NOTES TO THE ACCOUNTS

1. Group reorganisation and principal operations

Bank of China (Hong Kong) Limited (the "Bank") is incorporated in Hong Kong and controlled by the Bank of China ("BOC"), a state-owned commercial bank established under the laws of the People's Republic of China (the "PRC").

In 2001, BOC reorganised its banking operations in the Hong Kong Special Administrative Region ("Hong Kong" or "HKSAR") by merging all its directly and indirectly controlled banking and related financial operations in Hong Kong into the Bank on 1 October 2001 (the "Reorganisation"). The name of the Bank was changed from Po Sang Bank Limited to Bank of China (Hong Kong) Limited on the same date. All of the operations involved in the Reorganisation had been in existence prior to 1 January 2000.

The Reorganisation is governed by a Merger Agreement dated 31 May 2001 ("Merger Agreement") and a Supplemental Agreement dated 30 September 2001 ("Supplemental Merger Agreement") entered into between BOC and certain of its directly or indirectly controlled entities with banking and related financial operations in Hong Kong. It was also accomplished using a private members' bill which was passed by the Hong Kong Legislative Council on 12 July 2001 and became law on 20 July 2001. Under the Bank of China (Hong Kong) Limited (Merger) Ordinance ("Merger Ordinance"), all assets and liabilities of the Predecessor Entities (as defined below) whose transfer is governed by Hong Kong law or in jurisdictions where they were recognised were transferred to the Bank. In addition, by the Legal Tender Notes Issue Ordinance (Amendment of Schedule) Notice 2001, the Bank replaced BOC as a bank note issuing bank in Hong Kong.

Pursuant to the Reorganisation, the entire equity interests in the Bank was acquired by BOC Hong Kong (Holdings) Limited on 30 September 2001. On 1 October 2001, the Bank took over the entire equity interest in Nanyang Commercial Bank, Limited ("Nanyang") and BOC Credit Card (International) Limited ("BOC-CC"), certain equity interests in Chiyu Banking Corporation Limited ("Chiyu") and the assets, liabilities and business undertakings of the entities listed below (which are collectively known as the "Predecessor Entities"), all of which are under the common control of BOC:

1. Hua Chiao Commercial Bank Limited ("Hua Chiao");
2. Bank of China - Hong Kong Branch;
3. Kincheng Banking Corporation - Hong Kong Branch;
4. Kwangtung Provincial Bank - Hong Kong Branch;
5. Sin Hua Bank Limited - Hong Kong Branch;
6. The China State Bank, Limited - Hong Kong Branch;
7. The China & South Sea Bank Limited - Hong Kong Branch;
8. The National Commercial Bank Limited - Hong Kong Branch;
9. The Yien Yieh Commercial Bank Limited - Hong Kong Branch;
10. Kwangtung Provincial Bank - Shenzhen Branch; and
11. Sin Hua Bank Limited - Shenzhen Branch.

Nanyang, Chiyu, Hua Chiao and BOC-CC (collectively with the Bank, known as "Surviving Entities") are private limited companies incorporated in Hong Kong. Entities 1 to 11 above were self-contained banking businesses operating in Hong Kong or Shenzhen of the PRC in the form of branches of their respective holding entities (except for Hua Chiao, which is a corporate entity). Entities 2 to 11 in the list above are collectively known as the "Merging Branches".

In connection with the Reorganisation, shareholdings in an aggregate of 25 companies and subsidiaries ("Disposed Subsidiaries") which were not primarily engaged in commercial banking, were disposed of to a fellow subsidiary of the Group. In addition, outstanding debts between the Disposed Subsidiaries and the relevant sellers were settled.

2. Principal activities

The principal activities of the Group are the provision of banking and related financial services in Hong Kong.

3. Principal accounting policies

(a) 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 instruments and revaluation of premises and investment properties, and in accordance with accounting principles generally accepted in Hong Kong and comply with the Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants ("HKSA").

NOTES TO THE ACCOUNTS (continued)

3. Principal accounting policies (continued)

(a) Basis of preparation (continued)

The Reorganisation represents a business combination resulting from transactions among enterprises under the common control of BOC. Under the principles of merger accounting prescribed in the SSAP 27, "Accounting for Group Reconstructions", the consolidated financial statements of the Group are prepared as if the group structure as at 1 October 2001 had been in existence from the beginning of the earliest period presented. Therefore, the results of the Surviving Entities and the Predecessor Entities (which includes the Merging Branches) before 1 October 2001 are included in the consolidated financial statements of the Group. The businesses of the Merging Branches and Hua Chiao were combined with the Group on 1 October 2001, and the entities representing the Merging Branches and Hua Chiao themselves are not part of the Group going forward. The comparative figures for 2000 have been restated accordingly. As a result, any activities (apart from those which they are acting in the capacity of a trustee for the Group) undertaken by these entities after 1 October 2001 are not part of the Group and are not included in the consolidated financial statements.

Any difference between the amount recorded as share capital issued plus any additional consideration in the form of cash or other assets and the nominal value amount recorded for the share capital of all of the Surviving Entities and Predecessor Entities acquired is included in equity as a separate reserve ("merger reserve"). The results of the Surviving Entities and Predecessor Entities are included in the consolidated accounts as if they had been combined from the beginning of the earliest period presented. Accordingly, the share capital issued by the Bank as part of the Reorganisation has been treated as if it was issued from the beginning of the period presented in the consolidated accounts. As a result of this presentation of share capital, a merger reserve is also shown as arising on 1 January 2000. This merger reserve represents the difference between the nominal value of shares recorded as share capital issued by the Bank on 1 October 2001 plus any additional consideration in the form of cash or other assets and the nominal value of share capital recorded for all of the subsidiaries acquired pursuant to the Reorganisation. As a result of the Reorganisation, the reserves of the Merging Branches, Hua Chiao and the subsidiaries acquired pursuant to the Reorganisation were effectively capitalised by the Group on 1 October 2001.

The Merger Ordinance specifies that the balance sheet and profit and loss account of the Bank shall be prepared in all respects as if the Predecessor Entities, and the shares in Nanyang, Chiyu and BOC-CC had vested in the Bank on the first day of the financial year in which the Reorganisation occurs. In addition, it also specifies that any profits or losses of the Predecessor Entities earned or incurred after the beginning of the financial year in which the Reorganisation occurs shall be treated for all purposes as profits or losses of the Bank. As a result, in the Bank's accounts, the results and balance sheet of the Predecessor Entities are included in the profit and loss account and balance sheet of the Bank from 1 January 2001. Accordingly, the comparative amounts shown in the Bank's balance sheet represent the Bank's position before the Reorganisation.

The intention of the Bank was to effectively capitalise the reserves of the Predecessor Entities as at 1 October 2001 in the books of the Bank. This was achieved by issuing share capital to the equivalent of the adjusted net asset value (as prescribed in the Merger Agreement) of the Predecessor Entities. The capitalisation of the reserves of the Predecessor Entities is shown in the Bank's accounts as a reserve movement (note 34).

Certain of the Surviving Entities and Predecessor Entities held shareholdings in Bank of China Group Insurance Company Ltd. ("BOC Insurance"), a company engaged in insurance business in Hong Kong. As BOC Insurance was managed autonomously and its nature of business is fundamentally different from commercial banking, its activities are not considered part of the Group and the shareholdings / results are not included in the consolidated financial statements. Disposals of the shareholdings and dividends received from BOC Insurance have been treated as capital contributions in the consolidated financial statements. Apart from BOC Insurance, the results of the Disposed Subsidiaries are included in the consolidated accounts of the Group up to the date of disposal.

In the current year, the Group has adopted the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2001:

SSAP 9 (revised)	: Events after the balance sheet date
SSAP 10	: Accounting for investments in associates
SSAP 27 (revised)	: Accounting for group reconstructions
SSAP 17 (revised)	: Property, plant and equipment
SSAP 14 (revised)	: Leases (effective for periods commencing on or after 1 July 2000)
SSAP 28	: Provisions, contingent liabilities and contingent assets
SSAP 30	: Business combinations
SSAP 31	: Impairment of assets
SSAP 32	: Consolidated financial statements and accounting for investments in subsidiaries

The effect of adopting these new standards is set out in the accounting policies below.

NOTES TO THE ACCOUNTS (continued)

3. Principal accounting policies (continued)

(b) Basis of consolidation

The consolidated accounts include the accounts of the Bank and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half 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 negative goodwill (or goodwill / negative 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 Bank's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Bank on the basis of dividends received and receivable.

(c) 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.

In the Bank's balance sheet the investments in associates are stated at cost less provision for impairment in value. The results of associates are accounted for by the Bank on the basis of dividends received and receivable.

Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

(d) Revenue recognition

Interest income is recognised as it accrues, except in the case of doubtful debts where interest is no longer accrued or is credited to a suspense account which is netted in the balance sheet against the relevant balances.

Fees and commission income are recognised 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 time pattern in which use benefit derived from the leased asset is diminished.

(e) 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 borrowers.

NOTES TO THE ACCOUNTS (continued)

3. Principal accounting policies (continued)

(f) Provisions for bad and doubtful debts

The Group classifies loans and advances into pass, special mention, substandard, doubtful and loss categories. The classification of loans and advances is based primarily on the status of overdue payments of interest and/or principal and whether the loans and advances are fully collateralised. In addition, an assessment of the borrower's capacity to repay and of the degree of doubt about the collectibility of interest and/or principal is made and factored into the classification process.

Provisions are made against specific loans and advances as and when the Group has doubt on the ultimate recoverability of principal or interest in full. Specific provision is made to reduce the carrying value of the asset, taking into account available collateral, to the expected net realisable value based on the Group's assessment of the potential losses on those identified loans and advances on a case-by-case basis.

In addition, amounts have been set aside as a general provision for bad and doubtful debts. Both specific and general provisions are deducted from "Advances to customers" and "Trade Bills" in the consolidated balance sheet.

When there is no realistic prospect of recovery, the outstanding debt is written off.

(g) Fixed assets

(i) Premises

Premises are stated at cost or valuation less accumulated impairment losses and less 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
Leasehold improvements	Over the shorter of period of lease and 3 to 10 years

Premises were stated at cost less accumulated depreciation and accumulated impairment losses prior to 2001. From 2001, premises are stated at valuation. The purpose of the change in accounting policy is to enable the Group's premises to be stated at approximate fair value. The effect of the valuation was to increase the Group's premises revaluation reserve by HK$8,408 million. It also resulted in a charge to the profit and loss account of HK$1,135 million in 2001.

Independent valuations are performed every five years. In the intervening years, management review the carrying value of individual properties and adjustment is made where in the management's opinion there has been a material change in value. The valuations are on an open market value basis related to individual properties. 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 revaluation reserve. Upon disposal of premises, the relevant portion of the revaluation reserve realised in respect of previous valuations is released and transferred from the revaluation reserve to retained earnings.

(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 at intervals of not more than three years by independent valuers; in each of the intervening years valuations are undertaken by professionally qualified executives of the Group. The valuations are on an open market value basis related to individual properties. The valuations are incorporated in the accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to the profit and loss account. Any subsequent increases in valuation are credited to the profit and loss account up to the amount previously debited, and then to the revaluation reserve.

NOTES TO THE ACCOUNTS (continued)

3. Principal accounting policies (continued)

(g) Fixed assets (continued)

(ii) Investment properties (continued)

Investment properties were stated at cost less accumulated depreciation and accumulated impairment losses prior to 2001 as the Group was exempted from annual open market valuation given the aggregate estimated open market value of the investment properties was less than 15% of the carrying value of its total assets and the Group was unlisted. The purpose of the change in accounting policy is to enable the Group's investment properties to be stated at approximate fair value. The effect of the valuation was to increase the Group's revaluation reserve by HK$3,159 million. It also resulted in a charge to the profit and loss account of HK$106 million in 2001.

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 revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(iii) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation on other fixed assets is calculated to write off the assets on a straight-line basis over their estimated useful lives as follows:

Motor vehicles	3 to 10 years
Furniture, fixtures and equipment	3 to 15 years

The gain or loss on disposal of other fixed assets is recognized in the profit and loss account.

(iv) Impairment of fixed assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that premises and other fixed assets 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.

NOTES TO THE ACCOUNTS (continued)

3. Principal accounting policies (continued)

(h) 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 diminution 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/expense in the profit and loss account. Profits or losses on realisation of held-to-maturity securities are accounted for in the profit and loss account as they arise.

(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 diminution in value which is other than temporary.

The carrying amounts of investment securities are reviewed as at the balance sheet date in order to assess whether the fair values have declined below the carrying amounts. When such a decline has occurred, the carrying amount 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.

(i) 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.

(j) 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.

The Group provides for costs related to the reorganisation and restructuring of the Group's operations. The restructuring provisions relate to costs which are subject to detailed formal plans that are under implementation or have been communicated to those affected by the plans. Restructuring provisions mainly comprise stamp duty costs and employee termination payments.

NOTES TO THE ACCOUNTS (continued)

3. Principal accounting policies (continued)

(k) Deferred taxation

Deferred taxation is provided at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the profit and loss account to the extent that it is probable that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(l) 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.

(m) Retirement benefit costs

The Group contributes to defined contribution retirement schemes under either recognised occupation retirement schemes ("ORSO schemes") or mandatory provident fund ("MPF") schemes which are available to all employees. Contributions to the scheme 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 represents 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 separately from those of the Group in independently administered funds.

(n) 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 trading purposes or to hedge risk.

Transactions undertaken for trading purposes are marked to market and the gain or loss arising is recognised in the profit and loss account as "Net gain from foreign exchange activities" or "Net gain from other dealing activities". Transactions designated as hedges 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.

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

(o) 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, they 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, an asset is recognised.

(p) 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.

NOTES TO THE ACCOUNTS (continued)

3. Principal accounting policies (continued)

(q) Dividends

Under SSAP 9 (revised) 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. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

4. Interest income

	The Group	
	2001 HK$'m	2000 HK$'m
Interest income from listed investments	**766**	651
Interest income from unlisted investments	**5,666**	6,310
Other interest income	**31,875**	48,488
	38,307	55,449

5. Other operating income

	The Group	
	2001 HK$'m	2000 HK$'m
Fees and commission income	**3,585**	3,974
Less: Fees and commission expenses	**(889)**	(972)
Net fees and commission income	**2,696**	3,002
Dividend income from investments in securities		
- listed investments	**1**	2
- unlisted investments	**65**	40
Net gain on other investments in securities	**108**	130
Net gain from foreign exchange activities	**816**	845
Net gain from other dealing activities	**8**	19
Data and cheque processing service income	**74**	104
Gross rental income from investment properties	**177**	125
Others	**77**	385
	4,022	4,652

NOTES TO THE ACCOUNTS (continued)

6. Operating expenses

	The Group	
	2001 HK$'m	2000 HK$'m
Staff costs (including directors' emoluments)	**3,796**	3,357
Premises and equipment expense excluding depreciation		
- rental of premises	**297**	307
- others	**335**	359
Depreciation		
- owned fixed assets	**460**	514
Other operating expenses	**959**	1,031
	5,847	5,568

Included in "Other operating expenses" is auditors' remuneration. The auditors' remuneration for the year ended 31 December 2001 amounted to HK$23 million which was in respect of the statutory audits and the audit of the consolidated accounts. This amount also includes the audit of the consolidated accounts of the Group for the prior two years. For the year ended 31 December 2000, the auditors' remuneration for the Surviving and Predecessor Entities amounted to HK$4 million.

7. Charge for bad and doubtful debts

	The Group	
	2001 HK$'m	2000 HK$'m
Net charge for bad and doubtful debts		
Specific provisions		
- new provisions	**10,649**	7,583
- releases	**(645)**	(296)
- recoveries	**(530)**	(99)
	9,474	7,188
General provisions	**(2,062)**	1,405
Net charge to consolidated profit and loss account (Note 24)	**7,412**	8,593

8. Restructuring costs

Restructuring costs are direct expenditure arising from the Reorganisation set out in note 1. Details of the restructuring costs are as follows:

	For the year ended 31 December 2001
	HK$'m
Stamp duty levied on immovable properties	584
Stamp duty levied on shares	64
Severance payments	112
Legal and professional fees	39
Others	138
	937

There were no restructuring costs for the year ended 31 December 2000.

NOTES TO THE ACCOUNTS (continued)

9. Net (loss)/gain on disposal/revaluation of fixed assets

	The Group	
	2001 HK$'m	2000 HK$'m
Net gain on disposal of fixed assets	**4**	90
Net loss on revaluation of fixed assets	**(1,241)**	-
	(1,237)	90

10. Net gain on disposal of held-to-maturity securities and investment securities

	The Group	
	2001 HK$'m	2000 HK$'m
Net gain on disposal of held-to-maturity securities	**-**	9
Net gain on disposal of investment securities	**20**	34
	20	43

Securities classified as held-to-maturity, amounting to HK$60 million, were sold during the year ended 31 December 2001. The disposals were made due to concerns over the credit quality of these securities.

11. Write-back of provision/(provision) for impairment in held-to-maturity securities and investment securities

	The Group	
	2001 HK$'m	2000 HK$'m
Write-back of provision/(provision) for impairment on held-to-maturity securities	**23**	(15)
Write-back of provision/(provision) for impairment losses on investment securities	**1**	(47)
	24	(62)

NOTES TO THE ACCOUNTS (continued)

12. Taxation

Taxation in the consolidated profit and loss account represents:

	The Group	
	2001 HK$'m	2000 HK$'m
Hong Kong profits tax		
- current year taxation	**877**	1,219
- overprovision in prior years	**(75)**	(34)
Deferred tax liability	**2**	-
	804	1,185
Attributable share of estimated Hong Kong profits tax losses arising from investments in partnerships	**(96)**	(253)
	708	932
Investments in partnerships written off	**77**	203
Hong Kong profits tax	**785**	1,135
Overseas taxation	**29**	34
	814	1,169
Share of taxation attributable to associates	**18**	9
	832	1,178

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit 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 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 the year end, the Group's investment in such partnerships, which is included in "Other assets" in the balance sheet amounted to HK$876 million (2000: HK$1,871 million). The Group's investments in partnerships are amortised over the life of the partnership in proportion to the taxation benefits resulting from those investments. The total assets and liabilities of such partnerships are as follows:

	The Group	
	2001 HK$'m	2000 HK$'m
Assets	**4,493**	7,481
Liabilities	**3,156**	5,465

NOTES TO THE ACCOUNTS (continued)

13. Profit attributable to shareholders

The profit for the year ended 31 December 2001 attributable to shareholders and dealt with in the accounts of the Bank amounted to HK$1,332 million (2000: HK$925 million).

During the year (but prior to the Reorganisation), Nanyang, Chiyu and BOC-CC declared and paid dividends of approximately HK$453 million (net of the minority interest). As these entities were not subsidiaries of the Bank at the time, these dividends were paid directly to their respective shareholders. Consequently, the Bank has not recognised any income with respect to these dividends.

14. Dividends

	For the year ended 31 December	
	2001 HK$'m	2000 HK$'m
Proposed final dividend	-	40

Dividends above represent only amounts proposed or declared by the Bank. Dividends paid by Nanyang, Chiyu and Hua Chiao directly to their respective shareholders prior to the Reorganisation are shown as a reserve movement (Note 34).

At a meeting held on 18 June 2002, the directors declared an interim dividend in respect of the period to 31 May 2002 of approximately HK$0.045 per ordinary share amounting to HK$1,937 million. This proposed 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 2002.

15. Directors' emoluments

Details of directors' emoluments disclosed pursuant to Section 161 of the Companies Ordinance are set out below:

	The Bank	
	2001 HK$'m	2000 HK$'m
Fees	**1**	-
Other emoluments for executive directors		
- Basic salaries and allowances	**3**	3
- Discretionary bonuses	**2**	1
- Others (including benefits in kind)	**1**	1
	7	5

NOTES TO THE ACCOUNTS (continued)

16. Retirement benefit costs

The Group operates certain defined contribution schemes which are ORSO schemes exempted under the Mandatory Provident Fund Schemes Ordinance ("MPF Scheme Ordinance"). Under the schemes, the 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 their 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 of 20% to 95% after completing three to less than 20 years of service, on conditions of retirement, early retirement, permanent incapacity and ill-health or termination of employment other than summary dismissal.

The total contributions for these ORSO schemes for the year ended 31 December 2001 amounted to approximately HK$234 million (2000: HK$229 million), after a deduction of forfeited contributions of approximately HK$36 million (2000: HK$28 million).

For the period from 1 January 1998 to 31 December 1999, the Group also provided defined benefit schemes to its employees. Contributions were designed to fully fund the schemes as advised by an independent actuary. The Group terminated the defined benefit schemes on 1 January 2000 with the vested contributions transferred to the defined contribution schemes described above. The excess contribution of the defined benefit schemes of approximately HK$84 million was refunded to the Group in 2000 and recognised as other income in the consolidated profit and loss account.

With the implementation of the MPF Schemes Ordinance on 1 December 2000, the Group also participates in the BOC-Prudential Easy Choice Mandatory Provident Fund Scheme (the "MPF Scheme"), the trustee of which is BOCI-Prudential Trustee Limited and the investment manager of which is BOCI - Prudential Asset Management Limited, which are related companies of the Bank. For the year ended 31 December 2001, total contributions to the MPF scheme amounted to approximately HK$4.2 million (2000: HK$0.3 million).

17. Cash and short-term funds

	The Group		The Bank	
	2001 HK$'m	2000 HK$'m	2001 HK$'m	2000 HK$'m
Cash	**3,240**	3,200	**2,633**	284
Balances with banks and other financial institutions	**56,658**	82,173	**48,292**	5,195
Money at call and short notice maturing within one month	**117,446**	155,900	**99,668**	8,572
Treasury bills (including Exchange Fund Bills)	**18,911**	13,975	**18,119**	3,360
	196,255	255,248	**168,712**	17,411

The analysis of treasury bills (including Exchange Fund Bills) held as follows:

	The Group		The Bank	
	2001 HK$'m	2000 HK$'m	2001 HK$'m	2000 HK$'m
Unlisted, held-to-maturity securities, at amortised cost	**12,932**	10,686	**12,140**	3,360
Unlisted, other investments in securities, at fair value	**5,979**	3,289	**5,979**	-
	18,911	13,975	**18,119**	3,360

NOTES TO THE ACCOUNTS (continued)

18. Trade bills

	The Group		The Bank	
	2001 HK$'m	2000 HK$'m	2001 HK$'m	2000 HK$'m
Trade bills	**382**	539	**139**	9

19. Certificates of deposit held

	The Group		The Bank	
	2001 HK$'m	2000 HK$'m	2001 HK$'m	2000 HK$'m
Held-to-maturity securities, at amortised cost				
- Listed outside Hong Kong	**-**	4	**-**	-
- Unlisted	**9,130**	12,756	**7,718**	147
	9,130	12,760	**7,718**	147
Other investments in securities, at fair value				
- Unlisted	**10,344**	12,913	**10,344**	-
Total	**19,474**	25,673	**18,062**	147
Market value of listed certificates of deposit held	**-**	4	**-**	-

NOTES TO THE ACCOUNTS (continued)

20. Held-to-maturity securities

	The Group		The Bank	
	2001 HK$'m	2000 HK$'m	2001 HK$'m	2000 HK$'m
Unlisted, at amortised cost	**34,592**	39,260	**21,472**	267
Less: Provision for impairment in value	**(42)**	(9)	**(42)**	-
	34,550	39,251	**21,430**	267
Listed, at amortised cost	**16,438**	9,131	**11,245**	512
Less: Provision for impairment in value	**-**	(56)	**-**	-
	16,438	9,075	**11,245**	512
Total	**50,988**	48,326	**32,675**	779
Listed, at amortised cost				
- In Hong Kong	**2,239**	1,363	**1,277**	-
- Overseas	**14,199**	7,712	**9,968**	512
	16,438	9,075	**11,245**	512
Market value of listed investments	**15,905**	9,110	**11,377**	513

Held-to-maturity securities are analysed by issuer as follows:

	The Group		The Bank	
	2001 HK$'m	2000 HK$'m	2001 HK$'m	2000 HK$'m
Central governments and central banks	**3,470**	5,169	**2,184**	-
Public sector entities	**17,722**	5,476	**13,020**	-
Banks and other financial institutions	**24,454**	32,669	**13,966**	771
Corporate entities	**5,342**	5,012	**3,505**	8
	50,988	48,326	**32,675**	779

NOTES TO THE ACCOUNTS (continued)

21. Investment securities

	The Group		The Bank	
	2001 HK$'m	2000 HK$'m	2001 HK$'m	2000 HK$'m
Equity securities				
Unlisted, at cost	**39**	306	**3**	52
Listed, at cost				
- In Hong Kong	**4**	6	**4**	6
- Overseas	**1**	1	**-**	-
Total	**44**	313	**7**	58
Market value of listed equity securities	**5**	7	**4**	7

Investment securities are analysed by issuer as follows:

	The Group		The Bank	
	2001 HK$'m	2000 HK$'m	2001 HK$'m	2000 HK$'m
Banks and other financial institutions	**22**	75	**-**	-
Corporate entities	**18**	183	**7**	58
Others	**4**	55	**-**	-
	44	313	**7**	58