

# NOTES TO THE ACCOUNTS

## 1. PRINCIPAL ACTIVITIES

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

## 2. BASIS OF PREPARATION

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

The accounting policies and methods of computation used in the preparation of the accounts are consistent with those used in the preparation of the Group’s accounts for the year ended 31 December 2002. In the current year, the Group has adopted SSAP 12 (revised) “Income taxes” issued by the HKSA, which is effective for accounting periods commencing on or after 1 January 2003.

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

## 3. PRINCIPAL ACCOUNTING POLICIES

### (a) Basis of consolidation

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

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

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

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

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

### 3. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (b) Associates

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

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

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

#### (c) Revenue recognition

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

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

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

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

#### (d) Advances

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

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

Assets acquired by repossession of collateral for realisation would continue to be reported as advances, except in the case of a loan restructuring where the asset acquired is part of the terms of a new loan agreement and the assets are recognised on the balance sheet under the relevant assets category. When the repossessed asset is realised, the sales proceeds are applied against the outstanding advance and any shortfall is written off to the profit and loss account.

### 3. PRINCIPAL ACCOUNTING POLICIES (continued)

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

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

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

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

#### (f) Fixed assets

##### (i) Premises

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

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

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

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

### 3. PRINCIPAL ACCOUNTING POLICIES (continued)

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

##### (ii) Investment properties

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

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

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

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

##### (iii) Property under development

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

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

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

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

### 3. PRINCIPAL ACCOUNTING POLICIES (continued)

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

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

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

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

#### (g) Investments in securities

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

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

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

##### (ii) Investment securities

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

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

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

### 3. PRINCIPAL ACCOUNTING POLICIES (continued)

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

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

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

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

#### (h) Operating leases

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

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

#### (i) Provisions

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

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

#### (j) Deferred taxation

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

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

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

### 3. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (j) Deferred taxation (continued)

In prior year, deferred taxation was provided at the current taxation 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 a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of SSAP 12 (revised) "Income taxes" 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.

As detailed in the consolidated statement of changes in equity, opening retained earnings at 1 January 2002 and 2003 have been reduced by HK\$370 million and HK\$256 million respectively, which represent the unprovided net deferred tax liabilities. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31 December 2002 by HK\$47 million and HK\$317 million respectively. For the year ended 31 December 2002, profit after taxation increased by HK\$114 million and the amount charged to equity reduced by HK\$2 million.

#### (k) Foreign currency translation

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

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

#### (l) Employee benefits

##### (i) Retirement benefit costs

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

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

##### (ii) Leave entitlements

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

### 3. PRINCIPAL ACCOUNTING POLICIES (continued)

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

##### (ii) Leave entitlements (continued)

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

##### (iii) Bonus plans

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

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

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

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

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

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

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

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

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



### 3. PRINCIPAL ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

#### (o) Cash and cash equivalents

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

#### (p) Dividends

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

### 4. INTEREST INCOME

	2003 HK\$'m	2002 HK\$'m
Interest income from listed investments	1,669	1,341
Interest income from unlisted investments	3,059	3,621
Other interest income	13,031	16,501
	<b>17,759</b>	<b>21,463</b>

## 5. OTHER OPERATING INCOME

	2003 HK\$'m	2002 HK\$'m
Fees and commission income (Note)	3,855	3,649
Less: Fees and commission expenses	(858)	(701)
Net fees and commission income	2,997	2,948
Dividend income from investments in securities		
– unlisted investments	45	34
Net loss from other investments in securities	(108)	(61)
Net gain from foreign exchange activities	965	824
Net gain from other dealing activities	42	14
Gross rental income from investment properties	241	279
Less: Outgoings in respect of investment properties	(80)	(87)
Others	277	221
	<b>4,379</b>	<b>4,172</b>

Note: Fees and commission income

	2003 HK\$'m	2002 HK\$'m
Securities brokerage	733	465
Credit cards	560	544
Bills commissions	556	586
Loan commissions	473	714
Payment services	315	296
Insurance	235	154
Asset management	211	123
Trust services	76	54
Guarantees	39	46
Others		
– safe deposit box	166	163
– low deposit balance accounts	106	43
– exchange	45	65
– BOC cards	40	51
– dormant accounts	24	31
– agency services	24	26
– postage and telegrams	19	17
– information search	16	7
– correspondent banking	15	16
– sundries	202	248
	<b>3,855</b>	<b>3,649</b>

**6. OPERATING EXPENSES**

	<b>2003</b> <b>HK\$'m</b>	2002 HK\$'m
Staff costs (including directors' emoluments)		
– salaries and other costs	<b>3,069</b>	3,318
– termination benefit	<b>1</b>	7
– pension cost	<b>246</b>	253
	<b>3,316</b>	3,578
Premises and equipment expenses (excluding depreciation)		
– rental of premises	<b>213</b>	245
– information technology	<b>310</b>	266
– others	<b>209</b>	292
	<b>732</b>	803
Depreciation on owned fixed assets	<b>611</b>	632
Auditors' remuneration		
– audit services	<b>29</b>	18
– non-audit services	<b>9</b>	11
Other operating expenses	<b>961</b>	983
	<b>5,658</b>	6,025

**7. CHARGE FOR BAD AND DOUBTFUL DEBTS**

	<b>2003</b> <b>HK\$'m</b>	2002 HK\$'m
Net charge for bad and doubtful debts		
Specific provisions		
– new provisions	<b>3,834</b>	4,519
– releases	<b>(768)</b>	(582)
– recoveries (Note 23)	<b>(438)</b>	(904)
	<b>2,628</b>	3,033
General provisions (Note 23)	<b>(957)</b>	(178)
Net charge to profit and loss account (Note 23)	<b>1,671</b>	2,855

**8. NET LOSS FROM DISPOSAL/REVALUATION OF FIXED ASSETS**

	<b>2003</b> HK\$'m	2002 HK\$'m
Net gain on disposal of premises	<b>(8)</b>	–
Net (gain)/loss on disposal of investment properties	<b>(5)</b>	5
Loss on disposal of other fixed assets	<b>23</b>	50
Deficit on revaluation of premises (Note 26)	<b>741</b>	771
Deficit on revaluation of investment properties (Note 26)	<b>370</b>	206
	<b>1,121</b>	1,032

**9. WRITE-BACK OF PROVISION/(PROVISION) FOR IMPAIRMENT ON HELD-TO-MATURITY SECURITIES AND INVESTMENT SECURITIES**

	<b>2003</b> HK\$'m	2002 HK\$'m
Write-back of provision/(provision) for impairment on held-to-maturity securities	<b>29</b>	(4)
Write-back of provision/(provision) for impairment on investment securities	<b>1</b>	(3)
	<b>30</b>	(7)

## 10. TAXATION

Taxation in the profit and loss account represents:

	2003 HK\$'m	As restated 2002 HK\$'m
Hong Kong profits tax		
– current year taxation	1,470	1,505
– over-provision in prior years	(732)	(130)
Deferred tax charge/(credit)	55	(114)
	<b>793</b>	1,261
Attributable share of estimated Hong Kong profits tax losses arising from investments in partnerships	<b>(817)</b>	(488)
	<b>(24)</b>	773
Investments in partnerships written off	<b>600</b>	365
	<b>576</b>	1,138
Hong Kong profits tax	<b>11</b>	15
Overseas taxation		
	<b>587</b>	1,153
Share of taxation attributable to associates	<b>2</b>	1
	<b>589</b>	1,154

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year. In 2003, the HKSAR Government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. 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's tax over-provision of HK\$732 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 2003.

The Group has entered into a number of aircraft leasing and coupon strip transactions involving special purpose partnerships. As at 31 December 2003, the Group's investments in such partnerships, which are included in "Other assets" in the consolidated balance sheet, amounted to HK\$1,474 million (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.

**10. TAXATION (continued)**

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

	<b>2003</b> HK\$'m	2002 HK\$'m
Assets	<b>6,159</b>	4,721
Liabilities	<b>4,098</b>	3,182

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

	<b>2003</b> HK\$'m	2002 HK\$'m
Profit before taxation	<b>8,691</b>	8,068
Calculated at a taxation rate of 17.5% (2002: 16%)	<b>1,521</b>	1,291
Effect of different taxation rates in other countries	<b>(31)</b>	(16)
Income not subject to taxation	<b>(1,511)</b>	(968)
Expenses not deductible for taxation purposes	<b>1,518</b>	1,210
Tax losses not recognised	<b>5</b>	7
Temporary differences not recognised	<b>55</b>	–
Utilisation of previously unrecognised tax losses	<b>(21)</b>	(4)
Recognition of previously unrecognised temporary differences	<b>–</b>	(114)
Over-provision in prior years	<b>(732)</b>	(130)
Tax benefits from partnerships	<b>(217)</b>	(123)
Share of taxation attributable to associates	<b>2</b>	1
Taxation charge	<b>589</b>	1,154

**11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS**

The profit of the Company for the year ended 31 December 2003 attributable to shareholders and dealt with in the accounts of the Company amounted to HK\$5,810 million (for the period from 12 September 2001 (date of incorporation) to 31 December 2002: HK\$4,518 million).

## 12. DIVIDENDS

	2003		2002	
	Per share HK\$	Total HK\$m	Per share HK\$	Total HK\$m
Special dividend paid	–	–	0.183	1,935
Interim dividend paid	<b>0.195</b>	<b>2,062</b>	–	–
Proposed final dividend	<b>0.320</b>	<b>3,383</b>	0.215	2,273
	<b>0.515</b>	<b>5,445</b>	0.398	4,208

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.

At a meeting held on 22 March 2004, the Board proposed to declare a final dividend of HK\$0.320 per ordinary share for the year ended 31 December 2003 amounting to approximately HK\$3,383 million. This declared final dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2004.

## 13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders for the year ended 31 December 2003 of approximately HK\$7,963 million (2002: HK\$6,787 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 year ended 31 December 2003 (2002: Nil).

## 14. RETIREMENT BENEFIT COSTS

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

#### 14. RETIREMENT BENEFIT COSTS (continued)

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

The Group's total contributions made to the ORSO schemes for the year ended 31 December 2003 amounted to approximately HK\$233 million (2002: approximately HK\$242 million), after a deduction of forfeited contributions of approximately HK\$19 million (2002: approximately HK\$17 million). For the MPF Scheme, the Group contributed approximately HK\$9 million (2002: approximately HK\$7 million) for the year ended 31 December 2003.

#### 15. SHARE OPTION SCHEMES

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

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

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

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

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



## 15. SHARE OPTION SCHEMES (continued)

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

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

Details of the share options outstanding as at 31 December 2003 are as follows:

	Directors	Senior management	Total number of share options
At 1 January 2003	<b>13,737,000</b>	<b>17,221,600</b>	<b>30,958,600</b>
Less: Share options exercised during the year	–	<b>(1,591,000)</b>	<b>(1,591,000)</b>
Less: Share options surrendered during the year	<b>(1,735,200)</b>	–	<b>(1,735,200)</b>
Less: Share options lapsed during the year	–	<b>(924,900)</b>	<b>(924,900)</b>
At 31 December 2003	<b>12,001,800</b>	<b>14,705,700</b>	<b>26,707,500</b>
At 1 January 2002	–	–	–
Add: Share options granted during the year	13,737,000	17,395,600	31,132,600
Less: Share options lapsed during the year	–	(174,000)	(174,000)
At 31 December 2002	13,737,000	17,221,600	30,958,600

The options granted under this scheme can be exercised at HK\$8.50 per share in respect of the option price of HK\$1.00. None of these options may be exercised within one year from the date on which dealings in the shares commenced on the Stock Exchange. These options have a vesting period of four years (25% of the number of shares subject to such options will vest at the end of each year) from the date on which dealings in the shares commenced on the Stock Exchange with a valid exercise period of 10 years. No offer to grant any options under the Pre-Listing Share Option Scheme will be made on or after the date on which dealings in the shares commenced on the Stock Exchange.

## 16. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

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

	2003 HK\$m	2002 HK\$m
Fees	2	3
Other emoluments for executive directors		
– basic salaries and allowances	4	4
– discretionary bonuses	–	1
– others (including benefits in kind)	1	–
	<b>7</b>	<b>8</b>

Emoluments of the directors were within the following bands:

	Number of directors	
	2003	2002
Up to HK\$1,000,000	13	12
HK\$2,000,001 – HK\$2,500,000	1	–
HK\$2,500,001 – HK\$3,000,000	1	–
HK\$5,000,001 – HK\$5,500,000	–	1

The aggregate amount of emoluments paid to the Independent Non-executive Directors during the year was HK\$700,000 (2002: HK\$800,000).

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

**16. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)****(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include 1 director (2002: 1) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 4 individuals (2002: 4) during the year are as follows:

	<b>2003</b> HK\$m	2002 HK\$m
Basic salaries and allowances	<b>9</b>	9
Discretionary bonuses	<b>1</b>	1
Others (including pension contributions)	<b>1</b>	1
	<b>11</b>	11

Emoluments of individuals were within the following bands:

	<b>Number of individuals</b>	
	<b>2003</b>	2002
HK\$2,000,001 – HK\$2,500,000	<b>1</b>	–
HK\$2,500,001 – HK\$3,000,000	<b>2</b>	2
HK\$3,000,001 – HK\$3,500,000	<b>1</b>	2

During the year, no director waived any emoluments and the Group has not paid any emoluments to the directors or any of the 5 highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

**17. CASH AND SHORT-TERM FUNDS**

	<b>2003</b> <b>HK\$'m</b>	2002 HK\$'m
Cash	<b>4,247</b>	2,637
Balances with banks and other financial institutions	<b>8,300</b>	2,370
Money at call and short notice maturing within one month	<b>100,987</b>	95,997
Treasury bills (including Exchange Fund Bills)	<b>20,572</b>	14,071
	<b>134,106</b>	115,075
An analysis of treasury bills held is as follows:		
Unlisted, held-to-maturity, at amortised cost	<b>17,867</b>	10,933
Unlisted, other investments in securities, at fair value	<b>2,705</b>	3,138
	<b>20,572</b>	14,071

**18. CERTIFICATES OF DEPOSIT HELD**

	<b>2003</b> <b>HK\$'m</b>	2002 HK\$'m
Held-to-maturity, at amortised cost		
– Unlisted	<b>6,585</b>	8,342
Other investments in securities, at fair value		
– Unlisted	<b>12,191</b>	9,186
	<b>18,776</b>	17,528

**19. HELD-TO-MATURITY SECURITIES**

	<b>2003</b> <b>HK\$'m</b>	2002 HK\$'m
Listed, at amortised cost	<b>40,051</b>	35,219
Less: Provision for impairment in value	<b>(12)</b>	(12)
	<b>40,039</b>	35,207
Unlisted, at amortised cost	<b>61,026</b>	59,049
Less: Provision for impairment in value	–	(29)
	<b>61,026</b>	59,020
<b>Total</b>	<b>101,065</b>	94,227
Listed, at amortised cost less provision		
– in Hong Kong	<b>4,000</b>	2,946
– outside Hong Kong	<b>36,039</b>	32,261
	<b>40,039</b>	35,207
Market value of listed securities	<b>40,906</b>	36,073
Held-to-maturity securities are analysed by issuers as follows:		
– Central governments and central banks	<b>2,698</b>	3,620
– Public sector entities	<b>23,060</b>	17,028
– Banks and other financial institutions	<b>57,668</b>	64,457
– Corporate entities	<b>17,639</b>	9,122
	<b>101,065</b>	94,227

**20. INVESTMENT SECURITIES**

	<b>2003</b> HK\$'m	2002 HK\$'m
Equity securities		
– Listed in Hong Kong, at cost	<b>16</b>	16
Less: Provision for impairment in value	<b>(14)</b>	(15)
	<b>2</b>	1
– Listed outside Hong Kong, at cost	<b>1</b>	1
– Unlisted, at cost	<b>3</b>	2
	<b>50</b>	44
Total	<b>53</b>	46
Market value of listed equity securities	<b>7</b>	4
Investment securities are analysed by issuers as follows:		
– Banks and other financial institutions	<b>1</b>	1
– Corporate entities	<b>52</b>	45
	<b>53</b>	46

## 21. OTHER INVESTMENTS IN SECURITIES

	2003 HK\$'m	2002 HK\$'m
At fair value		
Debt securities		
– Listed in Hong Kong	286	1,313
– Listed outside Hong Kong	25,440	20,818
	<b>25,726</b>	22,131
– Unlisted	45,629	42,078
	<b>71,355</b>	64,209
Equity securities		
– Listed in Hong Kong	41	121
– Unlisted	4	30
	<b>45</b>	151
Total	<b>71,400</b>	64,360
Other investments in securities are analysed by issuers as follows:		
– Central governments and central banks	3,192	3,069
– Public sector entities	4,873	4,914
– Banks and other financial institutions	62,395	46,662
– Corporate entities	940	9,715
	<b>71,400</b>	64,360

## 22. ADVANCES AND OTHER ACCOUNTS

	2003 HK\$'m	2002 HK\$'m
Advances to customers	308,582	321,034
Accrued interest	1,905	2,006
	<b>310,487</b>	323,040
Provision for bad and doubtful debts		
– General (Note 23)	(5,406)	(6,363)
– Specific (Note 23)	(5,507)	(8,650)
	<b>(10,913)</b>	(15,013)
Advances to banks and other financial institutions	299,574	308,027
	520	305
	<b>300,094</b>	308,332

Non-performing loans are analysed as follows:

	2003 HK\$'m	2002 HK\$'m
Non-performing loans	17,832	25,659
Specific provisions made in respect of such advances	5,467	8,637
As a percentage of total advances to customers	5.78%	7.99%
Amount of interest in suspense	324	408

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

There were no advances to banks and other financial institutions on which interest has been placed in suspense or on which interest accrual has ceased as at 31 December 2003 (2002: Nil), nor were there any specific provisions made.



## 23. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

	2003			
	Specific HK\$'m	General HK\$'m	Total HK\$'m	Suspended interest HK\$'m
At 1 January 2003	8,650	6,363	15,013	408
Charged/(credited) to profit and loss account (Note 7)	2,628	(957)	1,671	–
Amounts written off	(6,209)	–	(6,209)	(119)
Recoveries of advances written off in previous years (Note 7)	438	–	438	–
Interest suspended during the year	–	–	–	210
Suspended interest recovered	–	–	–	(175)
At 31 December 2003	5,507	5,406	10,913	324
Deducted from:				
– advances to customers	5,507	5,406	10,913	
	2002			
	Specific HK\$'m	General HK\$'m	Total HK\$'m	Suspended interest HK\$'m
At 1 January 2002	10,621	6,541	17,162	610
Charged/(credited) to profit and loss account (Note 7)	3,033	(178)	2,855	–
Amounts written off	(3,229)	–	(3,229)	(37)
Recoveries of advances written off in previous years (Note 7)	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	8,650	6,363	15,013	408
Deducted from:				
– advances to customers	8,650	6,363	15,013	

**24. INVESTMENT IN SUBSIDIARIES**

	<b>2003</b> <b>HK\$'m</b>	2002 HK\$'m
Unlisted shares, at cost	<b>52,864</b>	52,864

The particulars of all direct and indirect subsidiaries of the Company are set out in Appendix of the Annual Report, "Subsidiaries of the Company". The following is a list of principal subsidiaries as at 31 December 2003.

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

\* Shares held directly by the Company

The Group disposed of its interest in Eversound Investments Limited on 2 January 2003 at a consideration of approximately HK\$157 million.

Own More Investments Limited has commenced members' voluntary winding up on 28 May 2003.

## 25. INVESTMENTS IN ASSOCIATES

	2003 HK\$'m	2002 HK\$'m
Share of net assets	155	186
Less: Provision for impairment in value	(17)	(22)
	<b>138</b>	164
Loans to associates (Note)	280	346
Less: Provision for loans to associates	(140)	(27)
	<b>140</b>	319
	<b>278</b>	483

Note: At 31 December 2003, loans to associates are all on commercial terms and carry interest at the prevailing market interest rates.

The following is a list of the principal associates as at 31 December 2003, all of which are corporate entities.

Name	Place of incorporation & establishment	Particulars of issued share capital	Group's equity interest held indirectly	Principal activities
Charleston Investments Company Limited	Hong Kong	100,000 ordinary shares of HK\$10 each	40%	Property investment
CJM Insurance Brokers Limited	Hong Kong	6,000,000 ordinary shares of HK\$1 each	33%	Insurance broker
Joint Electronic Teller Services Limited	Hong Kong	100,238 ordinary shares of HK\$100 each	19.96%	Operation of a private interbank message switching network in respect of ATM services
Kincheng-Tokyo Finance Company Limited	Hong Kong	1,000,000 ordinary shares of HK\$100 each	50%	Deposit taking company
Trilease International Limited	Hong Kong	30,000,000 ordinary shares of HK\$1 each	40%	Provision of leasing finance
Zhejiang Commercial Bank, Ltd.	PRC	Registered capital	25%	Banking and related financial services

CCIC Finance Limited and Wealthy Full Enterprises Limited have commenced members' voluntary winding up during the year.

## 26. FIXED ASSETS

	2003				
	Premises HK\$'m	Investment properties HK\$'m	Property under development HK\$'m	Equipment, fixtures and fittings HK\$'m	Total HK\$'m
Cost or valuation					
At 1 January 2003	13,445	5,725	39	3,524	22,733
Additions	–	27	–	342	369
Disposals	(312)	(735)	–	(269)	(1,316)
Disposal of a subsidiary	(160)	–	–	(1)	(161)
Revaluation	(994)	(370)	–	–	(1,364)
Reclassification	(347)	347	–	–	–
At 31 December 2003	11,632	4,994	39	3,596	20,261
Accumulated depreciation and impairment losses					
At 1 January 2003	2	–	7	2,512	2,521
Depreciation for the year	372	–	–	239	611
Disposals	–	–	–	(245)	(245)
Disposal of a subsidiary	(3)	–	–	–	(3)
Write-back on revaluation	(205)	–	–	–	(205)
At 31 December 2003	166	–	7	2,506	2,679
Net book value					
At 31 December 2003	11,466	4,994	32	1,090	17,582
At 31 December 2002	13,443	5,725	32	1,012	20,212
The analysis of cost or revaluation of the above assets is as follows:					
At 31 December 2003					
At cost	–	–	39	3,596	3,635
At valuation	11,632	4,994	–	–	16,626
	11,632	4,994	39	3,596	20,261
At 31 December 2002					
At cost	–	–	39	3,524	3,563
At valuation	13,445	5,725	–	–	19,170
	13,445	5,725	39	3,524	22,733

**26. FIXED ASSETS (continued)**

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

	<b>2003</b> HK\$'m	2002 HK\$'m
Held in Hong Kong		
On long-term lease (over 50 years)	<b>7,051</b>	8,217
On medium-term lease (10 – 50 years)	<b>4,152</b>	4,942
On short-term lease (less than 10 years)	<b>2</b>	3
Held outside Hong Kong		
On long-term lease (over 50 years)	<b>40</b>	53
On medium-term lease (10 – 50 years)	<b>215</b>	222
On short-term lease (less than 10 years)	<b>6</b>	6
	<b>11,466</b>	13,443

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

	<b>2003</b> HK\$'m	2002 HK\$'m
Held in Hong Kong		
On long-term lease (over 50 years)	<b>4,070</b>	4,666
On medium-term lease (10 – 50 years)	<b>792</b>	929
Held outside Hong Kong		
On long-term lease (over 50 years)	<b>34</b>	37
On medium-term lease (10 – 50 years)	<b>98</b>	93
	<b>4,994</b>	5,725

Premises are included in the balance sheet at directors' valuation, having regard to the valuation carried out on the basis of their open market value by an independent firm of chartered surveyors, Chesterton Petty Limited, on the majority of the premises. Investment properties were also revalued on the basis of their open market value by Chesterton Petty Limited. Revaluations of the Group's premises and investment properties were performed at 30 June 2003 and 31 October 2003.

The results of the June revaluations were fully incorporated into the accounts at 30 June 2003.

**26. FIXED ASSETS (continued)**

With respect to the October revaluations, the change in valuation of investment properties was charged to the profit and loss account. As there was no material change in valuation since the previous revaluation at 30 June 2003, no adjustment was made to the carrying amount of premises.

Chesterton Petty Limited also confirmed that there has been no material change in valuations at 31 December 2003.

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

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

  

	2002		
	Premises HK\$m	Investment properties HK\$m	Total HK\$m
Increase/(decrease) in valuation credited/(debited) to property revaluation reserves	46	(13)	33
Decrease in valuation charged to profit and loss account (Note 8)	(771)	(206)	(977)
	<b>(725)</b>	<b>(219)</b>	<b>(944)</b>

As at 31 December 2003, the net book value of premises that would have been included in the Group's balance sheet had the assets been carried at cost less accumulated depreciation and impairment losses were HK\$5,653 million (2002: HK\$7,448 million).

**27. HONG KONG SAR CURRENCY NOTES IN CIRCULATION**

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

**28. DEPOSITS FROM CUSTOMERS**

	<b>2003</b> HK\$'m	2002 HK\$'m
Demand deposits and current accounts	<b>26,974</b>	21,476
Savings deposits	<b>271,439</b>	204,363
Time, call and notice deposits	<b>302,229</b>	375,138
	<b>600,642</b>	600,977

**29. ASSETS PLEDGED AS SECURITY**

At 31 December 2003, liabilities of the Group amounting to HK\$2,735 million (2002: HK\$3,198 million) were secured by assets deposited with central depositories to facilitate settlement operations. The amount of assets pledged by the Group to secure these liabilities was HK\$2,918 million (2002: HK\$3,400 million) included in "Cash and short-term funds".

**30. OTHER ACCOUNTS AND PROVISIONS**

	<b>2003</b> HK\$'m	As restated 2002 HK\$'m
Interest payable	<b>850</b>	1,167
Current taxation (Note 31(a))	<b>355</b>	544
Deferred taxation (Note 31(b))	<b>341</b>	328
Short positions in Exchange Fund Bills (Note 29)	<b>2,735</b>	3,198
Accruals and other payables	<b>21,008</b>	12,470
	<b>25,289</b>	17,707

**31. TAX LIABILITIES**

	<b>2003</b> HK\$'m	2002 HK\$'m
Current taxation (Note a)	<b>355</b>	544
Deferred taxation (Note b)	<b>341</b>	328
	<b>696</b>	872

**(a) Current taxation**

	<b>2003</b> HK\$'m	2002 HK\$'m
Hong Kong profits tax	<b>349</b>	531
Overseas taxation	<b>6</b>	13
	<b>355</b>	544

**(b) Deferred taxation**

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



**31. TAX LIABILITIES (continued)****(b) Deferred taxation (continued)**

The major components of deferred tax assets and liabilities recorded in the consolidated balance sheet, and the movements during the year showing the impact of the adoption of SSAP 12 (revised) "Income taxes", are as follows:

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

  

	2002					
	Accelerated tax depreciation	Asset revaluation	Losses	Provisions	Other temporary differences	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At 1 January 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	205	1,230	(4)	(1,039)	(2)	390
Charged/(credited) to profit and loss account	39	(189)	2	30	4	(114)
Acquisition of a subsidiary	3	–	–	–	–	3
Charged to equity	–	2	–	–	–	2
At 31 December 2002, as restated	247	1,043	(2)	(1,009)	2	281

**31. TAX LIABILITIES (continued)****(b) Deferred taxation (continued)**

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:

	<b>2003</b> HK\$'m	2002 HK\$'m
Deferred tax assets (Note)	<b>(16)</b>	(47)
Deferred tax liabilities	<b>341</b>	328
	<b>325</b>	281

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

	<b>2003</b> HK\$'m	2002 HK\$'m
Deferred tax assets to be recovered after more than twelve months	<b>(961)</b>	(1,029)
Deferred tax liabilities to be settled after more than twelve months	<b>274</b>	262
	<b>(687)</b>	(767)

**32. SHARE CAPITAL**

	<b>2003</b> HK\$'m	2002 HK\$'m
Authorised:		
20,000,000,000 ordinary shares of HK\$5.00 each	<b>100,000</b>	100,000
Issued and fully paid:		
10,572,780,266 ordinary shares of HK\$5.00 each	<b>52,864</b>	52,864

**33. RESERVES**

	<b>2003</b> HK\$'m	As restated 2002 HK\$'m
Premises revaluation reserve	62	99
Translation reserve	(3)	(2)
Retained earnings	7,338	3,710
	<b>7,397</b>	3,807

**34. NOTES TO CONSOLIDATED CASH FLOW STATEMENT****(a) Reconciliation of operating profit after provisions to operating cash outflow before taxation:**

	<b>2003</b> HK\$'m	2002 HK\$'m
Operating profit after provisions	9,924	9,234
Dividend income from investment securities	(32)	–
Depreciation	611	632
Charge for bad and doubtful debts	1,671	2,855
Advances written off net of recoveries	(5,771)	(2,325)
Change in money at call and short notice with original maturity over three months	(17,420)	11,620
Change in treasury bills with original maturity over three months	372	9,904
Change in placements with banks and other financial institutions with original maturity over three months	(1,040)	3,494
Change in trade bills	(99)	(210)
Change in certificates of deposit held with original maturity over three months	103	989
Change in held-to-maturity securities	(6,809)	(43,243)
Change in other investments in securities	(7,040)	(8,191)
Change in advances and other accounts	12,338	(9,524)
Change in other assets	(4,061)	1,357
Change in deposits and balances of banks and other financial institutions repayable over three months	1,115	(5,204)
Change in deposits from customers	(335)	(5,451)
Change in certificates of deposit issued	2,432	–
Change in other accounts and provisions	7,758	(3,830)
Exchange difference	(1)	–
Operating cash outflow before taxation	<b>(6,284)</b>	(37,893)

## 34. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

## (b) Analysis of changes in financing

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

  

	2002	
	Share capital HK\$'m	Minority interests HK\$'m
At 1 January 2002	52,864	1,066
Minority interests share of profits	–	127
Dividends paid to minority shareholders	–	(79)
At 31 December 2002	52,864	1,114

## 34. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

## (c) Analysis of the balances of cash and cash equivalents

	2003 HK\$'m	2002 HK\$'m
Cash and balances with banks and other financial institutions	12,547	5,007
Money at call and short notice with original maturity within three months	64,924	77,354
Treasury bills with original maturity within three months	15,131	8,258
Placements with banks and other financial institutions with original maturity within three months	16,764	19,723
Certificates of deposit held with original maturity within three months	1,585	234
Deposits and balances of banks and other financial institutions with original maturity within three months	(37,786)	(27,511)
	<b>73,165</b>	<b>83,065</b>

## (d) Disposal of a subsidiary

	2003 HK\$'m	2002 HK\$'m
Net assets disposed of:		
– Fixed assets	158	–
– Loss on disposal	(1)	–
	<b>157</b>	<b>–</b>
Satisfied by:		
– Cash	157	–
Analysis of net cash inflow in respect of the disposal of a subsidiary:		
– Cash consideration received	157	–

The results of the subsidiary disposed of during the year had no significant impact on the group's consolidated operating income or profit for the year.

**35. MATURITY PROFILE**

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

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

## 35. MATURITY PROFILE (continued)

	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
<b>Assets</b>							
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
<b>Liabilities</b>							
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 majority of other assets and other accounts and provisions are due within 1 year.

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

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

**36. OFF-BALANCE SHEET EXPOSURES****(a) Contingent liabilities and commitments**

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	<b>2003</b> <b>HK\$'m</b>	2002 HK\$'m
Direct credit substitutes	<b>1,264</b>	3,839
Transaction-related contingencies	<b>4,427</b>	2,286
Trade-related contingencies	<b>16,120</b>	16,409
Other commitments with an original maturity of:		
– under one year or which are unconditionally cancellable	<b>78,291</b>	75,844
– one year and over	<b>49,037</b>	64,402
	<b>149,139</b>	162,780



**36. OFF-BALANCE SHEET EXPOSURES (continued)****(b) Derivatives**

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

	2003			2002		
	Trading HK\$'m	Hedging HK\$'m	Total HK\$'m	Trading HK\$'m	Hedging HK\$'m	Total HK\$'m
Exchange rate contracts						
Spot	14,673	–	14,673	13,697	–	13,697
Forward and futures contracts	950	–	950	224	–	224
Swaps	184,524	6,254	190,778	179,544	6,082	185,626
Foreign exchange option contracts						
– Currency options purchased	1,476	–	1,476	622	–	622
– Currency options written	4,435	–	4,435	28,633	–	28,633
	<b>206,058</b>	<b>6,254</b>	<b>212,312</b>	222,720	6,082	228,802
Interest rate contracts						
Interest rate swaps	381	21,087	21,468	228	20,055	20,283
Interest rate option contracts						
– Swaption written	1,446	–	1,446	–	–	–
	<b>1,827</b>	<b>21,087</b>	<b>22,914</b>	228	20,055	20,283
Bullion contracts						
Bullion contracts	606	–	606	779	–	779
Gold option contracts						
– Gold options purchased	31	–	31	–	–	–
– Gold options written	30	–	30	–	–	–
	<b>667</b>	<b>–</b>	<b>667</b>	779	–	779
Equity contracts						
Equity option contracts						
– Equity options purchased	1,016	–	1,016	975	–	975
– Equity options written	829	–	829	873	–	873
	<b>1,845</b>	<b>–</b>	<b>1,845</b>	1,848	–	1,848
<b>Total</b>	<b>210,397</b>	<b>27,341</b>	<b>237,738</b>	225,575	26,137	251,712

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

**36. OFF-BALANCE SHEET EXPOSURES (continued)****(b) Derivatives (continued)**

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:

	2003	2002	2003	2002
	<b>Credit risk weighted amount</b>		<b>Replacement cost</b>	
	<b>HK\$'m</b>	<b>HK\$'m</b>	<b>HK\$'m</b>	<b>HK\$'m</b>
Contingent liabilities and commitments	<b>29,813</b>	45,936	<b>N/A</b>	N/A
Derivatives:				
– Exchange rate contracts	<b>673</b>	596	<b>1,227</b>	870
– Interest rate contracts	<b>57</b>	60	<b>112</b>	120
– Bullion contracts	<b>10</b>	5	<b>33</b>	13
– Equity contracts	<b>29</b>	33	<b>9</b>	17
	<b>769</b>	694	<b>1,381</b>	1,020
Total	<b>30,582</b>	46,630	<b>1,381</b>	1,020

The contract or notional amounts of these instruments indicate the volume of transactions outstanding as at 31 December 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.

**37. CAPITAL COMMITMENTS**

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

	<b>2003</b> HK\$'m	2002 HK\$'m
Authorised and contracted for but not recorded	<b>117</b>	303

The above capital commitments mainly relate to commitments to purchase computer equipment and software.

**38. OPERATING LEASE COMMITMENTS****The Group as lessee**

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

	<b>2003</b> HK\$'m	2002 HK\$'m
Land and buildings		
– not later than one year	<b>183</b>	164
– later than one year but not later than five years	<b>182</b>	175
– later than five years	<b>9</b>	9
	<b>374</b>	348
Computer equipment		
– not later than one year	<b>1</b>	–

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

**38. OPERATING LEASE COMMITMENTS (continued)****The Group as lessor**

The Group has contracted with tenants for the following future minimum lease receivables:

	<b>2003</b> <b>HK\$'m</b>	2002 HK\$'m
Land and buildings		
– not later than one year	<b>168</b>	198
– later than one year but not later than five years	<b>132</b>	226
– later than five years	–	2
	<b>300</b>	426

**39. LITIGATION**

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

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

**40. SEGMENTAL REPORTING**

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

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

## 40. SEGMENTAL REPORTING (continued)

## (a) By class of business

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

## 40. SEGMENTAL REPORTING (continued)

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

	As restated 2002					
	Commercial banking HK\$m	Treasury HK\$m	Unallocated HK\$m	Subtotal HK\$m	Eliminations HK\$m	Consolidated HK\$m
Net interest income	10,876	2,375	691	13,942	–	13,942
Other operating income	3,110	745	861	4,716	(544)	4,172
Operating income	13,986	3,120	1,552	18,658	(544)	18,114
Operating expenses	(4,504)	(174)	(1,891)	(6,569)	544	(6,025)
Operating profit/(loss) before provisions	9,482	2,946	(339)	12,089	–	12,089
Charge for bad and doubtful debts	(2,855)	–	–	(2,855)	–	(2,855)
Operating profit/(loss) after provisions	6,627	2,946	(339)	9,234	–	9,234
Net loss from disposal/revaluation of fixed assets	–	–	(1,032)	(1,032)	–	(1,032)
Provision for impairment on held-to- maturity securities and investment securities	–	(4)	(3)	(7)	–	(7)
Provision for impairment on investments in associates	–	–	(27)	(27)	–	(27)
Share of profits less losses of associates	–	–	(100)	(100)	–	(100)
Profit/(loss) before taxation	6,627	2,942	(1,501)	8,068	–	8,068
<b>Assets</b>						
Segment assets	313,429	400,100	21,173	734,702	–	734,702
Investments in associates	–	–	483	483	–	483
Unallocated corporate assets	–	–	351	351	–	351
	313,429	400,100	22,007	735,536	–	735,536
<b>Liabilities</b>						
Segment liabilities	612,240	62,431	2,469	677,140	–	677,140
Unallocated corporate liabilities	–	–	611	611	–	611
	612,240	62,431	3,080	677,751	–	677,751
<b>Other information</b>						
Additions of fixed assets	–	–	1,351	1,351	–	1,351
Depreciation	–	–	632	632	–	632
Amortisation of premium/discount of held-to-maturity securities	–	1,089	–	1,089	–	1,089
Non-cash expenses other than depreciation/amortisation	2,855	–	–	2,855	–	2,855

#### 40. SEGMENTAL REPORTING (continued)

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

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 inter-bank rates of the relevant financial year. In addition, the gains and losses on the foreign exchange activities of the Group are included in "Treasury". The profit and loss information presented in this note has been prepared using inter-segment charging/income transactions. The segmental assets and liabilities have not been adjusted to reflect the effect of inter-segment borrowing and lending (i.e. segmental profit and loss information is not comparable to segmental assets and liabilities information).

Unallocated items mainly comprise fixed assets of the Group, investment securities, 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 in "Unallocated".

##### (b) By geographical area

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

**41. LOANS TO DIRECTORS AND OFFICERS**

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

	2003 HK\$'m	2002 HK\$'m
Aggregate amount of relevant loans outstanding at year end	35	99
Maximum aggregate amount of relevant loans outstanding during the year	100	137

**42. SIGNIFICANT RELATED PARTY TRANSACTIONS**

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

During the year, the Group entered into various transactions with related parties including the ultimate holding company, the associates of the Group and entities, directly or indirectly, controlled or significantly influenced by the ultimate holding company.

**(a) Sale of properties to BOC Insurance**

In April 2003, BOCHK completed the disposal of Sin Hua Bank Centre, at the consideration of HK\$193 million, to BOC Insurance. Following the disposal, BOCHK leased back part of the subject property from BOC Insurance at a monthly rental of HK\$400,000 (exclusive of rates and management fees) for the operation of its Gilman Street Branch.

**(b) Advances to third parties guaranteed by related parties**

As at 31 December 2003, the ultimate holding company and a fellow subsidiary provided guarantees for loans in favour of the Group amounting to HK\$2,886 million (2002: HK\$1,982 million) to certain third parties. The fellow subsidiary held equity interests of not more than 20% in these third parties.



## 42. SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

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

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

	Note	2003 HK\$'m	2002 HK\$'m
Profit and loss items:			
Interest income	(i)	314	491
Interest expense	(ii)	(257)	(247)
Insurance commission received (net)	(iii)	123	98
Administrative services fees received/receivable	(iv)	45	24
Rental fees received/receivable	(iv)	30	28
Funds selling commission received	(vi)	58	103
Correspondent banking fee received	(vii)	8	9
Loan services fees received	(viii)	11	7
Credit card commission paid/payable (net)	(v)	(44)	(47)
Securities brokerage commission paid/payable (net)	(v)	(119)	(82)
Rental, property management and letting agency fees paid/payable	(v)	(62)	(53)
Charge for bad and doubtful debts		(125)	(15)
Balance sheet items:			
Cash and short-term funds	(i)	27,913	15,041
Placements with banks and other financial institutions	(i)	9,535	17,539
Advances and other accounts	(i)	604	867
Other investments in securities	(i)	234	234
Other assets	(ix)	2,507	5
Deposits from and balances of banks and other financial institutions	(ii)	19,779	20,304
Deposits from customers	(ii)	17,771	4,409
Other accounts and provisions	(ix)	2,270	5

Notes:

#### (i) Interest income

In the ordinary course of business, the Group enters into various transactions with the ultimate holding company, fellow subsidiaries and associates including deposit of cash and short-term funds, placement of interbank deposits, investments in securities and provision of loans and credit facilities. The transactions were conducted at prices and terms that are no more favourable than those charged to and contracted with other third party customers of the Group. The revenue from loans and credit facilities included interest income on the amount drawn as well as arrangement and commitment fees.

**42. SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)****(c) Summary of transactions entered into during the ordinary course of business with the related parties (continued)**

Notes: (continued)

**(ii) Interest expense**

In the ordinary course of business, the Group accepts interbank deposits and current, fixed, savings and other deposits from the ultimate holding company, immediate holding company, intermediate holding company and fellow subsidiaries of the Company as well as associates of the ultimate holding company on normal commercial terms with reference to prevailing market rates.

**(iii) Insurance commission received (net)**

In the ordinary course of business, the Group provides insurance agency services to and purchases general and life insurance policies from fellow subsidiaries on normal commercial terms with reference to prevailing market rates.

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

In the ordinary course of business, the Group receives administrative services fees for the provision of various administrative services including internal audit, technology, human resources support and training to the ultimate holding company and fellow subsidiaries mainly on the basis of cost plus a margin of 5%, and receives office premises rental fees from the fellow subsidiaries on normal commercial terms.

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

In the ordinary course of business, the Group pays commission fees for credit card administrative and promotional services, securities brokerage services, property management and letting agency fees to the ultimate holding company and fellow subsidiaries. The Group also pays rental fees to the ultimate holding company and its fellow subsidiaries. These transactions have been entered into in the ordinary course of business and on normal commercial terms.

**(vi) Funds selling commission received**

In the ordinary course of business, the Group receives commission for engaging in promotion and sale of fund products of a fellow subsidiary to customers of the Group on normal commercial terms.

**(vii) Correspondent banking fee received**

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

**42. SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)****(c) Summary of transactions entered into during the ordinary course of business with the related parties (continued)**

Notes: (continued)

**(viii) Loan services fees received**

In the ordinary course of business, the Group undertakes to service and administer the loans and the related securities transferred to a fellow subsidiary and the ultimate holding company in prior years at a fee agreed among the parties from time to time.

During the year, the fellow subsidiary and the ultimate holding company disposed of all the relevant loans to another fellow subsidiary (“the Transferee”) and a third party. Notwithstanding the sales, the original loan servicing agreements continue in effect on the same terms in order to deal with any continuing servicing matters relating to the fellow subsidiary and the ultimate holding company.

Subsequently, the Transferee entered into a Deed of Assignment with the fellow subsidiary and the ultimate holding company, to which the Group is also a party, pursuant to which the Group agrees to service the loans assigned to the Transferee, commencing in 2004, for essentially the same compensation, adjusted on a pro rata basis, as contained in the original loan servicing agreements.

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

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

**(d) Off-balance sheets items****Contingent liabilities and commitments**

In the ordinary course of business, the Group provides loan facilities and trade finance services to, and guarantees for the obligations of ultimate holding company, fellow subsidiaries and associates on normal commercial terms. As at 31 December 2003, the total undrawn loan commitments and trade finance-related contingencies amounted to HK\$942 million (2002: HK\$130 million). The guarantees as at 31 December 2003 amounted to HK\$190 million (2002: HK\$185 million).

**Derivatives**

In the ordinary course of business, the Group enters into foreign exchange contracts and interest rate contracts with the ultimate holding company and fellow subsidiaries. The aggregate notional amount of such derivative transactions amounted to HK\$19,323 million as at 31 December 2003 (2002: HK\$12,722 million). These transactions are executed on normal commercial terms with reference to prevailing market rates.

**42. SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)****(e) Balances with group companies and associates**

Included in the following balance sheet captions are balances with the ultimate holding company:

	2003 HK\$'m	2002 HK\$'m
Cash and short-term funds	27,789	15,031
Placements with banks and other financial institutions	9,532	17,533
Advances and other accounts	18	4
Other investments in securities	234	234
Other assets	35	–
Deposits from and balances of banks and other financial institutions	19,066	19,107
Other accounts and provisions	29	–

Included in the following balance sheet captions are balances with immediate holding company, intermediate holding company and fellow subsidiaries of the Company as well as associates of the ultimate holding company:

	2003 HK\$'m	2002 HK\$'m
Cash and short-term funds	124	10
Placements with banks and other financial institutions	3	6
Advances and other accounts	446	517
Other assets	2,472	5
Deposits from and balances of banks and other financial institutions	710	1,195
Deposits from customers	17,695	4,352
Other accounts and provisions	2,241	5

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

**(f) Key management personnel**

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

**43. COMPARATIVE FIGURES**

As further explained in Notes 10 and 31 to the accounts, due to the adoption of SSAP 12 (revised) “Income taxes” during the year, the presentation of certain items and balances in the accounts have been revised to comply with the new requirements.

**44. ULTIMATE HOLDING COMPANY**

The ultimate holding company is BOC, a state-owned commercial bank established under the laws of PRC.

**45. APPROVAL OF ACCOUNTS**

The accounts were approved and authorised for issue by the Board of Directors on 22 March 2004.