

NOTES TO THE ACCOUNTS

1. Basis of preparation and accounting policies

This unaudited interim report has been prepared in accordance with HKAS 34 “Interim Financial Reporting” issued by the HKICPA and should be read in conjunction with the Group’s Annual Report for 2004.

In 2005, the Group adopted the new/revised standards of Hong Kong Financial Reporting Standards as set out below, which are relevant to its operations:

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 5	Non-current Assets Held for Sale and Discontinued Operations

The accounting policies and methods of computation used in the preparation of this interim report are consistent with those used in the Group’s accounts for the year ended 31 December 2004 except for the changes in accounting policies on 1 January 2005 following the adoption of the new and revised HKFRSs and HKASs.

Except for the following, the new/revised Hong Kong Financial Reporting Standards did not result in substantial changes to the Group’s accounting policies.

1. Basis of preparation and accounting policies (continued)

HKFRS 5: Non-current Assets Held for Sale and Discontinued Operations ('HKFRS 5')

From 1 January 2004 to 31 December 2004

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

From 1 January 2005 onward

Upon adoption of HKFRS 5, reposessed 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, reposessed assets are measured at the lower of their cost or net realisable value and are reported as 'Non-current assets held for sale' under 'Other assets'.

HKAS 17: Leases ('HKAS 17')

From 1 January 2004 to 31 December 2004

Leasehold properties were stated at valuation determined by the directors with reference to a valuation conducted by independent professional valuers. No apportionment of the value between the land and buildings elements was made.

From 1 January 2005 onward

Upon adoption of HKAS 17, 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 building cannot be split reliably as at the inception of the lease, the land and building elements will continue to be treated as finance leases and carried 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 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 held for own use to reflect the circumstances at the time of the Merger.

NOTES TO THE ACCOUNTS

1. Basis of preparation and accounting policies (continued)

HKAS 17: Leases ('HKAS 17') (continued)

From 1 January 2005 onward (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 held for own use between the land and building elements. Any means of subsequent allocation of the valuation of the leasehold properties held for own use at the date of Merger between the land and building elements would be notional and therefore do not represent reliable information. It is determined that the values of the land and building elements of the Group's leasehold properties held for own use cannot be reliably split and the leasehold properties held for own use are treated as finance leases. The Group has also adopted the revaluation model under HKAS 16 by which assets arising under these finance leases are carried at fair value less any accumulated depreciation and impairment losses.

HKAS 39: Financial Instruments – Recognition and Measurement ('HKAS 39')

(a) 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 onward

Interest income and expense on interest-bearing financial assets or financial liabilities is recognised on a time-proportion basis using the effective interest method. Premiums or discounts of debt securities held, or debt instruments in issue, 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 as part of the effective interest calculation.

When a loan is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument. Subsequent unwinding of the discount allowance is recognised as interest income.

Interest 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.

1. Basis of preparation and accounting policies (continued)

HKAS 39: Financial Instruments – Recognition and Measurement ('HKAS 39') (continued)

(b) Derivative financial instruments

From 1 January 2004 to 31 December 2004

The treatment for derivatives depended on whether the transactions were undertaken for dealing or hedging purposes when the Group entered into a derivative contract. Transactions undertaken for dealing purposes were marked to market at fair value based primarily on quoted market prices or, if an active market was absent, on dealers' quotes, pricing models or quoted prices for instruments with similar characteristics. Unrealised gains/losses on transactions which were marked to market were included in "Other assets" or "Other accounts and provisions" respectively. Gains or losses from changes in fair value were recognised through the profit and loss account.

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.

From 1 January 2005 onward

All derivatives are initially recognised at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative. Subsequent changes in fair value are recognised dependent on whether the derivatives are qualified for hedge accounting and the type of hedging relationships.

Hedge relationships can be designated as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); (2) hedges of highly probable forecasted transactions (cash flow hedges); or (3) hedges of net investments in foreign operations. Currently, the Group only engages in fair value hedges that are hedged against the fair value of recognised assets or liabilities.

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 or cash flows of hedged items.

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.

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.

NOTES TO THE ACCOUNTS

1. Basis of preparation and accounting policies (continued)

HKAS 39: Financial Instruments – Recognition and Measurement ('HKAS 39') (continued)

(c) 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 trading which were measured at fair value. Gains and losses from changes in fair value were recognised in the profit and loss account.

From 1 January 2005 onward

The Group classifies its financial assets under 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. 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 fair value.

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

This category is further divided into two sub-categories: financial assets held for trading, and financial assets designated as at fair value through profit or loss at inception or date of transition to the new HKFRS. 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 can be designated as at fair value through profit or loss if it is so designated at inception. The designation is intended to eliminate or reduce the inconsistency in measurement or recognition that would otherwise arise when:

- there is an economic relationship between particular financial assets and liabilities to which different measurement and recognition requirements apply; or
- such assets and liabilities are managed together on a fair value basis and the accounting results may differ from the underlying economics.

Transaction costs of financial assets so designated are taken directly to the profit and loss account.

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed determinable payments that are not quoted in an active market. They arise when the Group provides finances or financial services directly to a borrower with no intention of trading the receivable. Loans and receivables are measured at amortised cost after netting impairment allowances.

1. Basis of preparation and accounting policies (continued)

HKAS 39: Financial Instruments – Recognition and Measurement ('HKAS 39') (continued)

(c) Financial assets (continued)

From 1 January 2005 onward (continued)

(3) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are measured at amortised cost after netting impairment allowances.

(4) Available-for-sale financial assets

Available-for-sale financial assets are those debt or equity securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in the financial market environment. Available-for-sale financial assets are measured at fair value or at cost less impairment allowance when the fair value of equity investments cannot be reliably measured in an active market. The difference between fair value and amortised cost is recognised in the equity reserve directly until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity reserve should be transferred to the profit and loss account. Impairment losses recognised in the profit and loss account for equity investments shall not be reversed through the profit and loss account thereafter.

(d) Financial liabilities

From 1 January 2004 to 31 December 2004

All financial liabilities except short positions in trading securities and derivative liabilities held for trading were carried at cost or amortised cost. Short positions in trading securities and derivative liabilities held for trading were carried 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 onward

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

Trading liabilities are carried at fair value and any gains and losses from changes in fair value are recognised in the profit and loss account.

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

Financial liabilities designated as at fair value through profit or loss, including our own debt securities in issue and deposits received from customers that are embedded with certain derivatives, are designated as such at inception or date of transition to the new HKFRS. Financial liabilities designated as at fair value through profit or loss are carried at fair value and any gains and losses from changes in fair value are recognised in the profit and loss account.

NOTES TO THE ACCOUNTS

1. Basis of preparation and accounting policies (continued)

HKAS 39: Financial Instruments – Recognition and Measurement ('HKAS 39') (continued)

(d) Financial liabilities (continued)

From 1 January 2005 onward (continued)

- (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, and other financial liabilities are carried at amortised cost.

(e) 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 onward

The quoted market price at the balance sheet date used for financial assets held by the Group is the current bid price in active markets; the appropriate quoted market price for financial liabilities is the current ask price in active markets.

(f) Impairment of financial assets

From 1 January 2004 to 31 December 2004

Provisions are made against specific loans and advances as and when there were doubt 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.

From 1 January 2005 onward

- (1) Loans and advances

The Group assesses at each balance sheet date whether there is objective evidence that a loan or group of loans is impaired. Loans are 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 loans (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the loans that can be reliably estimated.

1. Basis of preparation and accounting policies (continued)

HKAS 39: Financial Instruments – Recognition and Measurement ('HKAS 39') (continued)

(f) Impairment of financial assets (continued)

From 1 January 2005 onward (continued)

(1) Loans and advances (continued)

The Group first assesses whether objective evidence of impairment exists individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans 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.

The amount of the impairment allowance is the difference between the loans' carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the impairment allowance is recognised in the profit and loss account.

(2) Other financial assets

The Group assesses at 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 an equity investment below its cost is considered in determining whether this equity investment is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition 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 reserve and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

HKAS 40 :Investment Property ('HKAS 40')

HKAS-Int 21: Income Taxes – Recovery of Revalued Non-Depreciable Assets ('HKAS-Int 21')

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 exceeded the total 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. No deferred tax was provided on revaluation surpluses of investment properties.

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

NOTES TO THE ACCOUNTS

1. Basis of preparation and accounting policies (continued)

HKAS 40: Investment Property ('HKAS 40') (continued)

HKAS-Int 21: Income Taxes – Recovery of Revalued Non-Depreciable Assets ('HKAS-Int 21') (continued)

From 1 January 2005 onward

Investment properties are carried at fair value with the changes in fair value reported directly in the profit and loss account. Deferred tax is provided on revaluation surpluses of investment properties in accordance with HKAS Int 21 on HKAS 12.

Properties leased out within consolidated group companies are classified as investment properties in individual companies' accounts and as premises in consolidated accounts.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards, where applicable. All new/revised standards adopted by the Group require retrospective application other than:

HKFRS 5

In accordance with this standard, there is no requirement for the Group to restate the comparative information, any adjustment should be made as at 1 January 2005, including the reclassification of any amount held in loans and advances net of impairment allowances to repossessed assets.

HKAS 39

The standard does not permit the recognition, derecognition and measurement of financial assets and liabilities on a retrospective basis. The Group applied the previous 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

HKAS-Int 21

Since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment was made to the retained earnings at 1 January 2005, including the reclassification of any amount held in revaluation reserve of investment properties.

2. Effect of adopting new HKASs

- (a) The effect of adopting these new accounting standards on the opening balance sheet as at 1 January 2005 are summarised as follows:

	Increase/(Decrease) HK\$'m
(i) HKAS 39	
Assets:	
– Cash and short-term funds	(1,350)
– Placements with banks and other financial institutions maturing between one and twelve months	319
– Certificates of deposit held	45
– Available-for-sale securities	21,968
– Held-to-maturity securities	(22,821)
– Investment securities	(50)
– Other investments in securities	(8,288)
– Trading securities and other financial instruments at fair value through profit or loss	11,594
– Advances and other accounts	1,274
– Deferred tax assets	1
– Other assets	92
	2,784
Liabilities:	
– Deposits and balances of banks and other financial institutions	16
– Deposits from customers	(1,357)
– Trading liabilities and other financial instruments at fair value through profit or loss	3,792
– Derivative financial instruments (net)	471
– Certificates of deposit issued	63
– Deferred tax liabilities	588
– Other accounts and provisions	(4,024)
	(451)
Capital resources:	
– Minority interests	37
– Regulatory reserve	3,410
– Retained earnings	(212)
	3,235

NOTES TO THE ACCOUNTS

2. Effect of adopting new HKASs (continued)

- (a) The effect of adopting these new accounting standards on the opening balance sheet as at 1 January 2005 are summarised as follows: (continued)

	Increase/(Decrease) HK\$'m
(ii) HKAS 40 and HKAS-Int 21	
Liabilities:	
– Deferred tax liabilities	637
Capital resources:	
– Investment properties revaluation reserve	(623)
– Retained earnings	(14)
	(637)
Total effect on equity including:	
– Investment properties revaluation reserve	(623)
– Regulatory reserve	3,410
– Retained earnings	(226)
	2,561

- (b) The estimated effect of adopting new accounting standards on key components of profit and loss account for the six months ended 30 June 2005 are summarised as follows:

	Increase/(Decrease) HK\$'m
(i) HKAS 39	
– Net interest income	(39)
– Net fees and commission income	(104)
– Net trading income	236
– Reversal of loan impairment allowances on advances	1,006
– Taxation	(227)
	872
(ii) HKAS 40 and HKAS-Int 21	
– Net gain from revaluation of investment properties	918
– Taxation	(155)
	763
Total effect for the period:	1,635
Effect on earnings per share:	0.1546

3. Net interest income

	Half-year ended 30 June 2005 HK\$'m	Half-year ended 30 June 2004 HK\$'m
Interest income		
Cash and due from banks and other financial institutions	1,411	1,105
Advances to customers	5,034	3,967
Listed investments	948	836
Unlisted investments	2,379	1,257
Others	293	139
	10,065	7,304
Interest expense		
Due to banks, customers and other financial institutions	(3,887)	(1,516)
Debt securities in issue	(54)	(31)
Other borrowed funds	–	(1)
Others	(263)	(247)
	(4,204)	(1,795)
Net interest income	5,861	5,509

Interest income includes HK\$57 million of interest accrued on impaired advances.

NOTES TO THE ACCOUNTS

4. Net fees and commission income

	Half-year ended 30 June 2005 HK\$'m	Half-year ended 30 June 2004 HK\$'m
Fees and commission income		
Securities brokerage	404	502
Credit cards	372	316
Bills commissions	257	270
Loan commissions	124	234
Payment services	179	165
Insurance	193	179
Asset management	85	175
Trust services	49	32
Guarantees	21	21
Others		
– safe deposit box	85	82
– low deposit balance accounts	23	35
– currency exchange	29	24
– BOC cards	16	18
– dormant accounts	12	15
– agency services	6	11
– postage and telegrams	12	12
– information search	22	18
– correspondent banking	9	8
– RMB business	17	13
– sundries	90	91
	2,005	2,221
Fees and commission expenses	(508)	(510)
Net fees and commission income	1,497	1,711

5. Net trading income

	Half-year ended 30 June 2005 HK\$'m	Half-year ended 30 June 2004 HK\$'m
Net gain from:		
– foreign exchange and foreign exchange products	596	610
– interest rate instruments	129	(1)
– equity instruments	4	21
– commodities	17	32
	746	662

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

6. Other operating income

	Half-year ended 30 June 2005 HK\$'m	Half-year ended 30 June 2004 HK\$'m
Dividend income from investments in securities		
– unlisted investments	13	13
Gross rental income from investment properties	93	108
Less: Outgoings in respect of investment properties	(27)	(32)
Others	42	52
	121	141

NOTES TO THE ACCOUNTS

7. Operating expenses

	Half-year ended 30 June 2005 HK\$'m	Half-year ended 30 June 2004 HK\$'m
Staff costs (including directors' emoluments)		
– salaries and other costs	1,531	1,505
– termination benefit	1	–
– pension cost	122	122
	1,654	1,627
Premises and equipment expenses (excluding depreciation)		
– rental of premises	122	117
– information technology	108	134
– others	91	95
	321	346
Depreciation on owned fixed assets	286	293
Auditors' remuneration		
– audit services	4	4
– non-audit services	3	9
Other operating expenses	408	388
	2,676	2,667

8. Reversal of loan impairment allowances on advances

	Half-year ended 30 June 2005 HK\$'m	Half-year ended 30 June 2004 HK\$'m
Net release of loan impairment allowances on advances		
Individually assessed	600	–
Collectively assessed	835	–
	1,435	–
Of which		
– new allowances	(796)	–
– releases	1,123	–
– recoveries	1,108	–
Net credit to profit and loss account	1,435	–

9. Write-back of bad and doubtful debts

	Half-year ended 30 June 2005 HK\$'m	Half-year ended 30 June 2004 HK\$'m
Net credit for bad and doubtful debts		
Specific provisions		
– new provisions	–	(811)
– releases	–	1,327
– recoveries	–	733
	–	1,249
General provisions	–	(9)
Net credit to profit and loss account	–	1,240

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

	Half-year ended 30 June 2005 HK\$'m	Half-year ended 30 June 2004 HK\$'m
Net (loss)/gain on disposal of fixed assets	(9)	20
Net gain on revaluation of premises	–	2
	(9)	22

As at 30 June 2005, the premises are included in the consolidated balance sheet at valuation carried out as at 31 October 2004 on the basis of their open market value by an independent firm of chartered surveyors, Chesterton Petty Limited.

11. Net gain from disposal/revaluation of investment properties

	Half-year ended 30 June 2005 HK\$'m	Half-year ended 30 June 2004 HK\$'m
Net gain on disposal of investment properties	9	26
Net gain on revaluation of investment properties	918	–
	927	26

NOTES TO THE ACCOUNTS

12. Taxation

Taxation in the profit and loss account represents:

	Half-year ended 30 June 2005 HK\$'m	Half-year ended 30 June 2004 HK\$'m
Hong Kong profits tax		
– current period taxation	1,032	1,184
– over-provision in prior years	–	(5)
Deferred tax charge/(credit)	283	(65)
Hong Kong profits tax	1,315	1,114
Overseas taxation	13	5
	1,328	1,119

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 for the first half of 2005. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2005 at the rates of taxation prevailing in the countries in which the Group operates.

The Group has entered into a number of aircraft leasing and coupon strip transactions involving special purpose partnerships. As at 30 June 2005, the Group's investments in such partnerships, which are included in "Other assets" in the consolidated balance sheet, amounted to HK\$328 million (31 December 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.

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

	Half-year ended 30 June 2005 HK\$'m	Half-year ended 30 June 2004 HK\$'m
Profit before taxation	7,923	6,776
Calculated at a taxation rate of 17.5% (2004: 17.5%)	1,387	1,186
Effect of different taxation rates in other countries	(12)	(20)
Income not subject to taxation	(389)	(801)
Expenses not deductible for taxation purposes	334	823
Tax losses not recognised	8	1
Temporary differences not recognised	–	(65)
Over-provision in prior years	–	(5)
Taxation charge	1,328	1,119
Effective tax rate	16.8%	16.5%

13. Dividend

	Half-year ended 30 June 2005		Half-year ended 30 June 2004	
	Per share HK\$	Total HK\$m	Per share HK\$	Total HK\$m
Interim dividend	0.328	3,468	0.320	3,383

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. This declared dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

14. 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 first half of 2005 of approximately HK\$6,522 million (first half of 2004: HK\$5,581 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 first half of 2005 (first half of 2004: Nil).

15. Retirement benefit costs

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

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

The Group's total contributions made to the ORSO schemes for the first half of 2005 amounted to approximately HK\$112 million (first half of 2004: approximately HK\$114 million), after a deduction of forfeited contributions of approximately HK\$12 million (first half of 2004: approximately HK\$9 million). For the MPF Scheme, the Group contributed approximately HK\$7 million and HK\$5 million for the first half of 2005 and 2004 respectively.

NOTES TO THE ACCOUNTS

16. Share option schemes

(a) *Share Option Scheme and Sharesave Plan*

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

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

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

No options were granted pursuant to the Share Option Scheme or the Sharesave Plan during the first half of 2005.

16. Share option schemes (continued)

(b) Pre-Listing Share Option Scheme

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

Details of the share options outstanding as at 30 June 2005 are 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 period	–	(583,700)	–	(583,700)	8.5
At 30 June 2005	8,459,100	9,949,000	1,446,000	19,854,100	8.5
Exercisable at 30 June 2005	4,048,800	3,269,900	723,000	8,041,700	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 period	(361,500)	(577,500)	–	(939,000)	8.5
Less: Share options lapsed during the period	–	(261,000)	–	(261,000)	8.5
At 30 June 2004 and at 1 July 2004	8,459,100	13,867,200	3,181,200	25,507,500	8.5
Less: Share options exercised during the period	–	(1,236,500)	–	(1,236,500)	8.5
Less: Share options lapsed during the period	–	(2,098,000)	(1,735,200)	(3,833,200)	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.

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

NOTES TO THE ACCOUNTS

17. Cash and short-term funds

	At 30 June 2005 HK\$'m	At 31 December 2004 HK\$'m
Cash	2,759	4,072
Balances with banks and other financial institutions	25,526	16,904
Money at call and short notice maturing within one month	75,834	70,892
Treasury bills (including Exchange Fund Bills)	9,673	10,779
	113,792	102,647
An analysis of treasury bills held is as follows:		
Unlisted, available-for-sale securities, at fair value	7,052	–
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	2,621	–
	9,673	10,779

18. Certificates of deposit held

	At 30 June 2005 HK\$'m	At 31 December 2004 HK\$'m
Unlisted, at fair value		
– Available-for-sale securities	3,098	–
– Other investments in securities	–	206
– Trading securities and other financial instruments at fair value through profit or loss	569	–
	3,667	206
Unlisted, at amortised cost		
– Held-to-maturity securities	15,773	22,132
	19,440	22,338

19. Available-for-sale securities

	At 30 June 2005 HK\$'m	At 31 December 2004 HK\$'m
Debt securities, at fair value		
– Listed in Hong Kong	5,260	–
– Listed outside Hong Kong	11,136	–
	16,396	–
– Unlisted	32,982	–
	49,378	–
Equity securities, at fair value		
– Listed outside Hong Kong	5	–
Equity securities, at cost		
– Unlisted	50	–
	55	–
Total	49,433	–
Available-for-sale securities are analysed by issuers as follows:		
Central governments and central banks	3,536	–
Public sector entities	8,351	–
Banks and other financial institutions	28,237	–
Corporate entities	9,309	–
	49,433	–

Where published quoted prices for certain unlisted equity securities held by the Group are not available and their value would not be benchmarked with similar financial instruments, the Group states such unlisted equity securities at cost less impairment.

The Group uses interest rate swaps or cross-currency interest rate swaps to hedge the interest rate risk of available-for-sale debt securities.

NOTES TO THE ACCOUNTS

20. Held-to-maturity securities

	At 30 June 2005 HK\$'m	At 31 December 2004 HK\$'m
Listed, at amortised cost	27,881	56,108
Less: Provision for impairment in value	(12)	(12)
	27,869	56,096
Unlisted, at amortised cost	126,043	124,954
Total	153,912	181,050
Listed, at amortised cost less impairment		
– in Hong Kong	1,706	4,443
– outside Hong Kong	26,163	51,653
	27,869	56,096
Market value of listed securities	27,569	56,480
Held-to-maturity securities are analysed by issuers as follows:		
Central governments and central banks	2,063	3,377
Public sector entities	24,304	31,730
Banks and other financial institutions	109,091	124,906
Corporate entities	18,454	21,037
	153,912	181,050

21. Investment securities

	At 30 June 2005 HK\$'m	At 31 December 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

NOTES TO THE ACCOUNTS

22. Other investments in securities

	At 30 June 2005 HK\$'m	At 31 December 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

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	
	At 30 June 2005 HK\$'m	At 31 December 2004 HK\$'m	At 30 June 2005 HK\$'m	At 31 December 2004 HK\$'m	At 30 June 2005 HK\$'m	At 31 December 2004 HK\$'m
	At fair value					
Debt securities						
– Listed in Hong Kong	480	–	567	–	1,047	–
– Listed outside Hong Kong	4,517	–	1,572	–	6,089	–
	4,997	–	2,139	–	7,136	–
– Unlisted	2,965	–	909	–	3,874	–
	7,962	–	3,048	–	11,010	–
Equity securities						
– Listed in Hong Kong	21	–	–	–	21	–
Total	7,983	–	3,048	–	11,031	–

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

	At 30 June 2005 HK\$'m	At 31 December 2004 HK\$'m
Central governments and central banks	906	–
Public sector entities	1,616	–
Banks and other financial institutions	6,309	–
Corporate entities	2,200	–
	11,031	–

NOTES TO THE ACCOUNTS

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 forward 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 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 swaps contracts, no exchange of principal takes place.

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 or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial instruments assets and liabilities can fluctuate significantly from time to time.

24. Derivative financial instruments (continued)

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

	At 30 June 2005			At 31 December 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	123,523	-	123,523	15,840	-	15,840
Swaps	162,677	-	162,677	200,862	3,715	204,577
Foreign currency option contracts						
- Options purchased	2,384	-	2,384	1,415	-	1,415
- Options written	2,994	-	2,994	2,851	-	2,851
	291,578	-	291,578	220,968	3,715	224,683
Interest rate contracts						
Futures	78	-	78	389	-	389
Swaps	17,342	8,715	26,057	5,349	17,166	22,515
Interest rate option contracts						
- Swaptions purchased	330	-	330	469	-	469
- Swaptions written	2,522	-	2,522	2,206	-	2,206
	20,272	8,715	28,987	8,413	17,166	25,579
Bullion contracts						
Gold option contracts						
- Options purchased	3	-	3	98	-	98
- Options written	-	-	-	65	-	65
Other bullion contracts	8,102	-	8,102	929	-	929
	8,105	-	8,105	1,092	-	1,092
Equity contracts						
Equity option contracts						
- Options purchased	320	-	320	564	-	564
- Options written	246	-	246	450	-	450
Hang Seng Index option contracts						
- Options written	3	-	3	-	-	-
	569	-	569	1,014	-	1,014
Total	320,524	8,715	329,239	231,487	20,881	252,368

NOTES TO THE ACCOUNTS

24. Derivative financial instruments (continued)

The following table summarises the fair values of each class of derivative financial instruments as at 30 June 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	4,481	–	4,481	2,178	–	2,178
Interest rate contracts	58	21	79	657	701	1,358
Bullion contracts	149	–	149	82	–	82
Equity contracts	2	–	2	1	–	1
	4,690	21	4,711	2,918	701	3,619

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:

	At 30 June	At 31 December	At 30 June	At 31 December
	2005	2004	2005	2004
	Credit risk weighted amount		Replacement cost	
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Exchange rate contracts	512	694	826	1,264
Interest rate contracts	46	57	61	97
Bullion contracts	6	10	6	12
Equity contracts	7	16	1	6
	571	777	894	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.

25. Advances and other accounts

	At 30 June 2005 HK\$'m	At 31 December 2004 HK\$'m
Advances to customers	337,654	313,226
Accrued interest	–	2,480
	337,654	315,706
Loan impairment allowances (Note a)	(2,976)	–
Provision for bad and doubtful debts (Note b)	–	(7,785)
	(2,976)	(7,785)
	334,678	307,921
Advances to banks and other financial institutions	1,612	1,290
Total	336,290	309,211

As at 30 June 2005, advances to customers include accrued interest on gross advances of HK\$749 million.

As at 30 June 2005, impaired advances to customers are analysed as follows:

	At 30 June 2005 HK\$'m
Gross impaired advances to customers	6,370
Loan impairment allowances made in respect of such advances	2,420
Gross impaired advances to customers as a percentage of gross advances to customers	1.89%

NOTES TO THE ACCOUNTS

25. Advances and other accounts (continued)

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

	At 31 December 2004 HK\$'m
Non-performing loans	9,239
Specific provisions made in respect of such advances	2,269
As a percentage of total advances to customers	2.95%

As at 30 June 2005, no loan impairment allowances were made in respect of advances to banks and other financial institutions.

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.

Notes:

(a) Loan impairment allowances

	At 30 June 2005 HK\$'m
Individually assessed	(1,818)
Collectively assessed	(1,158)
	(2,976)

(b) Provision for bad and doubtful debts

	At 31 December 2004 HK\$'m
General	(5,465)
Specific	(2,320)
	(7,785)

26. Deposits from customers

	At 30 June 2005 HK\$'m	At 31 December 2004 HK\$'m
Current, savings and other deposit accounts (per consolidated balance sheet)	627,298	631,330
Structured deposits reported as trading liabilities and other financial instruments at fair value through profit or loss (Note 27)	5,248	–
	632,546	631,330
By type		
Demand deposits and current accounts	29,481	32,470
Savings deposits	241,269	296,462
Time, call and notice deposits	361,796	302,398
	632,546	631,330

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

	At 30 June 2005 HK\$'m	At 31 December 2004 HK\$'m
Structured deposits	5,248	–
Short positions in foreign currency debt securities (Note 28)	465	–
Short positions in Exchange Fund Bills (Note 28)	2,626	–
	8,339	–

28. Assets pledged as security

As at 30 June 2005, liabilities of the Group amounting to HK\$3,091 million (31 December 2004: HK\$1,982 million) were secured by assets deposited with central depositories to facilitate settlement operations. The amount of assets pledged by the Group to secure these liabilities was HK\$3,420 million (31 December 2004: HK\$2,170 million) included in "Cash and short-term funds".

NOTES TO THE ACCOUNTS

29. Deferred taxation

In the current period, deferred tax is recognised in respect of the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts according to HKAS 12.

The major components of deferred tax assets and liabilities recorded in the consolidated balance sheet, and the movements during the first half of 2005 and the year ended 31 December 2004 are as follows:

	2005					
	Accelerated tax depreciation	Asset revaluation	Losses	Provisions	Other temporary differences	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At 1 January 2005						
As previously reported	278	1,615	(16)	(935)	(7)	935
Opening adjustments (Note 2)	37	600	-	587	-	1,224
Balance after opening adjustments	315	2,215	(16)	(348)	(7)	2,159
(Credited)/charged to profit and loss account	(4)	117	5	166	(1)	283
Credited to equity	-	(31)	-	-	(12)	(43)
At 30 June 2005	311	2,301	(11)	(182)	(20)	2,399

	2004					
	Accelerated tax depreciation	Asset revaluation	Losses	Provisions	Other temporary differences	Total
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At 1 January 2004	262	984	(3)	(936)	18	325
Charged/(credited) to profit and loss account	16	173	(13)	1	(25)	152
Charged to equity and minority interests	-	458	-	-	-	458
At 31 December 2004	278	1,615	(16)	(935)	(7)	935

29. Deferred taxation (continued)

Deferred tax assets and liabilities are offset on an individual entity basis when there is a legal right to set off current tax assets against current tax liabilities and when the deferred taxation relates to the same authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	At 30 June 2005 HK\$'m	At 31 December 2004 HK\$'m
Deferred tax assets	(8)	(12)
Deferred tax liabilities	2,407	947
	2,399	935

	At 30 June 2005 HK\$'m	At 31 December 2004 HK\$'m
Deferred tax assets to be recovered after more than twelve months	(207)	(971)
Deferred tax liabilities to be settled after more than twelve months	317	282
	110	(689)

30. Other accounts and provisions

	At 30 June 2005 HK\$'m	At 31 December 2004 HK\$'m
Interest payable	–	959
Current taxation	1,655	901
Short positions in Exchange Fund Bills (Note 28)	–	1,982
Accruals and other payables	19,235	17,909
	20,890	21,751

31. Share capital

	At 30 June 2005 HK\$'m	At 31 December 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

NOTES TO THE ACCOUNTS

32. Reserves

The amounts of the Group's reserves and the movements therein for the current and prior periods are presented in the consolidated statement of changes in equity on pages 35 to 36 of the accounts.

33. Notes to consolidated cash flow statement

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

	Half-year ended 30 June 2005 HK\$'m	Half-year ended 30 June 2004 HK\$'m
Operating profit	6,984	6,596
Dividend income from investments in securities	(13)	(13)
Depreciation	286	293
Reversal of loan impairment allowances on advances	(1,435)	–
Write-back of bad and doubtful debts	–	(1,240)
Advances written off net of recoveries	469	(848)
Change in money at call and short notice with original maturity over three months	(3,770)	(146)
Change in treasury bills with original maturity over three months	(75)	3,813
Change in placements with banks and other financial institutions with original maturity over three months	46,956	2,175
Change in trade bills	(165)	(300)
Change in certificates of deposit held with original maturity over three months	2,149	470
Change in available-for-sale securities	(27,549)	–
Change in held-to-maturity securities	4,314	(55,628)
Change in other investments in securities	–	63,201
Change in trading securities and other financial instruments at fair value through profit or loss	563	–
Change in derivative financial instruments	(1,563)	–
Change in advances and other accounts	(24,839)	(253)
Change in other assets	787	2,087
Change in deposits and balances of banks and other financial institutions repayable over three months	1,855	9,964
Change in deposits from customers	(2,675)	(36,493)
Change in trading liabilities and other financial instruments at fair value through profit or loss	4,547	–
Change in certificates of deposit issued	(105)	(9)
Change in other accounts and provisions	2,487	(3,919)
Operating cash inflow/(outflow) before taxation	9,208	(10,250)

33. Notes to consolidated cash flow statement (continued)
(b) Analysis of the balances of cash and cash equivalents

	At 30 June 2005 HK\$'m	At 30 June 2004 HK\$'m
Cash and balances with banks and other financial institutions	28,285	26,145
Money at call and short notice with original maturity within three months	56,803	49,969
Treasury bills with original maturity within three months	3,690	12,754
Placements with banks and other financial institutions with original maturity within three months	11,501	19,452
Certificates of deposit held with original maturity within three months	714	2,116
Deposits and balances of banks and other financial institutions repayable within three months	(33,137)	(50,631)
	67,856	59,805

NOTES TO THE ACCOUNTS

34. Maturity profile

The maturity profile of assets and liabilities analysed by the remaining period as at 30 June 2005 and 31 December 2004 to the contractual maturity dates is as follows:

	At 30 June 2005						
	Repayable on demand HK\$'m	3 months or less HK\$'m	1 year or less but over 3 months HK\$'m	5 years or less but over 1 year HK\$'m	Over 5 years HK\$'m	Undated HK\$'m	Total HK\$'m
Assets							
Treasury bills	-	6,768	2,905	-	-	-	9,673
Cash and other short-term funds	28,292	75,475	352	-	-	-	104,119
Placements with banks and other financial institutions	-	43,108	17,088	-	-	-	60,196
Certificates of deposit held	-	2,736	6,198	10,207	299	-	19,440
Debt securities included in:							
- available-for-sale securities	-	3,142	12,494	27,891	5,851	-	49,378
- held-to-maturity securities	-	10,455	16,607	110,465	16,365	32	153,924
- trading securities and other financial instruments at fair value through profit or loss	218	574	1,625	7,234	1,359	-	11,010
Advances to customers	24,817	30,220	26,493	137,143	112,447	6,534	337,654
Advances to banks and other financial institutions	-	-	-	1,612	-	-	1,612
Liabilities							
Deposits and balances of banks and other financial institutions	17,891	19,553	1,027	-	-	-	38,471
Customer accounts	273,087	333,705	18,790	6,557	407	-	632,546
Certificates of deposit issued	-	883	1	2,862	-	-	3,746

Customer accounts represent deposits from customers and structured deposits included in "Trading liabilities and other financial instruments at fair value through profit or loss" on the face of the consolidated balance sheet.

34. Maturity profile (continued)

	At 31 December 2004						
	Repayable on demand HK\$'m	3 months or less HK\$'m	1 year or less but over 3 months HK\$'m	5 years or less but over 1 year HK\$'m	Over 5 years HK\$'m	Undated HK\$'m	Total HK\$'m
Assets							
Treasury bills	-	7,812	2,967	-	-	-	10,779
Cash and other short-term funds	20,976	70,892	-	-	-	-	91,868
Placements with banks and other financial institutions	16	47,849	59,716	-	-	-	107,581
Certificates of deposit held	-	5,242	5,695	11,085	316	-	22,338
Debt securities included in:							
– held-to-maturity securities	-	31,479	36,755	101,053	11,743	32	181,062
– other investments in securities	-	506	730	6,150	881	-	8,267
Advances to customers	19,548	24,254	28,995	128,816	102,356	9,257	313,226
Advances to banks and other financial institutions	-	-	-	1,290	-	-	1,290
Liabilities							
Deposits and balances of banks and other financial institutions	14,990	16,818	2,632	-	-	-	34,440
Deposits from customers	332,194	273,580	20,768	4,476	312	-	631,330
Certificates of deposit issued	-	-	891	2,897	-	-	3,788

Apart from certain deferred tax assets and liabilities, the majority of other assets and other accounts and provisions are due within one year.

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

NOTES TO THE ACCOUNTS

34. Maturity profile (continued)

The analysis of other investments in securities by remaining period to maturity is disclosed in order to comply with the guideline on “Interim 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.

35. 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:

	At 30 June 2005 HK\$'m	At 31 December 2004 HK\$'m
Direct credit substitutes	1,043	1,132
Transaction-related contingencies	5,172	4,647
Trade-related contingencies	18,648	16,266
Other commitments with an original maturity of		
– under one year or which are unconditionally cancellable	93,436	90,947
– one year and over	38,601	41,460
	156,900	154,452
Credit risk weighted amount	25,142	26,303

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

36. Segmental reporting

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

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

36. Segmental reporting (continued)
(a) By class of business

	Retail HK\$'m	Corporate HK\$'m	Treasury HK\$'m	Investment HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
Half-year ended 30 June 2005								
Net interest income	3,656	1,768	568	(144)	13	5,861	–	5,861
Net fees and commission income	980	482	(17)	68	(16)	1,497	–	1,497
Net trading income	243	21	484	(2)	–	746	–	746
Other operating income	5	2	1	343	1	352	(231)	121
Operating income	4,884	2,273	1,036	265	(2)	8,456	(231)	8,225
Operating expenses	(1,898)	(506)	(198)	(228)	(77)	(2,907)	231	(2,676)
Operating profit/(loss) before impairment on advances	2,986	1,767	838	37	(79)	5,549	–	5,549
Reversal of loan impairment allowances on advances	85	1,350	–	–	–	1,435	–	1,435
Operating profit/(loss)	3,071	3,117	838	37	(79)	6,984	–	6,984
Net loss from disposal of fixed assets	–	–	–	(9)	–	(9)	–	(9)
Net gain from disposal/revaluation of investment properties	–	–	–	927	–	927	–	927
Net loss from redemption/disposal of held-to-maturity securities	–	–	(3)	–	–	(3)	–	(3)
Net gain from disposal of available-for-sale securities	–	–	21	–	–	21	–	21
Write-back of provision for impairment on interests in associates	–	–	–	4	–	4	–	4
Share of profits less losses of associates	–	–	–	(1)	–	(1)	–	(1)
Profit/(loss) before taxation	3,071	3,117	856	958	(79)	7,923	–	7,923
At 30 June 2005								
Assets								
Segment assets	136,206	208,645	445,495	22,378	–	812,724	–	812,724
Interests in associates	–	–	–	57	–	57	–	57
Unallocated corporate assets	–	–	–	–	554	554	–	554
	136,206	208,645	445,495	22,435	554	813,335	–	813,335
Liabilities								
Segment liabilities	552,822	97,063	84,140	1,448	–	735,473	–	735,473
Unallocated corporate liabilities	–	–	–	–	3,197	3,197	–	3,197
	552,822	97,063	84,140	1,448	3,197	738,670	–	738,670
Half-year ended 30 June 2005								
Other information								
Additions of fixed assets	–	–	–	164	–	164	–	164
Depreciation	73	16	22	172	3	286	–	286

NOTES TO THE ACCOUNTS

36. Segmental reporting (continued)
(a) By class of business (continued)

	Retail HK\$'m	Corporate HK\$'m	Treasury HK\$'m	Investment HK\$'m	Others HK\$'m	Subtotal HK\$'m	Eliminations HK\$'m	Consolidated HK\$'m
Half-year ended 30 June 2004								
Net interest income	2,724	1,779	1,014	(5)	(3)	5,509	-	5,509
Net fees and commission income	1,136	569	(23)	36	(7)	1,711	-	1,711
Net trading income	279	44	342	(3)	-	662	-	662
Other operating income	29	2	1	344	13	389	(248)	141
Operating income	4,168	2,394	1,334	372	3	8,271	(248)	8,023
Operating expenses	(1,864)	(521)	(177)	(279)	(74)	(2,915)	248	(2,667)
Operating profit/(loss) before provisions on advances	2,304	1,873	1,157	93	(71)	5,356	-	5,356
Write-back of bad and doubtful debts	(29)	1,269	-	-	-	1,240	-	1,240
Operating profit/(loss)	2,275	3,142	1,157	93	(71)	6,596	-	6,596
Net gain from disposal/ revaluation of fixed assets	-	-	-	22	-	22	-	22
Net gain from disposal of investment properties	-	-	-	26	-	26	-	26
Net gain from disposal of held-to-maturity securities	-	-	1	-	-	1	-	1
Write-back of provision for impairment on interests in associates	-	-	-	150	-	150	-	150
Share of profits less losses of associates	-	-	-	(19)	-	(19)	-	(19)
Profit/(loss) before taxation	2,275	3,142	1,158	272	(71)	6,776	-	6,776
At 31 December 2004								
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
Half-year ended 30 June 2004								
Other information								
Additions of fixed assets	-	-	-	87	-	87	-	87
Depreciation	71	14	17	187	4	293	-	293
Amortisation of premium/ discount of held-to-maturity securities	-	-	76	-	-	76	-	76

36. Segmental reporting (continued)

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

The Group adopts a new approach this year in preparing segmental report. Commercial Banking business is divided into Retail Banking business and Corporate Banking business. Unallocated items are categorised as “Investment Activities” and “Others”.

Both Retail Banking business and Corporate Banking business provide general banking services. Retail Banking mainly serves individual customers and small companies. Corporate Banking serves medium sized and large companies and enterprises. Mainland and overseas businesses are included in Corporate Banking business.

Treasury business includes money market, foreign exchange dealings and capital market activities. Treasury manages funding and capital of the Group. It provides funds to other business segments and receives funds from deposit taking activities of Retail Banking and Corporate Banking. These inter-segment funding transactions are mainly priced at market bid rates matched with the currencies and the tenors of the transactions. Bills and other transactions (such as funding for the equipments employed) are priced at average one-week market bid rates or average one-month market bid rates matched with the currency. The profit and loss information about Treasury business presented in this note includes the above inter-segment charging/income transactions. The assets and liabilities of Treasury have not been adjusted to reflect the effect of inter-segment borrowing and lending (i.e. the profit and loss information in relation to Treasury is not comparable to the assets and liabilities information about Treasury).

Investment activities include holding bank premises, interests in associates and equipments used by supporting units. Charges are paid to this segment from other business segments based on predefined rates per square footage for their occupation of the Group’s premises. Investment Activities segment pays inter-segment interest to Treasury, priced at average one-month HIBID, for holding the investments in associates.

“Others” segment mainly comprises of items related to the Group as a whole and totally independent of the other four business segments.

Operating expenses of a functional unit are allocated to the relevant business segment that is the predominant user of the services provided by the unit. For those functional units supporting the Group’s business as a whole, their operating expenses are allocated to the four business segments other than “Others” by reasonable allocation rules. Operating expenses which are totally independent of the four business segments are grouped under “Others”.

(b) *By geographical area*

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

NOTES TO THE ACCOUNTS

37. Significant related party transactions

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

On 1 January 2005, the Group has adopted HKAS 24 "Related Party Disclosures" which 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 disclosures. The additional disclosures have been detailed in (d) and (e) below.

The various transactions with related parties which the Group were entered into during the period are summarised as follows:

(a) Advances to third parties guaranteed by related parties

As at 30 June 2005, BOC, the intermediate holding company and fellow subsidiaries provided guarantees for loans in favour of the Group amounting to HK\$4,201 million (31 December 2004: HK\$4,512 million) to certain third parties. The intermediate holding company and fellow subsidiaries held equity interests of not more than 20% in these third parties.

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

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

	Half-year ended 30 June 2005			
	Notes	Immediate and intermediate holding companies ¹ HK\$'m	Associates HK\$'m	Other related parties ² HK\$'m
Profit and loss items:				
Interest income	(i)	144	–	2
Interest expense	(ii)	(170)	(1)	(40)
Insurance commission received (net)	(iii)	–	–	64
Administrative services fees received/receivable	(iv)	2	–	2
Rental fees received/receivable	(iv)	–	–	7
Credit card commission paid/payable (net)	(v)	(34)	–	–
Securities brokerage commission paid/payable (net)	(v)	–	–	(41)
Rental, property management and letting agency fees paid/payable	(v)	(1)	–	(38)
Funds selling commission received	(vi)	–	–	26
Correspondent banking fee received	(vii)	5	–	–

37. Significant related party transactions (continued)

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

	Half-year ended 30 June 2004			
	Notes	Immediate and intermediate holding companies ¹ HK\$m	Associates HK\$m	Other related parties ² HK\$m
Profit and loss items:				
Interest income	(i)	67	–	5
Interest expense	(ii)	(60)	–	(3)
Insurance commission received (net)	(iii)	–	–	74
Administrative services fees received/receivable	(iv)	5	–	5
Rental fees received/receivable	(iv)	–	–	13
Credit card commission paid/payable (net)	(v)	(24)	–	(1)
Securities brokerage commission paid/payable (net)	(v)	–	–	(61)
Rental, property management and letting agency fees paid/payable	(v)	–	–	(33)
Write-back of bad and doubtful debts		–	137	22
Funds selling commission received	(vi)	–	–	56
Correspondent banking fee received	(vii)	4	–	–
Loan services fees received	(viii)	2	–	3

NOTES TO THE ACCOUNTS

37. Significant related party transactions (continued)

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

	At 30 June 2005			
	Notes	Immediate and intermediate holding companies ¹ HK\$'m	Associates HK\$'m	Other related parties ² HK\$'m
Balance sheet items:				
Cash and short-term funds	(i)	12,556	–	95
Placements with banks and other financial institutions	(i)	10,153	–	–
Derivative financial instruments assets	(ix)	31	–	–
Other assets	(x)	17	–	799
Deposits and balances of banks and other financial institutions	(ii)	17,414	–	823
Deposits from customers	(ii)	50	80	5,232
Derivative financial instruments liabilities	(ix)	125	–	3
Other accounts and provisions	(x)	11	–	948

	At 31 December 2004			
	Notes	Immediate and intermediate holding companies ¹ HK\$'m	Associates HK\$'m	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

37. Significant related party transactions (continued)

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

- ¹ Immediate and intermediate holding companies are state-controlled entities. Transactions with BOC for the six months ended 30 June 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 as at that date. Following the reorganisation of BOC in August 2004, China SAFE holds the entire equity capital of BOC on behalf of the State. Accordingly, China 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 Fellow subsidiaries of the Company and associates of an intermediate holding company are collectively disclosed as other related parties and certain of which are state-controlled entities.

Notes:

(i) Interest income

In the ordinary course of business, the Group enters into various transactions with an intermediate holding company, fellow 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 fellow subsidiaries of the Company as well as associates of an intermediate holding company 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 fellow subsidiaries 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 fellow subsidiaries mainly on the basis of cost plus a margin of 5%, and receives office premises rental fees from the fellow subsidiaries 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 an intermediate holding company and fellow subsidiaries. The Group also pays rental fees to fellow subsidiaries. These transactions have been entered into in the ordinary course of business and were priced at the relevant market rates at the time of the transactions.

NOTES TO THE ACCOUNTS

37. Significant related party transactions (continued)

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

Notes: (continued)

(vi) Funds selling commission received

In the ordinary course of business, the Group receives commission for engaging in promotion and sale of fund products of a fellow subsidiary to customers of the Group at the relevant market rates at the time of the transactions.

(vii) Correspondent banking fee received

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

(viii) Loan services fees received

In the ordinary course of business, the Group undertook to service and administer the loans and the related securities transferred to fellow subsidiaries and an intermediate holding company 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 an intermediate holding company and fellow subsidiaries. The aggregate notional amount of such derivative transactions amounted to HK\$17,664 million as at 30 June 2005 whilst the corresponding derivative financial instruments assets and liabilities amounted to HK\$31 million and HK\$128 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 fellow subsidiaries. The amounts mainly represent the accounts receivables from and payables to a fellow subsidiary in relation to dealing securities trading transactions on behalf of the Group's customers. The receivables and payables arose from transactions carried out in the normal course of business.

(c) 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 an intermediate holding company, fellow subsidiaries and associates on normal commercial terms. As at 30 June 2005, the total undrawn loan commitments, trade finance-related contingencies and guarantees amounted to HK\$1,139 million (31 December 2004: HK\$1,283 million).

37. Significant related party transactions (continued)

(d) Key management personnel

The Group accepts deposits from and grants loans and credit facilities to key management personnel in the ordinary course of business. During both the current and prior periods, 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 six months ended 30 June 2005 and 2004 is detailed as follows:

	Half-year ended 30 June 2005 HK\$'m	Half-year ended 30 June 2004 HK\$'m
Salaries and other short-term employee benefits	13	11
Post-employment benefits	1	1
	14	12

(e) Transactions with other state-controlled entities

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

The state-controlled entities are those, other than BOC (the intermediate holding company and its fellow subsidiaries) 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. It should be noted, however, that for those business activities of the Group which are conducted with the PRC companies, the influence of the PRC government with these companies is pervasive. In this regard, the PRC government indirectly holds interests in many companies. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests. Such interests, however, would not be known to the Group and are not reflected below.

NOTES TO THE ACCOUNTS

37. Significant related party transactions (continued)

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

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 at the period/year end, and the related income and expense for the period are as follows:

(i) Advances to customers

	Half-year ended 30 June 2005 HK\$'m	Half-year ended 30 June 2004 HK\$'m
Interest income	335	174
(Charge for) individually assessed loan impairment allowances/write-back of bad and doubtful debts	(118)	144

	At 30 June 2005 HK\$'m	At 31 December 2004 HK\$'m
Outstanding balance at beginning of the period/year	22,335	20,770
Outstanding balance at end of the period/year	26,756	22,335
Less: individually assessed loan impairment allowances	(424)	–
Less: Specific provisions	–	(197)
	26,332	22,138

37. Significant related party transactions (continued)

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

(ii) Investment securities

	Half-year ended 30 June 2005 HK\$'m	Half-year ended 30 June 2004 HK\$'m
Interest income	210	110

	At 30 June 2005 HK\$'m	At 31 December 2004 HK\$'m
Outstanding balance at beginning of the period/year	7,829	4,118
Outstanding balance at end of the period/year	8,272	7,880

Investment securities includes held-to-maturity securities and available-for-sale securities. The balance of investment securities as at 30 June 2004 included other investments in securities in addition to the aforementioned.

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

	Half-year ended 30 June 2005 HK\$'m	Half-year ended 30 June 2004 HK\$'m
Interest income	13	–

	At 30 June 2005 HK\$'m	At 31 December 2004 HK\$'m
Outstanding balance at beginning of the period/year	117	–
Outstanding balance at end of the period/year	1,072	–

NOTES TO THE ACCOUNTS

37. Significant related party transactions (continued)

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

(iv) Due from banks and other financial institutions

	Half-year ended 30 June 2005 HK\$'m	Half-year ended 30 June 2004 HK\$'m
Interest income	54	10

	At 30 June 2005 HK\$'m	At 31 December 2004 HK\$'m
Outstanding balance at beginning of the period/year	18,100	4,733
Outstanding balance at end of the period/year	26,196	18,100

(v) Due to banks and other financial institutions

	Half-year ended 30 June 2005 HK\$'m	Half-year ended 30 June 2004 HK\$'m
Interest expense	(50)	(54)

	At 30 June 2005 HK\$'m	At 31 December 2004 HK\$'m
Outstanding balance at beginning of the period/year	7,478	15,014
Outstanding balance at end of the period/year	7,320	7,478

37. Significant related party transactions (continued)

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

(vi) Deposit from customers

	Half-year ended 30 June 2005 HK\$'m	Half-year ended 30 June 2004 HK\$'m
Interest expense	(138)	(24)

	At 30 June 2005 HK\$'m	At 31 December 2004 HK\$'m
Outstanding balance at beginning of the period/year	19,156	11,237
Outstanding balance at end of the period/year	15,410	19,156

(vii) Off-balance sheet exposures

	At 30 June 2005 HK\$'m	At 31 December 2004 HK\$'m
Contingent liabilities and commitments (including guarantees)	12,553	12,079
Derivative transactions unsettled (notional amount)	4,225	5,075

38. Ultimate holding company

The ultimate holding company is China SAFE Investments Ltd. (previously known as Central Huijin Investment Company Limited).

39. Comparative amounts

As further explained in Note 1 to the accounts, due to the adoption of certain new HKFRSs, HKASs and Interpretations during the current period, 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 period's presentation.

40. Statutory accounts

The information in this interim report is unaudited and does not constitute statutory accounts. The statutory accounts for the year ended 31 December 2004 have been delivered to the Registrar of Companies and the HKMA. The auditors expressed an unqualified opinion on those statutory accounts in their report dated 23 March 2005.