

# 2003 Interim Report and Audited Accounts



**中銀香港(控股)有限公司**

BOC HONG KONG (HOLDINGS) LIMITED

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## Financial Highlights

	<b>Half-year ended 30 June 2003 HK\$'m</b>	Unaudited Half-year ended 30 June 2002 HK\$'m	As restated Year ended 31 December 2002 HK\$'m
Operating profit before provisions	<b>6,139</b>	6,002	12,089
Operating profit after provisions	<b>4,470</b>	4,236	9,234
Profit before taxation	<b>3,245</b>	4,211	8,068
Profit after taxation	<b>3,069</b>	3,478	6,914
Profit attributable to shareholders	<b>3,012</b>	3,415	6,787
	<b>HK\$</b>	HK\$	HK\$
Earnings per share	<b>28.49 cents</b>	32.30 cents	64.19 cents
Dividend per share	<b>19.50 cents</b>	18.30 cents	39.80 cents

	<b>At 30 June 2003 HK\$'m</b>	Unaudited At 30 June 2002 HK\$'m	As restated At 31 December 2002 HK\$'m
Shareholders' funds	<b>57,367</b>	53,247	56,671
Issued and fully paid share capital	<b>52,864</b>	52,864	52,864
Total assets	<b>735,494</b>	737,835	735,536

<b>Financial Ratios</b>	<b>At 30 June 2003 %</b>	Unaudited At 30 June 2002 %	As restated At 31 December 2002 %
Return on average total assets (annualised) <sup>1</sup>	<b>0.82</b>	0.94	0.94
Return on average shareholders' funds (annualised) <sup>2</sup>	<b>10.56</b>	13.01	12.52
Cost to income ratio	<b>30.52</b>	32.57	33.26
Non-performing loan ratio	<b>7.80</b>	8.97	7.99
Loans to deposits ratio <sup>3</sup>	<b>54.89</b>	51.95	53.42
Average liquidity ratio <sup>4</sup>	<b>37.93</b>	41.26	41.17
Capital adequacy ratio <sup>5</sup>	<b>14.66</b>	14.68	13.99

- Return on average total assets is calculated by dividing the profit after taxation with the daily average balance of total assets for the half-years ended 30 June 2003 and 30 June 2002, and the full-year ended 31 Dec 2002.
- Return on average shareholders' funds is calculated by dividing the profit attributable to shareholders with the average shareholders' funds. Average shareholders' funds are calculated as the average of the opening and closing balance of shareholders' funds for the half-years ended 30 June 2003, 30 June 2002 and the full-year ended 31 Dec 2002.
- Loans to deposits ratio is calculated as at 30 June 2003, 30 June 2002 and 31 Dec 2002.
- Average liquidity ratio for the half-years ended 30 June 2003 and 30 June 2002, and the full-year ended 31 Dec 2002 are calculated as the simple average of each calendar month's average liquidity ratio of BOCHK.
- Capital adequacy ratio is computed on the consolidated basis, which comprises the positions of BOCHK and certain subsidiaries specified by the HKMA for its regulatory purposes and in accordance with the Third Schedule of the Banking Ordinance. Prior year comparatives have not been restated on adoption of SSAP 12 (revised) "Income taxes".

## Chairman's Statement

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

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

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

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

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

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

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

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

## Chairman's Statement (continued)

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

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

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



XIAO Gang  
Chairman  
Hong Kong, 5 September 2003

## Chief Executive's Report

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

### Half-year Performance

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

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

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

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

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

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

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

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

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

## Chief Executive's Report (continued)

### Half-year Performance (continued)

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

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

### Business Review

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

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

#### Retail banking

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

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

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

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

#### Corporate banking & financial institutions

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

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



## Chief Executive's Report (continued)

### Business Review (continued)

#### Corporate banking & financial institutions (continued)

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

#### Treasury operations

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

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

#### Mainland branches and China-related business

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

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

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

#### Channels, technologies and operations

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

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

## Chief Executive's Report (continued)

### The Future and the Strategies

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

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

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

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

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

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

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

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

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

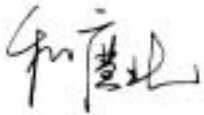
At the same time, we will continue to better manage cost through process re-engineering, branch network rationalisation and continuous implementation of our Information Technology Development Blueprint.

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

## Chief Executive's Report (continued)

### The Future and the Strategies (continued)

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



HE Guangbei  
Chief Executive  
Hong Kong, 5 September 2003

## Financial Review

### Financial Performance

#### Summary of Operating Results

	<b>Half-year ended 30 June 2003 HK\$'m</b>	(Unaudited) As restated Half-year ended 30 June 2002* HK\$'m
Operating profit before provisions	<b>6,139</b>	6,002
Operating profit after provisions	<b>4,470</b>	4,236
Profit before taxation	<b>3,245</b>	4,211
Profit attributable to shareholders	<b>3,012</b>	3,415
Earnings per share (HK\$ cents)	<b>28.49</b>	32.30
Return on average total assets (annualised)**	<b>0.82%</b>	0.94%
Return on average shareholders' funds (annualised)	<b>10.56%</b>	13.01%

\* Certain figures for 2002 have been restated to reflect the adoption of SSAP 12 (revised) "Income taxes".

\*\* The calculation of average balance of total assets is refined by using daily exchange rates.

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

#### Net Interest Income

	<b>Half-year ended 30 June 2003 HK\$'m</b>	(Unaudited) Half-year ended 30 June 2002 HK\$'m
Interest income	<b>9,358</b>	10,958
Interest expense	<b>(2,774)</b>	(4,067)
Net interest income	<b>6,584</b>	6,891
Average interest-earning assets#	<b>701,544</b>	698,313
Net interest spread (annualised) #	<b>1.79%</b>	1.85%
Net interest margin (annualised) #	<b>1.89%</b>	1.99%

# The calculations of average balance of interest-earning assets and interest-bearing liabilities are refined by using daily exchange rates.

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

## Financial Review (continued)

### Financial Performance (continued)

#### Net Interest Income (continued)

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

#### Other Operating Income

	<b>Half-year ended 30 June 2003 HK\$m</b>	(Unaudited) Half-year ended 30 June 2002 HK\$m
Fees and commission income	<b>1,690</b>	1,705
Fees and commission expenses	<b>(313)</b>	(357)
Net fees and commission income	<b>1,377</b>	1,348
Dividend income from investments in securities	<b>31</b>	11
Net gain from other investments in securities	<b>156</b>	70
Net gain from foreign exchange activities	<b>478</b>	402
Net gain from other dealing activities	<b>17</b>	4
Net rental income from investment properties	<b>88</b>	93
Others	<b>105</b>	82
Other operating income	<b>2,252</b>	2,010

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

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

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

Net gain from other investments in securities increased by HK\$86 million, or 122.86%, to HK\$156 million, mainly due to marked-to-market gains on debt securities. Owing to the increases in transaction volume and premium income from foreign exchange activities, net gain from foreign exchange activities rose to HK\$478 million, an increase of HK\$76 million, or 18.91%.

## Financial Review (continued)

### Financial Performance (continued)

#### Operating Expenses

	<b>Half-year ended 30 June 2003 HK\$'m</b>	(Unaudited) Half-year ended 30 June 2002 HK\$'m
Staff costs	<b>1,634</b>	1,761
Premises and equipment expenses (excluding depreciation)	<b>309</b>	360
Depreciation on owned fixed assets	<b>322</b>	359
Other operating expenses	<b>432</b>	419
Operating expenses	<b>2,697</b>	2,899

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

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

#### Charge for Bad and Doubtful Debts

	<b>Half-year ended 30 June 2003 HK\$'m</b>	(Unaudited) Half-year ended 30 June 2002 HK\$'m
Specific provisions		
— new provisions	<b>2,537</b>	3,289
— releases	<b>(482)</b>	(1,173)
— recoveries	<b>(220)</b>	(350)
General provisions	<b>1,835</b>	1,766
	<b>(166)</b>	—
Net charge to profit and loss account	<b>1,669</b>	1,766

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

## Financial Review (continued)

### Financial Performance (continued)

#### Net Loss from Revaluation of Fixed Assets

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

### Financial Position

#### Balance Sheet Summary

	<b>At 30 June 2003 HK\$m</b>	As restated At 31 December 2002* HK\$m
Total assets	<b>735,494</b>	735,536
Cash and short-term funds	<b>94,830</b>	115,075
Placements with banks and other financial institutions maturing between one and twelve months	<b>91,688</b>	80,159
Certificates of deposit held	<b>18,795</b>	17,528
Investments in securities	<b>167,636</b>	158,633
Advances and other accounts	<b>308,847</b>	308,332
Fixed assets	<b>17,921</b>	20,212
Total liabilities	<b>677,010</b>	677,751
Deposits from customers	<b>585,135</b>	600,977
Total capital resources	<b>58,484</b>	57,785
Shareholders' funds	<b>57,367</b>	56,671

\* Certain figures for 2002 have been restated to reflect the adoption of SSAP 12 (revised) "Income taxes".

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

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

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

## Financial Review (continued)

### Financial Position (continued)

#### Balance Sheet Summary (continued)

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

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

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

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

#### Asset Quality

	<b>At 30 June 2003 HK\$m</b>	At 31 December 2002 HK\$m
Advances to customers	<b>321,181</b>	321,034
General provisions	<b>(6,197)</b>	(6,363)
Specific provisions	<b>(8,973)</b>	(8,650)
Non-performing loans	<b>25,049</b>	25,659
Specific provisions made in respect of non-performing loans	<b>(8,452)</b>	(8,637)
Non-performing loans as a percentage of advances to customers	<b>7.80%</b>	7.99%
Specific provisions as a percentage of non-performing loans	<b>33.74%</b>	33.66%
Loan loss reserve ratio	<b>60.56%</b>	58.51%
Residential mortgage loans*		
Delinquency** and rescheduled loan ratio	<b>1.51%</b>	1.75%
Card advances		
Delinquency ratio**	<b>1.28%</b>	1.34%
Charge-off ratio (annualised)	<b>10.25%</b>	12.33%

\* Residential mortgage loans exclude those under the Home Ownership Scheme and other government sponsored home purchasing schemes.

\*\* Delinquency ratio is measured by a ratio of total amount of overdue loans (more than three months) to total outstanding loans.



## Financial Review (continued)

### Financial Position (continued)

#### Asset Quality (continued)

During the first half of 2003, Hong Kong's credit environment remained one of the greatest concerns for the banking industry. However, our non-performing loan ratio continued to improve, reducing from 7.99% at 31 December 2002 to 7.80% at 30 June 2003, attributable to our stringent credit controls, collection of bad debts and write-offs. The classified loan ratio also lowered from 7.98% at 31 December 2002 to 7.80% at 30 June 2003. During the period, low NPL formation, recoveries, and write-offs made up an improvement in asset quality. During the first half of 2003, approximately HK\$2,924 million of classified loans were recovered through cash collections and collateral disposal, and HK\$1,732 million of bad debts were written off.

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

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

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

## Financial Review (continued)

### Financial Position (continued)

#### Capital Management and Liquidity

	<b>At 30 June 2003 HK\$'m</b>	At 31 December 2002* HK\$'m
Tier 1 capital	<b>55,689</b>	54,357
Tier 2 capital	<b>5,077</b>	5,200
Unconsolidated investments and other deductions	<b>(1,408)</b>	(1,572)
<b>Total capital base after deductions</b>	<b>59,358</b>	57,985
Risk-weighted assets		
On-balance sheet	<b>366,439</b>	369,345
Off-balance sheet	<b>39,699</b>	46,624
Deductions	<b>(1,362)</b>	(1,572)
<b>Total risk-weighted assets</b>	<b>404,776</b>	414,397
<b>Total risk-weighted assets adjusted for market risk</b>	<b>399,268</b>	402,997
Capital adequacy ratios		
Before adjusting for market risk		
Tier 1	<b>13.76%</b>	13.12%
Total	<b>14.66%</b>	13.99%
After adjusting for market risk		
Tier 1**	<b>13.95%</b>	13.49%
Total**	<b>14.87%</b>	14.39%
	<b>Half-year ended 30 June 2003</b>	Half-year ended 30 June 2002
Average liquidity ratio	<b>37.93%</b>	41.26%

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

\*\* The capital ratios taking into account market risks are calculated in accordance with the relevant HKMA guideline.

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

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

## Corporate Information

### Board of Directors

<b>Chairman</b>	XIAO Gang
<b>Vice Chairmen</b>	SUN Changji HE Guangbei
<b>Directors</b>	PING Yue HUA Qingshan LI Zaohang ZHOU Zaiqun ZHANG Yanling FUNG Victor Kwok King* SHAN Weijian* TUNG Chee Chen*

\* Independent Non-executive Directors

<b>Senior Adviser</b>	NEOH Anthony Francis
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### Senior Management

<b>Chief Executive</b>	HE Guangbei
<b>Deputy Chief Executives</b>	ZHU Chi DING Yansheng OR Man Ah LAM Yim Nam
<b>Chief Financial Officer</b>	LAW Man Wah
<b>Chief Risk Officer</b>	MAO Xiaowei
<b>Company Secretary</b>	YEUNG Jason Chi Wai

### Registered Office

52nd Floor  
Bank of China Tower  
1 Garden Road  
Hong Kong

### Auditors

PricewaterhouseCoopers

### Share Registrar

Computershare Hong Kong Investor Services Limited  
Rooms 1901-5  
19th Floor  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

### ADSs Depository Bank

Citibank, N.A.  
111 Wall Street  
New York, NY 10005  
United States of America

### Website

[www.bochkholdings.com](http://www.bochkholdings.com)

## Board of Directors and Senior Management

### Directors

#### Mr. XIAO Gang, Chairman

Aged 45, is the Chairman of the Board of Directors of both the Company and BOCHK. Mr. Xiao has been the Chairman and President of BOC since March 2003. He is also a director of BOC (BVI) and BOCHKG. Mr. Xiao has been elected as the Chairman of China Association of Banks since June 2003. Prior to joining BOC, Mr. Xiao served as Deputy Governor of the People's Bank of China ("PBOC") from October 1998 to March 2003. He joined the PBOC in 1981 and had served various positions in PBOC, including Director of the Research Bureau, Head of the China Foreign Exchange Trading Center, Assistant Governor, Director of the Planning and Treasury Department and Director of the Monetary Policy Department. He had also been appointed as President of Guangdong Branch of PBOC and Director of the Guangdong Branch of the State Administration of Foreign Exchange. Mr. Xiao graduated from Renmin University of China with a Master's Degree in Law.

#### Mr. SUN Changji, Vice Chairman

Aged 61, is a Vice Chairman of the Board of Directors of both the Company and BOCHK. Mr. Sun has been a Vice Chairman of the Board of Directors of BOC since November 2000 and an Executive Vice President of BOC since January 1999. Mr. Sun is also a Director of BOC (BVI) and BOCHKG. Mr. Sun is the Chairman of the Remuneration Committee of the Board of Directors of both the Company and BOCHK. Mr. Sun is a senior engineer. Mr. Sun was concurrently the President of the Orient Asset Management Corporation from September 1999 to August 2001. Mr. Sun was the First Deputy Director-General of the State Administration of Machinery Industry of the PRC from April 1998 to January 1999 and a Vice Minister of the Ministry of Machinery Industry of the PRC from April 1993 to April 1998. Mr. Sun was a Deputy Director-General of the Production Department of the Ministry of Machinery Industry from 1991 to 1993. Mr. Sun graduated from Tsinghua University in 1966 with a bachelor's degree.

#### Mr. HE Guangbei, Vice Chairman and Chief Executive

Aged 49, is a Vice Chairman and the Chief Executive of both the Company and BOCHK with overall responsibility for the business and operations of BOCHK. He joined BOC in 1980. During the period from 1980 to 1993, he had assumed various positions at BOC and been posted to its New York Branch and Paris Branch. Since 1999, he has been Managing Director of BOC and since 2000, Executive Vice President of BOC. He is also Chairman of Chiyu and Nanyang, Director of Hong Kong Interbank Clearing Limited and Hong Kong Note Printing Limited, designated representative of BOCHK to the Hong Kong Association of Banks, member of the Hong Kong Monetary Authority Exchange Fund Advisory Committee and Banking Advisory Committee, member of the Board of Hong Kong Airport Authority, Chairman of Hong Kong Chinese Enterprises Association and general committee member of the Hong Kong General Chamber of Commerce. Mr. He graduated from the Beijing Second Foreign Languages Institute in 1979 with a bachelor's degree and obtained a master's degree in international management studies from the University of Texas at Dallas in 1985.

#### Mr. PING Yue, Non-executive Director

Aged 60, is a Non-executive Director of both the Company and BOCHK. Mr. Ping is also a Managing Director of BOC, a position he has held since 1995. Mr. Ping is a member of the Audit Committee of the Board of Directors of both the Company and BOCHK. Mr. Ping is a senior economist and has over 18 years' experience in the banking industry. Mr. Ping graduated from Lanzhou University in 1966 with a bachelor's degree.

#### Mr. HUA Qingshan, Non-executive Director

Aged 50, is a Non-executive Director of both the Company and BOCHK. Mr. Hua is also an Executive Vice President of BOC. Mr. Hua is a member of the Risk Management Committee of the Board of Directors of both the Company and BOCHK. Mr. Hua is also the Chairman of the Board of Directors of BOC-CC. Mr. Hua was an Executive Assistant President of BOC from June 1994 to December 1998. Mr. Hua graduated from Peking University in 1984 with a bachelor's degree and obtained a master's degree from Hunan University in 1996.

## Board of Directors and Senior Management (continued)

### Directors (continued)

#### **Mr. LI Zaohang**, Non-executive Director

Aged 48, is a Non-executive Director of both the Company and BOCHK. Mr. Li is also an Executive Vice President of BOC. Mr. Li is a member of the Remuneration Committee of the Board of Directors of both the Company and BOCHK. Mr. Li is also the Chairman of the Board of Directors of BOC Investment. Mr. Li has over 20 years' experience in the banking industry. Mr. Li was the General Manager and an Executive Vice President of the China Construction Bank from August 1990 to November 2000. Mr. Li graduated from the Nanjing Institute of Meteorology in 1978 with a bachelor's degree.

#### **Mr. ZHOU Zaiqun**, Non-executive Director

Aged 50, is a Non-executive Director of both the Company and BOCHK. Mr. Zhou is also an Executive Vice President of BOC. Mr. Zhou is a member of the Audit Committee of the Board of Directors of both the Company and BOCHK. Mr. Zhou has over 20 years' experience in the banking industry. Mr. Zhou was the General Manager of the Industrial and Commercial Bank of China ("ICBC"), Beijing Branch from December 1999 to November 2000. Mr. Zhou was the General Manager of the Planning and Financial Department of ICBC from January 1997 to December 1999. Mr. Zhou obtained a master's degree from Northeast Institute of Finance and Economics in 1996.

#### **Ms. ZHANG Yanling**, Non-executive Director

Aged 52, is a Non-executive Director of both the Company and BOCHK. Ms. Zhang is also an Executive Vice President of BOC. Ms. Zhang is a member of the Risk Management Committee of the Board of Directors of both the Company and BOCHK. Ms. Zhang has joined BOC for 26 years. Since October 2000, Ms. Zhang had been Executive Assistant President of BOC and since November 2000, has been Managing Director of BOC. Ms. Zhang was the General Manager of BOC, Milan Branch from April 2000 to October 2001 and the General Manager of the Banking Department of BOC from April 1997 to April 2000. Ms. Zhang graduated from Liaoning University in 1977 with a bachelor's degree and obtained a master's degree from Wuhan University in 1999.

#### **Dr. FUNG Victor Kwok King**, Independent Non-executive Director

Aged 57, is an Independent Non-executive Director of both the Company and BOCHK. Dr. Fung is a member of the Audit Committee and Remuneration Committee of the Board of Directors of both the Company and BOCHK. Dr. Fung is Chairman of the Li & Fung Group of Companies, the Hong Kong Airport Authority and the Hong Kong University Council. He is an Independent Non-executive Director of PCCW Ltd., Orient Overseas (International) Limited and Sun Hung Kai Properties Limited. Dr. Fung obtained a bachelor's degree and a master's degree in electrical engineering from the Massachusetts Institute of Technology and a doctorate degree in business economics from Harvard University.

#### **Mr. SHAN Weijian**, Independent Non-executive Director

Aged 49, is an Independent Non-executive Director of both the Company and BOCHK. Mr. Shan is the Chairman of the Audit Committee and a member of the Remuneration Committee of the Board of Directors of both the Company and BOCHK. Mr. Shan is a Managing Partner of Newbridge Capital Ltd. Mr. Shan is a Director of a number of companies, including Korea First Bank, Baoshan Iron & Steel Co. Ltd., TCC International Holdings Ltd. and China Unicom Ltd. Mr. Shan was a Managing Director of J.P. Morgan, an assistant professor at the Wharton School of the University of Pennsylvania and an Investment Officer at the World Bank in Washington DC. Mr. Shan graduated from the Beijing Institute of Foreign Trade with a major in English in 1979. Mr. Shan obtained a master's degree in business administration from the University of San Francisco in 1981, and received a Master of Arts degree in economics and a PhD degree in business administration from the University of California at Berkeley in 1984 and 1987, respectively.

## Board of Directors and Senior Management (continued)

### Directors (continued)

#### Mr. TUNG Chee Chen, Independent Non-executive Director

Aged 60, is an Independent Non-executive Director of both the Company and BOCHK. Mr. Tung is a member of the Audit Committee and Remuneration Committee of the Board of Directors of both the Company and BOCHK. Mr. Tung is the Chairman and the Chief Executive Officer of Orient Overseas (International) Ltd. He was the Chairman of the Hong Kong Shipowners' Association from 1993 to 1995 and the Chairman of the Hong Kong General Chamber of Commerce from 1999 to 2001. Mr. Tung is an Independent Non-executive Director of a number of companies, including Zhejiang Expressway Company Ltd., PetroChina Co. Ltd., Chekiang First Bank Ltd., Global China Group and Cathay Pacific Airways Ltd. He is a member of the Hong Kong Port Development Council. Mr. Tung is also Chairman of the Hong Kong-America Centre, the Institute for Shipboard Education Foundation, the Chairman of the Court and a member of the Council of The Hong Kong Polytechnic University, a member of the Board of Trustees of the University of Pittsburgh and the Board of Visitors of the School of Foreign Service, Georgetown University. Mr. Tung was educated at the University of Liverpool, United Kingdom, where he obtained a bachelor's degree in science in 1964. He later obtained a master's degree in mechanical engineering from the Massachusetts Institute of Technology in 1966.

### Senior Adviser to the Board of Directors

#### Mr. NEOH Anthony Francis, Senior Adviser

Aged 56, is the Senior Adviser to the Board of Directors of both the Company and BOCHK which is a non-executive position. Mr. Neoh has been the Chief Adviser to the China Securities Regulatory Commission since September 1998. Mr. Neoh was the Chairman of the Hong Kong Securities and Futures Commission from 1995 to 1998 and of the Technical Committee of the International Organisation of Securities Commissions from 1996 to 1998. From 1991 to 1994, Mr. Neoh was a member of the Hong Kong Stock Exchange Council and its Listing Committee. Mr. Neoh was appointed Queen's Counsel (now retitled Senior Counsel) in April 1990. Mr. Neoh was a Visiting Scholar at the Harvard Law School from 1990 to 1991 and for the Spring semester of the academic year 2001/2002, he was the Visiting Professor from Practice at the Harvard Law School.

### Other Senior Management Personnel

#### Mr. ZHU Chi, Deputy Chief Executive

Aged 49, is the Deputy Chief Executive responsible for the business planning and finance strategic business unit of the Group. Mr. Zhu has more than 20 years' experience in the banking industry, and was the General Manager of BOC, Macau Branch from June 1998 to April 2001 and the Deputy Chief Executive of BOC Hong Kong-Macau Regional Office from June 1998 to September 2001. Mr. Zhu was a Director of BOC from March 1996 for six consecutive years. Mr. Zhu held various positions with BOC between 1982 and 1998. In October 1992, Mr. Zhu became a Deputy General Manager of the Comprehensive Planning Department of BOC and was subsequently promoted to the General Manager of the Executive Office of BOC in March 1995. Mr. Zhu was appointed as a Director of The Community Chest of Hong Kong in August 2001. Mr. Zhu graduated from the Renmin University of China with a bachelor's degree in economics.

#### Mr. DING Yansheng, Deputy Chief Executive

Aged 49, is the Deputy Chief Executive responsible for the business support services strategic business unit of the Group and the General Manager of the Human Resources Department of BOCHK. Mr. Ding has eight years' experience in the banking industry. Mr. Ding was the General Manager of the Personnel Division of BOC Hong Kong-Macau Regional Office between April 2001 and September 2001. From March 1996 to April 2001, Mr. Ding acted as the Deputy General Manager and the General Manager of the Human Resources Department of BOC. Mr. Ding was a Director of BOCI from August 2000 to August 2001. Mr. Ding graduated from the Central University of Finance and Economics in Beijing with a bachelor's degree and later obtained a master's degree in business administration from the China Europe International Business School.

## Board of Directors and Senior Management (continued)

### Other Senior Management Personnel (continued)

#### Mr. OR Man Ah, Deputy Chief Executive

Aged 53, is the Deputy Chief Executive responsible for the corporate banking and treasury strategic business unit of the Group and the General Manager of the Corporate Banking and Financial Institutions Department of BOCHK. Mr. Or has over 30 years' experience in the banking industry. Since February 2001, Mr. Or has been the First Deputy General Manager of BOC, Hong Kong Branch. From February 1988 to January 2001, Mr. Or was the Deputy General Manager of BOC, Hong Kong Branch. Mr. Or is an associate of The Hong Kong Institute of Bankers and The Institute of Financial Services in the United Kingdom. Mr. Or completed a higher certificate course in business studies at Hong Kong Polytechnic and obtained a master's degree in business administration from the University of Warwick, United Kingdom.

#### Mr. LAM Yim Nam, Deputy Chief Executive

Aged 51, is the Deputy Chief Executive responsible for the retail banking strategic business unit of the Group and the General Manager of the Retail Banking Department of BOCHK. Mr. Lam has been appointed as a Non-executive Director of BOCI since January 2003. Mr. Lam has over 20 years' experience in the banking industry. From August 1989 to August 1998, Mr. Lam was the Deputy General Manager of the Kwangtung Provincial Bank, Hong Kong Branch. Mr. Lam was the Deputy General Manager of BOC, Hong Kong Branch from November 1998 to December 1999, and the Acting General Manager of the National Commercial Bank, Hong Kong Branch from January 2000 to September 2001. Mr. Lam graduated from the Chinese University of Hong Kong with a bachelor's degree and a master's degree in business administration.

#### Mr. LAW Man Wah, Chief Financial Officer

Aged 51, is the Chief Financial Officer of the Group and the General Manager of the Finance Department of BOCHK. Mr. Law has over 20 years' experience in the banking industry. Mr. Law is also a Director of Nanyang. From March 1992 to September 2001, he was the Deputy General Manager of Nanyang responsible for financial management, balance sheet management, information technology, organisation and method, trade settlement and investment management. Mr. Law graduated from the Chinese University of Hong Kong with a bachelor's degree in business administration and obtained a master's degree in business administration from Brunel University, United Kingdom, a postgraduate diploma in banking and finance from the City Polytechnic of Hong Kong, a master of science degree in finance from the City University of Hong Kong, and a master of business (accounting) from Monash University, Australia. He is a member of the Institute of Certified Management Accountants, Australia, and the Hong Kong Computer Society.

#### Mr. MAO Xiaowei, Chief Risk Officer

Aged 50, is the Chief Risk Officer of the Group and the General Manager of the Risk Management Department of BOCHK. Mr. Mao is a member of the Risk Management Committee of the Board of Directors of both the Company and BOCHK. Mr. Mao has over 18 years' experience in the banking industry. Mr. Mao is a Director of both Nanyang and Chiyu. Mr. Mao was the General Manager of the Business Department of BOC Hong Kong-Macau Regional Office from March 1999 to September 2001. Mr. Mao was the Chairman of the restructuring office of the Bank of China Group in Hong Kong from January 2000 to September 2001. Mr. Mao has held a number of senior managerial positions within BOC since 1996. Mr. Mao was the General Manager of the Asset and Liability Management Department of BOC from June 1998 to March 1999 and was the General Manager of the Development and Planning Department of BOC from January 1996 to June 1998. Mr. Mao graduated from Beijing College of Economics where he majored in economics. After that, Mr. Mao obtained a master's degree in economics from the Graduate School of the China Academy of Social Sciences.

#### Mr. YEUNG Jason Chi Wai, Company Secretary

Aged 48, is the Company Secretary of the Company and BOCHK and Head of Investor Relations of the Group. Mr. Yeung has over 10 years' experience practising corporate and commercial law. Prior to joining the Company and BOCHK on 1 October 2001, Mr. Yeung was the General Counsel and a Director of China Everbright Ltd. and a partner of Woo, Kwan, Lee & Lo. He has also served at the Securities and Futures Commission in Hong Kong. Mr. Yeung is a member of the Legal Committee of the Hong Kong General Chamber of Commerce. Mr. Yeung was educated at the University of Hong Kong where he obtained a bachelor's degree in social sciences. Mr. Yeung later graduated from The College of Law, United Kingdom and further obtained a bachelor's degree in law from the University of Western Ontario, Canada and a master's degree in business administration from the Richard Ivey School of Business of the University of Western Ontario, Canada.

## Report of the Directors

The directors are pleased to present their report together with the audited consolidated accounts of the Company and its subsidiaries for the first half of 2003.

### Principal Activities

The principal activities of the Group are the provision of banking and related financial services. An analysis of the Group's performance in the first half of 2003 by business segments is set out in Note 39 to the accounts.

### Results and Appropriations

The results of the Group for the first half of 2003 are set out in the consolidated profit and loss account on page 29.

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

### Closure of Register of Members

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

### Reserves

Details of the reserves of the Group are set out in Note 33 to the accounts.

### Donations

Charitable and other donations made by the Group amounted to HK\$4,678,000 in the first half of 2003.

### Fixed Assets

Details of the movements in fixed assets of the Group are set out in Note 26 to the accounts.

### Distributable Reserve

Distributable reserve of the Company at 30 June 2003, calculated under section 79B of the Hong Kong Companies Ordinance, amounted to approximately HK\$2,248 million.

### Purchase, Sale or Redemption of the Company's Shares

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



## Report of the Directors (continued)

### Share Options

Pursuant to written resolutions of all the Company's shareholders passed on 10 July 2002, the Company has approved and adopted two share option schemes, namely, the 2002 Share Option Scheme and the 2002 Sharesave Plan. In connection with its listing on the Stock Exchange, the Company has undertaken to the Stock Exchange that for a period of six months from its listing i.e. until 25 January 2003, the Company shall not, among other things, grant or offer or agree to grant options over any shares without the prior consent of the Stock Exchange. No options have been granted by the Company pursuant to the 2002 Share Option Scheme or the 2002 Sharesave Plan during the first half of 2003.

The following is a summary of the 2002 Share Option Scheme and the 2002 Sharesave Plan disclosed in accordance with the Listing Rules:

	2002 Share Option Scheme	2002 Sharesave Plan
Purpose of the scheme	To provide the participants with the opportunity to acquire proprietary interests in the Company, to attract and retain the best available personnel, to encourage and motivate the participants to work towards enhancing the value of the Company and its shares, to allow the participants to participate in the growth of the Company and to align the interests of the shareholders and the participants.	To encourage broad-based employee ownership of the Company's shares, to increase employee awareness and participation in the Company's share price performance, to provide employees with an additional vehicle for asset accumulation and to align the interests of all employees with those of the Company's shareholders.
Participants of the scheme	Subject to compliance with applicable laws, full-time or part-time employee, executive or officer of the Group, executive or non-executive director of the Group, or full-time or part-time employee, executive, officer or director of BOC or any of its subsidiaries serving as a member of any committee of the Group.	Employee, executive, officer or director of the Group, having such qualifying period of service (if any) as the Board may determine from time to time and not having been granted any options under the 2002 Share Option Scheme.
Total number of shares available for issue under the scheme and percentage of issued share capital as at 30 June 2003	The maximum number of shares in respect of which options may be granted under the 2002 Share Option Scheme, the 2002 Sharesave Plan and any other share option schemes and savings-based share option plans of any company in the Group (the "Other Schemes and Plans") shall not in aggregate exceed 10% of the shares in issue on 10 July 2002, that is, 1,057,278,026 shares.	Same as 2002 Share Option Scheme.

## Report of the Directors (continued)

### Share Options (continued)

	2002 Share Option Scheme	2002 Sharesave Plan
Maximum entitlement of each participant under the scheme	The total number of shares issued and to be issued upon the exercise of the options granted and to be granted to any one participant under the 2002 Share Option Scheme and the Other Schemes and Plans (including exercised, cancelled and outstanding options) in any twelve-month period up to and including the date of grant shall not exceed 1% of the shares in issue from time to time.	The maximum number of shares (rounded down to the next whole number) which can be paid for at the exercise price with monies equal to the aggregate of the savings contributions the participant has undertaken to make by the Maturity Date (defined as below) and interest which may be accrued thereon. Provided that the total number of shares issued and to be issued upon the exercise of the options granted and to be granted to any one participant under the 2002 Sharesave Plan and the Other Schemes and Plans (including exercised, cancelled and outstanding options) in any twelve-month period up to and including the date of grant shall not exceed 1% of the shares in issue from time to time. The amount of the monthly contribution to be made by a participant shall not be less than 1% and not more than 10% of the participant's monthly salary.
The period within which the shares must be taken up under an option	Such period as shall be prescribed by the directors and specified in the letter of offer.	The thirty day period (excluding the anniversary days) immediately after the first and second anniversary days from the date of grant or such other date as determined by the Board, or the thirty day period immediately after the third anniversary of the date of grant or such other date as determined by the Board (the "Maturity Date"), or such other period(s) as may be determined by the Board.
The minimum period for which an option must be held before it can be exercised	Such minimum period as shall be prescribed by the directors and specified in the letter of offer.	One year.
(a) The amount payable on acceptance of the option	(a) HK\$1.00	(a) HK\$1.00
(b) The period within which payments or calls must or may be made	(b) Payment or an undertaking to make payment on demand of the Company must be received by the Company within the period open for acceptance as set out in the letter of offer which shall not be less than 7 days after the offer date.	(b) Payment or an undertaking to make payment on demand of the Company must be received by the Company not later than the date specified in the letter of invitation as the directors may determine.
(c) The period within which loans for such purposes must be repaid	(c) Not applicable.	(c) Not applicable.

## Report of the Directors (continued)

### Share Options (continued)

	2002 Share Option Scheme	2002 Sharesave Plan
The basis of determining the exercise price	<p>The exercise price is determined on the date of grant by the directors and shall not be less than the highest of:</p> <p>(a) the nominal value of the Company's shares;</p> <p>(b) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and</p> <p>(c) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.</p>	Same as 2002 Share Option Scheme.
The remaining life of the scheme	The 2002 Share Option Scheme shall remain in force for a period of ten years commencing on the first day of dealings in the Company's shares on the Stock Exchange which was 25 July 2002.	The 2002 Sharesave Plan shall remain in force for a period of ten years after the date of approval and adoption of the 2002 Sharesave Plan by the Company's shareholders which was 10 July 2002.

Please refer to the section "Directors' Rights to Acquire Shares" for details of the options granted by BOC (BVI) over shares of the Company pursuant to the Pre-Listing Share Option Scheme.

### Directors

The present directors of the Company are set out on page 16.

On 28 May 2003, Mr. Xiao Gang replaced Mr. Liu Mingkang as Chairman of the Company and Mr. He Guangbei replaced Mr. Liu Jinbao as Vice Chairman, Executive Director and Chief Executive of the Company. Further, on 11 July 2003, Mr. Chia Pei-Yuan resigned as Independent Non-executive Director of the Company.

### Biographical Details of Directors and Senior Management

Biographical details of the directors and senior management are set out on pages 17 to 20 of this Interim Report.

### Directors' Interests in Contracts of Significance

No contracts of significance, in relation to the Group's business to which the Company, its holding companies or any of its subsidiaries or fellow subsidiaries was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

## Report of the Directors (continued)

### Directors' Rights to Acquire Shares

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

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

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

\* Resigned with effect from 28 May 2003.

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

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

### Directors' Interests in Shares, Underlying Shares and Debentures

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

## Report of the Directors (continued)

### Directors' Interests in Competing Business

Save and except the Independent Non-executive Directors, all other directors are also directors of BOC, the ultimate holding company of the Company, at the same time. BOC is a state-owned commercial bank in the Mainland of China and provides a full range of commercial banking and other financial services through its associates throughout the world. Certain of the Group's operations overlap with and/or are complementary to those of BOC and its associates. To the extent that BOC or its associates compete with the Group, the directors believe that the Group's interests are adequately protected by adhering to good corporate governance practices and the involvement of the Independent Non-executive Directors.

Save as disclosed above, none of the directors is interested in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

### Substantial Interests in Share Capital

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

Name of Corporation	Number of shares interested	% of total issued shares
BOC	8,090,852,266	76.53%
BOCHKG	8,072,852,266	76.36%
BOC (BVI)	8,072,852,266	76.36%

Note:

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

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

### Management Contracts

No contracts concerning the management or administration of the whole or any substantial part of the business of the Company were entered into or existed during the period under review.

### Major Customers

In the first half of 2003, the five largest customers of the Group accounted for less than 30% of the total of interest income and other operating income of the Group.

### Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for the Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Bank's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises three Independent Non-executive Directors, namely, Mr. Shan Weijian (Chairman), Dr. Fung Victor Kwok King, Mr. Tung Chee Chen and two Non-executive Directors, namely Mr. Ping Yue and Mr. Zhou Zaiqun. Two meetings were held during the period.

## Report of the Directors (continued)

### Budgetary Discipline and Reporting

The annual budget of the Group is reviewed and approved by the Board of Directors prior to its implementation by the Management. After the annual master budget is adopted, financial and business targets will be decomposed to departments. There are defined procedures for the appraisal, review and approval of major capital and recurrent expenditures. Proposed significant expenditures outside the approved budget will be referred to the Board or the relevant Board committee for decision. Results of operations against budget will be reported quarterly to the Board and the Audit Committee. If there are significant changes in relation to the operations, a revised budget will be submitted to the Board for review in a timely manner.

### Compliance with the guideline on “Interim Financial Disclosure by Locally Incorporated Authorized Institutions”

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

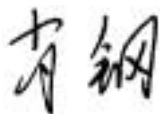
### Compliance with the Code of Best Practice of the Listing Rules

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

### Auditors

The accounts for the first half of 2003 have been audited by PricewaterhouseCoopers.

On behalf of the Board



XIAO Gang  
Chairman  
Hong Kong, 5 September 2003

## Report of the Auditors

### Auditors' Report to the shareholders of BOC Hong Kong (Holdings) Limited

(incorporated in Hong Kong with limited liability)

We have audited the accounts set out on pages 29 to 82 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Basis of opinion


We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2003 and of the profit and cash flows of the Group for the six month period then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

The comparative figures in respect of the Group's consolidated profit and loss account, cash flow statement, statement of changes in equity, and the related disclosure notes, for the six month period ended 30 June 2002 are not audited. Details of this matter are described in Note 2 to the accounts.



PricewaterhouseCoopers  
Certified Public Accountants  
Hong Kong, 5 September 2003

## Consolidated Profit and Loss Account

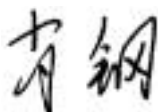
	Note	Half-year ended 30 June 2003 HK\$'m	(Unaudited) As restated Half-year ended 30 June 2002 HK\$'m
Interest income	4	9,358	10,958
Interest expense		(2,774)	(4,067)
<b>Net interest income</b>		<b>6,584</b>	6,891
Other operating income	5	2,252	2,010
<b>Operating income</b>		<b>8,836</b>	8,901
Operating expenses	6	(2,697)	(2,899)
<b>Operating profit before provisions</b>		<b>6,139</b>	6,002
Charge for bad and doubtful debts	7	(1,669)	(1,766)
<b>Operating profit after provisions</b>		<b>4,470</b>	4,236
Net (loss)/gain from disposal/revaluation of fixed assets	8	(1,241)	8
Net gain/(loss) from disposal of held-to-maturity securities and investment securities		1	(2)
Write-back of provision/(provision) for impairment on held-to-maturity securities and investment securities	9	20	(7)
Net loss on disposal of a subsidiary		(1)	—
Write-back of provision/(provision) for impairment on investments in associates		6	(30)
Share of net (losses)/profits of associates		(10)	6
<b>Profit before taxation</b>		<b>3,245</b>	4,211
Taxation	10	(176)	(733)
<b>Profit after taxation</b>		<b>3,069</b>	3,478
Minority interests		(57)	(63)
<b>Profit attributable to shareholders</b>	11	<b>3,012</b>	3,415
<b>Dividend</b>	12	<b>2,062</b>	1,935
		<b>HK\$</b>	HK\$
<b>Earnings per share</b>	13	<b>28.49cents</b>	32.30cents



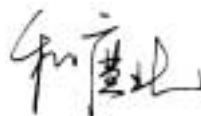
## Consolidated Balance Sheet

	Note	At 30 June 2003 HK\$'m	As restated At 31 December 2002 HK\$'m
<b>ASSETS</b>			
Cash and short-term funds	17	94,830	115,075
Placements with banks and other financial institutions maturing between one and twelve months		91,688	80,159
Trade bills		708	592
Certificates of deposit held	18	18,795	17,528
Hong Kong SAR Government certificates of indebtedness	27	30,540	29,110
Held-to-maturity securities	19	92,875	94,227
Investment securities	20	53	46
Other investments in securities	21	74,708	64,360
Advances and other accounts	22	308,847	308,332
Investments in associates	25	399	483
Fixed assets	26	17,921	20,212
Other assets		4,130	5,412
<b>Total assets</b>		<b>735,494</b>	<b>735,536</b>
<b>LIABILITIES</b>			
Hong Kong SAR currency notes in circulation	27	30,540	29,110
Deposits and balances of banks and other financial institutions		38,485	29,957
Deposits from customers	28	585,135	600,977
Other accounts and provisions	30	22,850	17,707
<b>Total liabilities</b>		<b>677,010</b>	<b>677,751</b>
<b>CAPITAL RESOURCES</b>			
Minority interests		1,117	1,114
Share capital	32	52,864	52,864
Reserves	33	4,503	3,807
<b>Shareholders' funds</b>		<b>57,367</b>	<b>56,671</b>
<b>Total capital resources</b>		<b>58,484</b>	<b>57,785</b>
<b>Total liabilities and capital resources</b>		<b>735,494</b>	<b>735,536</b>

Approved by the Board of Directors on 5 September 2003 and signed on behalf of the Board by:



XIAO Gang  
Director

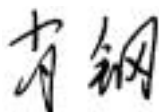


HE Guangbei  
Director

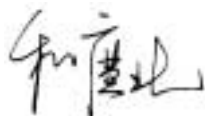
## Balance Sheet

	Note	At 30 June 2003 HK\$'m	At 31 December 2002 HK\$'m
<b>ASSETS</b>			
Cash and short-term funds		310	—
Investment in subsidiaries	24	52,864	52,864
Other assets		1,938	2,593
		<b>55,112</b>	<b>55,457</b>
<b>LIABILITIES</b>			
Other accounts and provisions		—	10
<b>CAPITAL RESOURCES</b>			
Share capital	32	52,864	52,864
Retained earnings		2,248	2,583
Shareholders' funds		<b>55,112</b>	<b>55,447</b>
Total liabilities and capital resources		<b>55,112</b>	<b>55,457</b>

Approved by the Board of Directors on 5 September 2003 and signed on behalf of the Board by:



XIAO Gang  
Director



HE Guangbei  
Director

## Consolidated Statement of Changes in Equity

	Share capital HK\$'m	Premises revaluation reserve HK\$'m	Investment properties revaluation reserve HK\$'m	Translation reserve HK\$'m	Retained earnings HK\$'m	Total HK\$'m
At 1 January 2002, as previously reported	52,864	141	18	(2)	(851)	52,170
Effect of adoption of SSAP 12 (revised)	—	(12)	—	—	(370)	(382)
At 1 January 2002, as restated	52,864	129	18	(2)	(1,221)	51,788
Net profit for the first half of 2002, as restated	—	—	—	—	3,415	3,415
Currency translation differences	—	—	—	1	—	1
Special dividend	—	—	—	—	(1,935)	(1,935)
Release to deferred tax liabilities	—	(22)	—	—	—	(22)
At 30 June 2002, as restated	52,864	107	18	(1)	259	53,247
Company and subsidiaries	52,864	107	18	(1)	106	53,094
Associates	—	—	—	—	153	153
	52,864	107	18	(1)	259	53,247
At 1 July 2002, as previously reported	52,864	141	18	(1)	632	53,654
Effect of adoption of SSAP 12 (revised)	—	(34)	—	—	(373)	(407)
At 1 July 2002, as restated	52,864	107	18	(1)	259	53,247
Net profit for the second half of 2002, as restated	—	—	—	—	3,372	3,372
Currency translation differences	—	—	—	(1)	—	(1)
Reclassification	—	5	(5)	—	—	—
Release from deferred tax liabilities	—	20	—	—	—	20
Revaluation of properties	—	46	(13)	—	—	33
Transfer on disposal of properties	—	(79)	—	—	79	—
At 31 December 2002, as restated	52,864	99	—	(2)	3,710	56,671
Company and subsidiaries	52,864	99	—	(2)	3,718	56,679
Associates	—	—	—	—	(8)	(8)
	52,864	99	—	(2)	3,710	56,671
At 1 January 2003, as previously reported	<b>52,864</b>	<b>113</b>	—	<b>(2)</b>	<b>3,966</b>	<b>56,941</b>
Effect of adoption of SSAP 12 (revised)	—	(14)	—	—	(256)	(270)
At 1 January 2003, as restated	<b>52,864</b>	<b>99</b>	—	<b>(2)</b>	<b>3,710</b>	<b>56,671</b>
Net profit for the first half of 2003	—	—	—	—	3,012	3,012
Release from deferred tax liabilities	—	6	—	—	—	6
Revaluation of properties	—	(49)	—	—	—	(49)
2002 final dividend paid	—	—	—	—	(2,273)	(2,273)
At 30 June 2003	<b>52,864</b>	<b>56</b>	—	<b>(2)</b>	<b>4,449</b>	<b>57,367</b>
Company and subsidiaries	<b>52,864</b>	<b>56</b>	—	<b>(2)</b>	<b>4,465</b>	<b>57,383</b>
Associates	—	—	—	—	(16)	(16)
	<b>52,864</b>	<b>56</b>	—	<b>(2)</b>	<b>4,449</b>	<b>57,367</b>
Representing:						
2003 interim dividend proposed					2,062	
Others					2,387	
Retained earnings as at 30 June 2003					<b>4,449</b>	

## Statement of Changes in Equity

	Share capital HK\$'m	Retained earnings HK\$'m	Total HK\$'m
At 12 September 2001	—	—	—
Issue of shares	52,864	—	52,864
Net profit for the period	—	1,937	1,937
Special dividend	—	(1,935)	(1,935)
At 30 June 2002	52,864	2	52,866
At 1 July 2002	52,864	2	52,866
Net profit for the second half of 2002	—	2,581	2,581
At 31 December 2002	52,864	2,583	55,447
At 1 January 2003	<b>52,864</b>	<b>2,583</b>	<b>55,447</b>
2002 final dividend paid	—	<b>(2,273)</b>	<b>(2,273)</b>
Net profit for the first half of 2003	—	<b>1,938</b>	<b>1,938</b>
At 30 June 2003	<b>52,864</b>	<b>2,248</b>	<b>55,112</b>
Representing:			
2003 interim dividend proposed		<b>2,062</b>	
Others		<b>186</b>	
Retained earnings as at 30 June 2003		<b>2,248</b>	

## Consolidated Cash Flow Statement

	Note	Half-year ended 30 June 2003 HK\$'m	(Unaudited) Half-year ended 30 June 2002 HK\$'m
<b>Cash flow from operating activities</b>			
Operating cash outflow before taxation	34(a)	(17,023)	(27,547)
Disposal of loans to BOC Cayman		—	8,722
Hong Kong profits tax refunded/(paid)		369	(202)
Overseas profits tax paid		(4)	(11)
<b>Net cash outflow from operating activities</b>		<b>(16,658)</b>	<b>(19,038)</b>
<b>Cash flow from investing activities</b>			
Purchase of fixed assets		(40)	(26)
Proceeds from disposal of fixed assets		561	9
Purchase of investment securities		(6)	—
Proceeds from disposal of a subsidiary	34(d)	157	—
Proceeds from dissolution of an associate		19	—
Dividend received from an associate		1	2
Loans repaid by associates		59	—
<b>Net cash inflow/(outflow) from investing activities</b>		<b>751</b>	<b>(15)</b>
<b>Cash flow from financing activities</b>			
2002 final dividend paid		(2,273)	—
Dividend paid to minority shareholders	34(b)	(54)	—
<b>Net cash outflow from financing activities</b>		<b>(2,327)</b>	<b>—</b>
Decrease in cash and cash equivalents		(18,234)	(19,053)
Cash and cash equivalents at 1 January		83,065	120,664
<b>Cash and cash equivalents at 30 June</b>	34(c)	<b>64,831</b>	<b>101,611</b>

## 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.

The Company's shares have been listed on the Main Board of the Stock Exchange since 25 July 2002.

### 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 "Interim 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 adopted the following revised SSAP issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003:

SSAP 12 (revised): Income taxes

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

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

### 3. Principal accounting policies

#### (a) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 30 June. 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 period 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.

## Notes to the Accounts (continued)

### 3. Principal accounting policies (continued)

#### (a) Basis of consolidation (continued)

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.

#### (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 period. 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.

## Notes to the Accounts (continued)

### 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 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.

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

##### (ii) Investment properties

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



## Notes to the Accounts (continued)

### 3. Principal accounting policies (continued)

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

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

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

##### (iii) Property under development

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

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

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

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

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

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

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

## Notes to the Accounts (continued)

### 3. Principal accounting policies (continued)

#### (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.

##### (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.

## Notes to the Accounts (continued)

### 3. Principal accounting policies (continued)

#### (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.

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

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. The profit and amount charged to equity for the six months ended 30 June 2002 have been reduced by HK\$3 million and HK\$22 million respectively.

#### (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.

## Notes to the Accounts (continued)

### 3. Principal accounting policies (continued)

#### (l) Employee benefits

##### (i) Retirement benefit costs

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

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

##### (ii) Leave entitlements

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

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

##### (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".

## Notes to the Accounts (continued)

### 3. Principal accounting policies (continued)

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

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, hedging objective, strategy and all relationships between hedging risk and items be fully documented. It must also be demonstrated that a derivative would be expected to be highly effective in accomplishing the objective of offsetting the risk being hedged throughout the contract period. Hedging instruments are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging. Any profit or loss is recognised in the profit and loss account on the same basis as that arising from the related assets, liabilities or net positions.

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

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

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

#### (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.

## Notes to the Accounts (continued)

### 3. Principal accounting policies (continued)

#### (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

	<b>Half-year ended 30 June 2003 HK\$'m</b>	(Unaudited) Half-year ended 30 June 2002 HK\$'m
Interest income from listed investments	<b>899</b>	515
Interest income from unlisted investments	<b>1,602</b>	1,722
Other interest income	<b>6,857</b>	8,721
	<b>9,358</b>	10,958

### 5. Other operating income

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

## Notes to the Accounts (continued)

### 5. Other operating income (continued)

Note:

Fees and commission income

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

### 6. Operating expenses

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

## Notes to the Accounts (continued)

### 7. Charge for bad and doubtful debts

	Half-year ended 30 June 2003 HK\$'m	(Unaudited) Half-year ended 30 June 2002 HK\$'m
Net charge for bad and doubtful debts		
Specific provisions		
— new provisions	2,537	3,289
— releases	(482)	(1,173)
— recoveries (Note 23)	(220)	(350)
	<b>1,835</b>	1,766
General provisions	(166)	—
Net charge to profit and loss account (Note 23)	<b>1,669</b>	1,766

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

	Half-year ended 30 June 2003 HK\$'m	(Unaudited) Half-year ended 30 June 2002 HK\$'m
Net (loss)/gain on disposal of fixed assets	(18)	8
Net loss on revaluation of fixed assets	(1,223)	—
	<b>(1,241)</b>	8

### 9. Write-back of provision/(provision) for impairment on held-to-maturity securities and investment securities

	Half-year ended 30 June 2003 HK\$'m	(Unaudited) Half-year ended 30 June 2002 HK\$'m
Write-back of provision/(provision) for impairment on held-to-maturity securities	19	(7)
Write-back of provision for impairment on investment securities	1	—
	<b>20</b>	(7)



## Notes to the Accounts (continued)

### 10. Taxation

Taxation in the profit and loss account represents:

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

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

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

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

## Notes to the Accounts (continued)

### 10. Taxation (continued)

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

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

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

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

### 11. Profit attributable to shareholders

The profit of the Company for the first half of 2003 attributable to shareholders and dealt with in the accounts of the Company amounted to HK\$1,938 million.

## Notes to the Accounts (continued)

### 12. Dividend

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

At a meeting held on 5 September 2003, the Board declared an interim dividend of HK\$0.195 per ordinary share for the first half of 2003 amounting to approximately HK\$2,062 million. This declared dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2003.

### 13. Earnings per share

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

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

### 14. Retirement benefit costs

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

With the implementation of the MPF Schemes Ordinance on 1 December 2000, the Group also participates in the BOC-Prudential Easy Choice Mandatory Provident Fund Scheme (the "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 first half of 2003 amounted to approximately HK\$117 million (first half of 2002: approximately HK\$122 million), after a deduction of forfeited contributions of approximately HK\$10 million (first half of 2002: approximately HK\$8 million). For the MPF Scheme, the Group contributed approximately HK\$4 million and HK\$3 million respectively for the first half of 2003 and 2002.

## Notes to the Accounts (continued)

### 15. Share option schemes

#### (a) 2002 Share Option Scheme and 2002 Sharesave Plan

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

The purpose of the 2002 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 2002 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 2002 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.

The two schemes have not commenced as at 30 June 2003.

#### (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 30 June 2003 are as follows:

	Directors	Senior management	Total number of share options
At 1 January 2003	13,737,000	17,221,600	30,958,600
Add: Share options granted in the first half of 2003	—	—	—
Less: Share options exercised in the first half of 2003	—	—	—
Less: Share options surrendered in the first half of 2003	1,735,200	—	1,735,200
Less: Share options lapsed in the first half of 2003	—	365,400	365,400
At 30 June 2003	12,001,800	16,856,200	28,858,000

## Notes to the Accounts (continued)

### 15. Share option schemes (continued)

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

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

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

#### (a) Directors' emoluments

Details of the emoluments paid and payable to the directors of the Company in respect of their services rendered for managing the subsidiaries within the Group in the first half of 2003 are as follows:

	<b>Half-year ended 30 June 2003 HK\$m</b>	(Unaudited) Half-year ended 30 June 2002 HK\$m
Fees	1	1
Other emoluments for executive directors — basic salaries and allowances	2	2
	<b>3</b>	<b>3</b>

Emoluments of the directors were within the following bands:

	<b>Number of directors</b>	
	<b>Half-year ended 30 June 2003</b>	(Unaudited) Half-year ended 30 June 2002
Up to HK\$1,000,000	13	12
HK\$2,000,001 — HK\$2,500,000	1	1

The aggregate amount of emoluments paid to the Independent Non-executive Directors for the first half of 2003 was HK\$400,000 (first half of 2002: HK\$400,000).

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). In the first half of 2003, 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.

## Notes to the Accounts (continued)

### 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 first half of 2003 include 1 director (2002: 1) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 4 individuals (2002: 4) for the first half of 2003 are as follows:

	<b>Half-year ended 30 June 2003 HK\$'m</b>	(Unaudited) Half-year ended 30 June 2002 HK\$'m
Basic salaries and allowances	5	5
Contribution to pension schemes (including benefits in kind)	1	1
	<b>6</b>	<b>6</b>

Emoluments of individuals were within the following bands:

	<b>Number of individuals</b>	
	<b>Half-year ended 30 June 2003</b>	(Unaudited) Half-year ended 30 June 2002
HK\$1,000,001 — HK\$1,500,000	2	2
HK\$1,500,001 — HK\$2,000,000	2	2

For the first half of 2003, no directors 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.

## Notes to the Accounts (continued)

### 17. Cash and short-term funds

	<b>At 30 June 2003 HK\$'m</b>	At 31 December 2002 HK\$'m
Cash	<b>3,427</b>	2,637
Balances with banks and other financial institutions	<b>3,188</b>	2,370
Money at call and short notice maturing within one month	<b>69,088</b>	95,997
Treasury bills (including Exchange Fund Bills)	<b>19,127</b>	14,071
	<b>94,830</b>	115,075
An analysis of treasury bills held is as follows:		
Unlisted, held-to-maturity, at amortised cost	<b>15,041</b>	10,933
Unlisted, other investments in securities, at fair value	<b>4,086</b>	3,138
	<b>19,127</b>	14,071

### 18. Certificates of deposit held

	<b>At 30 June 2003 HK\$'m</b>	At 31 December 2002 HK\$'m
Held-to-maturity, at amortised cost		
— Unlisted	<b>6,350</b>	8,342
Other investments in securities, at fair value		
— Unlisted	<b>12,445</b>	9,186
	<b>18,795</b>	17,528

## Notes to the Accounts (continued)

### 19. Held-to-maturity securities

	<b>At 30 June 2003 HK\$'m</b>	At 31 December 2002 HK\$'m
Listed, at amortised cost	<b>39,978</b>	35,219
Less: Provision for impairment in value	<b>(12)</b>	(12)
	<b>39,966</b>	35,207
Unlisted, at amortised cost	<b>52,919</b>	59,049
Less: Provision for impairment in value	<b>(10)</b>	(29)
	<b>52,909</b>	59,020
Total	<b>92,875</b>	94,227
Listed, at amortised cost less provision		
— in Hong Kong	<b>4,019</b>	2,946
— outside Hong Kong	<b>35,947</b>	32,261
	<b>39,966</b>	35,207
Market value of listed securities	<b>41,069</b>	36,073
Held-to-maturity securities are analysed by issuers as follows:		
— Central governments and central banks	<b>3,015</b>	3,620
— Public sector entities	<b>13,259</b>	17,028
— Banks and other financial institutions	<b>59,331</b>	64,457
— Corporate entities	<b>17,270</b>	9,122
	<b>92,875</b>	94,227



## Notes to the Accounts (continued)

### 20. Investment securities

	<b>At 30 June 2003 HK\$m</b>	At 31 December 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> <b>50</b>	2 44
Total	<b>53</b>	46
Market value of listed equity securities	<b>6</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

## Notes to the Accounts (continued)

### 21. Other investments in securities

	<b>At 30 June 2003 HK\$'m</b>	At 31 December 2002 HK\$'m
At fair value:		
Debt securities		
— Listed in Hong Kong	<b>359</b>	1,313
— Listed outside Hong Kong	<b>23,308</b>	20,818
	<b>23,667</b>	22,131
— Unlisted	<b>50,896</b>	42,078
	<b>74,563</b>	64,209
Equity securities		
— Listed in Hong Kong	<b>96</b>	121
— Unlisted	<b>49</b>	30
	<b>145</b>	151
Total	<b>74,708</b>	64,360
Other investments in securities are analysed by issuers as follows:		
— Central governments and central banks	<b>9,652</b>	3,069
— Public sector entities	<b>3,953</b>	4,914
— Banks and other financial institutions	<b>59,380</b>	46,662
— Corporate entities	<b>1,723</b>	9,715
	<b>74,708</b>	64,360

At 30 June 2003, liabilities included in "Deposits and balances of banks and other financial institutions" of the Group amounting to HK\$6,309 million (31 December 2002: Nil) are subject to "sell and buy back" arrangements. The amount of assets deposited by the Group amounting to HK\$6,298 million (31 December 2002: Nil) was included in "Other investments in securities".

## Notes to the Accounts (continued)

### 22. Advances and other accounts

	<b>At 30 June 2003 HK\$'m</b>	At 31 December 2002 HK\$'m
Advances to customers	<b>321,181</b>	321,034
Accrued interest	<b>1,894</b>	2,006
	<b>323,075</b>	323,040
Provision for bad and doubtful debts		
— General	<b>(6,197)</b>	(6,363)
— Specific	<b>(8,973)</b>	(8,650)
	<b>(15,170)</b>	(15,013)
	<b>307,905</b>	308,027
Advances to banks and other financial institutions	<b>942</b>	305
	<b>308,847</b>	308,332
Non-performing loans are analysed as follows:		
	<b>At 30 June 2003 HK\$'m</b>	At 31 December 2002 HK\$'m
Non-performing loans	<b>25,049</b>	25,659
Specific provisions made in respect of such advances	<b>8,452</b>	8,637
As a percentage of total advances to customers	<b>7.80%</b>	7.99%
Amount of interest in suspense	<b>388</b>	408

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

There were no advances to banks and other financial institutions on which interest has been placed in suspense or on which interest accrual has ceased as at 30 June 2003 and 31 December 2002, nor were there any specific provisions made.

## Notes to the Accounts (continued)

### 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)	1,835	(166)	1,669	—
Amounts written off	(1,732)	—	(1,732)	(38)
Recoveries of advances written off in previous years (Note 7)	220	—	220	—
Interest suspended during the period	—	—	—	90
Suspended interest recovered	—	—	—	(72)
At 30 June 2003	8,973	6,197	15,170	388
Deducted from: — advances to customers	8,973	6,197	15,170	

	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	3,033	(178)	2,855	—
Amounts written off	(3,229)	—	(3,229)	(37)
Recoveries of advances written off in previous years	904	—	904	—
Amounts written off on disposal	(2,679)	—	(2,679)	—
Interest suspended during the year	—	—	—	296
Suspended interest recovered	—	—	—	(461)
At 31 December 2002	8,650	6,363	15,013	408
Deducted from: — advances to customers	8,650	6,363	15,013	

## Notes to the Accounts (continued)

### 24. Investment in subsidiaries

	<b>At 30 June 2003 HK\$m</b>	At 31 December 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 this Interim Report, "Subsidiaries of the Company". The following is a list of principal subsidiaries as at 30 June 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 Eversound Investments Limited on 2 January 2003 at a consideration of approximately HK\$157 million.

## Notes to the Accounts (continued)

### 25. Investments in associates

	<b>At 30 June 2003 HK\$'m</b>	At 31 December 2002 HK\$'m
Share of net assets	<b>158</b>	186
Less: Provision for impairment in value	<b>(20)</b>	(22)
	<b>138</b>	164
Loans to associates (Note)	<b>287</b>	346
Less: Provision for loans to associates	<b>(26)</b>	(27)
	<b>261</b>	319
	<b>399</b>	483

Note:

At 30 June 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 30 June 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
Wealthy Full Enterprises Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	35%	Property investment
Zhejiang Commercial Bank Limited	PRC	Registered capital	25%	Banking and related financial services

In the current period, CCIC Finance Limited has commenced members' voluntary winding up.

## Notes to the Accounts (continued)

### 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	—	—	—	40	40
Disposals	(230)	(343)	—	(83)	(656)
Disposal of a subsidiary	(160)	—	—	(1)	(161)
Revaluation	(981)	(494)	—	—	(1,475)
Reclassification	(162)	162	—	—	—
At 30 June 2003	11,912	5,050	39	3,480	20,481
Accumulated depreciation					
At 1 January 2003	2	—	7	2,512	2,521
Depreciation for the period	204	—	—	118	322
Disposals	—	—	—	(77)	(77)
Disposal of a subsidiary	(3)	—	—	—	(3)
Write-back on revaluation	(203)	—	—	—	(203)
At 30 June 2003	—	—	7	2,553	2,560
Net book value					
At 30 June 2003	11,912	5,050	32	927	17,921
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 30 June 2003					
At cost	—	—	39	3,480	3,519
At valuation	11,912	5,050	—	—	16,962
	11,912	5,050	39	3,480	20,481
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

## Notes to the Accounts (continued)

### 26. Fixed assets (continued)

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

	<b>At 30 June 2003 HK\$m</b>	At 31 December 2002 HK\$m
Held in Hong Kong		
On long-term lease (over 50 years)	<b>7,282</b>	8,217
On medium-term lease (10-50 years)	<b>4,351</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>52</b>	53
On medium-term lease (10-50 years)	<b>219</b>	222
On short-term lease (less than 10 years)	<b>6</b>	6
	<b>11,912</b>	13,443

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

	<b>At 30 June 2003 HK\$m</b>	At 31 December 2002 HK\$m
Held in Hong Kong		
On long-term lease (over 50 years)	<b>4,048</b>	4,666
On medium-term lease (10-50 years)	<b>879</b>	929
Held outside Hong Kong		
On long-term lease (over 50 years)	<b>33</b>	37
On medium-term lease (10-50 years)	<b>90</b>	93
	<b>5,050</b>	5,725

As at 30 June 2003, the premises are included in the balance sheet at directors' valuation, having regard to the valuation carried out at 30 June 2003 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 at 30 June 2003 on the basis of their open market value by Chesterton Petty Limited.



## Notes to the Accounts (continued)

### 26. Fixed assets (continued)

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:

	Premises HK\$m	Investment properties HK\$m	Total HK\$m
Decrease in valuation debited to property revaluation reserves	(49)	—	(49)
Decrease in valuation charged to profit and loss account	(729)	(494)	(1,223)
	<b>(778)</b>	<b>(494)</b>	<b>(1,272)</b>

As at 30 June 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\$5,890 million (31 December 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

	At 30 June 2003 HK\$m	At 31 December 2002 HK\$m
Demand deposits and current accounts	20,716	21,476
Savings deposits	226,087	204,363
Time, call and notice deposits	338,332	375,138
	<b>585,135</b>	<b>600,977</b>

### 29. Assets pledged as security

At 30 June 2003, liabilities of the Group amounting to HK\$4,371 million (31 December 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\$4,497 million (31 December 2002: HK\$3,400 million) included in "Cash and short-term funds".

## Notes to the Accounts (continued)

### 30. Other accounts and provisions

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

Note:

Restructuring provision

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

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

### 31. Tax liabilities

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

#### (a) Current taxation

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

## Notes to the Accounts (continued)

### 31. Tax liabilities (continued)

#### (b) Deferred taxation

In the current period, deferred tax is recognised in respect of the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts according to revised SSAP 12. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

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

	2003					
	Accelerated tax depreciation HK\$'m	Asset revaluation HK\$'m	Losses HK\$'m	Provisions HK\$'m	Other temporary differences HK\$'m	Total 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
(Credited)/charged to profit and loss account	(4)	(31)	—	204	(9)	160
Credited to equity	—	(6)	—	—	—	(6)
At 30 June 2003	243	1,006	(2)	(805)	(7)	435

	2002					
	Accelerated tax depreciation HK\$'m	Asset revaluation HK\$'m	Losses HK\$'m	Provisions HK\$'m	Other temporary differences HK\$'m	Total 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

## Notes to the Accounts (continued)

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

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

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

### 32. Share capital

	<b>At 30 June 2003 HK\$'m</b>	At 31 December 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

## Notes to the Accounts (continued)

### 33. Reserves

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

### 34. Notes to consolidated cash flow statement

#### (a) Reconciliation of operating profit after provisions to operating cash outflow before taxation:

	<b>Half-year ended 30 June 2003 HK\$'m</b>	(Unaudited) Half-year ended 30 June 2002 HK\$'m
Operating profit after provisions	4,470	4,236
Depreciation	322	359
Charge for bad and doubtful debts	1,669	1,766
Advances written off net of recoveries	(1,512)	(664)
Change in money at call and short notice with original maturity over three months	2,572	14,611
Change in treasury bills with original maturity over three months	855	4,275
Change in placements with banks and other financial institutions with original maturity over three months	(14,645)	(2,686)
Change in trade bills	(116)	(202)
Change in certificates of deposit held with original maturity over three months	(1,006)	812
Change in held-to-maturity securities	1,372	(51,576)
Change in other investments in securities	(10,348)	7,409
Change in advances and other accounts	(672)	(5,699)
Change in other assets	1,246	2,209
Change in deposits and balances of banks and other financial institutions repayable over three months	9,967	(6,540)
Change in deposits from customers	(15,842)	5,042
Change in other accounts and provisions	4,645	(900)
Exchange differences	—	1
Operating cash outflow before taxation	<b>(17,023)</b>	<b>(27,547)</b>

## Notes to the Accounts (continued)

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

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

	2003		
	Share capital HK\$'m	Certificates of deposit issued HK\$'m	Minority interests HK\$'m
At 1 January 2003	52,864	—	1,114
Minority interests share of profits	—	—	57
Dividend paid to minority shareholders	—	—	(54)
At 30 June 2003	52,864	—	1,117

	(Unaudited) 2002		
	Share capital HK\$'m	Certificates of deposit issued HK\$'m	Minority interests HK\$'m
At 1 January 2002	52,864	5,000	1,066
Minority interests share of profits	—	—	63
Dividend payable to minority shareholders	—	—	(45)
At 30 June 2002	52,864	5,000	1,084

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

	At 30 June 2003 HK\$'m	(Unaudited) At 30 June 2002 HK\$'m
Cash and balances with banks and other financial institutions	6,615	5,217
Money at call and short notice with original maturity within three months	53,017	72,193
Treasury bills with original maturity within three months	14,169	4,904
Placements with banks and other financial institutions with original maturity within three months	16,607	34,302
Certificates of deposit held with original maturity within three months	495	—
Deposits and balances of banks and other financial institutions with original maturity within three months	(26,072)	(15,005)
	64,831	101,611

## Notes to the Accounts (continued)

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

#### (d) Disposal of a subsidiary

	Half-year ended 30 June 2003 HK\$m	(Unaudited) Half-year ended 30 June 2002 HK\$m
Net assets disposed:		
— Fixed assets	158	—
— Loss on disposal	(1)	—
	157	—
Satisfied by:		
— Cash	157	—
Analysis of net cash inflow in respect of the disposal of a subsidiary:		
— Cash consideration received	157	—

### 35. Maturity profile

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

	At 30 June 2003						
	Repayable on demand 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	—	16,699	2,428	—	—	—	19,127
Cash and other short-term funds	6,615	69,088	—	—	—	—	75,703
Placements with banks and other financial institutions	15	73,858	17,815	—	—	—	91,688
Certificates of deposit held	—	4,755	4,268	9,573	199	—	18,795
Debt securities included in:							
— held-to-maturity securities	—	9,006	9,233	67,650	6,963	45	92,897
— other investments in securities	—	13,847	8,819	50,272	1,625	—	74,563
Advances to customers	24,093	19,645	27,319	128,077	96,867	25,180	321,181
Advances to banks and other financial institutions	—	1	1	550	390	—	942
<b>Liabilities</b>							
Deposits and balances of banks and other financial institutions	4,790	31,222	2,473	—	—	—	38,485
Deposits from customers	249,830	317,644	17,333	328	—	—	585,135

## Notes to the Accounts (continued)

### 35. Maturity profile (continued)

	At 31 December 2002						
	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	—	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 above maturity classifications have been prepared in accordance with the guideline on “Financial Disclosure by Locally Incorporated Authorized Institutions” under the Supervisory Policy Manual issued by the HKMA. In accordance with the guideline, the Group has reported assets such as advances and debt securities which have been overdue for not more than one month as “Repayable on demand” and assets which are non-performing or which are overdue for more than one month as “Undated”. In the case of an asset, which is repayable by different payments or instalments, only that portion of the asset that is actually overdue is reported as overdue. Any part of the asset that is not due is reported according to the residual maturity unless the repayment of the asset is in doubt in which case the amount is reported as “Undated”. The above assets are stated before deduction of provisions, if any.

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



## Notes to the Accounts (continued)

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

## Notes to the Accounts (continued)

### 36. Off-balance sheet exposures (continued)

#### (b) Derivatives

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

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

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

## Notes to the Accounts (continued)

### 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:

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

The contract or notional amounts of these instruments indicate the volume of transactions outstanding as at 30 June 2003 and 31 December 2002; they do not represent the amounts at risk.

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

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

## Notes to the Accounts (continued)

### 37. Capital commitments

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

	<b>At 30 June 2003 HK\$m</b>	At 31 December 2002 HK\$m
Authorised and contracted for but not recorded	<b>229</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>At 30 June 2003 HK\$m</b>	At 31 December 2002 HK\$m
Land and buildings		
— not later than one year	<b>188</b>	164
— later than one year but not later than five years	<b>193</b>	175
— later than five years	<b>9</b>	9
	<b>390</b>	348
Computer equipment		
— not later than one year	<b>1</b>	—
	<b>1</b>	—

#### The Group as lessor

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

	<b>At 30 June 2003 HK\$m</b>	At 31 December 2002 HK\$m
Land and buildings		
— not later than one year	<b>187</b>	198
— later than one year but not later than five years	<b>184</b>	226
— later than five years	<b>—</b>	2
	<b>371</b>	426

## Notes to the Accounts (continued)

### 39. 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.

#### (a) By class of business

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

## Notes to the Accounts (continued)

### 39. Segmental reporting (continued)

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

	Half-year ended 30 June 2003					
	Commercial banking HK\$'m	Treasury HK\$'m	Unallocated HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
<b>Assets</b>						
Segment assets	313,249	403,275	18,459	734,983	—	734,983
Investments in associates	—	—	399	399	—	399
Unallocated corporate assets	—	—	112	112	—	112
	<b>313,249</b>	<b>403,275</b>	<b>18,970</b>	<b>735,494</b>	<b>—</b>	<b>735,494</b>
<b>Liabilities</b>						
Segment liabilities	598,742	75,796	192	674,730	—	674,730
Unallocated corporate liabilities	—	—	2,280	2,280	—	2,280
	<b>598,742</b>	<b>75,796</b>	<b>2,472</b>	<b>677,010</b>	<b>—</b>	<b>677,010</b>
<b>Other Information</b>						
Additions of fixed assets	—	—	40	40	—	40
Depreciation	—	—	322	322	—	322
Amortisation of premium/ discount of held-to- maturity securities	—	348	—	348	—	348
Non-cash expenses other than depreciation/ amortisation	1,669	—	—	1,669	—	1,669

## Notes to the Accounts (continued)

### 39. Segmental reporting (continued)

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

	(Unaudited) Half-year ended 30 June 2002					
	Commercial banking HK\$ 'm	Treasury HK\$ 'm	Unallocated HK\$ 'm	Subtotal HK\$ 'm	Eliminations HK\$ 'm	Consolidated HK\$ 'm
Net interest income	5,497	1,030	364	6,891	—	6,891
Other operating income	1,456	457	383	2,296	(286)	2,010
Operating income	6,953	1,487	747	9,187	(286)	8,901
Operating expenses	(2,260)	(88)	(837)	(3,185)	286	(2,899)
Operating profit/(loss) before provisions	4,693	1,399	(90)	6,002	—	6,002
Charge for bad and doubtful debts	(1,766)	—	—	(1,766)	—	(1,766)
Operating profit/(loss) after provisions	2,927	1,399	(90)	4,236	—	4,236
Net gain from disposal of fixed assets	—	—	8	8	—	8
Net loss from disposal of held-to-maturity securities and investment securities	—	(2)	—	(2)	—	(2)
Provision for impairment on held-to-maturity securities and investment securities	—	(7)	—	(7)	—	(7)
Provision for impairment on investments in associates	—	—	(30)	(30)	—	(30)
Share of net profits of associates	—	—	6	6	—	6
Profit/(loss) before taxation	2,927	1,390	(106)	4,211	—	4,211
<b>Assets</b>						
Segment assets	308,963	406,116	20,724	735,803	—	735,803
Investments in associates	—	—	366	366	—	366
Unallocated corporate assets	—	—	1,666	1,666	—	1,666
	308,963	406,116	22,756	737,835	—	737,835
<b>Liabilities</b>						
Segment liabilities	621,777	57,688	2,253	681,718	—	681,718
Unallocated corporate liabilities	—	—	1,786	1,786	—	1,786
	621,777	57,688	4,039	683,504	—	683,504

## Notes to the Accounts (continued)

### 39. Segmental reporting (continued)

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

	(Unaudited) Half-year ended 30 June 2002					
	Commercial banking HK\$'m	Treasury HK\$'m	Unallocated HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
<b>Other Information</b>						
Additions of fixed assets	—	—	26	26	—	26
Depreciation	—	—	359	359	—	359
Amortisation of premium/ discount of held-to- maturity securities	—	651	—	651	—	651
Non-cash expenses other than depreciation/ amortisation	1,766	—	—	1,766	—	1,766

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

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

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

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

#### (b) By geographical area

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



## Notes to the Accounts (continued)

### 40. Loans to directors and officers

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

	<b>At 30 June 2003 HK\$m</b>	At 31 December 2002 HK\$m
Aggregate amount of relevant loans outstanding at period/year end	<b>37</b>	99
Maximum aggregate amount of relevant loans outstanding during the period/year	<b>99</b>	137

### 41. 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.

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 30 June 2003, the ultimate holding company and a fellow subsidiary provided guarantees for loans in favour of the Group amounting to HK\$2,016 million (31 December 2002: HK\$1,982 million) to certain third parties. The fellow subsidiary held equity interests of not more than 20% in these third parties.

## Notes to the Accounts (continued)

### 41. 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 the ultimate holding company, fellow subsidiaries, and associates are summarised as follows:

	Note	Half-year ended 30 June 2003 HK\$'m	(Unaudited) Half-year ended 30 June 2002 HK\$'m
Profit and loss items:			
Interest income	(i)	181	361
Interest expense	(ii)	(164)	(122)
Insurance commission received (net)	(iii)	43	11
Administrative services fees received/receivable	(iv)	12	10
Rental fees received/receivable	(iv)	15	11
Funds selling commission received	(vi)	8	79
Correspondent banking fee received	(vii)	4	4
Loan services fees received	(viii)	5	2
Credit card commission paid/payable (net)	(v)	(19)	(22)
Securities brokerage commission paid/payable (net)	(v)	(42)	(54)
Rental, property management and letting agency fees paid/payable	(v)	(35)	(37)
Charge for bad and doubtful debts		(1)	15
<hr/>			
	Note	At 30 June 2003 HK\$'m	At 31 December 2002 HK\$'m
Balance sheet items:			
Cash and short-term funds	(i)	11,724	15,041
Placements with banks and other financial institutions	(i)	14,869	17,539
Advances and other accounts	(i), (ix)	769	867
Other investments in securities	(i)	233	234
Other assets	(x)	53	5
Deposits from and balances of banks and other financial institutions	(ii)	19,435	20,304
Deposits from customers	(ii)	5,186	4,409
Other accounts and provisions	(x)	27	5

## Notes to the Accounts (continued)

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

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

Notes:

##### (i) Interest income

In the ordinary course of business, the Group enters into various transactions with 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. The transactions were conducted at prices and terms that are no more favourable than those charged to and contracted with other third party customers of the Group.

##### (ii) Interest expense

In the ordinary course of business, the Group accepts interbank deposits and current, fixed, savings and other deposits from the ultimate holding company, fellow subsidiaries and associates 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 provides various administrative services including internal audit, technology, human resources support and training to, and receives office premises rental fees from the ultimate holding company, fellow subsidiaries and associates 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 and acts as an intermediary 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.

##### (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 at a fee agreed among the parties from time to time.

## Notes to the Accounts (continued)

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

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

Notes: (continued)

##### (ix) Advances and other accounts

In the ordinary course of business, the Group extends loans and credit facilities to the ultimate holding company, fellow subsidiaries, and associates on normal commercial terms with reference to prevailing market rates. The revenue from such transactions would include interest income on the amount drawn as well as arrangement and commitment fees.

##### (x) 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 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 guarantees for the obligations of fellow subsidiaries on normal commercial terms. Such guarantees as at 30 June 2003 amounted to HK\$170 million (31 December 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\$20,550 million as at 30 June 2003 (31 December 2002: HK\$12,722 million). These transactions are executed on normal commercial terms with reference to prevailing market rates.

#### (e) Balances with group companies and associates

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

	<b>At 30 June 2003 HK\$'m</b>	At 31 December 2002 HK\$'m
Cash and short-term funds	<b>11,618</b>	15,031
Placements with banks and other financial institutions	<b>14,867</b>	17,533
Advances and other accounts	<b>46</b>	4
Other investments in securities	<b>233</b>	234
Other assets	<b>3</b>	—
Deposits from and balances of banks and other financial institutions	<b>18,239</b>	19,107
Other accounts and provisions	<b>25</b>	—

## Notes to the Accounts (continued)

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

#### (e) Balances with group companies and associates (continued)

Included in the following balance sheet captions are balances with fellow subsidiaries and associates of the ultimate holding company:

	<b>At 30 June 2003 HK\$'m</b>	At 31 December 2002 HK\$'m
Cash and short-term funds	<b>106</b>	10
Placements with banks and other financial institutions	<b>2</b>	6
Advances and other accounts	<b>462</b>	517
Other assets	<b>50</b>	5
Deposits from and balances of banks and other financial institutions	<b>1,189</b>	1,195
Deposits from customers	<b>5,115</b>	4,352
Other accounts and provisions	<b>2</b>	5

There were no material balances with associates of the Group as at 30 June 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 period 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.

### 42. 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 current period, the presentation of certain items and balances in the accounts have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform to the current period's presentation.

### 43. Approval of interim accounts

This audited interim accounts were approved and authorised for issue by the Board of Directors on 5 September 2003.

### 44. Ultimate holding company

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

## Unaudited Supplementary Financial Information

### 1. Capital adequacy ratio

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

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

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

### 2. Components of capital base after deductions

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

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

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

## Unaudited Supplementary Financial Information (continued)

### 3. Liquidity ratio

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

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

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

### 4. Currency concentrations

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

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

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

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

## Unaudited Supplementary Financial Information (continued)

### 5. Segmental information

#### (a) Sectoral analysis of gross advances to customers

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

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



## Unaudited Supplementary Financial Information (continued)

### 5. Segmental information (continued)

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

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

##### (i) Gross advances to customers

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

##### (ii) Advances overdue for over three months

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

##### (iii) Non-performing loans

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

## Unaudited Supplementary Financial Information (continued)

### 6. Cross-border claims

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

	<b>Banks and other financial institutions HK\$m</b>	<b>Public sector entities HK\$m</b>	<b>Others HK\$m</b>	<b>Total HK\$m</b>
At 30 June 2003				
Asia, other than Hong Kong				
— Mainland China	<b>31,677</b>	<b>2,081</b>	<b>8,046</b>	<b>41,804</b>
— Others	<b>43,608</b>	<b>680</b>	<b>4,855</b>	<b>49,143</b>
	<b>75,285</b>	<b>2,761</b>	<b>12,901</b>	<b>90,947</b>
North America				
— United States	<b>9,081</b>	<b>15,143</b>	<b>17,563</b>	<b>41,787</b>
— Others	<b>14,379</b>	<b>2,865</b>	<b>11</b>	<b>17,255</b>
	<b>23,460</b>	<b>18,008</b>	<b>17,574</b>	<b>59,042</b>
Western Europe				
— France	<b>30,858</b>	—	<b>2,837</b>	<b>33,695</b>
— Germany	<b>37,448</b>	—	<b>6,231</b>	<b>43,679</b>
— Others	<b>85,248</b>	<b>896</b>	<b>11,405</b>	<b>97,549</b>
	<b>153,554</b>	<b>896</b>	<b>20,473</b>	<b>174,923</b>
Total	<b>252,299</b>	<b>21,665</b>	<b>50,948</b>	<b>324,912</b>

## Unaudited Supplementary Financial Information (continued)

### 6. Cross-border claims (continued)

	Banks and other financial institutions HK\$m	Public sector entities HK\$m	Others HK\$m	Total HK\$m
At 31 December 2002				
Asia, other than Hong Kong				
— Mainland China	36,489	2,665	5,426	44,580
— Others	44,078	6,015	4,160	54,253
	80,567	8,680	9,586	98,833
North America				
— United States	8,133	10,594	15,703	34,430
— Others	12,158	2,647	14	14,819
	20,291	13,241	15,717	49,249
Western Europe				
— France	28,623	—	3,372	31,995
— Germany	36,172	—	10,743	46,915
— Others	81,220	1,451	9,139	91,810
	146,015	1,451	23,254	170,720
Total	246,873	23,372	48,557	318,802

## Unaudited Supplementary Financial Information (continued)

### 7. Overdue and rescheduled assets

#### (a) Overdue and non-performing loans

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

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

## Unaudited Supplementary Financial Information (continued)

### 7. Overdue and rescheduled assets (continued)

#### (b) Other overdue assets

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

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

#### (c) Rescheduled advances to customers

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

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

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

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

## Unaudited Supplementary Financial Information (continued)

### 8. Repossessed assets held

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

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

### 9. Risk management

#### Overview

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

#### Risk Management Structure

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

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

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

BOCHK has developed and implemented comprehensive risk management policies and procedures to identify, measure, monitor and control credit risk, market risk, liquidity risk and operational risk across the organisation. The RMC under the Board of Directors is responsible for approving risk management policies and procedures and significant asset and liability management policies proposed by the ALCO.

## Unaudited Supplementary Financial Information (continued)

### 9. Risk management (continued)

#### Risk Management Structure (continued)

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

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

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

#### Credit Risk Management

Credit risk is the risk that a customer or counterparty will be unable or unwilling to meet a commitment that it has entered into with BOCHK. Credit risk arises principally from BOCHK's lending, trade finance and treasury operations.

BOCHK's primary goal in credit risk management is to maximise its risk-adjusted rate of return while maintaining its credit risk exposure within acceptable parameters. In particular, BOCHK has developed and implemented comprehensive policies and procedures to identify, measure, monitor and control credit risk across the organisation. The RMC sets the Group's overall risk management strategy and policies, the Group's overall risk limits and credit authorisation systems. The RMC is responsible for reviewing and approving the Group's risk management policies and procedures as well as modifications to these policies and procedures. BOCHK's credit risk management structure seeks to meet its primary goal by:

- establishing an appropriate credit risk environment;
- enforcing prudent procedures for approving credits;
- maintaining an appropriate credit administration, measurement and monitoring process; and
- ensuring adequate independent oversight and control over credit risk.

Consistent with BOCHK's overall risk management objectives, the key principles that ensure effective implementation of BOCHK's credit risk management strategy are:

- balancing BOCHK's tolerance for risk with the level of expected returns;
- diversifying BOCHK's loan portfolio by geographic regions, industries, products, customers, maturities and currencies;
- maintaining the independence of the credit review process to ensure risk assessment and monitoring are conducted in an objective and comprehensive manner;
- emphasising the importance of cash flow as an essential factor in assessing applicants' repayment ability;
- compliance with legal and regulatory requirements;
- assigning clearly defined credit risk management responsibilities and accountability to each relevant operating unit and people involved in the risk management process;

## Unaudited Supplementary Financial Information (continued)

### 9. Risk management (continued)

#### Credit Risk Management (continued)

- avoiding over-reliance on collateral and guarantees;
- ensuring accurate measurement and full disclosure of credit risk exposure; and
- maintenance of consistent credit policy.

#### Credit Risk Management Structure

BOCHK's Board of Directors, representing the shareholders' overall interests, is responsible for determining its credit risk management strategic objectives and principles. The Board, with the aim of maximising BOCHK's risk-adjusted returns as well as shareholders' wealth, holds ultimate responsibility for BOCHK's overall credit risk management process.

The RMC is a board level committee that has the responsibility of determining and revising BOCHK's credit risk management policies and procedures. BOCHK believes that independence and proper checks-and-balances are of critical importance in effective risk management. To this purpose, in BOCHK's managerial/organisational structure, the RMD and the Audit Department are placed onto the hierarchical position in which they report directly to the RMC and Audit Committee respectively. All these committees and departments form an independent line of control.

In addition, respective responsibilities, accountabilities and authorities related to credit risk management are clearly defined throughout BOCHK.

The Chief Executive is responsible for, among other things, implementing the credit risk management strategy and significant policies approved by the Board. The Chief Executive is also charged with balancing BOCHK's goal of generating a high yield on its assets with the need to maintain risk exposure within the shareholder's tolerance level.

The Credit Committee has primary responsibility for reviewing and approving loans exceeding the credit extension limit of the deputy chief executives of credit initiation unit, loans exceeding the credit extension limit of the head of the Special Assets Management Department in the course of restructuring classified loans, loans exceeding the veto right of the CRO and applications which have been vetoed by our CRO and in respect of which an appeal has been lodged with the credit committee. BOCHK's credit initiation units, such as Corporate Banking, Retail Banking and China Business Head Office, act as the first line of risk control. They are required to conduct business activities within the limits of delegated authority and in accordance with BOCHK's credit risk management strategy, policies and procedures.

The RMD, being structurally independent to credit initiation units, assists the Chief Executive in managing credit risk based on the credit risk management strategies and policies. It also provides independent due diligence relating to identifying, measuring, monitoring and controlling credit risk. To avoid any potential conflicts of interest, the credit review functions are independent of the business development units. Multilevel credit approval authorities are set depending mostly on the credit officers' professional experience, skill and responsibilities. All credit approval and review authorities originate from BOCHK's Board of Directors.

The Special Assets Management Department is responsible for the collection of NPLs. Other departments, though not specified above, are also charged with relevant matters in relation to credit risk management.



## Unaudited Supplementary Financial Information (continued)

### 9. Risk management (continued)

#### Credit Approval Procedures

BOCHK employs discriminatory approval procedures for high-risk loans and low-risk loans.

Low risk credit transactions that fulfil certain requirements relating to credit types, loan purposes, loan amount, guarantee, collateral coverage and security adequacy are processed using low risk loan approval procedures. Under these procedures, authorised credit officers in credit initiation units may approve this type of credit applications without prior review by the RMD. The corresponding loan review officer in the RMD should conduct independent post-approval reviews of such pre-approved low risk credit transactions and assess if initial credit decisions have been made in accordance with the established procedures.

For high-risk loans, credit officers in credit initiation units can only accept and review loan applications and make the initial lending decisions. These credit applications are then independently evaluated by review officers in the RMD in the respect of compliance with policies and procedures, adequacy of credit risk assessment, and information sufficiency. The RMD is authorised to exercise the right of veto or concurrence based on the review conclusions.

Significant loans include loans exceeding the credit extension limit of the deputy chief executives of the Group's credit initiation units, loans exceeding the credit extension limit of the head of the Special Assets Management Department in the course of restructuring classified loans, loans exceeding the approval right of the CRO and loan applications which have been vetoed by our CRO and in respect of which an appeal has been lodged with the Credit Committee. Significant loans are reviewed and approved by the Credit Committee.

#### Credit Risk Assessment

The result of credit risk assessments is a critical factor in making credit decisions. BOCHK's credit assessment emphasises a thorough understanding of the purpose and structure of the loan, the borrower's financial status, cash flow position and repayment ability as well as business management. BOCHK also evaluates the industry risk associated with the corporate borrowers. When assessing an individual loan application, BOCHK considers overall credit risk at the portfolio level.

#### Credit Risk Monitoring

BOCHK has an independent dedicated division in RMD to conduct thorough and comprehensive monitoring on each obligor and group of obligors to identify and control the individual and overall credit risk in our loan portfolio.

To detect early signs of deterioration in credit status of obligors and to trigger closer monitoring to prevent further deterioration, an early alert program for potential problem customers has been established.

To ensure continuous efforts have been dedicated to resolve NPLs, BOCHK has set up internal targets to evaluate the performance in the resolution of criticised loans. RMD provides regular monitoring reports on the progress to senior management for high-level oversight.

#### Market Risk Management

Market risk is the risk of loss relating to the change in value of a financial instrument or a portfolio due to changes in the value of market variables, such as interest rates, foreign exchange rates and market prices will result in losses in on- and off-balance sheet positions. BOCHK's market risk arises from customer-related business and from position taking. Market risk trading positions are subject to daily mark-to-market valuation.

Market risk is managed within risk limits approved by the RMC. The overall risk limits are set into sub-limits by reference to different risk factors, which are interest rate, foreign exchange, commodity and equity prices. Considering the different nature of the products involved, limits are set by using a combination of risk measurement techniques, including position limits and sensitivity limits.

## Unaudited Supplementary Financial Information (continued)

### 9. Risk management (continued)

#### Market Risk Management (continued)

Having set up the monitoring limits and supervisory procedures, the Market Risk Division in the RMD is responsible for the daily market risk management. Through the daily risk monitoring process, the Market Risk Division measures risk exposures against approved limits and initiates specific action to ensure that the overall and individual market risks are managed within an acceptable level.

Value at Risk ("VaR") is a statistical measure of the dollar amount of potential losses from adverse market movements in market rates and prices over a specified time horizon and to a given level of confidence. The VaR methodology used by BOCHK is based on a variance/covariance basis, uses historical movements in market rates and prices, a 99% confidence level and a 1-day holding period and generally takes account of correlations between different markets and rates.

At 30 June 2003, the VaR for all trading market risk exposure of BOCHK was HK\$5.4 million compared with HK\$3.3 million at 31 December 2002, the VaR for all trading interest rate risk exposure was HK\$5.1 million (HK\$2.1 million at 31 December 2002) and the VaR for all trading foreign exchange risk exposure was HK\$1.1 million (HK\$1.1 million at 31 December 2002). The average VaR for the first half of 2003 was HK\$4.1 million, with a maximum of HK\$12.6 million and a minimum of HK\$1.2 million for the period.

For the first half of 2003, the average daily revenue of BOCHK earned from market risk-related trading activities was HK\$2.3 million (HK\$2.4 million for the first half of 2002). The standard deviation of these daily trading revenues was HK\$3.2 million (HK\$1.5 million for the first half of 2002). The most frequent result was daily trading revenue of between HK\$1 million to HK\$4 million, with 61 occurrences. The highest daily revenue was HK\$11.4 million.

#### Foreign Exchange Risk Management

BOCHK provides foreign exchange deposit, margin trading and forward transaction services to its customers. BOCHK's trading activities in the foreign currency markets expose it to exchange rate risk. BOCHK manages exchange rate risks through its interbank market activities. In particular, BOCHK mitigates exchange rate risks by establishing position limits and limits on the loss of the whole foreign exchange trading floor. All these limits are approved by the RMC. The RMD is responsible for monitoring foreign exchange exposure and related stop-loss limits on a day-to-day basis as well as controlling BOCHK's credit risk exposure arising from foreign exchange transactions.

#### Interest Rate Risk Management

BOCHK's interest rate exposures comprise trading exposures and structural interest rate exposures. The major types of interest rate risk are: (1) Re-pricing risk: mismatches in the maturities or re-pricing periods of assets and liabilities; (2) Basis risk: different pricing bases for different transactions so that yield on assets and cost of liabilities may change by different amounts within the same re-pricing period.

BOCHK's ALCO maintains oversight of interest rate risk; the Risk Management Committee of the Board of Directors sanctions the interest rate risk management policies formulated by the ALCO. The Treasurer, under the supervision of the CFO, carries out approved policies and develops risk management system to identify, measure, monitor, and control interest rate risk.

Gap analysis is the primary tool used to measure BOCHK's exposure to interest rate risk. It provides BOCHK with a static view of the maturity and re-pricing characteristics of its balance sheet positions. The gap is the difference between the amount of interest-earning assets and interest-bearing liabilities that mature or must be re-priced within a specific time band. The Treasurer calculates the gaps by classifying all assets, liabilities and off-balance sheet items for each currency into appropriate time bands according to contracted maturities or anticipated re-pricing time bands. The magnitude of the gaps indicate the extent to which BOCHK is exposed to the risk of potential changes in the margins on new or re-priced assets and liabilities, and are controlled according to the gap limits approved by the Board. BOCHK uses interest rate derivatives to hedge its interest rate exposures; in most cases, plain vanilla interest rate swap is used.

## Unaudited Supplementary Financial Information (continued)

### 9. Risk management (continued)

#### Interest Rate Risk Management (continued)

Sensitivity of earnings to interest rate changes is assessed through hypothetical interest rate shock of 100 basis points (on both sides) across the yield curve. This is refined using scenario analysis, based on alternative scenarios around the most likely interest rate path. Variations in net interest income are controlled within 5% of the budgeted amount for the year. Basis risk is directly related to the relative change in assets and liabilities that are indexed to the base lending rate or money market rate. The impact is gauged by the projected change in net interest income under scenarios of uncorrelated movements in rates, given the mix of pricing bases of assets and liabilities. The results of analysis are monitored by the CFO on a daily basis.

#### Liquidity Risk Management

Liquidity risk arises in the funding of lending, trading and investment activities and in the management of trading positions. Liquidity risk includes both the risk of unexpected increase in the cost of funding to refinance the BOCHK's asset portfolio at appropriate maturities and the risk of being unable to liquidate a position in a timely manner and/or at a reasonable price.

The goal of liquidity management is for BOCHK to be able, even under adverse market conditions, to meet all its maturing repayment obligations on time and to fund all of its investment opportunities.

BOCHK maintains flexibility in meeting its funding requirements by maintaining diverse sources of liquidity. BOCHK funds its operations principally by accepting deposits from retail and corporate depositors. BOCHK may also borrow in the short-term interbank markets, although it is typically a net lender of funds. In addition, BOCHK may from time to time raise funds through the sale of investments.

BOCHK uses the majority of funds raised to extend loans, to purchase debt securities or to conduct interbank placements. Generally deposits have a shorter average maturity than interbank placements that in turn are of shorter average maturity compared with that of loans or investments.

BOCHK maintains a buffer portfolio of liquid, high quality securities that is managed by BOCHK's Treasurer under the supervision of the CFO and the ALCO. These securities may generally be sold at any time at market prices to meet BOCHK's emergent liquidity needs. BOCHK may also manage its liquidity by borrowing in the interbank markets on a short-term basis. The interbank markets generally provide an adequate amount of liquidity, at borrowing rates that are subject to market conditions.

The primary goal of the BOCHK's asset and liability management strategy is to achieve an optimal return while ensuring adequate levels of liquidity and capital within an effective risk control framework and at reasonable cost of funding. BOCHK's ALCO is responsible for establishing these policy directives and works closely with the Treasurer to ensure that BOCHK maintains adequate levels of liquidity and secures the lowest possible cost of funding, while closely planning and monitoring BOCHK's on- and off-balance sheet assets and liabilities with regard to the risk incurred. The Treasurer adjusts, as necessary, BOCHK's liquidity and structural foreign exchange positions in line with the policies of the ALCO, and also provides reporting and analytical services to the ALCO with respect to current and planned positions taken for investment, funding and structural foreign exchange management purposes. In particular, BOCHK has implemented various measures to:

- improve its management information system to provide timely information on the movement of its liquid assets and that of its customer deposits on a daily, weekly and monthly basis;
- monitor liquidity ratios in compliance with the HKMA's requirements;
- prepare regular maturity gap analysis to enable management to review and monitor BOCHK's liquidity position on a timely basis;

## Unaudited Supplementary Financial Information (continued)

### 9. Risk management (continued)

#### Liquidity Risk Management (continued)

- conduct scenario analysis to estimate the impact of various risk factors on the liquidity position;
- establish a range of liquidity risk factors for monitoring purposes and a liquidity risk warning index system to detect early signs of any irregularities; and
- create a three-tier response system to effectively deal with any emergencies.

#### Capital Management

The major objective of capital management is to maximise the returns to shareholders with the requirement to maintain strong capital ratio and high debt ratings. We maintain our strong capital ratio through internal capital generation, and would consider adjusting the capital mix when appropriate. The ALCO monitors the adequacy of its capital using the CAR as one of the major measurements, which is subject to the HKMA regulatory requirements. The Group maintained its capital to comply with all the statutory standards for all the periods presented in the report. On consolidated basis, BOCHK's unadjusted CAR and adjusted CAR incorporating market risk increased from 13.99% and 14.39% as at the end of last year to 14.66% and 14.87% respectively as at 30 June of this year. The main reasons were the increase in retained earnings on the one hand and decrease in loan commitments on the other. The ratios were well above the statutory minimum standards.

#### Operational Risk Management

Operational risk, one of the major risks exposed to BOCHK, is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is BOCHK's objective to manage this risk in line with the best practice of the industry.

In order to achieve effective internal control, BOCHK is to maintain adequate documentation of its business processes and operating procedures. It also emphasises on segregation of duties and independent authorisation among all business activities.

BOCHK monitors operational risk losses and periodically collects loss data to meet the requirements of Basel Committee's New Capital Accord.

Business Continuity Plan is in place. Adequate backup facilities are maintained to support business operations in the event of disasters. In the outbreak of SARS, our contingency mechanism reacted and operated effectively. BOCHK also arranges insurance cover to mitigate potential losses in respect of operational risk.

## Appendix

### Subsidiaries of the Company

The particulars of our subsidiaries are as follows:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities
<b>Directly held:</b>				
Bank of China (Hong Kong) Limited	Hong Kong 16 October 1964	Ordinary shares HK\$43,042,840,858	100.00%	Banking business
<b>Indirectly held:</b>				
Nanyang Commercial Bank, Limited	Hong Kong 2 February 1948	Ordinary shares HK\$600,000,000	100.00%	Banking business
Chiyu Banking Corporation Limited	Hong Kong 24 April 1947	Ordinary shares HK\$300,000,000	70.49%	Banking business
BOC Credit Card (International) Limited	Hong Kong 9 September 1980	Ordinary shares HK\$100,000,000	100.00%	Credit card services
Arene Trading Limited	Hong Kong 22 August 1978	Ordinary shares HK\$500,000	100.00%	Property holding
Attempt Fit Enterprises Limited	Hong Kong 30 March 1993	Ordinary shares HK\$10,000	100.00%	Property holding
Bank of China (Hong Kong) Nominees Limited	Hong Kong 1 October 1985	Ordinary shares HK\$2	100.00%	Nominee services
Bank of China (Hong Kong) Trustees Limited	Hong Kong 6 November 1987	Ordinary shares HK\$3,000,000	100.00%	Trustee services
BOC Group Trustee Company Limited	Hong Kong 1 December 1997	Ordinary shares HK\$200,000,000	64.20%	Trustee services
BOC Travel Services Limited	Hong Kong 24 August 1982	Ordinary shares HK\$2,000,000	100.00%	Travel services
BOCHK Information Technology (Shenzhen) Co., Ltd. (Note 1)	PRC 16 April 1990	Registered capital HK\$70,000,000	100.00%	Development of software
BOCI-Prudential Trustee Limited	Hong Kong 11 October 1999	Ordinary shares HK\$300,000,000	41.10%	Trustee services
Champion Leader International Limited	Hong Kong 19 January 1998	Ordinary shares HK\$2	100.00%	Club management
Che Hsing (Nominees) Limited	Hong Kong 23 April 1980	Ordinary shares HK\$10,000	100.00%	Nominee services

## Appendix (continued)

### Subsidiaries of the Company (continued)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities
Chiyu Banking Corporation (Nominees) Limited	Hong Kong 3 November 1981	Ordinary shares HK\$100,000	70.49%	Investment holding
Chung Chiat Company Limited	Hong Kong 9 April 1980	Ordinary shares HK\$200	100.00%	Property holding
Dwell Bay Limited	Hong Kong 19 December 1980	Ordinary shares HK\$100,000	100.00%	Property holding
Excellent Way Properties Limited	Hong Kong 17 December 1992	Ordinary shares HK\$10,000	100.00%	Property holding
Fortune Holds Development Limited	Hong Kong 22 January 1997	Ordinary shares HK\$10,000	100.00%	Property holding
Glister Company Limited	Hong Kong 26 March 2001	Ordinary shares HK\$2	70.49%	Investment holding
Glory Cardinal Limited	Hong Kong 4 May 2001	Ordinary shares HK\$2	70.49%	Investment holding
Grace Charter Limited	Hong Kong 4 May 2001	Ordinary shares HK\$2	70.49%	Investment holding
G.Z.Y. Microfilm Technology (Shenzhen) Co., Ltd.	PRC 24 September 1993	Registered capital HK\$40,000,000	100.00%	Microfilm services
Hua Chiao Commercial (Nominees) Limited	Hong Kong 28 October 1986	Ordinary shares HK\$10,000	100.00%	Nominee services
Kincheng Finance (H.K.) Limited	Hong Kong 30 March 1979	Ordinary shares HK\$225,000,000	100.00%	Loan financing
Kincheng Investments & Developments (H.K.) Limited	Hong Kong 15 May 1981	Ordinary shares HK\$6,000	100.00%	Property and investment holding
Kincheng (Nominees) Limited	Hong Kong 12 December 1980	Ordinary shares HK\$100,000	100.00%	Nominee services
Kiu Nam Investment Corporation Limited	Hong Kong 9 November 1963	Ordinary shares HK\$2,000,000	100.00%	Property investment
Kwong Li Nam Investment Agency Limited	Hong Kong 25 May 1984	Ordinary shares HK\$3,050,000	100.00%	Investment agency
Nan Song Company, Limited	Hong Kong 13 April 1965	Ordinary shares HK\$1,000,000	100.00%	Property investment and investment holding

## Appendix (continued)

### Subsidiaries of the Company (continued)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities
Nanyang Commercial Bank (Nominees) Limited	Hong Kong 22 August 1980	Ordinary shares HK\$50,000	100.00%	Nominee services
Nanyang Commercial Bank Trustee Limited	Hong Kong 22 October 1976	Ordinary shares HK\$3,000,000	100.00%	Trustee services
Nanyang Finance Company Limited	Hong Kong 16 March 1979	Ordinary shares HK\$50,000,000	100.00%	Financial services
Own More Investments Limited (Note 2)	Hong Kong 3 June 1987	Ordinary shares HK\$2	100.00%	Corporate services
Pacific Trend Profits Corporation	British Virgin Islands 20 April 2001	Registered shares US\$1	70.49%	Investment holding
Patson (HK) Limited	Hong Kong 18 August 1970	Ordinary shares HK\$1,000,000	100.00%	Property investment
Perento Limited	Hong Kong 27 September 1983	Ordinary shares HK\$10,000	100.00%	Property investment
Po Hay Enterprises Limited	Hong Kong 2 October 1979	Ordinary shares HK\$100,000	100.00%	Property holding
Po Sang Financial Investment Services Company Limited	Hong Kong 23 September 1980	Ordinary shares HK\$25,000,000	100.00%	Gold trader
Po Sang Futures Limited	Hong Kong 19 October 1993	Ordinary shares HK\$25,000,000	100.00%	Commodities brokerage
Po Sang (Nominees) Limited	Hong Kong 29 April 1993	Ordinary shares HK\$10,000	100.00%	Nominee and financial related services
Prosper Glory Limited	Hong Kong 14 May 2001	Ordinary shares HK\$2,000	100.00%	Pledge holding
Rams City (Nominees) Limited	Hong Kong 2 May 1986	Ordinary shares HK\$2,000,000	100.00%	Nominee services
Rams City Trustee Limited	Hong Kong 16 April 1981	Ordinary shares HK\$14,300,000	100.00%	Trustee services
Sanicon Investment Limited	Hong Kong 24 January 2000	Ordinary shares HK\$2	100.00%	Investment holding
Seng Sun Development Company, Limited	Hong Kong 11 December 1961	Ordinary shares HK\$2,800,000	70.49%	Investment holding

## Appendix (continued)

### Subsidiaries of the Company (continued)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Percentage of attributable equity interest	Principal activities
Seng Sun Development (Xiamen) Co., Ltd.	PRC 17 April 1993	Registered capital US\$5,000,000	70.49%	Property development and investment
Shenstone Limited	Hong Kong 4 September 1979	Ordinary shares HK\$2	100.00%	Property holding
Shenyin Storage (Shenzhen) Co., Ltd.	PRC 26 May 1993	Registered capital HK\$40,000,000	100.00%	Storage services
Sin Chiao Enterprises Corporation, Limited	Hong Kong 13 September 1961	Ordinary shares HK\$3,000,000	100.00%	Property investment and leasing
Sin Hua Trustee Limited	Hong Kong 27 October 1978	Ordinary shares HK\$3,000,000	100.00%	Trustee services
Sin Mei (Nominee) Limited	Hong Kong 27 April 1982	Ordinary shares HK\$100,000	100.00%	Nominee services
Sin Yeh Shing Company Limited	Hong Kong 28 November 1980	Ordinary shares HK\$100,000	100.00%	Property holding and leasing
Sino Information Services Company Limited	Hong Kong 11 February 1993	Ordinary shares HK\$7,000,000	100.00%	Information services
The China-South Sea (Nominees) Services Limited	Hong Kong 13 February 1981	Ordinary shares HK\$100,000	100.00%	Nominee services
The China-South Sea Trustee Limited	Hong Kong 15 May 1979	Ordinary shares HK\$3,000,000	100.00%	Trustee services
The China State (Nominees) Limited	Hong Kong 14 May 1982	Ordinary shares HK\$100,000	100.00%	Nominee services
The China State Trustee Limited	Hong Kong 17 July 1981	Ordinary shares HK\$3,000,000	100.00%	Trustee services
Track Link Investment Limited	Hong Kong 8 February 1994	Ordinary shares HK\$2	100.00%	Property holding
The Yien Yieh Finance Company Limited	Hong Kong 27 March 1979	Ordinary shares HK\$25,000,000	100.00%	Loan financing
Yien Yieh (Nominee) Limited	Hong Kong 26 June 2001	Ordinary shares HK\$2,000	100.00%	Nominee services

Note: 1. The company was formerly known as BOC Computer (Shenzhen) Software Centre with its name change effective from 18 June 2003.

2. The company has commenced members' voluntary winding up on 28 May 2003.



## Shareholder Information

### Financial Calendar 2003

Announcement of 2002 annual results	20 March (Thu)
2003 Annual General Meeting	29 May (Thu)
Final dividend payment date	30 May (Fri)
Announcement of 2003 interim results	5 September (Fri)
Last day in Hong Kong of dealings in Company's shares with entitlement to interim dividend	19 September (Fri)
Latest time in Hong Kong for lodging transfers for entitlement to interim dividend	23 September (Tue) 4:00 p.m.
ADSs record date for interim dividend	24 September (Wed)
Book closure period (both days inclusive)	24 September (Wed) to 30 September (Tue)
Record date for interim dividend	30 September (Tue)
Interim dividend payment date	9 October (Thu)

### Interim Dividend

The Directors have declared an interim dividend of HK\$0.195 per share.

### Share Information

#### Listing

The Company's ordinary shares are listed and traded on the Stock Exchange. In addition, the Company maintains a Level I ADR facility for its ADSs. Each ADS represents 20 ordinary shares of the Company.

#### Ordinary shares (as at 30 June 2003)

Issued shares: 10,572,780,266

Public float: 2,481,928,000 (23.47%)

(based on the Register of Interests maintained by the Company pursuant to the SFO)

#### Nominal value

HK\$5.00 per share

#### Market capitalisation (as at 30 June 2003)

HK\$83 billion

#### Index constituent

The Company is a constituent of the following indices:

Hang Seng Index

Hang Seng London Reference Index

MSCI Hong Kong Index

FTSE All-World Hong Kong Index

#### Stock codes

Ordinary shares

The Stock Exchange of Hong Kong Limited 2388

Reuters 2388.HK

Bloomberg 2388 HK

ADR Programme

CUSIP No.: 096813209

OTC Symbol: BHKLY

## Shareholder Information (continued)

### Shareholder Enquiries

Any matters relating to your shareholding, e.g. transfer of shares, change of name or address, lost share certificates and dividend warrants, should be sent in writing to:

#### Hong Kong

Computershare Hong Kong Investor Services Limited  
Rooms 1901-5, 19th Floor  
Hopewell Centre  
183 Queen's Road East  
Telephone: (852) 2862 8628  
Facsimile: (852) 2529 6087

#### USA

ADSs Depository Bank  
Citibank, N.A.  
111 Wall Street  
New York, NY 10005  
Telephone: (1-212) 657 1853  
Facsimile: (1-212) 825 5398

### Investor Relations

Enquiries may be directed to:

Investor Relations Division  
BOC Hong Kong (Holdings) Limited  
52nd Floor  
Bank of China Tower  
1 Garden Road  
Hong Kong  
Telephone: (852) 2903 6602/(852) 2826 6314  
Facsimile: (852) 2810 5830  
E-mail: investor\_relations@bochk.com

### Other Information

This Interim Report is available in both English and Chinese. A copy prepared in the language different from that in which you have received is available by writing to the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong. This Interim Report is also available (in both English and Chinese) on the Company's website at [www.bochkholdings.com](http://www.bochkholdings.com).

If you have any queries about how to obtain copies of this Interim Report or how to access those documents on the Company's website, please call the Company's hotline at (852) 2846 2700.

## Definitions

In this Interim Report, unless the context otherwise requires, the following terms shall have the meanings set out below:

Terms	Meanings
“ADR”	American Depositary Receipt
“ADSs”	American Depositary Shares
“ALC”	Anti-money Laundering Committee
“ALCO”	Asset and Liability Management Committee
“Associate”	has the meaning ascribed to “associate” in the Listing Rules
“ATM”	Automated Teller Machine
“Board” or “Board of Directors”	the Board of Directors of BOC Hong Kong (Holdings) Limited
“BOC”	Bank of China, a state-owned commercial bank established under the laws of the PRC
“BOC (BVI)”	BOC Hong Kong (BVI) Limited, a company incorporated under the laws of the British Virgin Islands and a wholly owned subsidiary of BOCHK
“BOC Cayman”	the Cayman Islands Branch of Bank of China
“BOC-CC”	BOC Credit Card (International) Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOCHK
“BOC Group Trustee”	BOC Group Trustee Company Limited, a company incorporated under the laws of Hong Kong, in which the Group and BOCI hold equity interests of 66% and 34%, respectively
“BOCHK”	Bank of China (Hong Kong) Limited (formerly known as Po Sang Bank Limited), a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of the Company
“BOCHKG”	BOC Hong Kong (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC
“BOC Insurance”	Bank of China Group Insurance Company Limited, a company incorporated under the laws of Hong Kong and an indirect wholly owned subsidiary of BOC
“BOC Investment”	Bank of China Group Investment Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC
“BOC Life”	BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC Insurance
“BOC Shanghai”	the Shanghai Branch of Bank of China
“BOC Shenzhen”	the Shenzhen Branch of Bank of China
“BOCI”	BOC International Holdings Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC
“BOCI Asia”	BOCI Asia Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOCI
“BOCI Capital”	BOCI Capital Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOCI

## Definitions (continued)

Terms	Meanings
"BOC Markets"	the Hong Kong Branch of Bank of China
"BOCI-Prudential Manager"	BOCI-Prudential Asset Management Limited, a company incorporated under the laws of Hong Kong, in which BOCI Asset Management Limited, a wholly owned subsidiary of BOCI, and Prudential hold equity interests of 64% and 36%, respectively
"BOCI-Prudential Trustee"	BOCI-Prudential Trustee Limited, a company incorporated under the laws of Hong Kong, in which BOC Group Trustee and Prudential hold equity interests of 64% and 36%, respectively
"BOCI Securities"	BOCI Securities Limited, a company incorporated under the laws of Hong Kong and an indirect wholly owned subsidiary of BOCI
"CAR"	Capital Adequacy Ratio
"CBS"	Corporate Banking System
"CEPA"	Closer Economic Partnership Arrangement
"CFO"	Chief Financial Officer
"CRO"	Chief Risk Officer
"Company"	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong, and except where the context otherwise requires, these references are to the Group
"Chiyu"	Chiyu Banking Corporation Limited, a company incorporated under the laws of Hong Kong, in which BOCHK holds an equity interest of 70.49%
"EFBNs"	Exchange Fund Bills and Notes
"Group"	the Company and its subsidiaries collectively referred as the Group
"HKMA"	Hong Kong Monetary Authority
"HKSA"	Hong Kong Society of Accountants
"HKSAR Government"	Hong Kong Special Administrative Region Government
"Hua Chiao"	Hua Chiao Commercial Limited (formerly known as Hua Chiao Commercial Bank Limited), a company incorporated under the laws of Hong Kong, in which BOC holds an equity interest of 93.64%
"ICBC"	Industrial and Commercial Bank of China
"IPO"	Initial Public Offering
"IT"	Information Technology
"Kawell"	Kawell Investments Limited
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"Mainland" or "Mainland China" or "Mainland of China"	The mainland of the PRC

## Definitions (continued)

Terms	Meanings
“MPF”	Mandatory Provident Fund
“MPF Scheme”	Mandatory Provident Fund Scheme
“MPF Schemes Ordinance”	the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong, as amended
“MSCI Hong Kong Index”	Morgan Stanley Capital International Hong Kong Index
“Nanyang”	Nanyang Commercial Bank, Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOCHK
“NBCE”	Non-bank Chinese Entities
“NPL”	Non-performing Loan
“ORSO schemes”	the Occupational Retirement Schemes under Occupational Retirement Schemes Ordinance, Chapter 426 of the Laws of Hong Kong
“Other Schemes and Plans”	Plan and any other share option schemes and savings-based share option plans of any company in the Group
“Perento”	Perento Limited, a fellow subsidiary, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOCHK
“POWL”	Public Offering Without Listing
“PRC”	The People’s Republic of China
“RCC”	Risk Control Committee
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“RMC”	Risk Management Committee
“RMD”	Risk Management Department
“RTGS”	Real Time Gross Settlement System
“SARS”	Severe Acute Respiratory Syndrome
“SBUs”	Strategic Business Units
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“SME”	the Small and Medium-Sized Enterprise
“Sin Chiao”	Sin Chiao Enterprises Corporation Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOCHK
“SSAPs”	Statements of Standard Accounting Practice
“Stock Exchange” or “Stock Exchange of Hong Kong”	The Stock Exchange of Hong Kong Limited
“VaR”	Value at Risk
“Zhong Gang”	Zhong Gang (Cayman) Company Limited, a company incorporated under the laws of the Cayman Islands and a wholly owned subsidiary of BOC

