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 is a limited liability company incorporated and listed in Hong Kong. The address of its registered office is 52/F, Bank of China Tower, 1 Garden Road, Hong Kong.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated accounts of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs is a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by HKICPA, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts also comply with the requirements set out in the guideline on "Financial Disclosure by Locally Incorporated Authorized Institutions" under the Supervisory Policy Manual issued by HKMA and the applicable disclosures provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss, investment properties which are carried at open market value and premises which are carried at open market value or revalued amount less accumulated depreciation and accumulated impairment losses.

The preparation of accounts in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts are disclosed in Note 3.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The adoption of new/revised HKFRSs

In 2005, the Group adopted the new/revised HKFRSs as set out below, which are relevant to its operations. Certain 2004 comparatives have been amended other than those where retrospective application is prohibited or prospective application is allowed in the transitional provision of respective standards.

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
HKFRS 2	Share-based Payment
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

The adoption of new/revised HKASs 7, 8, 10, 16, 27, 28, 30, 33, 36, 38 and HKFRS 2 did not result in substantial changes to the Group's accounting policies. In summary:

HKAS 1

HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

HKAS 17

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from fixed assets to operating leases if the land element can be split reliably. The up-front prepayments made for the leasehold land will then be expensed in the profit and loss account on a straight-line basis over the period of the lease. In prior years, the leasehold land was accounted for at fair value or revalued amount less subsequent depreciation. It is determined that the values of the land and building elements of the Group's leasehold properties cannot be split reliably, the treatment of the leasehold properties is consistent with prior years.

HKAS 21

In HKAS 21, the functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities except those located outside Hong Kong have the same functional currency as the presentation currency for the respective entities' accounts.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The adoption of new/revised HKFRSs (continued)

HKAS 24

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control. Related parties may be individuals or entities.

The adoption of HKAS 24 "Related Party Disclosures" has affected the identification of related parties and some other related-party disclosures. This HKAS requires the disclosure of the compensation of key management personnel. In addition, it requires the Group to disclose related party transactions with state-controlled entities as these profit-oriented state-controlled entities are no longer exempted from disclosure.

HKAS 32 and HKAS 39

The adoption of HKAS 32 has resulted in providing additional disclosures of terms, conditions, accounting policies, risk and fair values of financial instruments throughout the notes to the accounts.

The adoption of HKAS 39 has resulted in changes in the accounting policies relating to the recognition and measurement of financial instruments with details set out in notes 2.5, 2.8 to 2.11 and 2.13.

HKAS 40

The adoption of revised HKAS 40 has resulted in a change in the accounting policy for investment properties as changes in fair values are now recorded in the profit and loss account. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter were expensed in the profit and loss account.

HKAS-Int 21

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred income tax liability arising from the revaluation of investment properties. Such deferred income tax liability is measured on the basis of tax consequences that would follow from the recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale and no deferred income tax liability was recognised.

HKFRS 5

The adoption of HKFRS 5 has resulted in a change in accounting policy for repossessed collateral assets. Repossessed collateral assets are reported as "Repossessed assets" under "Other assets" and the relevant loans and impairment allowances are derecognised. The repossessed collateral assets are measured at lower of carrying amount of derecognised loans and net realisable value of the repossessed collateral.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The adoption of new/revised HKFRSs (continued)

In prior years, loans and advances where assets had been repossessed continued to be reported as "Advances to customers" on the balance sheet and the carrying value was adjusted down to net realisable value of the repossessed assets.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 39 – does not permit recognition, derecognition and measurement of financial assets and liabilities in accordance with these standards on a retrospective basis. The Group continued to apply the previous standard, SSAP 24 "Accounting for investments in securities", to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.

- HKAS 40 does not require the Group to restate the comparative information and any adjustment should be made to retained earnings as at 1 January 2005, including the reclassification of any amount held in revaluation surplus for investment property.

- HKAS-Int 21 – deferred income tax is provided on revaluation surplus of investment properties in accordance with HKAS-Int 21. As the retrospective effect is immaterial, no restatement of prior year comparative figures has been made.

- HKFRS 5 – applied prospectively after the adoption date.

The HKICPA has issued a number of new and revised HKFRSs which are effective for accounting periods beginning on or after 1 January 2006. The Group has not early adopted any of the following new Standards or Interpretations which are relevant to the Group:

HKAS 1 (Amendment)	Capital Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains a Lease

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

2. Summary of significant accounting policies (continued)

2.2 Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are those entities in which the Group, directly or 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 that entitle the Group to govern the financial and operating policies of the entities. The existence and effect of any potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for any acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values as of the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

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

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 including goodwill on acquisition net of any accumulated impairment loss 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.

2. Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's interests in associates includes goodwill on acquisition net of any accumulated impairment loss and any related accumulated foreign currency translation difference.

The Group's share of the post-acquisition profits or losses of associates is recognised in the profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses unless the Group has incurred obligations or made payments on behalf of the associates.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, any interests in associates are stated at cost less allowance for impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

2.3 Segmental reporting

A business segment is a distinguishable component of the Group that is engaged in providing products and services and that is subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

2.4 Foreign currency translation

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated accounts are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using average exchange rates or the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions are recognised directly in the profit and loss account. Assets and liabilities denominated in foreign currencies are translated at the closing rate at the balance sheet date. The differences arising from translation are recognised in the profit and loss account except for translation differences on non-monetary items such as equity classified as available-for-sale financial assets are included in the fair value change reserve in equity.

2. Summary of significant accounting policies (continued)

2.4 Foreign currency translation (continued)

The results and financial position of all Group entities that have a functional currency different from Hong Kong dollars are translated into Hong Kong dollars as follows:

– assets and liabilities are translated at the closing rate at the balance sheet date;

– income and expenses are translated at average exchange rates; and

– all resulting exchange differences are recognised in the currency translation reserve in equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments are taken to shareholders' equity. When a foreign entity is sold, such exchange differences are recognised in the profit and loss account, as part of the gain or loss on sale.

2.5 Derivative financial instruments and hedge accounting

From 1 January 2004 to 31 December 2004

Off-balance sheet financial instruments included derivatives, such as 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 derivatives was dependent on whether the transactions were undertaken for dealing or hedging purposes when the Group entered into a derivative contract.

Derivative financial instruments other than those transacted to hedge risk were deemed to be held for dealing purposes. Transactions undertaken for dealing purposes were marked to market at fair value. For exchange traded contracts, fair value was based on quoted market prices. For non-exchange traded contracts, fair value was based on dealers' quotes, pricing models or quoted prices for instruments with similar characteristics. The gain or loss arising from changes in fair value was recognised in the profit and loss account as "Net gain/(loss) from foreign exchange activities" or "Net gain/(loss) from other dealing activities".

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

Transactions undertaken for hedging purposes were designated at inception and the hedging instrument was required to be highly effective in accomplishing the objective of offsetting the risk being hedged throughout the life of the hedge. Hedging instruments were valued on an equivalent basis to the assets, liabilities or net positions that they were hedging. Any profit or loss was recognised in the profit and loss account on the same basis as that arising from the related assets, liabilities or net positions.

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

2. Summary of significant accounting policies (continued)

2.5 Derivative financial instruments and hedge accounting (continued)

From 1 January 2005 onwards

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair values. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and through the use of valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative and are categorised as held for trading under fair value through profit or loss unless they are designated as hedges and are effective hedging instruments, then they are subject to measurement under the hedge accounting requirements.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group may recognise profits on the date of transaction.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss account.

The Group designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge). Hedge accounting is used for derivatives designated in this way.

The Group documents at inception the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items. These criteria should be met before a hedging can be qualified to be accounted for under hedge accounting.

Changes in the fair value of derivatives that are designated and qualified as effective fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

For derivative instruments held for trading and those that do not qualify for hedge accounting, changes in their fair value are recognised immediately in the profit and loss account.

2. Summary of significant accounting policies (continued)

2.6 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.7 Interest income and expense and fees and commission income and expense

From 1 January 2004 to 31 December 2004

Interest income and expense was recognised in the profit and loss account as it accrued, except in the case of doubtful debts, where interest was credited to a suspense account which was netted in the balance sheet against the relevant balances. Fees and commission income were recognised in the period when earned unless they related to transactions involving an interest rate risk or other risks which extended beyond the then current period, in which case they were amortised over the period of the transaction as commission. Premiums or discounts of debt securities held, or debt instruments in issue, were amortised over the period from the date of purchase or issue to the date of maturity, as part of interest income or interest expense.

From 1 January 2005 onwards

Interest income and expense are recognised in the profit and loss account for all instruments carried at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes fees, premiums or discounts and basis points paid or received between parties to the contract, and directly attributable origination fees and costs which represent an integral part of the effective yield are amortised over the expected life of the financial instrument.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised on the written down value using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Subsequent unwinding of the discount allowance is recognised as interest income.

Income and amortisation derived using the effective interest method for available-for-sale securities and financial instruments at fair value through profit or loss continue to be recognised as interest income or interest expense in the profit and loss account.

Fees and commissions are generally recognised on an accrual basis ratably over the period when the related service has been provided. Loan syndication fees are recognised as revenue when the related syndication arrangement has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as that of other participants.

2. Summary of significant accounting policies (continued)

2.8 Financial assets

From 1 January 2004 to 31 December 2004

All financial assets were carried at cost less amortisation and impairment allowances, except for "Other investment in securities" and derivative assets held for dealing which were measured at fair value. Gains and losses from changes in fair value were recognised in the profit and loss account.

The fair values of quoted investments in active markets were based on current market mid prices or closing prices as at the balance sheet date.

From 1 January 2005 onwards

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. Management determines the classification of its investment at initial recognition. The classification depends on the purpose for which the financial assets were held. All financial assets are classified at inception or date of transition to the new HKFRS and are recognised initially at fair value. Except for financial assets carried at fair value through profit or loss, all transaction costs of financial assets are included in their amortised costs.

(1) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated as at fair value through profit or loss at inception or date of transition to the new HKFRSs. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term. A financial asset is typically designated as at fair value through profit or loss if it meets the following criteria:

– it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial assets or financial liabilities or recognising the gains and losses on them on different bases; or

– a group of financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about these assets and liabilities is provided internally to the management.

Financial assets at fair value through profit or loss are subsequently measured at fair value. Transaction costs of financial assets so designated are taken directly to the profit and loss account. Changes in fair value of financial assets in this category are recognised in the profit and loss account as they arise.

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, including placements with banks and other financial institutions, investment debt securities without an active market and loans and advances to customers. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are carried at amortised cost using the effective interest method.

2. Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

From 1 January 2005 onwards (continued)

(3) Held-to-maturity

Financial assets classified as held-to-maturity are those traded in active markets, with fixed or determinable payments and fixed maturities that the Group's management has both the positive intention and the ability to hold to maturity. Held-to-maturity investments are carried at amortised cost using the effective interest method. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

(4) Available-for-sale

Financial assets classified as available-for-sale are those that are either designated as such or are not classified in any of the other categories. They are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial assets are measured at fair value. The difference between fair value and amortised cost are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is then transferred to the profit and loss account.

Interest derived from available-for-sale financial instrument is recognised using the effective interest method in the profit and loss account. Dividends on equity instruments classified as available-for-sale are recognised in the profit and loss account when the Group's right to receive payment is established.

2.9 Financial liabilities

From 1 January 2004 to 31 December 2004

All financial liabilities except short positions in trading securities and derivative liabilities held for dealing were carried at cost or amortised cost. Short positions in trading securities and derivative liabilities held for dealing were measured at fair value and any gains and losses from changes in fair value were recognised in the profit and loss account.

From 1 January 2005 onwards

The Group classifies its financial liabilities under the following categories: trading liabilities, financial liabilities designated as at fair value through profit or loss, deposits, debt securities in issue and other liabilities. All financial liabilities are classified at inception and recognised initially at fair value.

(1) Trading liabilities

A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the short term. It is measured at fair value and any gains and losses from changes in fair value are recognised in the profit and loss account.

2. Summary of significant accounting policies (continued)

2.9 Financial liabilities (continued)

From 1 January 2005 onwards (continued)

(2) Financial liabilities designated as at fair value through profit or loss

A financial liability can be designated as at fair value through profit or loss if it is so designated at inception or the date of transition to the new HKFRSs. Financial liabilities so designated include certain certificates of deposit issued and certain deposits received from customers that are embedded with derivatives. A financial liability is typically so designated if it meets the following criteria:

– it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial assets or financial liabilities or recognising the gains and losses on them on different bases; or

– a group of financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about these assets and liabilities is provided internally to the management.

Financial liabilities designated at fair value through profit or loss are measured at fair value and any gains and losses from changes in fair value are recognised in the profit and loss account.

(3) Deposits, debt securities in issue and other liabilities

Deposits and debt securities in issue, other than those classified as trading liabilities or designated as at fair value through profit or loss, together with other financial liabilities are carried at amortised cost.

2.10 Valuation of securities and derivatives

From 1 January 2004 to 31 December 2004

The fair values of quoted investments and financial liabilities in active markets were based on current market mid prices or closing prices as at the balance sheet date.

From 1 January 2005 onwards

The fair values of financial assets and financial liabilities that are quoted in active markets are based on current bid prices and current ask prices respectively. If the market for a financial asset is not active (including unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

2. Summary of significant accounting policies (continued)

2.11 Recognition and derecognition of financial instruments

Purchases and sales of financial assets at fair value through profit or loss, available-for-sale and held-to-maturity are recognised on the trade date, the date on which the Group purchases or sells the assets. Loans and receivables (except investment securities) are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not measured at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Securities and bills sold to a counter-party with an obligation to repurchase at a pre-determined price on a specified future date under a repurchase agreement are referred to as Repos. Securities and bills purchased from a counter-party with an obligation to re-sell to the counter-party at a pre-determined price on a specified future date under a resale agreement are referred to as Reverse repos.

Repos are initially recorded as due to banks, placements from banks and other financial institutions, as appropriate, at the actual amount of cash received from the counter-party. The financial assets used to collateralise repurchase agreements are recorded as investment securities or financial assets at fair value through profit or loss. Reverse repos are initially recorded in the balance sheet as cash and due from banks or placements with banks and other financial institutions, as appropriate, at the actual amount of cash paid to the counter-party. The financial assets received as collateral under reverse repurchase agreements are not recorded on the balance sheet. The difference between sale and repurchase price is recognised as interest income or interest expense over the life of the agreements using the effective interest method.

2.12 Precious metals

Precious metals comprise gold, silver and other precious metals. Precious metals that are related to the Group's trading activities are initially recognised at fair value and subsequently re-measured at their respective market prices as of the balance sheet date. Mark-to-market gains or losses on precious metals related to the Group's trading activities are included in net trading income.

2.13 Impairment of financial assets

From 1 January 2004 to 31 December 2004

Provisions were made against specific loans and advances as and when there were doubts on the ultimate recoverability of principal and interest in full on an individually assessed basis. Specific provision was made to reduce the carrying value of the assets to their recoverable amount. Where it was not possible to reliably estimate the loss, the Group applied pre-determined provisioning levels to the unsecured portion of loans and advances based on the Group's loan classification procedures. In addition, amounts were set aside as a general provision for performing loans on pre-determined provisioning levels. Provisions were charged to the profit and loss account when provided.

Financial assets other than loans and advances were reviewed on each balance sheet date to determine whether there was any indication of impairment. If the recoverable amount of the asset was estimated to be less than its carrying amount, the carrying amount of the asset was reduced to its recoverable amount and the impairment loss was recognised in the profit and loss account.

2. Summary of significant accounting policies (continued)

2.13 Impairment of financial assets (continued)

From 1 January 2005 onwards

(1) Assets carried at amortised cost

The Group assesses as of each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(iv) it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

(v) the disappearance of an active market for that financial asset because of financial difficulties; or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

- adverse changes in the payment status of borrowers in the group; or

- national or local economic conditions that correlate with defaults on the assets in the group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

2. Summary of significant accounting policies (continued)

2.13 Impairment of financial assets (continued)

From 1 January 2005 onwards (continued)

(1) Assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar and relevant credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group.

When a loan is uncollectible, it is written off against the related allowance for impairment losses. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses in the profit and loss account.

If, in a subsequent period, the amount of allowance for impairment losses decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit and loss account.

Impairment losses recognised in the profit and loss account for equity investments carried at amortised cost shall not be reversed.

2. Summary of significant accounting policies (continued)

2.13 Impairment of financial assets (continued)

From 1 January 2005 onwards (continued)

(2) Assets measured at fair value

The Group assesses as of each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative losses, measured as the difference between the acquisition cost or amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account, is removed from equity and recognised in the profit and loss account. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed through the profit and loss account. With respect to equity instruments, such reversals are made through the available-for-sale reserve within equity.

2.14 Intangible assets

Intangible assets principally comprise computer software. Intangible assets are stated in the accounts at cost less accumulated amortisation and impairment. Amortisation for intangible assets is calculated on a straight-line basis from the month of acquisition or operation over the shorter of their estimated beneficial lives or effective useful periods (normally not exceeding five years) and is recognised in the profit and loss account.

When the estimated recoverable amount of a specific intangible asset is lower than its carrying amount, an impairment loss is recognised in the profit and loss account.

2.15 Fixed assets

(1) Premises, equipment, fixtures and fittings

Premises mainly comprise of branches and offices. Premises are shown at open market value based on periodic, but at least triennial, valuations by external independent valuers less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. In the intervening years, the directors review the carrying value of premises, by reference to the open market value of similar properties, and adjustments are made when there has been a material change. All equipment, fixtures and fittings are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition and installation of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit and loss account during the financial period in which they are incurred.

2. Summary of significant accounting policies (continued)

2.15 Fixed assets (continued)

(1) Premises, equipment, fixtures and fittings (continued)

Increases in the carrying amount arising on revaluation of premises are credited to the premises revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same individual asset are charged against premises revaluation reserve directly in equity; all other decreases are expensed in the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously debited, and then to the premises revaluation reserve. Upon disposal of premises, the relevant portion of the premises revaluation reserve realised in respect of previous valuations is released and transferred from the premises revaluation reserve to retained earnings.

Depreciation is calculated on the straight-line method to write down the cost or revalued amounts of such assets over their estimated useful lives as follows:

–	Premises	Over the remaining period of lease
–	Equipment, fixtures and fittings	3-15 years

The assets' useful lives are reviewed, and adjusted if appropriate, as of each balance sheet date.

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 loss is 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 recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Impairment loss is reversed through the premises revaluation reserve or profit and loss account as appropriate.

Gains and losses on disposals are determined by comparing net sales proceeds with carrying amount. These are included in the profit and loss account.

(2) Property under development

Property under development represents assets under construction or installation and is stated at cost less impairment losses. Cost comprises equipment cost, cost of development, construction and installation, interest and other direct costs attributable to the development. Items classified as property under development are transferred to premises or investment properties when such assets are ready for their intended use, and the depreciation charge commences from the month such assets are transferred to premises.

Impairment losses are recognised for idle projects with respect to which management has determined that resumption in the foreseeable future is not probable. The impairment loss is equal to the extent to which the estimated recoverable amount of a specific project is less than its carrying amount. The recoverable amount is the asset's fair value less costs to sell. Any impairment losses or reversals are charged or credited to the profit and loss account.

2. Summary of significant accounting policies (continued)

2.16 Investment properties

From 1 January 2004 to 31 December 2004

Investment properties were carried at valuation assessed by professional valuers on the basis of open market value. Changes in the value of investment properties were treated as a movement in the investment properties revaluation reserve on a portfolio basis. Unless the total of the reserve was insufficient to cover a deficit, then the deficit exceeding the total investment properties revaluation reserve was charged to the profit and loss account. Any subsequent revaluation surplus was credited to the profit and loss account to the extent of the deficit previously charged.

Properties leased out within consolidated group companies were classified as premises in both the individual companies' accounts and consolidated accounts.

From 1 January 2005 onwards

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the companies in the consolidated Group, are classified as investment properties. Properties leased out within consolidated group companies are classified as investment properties in individual companies' accounts and as premises in consolidated accounts. Land held under operating lease is classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it is a finance lease.

Investment properties are recognised initially at cost, including related transaction costs. After initial recognition, investment properties are measured at fair value assessed by professional valuers on the basis of open market value.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the profit and loss account during the financial period in which they are incurred.

Any changes in fair value are reported directly in the profit and loss account. Deferred income tax is provided on revaluation surpluses of investment properties in accordance with HKAS-Int 21 ("Income Taxes – Recovery of Revalued Non-Depreciable Assets") on HKAS 12 ("Income Taxes").

If an investment property becomes owner-occupied, it is reclassified as premises, and its fair value at the date of reclassification becomes its cost for accounting purposes. If an item of premises becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of premises under HKAS 16 ("Property, Plant and Equipment"). However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the profit and loss account.

2. Summary of significant accounting policies (continued)

2.17 Leases

(1) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The total payments made under operating leases (net of any incentives received from the lessor) which include land use rights with payments that are separately identifiable at inception of the lease are charged to the profit and loss account on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Where the Group is a lessor, the assets subject to the operating lease are accounted for as investment properties. Rental income from operating leases is recognised on a straight-line basis over the lease term.

(2) Finance Leases on properties

From 1 January 2004 to 31 December 2004

Leasehold properties regarded as finance leases were stated at valuation determined by the directors with reference to a valuation conducted by independent professional valuers.

From 1 January 2005 onwards

Upon adoption of HKAS 17 ("Leases"), where the land and buildings elements of leasehold properties held for own use can be split reliably as at inception of the lease, this results in a change in the classification of leasehold land and land use rights from fixed assets to operating leases. The up-front prepayments made or other costs incurred for acquiring the leasehold land and land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease. Where there is impairment of the up-front prepayments, the impairment is expensed in the profit and loss account immediately. Where the land and buildings cannot be split reliably as at the inception of the lease, the land and buildings elements will continue to be treated as finance leases and measured at fair value.

Separate measurement of the land and buildings elements is not required when the Group's interest in both land and buildings is classified as investment properties as if it is finance lease and is measured at fair value.

Pursuant to the Bank of China (Hong Kong) Limited (Merger) Ordinance ("Merger Ordinance") 2001, all assets and liabilities of the designated branches and subsidiaries, and the shares of certain entities of the legacy Bank of China Group in Hong Kong were effectively transferred to BOCHK, which was immediately owned by the then newly formed BOC Hong Kong (Holdings) Limited ("the Merger"). This was a significant event and the Group has therefore adopted the valuation at the date of the Merger as the deemed cost for its leasehold properties to reflect the circumstances at the time of the Merger.

2. Summary of significant accounting policies (continued)

2.17 Leases (continued)

(2) Finance Leases on properties (continued)

From 1 January 2005 onwards (continued)

On adoption of the deemed cost at the date of Merger, the Group made reference to the independent property valuation conducted as at 31 August 2001 for the purpose of the Merger, which did not split the values of the leasehold properties between the land and buildings elements. Any means of subsequent allocation of the valuation of the leasehold properties at the date of Merger between the land and buildings elements would be notional and therefore would not represent reliable information. It is determined that the values of the land and buildings elements of the Group's leasehold properties cannot be reliably split and the leasehold properties are treated as finance leases. The Group has also adopted the revaluation model under HKAS 16 ("Property, Plant and Equipment") by which assets held for own use arising under these finance leases are measured at fair value less any accumulated depreciation and impairment losses.

2.18 Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise balances with original maturity less than three months from the date of acquisition, including cash, balances with banks and other financial institutions, short-term bills and notes categorised as investment securities and certificates of deposits.

2.19 Provisions

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

2.20 Employee benefits

(1) Retirement benefit costs

The Group contributes to defined contribution retirement schemes under either recognised ORSO schemes or MPF schemes that are available to the Group's employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries for the ORSO schemes and in accordance with the MPF rules for MPF schemes. The retirement benefit scheme costs are charged to the profit and loss account as incurred and represent contributions payable by the Group to the schemes. Share of contributions made by the Group that are forfeited by those employees who leave the ORSO scheme prior to the full vesting of their entitlement to the 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.

(2) 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.

2. Summary of significant accounting policies (continued)

2.20 *Employee benefits (continued)*

(2) Leave entitlements (continued)

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

(3) 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.

2.21 *Deferred income taxes*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from asset impairment provisions, depreciation of property and equipment, revaluation of certain assets and liabilities including derivative contracts and available-for-sale securities, properties and tax losses carried forward. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise.

Deferred income 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 income tax is also dealt with in equity, such as the fair value re-measurement of available-for-sale investments and revaluation of premises.

2.22 *Repossessed assets*

From 1 January 2004 to 31 December 2004

Repossessed assets continued to be reported as non-performing loans and advances until all collection efforts were exhausted and the repossessed assets were realised. Before realisation, loan impairment allowances were made after taking into account the market value of the repossessed assets to adjust the carrying value of related loans and advances to their net realisable values.

2. Summary of significant accounting policies (continued)

2.22 Repossessed assets (continued)

From 1 January 2005 onwards

Upon adoption of HKFRS 5 ("Non-current Assets Held for Sale and Discontinued Operations"), repossessed assets are initially recognised at the lower of their fair value or the amortised cost of the related outstanding loans on the date of repossession. The related loans and advances together with the related impairment allowances are then derecognised from the balance sheet. Subsequently, repossessed assets are measured at the lower of their cost or net realisable value and are reported as 'Noncurrent assets held for sale' under 'Other assets'.

2.23 Fiduciary activities

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any income or losses arising thereon are excluded from these accounts, as they are not assets of the Group.

2.24 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 as a provision 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 the inflow is virtually certain, it will be recognised as an asset.

2.25 Related parties

For the purposes of these accounts, a party is considered to be related to the Group if the Group has the ability, directly and indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control. Related parties may be individuals or entities.

3. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that may affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors that are believed under the circumstances to be reasonable. Areas susceptible to changes in essential estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is impracticable to determine the effect of changes to either the key assumptions discussed below or other estimation uncertainties. It is possible that actual results may require material adjustments to the estimates referred to below.

3.1 Impairment allowances on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated profit and loss account, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default). Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3.2 Fair values of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Valuation techniques used include discounted cash flows analysis and models with built-in functions available in externally acquired financial analysis or risk management systems widely used by the industry. To the extent practical, models use only observable data. However, in case of missing data, the Group uses interpolation or extrapolation methods to estimate the data required. Changes in assumptions about these estimates could affect reported fair values of financial instruments.

3.3 Held-to-maturity investments

The Group follows the guidance of HKAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would then be measured at fair value and not amortised cost.

3.4 Income taxes

The Group is subject to income taxes in different jurisdictions. Significant estimates are required in determining the respective provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary courses of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that are initially recorded, such differences will impact the income tax and deferred income tax and relevant assets and liabilities in the period in which such determination is made.

4. Effect of adopting new HKASs

(a) The estimated effect of adopting these new accounting standards on consolidated balance sheet items are as follows:

	HKFRS 5 HK$'m	HKAS 32 & HKAS 39 HK$'m	HKAS 40 & HKAS-INT 21 HK$'m	Total HK$'m
Increase/(decrease) in assets as at 31 December 2005				
Cash and short-term funds	–	(1,326)	–	(1,326)
Placements with banks and other financial institutions maturing between one and twelve months	–	183	–	183
Trading securities and other financial instruments at fair value through profit or loss	–	9,652	–	9,652
Derivative financial instruments	–	5,184	–	5,184
Certificates of deposit held	–	84	–	84
Advances and other accounts	(228)	4,576	–	4,348
Available-for-sale securities	–	42,794	–	42,794
Held-to-maturity securities	–	(54,170)	–	(54,170)
Loans and receivables	–	13,080	–	13,080
Investment securities	–	(50)	–	(50)
Other investments in securities	–	(9,069)	–	(9,069)
Other assets	228	(1,188)	–	(960)
	–	9,750	–	9,750
Increase/(decrease) in liabilities as at 31 December 2005				
Deposits and balances of banks and other financial institutions	–	27	–	27
Trading liabilities and other financial instruments at fair value through profit or loss	–	7,924	–	7,924
Derivative financial instruments	–	4,193	–	4,193
Deposits from customers	–	(5,165)	–	(5,165)
Certificates of deposit issued	–	(36)	–	(36)
Deferred tax liabilities	–	821	968	1,789
Other accounts and provisions	–	(2,087)	–	(2,087)
	–	5,677	968	6,645
Increase/(decrease) in equity as at 31 December 2005				
Premises revaluation reserve	–	–	2	2
Investment properties revaluation reserve	–	–	(2,005)	(2,005)
Reserve for fair value changes of available-for-sale securities	–	(245)	–	(245)
Regulatory reserve*	–	3,526	–	3,526
Retained earnings	–	750	1,031	1,781
	–	4,031	(972)	3,059
Minority interests	–	42	4	46
	–	4,073	(968)	3,105

* The regulatory reserve has been set up, as a consequence of the adoption of HKAS 39, for general banking risks in accordance with the requirements of the HKMA.

4. Effect of adopting new HKASs (continued)

(a) The estimated effect of adopting these new accounting standards on consolidated balance sheet items are as follows: (continued)

	HKAS 32 & HKAS 39 HK$'m	HKAS 40 & HKAS-INT 21 HK$'m	Total HK$'m
Increase/(decrease) in assets as at 1 January 2005			
Cash and short-term funds	(1,350)	–	(1,350)
Placements with banks and other financial institutions maturing between one and twelve months	319	–	319
Trading securities and other financial instruments at fair value through profit or loss	11,594	–	11,594
Derivative financial instruments	6,334	–	6,334
Certificates of deposit held	45	–	45
Advances and other accounts	1,274	–	1,274
Available-for-sale securities	21,968	–	21,968
Held-to-maturity securities	(22,821)	–	(22,821)
Investment securities	(50)	–	(50)
Other investments in securities	(8,288)	–	(8,288)
Deferred tax assets	1	–	1
Other assets	92	–	92
	9,118	–	9,118
Increase/(decrease) in liabilities as at 1 January 2005			
Deposits and balances of banks and other financial institutions	16	–	16
Trading liabilities and other financial instruments at fair value through profit or loss	3,792	–	3,792
Derivative financial instruments	6,805	–	6,805
Deposits from customers	(1,357)	–	(1,357)
Certificates of deposit issued	63	–	63
Deferred tax liabilities	588	637	1,225
Other accounts and provisions	(4,024)	–	(4,024)
	5,883	637	6,520
Increase/(decrease) in equity as at 1 January 2005			
Investment properties revaluation reserve	–	(623)	(623)
Regulatory reserve*	3,410	–	3,410
Retained earnings	(212)	(14)	(226)
	3,198	(637)	2,561
Minority interests	37	–	37
	3,235	(637)	2,598

* The regulatory reserve has been set up, as a consequence of the adoption of HKAS 39, for general banking risks in accordance with the requirements of the HKMA.

4. Effect of adopting new HKASs (continued)

(b) The estimated effect of adopting new accounting standards on consolidated profit and loss account are as follows:

	HKAS 32 & HKAS 39 HK$'m	HKAS 40 & HKAS-INT 21 HK$'m	Total HK$'m
For the year ended 31 December 2005			
Increase/(decrease) in			
Net interest income	**(257)**	**–**	**(257)**
Net fees and commission income	**(146)**	**–**	**(146)**
Net trading income	**705**	**–**	**705**
Reversal of loan impairment allowances on advances	**1,169**	**–**	**1,169**
Net gain from fair value adjustments on investment properties	**–**	**1,382**	**1,382**
Taxation	**(240)**	**(339)**	**(579)**
Total effect for the year	**1,231**	**1,043**	**2,274**
	HK$	**HK$**	**HK$**
Earnings per share impact	**0.12**	**0.10**	**0.22**

There is no significant effect of adopting new accounting standards on the consolidated profit and loss account for the year ended 31 December 2004.

5. Financial risk management

This note presents financial information about the Group's exposure to the use of financial instruments. For further details of the control of risk, please refer to the section "Risk Management" in the Management's Discussion and Analysis on page 37 to page 40.

(a) Geographical concentrations of assets, liabilities and off-balance sheet items

The following note incorporates the requirements on risk disclosures of HKAS 32 and geographical concentrations of risk of HKAS 30, based on the location of the subsidiary, associate or branch in which the related item is recorded.

Capital expenditure is shown by the geographical area in which the buildings and equipment are located.

	2005				
	Total assets HK$'m	**Total liabilities HK$'m**	**Contingent liabilities and commitments HK$'m**	**Operating income HK$'m**	**Capital expenditure HK$'m**
Hong Kong	**799,717**	**736,496**	**146,077**	**17,377**	**562**
Mainland China	**21,838**	**4,508**	**15,498**	**495**	**7**
Others	**550**	**368**	**112**	**24**	**–**
	822,105	**741,372**	**161,687**	**17,896**	**569**

	2004				
	Total assets HK$'m	Total liabilities HK$'m	Contingent liabilities and commitments HK$'m	Operating income HK$'m	Capital expenditure HK$'m
Hong Kong	782,264	716,905	142,380	15,540	450
Mainland China	13,901	9,664	11,904	299	–
Others	611	447	168	18	–
	796,776	727,016	154,452	15,857	450

5. Financial risk management (continued)

(b) Currency risk

Tables below summarise the Group's exposure to foreign currency exchange rate risk as at 31 December. Included in the tables are the Group's assets and liabilities at carrying amounts in HK$ equivalent, categorised by the original currency.

	2005							
	Renminbi HK$'m	US Dollars HK$'m	HK Dollars HK$'m	EURO HK$'m	Japanese Yen HK$'m	Pound Sterling HK$'m	Others HK$'m	Total HK$'m
Assets								
Cash and short-term funds	22,809	27,182	58,407	524	154	2,898	3,601	115,575
Placements with banks and other financial institutions maturing between one and twelve months	183	13,402	33,300	–	–	269	457	47,611
Trade bills	–	2,892	60	11	76	–	–	3,039
Trading securities and other financial instruments at fair value through profit or loss	–	5,183	1,752	1,209	–	–	1,508	9,652
Derivative financial instruments	–	874	4,310	–	–	–	–	5,184
Hong Kong SAR Government certificates of indebtedness	–	–	32,630	–	–	–	–	32,630
Certificates of deposit held	–	2,179	15,343	184	–	–	1,758	19,464
Advances and other accounts	1,961	45,004	278,973	3,727	2,347	831	2,512	335,355
Available-for-sale securities	–	25,642	10,225	2,414	–	1,011	3,502	42,794
Held-to-maturity securities	–	100,145	46,652	3,819	243	1,288	11,895	164,042
Loans and receivables	–	1,704	9,778	–	–	–	1,598	13,080
Interests in associates	–	–	61	–	–	–	–	61
Fixed assets	61	–	18,255	–	–	–	–	18,316
Investment properties	–	–	7,539	–	–	–	–	7,539
Other assets (including deferred tax assets)	19	744	6,956	–	–	9	35	7,763
Total assets	25,033	224,951	524,241	11,888	2,820	6,306	26,866	822,105
Liabilities								
Hong Kong SAR currency notes in circulation	–	–	32,630	–	–	–	–	32,630
Deposits and balances of banks and other financial institutions	14,150	9,245	12,507	247	3,389	63	1,054	40,655
Trading liabilities and other financial instruments at fair value through profit or loss	–	2,746	5,178	–	–	–	–	7,924
Derivative financial instruments	–	840	3,353	–	–	–	–	4,193
Deposits from customers	9,210	132,214	427,484	6,787	2,693	13,199	41,504	633,091
Certificates of deposit issued	–	1,325	2,640	–	–	–	–	3,965
Other accounts and provisions (including deferred tax liabilities)	629	5,879	10,871	222	131	196	986	18,914
Total liabilities	23,989	152,249	494,663	7,256	6,213	13,458	43,544	741,372
Net on-balance sheet position	1,044	72,702	29,578	4,632	(3,393)	(7,152)	(16,678)	80,733
Off-balance sheet net notional position*	(5)	(68,875)	48,257	(4,575)	3,392	7,146	16,811	2,151
Contingent liabilities and commitments	1,558	34,600	121,428	1,945	812	50	1,294	161,687

* Off-balance sheet net notional position represents the net notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Group's exposure to currency movements.

5. Financial risk management (continued)

(b) Currency risk (continued)

	2004							
	Renminbi HK$'m	US Dollars HK$'m	HK Dollars HK$'m	EURO HK$'m	Japanese Yen HK$'m	Pound Sterling HK$'m	Others HK$'m	Total HK$'m
Assets								
Cash and short-term funds	12,377	26,283	58,218	506	2,559	329	2,375	102,647
Placements with banks and other financial institutions maturing between one and twelve months	75	47,031	43,432	310	14,208	1,664	861	107,581
Trade bills	–	946	109	16	15	–	–	1,086
Hong Kong SAR Government certificates of indebtedness	–	–	34,760	–	–	–	–	34,760
Certificates of deposit held	–	4,469	15,391	–	–	150	2,328	22,338
Advances and other accounts	391	39,959	257,381	4,076	2,683	1,105	3,616	309,211
Held-to-maturity securities	–	96,411	54,340	9,496	736	2,977	17,090	181,050
Investment securities	–	–	49	–	–	–	1	50
Other investments in securities	–	2,953	2,409	1,399	–	–	1,527	8,288
Interests in associates	–	–	62	–	–	–	–	62
Fixed assets	103	1	16,392	–	–	–	–	16,496
Investment properties	–	–	5,381	–	–	–	–	5,381
Other assets (including deferred tax assets)	11	523	7,031	158	68	5	30	7,826
Total assets	12,957	218,576	494,955	15,961	20,269	6,230	27,828	796,776
Liabilities								
Hong Kong SAR currency notes in circulation	–	–	34,760	–	–	–	—	34,760
Deposits and balances of banks and other financial institutions	6,675	8,859	17,019	169	473	28	1,217	34,440
Deposits from customers	5,061	135,751	435,201	5,775	1,602	11,664	36,276	631,330
Certificates of deposit issued	–	1,292	2,496	–	–	–	–	3,788
Other accounts and provisions (including deferred tax liabilities)	162	7,585	10,976	1,953	702	251	1,069	22,698
Total liabilities	11,898	153,487	500,452	7,897	2,777	11,943	38,562	727,016
Net on-balance sheet position	1,059	65,089	(5,497)	8,064	17,492	(5,713)	(10,734)	69,760
Off-balance sheet net notional position	31	(65,390)	77,339	(9,470)	(18,487)	5,671	10,561	255
Contingent liabilities and commitments	777	30,638	117,171	2,864	983	738	1,281	154,452

5. Financial risk management (continued)

(c) *Interest rate risk*

Tables below summarise the Group's exposure to interest rate risk as at 31 December. Included in the tables are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The carrying amounts of derivative financial instruments which are principally used to reduce the Group's exposure to interest rate movements are under the column captioned 'Non-interest bearing'.

	2005						
	Up to 1 month HK$'m	1-3 months HK$'m	3-12 months HK$'m	1-5 years HK$'m	Over 5 years HK$'m	Non-interest bearing HK$'m	Total HK$'m
Assets							
Cash and short-term funds	106,486	3,525	1,705	–	–	3,859	115,575
Placements with banks and other financial institutions maturing between one and twelve months	–	40,132	7,479	–	–	–	47,611
Trade bills	3,039	–	–	–	–	–	3,039
Trading securities and other financial instruments at fair value through profit or loss	2,846	2,245	1,302	2,510	731	18	9,652
Derivative financial instruments	–	–	–	–	–	5,184	5,184
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	32,630	32,630
Certificates of deposit held	5,681	8,417	2,026	3,340	–	–	19,464
Advances and other accounts	273,360	40,833	12,770	4,715	474	3,203	335,355
Available-for-sale securities	2,346	4,473	195	18,564	17,160	56	42,794
Held-to-maturity securities	23,736	38,767	33,345	52,252	15,942	–	164,042
Loans and receivables	3,466	3,351	6,263	–	–	–	13,080
Interests in associates	–	–	–	–	–	61	61
Fixed assets	–	–	–	–	–	18,316	18,316
Investment properties	–	–	–	–	–	7,539	7,539
Other assets (including deferred tax assets)	475	–	–	–	–	7,288	7,763
Total assets	421,435	141,743	65,085	81,381	34,307	78,154	822,105
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	32,630	32,630
Deposits and balances of banks and other financial institutions	34,444	1,709	3,015	–	–	1,487	40,655
Trading liabilities and other financial instruments at fair value through profit or loss	1,725	2,097	1,310	2,792	–	–	7,924
Derivative financial instruments	–	–	–	–	–	4,193	4,193
Deposits from customers	454,781	131,904	22,251	1,478	–	22,677	633,091
Certificates of deposit issued	–	250	2,378	1,337	–	–	3,965
Other accounts and provisions (including deferred tax liabilities)	8,014	–	–	–	–	10,900	18,914
Total liabilities	498,964	135,960	28,954	5,607	–	71,887	741,372
Interest sensitivity gap	(77,529)	5,783	36,131	75,774	34,307	6,267	80,733

5. Financial risk management (continued)

(c) Interest rate risk (continued)

	2004						
	Up to 1 month HK$'m	1-3 months HK$'m	3-12 months HK$'m	1-5 years HK$'m	Over 5 years HK$'m	Non-interest bearing HK$'m	Total HK$'m
Assets							
Cash and short-term funds	91,041	3,789	2,967	–	–	4,850	102,647
Placements with banks and other financial institutions maturing between one and twelve months	200	48,334	59,047	–	–	–	107,581
Trade bills	1,086	–	–	–	–	–	1,086
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	34,760	34,760
Certificates of deposit held	5,726	10,722	3,490	2,400	–	–	22,338
Advances and other accounts	242,638	39,721	16,996	840	522	8,494	309,211
Held-to-maturity securities	27,307	57,758	38,330	49,250	8,405	–	181,050
Investment securities	–	–	–	–	–	50	50
Other investments in securities	2,357	2,090	731	2,254	835	21	8,288
Interests in associates	–	–	–	–	–	62	62
Fixed assets	–	–	–	–	–	16,496	16,496
Investment properties	–	–	–	–	–	5,381	5,381
Other assets (including deferred tax assets)	412	–	3	–	–	7,411	7,826
Total assets	370,767	162,414	121,564	54,744	9,762	77,525	796,776
Liabilities							
Hong Kong SAR currency notes in circulation	–	–	–	–	–	34,760	34,760
Deposits and balances of banks and other financial institutions	29,623	801	2,632	–	–	1,384	34,440
Deposits from customers	519,502	54,848	22,027	1,746	134	33,073	631,330
Certificates of deposit issued	–	–	891	2,897	–	–	3,788
Other accounts and provisions (including deferred tax liabilities)	8,330	1,064	250	–	–	13,054	22,698
Total liabilities	557,455	56,713	25,800	4,643	134	82,271	727,016
Interest sensitivity gap	(186,688)	105,701	95,764	50,101	9,628	(4,746)	69,760

5. Financial risk management (continued)

(c) *Interest rate risk (continued)*

Tables below summarise the effective interest rate by major currencies for monetary financial instruments subject to interest rate risk as at 31 December:

	2005					
	Renminbi	**US Dollars**	**HK Dollars**	**EURO**	**Japanese Yen**	**Pound Sterling**
	%	**%**	**%**	**%**	**%**	**%**
Assets						
Cash and short-term funds	**0.98**	**4.07**	**3.98**	**2.19**	**–**	**4.51**
Placements with banks and other financial institutions maturing between one and twelve months	**1.31**	**4.27**	**4.15**	**–**	**–**	**4.53**
Advances to customers	**5.00**	**5.17**	**5.32**	**3.30**	**1.22**	**4.74**
Advances to banks and other financial institutions	**–**	**4.38**	**4.31**	**–**	**0.27**	**–**
Available-for-sale securities	**–**	**4.93**	**3.83**	**2.91**	**–**	**4.61**
Held-to-maturity securities	**–**	**4.12**	**4.12**	**2.94**	**0.23**	**4.68**
Loans and receivables	**–**	**4.15**	**3.92**	**–**	**–**	**–**
Liabilities						
Deposits and balances of banks and other financial institutions	**0.96**	**4.03**	**3.79**	**2.35**	**0.05**	**4.28**
Deposits from customers	**0.65**	**3.02**	**3.04**	**1.16**	**–**	**3.05**
Certificates of deposit issued	**–**	**3.02**	**3.05**	**–**	**–**	**–**

	2004					
	Renminbi	US Dollars	HK Dollars	EURO	Japanese Yen	Pound Sterling
	%	%	%	%	%	%
Assets						
Cash and short-term funds	0.99	2.16	0.45	1.88	–	4.07
Placements with banks and other financial institutions maturing between one and twelve months	–	2.25	0.64	2.25	–	4.88
Advances to customers	4.65	3.40	2.51	3.16	1.27	5.46
Advances to banks and other financial institutions	–	2.50	0.53	–	0.30	–
Held-to-maturity securities	–	3.50	1.19	3.67	2.36	5.40
Other investments in securities	–	4.31	1.14	2.91	–	–
Liabilities						
Deposits and balances of banks and other financial institutions	0.91	1.92	0.41	2.29	0.03	4.62
Deposits from customers	0.61	1.21	0.24	0.92	–	3.14
Certificates of deposit issued	–	2.90	2.85	–	–	–

5. Financial risk management (continued)

(d) Liquidity risk

Tables below analyse assets and liabilities of the Group as at 31 December into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	2005							
	On demand HK$'m	Up to 1 month HK$'m	1-3 months HK$'m	3-12 months HK$'m	1-5 years HK$'m	Over 5 years HK$'m	Undated HK$'m	Total HK$'m
Assets								
Cash and short-term funds	30,704	79,641	3,525	1,705	–	–	–	115,575
Placements with banks and other financial institutions maturing between one and twelve months	–	–	40,145	7,466	–	–	–	47,611
Trade bills	101	1,125	1,460	353	–	–	–	3,039
Trading securities and other financial instruments at fair value through profit or loss	–	86	36	1,350	6,918	1,244	18	9,652
Derivative financial instruments	3,706	1,068	227	54	98	31	–	5,184
Hong Kong SAR Government certificates of indebtedness	32,630	–	–	–	–	–	–	32,630
Certificates of deposit held	–	987	4,159	4,845	9,225	248	–	19,464
Advances and other accounts – advances to customers	25,359	6,710	16,133	31,534	132,520	118,015	2,029	332,300
Advances and other accounts – advances to banks and other financial institutions	102	164	267	376	2,146	–	–	3,055
Available-for-sale securities – equity securities	–	–	–	–	–	–	56	56
Available-for-sale securities – debt securities	–	61	253	295	23,679	18,450	–	42,738
Held-to-maturity securities	–	1,005	6,088	27,278	111,417	18,254	–	164,042
Loans and receivables	–	3,466	3,351	6,263	–	–	–	13,080
Interests in associates	–	–	–	–	–	–	61	61
Fixed assets	–	–	–	–	–	–	18,316	18,316
Investment properties	–	–	–	–	–	–	7,539	7,539
Other assets (including deferred tax assets)	6,014	1,389	–	238	48	–	74	7,763
Total assets	98,616	95,702	75,644	81,757	286,051	156,242	28,093	822,105
Liabilities								
Hong Kong SAR currency notes in circulation	32,630	–	–	–	–	–	–	32,630
Deposits and balances of banks and other financial institutions	21,112	15,479	1,049	3,015	–	–	–	40,655
Trading liabilities and other financial instruments at fair value through profit or loss	–	641	1,411	1,750	3,560	562	–	7,924
Derivative financial instruments	1,767	1,261	146	239	616	164	–	4,193
Deposits from customers	247,547	229,885	131,900	22,253	1,506	–	–	633,091
Certificates of deposit issued	–	–	–	2,336	1,629	–	–	3,965
Other accounts and provisions (including deferred tax liabilities)	12,034	1,602	1,034	3,971	205	1	67	18,914
Total liabilities	315,090	248,868	135,540	33,564	7,516	727	67	741,372
Net liquidity gap	(216,474)	(153,166)	(59,896)	48,193	278,535	155,515	28,026	80,733

5. Financial risk management (continued)

(d) Liquidity risk (continued)

	2004							
	On demand HK$'m	Up to 1 month HK$'m	1-3 months HK$'m	3-12 months HK$'m	1-5 years HK$'m	Over 5 years HK$'m	Undated HK$'m	Total HK$'m
Assets								
Cash and short-term funds	20,976	74,987	3,717	2,967	–	–	–	102,647
Placements with banks and other financial institutions maturing between one and twelve months	16	–	47,849	59,716	–	–	–	107,581
Trade bills	8	538	501	39	–	–	–	1,086
Hong Kong SAR Government certificates of indebtedness	34,760	–	–	–	–	–	–	34,760
Certificates of deposit held	–	1,162	4,080	5,695	11,085	316	–	22,338
Advances and other accounts – advances to customers	19,351	9,021	14,989	28,703	127,520	101,326	7,011	307,921
Advances and other accounts – advances to banks and other financial institutions	–	–	–	–	1,290	–	–	1,290
Held-to-maturity securities	–	6,283	25,196	36,755	101,053	11,743	20	181,050
Investment securities	–	–	–	–	–	–	50	50
Other investments in securities – equity securities	–	–	–	–	–	–	21	21
Other investments in securities – debt securities	–	486	20	730	6,150	881	–	8,267
Interests in associates	–	–	–	–	–	–	62	62
Fixed assets	–	–	–	–	–	–	16,496	16,496
Investment properties	–	–	–	–	–	–	5,381	5,381
Other assets (including deferred tax assets)	2,730	4,128	31	151	465	–	321	7,826
Total assets	77,841	96,605	96,383	134,756	247,563	114,266	29,362	796,776
Liabilities								
Hong Kong SAR currency notes in circulation	34,760	–	–	–	–	–	–	34,760
Deposits and balances of banks and other financial institutions	14,990	15,986	832	2,632	–	–	–	34,440
Deposits from customers	332,194	219,883	53,697	20,768	4,476	312	–	631,330
Certificates of deposit issued	–	–	–	891	2,897	–	–	3,788
Other accounts and provisions (including deferred tax liabilities)	7,409	6,043	2,678	3,618	403	984	1,563	22,698
Total liabilities	389,353	241,912	57,207	27,909	7,776	1,296	1,563	727,016
Net liquidity gap	(311,512)	(145,307)	39,176	106,847	239,787	112,970	27,799	69,760

5. Financial risk management (continued)

(d) Liquidity risk (continued)

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". 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 after deduction of provisions, if any.

The analysis of debt 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.

(e) Fair values of financial assets and liabilities

Fair value estimates are made at a specific point in time based on relevant market information and information about various financial instruments. The following methods and assumptions have been used to estimate the fair value of each class of financial instruments as far as practicable.

Balances with banks and other financial institutions maturing between one and twelve months and Trade bills

The maturities of these financial assets and liabilities are within one year and the carrying value approximates fair value.

Advances to customers

Substantially all the advances to customers are on floating rate term, bear interest at prevailing market interest rates and their carrying value approximates fair value.

Held-to-maturity securities (including Certificates of deposit held)

Fair value for held-to-maturity securities is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Loans and receivables and Certificates of deposit issued

A discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

5. Financial risk management (continued)

(e) Fair values of financial assets and liabilities (continued)

Deposits from customers

Substantially all the deposits from customers mature within one year from balance sheet date and their carrying value approximates fair value.

	Carrying Value		Fair Value	
	2005 HK$'m	2004 HK$'m	**2005 HK$'m**	2004 HK$'m
Financial assets				
– Held-to-maturity securities (including certificates of deposit held)	**178,521**	212,129	**177,318**	213,017
– Loans and receivables	**13,080**	–	**13,061**	–
Financial liabilities				
– Certificates of deposit issued	**136**	3,788	**134**	3,810

(f) Fiduciary activities

The Group provides custody, trustee and investment management services to third parties which involve the Group providing both settlement functions and book keeping services to the beneficiaries. Those assets that are held in a fiduciary capacity are not included in these accounts. As at 31 December 2005, the Group had a balance of securities custody accounts amounting to approximately HK$175,412 million (2004: HK$147,076 million).

6. Net interest income

	2005 HK$'m	2004 HK$'m
Interest income		
Cash and due from banks and other financial institutions	**3,963**	2,493
Advances to customers	**13,176**	8,183
Listed investments	**2,007**	1,753
Unlisted investments	**6,090**	2,861
Others	**639**	388
	25,875	15,678
Interest expense		
Due to banks, customers and other financial institutions	**(12,314)**	(3,911)
Debt securities in issue	**(112)**	(82)
Others	**(575)**	(492)
	(13,001)	(4,485)
Net interest income	**12,874**	11,193

Included within interest income is HK$128 million of interest with respect to income recognised on advances classified as impaired for the year ended 31 December 2005.

7. Net fees and commission income

	2005 **HK$'m**	2004 HK$'m
Fees and commission income		
Securities brokerage	**834**	934
Credit cards	**737**	666
Bills commissions	**532**	547
Loan commissions	**263**	490
Payment services	**381**	349
Insurance	**329**	314
Asset management	**183**	233
Trust services	**107**	75
Guarantees	**43**	38
Others		
– safe deposit box	**169**	161
– low deposit balance accounts	**45**	63
– currency exchange	**102**	52
– BOC cards	**32**	35
– dormant accounts	**25**	28
– agency services	**12**	24
– postage and telegrams	**27**	25
– information search	**37**	33
– correspondent banking	**19**	18
– RMB business	**43**	26
– sundries	**190**	196
	4,110	4,307
Fees and commission expenses	**(1,057)**	(1,086)
Net fees and commission income	**3,053**	3,221

8. Net trading income

	2005 **HK$'m**	2004 HK$'m
Net gain/(loss) from:		
– foreign exchange and foreign exchange products	**1,464**	1,064
– interest rate instruments	**146**	(22)
– equity instruments	**12**	26
– commodities	**52**	55
	1,674	1,123

Foreign exchange net trading income includes gains and losses from forward and futures contracts, options, swaps and translation of foreign currency assets and liabilities.

9. Other operating income

	2005 HK$'m	2004 HK$'m
Dividend income from investments in securities		
– unlisted investments	**14**	14
Gross rental income from investment properties	**194**	210
Less: Outgoings in respect of investment properties	**(62)**	(69)
Others	**149**	165
	295	320

Included in the "Outgoings in respect of investment properties" were HK$17 million (2004: HK$13 million) of direct operating expenses related to investment properties that were not let during the year.

10. Operating expenses

	2005 HK$'m	2004 HK$'m
Staff costs (including directors' emoluments)		
– salaries and other costs	**3,217**	3,049
– termination benefit	**1**	1
– pension cost	**252**	241
	3,470	3,291
Premises and equipment expenses (excluding depreciation)		
– rental of premises	**258**	226
– information technology	**283**	301
– others	**202**	198
	743	725
Depreciation	**566**	585
Auditors' remuneration		
– audit services	**27**	24
– non-audit services	**8**	16
Other operating expenses	**916**	864
	5,730	5,505

11. Reversal of loan impairment allowances on advances

	2005 HK$'m	2004 HK$'m
Net reversal of loan impairment allowances on advances		
– Individually assessed	**1,377**	–
– Collectively assessed	**1,268**	–
	2,645	–
Of which		
– new allowances	**(1,315)**	–
– releases	**2,321**	–
– recoveries (Note 27)	**1,639**	–
Net credit to profit and loss account (Note 27)	**2,645**	–

12. Write-back of bad and doubtful debts

	2005 HK$'m	2004 HK$'m
Net credit for bad and doubtful debts		
Specific provisions		
– new provisions	**–**	(1,520)
– releases	**–**	1,851
– recoveries (Note 28)	**–**	1,356
	–	1,687
General provisions (Note 28)	**–**	(59)
Net credit to profit and loss account (Note 28)	**–**	1,628

13. Net gain from disposal/revaluation of fixed assets

	2005 HK$'m	2004 HK$'m
Net (loss)/gain on disposal of premises	**(3)**	29
Net loss on disposal of other fixed assets	**(14)**	(3)
Net gain on revaluation of premises (Note 36)	**63**	1,337
Reversal of impairment losses on premises (Note 36)	**5**	–
Provision for impairment losses on other fixed assets (Note 36)	**(1)**	–
	50	1,363

14. Net gain from disposal of/fair value adjustments on investment properties

	2005 **HK$'m**	2004 HK$'m
Net gain on disposal of investment properties	**14**	196
Net gain on fair value adjustments on investment properties	**1,382**	525
	1,396	721

15. Taxation

Taxation in the profit and loss account represents:

	2005 **HK$'m**	2004 HK$'m
Hong Kong profits tax		
– current year taxation	**2,282**	2,116
– over-provision in prior years	**(34)**	(91)
Deferred tax charge	**423**	152
	2,671	2,177
Attributable share of estimated Hong Kong profits tax losses arising from investments in partnerships	**(3)**	(203)
	2,668	1,974
Investments in partnerships written off	**3**	139
Hong Kong profits tax	**2,671**	2,113
Overseas taxation	**39**	17
	2,710	2,130
Share of taxation attributable to associates	**–**	1
	2,710	2,131

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

The Group has entered into a number of aircraft leasing and coupon strip transactions involving special purpose partnerships. As at 31 December 2005, the Group's investments in such partnerships, which are included in "Other assets" in the consolidated balance sheet, amounted to HK$165 million (2004: HK$613 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.

15. Taxation (continued)

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

	2005 HK$'m	2004 HK$'m
Assets	**589**	2,356
Liabilities	**433**	1,655

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

	2005 HK$'m	2004 HK$'m
Profit before taxation	**16,368**	14,252
Calculated at a taxation rate of 17.5% (2004: 17.5%)	**2,864**	2,494
Effect of different taxation rates in other countries	**(19)**	(41)
Income not subject to taxation	**(184)**	(333)
Expenses not deductible for taxation purposes	**81**	181
Tax losses not recognised	**10**	3
Utilisation of previously unrecognised tax losses	**(8)**	(19)
Over-provision in prior years	**(34)**	(91)
Tax benefits from partnerships	**–**	(64)
Share of taxation attributable to associates	**–**	1
Taxation charge	**2,710**	2,131
Effective tax rate	**16.6%**	15.0%

16. Profit attributable to equity holders of the Company

The profit of the Company for the year ended 31 December 2005 attributable to equity holders of the Company and dealt with in the accounts of the Company amounted to HK$8,300 million (2004: HK$7,961 million).

17. Dividends

	2005		2004	
	Per share HK$	**Total HK$'m**	Per share HK$	Total HK$'m
Interim dividend	**0.328**	**3,468**	0.320	3,383
Proposed final dividend	**0.480**	**5,075**	0.395	4,176
	0.808	**8,543**	0.715	7,559

At a meeting held on 18 August 2005, the Board declared an interim dividend of HK$0.328 per ordinary share for the first half of 2005 amounting to approximately HK$3,468 million.

At a meeting held on 23 March 2006, the Board proposed to declare a final dividend of HK$0.480 per ordinary share for the year ended 31 December 2005 amounting to approximately HK$5,075 million. This declared final dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006.

18. Earnings per share for profit attributable to the equity holders of the Company

The calculation of basic earnings per share is based on the consolidated profit attributable to the equity holders of the Company for the year ended 31 December 2005 of approximately HK$13,494 million (2004: HK$11,963 million) and on the ordinary shares in issue of 10,572,780,266 shares (2004: 10,572,780,266 ordinary shares).

There was no dilution of earnings per share as no potential ordinary shares were in issue for the year ended 31 December of 2005 (2004: Nil).

19. 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 year ended 31 December 2005 amounted to approximately HK$225 million (2004: approximately HK$225 million), after a deduction of forfeited contributions of approximately HK$23 million (2004: approximately HK$21 million). For the MPF Scheme, the Group contributed approximately HK$15 million (2004: approximately HK$12 million) for the year ended 31 December 2005.

20. Share option schemes

(a) Share Option Scheme and Sharesave Plan

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

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

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

No options were granted pursuant to the Share Option Scheme or the Sharesave Plan during the year 2005 (2004: Nil).

(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. The Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to all options grants to employees on or before 7 November 2002.

20. Share option schemes (continued)

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

Details of the share options outstanding as at 31 December 2005 are disclosed as follows:

	Directors	Senior management	Others*	Total number of share options	Average exercise price (HK$ per share)
At 1 January 2005	**8,459,100**	**10,532,700**	**1,446,000**	**20,437,800**	**8.5**
Less: Share options exercised during the year	**–**	**(2,121,550)**	**–**	**(2,121,550)**	**8.5**
Less: Share options lapsed during the year	**–**	**(108,500)**	**–**	**(108,500)**	**8.5**
At 31 December 2005	**8,459,100**	**8,302,650**	**1,446,000**	**18,207,750**	**8.5**
Exercisable at 31 December 2005	**6,253,950**	**5,071,600**	**1,084,500**	**12,410,050**	**8.5**
At 1 January 2004	12,001,800	14,705,700	–	26,707,500	8.5
Transfer	(3,181,200)	–	3,181,200	–	8.5
Less: Share options exercised during the year	(361,500)	(1,814,000)	–	(2,175,500)	8.5
Less: Share options lapsed during the year	–	(2,359,000)	(1,735,200)	(4,094,200)	8.5
At 31 December 2004	8,459,100	10,532,700	1,446,000	20,437,800	8.5
Exercisable at 31 December 2004	4,048,800	3,853,600	723,000	8,625,400	8.5

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

Share options were exercised on a regular basis throughout the year, the weighted average share price during the year was HK$15.01 (2004: HK$14.14).

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. 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.

21. Directors' and senior management's emoluments

(a) Directors' emoluments

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

For the year ended 2005	Directors' fees HK$'000	Basic salaries, allowances and benefits in kind HK$'000	Contributions to pension schemes HK$'000	Bonus HK$'000	Total HK$'000
Executive Directors					
He Guangbei	331	4,728	–	1,969	7,028
Non-executive Directors					
Xiao Gang	300	–	–	–	300
Sun Changji	300	–	–	–	300
Hua Qingshan	254	–	–	–	254
Li Zaohang	250	–	–	–	250
Zhou Zaiqun	254	–	–	–	254
Zhang Yanling	250	–	–	–	250
Fung Victor Kwok King*	300	–	–	–	300
Shan Weijian*	350	–	–	–	350
Tung Chee Chen*	300	–	–	–	300
Tung Savio Wai-Hok*	29	–	–	–	29
Yang Linda Tsao*	263	–	–	–	263
	3,181	4,728	–	1,969	9,878

21. Directors' and senior management's emoluments (continued)

(a) Directors' emoluments (continued)

For the year ended 2004	Directors' fees HK$'000	Basic salaries, allowances and benefits in kind HK$'000	Contributions to pension schemes HK$'000	Bonus HK$'000	Total HK$'000
Executive Directors					
He Guangbei	350	3,113	423	411	4,297
Non-executive Directors					
Xiao Gang	300	–	–	–	300
Sun Changji	300	–	–	–	300
Hua Qingshan	250	–	–	–	250
Li Zaohang	250	–	–	–	250
Zhou Zaiqun	250	–	–	–	250
Zhang Yanling	250	–	–	–	250
Fung Victor Kwok King*	300	–	–	–	300
Shan Weijian*	350	–	–	–	350
Tung Chee Chen*	300	–	–	–	300
Yang Linda Tsao*	246	–	–	–	246
Ping Yue	22	–	–	–	22
	3,168	3,113	423	411	7,115

Note:

* Independent Non-executive Directors

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 20(b). During the year, no options were exercised and no benefits arising from the granting of these share options were included in the directors' emoluments disclosed above or recognised in the profit and loss account.

For details of policies on directors' emoluments please refer to the Corporate Governance Report.

21. Directors' and senior management's emoluments (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 1 (2004: 1) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 4 (2004: 4) individuals during the year are as follows:

	2005 HK$'m	2004 HK$'m
Basic salaries and allowances	**12**	7
Discretionary bonuses	**5**	1
Others (including pension contributions)	**1**	1
	18	9

Emoluments of individuals were within the following bands:

	Number of individuals	
	2005	2004
HK$2,000,001 – HK$2,500,000	**–**	3
HK$2,500,001 – HK$3,000,000	**–**	1
HK$3,000,001 – HK$3,500,000	**1**	–
HK$4,500,001 – HK$5,000,000	**2**	–
HK$5,000,001 – HK$5,500,000	**1**	–

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

22. Cash and short-term funds

	2005 HK$'m	2004 HK$'m
Cash	**3,032**	4,072
Balances with banks and other financial institutions	**27,671**	16,904
Money at call and short notice maturing within one month	**78,051**	70,892
Treasury bills (including Exchange Fund Bills)	**6,821**	10,779
	115,575	102,647
An analysis of treasury bills held is as follows:		
Unlisted, available-for-sale securities, at fair value	**5,271**	–
Unlisted, held-to-maturity securities, at amortised cost	**–**	8,947
Unlisted, other investments in securities, at fair value	**–**	1,832
Unlisted, trading securities and other financial instruments at fair value through profit or loss	**1,550**	–
	6,821	10,779

23. Trading securities and other financial instruments at fair value through profit or loss

	Trading securities		Other financial instruments at fair value through profit or loss		Total	
	2005 HK$'m	2004 HK$'m	2005 HK$'m	2004 HK$'m	2005 HK$'m	2004 HK$'m
At fair value						
Debt securities						
– Listed in Hong Kong	**409**	–	**609**	–	**1,018**	–
– Listed outside Hong Kong	**4,181**	–	**931**	–	**5,112**	–
	4,590	–	**1,540**	–	**6,130**	–
– Unlisted	**2,556**	–	**948**	–	**3,504**	–
	7,146	–	**2,488**	–	**9,634**	–
Equity securities						
– Listed in Hong Kong	**18**	–	**–**	–	**18**	–
Total	**7,164**	–	**2,488**	–	**9,652**	–

23. Trading securities and other financial instruments at fair value through profit or loss (continued)

Trading securities and other financial instruments at fair value through profit or loss are analysed by issuers as follows:

	2005 HK$'m	2004 HK$'m
Central governments and central banks	**809**	–
Public sector entities	**1,620**	–
Banks and other financial institutions	**5,721**	–
Corporate entities	**1,502**	–
	9,652	–

All trading securities and other financial instruments at fair value through profit or loss are classified as follows in:

	2005 HK$'m	2004 HK$'m
Cash and short-term funds	**1,550**	–
Certificates of deposit held	**807**	–
Trading securities and other financial instruments at fair value through profit or loss	**9,652**	–
	12,009	–

24. Derivative financial instruments

The Group enters into the following equity, foreign exchange, interest rate and precious metal related derivative financial instruments for trading and risk management purposes:

Currency forwards represent commitments to purchase and sell foreign currency on a future date. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates or buy or sell interest rate financial instruments on a future date at an agreed price in the financial market under the administration of the stock exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency, interest rate and precious metal swaps are commitments to exchange one set of cash flows or commodity for another. Swaps result in an exchange of currencies, interest rates (for example, fixed rate for floating rate), or precious metals (for example, silver swaps) or a combination of all these (i.e. cross-currency interest rate swaps). Except for certain currency swap contracts, no exchange of principal takes place.

24. Derivative financial instruments (continued)

Foreign currency, interest rate, equity and precious metal options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of the financial instrument at a predetermined price. In consideration for the assumption of foreign exchange and interest rate risk, the seller receives a premium from the purchaser. Options are negotiated over-the-counter ("OTC") between the Group and its counterparty or traded through the stock exchange (for example, exchange-traded stock option).

The contract/notional amounts and fair values of derivative financial instruments held by the Group are set out in the following tables. The contract/notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet dates and certain of them provide a basis for comparison with fair value instruments recognised on the consolidated balance sheet. However, they do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or equity and metal prices relative to their terms. The aggregate fair values of derivative financial instruments assets and liabilities can fluctuate significantly from time to time.

The following is a summary of the contract/notional amounts of each significant type of derivative financial instruments:

	2005			2004		
	Trading HK$'m	**Hedging HK$'m**	**Total HK$'m**	Trading HK$'m	Hedging HK$'m	Total HK$'m
Exchange rate contracts						
Spot and forward	**113,672**	**–**	**113,672**	15,840	–	15,840
Swaps	**177,871**	**–**	**177,871**	200,862	3,715	204,577
Foreign currency option contracts						
– Options purchased	**2,227**	**–**	**2,227**	1,415	–	1,415
– Options written	**1,315**	**–**	**1,315**	2,851	–	2,851
	295,085	**–**	**295,085**	220,968	3,715	224,683
Interest rate contracts						
Futures	**194**	**–**	**194**	389	–	389
Swaps	**29,310**	**194**	**29,504**	5,349	17,166	22,515
Interest rate option contracts						
– Swaptions purchased	**–**	**–**	**–**	469	–	469
– Swaptions written	**1,153**	**–**	**1,153**	2,206	–	2,206
Other contracts						
– Bond option written	**465**	**–**	**465**	–	–	–
	31,122	**194**	**31,316**	8,413	17,166	25,579
Bullion contracts	**17,808**	**–**	**17,808**	1,092	–	1,092
Equity contracts	**567**	**–**	**567**	1,014	–	1,014
Total	**344,582**	**194**	**344,776**	231,487	20,881	252,368

Note: In 2005, all derivatives held for hedging are designated as fair value hedges.

24. Derivative financial instruments (continued)

The following table summarises the fair values of each class of derivative financial instrument as at 31 December 2005:

	Fair value assets			Fair value liabilities		
	Trading HK$'m	Hedging HK$'m	Total HK$'m	Trading HK$'m	Hedging HK$'m	Total HK$'m
Exchange rate contracts	4,167	–	4,167	2,329	–	2,329
Interest rate contracts	138	3	141	1,028	1	1,029
Bullion contracts	873	–	873	833	–	833
Equity contracts	3	–	3	2	–	2
	5,181	3	5,184	4,192	1	4,193

The replacement costs and credit risk weighted amounts of the above derivative financial instruments, which do not take into account the effects of bilateral netting arrangements are as follows:

	2005	2004	2005	2004
	Credit risk weighted amount		Replacement cost	
	HK$'m	HK$'m	HK$'m	HK$'m
Exchange rate contracts	415	694	246	1,264
Interest rate contracts	49	57	85	97
Bullion contracts	11	10	873	12
Equity contracts	9	16	3	6
	484	777	1,207	1,379

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 and is calculated in accordance with the guidelines issued by the HKMA. Accrued interest has been excluded in the calculation.

The Group undertakes approximately 65% of its transactions in derivative financial instruments contracts with other financial institutions.

25. Certificates of deposit held

	2005 HK$'m	2004 HK$'m
Unlisted, at fair value		
– Available-for-sale securities	**4,178**	–
– Other investments in securities	**–**	206
– Trading securities and other financial instruments at fair value through profit or loss	**807**	–
	4,985	206
Unlisted, at amortised cost		
– Held-to-maturity securities	**14,479**	22,132
	19,464	22,338

26. Advances and other accounts

	2005 HK$'m	2004 HK$'m
Advances to customers	**334,014**	313,226
Accrued interest	**–**	2,480
	334,014	315,706
Loan impairment allowances/Provision for bad and doubtful debts		
– Individually assessed (Note 27)	**(983)**	–
– Collectively assessed (Note 27)	**(731)**	–
– Specific provision (Note 28)	**–**	(2,320)
– General provision (Note 28)	**–**	(5,465)
	(1,714)	(7,785)
	332,300	307,921
Advances to banks and other financial institutions	**3,055**	1,290
Total	**335,355**	309,211

As at 31 December 2005, advances to customers include accrued interest on gross advances of HK$1,203 million.

26. Advances and other accounts (continued)

As at 31 December 2005, impaired advances to customers are analysed as follows:

	2005 **HK$'m**
Gross impaired advances to customers (Note a)	**4,263**
Loan impairment allowances made in respect of such advances	**1,269**
Gross impaired advances to customers as a percentage of gross advances to customers	**1.28%**

As at 31 December 2004, non-performing loans were analysed as follows:

	2004 HK$'m
Non-performing loans (Note b)	9,239
Specific provisions made in respect of such advances	2,269
Non-performing loans as a percentage of total advances to customers	2.95%

As at 31 December 2005, no loan impairment allowances were made in respect of advances to banks and other financial institutions.

The above loan impairment allowances/specific provisions were made after taking into account the value of collateral in respect of such advances.

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

Notes:

(a) Impaired advances to customers are those individual advances where full repayment of principal and/or interest is considered unlikely and are classified as such when such a situation becomes apparent. Accordingly, impaired advances represented advances, which have been classified as "substandard", "doubtful" and "loss" under the Group's classification of loan quality.

(b) 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.

27. Loan impairment allowances

	2005		
	Individual assessment HK$'m	Collective assessment HK$'m	Total HK$'m
At 1 January 2005			
As previously reported (Note 28)	**2,320**	**5,465**	**7,785**
Opening adjustments to comply with HKAS 39	**(433)**	**(3,410)**	**(3,843)**
Balance after opening adjustments	**1,887**	**2,055**	**3,942**
Credited to profit and loss account (Note 11)	**(1,377)**	**(1,268)**	**(2,645)**
Loans written off during the year as uncollectible	**(1,067)**	**(27)**	**(1,094)**
Recoveries (Note 11)	**1,639**	**–**	**1,639**
Unwind of discount on allowance	**(99)**	**(29)**	**(128)**
At 31 December 2005	**983**	**731**	**1,714**

28. Provisions for bad and doubtful debts

	2004			
	Specific HK$'m	General HK$'m	Total HK$'m	Suspended interest HK$'m
At 1 January 2004	5,507	5,406	10,913	324
(Credited)/charged to profit and loss account (Note 12)	(1,687)	59	(1,628)	–
Amounts written off	(2,856)	–	(2,856)	(139)
Recoveries of advances written off in previous years (Note 12)	1,356	–	1,356	–
Interest suspended during the year	–	–	–	130
Suspended interest recovered	–	–	–	(143)
At 31 December 2004	2,320	5,465	7,785	172
Deducted from:				
– advances to customers	2,320	5,465	7,785	

29. Available-for-sale securities

	2005 HK$'m	2004 HK$'m
Debt securities		
– Listed in Hong Kong	**3,540**	–
– Listed outside Hong Kong	**8,361**	–
	11,901	–
– Unlisted	**30,837**	–
	42,738	–
Equity securities		
– Listed outside Hong Kong	**6**	–
– Unlisted	**50**	–
	56	–
Total	**42,794**	–
Available-for-sale securities are analysed by issuers as follows:		
Central governments and central banks	**3,859**	–
Public sector entities	**4,506**	–
Banks and other financial institutions	**18,698**	–
Corporate entities	**15,731**	–
	42,794	–

The movement in available-for-sale securities may be summarised as follows:

	2005 HK$'m	2004 HK$'m
At 1 January		
As previously reported	**–**	–
Opening adjustments to comply with HKAS 39	**32,063**	–
Balance after opening adjustments	**32,063**	–
Additions	**74,276**	–
Disposals	**(36,675)**	–
Reclassification	**(15,772)**	–
Amortisation	**47**	–
Changes in fair value	**(629)**	–
Exchange differences	**(1,067)**	–
At 31 December	**52,243**	–
Available-for-sale securities are classified as follows in:		
Cash and short-term funds	**5,271**	–
Certificates of deposit held	**4,178**	–
Available-for-sale securities	**42,794**	–
	52,243	–

30. Held-to-maturity securities

	2005 HK$'m	2004 HK$'m
Listed, at amortised cost	**34,170**	56,108
Less: Provision for impairment in value	**–**	(12)
	34,170	56,096
Unlisted, at amortised cost	**129,872**	124,954
Total	**164,042**	181,050
Listed, at amortised cost less impairment		
– in Hong Kong	**4,281**	4,443
– outside Hong Kong	**29,889**	51,653
	34,170	56,096
Market value of listed securities	**33,637**	56,480
Held-to-maturity securities are analysed by issuers as follows:		
Central governments and central banks	**2,740**	3,377
Public sector entities	**30,741**	31,730
Banks and other financial institutions	**104,372**	124,906
Corporate entities	**26,189**	21,037
	164,042	181,050

The movement in held-to-maturity securities may be summarised as follows:

	2005 HK$'m	2004 HK$'m
At 1 January		
As previously reported	**212,129**	125,517
Opening adjustments to comply with HKAS 39	**(33,173)**	–
Balance after opening adjustments	**178,956**	125,517
Additions	**73,600**	206,401
Redemption and maturity	**(88,789)**	(188,747)
Reclassification	**15,772**	66,162
Amortisation	**85**	207
Exchange differences	**(1,115)**	2,589
Provision for impairment	**12**	–
At 31 December	**178,521**	212,129
Held-to-maturity securities are classified as follows in:		
Cash and short-term funds	**–**	8,947
Certificates of deposit held	**14,479**	22,132
Held-to-maturity securities	**164,042**	181,050
	178,521	212,129

31. Loans and receivables

	2005 HK$'m	2004 HK$'m
Unlisted, at amortised cost	**13,080**	–
Loans and receivables are analysed by issuers as follows:		
Public sector entities	**100**	–
Banks and other financial institutions	**12,980**	–
	13,080	–

The amortisation arising from "Loans and receivables" of the Group during the year is HK$331 million and exchange losses is HK$124 million.

32. Investment securities

	2005 HK$'m	2004 HK$'m
Equity securities, at cost		
– Listed outside Hong Kong	**–**	1
– Unlisted	**–**	49
Total	**–**	50
Market value of listed equity securities	**–**	5
Investment securities are analysed by issuers as follows:		
Banks and other financial institutions	**–**	1
Corporate entities	**–**	49
	–	50

33. Other investments in securities

	2005 HK$'m	2004 HK$'m
At fair value		
Debt securities		
– Listed in Hong Kong	–	321
– Listed outside Hong Kong	–	4,655
	–	4,976
– Unlisted	–	3,291
	–	8,267
Equity securities		
– Listed in Hong Kong	–	20
– Unlisted	–	1
	–	21
Total	–	8,288
Other investments in securities are analysed by issuers as follows:		
Central governments and central banks	–	759
Public sector entities	–	1,387
Banks and other financial institutions	–	5,732
Corporate entities	–	410
	–	8,288

34. Investment in a subsidiary

	2005 HK$'m	2004 HK$'m
Unlisted shares, at cost	**52,864**	52,864

The particulars of all direct and indirect subsidiaries of the Company are set out in Appendix of the Annual Report, "Subsidiaries of the Company". The following is a list of principal subsidiaries as at 31 December 2005.

Name	Country of incorporation & place of operation	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	4,800,000 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

In December 2005, the Group disposed of its entire interests in Fortune Holds Development Limited and Seng Sun Development (Xiamen) Co. Ltd. to independent third parties.

The China-South Sea Trustee Limited and Rams City Trustee Limited commenced members' voluntary winding up on 28 June 2005. Attempt Fit Enterprises Limited and Champion Leader International Limited also commenced members' voluntary winding up on 14 September 2005 and 15 March 2006 respectively.

35. Interests in associates

	2005 HK$'m	2004 HK$'m
At 1 January	**62**	278
Share of result	**5**	(16)
Share of tax	**(1)**	(1)
Reversal of provision	**4**	152
Repayment of loans	**–**	(280)
Dividend paid	**(3)**	(5)
Dissolution of associates	**(6)**	(66)
At 31 December	**61**	62

The Group's interests in its principal associates, all of which are unlisted, are as follows:

Name	Charleston Investments Company Limited		CJM Insurance Brokers Limited		Joint Electronic Teller Services Limited		Trilease International Limited	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
Place of incorporation	**Hong Kong**	Hong Kong	**Hong Kong**	Hong Kong	**Hong Kong**	Hong Kong	**Hong Kong**	Hong Kong
Particulars of issued share capital	**100,000 ordinary shares of HK$10 each**	100,000 ordinary shares of HK$10 each	**6,000,000 ordinary shares of HK$1 each**	6,000,000 ordinary shares of HK$1 each	**100,238 ordinary shares of HK$100 each**	100,238 ordinary shares of HK$100 each	**30,000,000 ordinary shares of HK$1 each**	30,000,000 ordinary shares of HK$1 each
Principal activities	**Property investment**	Property investment	**Insurance broker**	Insurance broker	**Operation of a private inter-bank message switching network in respect of ATM services**	Operation of a private inter-bank message switching network in respect of ATM services	**Provision of leasing finance**	Provision of leasing finance
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Assets	**6,505**	5,776	**51,810**	59,154	**345,591**	342,640	**–**	18,173
Liabilities	**483**	154	**34,764**	41,220	**79,056**	73,480	**–**	98
Revenues	**222**	254	**10,534**	10,334	**63,921**	59,322	**–**	18,381
Profit/(loss)	**(190)**	(80)	**2,112**	1,416	**22,912**	12,848	**–**	8,947
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
Interest held	**40%**	40%	**33%**	33%	**19.96%**	19.96%	**40%**	40%

Trilease International Limited commenced members' voluntary winding up in January 2005.

36. Fixed assets

	Premises HK$'m	Property under development HK$'m	Equipment, fixtures and fittings HK$'m	Total HK$'m
Net book value at 1 January 2005	**15,184**	**32**	**1,280**	**16,496**
Additions	**19**	**1**	**549**	**569**
Disposals	**(502)**	**–**	**(20)**	**(522)**
Revaluation	**3,413**	**–**	**–**	**3,413**
Depreciation for the year	**(242)**	**–**	**(324)**	**(566)**
Reclassification to investment properties (Note 37)	**(1,057)**	**–**	**–**	**(1,057)**
Disposal of subsidiaries	**–**	**(21)**	**–**	**(21)**
Reversal of/(provision for) impairment losses (Note 13)	**5**	**(1)**	**–**	**4**
Net book value at 31 December 2005	**16,820**	**11**	**1,485**	**18,316**
At 31 December 2005				
Cost or valuation	**16,828**	**19**	**4,143**	**20,990**
Accumulated depreciation and impairment	**(8)**	**(8)**	**(2,658)**	**(2,674)**
Net book value at 31 December 2005	**16,820**	**11**	**1,485**	**18,316**
Net book value at 1 January 2004	11,466	32	1,090	12,588
Additions	–	–	450	450
Disposals	(123)	–	(4)	(127)
Revaluation	4,260	–	–	4,260
Depreciation for the year	(328)	–	(256)	(584)
Reclassification to investment properties (Note 37)	(91)	–	–	(91)
Net book value at 31 December 2004	15,184	32	1,280	16,496
At 31 December 2004				
Cost or valuation	15,184	39	3,875	19,098
Accumulated depreciation and impairment	–	(7)	(2,595)	(2,602)
Net book value at 31 December 2004	15,184	32	1,280	16,496
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2005				
At cost	**–**	**19**	**4,143**	**4,162**
At valuation	**16,828**	**–**	**–**	**16,828**
	16,828	**19**	**4,143**	**20,990**
At 31 December 2004				
At cost	–	39	3,875	3,914
At valuation	15,184	–	–	15,184
	15,184	39	3,875	19,098

36. Fixed assets (continued)

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

	2005 HK$'m	2004 HK$'m
Held in Hong Kong		
On long-term lease (over 50 years)	**10,616**	9,493
On medium-term lease (10 – 50 years)	**5,960**	5,475
On short-term lease (less than 10 years)	**3**	3
Held outside Hong Kong		
On long-term lease (over 50 years)	**55**	42
On medium-term lease (10 – 50 years)	**180**	165
On short-term lease (less than 10 years)	**6**	6
	16,820	15,184

As at 31 December 2005, premises are included in the consolidated balance sheet at valuation carried out at 31 October 2005 on the basis of their open market value by an independent firm of chartered surveyors, Chesterton Petty Limited. Chesterton Petty Limited also confirmed that there has been no material change in valuations at 31 December 2005.

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

	2005 HK$'m	2004 HK$'m
Increase in valuation credited to premises revaluation reserve	**3,321**	2,895
Increase in valuation credited to profit and loss account (Note 13)	**63**	1,337
Increase in valuation credited to minority interests	**29**	28
	3,413	4,260

As at 31 December 2005, the net book value of premises that would have been included in the Group's consolidated balance sheet had the assets been carried at cost less accumulated depreciation and impairment losses were HK$5,611 million (2004: HK$6,032 million).

37. Investment properties

	2005 HK$'m	2004 HK$'m
At 1 January	**5,381**	4,994
Disposals	**(256)**	(858)
Depreciation for the year	**–**	(1)
Fair value gains	**1,382**	1,155
Reclassification from fixed assets (Note 36)	**1,057**	91
Disposal of subsidiaries	**(25)**	–
At 31 December	**7,539**	5,381

As at 31 December 2005, investment properties are included in the consolidated balance sheet at valuation carried out at 31 October 2005 on the basis of their open market value by an independent firm of chartered surveyors, Chesterton Petty Limited. Chesterton Petty Limited also confirmed that there has been no material change in valuations at 31 December 2005.

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

	2005 HK$'m	2004 HK$'m
Held in Hong Kong		
On long-term lease (over 50 years)	**6,769**	4,566
On medium-term lease (10 – 50 years)	**574**	681
On short-term lease (less than 10 years)	**39**	–
Held outside Hong Kong		
On long-term lease (over 50 years)	**14**	34
On medium-term lease (10 – 50 years)	**143**	100
	7,539	5,381

38. Other assets

	2005 HK$'m	2004 HK$'m
Repossessed assets	**250**	–
Precious metal	**1,669**	–
Accounts receivable and pre-payments	**5,840**	7,814
	7,759	7,814

39. 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.

40. Trading liabilities and other financial instruments at fair value through profit or loss

	2005 HK$'m	2004 HK$'m
Structured deposits (Note 41)	**6,373**	–
Short positions in Exchange Fund Bills (Note 42)	**1,551**	–
Per consolidated balance sheet	**7,924**	–
Certificates of deposit issued – at fair value through profit or loss (per consolidated balance sheet)	**3,829**	–
	11,753	–

The Group designated on initial recognition HK$10,202 million of financial liabilities at fair value through profit or loss. The amount of change in their fair values is attributable to changes in a benchmark interest rate. The difference between the carrying amount and the amount that the Group would be contractually required to pay at maturity to the holder of these financial liabilities is HK$140 million.

41. Deposits from customers

	2005 HK$'m	2004 HK$'m
Current, savings and other deposit accounts (per consolidated balance sheet)	**633,091**	631,330
Structured deposits reported as trading liabilities and other financial instruments at fair value through profit or loss (Note 40)	**6,373**	–
	639,464	631,330
Analysed by:		
Demand deposits and current accounts	**28,949**	32,470
Savings deposits	**216,552**	296,462
Time, call and notice deposits	**393,963**	302,398
	639,464	631,330

42. Assets pledged as security

As at 31 December 2005, liabilities of the Group amounting to HK$1,551 million (2004: HK$1,982 million) were secured by assets deposited with central depositories to facilitate settlement operations. In addition, the liabilities of the Group amounting to HK$473 million (2004: nil) were secured by debt securities related to sale and repurchase arrangements. The amount of assets pledged by the Group to secure these liabilities was HK$3,702 million (2004: HK$2,170 million) included in "Cash and short-term funds" and "Available-for-sale securities".

43. Deferred taxation

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 in accordance with HKAS 12 "Income taxes".

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

	2005					
	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 2005						
As previously reported	**278**	**1,615**	**(16)**	**(935)**	**(7)**	**935**
Opening adjustments (Note 4)	**37**	**600**	**–**	**587**	**–**	**1,224**
Balance after opening adjustments	**315**	**2,215**	**(16)**	**(348)**	**(7)**	**2,159**
Charged/(credited) to profit and loss account	**42**	**214**	**8**	**221**	**(62)**	**423**
Charged/(credited) to equity	**–**	**512**	**–**	**–**	**(43)**	**469**
At 31 December 2005	**357**	**2,941**	**(8)**	**(127)**	**(112)**	**3,051**

	2004					
	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 2004	262	984	(3)	(936)	18	325
Charged/(credited) to profit and loss account	16	173	(13)	1	(25)	152
Charged to equity	–	458	–	–	–	458
At 31 December 2004	278	1,615	(16)	(935)	(7)	935

43. 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:

	2005 HK$'m	2004 HK$'m
Deferred tax assets	**(4)**	(12)
Deferred tax liabilities	**3,055**	947
	3,051	935

	2005 HK$'m	2004 HK$'m
Deferred tax assets to be recovered after more than twelve months	**(174)**	(971)
Deferred tax liabilities to be settled after more than twelve months	**357**	282
	183	(689)

44. Other accounts and provisions

	2005 HK$'m	2004 HK$'m
Interest payable	**–**	959
Current taxation (Note)	**889**	901
Short positions in Exchange Fund Bills (Note 42)	**–**	1,982
Accruals and other payables	**14,970**	17,909
	15,859	21,751

Note:

Current taxation	**2005 HK$'m**	2004 HK$'m
Hong Kong profits tax	**865**	884
Overseas taxation	**24**	17
	889	901

45. Share capital

	2005 **HK$'m**	2004 HK$'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

46. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 82 of the accounts.

(b) Company

Included in the Company's retained earnings was a final dividend of HK$5,075 million (2004: HK$4,176 million) which was proposed by the Board after the balance sheet date.

47. Notes to consolidated cash flow statement

(a) Reconciliation of operating profit to operating cash inflow/(outflow) before taxation:

	2005 HK$'m	2004 HK$'m
Operating profit	**14,811**	11,980
Dividend income from investments in securities	**(14)**	(14)
Depreciation	**566**	585
Reversal of loan impairment allowances on advances	**(2,645)**	–
Write-back of bad and doubtful debts	**–**	(1,628)
Advances written off net of recoveries	**545**	(1,500)
Change in money at call and short notice with original maturity over three months	**(1,816)**	19,452
Change in treasury bills with original maturity over three months	**2,543**	(467)
Change in placements with banks and other financial institutions with original maturity over three months	**72,026**	(33,856)
Change in trade bills	**(1,953)**	(395)
Change in trading securities and other financial instruments at fair value through profit or loss	**1,942**	–
Change in derivative financial instruments	**(1,462)**	–
Change in certificates of deposit held with original maturity over three months	**2,229**	(3,639)
Change in advances and other accounts	**(22,770)**	(5,989)
Change in available-for-sale securities	**(5,513)**	–
Change in held-to-maturity securities	**(21,577)**	(13,512)
Change in loans and receivables	**(13,080)**	–
Change in other investments in securities	**–**	(3,359)
Change in other assets	**145**	873
Change in deposits and balances of banks and other financial institutions repayable over three months	**27**	(98)
Change in trading liabilities and other financial instruments at fair value through profit or loss	**4,132**	–
Change in deposits from customers	**3,118**	30,688
Change in certificates of deposit issued	**114**	1,356
Change in other accounts and provisions	**(1,569)**	(3,743)
Exchange difference	**1**	(2)
Operating cash inflow/(outflow) before taxation	**29,800**	(3,268)

47. Notes to consolidated cash flow statement (continued)

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

	2005	2004
	HK$'m	HK$'m
Cash and balances with banks and other financial institutions	**30,703**	20,976
Money at call and short notice with original maturity within three months	**61,000**	54,281
Treasury bills with original maturity within three months	**3,456**	4,871
Placements with banks and other financial institutions with original maturity within three months	**23,986**	12,249
Certificates of deposit held with original maturity within three months	**818**	1,508
Deposits and balances of banks and other financial institutions with original maturity within three months	**(37,149)**	(30,977)
	82,814	62,908

(c) Disposal of subsidiaries

	2005	2004
	HK$'m	HK$'m
Net assets disposed of:		
– Cash and short-term funds	**26**	–
– Other assets	**17**	–
– Investment properties	**25**	–
– Fixed assets	**21**	–
– Loss on disposal	**(10)**	–
	79	–
Satisfied by:		
– Cash	**79**	–
Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:		
– Cash consideration	**79**	–
– Accounts receivable	**(18)**	–
	61	–

(d) Major non-cash transactions

During the year, "Available-for-sale securities" with fair value of HK$15,772 million were transferred to "Held-to-maturity securities" to align with the Group's associated intention of holding.

48. Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment and the corresponding aggregate credit risk weighted amount:

	2005 HK$'m	2004 HK$'m
Direct credit substitutes	**1,027**	1,132
Transaction-related contingencies	**5,982**	4,647
Trade-related contingencies	**18,936**	16,266
Other commitments with an original maturity of		
– under one year or which are unconditionally cancellable	**105,988**	90,947
– one year and over	**29,754**	41,460
	161,687	154,452
Credit risk weighted amount	**21,415**	26,303

The calculation basis of credit risk weighted amount has been set out in Note 24 to the accounts.

49. Capital commitments

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

	2005 HK$'m	2004 HK$'m
Authorised and contracted for but not recorded	**185**	197
Authorised but not contracted for	**16**	17
	201	214

The above capital commitments mainly relate to commitments to purchase computer equipment and software; and to renovate the Group's premises.

50. Operating lease commitments

(a) The Group as lessee

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

	2005 HK$'m	2004 HK$'m
Land and buildings		
– not later than one year	**205**	200
– later than one year but not later than five years	**192**	188
– later than five years	**2**	3
	399	391
Computer equipment		
– not later than one year	**1**	1

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

(b) The Group as lessor

The Group has contracted with tenants for the following future minimum lease receivables under non-cancellable operating leases:

	2005 HK$'m	2004 HK$'m
Land and buildings		
– not later than one year	**151**	135
– later than one year but not later than five years	**162**	102
	313	237

The Group leases its investment properties (Note 37) under operating lease arrangements, with leases typically for a period from one to three years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. None of the leases includes contingent rentals.

51. Litigation

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

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

52. Segmental reporting

The Group engages in many businesses in several regions. For segmental reporting purposes, information is solely provided in respect of business segments. Geographical segment information is not presented because over 90% of the Group's revenues, profits before tax and assets are derived from Hong Kong.

Starting from the interim report this year, the Group adopted a new approach in segmental reporting to provide investors with more details. Under the current approach, information about five business segments is provided. They are Retail Banking, Corporate Banking, Treasury, Investment Activities and Unallocated.

Both Retail Banking and Corporate Banking segments provide general banking services. Retail Banking mainly serves individual customers and small companies. Corporate Banking mainly manages medium to large companies. Treasury segment is responsible for managing the capital, liquidity, and the interest rate and foreign exchange positions of the Group in addition to proprietary trades. Investment Activities include the Group's holdings of premises, investment properties and interests in associates. The segment "Unallocated" refers to those items related to the Group as a whole but independent of the other four business segments.

Revenues, expenses, assets and liabilities of any business segment mainly include items directly attributable to the segment. Regarding occupation of the Group's premises, rentals are internally charged on market rates according to the areas occupied. For management overheads, allocations are made on reasonable bases. Inter-segment fund flows are charged according to the internal funds transfer pricing mechanism of the Group. The charge on any such flow is mainly made by reference to the corresponding money market rate. Although there are internal charges on funds transferred between business segments, no assets and liabilities are created in any form for any segment in respect of such transfers for segmental reporting purposes.

52. Segmental reporting (continued)

	2005							
	Retail HK$'m	Corporate HK$'m	Treasury HK$'m	Investment HK$'m	Unallocated HK$'m	Subtotal HK$'m	Eliminations HK$'m	Consolidated HK$'m
Net interest income/(expenses)	7,371	3,966	2,529	(854)	(138)	12,874	–	12,874
Net fees and commission income/(expenses)	2,110	988	(31)	15	(29)	3,053	–	3,053
Net trading income/(expenses)	488	122	1,065	(1)	–	1,674	–	1,674
Other operating income	36	5	14	613	525	1,193	(898)	295
Operating income	10,005	5,081	3,577	(227)	358	18,794	(898)	17,896
Operating expenses	(4,446)	(1,300)	(308)	(364)	(210)	(6,628)	898	(5,730)
Operating profit/(loss) before impairment on advances	5,559	3,781	3,269	(591)	148	12,166	–	12,166
Reversal of loan impairment allowances on advances	956	1,689	–	–	–	2,645	–	2,645
Operating profit/(loss)	6,515	5,470	3,269	(591)	148	14,811	–	14,811
Write-back of restructuring provisions	–	–	–	–	209	209	–	209
Net (loss)/gain from disposal/revaluation of fixed assets	(12)	(1)	–	63	–	50	–	50
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	1,396	–	1,396	–	1,396
Net loss from early redemption of held-to-maturity securities	–	–	(4)	–	–	(4)	–	(4)
Net loss from disposal of available-for-sale securities	–	–	(104)	–	–	(104)	–	(104)
Reversal of impairment losses on held-to-maturity securities	–	–	12	–	–	12	–	12
Net loss on disposal of subsidiaries	–	–	–	(10)	–	(10)	–	(10)
Reversal of impairment losses on interests in associates	–	–	–	4	–	4	–	4
Share of profits less losses of associates	–	–	–	4	–	4	–	4
Profit before taxation	6,503	5,469	3,173	866	357	16,368	–	16,368
Assets								
Segment assets	157,892	211,834	426,790	24,692	662	821,870	–	821,870
Interests in associates	–	–	–	61	–	61	–	61
Unallocated corporate assets	–	–	–	–	174	174	–	174
	157,892	211,834	426,790	24,753	836	822,105	–	822,105
Liabilities								
Segment liabilities	551,428	101,710	84,049	658	–	737,845	–	737,845
Unallocated corporate liabilities	–	–	–	–	3,527	3,527	–	3,527
	551,428	101,710	84,049	658	3,527	741,372	–	741,372
Other information								
Additions of fixed assets	–	–	–	569	–	569	–	569
Depreciation	186	64	22	225	69	566	–	566
Amortisation of securities	–	–	463	–	–	463	–	463

52. Segmental reporting (continued)

	2004							
	Retail HK$'m	Corporate HK$'m	Treasury HK$'m	Investment HK$'m	Unallocated HK$'m	Subtotal HK$'m	Eliminations HK$'m	Consolidated HK$'m
Net interest income/(expenses)	5,445	3,643	2,153	(51)	3	11,193	–	11,193
Net fees and commission income/(expenses)	2,077	1,179	(39)	18	(14)	3,221	–	3,221
Net trading income/(expenses)	540	20	571	(8)	–	1,123	–	1,123
Other operating income	(39)	2	1	664	597	1,225	(905)	320
Operating income	8,023	4,844	2,686	623	586	16,762	(905)	15,857
Operating expenses	(3,897)	(1,211)	(296)	(558)	(448)	(6,410)	905	(5,505)
Operating profit before provisions on advances	4,126	3,633	2,390	65	138	10,352	–	10,352
Write-back of bad and doubtful debts	28	1,600	–	–	–	1,628	–	1,628
Operating profit	4,154	5,233	2,390	65	138	11,980	–	11,980
Net (loss)/gain from disposal/revaluation of fixed assets	(1)	1	–	1,365	(2)	1,363	–	1,363
Net gain from disposal of/fair value adjustments on investment properties	–	–	–	721	–	721	–	721
Net gain from early redemption of held-to-maturity securities	–	–	2	–	–	2	–	2
Net gain on disposal of an associate	–	–	–	50	–	50	–	50
Reversal of impairment losses on interests in associates	–	–	–	152	–	152	–	152
Share of profits less losses of associates	–	–	–	(16)	–	(16)	–	(16)
Profit before taxation	4,153	5,234	2,392	2,337	136	14,252	–	14,252
Assets								
Segment assets	132,790	187,947	453,457	22,292	–	796,486	–	796,486
Interests in associates	–	–	–	62	–	62	–	62
Unallocated corporate assets	–	–	–	–	228	228	–	228
	132,790	187,947	453,457	22,354	228	796,776	–	796,776
Liabilities								
Segment liabilities	567,309	90,054	68,485	658	–	726,506	–	726,506
Unallocated corporate liabilities	–	–	–	–	510	510	–	510
	567,309	90,054	68,485	658	510	727,016	–	727,016
Other information								
Additions of fixed assets	–	–	–	450	–	450	–	450
Depreciation	138	45	17	391	(6)	585	–	585
Amortisation of premium/discount of held-to-maturity securities	–	–	207	–	–	207	–	207

53. Loans to directors and officers

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

	2005 **HK$'m**	2004 HK$'m
Aggregate amount of relevant loans outstanding at year end	**22**	185
Maximum aggregate amount of relevant loans outstanding during the year	**186**	193

54. 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. Related parties may be individuals or other entities.

Transactions with related parties, which the Group entered into during the year are summarised as follows:

(a) Advances to third parties guaranteed by BOC group companies

As at 31 December 2005, BOC, the intermediate holding company, and its subsidiaries provided guarantees for loans in favour of the Group amounting to HK$3,255 million (2004: HK$4,512 million) to certain third parties. BOC and its subsidiaries held equity interests of not more than 20% in these third parties.

54. Significant related party transactions (continued)

(b) Summary of transactions entered into during the ordinary course of business with BOC group companies

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

	Notes	2005 Immediate and intermediate holding companies[1] HK$'m	2005 Associates HK$'m	2005 Other related parties[2] HK$'m
Profit and loss items:				
Interest income	(i)	**461**	**–**	**6**
Interest expense	(ii)	**(412)**	**(2)**	**(111)**
Insurance commission received (net)	(iii)	**–**	**–**	**166**
Administrative services fees received/receivable	(iv)	**36**	**–**	**16**
Rental fees received/receivable	(iv)	**–**	**–**	**15**
Credit card commission paid/payable (net)	(v)	**(77)**	**–**	**(2)**
Securities brokerage commission paid/payable (net)	(v)	**–**	**–**	**(71)**
Rental, property management and letting agency fees paid/payable	(v)	**–**	**–**	**(80)**
Funds selling commission received	(vi)	**–**	**–**	**45**
Correspondent banking fee received	(vii)	**11**	**–**	**–**
Net trading losses		**(42)**	**–**	**–**

	Notes	2004 Immediate and intermediate holding companies[1] HK$'m	2004 Associates HK$'m	2004 Other related parties[2] HK$'m
Profit and loss items:				
Interest income	(i)	163	1	11
Interest expense	(ii)	(188)	–	(22)
Insurance commission received (net)	(iii)	–	–	149
Administrative services fees received/receivable	(iv)	42	–	13
Rental fees received/receivable	(iv)	–	–	19
Credit card commission paid/payable (net)	(v)	(64)	–	(2)
Securities brokerage commission paid/payable (net)	(v)	–	–	(113)
Rental, property management and letting agency fees paid/payable	(v)	–	–	(66)
Write-back of bad and doubtful debts		–	141	21
Funds selling commission received	(vi)	–	–	71
Correspondent banking fee received	(vii)	11	–	–
Loan services fees received	(viii)	2	–	5

54. Significant related party transactions (continued)

(b) Summary of transactions entered into during the ordinary course of business with BOC group companies (continued)

	Notes	2005 Immediate and intermediate holding companies[1] HK$'m	2005 Associates HK$'m	2005 Other related parties[2] HK$'m
Balance sheet items:				
Cash and short-term funds	(i)	**9,665**	**–**	**19**
Placements with banks and other financial institutions	(i)	**7,514**	**–**	**–**
Derivative financial instruments assets	(ix)	**4**	**–**	**2**
Advances and other accounts	(i)	**20**	**–**	**–**
Other assets	(x)	**33**	**–**	**574**
Deposits and balances of banks and other financial institutions	(ii)	**19,596**	**–**	**857**
Deposits from customers	(ii)	**97**	**91**	**4,601**
Derivative financial instruments liabilities	(ix)	**78**	**–**	**–**
Other accounts and provisions	(x)	**55**	**–**	**978**

	Notes	2004 Immediate and intermediate holding companies[1] HK$'m	2004 Associates HK$'m	2004 Other related parties[2] HK$'m
Balance sheet items:				
Cash and short-term funds	(i)	11,534	–	53
Placements with banks and other financial institutions	(i)	22,673	–	53
Advances and other accounts	(i)	15	–	338
Other assets	(x)	41	–	1,302
Deposits and balances of banks and other financial institutions	(ii)	18,536	–	1,013
Deposits from customers	(ii)	81	110	4,984
Other accounts and provisions	(x)	24	–	1,159

1 Immediate and intermediate holding companies are state-controlled entities. Transactions with BOC for the year ended 31 December 2004 have been disclosed as transactions with immediate and intermediate holding companies to ensure comparability notwithstanding that BOC was the Company's ultimate holding company before August 2004. Following the reorganisation of BOC in August 2004, Central SAFE holds controlling equity capital of BOC on behalf of the State. Accordingly, Central SAFE, acting on behalf of the State has become the ultimate holding company of the Company whilst BOC became the Company's intermediate holding company.

2 Subsidiaries and associates of BOC and post-employment benefit plans for the benefit of employees of the Company are collectively disclosed as other related parties and certain of which are state-controlled entities.

54. Significant related party transactions (continued)

(b) Summary of transactions entered into during the ordinary course of business with BOC group companies (continued)

Notes:

(i) Interest income

In the ordinary course of business, the Group enters into various transactions with BOC and its subsidiaries and associates including deposit of cash and short-term funds, placement of interbank deposits 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.

(ii) Interest expense

In the ordinary course of business, the Group accepts interbank deposits and current, fixed, savings and other deposits from the immediate holding company, intermediate holding companies and subsidiaries and associates of BOC at the relevant market rates at the time of the transactions.

(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 subsidiaries of BOC at the relevant market rates at the time of the transactions.

(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 intermediate holding companies and subsidiaries of BOC mainly on the basis of cost plus a margin of 5%, and receives office premises rental fees from the subsidiaries of BOC at the relevant market rates at the time of the transactions.

(v) Commission, property management, letting agency fees 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 BOC and its subsidiaries. The Group also pays rental fees to subsidiaries of BOC. These transactions have been entered into in the ordinary course of business and were priced at the relevant market rates at the time of the transactions.

(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 subsidiary of BOC to customers of the Group at the relevant market rates at the time of the transactions.

(vii) Correspondent banking fee received

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

54. Significant related party transactions (continued)

(b) Summary of transactions entered into during the ordinary course of business with BOC group companies (continued)

Notes: (continued)

(viii) Loan services fees received

In the ordinary course of business, the Group undertakes to service and administer the loans and the related securities transferred to BOC and its subsidiaries in prior years at a fee agreed among the parties from time to time. Such loan service was ended in June 2004 when the loans were sold.

(ix) Derivative financial instruments assets/liabilities

In the ordinary course of business, the Group enters into foreign exchange contracts and interest rate contracts with BOC and its subsidiaries. The aggregate notional amount of such derivative transactions amounted to HK$17,583 million as at 31 December 2005 whilst the corresponding derivative financial instruments assets and liabilities amounted to HK$6 million and HK$78 million respectively as at that date. These transactions are executed at the relevant market rates at the time of the transactions.

(x) Other assets and other accounts and provisions

Included within "Other assets" and "Other accounts and provisions" are receivables from and payables to intermediate holding companies and subsidiaries of BOC. The amounts mainly represent the accounts receivables from and payables to a subsidiary of BOC 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) 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 BOC and its subsidiaries and associates on normal commercial terms. As at 31 December 2005, the total undrawn loan commitments, trade finance-related contingencies and guarantees amounted to HK$1,148 million (2004: HK$1,283 million).

(d) Key management personnel

Key management are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and Senior Management. The Group accepts deposits from and grants loans and credit facilities to key management personnel in the ordinary course of business. During both the current and prior year, no material transaction was conducted with key management personnel of BOCHK, its holding companies and parties related to them.

The key management compensation for the year ended 31 December 2005 and 31 December 2004 is detailed as follows:

	2005 **HK$'m**	2004 HK$'m
Salaries and other short-term employee benefits	**33**	24
Post-employment benefits	**1**	2
	34	26

54. Significant related party transactions (continued)

(e) Transactions with Ministry of Finance and The People's Bank of China

The Group enters into banking transactions with these entities in the normal course of business. These include purchases and redemption of treasury bonds and money market transactions. The outstanding balances at the year end, and the related income and expense for the year are as follows:

(i) Treasury bonds

	2005	2004
	HK$'m	HK$'m
Interest income	**133**	104

	2005	2004
	HK$'m	HK$'m
Outstanding balance at beginning of the year	**2,523**	1,559
Outstanding balance at end of the year	**2,630**	2,523

(ii) Due from banks and other financial institutions

	2005	2004
	HK$'m	HK$'m
Interest income	**110**	60

	2005	2004
	HK$'m	HK$'m
Outstanding balance at beginning of the year	**11,648**	371
Outstanding balance at end of the year	**21,846**	11,648

(iii) Due to banks and other financial institutions

	2005	2004
	HK$'m	HK$'m
Interest expense	**(5)**	(40)

	2005	2004
	HK$'m	HK$'m
Outstanding balance at beginning of the year	**–**	4,163
Outstanding balance at end of the year	**–**	–

54. Significant related party transactions (continued)

(f) Transactions with Central SAFE and other companies controlled by Central SAFE

Central SAFE is the controlling entity of BOC. Central SAFE is approved by the State Council of the PRC to assume the rights and obligations of the equity owner on behalf of the State. Accordingly, Central SAFE, acting on behalf of the State, has become the ultimate holding company of the Company by virtue of its interest in BOC.

The Group did not have any balances and enter into any transactions with Central SAFE for the years ended 31 December 2004 and 2005 respectively.

Central SAFE has controlling equity interests in certain other banks in the PRC. The Group enters into banking transactions with these companies in the normal course of business. These include loans, investment securities and money market transactions. The outstanding balances at the year end, and the related income and expense for the year are as follows:

(i) Advances to customers/banks and other financial institutions

	2005 **HK$'m**	2004 HK$'m
Interest income	**–**	–

	2005 **HK$'m**	2004 HK$'m
Outstanding balance at beginning of the year	**–**	–
Outstanding balance at end of the year	**11**	–

(ii) Investment securities

	2005 **HK$'m**	2004 HK$'m
Interest income	**59**	22

	2005 **HK$'m**	2004 HK$'m
Outstanding balance at beginning of the year	**1,743**	373
Outstanding balance at end of the year	**2,043**	1,743

54. Significant related party transactions (continued)

(f) Transactions with Central SAFE and other companies controlled by Central SAFE (continued)

(iii) Due from banks and other financial institutions

	2005 HK$'m	2004 HK$'m
Interest income	**29**	9

	2005 HK$'m	2004 HK$'m
Outstanding balance at beginning of the year	**2,115**	1,072
Outstanding balance at end of the year	**1,034**	2,115

(iv) Due to banks and other financial institutions

	2005 HK$'m	2004 HK$'m
Interest expense	**(1)**	–

	2005 HK$'m	2004 HK$'m
Outstanding balance at beginning of the year	**14**	5
Outstanding balance at end of the year	**15**	14

(g) Transactions with other state-controlled entities

The state-controlled entities are those, other than BOC (the intermediate holding company and its subsidiaries) and Central SAFE and its controlled companies over which the PRC government directly or indirectly holds over 50% of the outstanding shares or voting rights, and has the ability to control or the power to govern their financial or operational policies through its government authorities, agencies and affiliates. Accordingly, the Group has extensive transactions with other state controlled entities. These transactions, conducted in the ordinary course of business, may include, but are not limited to, the following:

- lending, provision of credits and guarantees and deposit taking;
- inter-bank balance taking and placing;
- sale, purchase, underwriting and redemption of bonds issued by other state-controlled entities;
- rendering of foreign exchange, remittance, investment related services;
- provision of fiduciary activities; and
- purchase of utilities, transport, telecommunication and postal services.

54. Significant related party transactions (continued)

(g) Transactions with other state-controlled entities (continued)

Utilities, transport, telecommunication and postal services are charged by service providers at market rates. Management believes that, based on their assessment, the amounts of such related party transactions are insignificant for the year and therefore are not disclosed below. Details of other transactions are set forth below.

The Group enters into banking transactions with other state-controlled entities in the ordinary course of business. These include loans, deposits, investment securities, money market transactions and off-balance sheet exposures. The outstanding balances and related provisions, and the related income and expenses for the year are as follows:

(i) Advances to customers/banks and other financial institutions

	2005 HK$'m	2004 HK$'m
Interest income	**1,341**	584
(Charge for individually assessed loan impairment allowances)/Write-back of bad and doubtful debts	**(2)**	798

	2005 HK$'m	2004 HK$'m
Outstanding balance at beginning of the year	**31,870**	29,546
Outstanding balance at end of the year	**41,543**	31,870
Less: individually assessed loan impairment allowances	**(469)**	–
Less: specific provisions	**–**	(371)
	41,074	31,499

(ii) Investment securities

	2005 HK$'m	2004 HK$'m
Interest income	**343**	206

	2005 HK$'m	2004 HK$'m
Outstanding balance at beginning of the year	**6,086**	3,745
Outstanding balance at end of the year	**6,977**	6,136

Investment securities include held-to-maturity securities and available-for-sale securities. The balance of investment securities as at 31 December 2004 included other investments in securities in addition to the aforementioned.

54. Significant related party transactions (continued)

(g) Transactions with other state-controlled entities (continued)

(iii) Trading securities and other financial instruments at fair value through profit or loss

	2005 HK$'m	2004 HK$'m
Interest income	**29**	–

	2005 HK$'m	2004 HK$'m
Outstanding balance at beginning of the year	**117**	–
Outstanding balance at end of the year	**738**	–

(iv) Due from banks and other financial institutions

	2005 HK$'m	2004 HK$'m
Interest income	**129**	17

	2005 HK$'m	2004 HK$'m
Outstanding balance at beginning of the year	**4,418**	3,310
Outstanding balance at end of the year	**4,839**	4,418

(v) Due to banks and other financial institutions

	2005 HK$'m	2004 HK$'m
Interest expense	**(112)**	(70)

	2005 HK$'m	2004 HK$'m
Outstanding balance at beginning of the year	**7,463**	10,846
Outstanding balance at end of the year	**6,434**	7,463

54. Significant related party transactions (continued)

(g) Transactions with other state-controlled entities (continued)

(vi) Deposits from customers

	2005 HK$'m	2004 HK$'m
Interest expense	**(1,013)**	(129)

	2005 HK$'m	2004 HK$'m
Outstanding balance at beginning of the year	**39,161**	17,888
Outstanding balance at end of the year	**44,652**	39,161

(vii) Contingent liabilities and commitments (including guarantees)

	2005 HK$'m	2004 HK$'m
Contingent liabilities and commitments (including guarantees)	**26,852**	20,379

(viii) Derivative transactions unsettled (notional amount)

	2005 HK$'m	2004 HK$'m
Derivative transactions unsettled (notional amount)	**4,020**	5,075

55. Ultimate holding company

BOC was the Company's ultimate holding company before August 2004. Following the reorganisation of BOC in August 2004, Central SAFE (previously known as China SAFE Investments Ltd) holds controlling equity capital of BOC on behalf of the State. Accordingly, Central SAFE, acting on behalf of the State has become the ultimate holding company of the Company whilst BOC has become the Company's intermediate holding company.

56. Comparative amounts

As further explained in Note 2 to the accounts, due to the adoption of certain new HKFRSs, HKASs and Interpretations during the year, the accounting treatment and presentation of certain items and balances in the accounts have been prepared to comply with the new requirements. Accordingly, certain opening adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

57. Approval of accounts

The accounts were approved and authorised for issue by the Board of Directors on 23 March 2006.