,245 million. After the write-back of a tax over-provision, the Group’s profit attributable to shareholders during the first half of 2003 decreased by 11.80% to HK\$3,012 million.

The Group’s financial positions remained strong. Our capital and liquidity were maintained at high levels. Total capital ratio was 14.66% and tier-one capital ratio was 13.76%, compared to 13.99% and 13.12% respectively at the last year-end. The average liquidity ratio was 37.93% for the 2003 interim period, compared with 41.26% for the 2002 interim period.

Business Review

In the period under review, we continued to concentrate on business development and implement our strategic initiatives.

Our customer-focused banking services were enhanced through innovative and flexible product development as well as intensive staff training. Cross-selling efforts increased within our broad-based distribution network and across all business and customer segments. Cost efficiency was enhanced through business re-engineering, operations streamlining and the rationalisation of human resources. Our NPL ratio continued to decrease. The quality of residential mortgage loans and credit card advances improved. The risk profile of our asset mix was adjusted through increases in investments in securities and greater diversification in lending. We also continued to invest in technologies for sustainable business development and risk management improvement.

Retail Banking

In the prevailing low interest rate environment, the demand for wealth management products remained strong. Capitalising on our extensive distribution capability and focusing our marketing efforts, we achieved an overall income growth of approximately 3.6 times in the distribution of life insurance products as new insurance plans were launched to meet the diverse needs of our customers. Besides, guaranteed funds continued to be well received by the market and we also registered satisfactory results in the sale of open-ended funds.

As a major mortgage service provider, we continued to provide innovative mortgage products catering to customers with unique financial needs. Several new products, such as One-Stop Mortgage Insurance Programme and Smart Mortgage Insurance Programme, were introduced during the period and more will follow in the near future as we extend our reach.

Owing to a more effective credit management process, the quality of our residential mortgage portfolio continued to improve with the delinquency ratio, including rescheduled loans, dropped from 1.75% to 1.51%. Our credit card charge-off ratio also fell to 10.25% in the first half of 2003 from 12.33% in 2002, lower than the industry average.

The number of new Great Wall International Card and Great Wall Renminbi Card issued during the period grew substantially. Great Wall International Card increased its number of new cards issued and cardholder spending by 60% and 61% respectively over the same period last year. This card is specifically designed for Mainland customers who frequently travel and transact outside the country. There has also been a strong demand for Great Wall Renminbi Card, targeted at Hong Kong people who frequently travel to the Mainland. The number of new Great Wall Renminbi Card issued grew approximately 10 times compared to the first half of 2002.

Corporate Banking & Financial Institutions

We continued to consolidate our position as a leader in the local syndication market as we played an active role in arranging syndicated lending for blue-chip companies. In addition, we arranged syndicated loans for Hong Kong-listed companies and Mainland state-owned companies.

Asset quality improved as we increased lending to counter-cyclical sectors, such as utilities, and our exposure to the property investment sector reduced. Furthermore, we strove to increase the lending to local small and medium-sized enterprises (“SMEs”) by actively broadening our SME loan product offering.

New treasury products were rolled out to facilitate asset and liability management of our corporate customers. We also strengthened our position with other financial institutions, as we became one of the first local banks to participate in the Transferable Loan Certificate Subprogram of the Debt Issuance Program of the Hong Kong Mortgage Corporation Limited. Furthermore, we were appointed as the clearing bank in Hong Kong for several Mainland financial institutions. During the period, we entered into a cooperation agreement with BOC that is expected to give further impetus to grow our business with Mainland financial institutions.

Treasury Operations

Notwithstanding the impact of the war in Iraq, SARS and the uncertainties of the US economy on global financial markets, we continued to optimise our investment portfolio, launch successful new products and contribute to our interim results.

We continued to enhance our service quality and broaden our product range. We provided bond trading services, equity-linked deposits and structured deposits to fulfil various investment preferences of our customers. We also extended foreign exchange trading hours, thus growing the number of customers and trading volume in the first half of 2003.

Mainland Branches and China-related Business

Last year, we established the China Business Head Office to coordinate and manage our Mainland branches. As a result, overall operating efficiency and business development improved. The operating profit before provisions of our Mainland branches increased by about 37%.

During the first half of 2003, three more of our branches and sub-branches in Shenzhen were authorised to offer Renminbi services. We now operate Renminbi business in eight locations in four Mainland cities.

In January, BOCHK and BOC jointly launched BOC Prestige Banking, a premier one-stop banking service designed exclusively for customers who frequently travel between Hong Kong and the Mainland.

Channels, Technologies and Operations

We continued to consolidate branches in order to maximise the utilisation of resources and achieve cost efficiency. As at 30 June 2003, we had 305 branches in Hong Kong, compared to 319 at the end of 2002. We also opened new service centres in selected areas in order to optimise our distribution network and capitalise on new business opportunities. e-Banking is vital to our rationalisation and expansion efforts. Since the end of 2002, the number of iT's Online Banking customers has increased by about 30%. Our efforts to optimise our network through technology and process improvement are on track and will proceed further.

The implementation of key components of our Information Technology Development Blueprint marked a key step in delivering the promise of major technology infrastructure upgrades. With the introduction of a new Customer Relationship Management System, we will be able to enhance our capability to provide premier services and products to customers. Management Control System, a new platform for the provision of management information, will enable us to manage risk better, to evaluate performance and to formulate sound strategies.

The Future and the Strategies

Moving ahead, we believe that there are new opportunities for the banking sector as a whole in the foreseeable future. The implementation of CEPA means the economic relationship between Hong Kong and the Mainland of China will be further strengthened for mutual gains, which is conducive to long-term growth. Strong in financial and business services, logistics and tourism, Hong Kong is well positioned to benefit from this development.

For BOCHK, we anticipate a growth in demand for banking services from enterprises that are establishing a firmer foothold in the Mainland after CEPA. It is likely that there will be more opportunities in trade financing and wealth management after CEPA and as China fulfils her obligations as a member of the World Trade Organisation.

We also believe it will be a positive factor for Hong Kong's banking sector should the offering of Renminbi banking services be allowed here. In collaboration with BOC, we will further enhance cross-border and integrated financial services to our customers to further strengthen our operations in the Mainland.

In the immediate future, with the SARS outbreak behind us, there are signs that the local economy is stabilising gradually, led by retail spending and tourism. Externally, we believe strong economic growth in the Mainland, coupled with the stabilised economic prospects in the US, would also be conducive to the improvement of Hong Kong's business environment. However, the second half of 2003 is still expected to be under the impact of deflation, margin pressure, slow consumption and subdued loan demand as well as high unemployment rate.

Under the circumstances, wealth management will remain one of our key initiatives in view of its promising growth potential. We will continue to pursue the cross-selling potential of our customer base through our extensive distribution network. Effective performance incentive and intensive staff training will be implemented to drive our cross-selling efforts.

Besides, consumer lending will continue to be our key focus in the future for it can help balance our loan portfolio. We will enhance our card business through service development and technology improvements. As the market sentiment improves, we expect residential mortgage lending will continue to grow and our strategy is to provide value-added services and products to our customers.

Should the economies of the US and Hong Kong recover at a faster pace in the second half of 2003, we believe business activities would increase as well. Trade finance will be the focus of our corporate banking business in the near future. Our aim is to serve the needs of corporate customers in trade payment and trade services.

SMEs represent an increasingly important segment of our corporate customers. We believe the establishment of the commercial credit reference agency in Hong Kong in the near future will facilitate the development of SME lending business. Committed to our customer-focused strategy, we are positioning ourselves to be one of the best providers of SME financial services in terms of flexibility and product range.

We understand that technology differentiates premier banking services. We are therefore committed to building the best electronic distribution channels for our customers. By leveraging our current technology infrastructure and through system enhancement, we aim to increase the use of our electronic distribution channels by our customers.

At the same time, we will continue to better manage cost through process re-engineering, branch network rationalisation and continuous implementation of our Information Technology Development Blueprint.

To the list of challenges we encountered in the last few months was added the New Nongkai Loan episode. The management and staff have been cooperating fully with the Special Committee and professional advisers in their investigations, and ensuring that business remained as usual during the process. As a forward-looking corporation, we are wholly committed to implementing the recommendations of the Special Committee in order to further improve our credit approval process, risk management and internal control procedure. We are also determined to further enhance our corporate governance framework and transparency. We firmly believe that having gone through this enlightening process, the experience gained will make us even more mature and prudent as we move ahead in a more proactive and aggressive manner.

As the new Chief Executive, I am working very closely and wholeheartedly with my colleagues towards the Group's vision to be one of the premier banks in the region. After our restructuring and listing, with the Board's guidance and the support of various professional consultants, we have introduced a new operating system and control mechanism in line with the best international banking practices. As we move forward, we will continue to fine-tune and adjust our system and mechanism to ensure the highest standards of quality are maintained. Of equal importance is the need to advance our corporate culture and clearly define our Group's vision, mission and values. Meanwhile, we are working hand in hand with all our staff to implement all these important changes and to ensure that the interests of individuals will be aligned with those of the Company and shareholders. I am confident that the infrastructure and the people that we have will enable us to overcome the challenges we face, create better opportunities for the Group and deliver superior value to our shareholders in the long term.

HE Guangbei
Chief Executive

Hong Kong, 5 September 2003

Financial Review

Financial Performance

Summary of Operating Results

The Group's profit attributable to shareholders amounted to HK\$3,012 million, a decrease of HK\$403 million, or 11.80%, from the first half of 2002, which was mainly due to the loss from revaluation of premises and investment properties partly offset by the write-back of a tax over-provision. Operating profit before provisions increased by HK\$137 million, or 2.28%, to HK\$6,139 million. Earnings per share were HK\$28.49 cents, down HK\$3.81 cents from the first half of 2002. Return on average total assets fell by 0.12 percentage point to 0.82% and return on average shareholders' funds was 10.56%, a decline of 2.45 percentage points against 13.01% for the first half of 2002.

Net Interest Income

Net interest income fell by HK\$307 million, or 4.46%, to HK\$6,584 million, mainly attributable to the narrowing of spreads on lending and the fall in contribution from net free funds as a result of lower market interest rates. Average interest-earning assets increased by HK\$3,231 million, or 0.46%, to HK\$701,544 million. Net interest margin fell by 10 basis points, which was the combined effect of a reduction of 6 basis points in net interest spread and a reduction of 4 basis points in the contribution from net free funds.

Contribution from debt securities increased due to the redeployment of funds to debt securities from lower yielding short-term funds and interbank placements. Growth in low-cost savings deposits contributed to the lower funding cost. These positive effects, however, were offset by a decline in the average loan yield, mainly caused by a reduction in the best lending rate and the narrowing of spreads from intense market competition.

Other Operating Income

Other operating income increased by HK\$242 million, or 12.04%, to HK\$2,252 million, accounting for 25.49% of total operating income compared to 22.58% for the first half of 2002.

Net fees and commission income amounted to HK\$1,377 million, an increase of HK\$29 million, or 2.15%. This mainly reflected lower cash rebates for residential mortgage loans, a result of a fall in new mortgage loans made during the period.

Income from wealth management includes income from the distribution of insurance products, commissions on sales of investment funds, retail bonds and securities transactions executed for customers. There was a strong growth in wealth management income from the distribution of life insurance products. Other key positive factors for fees and commission income included increases in income from levy on low-balance Hong Kong dollar savings accounts and from continuous growth in payment services. However, these were offset by a reduction in loans related fee income.

Net gain from other investments in securities increased by HK\$86 million, or 122.86%, to HK\$156 million, mainly due to marked-to-market gains on debt securities. Owing to the increases in transaction volume and premium income from foreign exchange activities,

net gain from foreign exchange activities rose to HK\$478 million, an increase of HK\$76 million, or 18.91%.

Operating Expenses

Operating expenses decreased by HK\$202 million, or 6.97%, to HK\$2,697 million, mainly due to a decrease in average headcount as well as continued emphasis on cost reduction throughout the Group. The cost to income ratio lowered by 2.05 percentage points to 30.52% for the first half of 2003, benefiting from productivity and operating efficiency improvements.

Staff costs fell by HK\$127 million, or 7.21%, to HK\$1,634 million. As a result of the decrease in rental expenses and the benefits from the rationalisation of business operations, premises and equipment expenses declined by HK\$51 million, or 14.17%, to HK\$309 million. These positive factors, however, were partly offset by increase in information technology expenses.

Charge for Bad and Doubtful Debts

The net charge for bad and doubtful debts decreased by HK\$97 million, or 5.49%, to HK\$1,669 million, while the ratio to average gross advances to customers declined by 0.08 percentage point to 1.04% for the first half of 2003. New specific provisions decreased by HK\$752 million, or 22.86%, to HK\$2,537 million, which was a result of an overall improvement in loan quality after the Group's June 2002 loan sale, partly offset by increase in provisions for collateral devaluation and the impact of SARS. Specific provision releases reduced by HK\$691 million, or 58.91%, to HK\$482 million. Recoveries also fell by HK\$130 million, or 37.14%, to HK\$220 million, reflecting the difficulties in recovering and collecting bad debts amid the lacklustre economic environment.

Net Loss from Revaluation of Fixed Assets

To reflect the decline in property value in Hong Kong in the first half of 2003, a revaluation of the Group's premises and investment properties was performed at 30 June 2003. All investment properties were revalued on the basis of their open market values by Chesterton Petty Limited, an independent professional valuer, resulting in a charge to the profit and loss account of HK\$494 million in the first half of 2003. The Group had regard to the independent professional valuations carried out on a majority of the premises by the valuer. The revaluation of the Group's premises resulted in a charge to the profit and loss account of HK\$729 million in the first half of 2003 and a decrease in the premises revaluation reserve of HK\$49 million.

Financial Position

Balance Sheet Summary

Total assets amounted to HK\$735,494 million at 30 June 2003, a decrease of HK\$42 million, or 0.01%, from HK\$735,536 million at 31 December 2002.

Short-term funds were reduced and redeployed into higher yielding debt securities. Investments in securities rose by HK\$9,003 million, or 5.68%, to HK\$167,636 million at 30 June 2003 from HK\$158,633 million at 31 December 2002. Approximately 95% of securities holdings will mature within five years and approximately 71% of them were issued by banks and other financial institutions.

Advances to customers increased slightly by HK\$147 million, or 0.05%, from HK\$321,034 million at 31 December 2002 to HK\$321,181 million at 30 June 2003. Excluding the write-offs of HK\$1,732 million, the advances to customers would have grown by 0.59%. Corporate loans used in Hong Kong (including trade finance) increased by 1.80%, mainly in the transport, utilities and property development sectors. These growths were partly offset by decline in lending to the property investment sector and for the purchase of residential properties. Residential mortgage loans, including those under the Home Ownership Scheme and other government sponsored home purchasing schemes, decreased by HK\$2,024 million, or 1.91%, to HK\$103,785 million at 30 June 2003 from HK\$105,809 million at 31 December 2002.

Fixed assets amounted to HK\$17,921 million at 30 June 2003, a decrease of HK\$2,291 million, or 11.33%, from HK\$20,212 million at 31 December 2002. The decline was primarily due to the disposal of premises and investment properties of HK\$730 million, deficits on revaluation of premises and investment properties of HK\$1,272 million and depreciation charges. Major disposal during the period included Kincheng Bank Building and Sin Hua Bank Centre.

Total liabilities decreased by HK\$741 million, or 0.11%, to HK\$677,010 million at 30 June 2003 from HK\$677,751 million at 31 December 2002.

Deposits from customers decreased from HK\$600,977 million at 31 December 2002 to HK\$585,135 million at 30 June 2003, a fall of HK\$15,842 million, or 2.64%, reflecting our effective liability management. Customers continued to shift funds to savings deposits from time deposits under the low interest rate environment. Savings deposits rose by 10.63% and time, call and notice deposits declined by 9.81%.

The loans to deposits ratio rose by 1.47 percentage points to 54.89% at 30 June 2003, the effect of a marginal growth in customer advances against a decline in customer deposits.

Asset Quality

During the first half of 2003, Hong Kong's credit environment remained one of the greatest concerns for the banking industry. However, our non-performing loan ratio continued to improve, reducing from 7.99% at 31 December 2002 to 7.80% at 30 June 2003, attributable to our stringent credit controls, collection of bad debts and write-offs. The classified loan ratio also lowered from 7.98% at 31 December 2002 to 7.80% at 30 June

2003. During the period, low NPL formation, recoveries, and write-offs made up an improvement in asset quality. During the first half of 2003, approximately HK\$2,924 million of classified loans were recovered through cash collections and collateral disposal, and HK\$1,732 million of bad debts were written off.

Specific provisions as a percentage of non-performing loans increased from 33.66% at 31 December 2002 to 33.74% at 30 June 2003. The loan loss reserve ratio also rose from 58.51% at 31 December 2002 to 60.56% at 30 June 2003. The specific provisions and collateral coverage ratio for classified loans was 90.87%, compared with 90.08% at 31 December 2002.

The quality of the Group's residential mortgage portfolio improved. The combined delinquency and rescheduled loan ratio decreased from 1.75% at 31 December 2002 to 1.51% at 30 June 2003, which was better than the market average of 1.65%.

The quality of credit card advances also improved. The delinquency ratio fell from 1.34% at 31 December 2002 to 1.28% at 30 June 2003. The charge-off ratio decreased from 12.33% for the year 2002 to 10.25% for the first half of 2003, mainly due to the Group's effective credit controls.

Capital Management and Liquidity

The Group's capital strength remained robust. The consolidated capital adequacy ratio ("CAR") increased from 13.99% at 31 December 2002 to 14.66% at 30 June 2003. Capital base grew by 2.37% while unadjusted risk-weighted assets fell by 2.32%. The increase in capital base was due to an increase in retained profits. The decrease in risk-weighted assets was mainly attributable to a decrease in contingent liabilities and commitments.

The Group maintained a strong liquidity position with the average liquidity ratio of 37.93%, 3.33 percentage points lower than 41.26% for the first half of 2002.

The Directors of the Company are pleased to announce the audited consolidated results of the Group for the six months ended 30 June 2003 as follows:

Consolidated Profit and Loss Account

		Half-year ended 30 June 2003	(Unaudited) As restated Half-year ended 30 June 2002
	<i>Note</i>	<u>HK\$'m</u>	<u>HK\$'m</u>
Interest income		9,358	10,958
Interest expense		(2,774)	(4,067)
Net interest income		<u>6,584</u>	<u>6,891</u>
Other operating income	2	<u>2,252</u>	<u>2,010</u>
Operating income		<u>8,836</u>	<u>8,901</u>
Operating expenses	3	<u>(2,697)</u>	<u>(2,899)</u>
Operating profit before provisions		<u>6,139</u>	<u>6,002</u>
Charge for bad and doubtful debts		<u>(1,669)</u>	<u>(1,766)</u>
Operating profit after provisions		<u>4,470</u>	<u>4,236</u>
Net (loss)/ gain from disposal/ revaluation of fixed assets		<u>(1,241)</u>	<u>8</u>
Net gain/ (loss) from disposal of held-to-maturity securities and investment securities		<u>1</u>	<u>(2)</u>
Write-back of provision/ (provision) for impairment on held-to-maturity securities and investment securities		<u>20</u>	<u>(7)</u>
Net loss on disposal of a subsidiary		<u>(1)</u>	<u>—</u>
Write-back of provision/ (provision) for impairment on investments in associates		<u>6</u>	<u>(30)</u>
Share of net (losses)/ profits of associates		<u>(10)</u>	<u>6</u>
Profit before taxation		<u>3,245</u>	<u>4,211</u>
Taxation	4	<u>(176)</u>	<u>(733)</u>
Profit after taxation		<u>3,069</u>	<u>3,478</u>
Minority interests		<u>(57)</u>	<u>(63)</u>
Profit attributable to shareholders		<u>3,012</u>	<u>3,415</u>
Dividend	5	<u>2,062</u>	<u>1,935</u>
		<i>HK\$</i>	<i>HK\$</i>
Earnings per share	6	<u>28.49cents</u>	<u>32.30cents</u>

Consolidated Balance Sheet

	<i>Note</i>	At 30 June 2003 <i>HK\$'m</i>	As restated At 31 December 2002 <i>HK\$'m</i>
ASSETS			
Cash and short-term funds		94,830	115,075
Placements with banks and other financial institutions maturing between one and twelve months		91,688	80,159
Trade bills		708	592
Certificates of deposit held		18,795	17,528
Hong Kong SAR Government certificates of indebtedness		30,540	29,110
Held-to-maturity securities		92,875	94,227
Investment securities		53	46
Other investments in securities		74,708	64,360
Advances and other accounts	7(a)	308,847	308,332
Investments in associates		399	483
Fixed assets		17,921	20,212
Other assets		4,130	5,412
Total assets		<u>735,494</u>	<u>735,536</u>
LIABILITIES			
Hong Kong SAR currency notes in circulation		30,540	29,110
Deposits and balances of banks and other financial institutions		38,485	29,957
Deposits from customers		585,135	600,977
Other accounts and provisions	8	22,850	17,707
Total liabilities		<u>677,010</u>	<u>677,751</u>
CAPITAL RESOURCES			
Minority interests		1,117	1,114
Share capital	10	52,864	52,864
Reserves	11	4,503	3,807
Shareholders' funds		<u>57,367</u>	<u>56,671</u>
Total capital resources		<u>58,484</u>	<u>57,785</u>
Total liabilities and capital resources		<u>735,494</u>	<u>735,536</u>

Consolidated Statement of Changes in Equity

	Share capital	Premises revaluation reserve	Investment properties revaluation reserve	Translation reserve	Retained earnings	Total
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
At 1 January 2002, as previously reported	52,864	141	18	(2)	(851)	52,170
Effect of adoption of SSAP 12 (revised)	—	(12)	—	—	(370)	(382)
At 1 January 2002, as restated	52,864	129	18	(2)	(1,221)	51,788
Net profit for the first half of 2002, as restated	—	—	—	—	3,415	3,415
Currency translation differences	—	—	—	1	—	1
Special dividend	—	—	—	—	(1,935)	(1,935)
Release to deferred tax liabilities	—	(22)	—	—	—	(22)
At 30 June 2002, as restated	52,864	107	18	(1)	259	53,247
Company and subsidiaries	52,864	107	18	(1)	106	53,094
Associates	—	—	—	—	153	153
	52,864	107	18	(1)	259	53,247
At 1 July 2002, as previously reported	52,864	141	18	(1)	632	53,654
Effect of adoption of SSAP 12 (revised)	—	(34)	—	—	(373)	(407)
At 1 July 2002, as restated	52,864	107	18	(1)	259	53,247
Net profit for the second half of 2002, as restated	—	—	—	—	3,372	3,372
Currency translation differences	—	—	—	(1)	—	(1)
Reclassification	—	5	(5)	—	—	—
Release from deferred tax liabilities	—	20	—	—	—	20
Revaluation of properties	—	46	(13)	—	—	33
Transfer on disposal of properties	—	(79)	—	—	79	—
At 31 December 2002, as restated	52,864	99	—	(2)	3,710	56,671
Company and subsidiaries	52,864	99	—	(2)	3,718	56,679
Associates	—	—	—	—	(8)	(8)
	52,864	99	—	(2)	3,710	56,671

At 1 January 2003, as previously reported	52,864	113	—	(2)	3,966	56,941
Effect of adoption of SSAP 12 (revised)	—	(14)	—	—	(256)	(270)
At 1 January 2003, as restated	52,864	99	—	(2)	3,710	56,671
Net profit for the first half of 2003	—	—	—	—	3,012	3,012
Release from deferred tax liabilities	—	6	—	—	—	6
Revaluation of properties	—	(49)	—	—	—	(49)
2002 final dividend paid	—	—	—	—	(2,273)	(2,273)
At 30 June 2003	<u>52,864</u>	<u>56</u>	<u>—</u>	<u>(2)</u>	<u>4,449</u>	<u>57,367</u>
Company and subsidiaries	52,864	56	—	(2)	4,465	57,383
Associates	—	—	—	—	(16)	(16)
	<u>52,864</u>	<u>56</u>	<u>—</u>	<u>(2)</u>	<u>4,449</u>	<u>57,367</u>
Representing:						
2003 interim dividend proposed					2,062	
Others					2,387	
Retained earnings as at 30 June 2003					<u>4,449</u>	

Consolidated Cash Flow Statement

	Half-year ended 30 June 2003 <u>HK\$'m</u>	(Unaudited) Half-year ended 30 June 2002 <u>HK\$'m</u>
Cash flow from operating activities		
Operating cash outflow before taxation	(17,023)	(27,547)
Disposal of loans to the Cayman Islands Branch of Bank of China	—	8,722
Hong Kong profits tax refunded/ (paid)	369	(202)
Overseas profits tax paid	(4)	(11)
Net cash outflow from operating activities	<u>(16,658)</u>	<u>(19,038)</u>
Cash flow from investing activities		
Purchase of fixed assets	(40)	(26)
Proceeds from disposal of fixed assets	561	9
Purchase of investment securities	(6)	—
Proceeds from disposal of a subsidiary	157	—
Proceeds from dissolution of an associate	19	—
Dividend received from an associate	1	2
Loans repaid by associates	59	—
Net cash inflow/ (outflow) from investing activities	<u>751</u>	<u>(15)</u>
Cash flow from financing activities		
2002 final dividend paid	(2,273)	—
Dividend paid to minority shareholders	(54)	—
Net cash outflow from financing activities	<u>(2,327)</u>	<u>—</u>
Decrease in cash and cash equivalents	(18,234)	(19,053)
Cash and cash equivalents at 1 January	83,065	120,664
Cash and cash equivalents at 30 June	<u><u>64,831</u></u>	<u><u>101,611</u></u>

Notes

1. Accounting policies

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 2002. In the current year, the Group adopted the following revised Statement of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants ("HKSA") which is effective for accounting periods commencing on or after 1 January 2003:

SSAP 12 (revised): Income taxes

Any significant impact of adopting this SSAP has been shown on the respective notes to the accounts.

The comparative figures in respect of the Group's consolidated profit and loss account, cash flow statement, statement of changes in equity, and corresponding note disclosures, for the six month period ended 30 June 2002 are not audited. The Group's external auditors carried out a review of the interim financial statements for the six month period ended 30 June 2002 in accordance with the Statement of Auditing Standards 700 "Engagement to Review Interim Financial Reports"

issued by the HKSA and issued a review report to the Board. The review report issued was unmodified from the specimen issued by the HKSA.

2. Other operating income

	Half-year ended 30 June 2003	(Unaudited) Half-year ended 30 June 2002
	<i>HK\$m</i>	<i>HK\$m</i>
Fees and commission income (Note)	1,690	1,705
Less: Fees and commission expenses	(313)	(357)
Net fees and commission income	1,377	1,348
Dividend income from investments in securities		
— unlisted investments	31	11
Net gain from other investments in securities	156	70
Net gain from foreign exchange activities	478	402
Net gain from other dealing activities	17	4
Gross rental income from investment properties	128	137
Less: Outgoings in respect of investment properties	(40)	(44)
Others	105	82
	2,252	2,010

Note:

Fees and commission income

	Half-year ended 30 June 2003	(Unaudited) Half-year ended 30 June 2002
	<i>HK\$m</i>	<i>HK\$m</i>
Bills and loans commissions	516	643
Payment services	151	138
Insurance	113	59
Securities brokerage	198	202
Asset management	82	75
Trust services	33	25
Guarantees	20	22
Credit card	249	234
Others		
— Safe deposit box	84	82
— BOC cards	21	26
— Dormant accounts	9	20
— Sundry	214	179
	1,690	1,705

3. Operating expenses

	Half-year ended 30 June 2003	(Unaudited) Half-year ended 30 June 2002
	<i>HK\$m</i>	<i>HK\$m</i>
Staff costs (including directors' emoluments)		
— salaries and other costs	1,511	1,632
— termination benefit	—	2
— pension cost	123	127
	<u>1,634</u>	<u>1,761</u>
Premises and equipment expenses (excluding depreciation)		
— rental of premises	107	137
— information technology	110	98
— others	92	125
	<u>309</u>	<u>360</u>
Depreciation on owned fixed assets	322	359
Auditors' remuneration	10	2
Other operating expenses	422	417
	<u>2,697</u>	<u>2,899</u>

4. Taxation

Taxation in the profit and loss account represents:

	Half-year ended 30 June 2003	(Unaudited) Half-year ended 30 June 2002
	<i>HK\$m</i>	<i>HK\$m</i>
Hong Kong profits tax		
— current year taxation	732	738
— over-provision in prior years	(718)	(6)
Deferred tax charge	160	3
	<u>174</u>	<u>735</u>
Attributable share of estimated Hong Kong profits tax losses arising from investments in partnerships	—	(7)
	<u>174</u>	<u>728</u>
Investments in partnerships written off	—	6
Hong Kong profits tax	174	734
Overseas taxation	1	5
	<u>175</u>	<u>739</u>
Share of taxation attributable to associates	1	(6)
	<u>176</u>	<u>733</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the first half of 2003. Taxation on overseas profits has been calculated on the estimated assessable profit for the first half of 2003 at the rates of taxation prevailing in the countries in which the Group operates.

The Group's tax over-provision of HK\$718 million represents a write-back of excess tax provision made in prior years. This amount was written back after the finalisation of tax losses arising from predecessor merging branches and tax positions of BOCHK by the Inland Revenue Department in the first half of 2003.

The Group has entered into a number of aircraft leasing and coupon strip transactions involving special purpose partnerships in which the Group is the majority general partner. The Group does not control the partnerships and consequently they are not consolidated in the Group's accounts. As at 30 June 2003, the Group's investments in such partnerships, which are included in "Other assets" in the consolidated balance sheet, amounted to HK\$389 million (31 December 2002: HK\$1,122 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:

	At 30 June 2003	At 31 December 2002
	HK\$m	HK\$m
Assets	1,476	4,721
Liabilities	1,047	3,182

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

	Half-year ended 30 June 2003	(Unaudited) Half-year ended 30 June 2002
	HK\$m	HK\$m
Profit before taxation	3,245	4,211
Calculated at a taxation rate of 17.5% (2002: 16%)	568	674
Effect of different taxation rates in other countries	(23)	(3)
Income not subject to taxation	(69)	(39)
Expenses not deductible for taxation purposes	255	109
Tax losses not recognised	2	2
Temporary differences not recognised	160	3
Over-provision in prior periods	(718)	(6)
Tax benefits from partnerships	—	(1)
Share of taxation attributable to associates	1	(6)
Taxation charge	176	733

5. Dividend

	Half-year ended 30 June 2003		(Unaudited) Half-year ended 30 June 2002	
	Per share HK\$	Total HK\$m	Per share HK\$	Total HK\$m
Special dividend paid	—	—	0.183	1,935
Interim dividend	0.195	2,062	—	—
	0.195	2,062	0.183	1,935

At a meeting held on 5 September 2003, the Board declared an interim dividend of HK\$0.195 per ordinary share for the first half of 2003 amounting to approximately HK\$2,062 million. This declared 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 2003.

6. Earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders for the first half of 2003 of approximately HK\$3,012 million (first half of 2002: HK\$3,415 million, as restated) and on the ordinary shares in issue of 10,572,780,266 shares (2002: 10,572,780,266 ordinary shares).

There was no dilution of earnings per share as no potential ordinary shares were in issue for the first half of 2003 (first half of 2002: Nil).

7. (a) Advances and other accounts

	At 30 June 2003	At 31 December 2002
	HK\$m	HK\$m
Advances to customers	321,181	321,034
Accrued interest	1,894	2,006
	323,075	323,040
Provision for bad and doubtful debts		
— General	(6,197)	(6,363)
— Specific	(8,973)	(8,650)
	(15,170)	(15,013)
	307,905	308,027
Advances to banks and other financial institutions	942	305
	308,847	308,332

Non-performing loans are analysed as follows:

	At 30 June 2003	At 31 December 2002
	<i>HK\$'m</i>	<i>HK\$'m</i>
Non-performing loans	<u>25,049</u>	<u>25,659</u>
Specific provisions made in respect of such advances	<u>8,452</u>	<u>8,637</u>
As a percentage of total advances to customers	<u>7.80%</u>	<u>7.99%</u>
Amount of interest in suspense	<u>388</u>	<u>408</u>

NPLs 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 30 June 2003 and 31 December 2002, nor were there any specific provisions made.

(b) Provisions for bad and doubtful debts

	2003			Suspended interest
	Specific	General	Total	interest
	<i>HK\$'m</i>	<i>HK\$'m</i>	<i>HK\$'m</i>	<i>HK\$'m</i>
At 1 January 2003	8,650	6,363	15,013	408
Charged/ (credited) to profit and loss account	1,835	(166)	1,669	—
Amounts written off	(1,732)	—	(1,732)	(38)
Recoveries of advances written off in previous years	220	—	220	—
Interest suspended during the period	—	—	—	90
Suspended interest recovered	—	—	—	(72)
At 30 June 2003	<u>8,973</u>	<u>6,197</u>	<u>15,170</u>	<u>388</u>
Deducted from:				
— advances to customers	<u>8,973</u>	<u>6,197</u>	<u>15,170</u>	

	2002			Suspended interest <i>HK\$'m</i>
	Specific	General	Total	
	<i>HK\$'m</i>	<i>HK\$'m</i>	<i>HK\$'m</i>	
At 1 January 2002	10,621	6,541	17,162	610
Charged/ (credited) to profit and loss account	3,033	(178)	2,855	—
Amounts written off	(3,229)	—	(3,229)	(37)
Recoveries of advances written off in previous years	904	—	904	—
Amounts written off on disposal	(2,679)	—	(2,679)	—
Interest suspended during the year	—	—	—	296
Suspended interest recovered	—	—	—	(461)
At 31 December 2002	<u>8,650</u>	<u>6,363</u>	<u>15,013</u>	<u>408</u>
Deducted from:				
— advances to customers	<u>8,650</u>	<u>6,363</u>	<u>15,013</u>	

8. Other accounts and provisions

	At 30 June 2003 <i>HK\$'m</i>	At 31 December 2002 <i>HK\$'m</i>
Interest payable	815	1,167
Current taxation (Note 9(a))	924	544
Deferred taxation (Note 9(b))	446	328
Restructuring provision (Note)	649	649
Accruals and other payables	20,016	15,019
	<u>22,850</u>	<u>17,707</u>

Note:

Restructuring provision

	At 30 June 2003 <i>HK\$'m</i>	At 31 December 2002 <i>HK\$'m</i>
At 1 January	649	666
Utilised during the period/ year	—	(17)
	<u>649</u>	<u>649</u>

The restructuring provision was made in relation to the restructuring and merger of the Group, which mainly represented the stamp duty payable that arose from restructuring activities of the Group.

9. Tax liabilities

	At 30 June 2003	At 31 December 2002
	<i>HK\$m</i>	<i>HK\$m</i>
Current taxation (Note a)	924	544
Deferred taxation (Note b)	446	328
	<u>1,370</u>	<u>872</u>

(a) Current taxation

	At 30 June 2003	At 31 December 2002
	<i>HK\$m</i>	<i>HK\$m</i>
Hong Kong profits tax	914	531
Overseas taxation	10	13
	<u>924</u>	<u>544</u>

(b) Deferred taxation

In the current period, 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 revised SSAP 12. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

The major components of deferred tax assets and liabilities recorded in the consolidated balance sheet, and the movements during the first half of 2003 showing the impact of the adoption of revised SSAP 12, are as follows:

2003						
	Accelerated tax depreciation	Asset revaluation	Losses	Provisions	Other temporary differences	Total
	<i>HK\$m</i>	<i>HK\$m</i>	<i>HK\$m</i>	<i>HK\$m</i>	<i>HK\$m</i>	<i>HK\$m</i>
At 1 January 2003, as previously reported	11	—	—	—	—	11
Effect of adoption of SSAP 12 (revised)	236	1,043	(2)	(1,009)	2	270
At 1 January 2003, as restated (Credited)/charged to profit and loss account	247	1,043	(2)	(1,009)	2	281
Credited to equity	(4)	(31)	—	204	(9)	160
At 30 June 2003	—	(6)	—	—	—	(6)
	243	1,006	(2)	(805)	(7)	435
2002						
	Accelerated tax depreciation	Asset revaluation	Losses	Provisions	Other temporary differences	Total
	<i>HK\$m</i>	<i>HK\$m</i>	<i>HK\$m</i>	<i>HK\$m</i>	<i>HK\$m</i>	<i>HK\$m</i>
At 1 January 2002, as previously reported	8	—	—	—	—	8
Effect of adoption of SSAP 12 (revised)	197	1,230	(4)	(1,039)	(2)	382
At 1 January 2002, as restated Charged/(credited) to profit and loss account	205	1,230	(4)	(1,039)	(2)	390
Acquisition of a subsidiary Charged to equity	39	(189)	2	30	4	(114)
	3	—	—	—	—	3
At 31 December 2002, as restated	—	2	—	—	—	2
	247	1,043	(2)	(1,009)	2	281

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:

	At 30 June 2003	At 31 December 2002
	<i>HK\$m</i>	<i>HK\$m</i>
Deferred tax assets (Note)	(11)	(47)
Deferred tax liabilities	446	328
	<u>435</u>	<u>281</u>

Note: The amounts have been included in "Other assets".

	At 30 June 2003	At 31 December 2002
	<i>HK\$m</i>	<i>HK\$m</i>
Deferred tax assets to be recovered after more than twelve months	(824)	(1,029)
Deferred tax liabilities to be settled after more than twelve months	259	262
	<u>(565)</u>	<u>(767)</u>

10. Share capital

	At 30 June 2003	At 31 December 2002
	<i>HK\$m</i>	<i>HK\$m</i>
Authorised: 20,000,000,000 ordinary shares of HK\$5.00 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid: 10,572,780,266 ordinary shares of HK\$5.00 each	<u>52,864</u>	<u>52,864</u>

11. Reserves

	At 30 June 2003	At 31 December 2002
	<i>HK\$'m</i>	<i>HK\$'m</i>
Premises revaluation reserve	56	99
Translation reserve	(2)	(2)
Retained earnings	4,449	3,710
	4,503	3,807

12. Maturity profile

The maturity profile of assets and liabilities analysed by the remaining period as at 30 June 2003 and 31 December 2002 to the contractual maturity dates is as follows:

	At 30 June 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
	<i>HK\$'m</i>	<i>HK\$'m</i>	<i>HK\$'m</i>	<i>HK\$'m</i>	<i>HK\$'m</i>	<i>HK\$'m</i>	<i>HK\$'m</i>
Assets							
Treasury bills	—	16,699	2,428	—	—	—	19,127
Cash and other short-term funds	6,615	69,088	—	—	—	—	75,703
Placements with banks and other financial institutions	15	73,858	17,815	—	—	—	91,688
Certificates of deposit held	—	4,755	4,268	9,573	199	—	18,795
Debt securities included in:							
— held-to-maturity securities	—	9,006	9,233	67,650	6,963	45	92,897
— other investments in securities	—	13,847	8,819	50,272	1,625	—	74,563
Advances to customers	24,093	19,645	27,319	128,077	96,867	25,180	321,181
Advances to banks and other financial institutions	—	1	1	550	390	—	942
Liabilities							
Deposits and balances of banks and other financial institutions	4,790	31,222	2,473	—	—	—	38,485
Deposits from customers	249,830	317,644	17,333	328	—	—	585,135

At 31 December 2002

	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
Assets							
Treasury bills	—	12,567	1,504	—	—	—	14,071
Cash and other short-term funds	5,007	95,997	—	—	—	—	101,004
Placements with banks and other financial institutions	21	72,411	7,727	—	—	—	80,159
Certificates of deposit held	—	1,921	6,589	8,824	194	—	17,528
Debt securities included in:							
— held-to-maturity securities	—	11,565	12,798	65,763	4,064	78	94,268
— other investments in securities	—	15,919	6,068	39,178	3,044	—	64,209
Advances to customers	26,979	17,172	25,702	124,813	100,533	25,835	321,034
Advances to banks and other financial institutions	—	1	1	303	—	—	305
Liabilities							
Deposits and balances of banks and other financial institutions	4,164	25,403	390	—	—	—	29,957
Deposits from customers	228,103	350,232	22,215	427	—	—	600,977

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, which 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.

13. 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:

	At 30 June 2003	At 31 December 2002
	<i>HK\$m</i>	<i>HK\$m</i>
Direct credit substitutes	2,317	3,839
Transaction-related contingencies	4,067	2,286
Trade-related contingencies	15,626	16,409
Other commitments with an original maturity of:		
— under one year or which are unconditionally cancellable	77,965	75,844
— one year and over	54,457	64,402
	154,432	162,780

(b) Derivatives

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

	At 30 June 2003			At 31 December 2002		
	Trading	Hedging	Total	Trading	Hedging	Total
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Exchange rate contracts						
Spot	24,598	—	24,598	13,697	—	13,697
Forward and futures contracts	971	—	971	224	—	224
Swaps	164,892	5,935	170,827	179,544	6,082	185,626
Foreign exchange option contracts						
— Currency options purchased	1,174	—	1,174	622	—	622
— Currency options written	27,472	—	27,472	28,633	—	28,633
	219,107	5,935	225,042	222,720	6,082	228,802
Interest rate contracts						
Interest rate swaps	78	20,194	20,272	228	20,055	20,283
Interest rate futures	156	—	156	—	—	—
	234	20,194	20,428	228	20,055	20,283
Bullion contracts						
— Bullion contracts	687	—	687	779	—	779
— Gold options purchased	5	—	5	—	—	—
— Gold options written	6	—	6	—	—	—
	698	—	698	779	—	779
Equity contracts						
— Equity options purchased	1,055	—	1,055	975	—	975
— Equity options written	764	—	764	873	—	873
	1,819	—	1,819	1,848	—	1,848
Other contracts						
— Bond options purchased	780	—	780	—	—	—
— Bond options written	780	—	780	—	—	—
	1,560	—	1,560	—	—	—
Total	223,418	26,129	249,547	225,575	26,137	251,712

The trading transactions include positions arising from the execution of trade orders from customers or transactions taken to hedge those positions.

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:

	At 30 June 2003	At 31 December 2002	At 30 June 2003	At 31 December 2002
	Credit risk weighted amount		Replacement cost	
	<i>HK\$m</i>	<i>HK\$m</i>	<i>HK\$m</i>	<i>HK\$m</i>
Contingent liabilities and commitments	31,942	45,936	N/A	N/A
Derivatives:				
— Exchange rate contracts	647	596	1,294	870
— Interest rate contracts	50	60	76	120
— Bullion contracts	4	5	10	13
— Equity contracts	31	33	13	17
— Other contracts	1	—	3	—
	733	694	1,396	1,020
Total	32,675	46,630	1,396	1,020

The contract or notional amounts of these instruments indicate the volume of transactions outstanding as at 30 June 2003 and 31 December 2002; 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.

14. Segmental reporting

(a) By class of business

Half-year ended 30 June 2003						
	Commercial banking	Treasury	Unallocated	Subtotal	Eliminations	Consolidated
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Net interest income	4,987	1,275	322	6,584	—	6,584
Other operating income	1,445	639	422	2,506	(254)	2,252
Operating income	6,432	1,914	744	9,090	(254)	8,836
Operating expenses	(2,130)	(82)	(739)	(2,951)	254	(2,697)
Operating profit before provisions	4,302	1,832	5	6,139	—	6,139
Charge for bad and doubtful debts	(1,669)	—	—	(1,669)	—	(1,669)
Operating profit after provisions	2,633	1,832	5	4,470	—	4,470
Net loss from disposal/ revaluation of fixed assets	—	—	(1,241)	(1,241)	—	(1,241)
Net gain from disposal of held-to-maturity securities and investment securities	—	—	1	1	—	1
Write-back of provision for impairment on held-to-maturity securities and investment securities	—	19	1	20	—	20
Net loss on disposal of a subsidiary	—	—	(1)	(1)	—	(1)
Write-back of provision for impairment on investments in associates	—	—	6	6	—	6
Share of net losses of associates	—	—	(10)	(10)	—	(10)
Profit/(loss) before taxation	<u>2,633</u>	<u>1,851</u>	<u>(1,239)</u>	<u>3,245</u>	<u>—</u>	<u>3,245</u>
Assets						
Segment assets	313,249	403,275	18,459	734,983	—	734,983
Investments in associates	—	—	399	399	—	399
Unallocated corporate assets	—	—	112	112	—	112
	<u>313,249</u>	<u>403,275</u>	<u>18,970</u>	<u>735,494</u>	<u>—</u>	<u>735,494</u>

Liabilities

Segment liabilities	598,742	75,796	192	674,730	—	674,730
Unallocated corporate liabilities	—	—	2,280	2,280	—	2,280
	<u>598,742</u>	<u>75,796</u>	<u>2,472</u>	<u>677,010</u>	<u>—</u>	<u>677,010</u>

Other Information

Additions of fixed assets	—	—	40	40	—	40
Depreciation	—	—	322	322	—	322
Amortisation of premium/ discount of held-to-maturity securities	—	348	—	348	—	348
Non-cash expenses other than depreciation/amortisation	1,669	—	—	1,669	—	1,669

(Unaudited)

Half-year ended 30 June 2002

	Commercial					
	banking	Treasury	Unallocated	Subtotal	Eliminations	Consolidated
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Net interest income	5,497	1,030	364	6,891	—	6,891
Other operating income	1,456	457	383	2,296	(286)	2,010
Operating income	6,953	1,487	747	9,187	(286)	8,901
Operating expenses	(2,260)	(88)	(837)	(3,185)	286	(2,899)
Operating profit/(loss) before provisions	4,693	1,399	(90)	6,002	—	6,002
Charge for bad and doubtful debts	(1,766)	—	—	(1,766)	—	(1,766)
Operating profit/(loss) after provisions	2,927	1,399	(90)	4,236	—	4,236
Net gain from disposal of fixed assets	—	—	8	8	—	8
Net loss from disposal of held-to-maturity securities and investment securities	—	(2)	—	(2)	—	(2)
Provision for impairment on held-to-maturity securities and investment securities	—	(7)	—	(7)	—	(7)
Provision for impairment on investments in associates	—	—	(30)	(30)	—	(30)
Share of net profits of associates	—	—	6	6	—	6
Profit/(loss) before taxation	<u>2,927</u>	<u>1,390</u>	<u>(106)</u>	<u>4,211</u>	<u>—</u>	<u>4,211</u>

Assets

Segment assets	308,963	406,116	20,724	735,803	—	735,803
Investments in associates	—	—	366	366	—	366
Unallocated corporate assets	—	—	1,666	1,666	—	1,666
	<u>308,963</u>	<u>406,116</u>	<u>22,756</u>	<u>737,835</u>	<u>—</u>	<u>737,835</u>

Liabilities

Segment liabilities	621,777	57,688	2,253	681,718	—	681,718
Unallocated corporate liabilities	—	—	1,786	1,786	—	1,786
	<u>621,777</u>	<u>57,688</u>	<u>4,039</u>	<u>683,504</u>	<u>—</u>	<u>683,504</u>

Other Information

Additions of fixed assets	—	—	26	26	—	26
Depreciation	—	—	359	359	—	359
Amortisation of premium/ discount of held-to-maturity securities	—	651	—	651	—	651
Non-cash expenses other than depreciation/amortisation	1,766	—	—	1,766	—	1,766

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.

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 interbank rates of the relevant financial period. In addition, the gains and losses on the foreign exchange activities of the Group are included under "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, investments 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 under “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.

15. Comparative figures

As further explained in Notes 4 and 9 to the accounts, due to the adoption of SSAP 12 (revised) “Income taxes” during the current period, the presentation of certain items and balances in the accounts have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform to the current period’s presentation.

Unaudited Supplementary Financial Information

1. Capital adequacy ratio

	At 30 June 2003	At 31 December 2002*
Capital adequacy ratio	14.66%	13.99%
Adjusted capital adequacy ratio	14.87%	14.39%

The CAR is computed on the consolidated basis that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA for its regulatory purposes and in accordance with the Third Schedule of the Banking Ordinance.

The adjusted CAR taking into account market risk exposure as at the balance sheet date is computed in accordance with the guideline on “Maintenance of Adequate Capital Against Market Risks” under the Supervisory Policy Manual issued by the HKMA and on the same basis as for the unadjusted CAR.

2. Components of capital base after deductions

The consolidated capital base after deductions used in the calculation of the above capital adequacy ratios as at 30 June 2003 and 31 December 2002 and reported to the HKMA is analysed as follows:

	At 30 June 2003	At 31 December 2002*
	HK\$m	HK\$m
Core capital:		
Paid up ordinary share capital	43,043	43,043
Reserves	10,452	8,087
Profit and loss account	1,302	2,360
Minority interests	892	867
	<u>55,689</u>	<u>54,357</u>
Supplementary capital:		
General provisions for doubtful debts	5,077	5,200
Total capital base before deductions	<u>60,766</u>	<u>59,557</u>
Deductions:		
Shareholdings in subsidiaries or holding company	(449)	(482)
Exposures to connected companies	(841)	(918)
Equity investments of 20% or more in non-subsidiary companies	(117)	(171)
Investments in the capital of other banks or other financial institutions	(1)	(1)
	<u>(1,408)</u>	<u>(1,572)</u>
Total capital base after deductions	<u><u>59,358</u></u>	<u><u>57,985</u></u>

* Prior year comparatives have not been restated on adoption of SSAP 12 (revised) "Income taxes".

3. Liquidity ratio

	Half-year ended 30 June 2003	Half-year ended 30 June 2002
Average liquidity ratio	<u><u>37.93%</u></u>	<u><u>41.26%</u></u>

The average liquidity ratios for the half-year ended 30 June 2003 and 30 June 2002 are calculated as the simple average of each calendar month's average liquidity ratio of BOCHK for the period.

The liquidity ratio is computed on the solo basis (the Hong Kong offices only) and is in accordance with the Fourth Schedule of the Banking Ordinance.

4. Currency concentrations

The following is a summary of the major foreign currency exposures arising from trading, non-trading and structural positions. The net option position is calculated based on the worst-case approach set out in the prudential return "Foreign Currency Position" issued by the HKMA.

At 30 June 2003											
<i>Equivalent in millions of HK\$</i>											
	US	Pound	Japanese	Euro	Swiss	Australian	Zealand	Macau	Renminbi	Others	Total
	Dollars	Sterling	Yen	Dollars	Franc	Dollars	Dollars	Pataca	Yuan		
Spot assets	161,334	8,619	12,040	19,666	146	19,876	10,009	137	1,023	7,132	239,982
Spot liabilities	(132,231)	(14,816)	(3,002)	(11,956)	(718)	(25,792)	(13,492)	(1)	(750)	(11,289)	(214,047)
Forward purchases	114,186	9,850	13,550	11,868	8,988	17,621	7,983	—	—	5,774	189,820
Forward sales	(142,654)	(3,786)	(22,645)	(19,957)	(8,358)	(11,824)	(4,561)	—	—	(1,639)	(215,424)
Net options position	(647)	13	8	182	—	216	178	—	—	51	1
Net long/(short) position	<u>(12)</u>	<u>(120)</u>	<u>(49)</u>	<u>(197)</u>	<u>58</u>	<u>97</u>	<u>117</u>	<u>136</u>	<u>273</u>	<u>29</u>	<u>332</u>

At 31 December 2002											
<i>Equivalent in millions of HK\$</i>											
	US	Pound	Japanese	Euro	Swiss	Australian	Zealand	Macau	Renminbi	Others	Total
	Dollars	Sterling	Yen	Dollars	Franc	Dollars	Dollars	Pataca	Yuan		
Spot assets	168,003	7,641	19,227	16,688	404	23,525	11,809	141	611	5,176	253,225
Spot liabilities	(135,565)	(16,461)	(2,595)	(10,753)	(703)	(27,799)	(15,226)	(1)	(425)	(6,548)	(216,076)
Forward purchases	102,549	12,188	14,640	7,025	5,756	8,798	5,381	—	—	2,076	158,413
Forward sales	(138,688)	(3,474)	(31,354)	(13,279)	(5,491)	(4,541)	(1,884)	—	—	(703)	(199,414)
Net options position	(444)	13	—	41	—	192	100	—	—	101	3
Net long/(short) position	<u>(4,145)</u>	<u>(93)</u>	<u>(82)</u>	<u>(278)</u>	<u>(34)</u>	<u>175</u>	<u>180</u>	<u>140</u>	<u>186</u>	<u>102</u>	<u>(3,849)</u>

There were no significant net structural positions for the Group as at 30 June 2003 and 31 December 2002.

5. Segmental information

(a) Sectoral analysis of gross advances to customers

The information concerning gross advances to customers has been analysed into loans used inside or outside Hong Kong by industry sectors of the borrowers as follows:

	At 30 June 2003	At 31 December 2002
	<u>HK\$m</u>	<u>HK\$m</u>
Loans for use in Hong Kong		
Industrial, commercial and financial		
— Property development	28,247	26,591
— Property investment	48,728	50,992
— Financial concerns	8,214	8,891
— Stockbrokers	84	82
— Wholesale and retail trade	23,709	23,781
— Manufacturing	13,122	12,834
— Transport and transport equipment	12,643	11,192
— Others	43,047	40,440
Individuals		
— Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	18,890	19,956
— Loans for purchase of other residential properties	84,895	85,853
— Credit card advances	3,385	3,554
— Others	7,950	8,469
Total loans for use in Hong Kong	<u>292,914</u>	<u>292,635</u>
Trade finance	9,195	8,873
Loans for use outside Hong Kong	<u>19,072</u>	<u>19,526</u>
Gross advances to customers	<u><u>321,181</u></u>	<u><u>321,034</u></u>

(b) Geographical analysis of gross advances to customers, overdue advances and non-performing loans

The following geographical analysis of gross advances to customers, advances overdue for over three months and NPLs is based on the location of the counterparties, after taking into account the transfer of risk in respect of such advances where appropriate.

(i) Gross advances to customers

	At 30 June 2003	At 31 December 2002
	<i>HK\$'m</i>	<i>HK\$'m</i>
Hong Kong	304,393	304,924
Mainland China	7,094	4,456
Others	9,694	11,654
	<u>321,181</u>	<u>321,034</u>

(ii) Advances overdue for over three months

	At 30 June 2003	At 31 December 2002
	<i>HK\$'m</i>	<i>HK\$'m</i>
Hong Kong	15,760	17,060
Mainland China	923	1,402
Others	145	163
	<u>16,828</u>	<u>18,625</u>

(iii) Non-performing loans

	At 30 June 2003	At 31 December 2002
	<i>HK\$'m</i>	<i>HK\$'m</i>
Hong Kong	23,525	23,653
Mainland China	1,259	1,755
Others	265	251
	<u>25,049</u>	<u>25,659</u>

6. Cross-border claims

The information on cross-border claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country, which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country. Only regions constituting 10% or more of the aggregate cross-border claims are analysed by geographical areas and disclosed as follows:

	Banks and other financial institutions	Public sector entities	Others	Total
	<i>HK\$m</i>	<i>HK\$m</i>	<i>HK\$m</i>	<i>HK\$m</i>
At 30 June 2003				
Asia, other than Hong Kong				
— Mainland China	31,677	2,081	8,046	41,804
— Others	43,608	680	4,855	49,143
	<u>75,285</u>	<u>2,761</u>	<u>12,901</u>	<u>90,947</u>
North America				
— United States	9,081	15,143	17,563	41,787
— Others	14,379	2,865	11	17,255
	<u>23,460</u>	<u>18,008</u>	<u>17,574</u>	<u>59,042</u>
Western Europe				
— France	30,858	—	2,837	33,695
— Germany	37,448	—	6,231	43,679
— Others	85,248	896	11,405	97,549
	<u>153,554</u>	<u>896</u>	<u>20,473</u>	<u>174,923</u>
Total	<u>252,299</u>	<u>21,665</u>	<u>50,948</u>	<u>324,912</u>
	Banks and other financial institutions	Public sector entities	Others	Total
	<i>HK\$m</i>	<i>HK\$m</i>	<i>HK\$m</i>	<i>HK\$m</i>
At 31 December 2002				
Asia, other than Hong Kong				
— Mainland China	36,489	2,665	5,426	44,580
— Others	44,078	6,015	4,160	54,253
	<u>80,567</u>	<u>8,680</u>	<u>9,586</u>	<u>98,833</u>
North America				
— United States	8,133	10,594	15,703	34,430
— Others	12,158	2,647	14	14,819
	<u>20,291</u>	<u>13,241</u>	<u>15,717</u>	<u>49,249</u>
Western Europe				
— France	28,623	—	3,372	31,995
— Germany	36,172	—	10,743	46,915
— Others	81,220	1,451	9,139	91,810
	<u>146,015</u>	<u>1,451</u>	<u>23,254</u>	<u>170,720</u>
Total	<u>246,873</u>	<u>23,372</u>	<u>48,557</u>	<u>318,802</u>

7. Overdue and rescheduled assets

(a) Overdue and non-performing loans

	At 30 June 2003		At 31 December 2002	
	Amount	% of gross advances to customers	Amount	% of gross advances to customers
	HK\$m		HK\$m	
Gross advances to customers which have been overdue for:				
— six months or less but over three months	1,952	0.61%	2,240	0.70%
— one year or less but over six months	2,174	0.68%	3,486	1.08%
— over one year	12,702	3.95%	12,899	4.02%
Advances overdue for over three months	16,828	5.24%	18,625	5.80%
Less:				
Amount overdue for over three months and on which interest is still being accrued	(158)	(0.05%)	(550)	(0.17%)
Add:				
Amount overdue for three months or less and on which interest is being placed in suspense or on which interest accrual has ceased				
— included in rescheduled advances	1,319	0.41%	1,436	0.45%
— others	7,060	2.20%	6,148	1.91%
Gross non-performing loans	25,049	7.80%	25,659	7.99%

At 30 June 2003 and 31 December 2002, there were no advances to banks and other financial institutions that were overdue for over three months.

(b) Other overdue assets

	At 30 June 2003	At 31 December 2002
	HK\$m	HK\$m
Overdue for:		
— six months or less but over three months	4	3
— one year or less but over six months	2	1
	6	4

As at 30 June 2003, other overdue assets represented the accrued interest.

(c) Rescheduled advances to customers

	At 30 June 2003		At 31 December 2002	
	Amount	% of gross advances to customers	Amount	% of gross advances to customers
	HK\$m		HK\$m	
Rescheduled advances to customers	<u>1,335</u>	<u>0.42%</u>	<u>1,464</u>	<u>0.46%</u>

Advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid. Advances repayable by regular instalments are classified as overdue when an instalment payment is overdue and remains unpaid. Advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction or when the advances have remained continuously outside the approved limit that was advised to the borrower.

Rescheduled advances are those advances that have been restructured or renegotiated because of a deterioration in the financial position of the borrower or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms, either of interest or of repayment period, are non-commercial. Rescheduled advances, which have been overdue for more than three months under the revised repayment terms, are included under overdue advances. Rescheduled advances are stated after deduction of accrued interest that has been charged to customers but accrued to a suspense account and before deduction of specific provisions.

As at 30 June 2003 and 31 December 2002, there were no rescheduled advances to banks and other financial institutions.

8. Repossessed assets held

	At 30 June 2003	At 31 December 2002
	HK\$m	HK\$m
Reposessed assets held	<u>1,703</u>	<u>2,097</u>

Reposessed assets are properties or securities in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the borrowers concerned) for release in full or in part of the obligations of the borrowers. Upon repossession of the assets, the related loans and advances will continue to be recorded as loans and advances until all collection efforts have been exhausted and the reposessed assets are realised. Specific provisions will be made after taking into account the market value of the reposessed assets which are yet to be disposed. Upon disposal of the reposessed assets, any specific provisions previously made will be utilised to write off the loans and advances.

9. Risk management

Overview

Management of risk is fundamental to the business of the Group and is an integral part of its strategy. The principal types of risk inherent in the Group's business include credit risk, market risk (including interest rate and exchange rate risk), liquidity risk and operational risk. The Group's risk management goal is to maximise its long-term risk-adjusted return on capital, reduce the wide volatility in earnings and increase shareholder value, while maintaining its risk exposures within acceptable limits.

Risk Management Structure

BOCHK's risk management policies are designed to identify and analyse credit risk, market risk, liquidity risk and operational risk, to set appropriate risk limits, and to continually monitor these risks and limits by means of administrative procedures and information systems. BOCHK continually modifies and enhances its risk management policies and procedures to reflect changes in markets and products.

To achieve BOCHK's risk management goals, BOCHK established, in connection with its reorganisation, a more centralised, independent and comprehensive risk management structure that involves the following elements:

- a standardised corporate governance structure to provide active oversight and participation by the Board, committees and senior management;
- reporting lines that are independent of BOCHK's Strategic Business Units ("SBUs");
- uniform risk management policies, procedures and limits by which BOCHK identifies, measures, monitors and controls inherent risks;
- improved risk measurement, monitoring and management information systems to support business activities and risk management; and
- clearly defined risk management responsibilities and accountability.

BOCHK has developed and implemented comprehensive risk management policies and procedures to identify, measure, monitor and control credit risk, market risk, liquidity risk and operational risk across the organisation. The Risk Management Committee ("RMC") under the Board is responsible for approving risk management policies and procedures and significant asset and liability management policies proposed by the Asset and Liability Management Committee ("ALCO").

Each SBU is responsible for the implementation of appropriate policies, procedures and controls in relation to risk management. Our Chief Risk Officer ("CRO") oversees and monitors the operations of the Risk Management Department and reports directly to the RMC. Our CRO is also responsible for assisting the Chief Executive on the bank-wide credit risk, market risk and operational risk management and submitting to the RMC the independent risk management report each month.

Our Chief Financial Officer ("CFO") has oversight responsibilities for the soundness of the Group's capitalisation and earnings. In addition, our CFO, with assistance of the Treasurer, monitors the bank-wide interest rate risk and liquidity risk and reports the financial position of the bank relating to interest rate risk and liquidity risk to the ALCO and the RMC on a regular basis.

BOCHK's principal banking subsidiaries, Nanyang Commercial Bank, Limited and Chiyu Banking Corporation Limited, also face the same types of inherent business risks and they adopt consistent risk management strategies and policies as BOCHK. These subsidiaries execute their risk management strategy independently and functionally report to BOCHK's management on a regular basis.

Purchase, Sale or Redemption of the Company's Shares

During the period under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

Directors' Rights to Acquire Shares

On 5 July 2002, the following directors were granted options by BOC Hong Kong (BVI) Limited ("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 13,737,000 existing issued shares of the Company at a price of HK\$8.50 per share. The option shares represent approximately 0.13% of the Company's issued share capital as at the date of grant and as at 30 June 2003. None of these options may be exercised within one year from 25 July 2002. These options have a vesting period of four years from 25 July 2002 with a valid exercise period of ten years. 25% of the number of shares subject to such options will vest at the end of each year. No offer to grant any options under the Pre-Listing Share Option Scheme may be made on or after 25 July 2002, the date on which dealings in the Company's shares commenced on the Stock Exchange of Hong Kong Limited ("Stock Exchange").

Particulars of the options granted to the directors under the Pre-Listing Share Option Scheme are set out below:

	Date of grant	Exercise price (HK\$)	Exercisable period	Number of share options					
				Granted on 5 July 2002	Balances as at 1 January 2003	Exercised during the period	Surrendered during the period	Lapsed during the period	Balances as at 30 June 2003
SUN Changji	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,590,600	1,590,600	—	—	—	1,590,600
HE Guangbei	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	—	—	—	1,446,000
PING Yue	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	—	—	—	1,446,000
HUA Qingshan	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	—	—	—	1,446,000
LI Zaohang	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	—	—	—	1,446,000
ZHOU Zaiqun	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	—	—	—	1,446,000
ZHANG Yanling	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	—	—	—	1,446,000
LIU Mingkang*	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,735,200	1,735,200	—	1,735,200	—	—
LIU Jinbao*	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,735,200	1,735,200	—	—	—	1,735,200**
Total:				<u>13,737,000</u>	<u>13,737,000</u>	<u>—</u>	<u>1,735,200</u>	<u>—</u>	<u>12,001,800</u>

* Resigned with effect from 28 May 2003.

** According to the terms of the Pre-Listing Share Option Scheme, these options will remain exercisable before the expiration of three months after Mr. Liu's cessation as an employee of the Group and of BOC or any of its subsidiaries.

Save as disclosed above, at no time during the period was the Company or its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Interests in Shares, Underlying Shares and Debentures

Save as disclosed above, as at 30 June 2003, none of the directors of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Substantial Interests in Share Capital

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at 30 June 2003, the following corporations had interests (as defined in the SFO) in the Company set opposite their respective names:

<u>Name of Corporation</u>	<u>Number of shares interested</u>	<u>% of total issued shares</u>
BOC	8,090,852,266	76.53%
BOC Hong Kong (Group) Limited ("BOCHKG")	8,072,852,266	76.36%
BOC (BVI)	8,072,852,266	76.36%

Note:

BOC (BVI) is a wholly owned subsidiary of BOCHKG, which in turn is a wholly owned subsidiary of BOC. Accordingly, BOCHKG and BOC are deemed to have the same interests in the shares of the Company as BOC (BVI) for the purpose of the SFO.

All the interests stated above represent long positions. Save as disclosed above, as at 30 June 2003, no other interests or short positions were recorded in the register maintained by the Company under section 336 of the SFO.

Compliance with the guideline on "Interim Financial Disclosure by Locally Incorporated Authorized Institutions"

The accounts for the first half of 2003 fully comply with the requirements set out in the guideline on "Interim Financial Disclosure by Locally Incorporated Authorized Institutions" under the Supervisory Policy Manual issued by the HKMA.

Compliance with the Code of Best Practice of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”)

The directors confirm that save and except that Independent Non-executive Directors are not appointed for a specific term but are subject to retirement by rotation and re-election at Annual General Meetings of the Company in accordance with the Company’s Articles of Association, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the period ended 30 June 2003.

Interim Dividend

The Board declared an interim dividend of HK\$0.195 per ordinary share for the first half of 2003 on 5 September 2003 amounting to approximately HK\$2,062 million, payable on Thursday, 9 October 2003 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 30 September 2003.

Closure of Register of Members

The Register of Members of the Company will be closed, for the purpose of determining shareholders’ entitlement to the interim dividend, from Wednesday, 24 September 2003 to Tuesday, 30 September 2003 (both days inclusive), during which period no transfer of shares will be registered. In order to rank for the interim dividend, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company’s Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 4:00 p.m. on Tuesday, 23 September 2003.

Publication of Detailed Results Announcement on Stock Exchange’s Website

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules will be published on the websites of the Company (www.bochkholdings.com) and the Stock Exchange (www.hkex.com.hk) in due course.

By Order of the Board
Jason C. W. Yeung
Company Secretary

Hong Kong, 5 September 2003