

Notes

1. Basis of preparation and accounting policies

This unaudited interim report is prepared in accordance with SSAP 25 "Interim Financial Reporting" issued by the HKSA and should be read in conjunction with the Group's Annual Report 2003.

The unaudited consolidated interim financial statements have been prepared on a basis consistent with the accounting policies and methods of computation adopted in the Group's accounts for the year ended 31 December 2003.

2. Other operating income

| | Half-year ended 30 June 2004 HK\$m | Half-year ended 30 June 2003 HK\$m |
|--|---|--|
| Fees and commission income (Note) | 2,221 | 1,690 |
| Less: Fees and commission expenses | (510) | (313) |
| Net fees and commission income | 1,711 | 1,377 |
| Dividend income from investments in securities - unlisted investments | 13 | 31 |
| Net gain from other investments in securities | 24 | 156 |
| Net gain from foreign exchange activities | 584 | 478 |
| Net gain from other dealing activities | 54 | 17 |
| Gross rental income from investment properties | 108 | 128 |
| Less: Outgoings in respect of investment properties | (32) | (40) |
| Others | 52 | 105 |
| | 2,514 | 2,252 |

Notes (continued)

2. Other operating income (continued)

Note:

Fees and commission income

| | Half-year ended 30 June 2004 HK\$'m | Half-year ended 30 June 2003 HK\$'m |
|--------------------------------|--|---|
| Securities brokerage | 502 | 198 |
| Credit cards | 316 | 249 |
| Bills commissions | 270 | 275 |
| Loan commissions | 234 | 241 |
| Payment services | 165 | 151 |
| Insurance | 179 | 113 |
| Asset management | 175 | 82 |
| Trust services | 32 | 33 |
| Guarantees | 21 | 20 |
| Others | | |
| - safe deposit box | 82 | 84 |
| - low deposit balance accounts | 35 | 63 |
| - currency exchange | 24 | 19 |
| - BOC cards | 18 | 21 |
| - dormant accounts | 15 | 9 |
| - agency services | 11 | 8 |
| - postage and telegrams | 12 | 8 |
| - information search | 18 | 5 |
| - correspondent banking | 8 | 7 |
| - RMB business | 13 | — |
| - sundries | 91 | 104 |
| | 2,221 | 1,690 |

Notes (continued)

3. Operating expenses

| | Half-year ended 30 June 2004 HK\$m | Half-year ended 30 June 2003 HK\$m |
|--|---|--|
| Staff costs (including directors' emoluments) | | |
| - salaries and other costs | 1,505 | 1,511 |
| - pension cost | 122 | 123 |
| | 1,627 | 1,634 |
| Premises and equipment expenses (excluding depreciation) | | |
| - rental of premises | 117 | 107 |
| - information technology | 134 | 110 |
| - others | 95 | 92 |
| | 346 | 309 |
| Depreciation on owned fixed assets | 293 | 322 |
| Auditors' remuneration | | |
| - audit services | 4 | 10 |
| - non-audit services | 9 | 7 |
| Other operating expenses | 388 | 415 |
| | 2,667 | 2,697 |

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

| | Half-year ended 30 June 2004 HK\$m | Half-year ended 30 June 2003 HK\$m |
|--|---|--|
| Net charge for bad and doubtful debts | | |
| Specific provisions | | |
| - new provisions | (811) | (2,537) |
| - releases | 1,327 | 482 |
| - recoveries | 733 | 220 |
| | 1,249 | (1,835) |
| General provisions | (9) | 166 |
| Net credit/(charge) to profit and loss account | 1,240 | (1,669) |

Notes (continued)

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

| | Half-year ended 30 June 2004 HK\$'m | Half-year ended 30 June 2003 HK\$'m |
|--|--|---|
| Net gain/(loss) on disposal of fixed assets | 46 | (18) |
| Net gain/(loss) on revaluation of fixed assets | 2 | (1,223) |
| | 48 | (1,241) |

The independent professional valuations of the Group's premises and investment properties were conducted by an independent firm of chartered surveyors, Chesterton Petty Limited at 30 June 2003 and 31 October 2003 respectively. Net gain on revaluation of fixed assets in current period was attributable to the revaluation of premises upon reclassification from premises to investment properties.

6. Taxation

Taxation in the profit and loss account represents:

| | Half-year ended 30 June 2004 HK\$'m | Half-year ended 30 June 2003 HK\$'m |
|--|--|---|
| Hong Kong profits tax | | |
| - current period taxation | 1,184 | 732 |
| - over-provision in prior years | (5) | (718) |
| Deferred tax (credit)/charge | (65) | 160 |
| Hong Kong profits tax | 1,114 | 174 |
| Overseas taxation | 5 | 1 |
| | 1,119 | 175 |
| Share of taxation attributable to associates | — | 1 |
| | 1,119 | 176 |

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the first half of 2004. Taxation on overseas profits has been calculated on the estimated assessable profit for the first half of 2004 at the rates of taxation prevailing in the countries in which the Group operates.

The Group has entered into a number of aircraft leasing and coupon strip transactions involving special purpose partnerships. As at 30 June 2004, the Group's investments in such partnerships, which are included in "Other assets" in the consolidated balance sheet, amounted to HK\$464 million (31 December 2003: HK\$1,474 million). The Group's investments in partnerships are amortised over the life of the partnerships in proportion to the taxation benefits resulting from those investments.

Notes (continued)

6. Taxation (continued)

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

| | Half-year ended 30 June 2004 HK\$m | Half-year ended 30 June 2003 HK\$m |
|---|---|--|
| Profit before taxation | 6,776 | 3,245 |
| Calculated at a taxation rate of 17.5% | 1,186 | 568 |
| Effect of different taxation rates in other countries | (20) | (23) |
| Income not subject to taxation | (801) | (69) |
| Expenses not deductible for taxation purposes | 823 | 255 |
| Tax losses not recognised | 1 | 2 |
| Temporary differences not recognised | (65) | 160 |
| Over-provision in prior years | (5) | (718) |
| Share of taxation attributable to associates | — | 1 |
| Taxation charge | 1,119 | 176 |

7. Dividend

| | Half-year ended 30 June 2004 | | Half-year ended 30 June 2003 | |
|------------------|---|------------------------|---------------------------------|----------------|
| | Per share HK\$ | Total HK\$m | Per share HK\$ | Total HK\$m |
| Interim dividend | 0.320 | 3,383 | 0.195 | 2,062 |

At a meeting held on 19 August 2004, the Board declared an interim dividend of HK\$0.320 per ordinary share for the first half of 2004 amounting to approximately HK\$3,383 million. This declared dividend is not reflected as a dividend payable in the accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2004.

8. Earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders for the first half of 2004 of approximately HK\$5,581 million (first half of 2003: HK\$3,012 million) and on the ordinary shares in issue of 10,572,780,266 shares (2003: 10,572,780,266 ordinary shares).

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

Notes (continued)

9. Retirement benefit costs

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

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

The Group's total contributions made to the ORSO schemes for the first half of 2004 amounted to approximately HK\$114 million (first half of 2003: approximately HK\$117 million), after a deduction of forfeited contributions of approximately HK\$9 million (first half of 2003: approximately HK\$10 million). For the MPF Scheme, the Group contributed approximately HK\$5 million and HK\$4 million respectively for the first half of 2004 and 2003.

10. Share option schemes

(a) Share Option Scheme and Sharesave Plan

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

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

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

No options were granted pursuant to the Share Option Scheme or the Sharesave Plan during the first half of 2004.

Notes (continued)

10. Share option schemes (continued)

(b) Pre-Listing Share Option Scheme

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

Details of the share options outstanding as at 30 June 2004 are as follows:

| | Directors | Senior management | Others* | Total number of share options |
|---|------------------|-------------------|------------------|-------------------------------|
| At 1 January 2004 | 12,001,800 | 14,705,700 | — | 26,707,500 |
| Transfer | (3,181,200) | — | 3,181,200 | — |
| Less: Share options exercised during the period | (361,500) | (577,500) | — | (939,000) |
| Less: Share options lapsed during the period | — | (261,000) | — | (261,000) |
| At 30 June 2004 | 8,459,100 | 13,867,200 | 3,181,200 | 25,507,500 |
| At 1 January 2003 | 13,737,000 | 17,221,600 | — | 30,958,600 |
| Less: Share options surrendered during the period | (1,735,200) | — | — | (1,735,200) |
| Less: Share options lapsed during the period | — | (365,400) | — | (365,400) |
| At 30 June 2003 | 12,001,800 | 16,856,200 | — | 28,858,000 |

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

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

Notes (continued)

11. Cash and short-term funds

| | At 30 June 2004 HK\$'m | At 31 December 2003 HK\$'m |
|--|---------------------------------------|----------------------------------|
| Cash | 4,381 | 4,247 |
| Balances with banks and other financial institutions | 21,764 | 8,300 |
| Money at call and short notice maturing within one month | 86,178 | 100,987 |
| Treasury bills (including Exchange Fund Bills) | 14,382 | 20,572 |
| | 126,705 | 134,106 |
| An analysis of treasury bills held is as follows: | | |
| Unlisted, held-to-maturity, at amortised cost | 10,353 | 17,867 |
| Unlisted, other investments in securities, at fair value | 4,029 | 2,705 |
| | 14,382 | 20,572 |

12. Certificates of deposit held

| | At 30 June 2004 HK\$'m | At 31 December 2003 HK\$'m |
|--|---------------------------------------|----------------------------------|
| Held-to-maturity, at amortised cost | | |
| - Unlisted | 18,632 | 6,585 |
| Other investments in securities, at fair value | | |
| - Unlisted | 205 | 12,191 |
| | 18,837 | 18,776 |

Notes (continued)

13. Held-to-maturity securities

| | At 30 June 2004 HK\$m | At 31 December 2003 HK\$m |
|---|--------------------------------------|---------------------------------|
| Listed, at amortised cost | 54,176 | 40,051 |
| Less: Provision for impairment in value | (12) | (12) |
| | 54,164 | 40,039 |
| Unlisted, at amortised cost | 102,530 | 61,026 |
| Total | 156,694 | 101,065 |
| Listed, at amortised cost less provision | | |
| - in Hong Kong | 4,238 | 4,000 |
| - outside Hong Kong | 49,926 | 36,039 |
| | 54,164 | 40,039 |
| Market value of listed securities | 54,585 | 40,906 |
| Held-to-maturity securities are analysed by issuers as follows: | | |
| - Central governments and central banks | 5,444 | 2,698 |
| - Public sector entities | 25,771 | 23,060 |
| - Banks and other financial institutions | 108,531 | 57,668 |
| - Corporate entities | 16,948 | 17,639 |
| | 156,694 | 101,065 |

Certain "Other investment in securities" were transferred to "Held-to-maturity securities" during the period at fair value to align with its associated intention of holding.

Notes (continued)

14. Investment securities

| | At 30 June 2004 HK\$'m | At 31 December 2003 HK\$'m |
|---|---------------------------------------|----------------------------------|
| Equity securities | | |
| - Listed in Hong Kong, at cost | 16 | 16 |
| Less: Provision for impairment in value | (14) | (14) |
| | 2 | 2 |
| - Listed outside Hong Kong, at cost | 1 | 1 |
| - Unlisted, at cost | 3 | 3 |
| | 50 | 50 |
| Total | 53 | 53 |
| Market value of listed equity securities | 7 | 7 |
| Investment securities are analysed by issuers as follows: | | |
| - Banks and other financial institutions | 1 | 1 |
| - Corporate entities | 52 | 52 |
| | 53 | 53 |

Notes (continued)

15. Other investments in securities

| | At 30 June 2004 HK\$m | At 31 December 2003 HK\$m |
|---|--------------------------------------|---------------------------------|
| At fair value | | |
| Debt securities | | |
| - Listed in Hong Kong | 404 | 286 |
| - Listed outside Hong Kong | 4,289 | 25,440 |
| | 4,693 | 25,726 |
| - Unlisted | 3,451 | 45,629 |
| | 8,144 | 71,355 |
| Equity securities | | |
| - Listed in Hong Kong | 54 | 41 |
| - Unlisted | 1 | 4 |
| | 55 | 45 |
| Total | 8,199 | 71,400 |
| Other investments in securities are analysed by issuers as follows: | | |
| - Central governments and central banks | 730 | 3,192 |
| - Public sector entities | 1,408 | 4,873 |
| - Banks and other financial institutions | 5,586 | 62,395 |
| - Corporate entities | 475 | 940 |
| | 8,199 | 71,400 |

16. Advances and other accounts

| | At 30 June 2004 HK\$m | At 31 December 2003 HK\$m |
|--|--------------------------------------|---------------------------------|
| Advances to customers | 308,513 | 308,582 |
| Accrued interest | 1,922 | 1,905 |
| | 310,435 | 310,487 |
| Provision for bad and doubtful debts | | |
| - General | (5,415) | (5,406) |
| - Specific | (3,410) | (5,507) |
| | (8,825) | (10,913) |
| | 301,610 | 299,574 |
| Advances to banks and other financial institutions | 825 | 520 |
| | 302,435 | 300,094 |

Notes (continued)

16. Advances and other accounts (continued)

Non-performing loans are analysed as follows:

| | At 30 June 2004 HK\$'m | At 31 December 2003 HK\$'m |
|--|---------------------------------------|----------------------------------|
| Non-performing loans | 12,673 | 17,832 |
| Specific provisions made in respect of such advances | 3,357 | 5,467 |
| As a percentage of total advances to customers | 4.11% | 5.78% |
| Amount of interest in suspense | 201 | 324 |

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

There were no advances to banks and other financial institutions on which interest has been placed in suspense or on which interest accrual has ceased as at 30 June 2004 and 31 December 2003, nor were there any specific provisions made.

17. Deposits from customers

| | At 30 June 2004 HK\$'m | At 31 December 2003 HK\$'m |
|--------------------------------------|---------------------------------------|----------------------------------|
| Demand deposits and current accounts | 29,183 | 26,974 |
| Savings deposits | 279,820 | 271,439 |
| Time, call and notice deposits | 255,146 | 302,229 |
| | 564,149 | 600,642 |

18. Assets pledged as security

At 30 June 2004, liabilities of the Group amounting to HK\$4,049 million (31 December 2003: HK\$2,735 million) were secured by assets deposited with central depositories to facilitate settlement operations. The amount of assets pledged by the Group to secure these liabilities was HK\$4,561 million (31 December 2003: HK\$2,918 million) included in "Cash and short-term funds".

Notes (continued)

19. Other accounts and provisions

| | At 30 June 2004 HK\$m | At 31 December 2003 HK\$m |
|--|--------------------------------------|---------------------------------|
| Interest payable | 646 | 850 |
| Current taxation (Note 20(a)) | 1,379 | 355 |
| Deferred taxation (Note 20(b)) | 277 | 341 |
| Short positions in Exchange Fund Bills (Note 18) | 4,049 | 2,735 |
| Accruals and other payables | 15,985 | 21,008 |
| | 22,336 | 25,289 |

20. Tax liabilities

| | At 30 June 2004 HK\$m | At 31 December 2003 HK\$m |
|----------------------------|--------------------------------------|---------------------------------|
| Current taxation (Note a) | 1,379 | 355 |
| Deferred taxation (Note b) | 277 | 341 |
| | 1,656 | 696 |

Note:

(a) Current taxation

| | At 30 June 2004 HK\$m | At 31 December 2003 HK\$m |
|-----------------------|--------------------------------------|---------------------------------|
| Hong Kong profits tax | 1,368 | 349 |
| Overseas taxation | 11 | 6 |
| | 1,379 | 355 |

Notes (continued)

20. Tax liabilities (continued)

Note: (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 SSAP 12 (revised) "Income taxes".

The major components of deferred tax assets and liabilities recorded in the consolidated balance sheet, and the movements during the first half of 2004 are as follows:

| | 2004 | | | | | |
|--|------------------------------------|----------------------|--------|------------|-----------------------------------|-------|
| | Accelerated tax depreciation | Asset revaluation | Losses | Provisions | Other temporary differences | Total |
| | HK\$m | HK\$m | HK\$m | HK\$m | HK\$m | HK\$m |
| At 1 January 2004 | 262 | 984 | (3) | (936) | 18 | 325 |
| (Credited)/charged to profit and loss account | (15) | (29) | (3) | 7 | (25) | (65) |
| At 30 June 2004 | 247 | 955 | (6) | (929) | (7) | 260 |
| | 2003 | | | | | |
| | Accelerated tax depreciation | Asset revaluation | Losses | Provisions | Other temporary differences | Total |
| | HK\$m | HK\$m | HK\$m | HK\$m | HK\$m | HK\$m |
| At 1 January 2003, as previously reported | 11 | — | — | — | — | 11 |
| Effect of adoption of SSAP 12 (revised) | 236 | 1,043 | (2) | (1,009) | 2 | 270 |
| At 1 January 2003, as restated | 247 | 1,043 | (2) | (1,009) | 2 | 281 |
| Charged/(credited) to profit and loss account | 15 | (48) | (1) | 73 | 16 | 55 |
| Credited to equity | — | (11) | — | — | — | (11) |
| At 31 December 2003 | 262 | 984 | (3) | (936) | 18 | 325 |

Notes (continued)

20. Tax liabilities (continued)

Note: (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:

| | At 30 June 2004 HK\$m | At 31 December 2003 HK\$m |
|----------------------------|--------------------------------------|---------------------------------|
| Deferred tax assets (Note) | (17) | (16) |
| Deferred tax liabilities | 277 | 341 |
| | 260 | 325 |

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

| | At 30 June 2004 HK\$m | At 31 December 2003 HK\$m |
|---|--------------------------------------|---------------------------------|
| Deferred tax assets to be recovered after more than twelve months | (950) | (961) |
| Deferred tax liabilities to be settled after more than twelve months | 252 | 274 |
| | (698) | (687) |

21. Share capital

| | At 30 June 2004 HK\$m | At 31 December 2003 HK\$m |
|---|--------------------------------------|---------------------------------|
| Authorised: 20,000,000,000 ordinary shares of HK\$5.00 each | 100,000 | 100,000 |
| Issued and fully paid: 10,572,780,266 ordinary shares of HK\$5.00 each | 52,864 | 52,864 |

Notes (continued)

22. Reserves

| | At 30 June 2004 HK\$'m | At 31 December 2003 HK\$'m |
|------------------------------|---------------------------------------|----------------------------------|
| Premises revaluation reserve | 63 | 62 |
| Translation reserve | (9) | (3) |
| Retained earnings | 9,538 | 7,338 |
| | 9,592 | 7,397 |

23. Notes to consolidated cash flow statement

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

| | Half-year ended 30 June 2004 HK\$'m | Half-year ended 30 June 2003 HK\$'m |
|--|--|---|
| Operating profit after provisions | 6,596 | 4,470 |
| Dividend income from investment securities | (13) | — |
| Depreciation | 293 | 322 |
| (Write-back of)/charge for bad and doubtful debts | (1,240) | 1,669 |
| Advances written off net of recoveries | (848) | (1,512) |
| Change in money at call and short notice with original maturity over three months | (146) | 2,572 |
| Change in treasury bills with original maturity over three months | 3,813 | 855 |
| Change in placements with banks and other financial institutions with original maturity over three months | 2,175 | (14,645) |
| Change in trade bills | (300) | (116) |
| Change in certificates of deposit held with original maturity over three months | 470 | (1,006) |
| Change in held-to-maturity securities | (55,628) | 1,372 |
| Change in other investments in securities | 63,201 | (10,348) |
| Change in advances and other accounts | (253) | (672) |
| Change in other assets | 2,087 | 1,246 |
| Change in deposits and balances of banks and other financial institutions repayable over three months | 9,964 | 9,967 |
| Change in deposits from customers | (36,493) | (15,842) |
| Change in certificates of deposit issued | (9) | — |
| Change in other accounts and provisions | (3,919) | 4,645 |
| Operating cash outflow before taxation | (10,250) | (17,023) |

Notes (continued)

23. Notes to consolidated cash flow statement (continued)

(b) Analysis of changes in financing

| | 2004 | |
|--|------------------------|--------------------------------|
| | Share capital HK\$m | Minority interests HK\$m |
| At 1 January 2004 | 52,864 | 1,156 |
| Minority interests share of profits | — | 76 |
| Dividend paid to minority shareholders | — | (55) |
| At 30 June 2004 | 52,864 | 1,177 |

| | 2003 | |
|--|------------------------|--------------------------------|
| | Share capital 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 |

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

| | At 30 June 2004 HK\$m | At 30 June 2003 HK\$m |
|---|-----------------------------|-----------------------------|
| Cash and balances with banks and other financial institutions | 26,145 | 6,615 |
| Money at call and short notice with original maturity within three months | 49,969 | 53,017 |
| Treasury bills with original maturity within three months | 12,754 | 14,169 |
| Placements with banks and other financial institutions with original maturity within three months | 19,452 | 16,607 |
| Certificates of deposit held with original maturity within three months | 2,116 | 495 |
| Deposits and balances of banks and other financial institutions with original maturity within three months | (50,631) | (26,072) |
| | 59,805 | 64,831 |

Notes (continued)

24. Maturity profile

The maturity profile of assets and liabilities analysed by the remaining period as at 30 June 2004 and 31 December 2003 to the contractual maturity dates is as follows:

| | At 30 June 2004 | | | | | | Total HK\$'m |
|--|----------------------------------|-------------------------------|--|---|---------------------------|-------------------|-----------------|
| | 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 | |
| Assets | | | | | | | |
| Treasury bills | — | 13,885 | 497 | — | — | — | 14,382 |
| Cash and other short-term funds | 26,169 | 86,154 | — | — | — | — | 112,323 |
| Placements with banks and other financial institutions | 16 | 56,045 | 22,692 | — | — | — | 78,753 |
| Certificates of deposit held | — | 3,281 | 6,416 | 8,823 | 317 | — | 18,837 |
| Debt securities included in: | | | | | | | |
| - held-to-maturity securities | — | 18,089 | 46,855 | 84,468 | 7,261 | 33 | 156,706 |
| - other investments in securities | — | 484 | 493 | 6,231 | 936 | — | 8,144 |
| Advances to customers | 17,492 | 26,928 | 24,788 | 125,260 | 100,980 | 13,065 | 308,513 |
| Advances to banks and other financial institutions | — | — | — | 825 | — | — | 825 |
| Liabilities | | | | | | | |
| Deposits and balances of banks and other financial institutions | 14,722 | 46,860 | 2,574 | — | — | — | 64,156 |
| Deposits from customers | 313,668 | 231,626 | 16,269 | 2,539 | 47 | — | 564,149 |
| Certificates of deposit issued | — | — | — | 2,423 | — | — | 2,423 |

Notes (continued)

24. Maturity profile (continued)

| | At 31 December 2003 | | | | | | Total HK\$m |
|--|---------------------------------|------------------------------|---|--|--------------------------|------------------|----------------|
| | 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 | |
| Assets | | | | | | | |
| Treasury bills | — | 18,923 | 1,649 | — | — | — | 20,572 |
| Cash and other short-term funds | 12,547 | 100,987 | — | — | — | — | 113,534 |
| Placements with banks and other financial institutions | 16 | 64,521 | 13,703 | — | — | — | 78,240 |
| Certificates of deposit held | — | 3,870 | 3,702 | 10,923 | 281 | — | 18,776 |
| Debt securities included in: | | | | | | | |
| - held-to-maturity securities | — | 13,358 | 9,161 | 71,227 | 7,297 | 34 | 101,077 |
| - other investments in securities | — | 12,122 | 12,521 | 44,938 | 1,774 | — | 71,355 |
| Advances to customers | 23,690 | 19,161 | 23,859 | 125,786 | 97,944 | 18,142 | 308,582 |
| Advances to banks and other financial institutions | — | 1 | 1 | 518 | — | — | 520 |
| Liabilities | | | | | | | |
| Deposits and balances of banks and other financial institutions | 6,800 | 32,151 | 2,396 | — | — | — | 41,347 |
| Deposits from customers | 303,335 | 278,509 | 17,586 | 1,212 | — | — | 600,642 |
| Certificates of deposit issued | — | — | — | 2,432 | — | — | 2,432 |

The majority of other assets and other accounts and provisions are due within 1 year.

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

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

Notes (continued)

25. Off-balance sheet exposures

(a) Contingent liabilities and commitments

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

| | At 30 June 2004 HK\$'m | At 31 December 2003 HK\$'m |
|---|---------------------------------------|----------------------------------|
| Direct credit substitutes | 1,208 | 1,264 |
| Transaction-related contingencies | 4,594 | 4,427 |
| Trade-related contingencies | 16,183 | 16,120 |
| Other commitments with an original maturity of | | |
| - under one year or which are unconditionally cancellable | 80,627 | 78,291 |
| - one year and over | 44,158 | 49,037 |
| | 146,770 | 149,139 |

Notes (continued)

25. 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 2004 | | | At 31 December 2003 | | |
|-----------------------------------|-------------------|-------------------|-----------------|---------------------|-------------------|-----------------|
| | Trading HK\$'m | Hedging HK\$'m | Total HK\$'m | Trading HK\$'m | Hedging HK\$'m | Total HK\$'m |
| Exchange rate contracts | | | | | | |
| Spot | 20,828 | — | 20,828 | 14,673 | — | 14,673 |
| Forward and futures contracts | 2,656 | — | 2,656 | 950 | — | 950 |
| Swaps | 162,509 | 4,331 | 166,840 | 184,524 | 6,254 | 190,778 |
| Foreign exchange option contracts | | | | | | |
| - Currency options purchased | 1,368 | — | 1,368 | 1,476 | — | 1,476 |
| - Currency options written | 1,026 | — | 1,026 | 4,435 | — | 4,435 |
| | 188,387 | 4,331 | 192,718 | 206,058 | 6,254 | 212,312 |
| Interest rate contracts | | | | | | |
| Interest rate swaps | 4,316 | 17,592 | 21,908 | 381 | 21,087 | 21,468 |
| Interest rate futures | 803 | — | 803 | — | — | — |
| Interest rate option contracts | | | | | | |
| - Swaption written | 1,449 | — | 1,449 | 1,446 | — | 1,446 |
| - Options purchased | 62 | — | 62 | — | — | — |
| - Options written | 62 | — | 62 | — | — | — |
| | 6,692 | 17,592 | 24,284 | 1,827 | 21,087 | 22,914 |
| Bullion contracts | | | | | | |
| Bullion contracts | 1,403 | — | 1,403 | 606 | — | 606 |
| Gold option contracts | | | | | | |
| - Gold options purchased | 129 | — | 129 | 31 | — | 31 |
| - Gold options written | 85 | — | 85 | 30 | — | 30 |
| | 1,617 | — | 1,617 | 667 | — | 667 |
| Equity contracts | | | | | | |
| Equity option contracts | | | | | | |
| - Equity options purchased | 470 | — | 470 | 1,016 | — | 1,016 |
| - Equity options written | 235 | — | 235 | 829 | — | 829 |
| | 705 | — | 705 | 1,845 | — | 1,845 |
| Total | 197,401 | 21,923 | 219,324 | 210,397 | 27,341 | 237,738 |

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

Notes (continued)

25. 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:

| | At 30 June 2004 | At 31 December 2003 | At 30 June 2004 | At 31 December 2003 |
|--|--|------------------------|-----------------------------------|------------------------|
| | Credit risk weighted amount HK\$m | HK\$m | Replacement cost HK\$m | HK\$m |
| Contingent liabilities and commitments | 27,499 | 29,813 | N/A | N/A |
| Derivatives | | | | |
| - Exchange rate contracts | 505 | 673 | 663 | 1,227 |
| - Interest rate contracts | 79 | 57 | 169 | 112 |
| - Bullion contracts | 11 | 10 | 7 | 33 |
| - Equity contracts | 12 | 29 | 4 | 9 |
| | 607 | 769 | 843 | 1,381 |
| Total | 28,106 | 30,582 | 843 | 1,381 |

The contract or notional amounts of these instruments indicate the volume of transactions outstanding as at 30 June 2004 and 31 December 2003; they do not represent the amounts at risk.

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

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

26. 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.

Notes (continued)

26. Segmental reporting (continued)

(a) By class of business

| | Half-year ended 30 June 2004 | | | | | |
|---|------------------------------|--------------------|-----------------------|--------------------|------------------------|------------------------|
| | Commercial banking HK\$'m | Treasury HK\$'m | Unallocated HK\$'m | Subtotal HK\$'m | Eliminations HK\$'m | Consolidated HK\$'m |
| Net interest income | 3,830 | 1,515 | 164 | 5,509 | — | 5,509 |
| Other operating income | 1,747 | 639 | 338 | 2,724 | (210) | 2,514 |
| Operating income | 5,577 | 2,154 | 502 | 8,233 | (210) | 8,023 |
| Operating expenses | (2,124) | (80) | (673) | (2,877) | 210 | (2,667) |
| Operating profit/(loss) before provisions | 3,453 | 2,074 | (171) | 5,356 | — | 5,356 |
| Write-back of bad and doubtful debts | 1,240 | — | — | 1,240 | — | 1,240 |
| Operating profit/(loss) after provisions | 4,693 | 2,074 | (171) | 6,596 | — | 6,596 |
| Net gain from disposal/ revaluation of fixed assets | — | — | 48 | 48 | — | 48 |
| Net gain from disposal of held-to-maturity securities and investment securities | — | — | 1 | 1 | — | 1 |
| Write-back of provision for impairment on investments in associates | — | — | 150 | 150 | — | 150 |
| Share of profits less losses of associates | — | — | (19) | (19) | — | (19) |
| Profit before taxation | 4,693 | 2,074 | 9 | 6,776 | — | 6,776 |
| At 30 June 2004 | | | | | | |
| Assets | | | | | | |
| Segment assets | 311,134 | 422,924 | 17,230 | 751,288 | — | 751,288 |
| Investments in associates | — | — | 130 | 130 | — | 130 |
| Unallocated corporate assets | — | — | 599 | 599 | — | 599 |
| | 311,134 | 422,924 | 17,959 | 752,017 | — | 752,017 |
| Liabilities | | | | | | |
| Segment liabilities | 580,407 | 105,704 | 600 | 686,711 | — | 686,711 |
| Unallocated corporate liabilities | — | — | 1,673 | 1,673 | — | 1,673 |
| | 580,407 | 105,704 | 2,273 | 688,384 | — | 688,384 |
| Half-year ended 30 June 2004 | | | | | | |
| Other information | | | | | | |
| Additions of fixed assets | — | — | 87 | 87 | — | 87 |
| Depreciation | — | — | 293 | 293 | — | 293 |
| Amortisation of premium/discount of held-to-maturity securities | — | 76 | — | 76 | — | 76 |

Notes (continued)

26. 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 |
| Net interest income | 4,987 | 1,275 | 322 | 6,584 | — | 6,584 |
| Other operating income | 1,445 | 639 | 422 | 2,506 | (254) | 2,252 |
| Operating income | 6,432 | 1,914 | 744 | 9,090 | (254) | 8,836 |
| Operating expenses | (2,130) | (82) | (739) | (2,951) | 254 | (2,697) |
| Operating profit before provisions | 4,302 | 1,832 | 5 | 6,139 | — | 6,139 |
| Charge for bad and doubtful debts | (1,669) | — | — | (1,669) | — | (1,669) |
| Operating profit after provisions | 2,633 | 1,832 | 5 | 4,470 | — | 4,470 |
| Net loss from disposal/ revaluation of fixed assets | — | — | (1,241) | (1,241) | — | (1,241) |
| Net gain from disposal of held-to-maturity securities and investment securities | — | — | 1 | 1 | — | 1 |
| Write-back of provision for impairment on held-to-maturity securities and investment securities | — | 19 | 1 | 20 | — | 20 |
| Net loss on disposal of a subsidiary | — | — | (1) | (1) | — | (1) |
| Write-back of provision for impairment on investments in associates | — | — | 6 | 6 | — | 6 |
| Share of profits less losses of associates | — | — | (10) | (10) | — | (10) |
| Profit/(loss) before taxation | 2,633 | 1,851 | (1,239) | 3,245 | — | 3,245 |
| At 31 December 2003 | | | | | | |
| Assets | | | | | | |
| Segment assets | 310,008 | 432,947 | 18,439 | 761,394 | — | 761,394 |
| Investments in associates | — | — | 278 | 278 | — | 278 |
| Unallocated corporate assets | — | — | 915 | 915 | — | 915 |
| | 310,008 | 432,947 | 19,632 | 762,587 | — | 762,587 |
| Liabilities | | | | | | |
| Segment liabilities | 621,211 | 77,671 | 648 | 699,530 | — | 699,530 |
| Unallocated corporate liabilities | — | — | 1,640 | 1,640 | — | 1,640 |
| | 621,211 | 77,671 | 2,288 | 701,170 | — | 701,170 |
| Half-year ended 30 June 2003 | | | | | | |
| Other information | | | | | | |
| Additions of fixed assets | — | — | 40 | 40 | — | 40 |
| Depreciation | — | — | 322 | 322 | — | 322 |
| Amortisation of premium/discount of held-to-maturity securities | — | 348 | — | 348 | — | 348 |
| Non-cash expenses other than depreciation/amortisation | 1,669 | — | — | 1,669 | — | 1,669 |

Notes (continued)

26. Segmental reporting (continued)

(a) By class of business (continued)

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

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

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

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

(b) By geographical area

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

27. Significant related party transactions

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

During the period, 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) Advances to third parties guaranteed by related parties

As at 30 June 2004, the ultimate holding company and a fellow subsidiary provided guarantees for loans in favour of the Group amounting to HK\$4,192 million (31 December 2003: HK\$2,886 million) to certain third parties. The fellow subsidiary held equity interests of not more than 20% in these third parties.

Notes (continued)

27. Significant related party transactions (continued)

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

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

| | Note | Half-year ended 30 June 2004 HK\$'m | Half-year ended 30 June 2003 HK\$'m |
|---|--------|---|---|
| Profit and loss items: | | | |
| Interest income | (i) | 72 | 181 |
| Interest expense | (ii) | (63) | (164) |
| Insurance commission received (net) | (iii) | 74 | 43 |
| Administrative services fees received/receivable | (iv) | 10 | 12 |
| Rental fees received/receivable | (iv) | 13 | 15 |
| Funds selling commission received | (vi) | 56 | 8 |
| Correspondent banking fee received | (vii) | 4 | 4 |
| Loan services fees received/receivable | (viii) | 5 | 5 |
| Credit card commission paid/payable (net) | (v) | (25) | (19) |
| Securities brokerage commission paid/payable (net) | (v) | (61) | (42) |
| Rental, property management and letting agency fees paid/payable | (v) | (33) | (35) |
| Write-back of/(charge for) bad and doubtful debts | | 159 | (1) |
| <hr/> | | | |
| | Note | At 30 June 2004 HK\$'m | At 31 December 2003 HK\$'m |
| Balance sheet items: | | | |
| Cash and short-term funds | (i) | 27,461 | 27,913 |
| Placements with banks and other financial institutions | (i) | 13,379 | 9,535 |
| Advances and other accounts | (i) | 472 | 604 |
| Other investments in securities | (i) | — | 234 |
| Other assets | (ix) | 693 | 2,507 |
| Deposits and balances of banks and other financial institutions | (ii) | 35,840 | 19,779 |
| Deposits from customers | (ii) | 3,368 | 17,771 |
| Other accounts and provisions | (ix) | 509 | 2,270 |

Notes (continued)

27. Significant related party transactions (continued)

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

Notes:

(i) Interest income

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

(ii) Interest expense

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

(iii) Insurance commission received (net)

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

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

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

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

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

(vi) Funds selling commission received

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

(vii) Correspondent banking fee received

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

Notes (continued)

27. Significant related party transactions (continued)

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

Notes: (continued)

(viii) Loan services fees received/receivable

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

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

(ix) Other assets and other accounts and provisions

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

(c) Off-balance sheets items

Contingent liabilities and commitments

In the ordinary course of business, the Group provides loan facilities and trade finance services to, and guarantees for the obligations of ultimate holding company, fellow subsidiaries and associates on normal commercial terms. As at 30 June 2004, the total undrawn loan commitments, trade finance-related contingencies and guarantees amounted to HK\$1,967 million (31 December 2003: HK\$1,132 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\$12,606 million as at 30 June 2004 (31 December 2003: HK\$19,323 million). These transactions are executed on normal commercial terms with reference to prevailing market rates.

Notes (continued)

27. Significant related party transactions (continued)

(d) Balances with group companies and associates

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

| | At 30 June 2004 HK\$'m | At 31 December 2003 HK\$'m |
|---|---------------------------------------|----------------------------------|
| Cash and short-term funds | 27,414 | 27,789 |
| Placements with banks and other financial institutions | 13,328 | 9,532 |
| Advances and other accounts | 8 | 18 |
| Other investments in securities | — | 234 |
| Other assets | 12 | 35 |
| Deposits and balances of banks and other financial institutions | 34,038 | 19,066 |
| Other accounts and provisions | 25 | 29 |

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

| | At 30 June 2004 HK\$'m | At 31 December 2003 HK\$'m |
|---|---------------------------------------|----------------------------------|
| Cash and short-term funds | 47 | 124 |
| Placements with banks and other financial institutions | 51 | 3 |
| Advances and other accounts | 461 | 446 |
| Other assets | 681 | 2,472 |
| Deposits and balances of banks and other financial institutions | 1,796 | 710 |
| Deposits from customers | 3,199 | 17,695 |
| Other accounts and provisions | 484 | 2,241 |

There were no material balances with associates of the Group as at 30 June 2004 and 31 December 2003.

(e) 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.

28. Ultimate holding company

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

29. Statutory accounts

The information in the interim report is unaudited and does not constitute statutory accounts. The statutory accounts for the year ended 31 December 2003 have been delivered to the Registrar of Companies and the HKMA. The auditors expressed an unqualified opinion on those statutory accounts in their report dated 22 March 2004.