

CHIYU BANKING CORPORATION LIMITED

DIRECTORS' REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31ST DECEMBER 2003

CHIYU BANKING CORPORATION LIMITED

DIRECTORS' REPORT

The directors are pleased to present their report together with the audited consolidated accounts of Chiyu Banking Corporation Limited (hereinafter referred to as the "Bank") and its subsidiaries (together with the Bank hereinafter referred to as the "Group") for the year ended 31st December 2003.

Principal activities

The Bank is a licensed bank authorised under the Hong Kong Banking Ordinance. The principal activities of the Group are the provision of banking and related financial services in Hong Kong and the Mainland China; and details of the subsidiaries of the Bank are shown in note 21 to the accounts.

Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 4.

The directors declared a first interim dividend of HK\$50 per ordinary share, totalling HK\$150,000,000 on 12th August 2003.

The directors declared a second interim dividend of HK\$62 per ordinary share, totalling HK\$186,000,000 on 30th December 2003.

Reserves

Details of the reserves of the Group and the Bank during the year are set out in note 27 to the accounts.

Fixed assets

Details of the movements in fixed assets of the Group and the Bank are set out in note 22 to the accounts.

Directors

The directors during the year and up to the date of this report are:

He Guangbei (Chairman)

Ng Leung Sing (Vice Chairman)

Ng Man Kung (Vice Chairman and General Manager)

Chen Yiao Zhong

Chiu Ming Wah

Liu Yanfen

Mao Xiaowei

Tan Wan Chye

Woo Chia Wei*

Yu Kwok Chun*

Zhang Qi Hua

Chan Yiu Fai

To Chi Wing

(appointed on 19th March 2003)

(appointed on 19th March 2003)

* Independent non-executive directors

In accordance with Article 99 of the Bank's Articles of Association, Mr. Tan Wan Chye and Mr. Chen Yiao Zhong retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors' interests in contracts of significance

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

Directors' interests in equity or debt securities

Pursuant to written resolutions of all the shareholders of the Bank's intermediate holding company, BOC Hong Kong (Holdings) Limited ("BOCHKHL"), passed on 10th July 2002, BOCHKHL has approved and adopted a 2002 Share Option Scheme and a 2002 Sharesave Plan. No options have been granted by BOCHKHL pursuant to the 2002 Share Option Scheme or the 2002 Sharesave Plan during the year ended 31st December 2003.

On 5th July 2002, Mr. He Guangbei, Mr. Ng Leung Sing, Mr. Ng Man Kung, Mr. Chiu Ming Wah, Mr. Mao Xiaowei, Mr. Chan Yiu Fai and Mr. To Chi Wing were granted options by BOC Hong Kong (BVI) Limited ("BOC (BVI)"), the immediate holding company of BOCHKHL, pursuant to a Pre-listing Share Option Scheme of BOCHKHL to purchase from BOC (BVI) an aggregate of 3,652,800 existing issued shares of the BOCHKHL at a price of HK\$8.5 per share which is the same as the offer price. None of these options may be exercised within one year from 25th July 2002. These options have a vesting period of four years from 25th July 2002 with a valid exercise period of ten years. One-fourth of the number of shares subject to such options will be vested at the end of each year. No offer to grant any options under the Pre-listing Share Option Scheme may be made on or after 25th July 2002, the date on which dealings in the BOCHKHL's shares commenced on The Stock Exchange of Hong Kong Limited. Mr. Ng Leung Sing, Mr. Ng Man Kung, Mr. Chiu Ming Wah, Mr. Mao Xiaowei and Mr. Chan Yiu Fai exercised some of their options to purchase an aggregate of 484,000 shares of the intermediate holding company during the year ended 31st December 2003.

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

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Bank were entered into or existed during the year.

Compliance with the guideline on "Financial Disclosure by Locally Incorporated Authorized Institutions"

The accounts for the year ended 31st December 2003 fully comply with the requirements set out in the guideline on "Financial Disclosure by Locally Incorporated Authorized Institutions" under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority.

Auditors

The accounts for the year have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

He Guangbei

Chairman

Hong Kong, 16th March 2004

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
CHIYU BANKING CORPORATION LIMITED**
(Incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 4 to 53 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

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

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

Basis of opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Bank and of the Group as at 31st December 2003 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16th March 2004

CHIYU BANKING CORPORATION LIMITED

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER 2003**

	Note	2003 HK\$'000	As restated 2002 HK\$'000
Interest income	3	725,141	845,418
Interest expense		(168,195)	(252,163)
Net interest income		556,946	593,255
Other operating income	4	205,144	175,332
Operating income		762,090	768,587
Operating expenses	5	(201,978)	(220,904)
Operating profit before provisions		560,112	547,683
Charge for bad and doubtful debts	8	(6,695)	(20,444)
Operating profit after provisions		553,417	527,239
Net loss from disposal/revaluation of fixed assets	9	(9,426)	(1,164)
Net gain on disposal of investment securities		106	-
Provision for impairment losses on investment securities		(160)	(4,206)
Profit before taxation		543,937	521,869
Taxation	10	(58,509)	(66,041)
Profit attributable to shareholders	11, 26	485,428	455,828
Dividends	12	336,000	330,000

CHIYU BANKING CORPORATION LIMITED

**CONSOLIDATED BALANCE SHEET
AS AT 31ST DECEMBER 2003**

	Note	2003 HK\$'000	As restated 2002 HK\$'000
Assets			
Cash and short-term funds	14	11,069,635	10,416,308
Placements with banks and other financial institutions maturing between one and twelve months	29	1,926,803	3,329,297
Trade bills	15	56,456	124,581
Certificates of deposit held	16, 29	1,331,471	686,503
Held-to-maturity securities	17, 29	5,970,524	4,980,749
Investment securities	18	20,924	29,784
Advances and other accounts	19	8,877,282	7,779,867
Fixed assets	22	399,047	423,639
Other assets	29	1,159,294	480,285
Total assets		<u>30,811,436</u>	<u>28,251,013</u>
Liabilities			
Deposits and balances of banks and other financial institutions	29	1,146,023	1,184,770
Deposits from customers	23, 29	24,273,634	23,059,554
Certificate of deposit issued	29	414,328	-
Other accounts and provisions	24, 29	1,751,943	738,876
Total liabilities		<u>27,585,928</u>	<u>24,983,200</u>
Capital resources			
Share capital	26	300,000	300,000
Reserves	27	2,925,508	2,967,813
Shareholders' funds		<u>3,225,508</u>	<u>3,267,813</u>
Total liabilities and capital resources		<u>30,811,436</u>	<u>28,251,013</u>

Approved by the Board of Directors on 16th March 2004 and signed on behalf of the Board by:

Director : **He Guangbei**
 Director : **Ng Man Kung**
 Director : **Chiu Ming Wah**
 Secretary : **Po Yuen Fung**

CHIYU BANKING CORPORATION LIMITED

**BALANCE SHEET
AS AT 31ST DECEMBER 2003**

	Note	2003 HK\$'000	As restated 2002 HK\$'000
Assets			
Cash and short-term funds	14	11,069,635	10,416,308
Placements with banks and other financial institutions maturing between one and twelve months	29	1,926,803	3,329,297
Trade bills	15	56,456	124,581
Certificates of deposit held	16, 29	1,331,471	686,503
Held-to-maturity securities	17, 29	5,970,524	4,980,749
Investment securities	18	1,415	10,115
Advances and other accounts	19	8,878,454	7,781,455
Investments in subsidiaries	21	3,913	3,913
Amounts due from subsidiaries	21	53,052	75,638
Fixed assets	22	365,209	389,726
Other assets	29	1,155,998	476,602
Total assets		<u>30,812,930</u>	<u>28,274,887</u>
Liabilities			
Deposits and balances of banks and other financial institutions	29	1,146,023	1,184,770
Deposits from customers	23, 29	24,314,004	23,188,340
Certificate of deposit issued	29	414,328	-
Other accounts and provisions	24, 29	1,739,776	640,620
Amounts due to subsidiaries	21	20,528	39,082
Total liabilities		<u>27,634,659</u>	<u>25,052,812</u>
Capital resources			
Share capital	26	300,000	300,000
Reserves	27	2,878,271	2,922,075
Shareholders' funds		<u>3,178,271</u>	<u>3,222,075</u>
Total liabilities and capital resources		<u>30,812,930</u>	<u>28,274,887</u>

Approved by the Board of Directors on 16th March 2004 and signed on behalf of the Board by:

Director : **He Guangbei**
 Director : **Ng Man Kung**
 Director : **Chiu Ming Wah**
 Secretary : **Po Yuen Fung**

CHIYU BANKING CORPORATION LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER 2003**

	Note	HK\$'000
Total equity as at 1st January 2003, as previously reported		3,270,474
Effect of adopting SSAP12 (revised)	27	(2,661)
Total equity as at 1st January 2003, as restated		<u>3,267,813</u>
Deficit on revaluation of investment properties	27	(1,145)
Deficit on revaluation of bank premises	27	(18,745)
Release of deferred tax liabilities	27	1,420
Release of reserve upon disposal of property	27	6,566
Exchange difference arising on translation of overseas subsidiaries' accounts	27	171
Net losses not recognised in the profit and loss account		<u>(11,733)</u>
Profit for the year	27	485,428
Dividends paid / declared	27	(516,000)
Total equity as at 31st December 2003		<u><u>3,225,508</u></u>
Total equity as at 1st January 2002, as previously reported		3,085,077
Effect of adopting SSAP12 (revised)	27	5,150
Total equity as at 1st January 2002, as restated		<u>3,090,227</u>
Deficit on revaluation of investment properties	27	(175)
Deficit on revaluation of bank premises	27	(9,855)
Release of deferred tax liabilities	27	1,817
Exchange difference arising on translation of overseas subsidiaries' accounts	27	(29)
Net losses not recognised in the profit and loss account		<u>(8,242)</u>
Profit for the year	27	455,828
Dividends paid	27	(270,000)
Total equity as at 31st December 2002		<u><u>3,267,813</u></u>

CHIYU BANKING CORPORATION LIMITED

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2003**

	Note	2003 HK\$'000	As restated 2002 HK\$'000
Operating activities			
Net cash inflow/(outflow) from operating activities before taxation	28(a)	1,259,807	(1,704,806)
Hong Kong profits tax paid		(175)	(6,324)
Overseas profits tax paid		(1,591)	(1,710)
Net cash inflow/(outflow) from operating activities		<u>1,258,041</u>	<u>(1,712,840)</u>
Investing activities			
Purchase of fixed assets		(10,939)	(12,000)
Proceeds from disposal of fixed assets		3,502	2,351
Proceeds from disposal of investment securities		8,143	240
Dividends received from investment securities		1,109	1,506
Net cash inflow/(outflow) from investing activities		<u>1,815</u>	<u>(7,903)</u>
Net cash inflow/(outflow) before financing		<u>1,259,856</u>	<u>(1,720,743)</u>
Financing			
Dividends paid on ordinary shares		(330,000)	(270,000)
Net cash outflow from financing		<u>(330,000)</u>	<u>(270,000)</u>
Increase/(Decrease) in cash and cash equivalents		929,856	(1,990,743)
Cash and cash equivalents at 1st January		<u>10,119,803</u>	<u>12,110,546</u>
Cash and cash equivalents at 31st December	28(b)	<u><u>11,049,659</u></u>	<u><u>10,119,803</u></u>

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

1 Principal activities

Chiyu Banking Corporation Limited was incorporated in Hong Kong. The Bank is a licensed bank authorised under the Hong Kong Banking Ordinance.

The principal activities of the Bank are the provision of banking and related financial services in Hong Kong and the Mainland China. The principal activities of the Bank's subsidiaries (together with the Bank hereinafter as the "Group") are shown in note 21 to the accounts.

2 Principal accounting policies

The Group has adopted the following principal accounting policies when preparing the consolidated accounts.

(a) Basis of preparation

The consolidated accounts have been prepared under the historical cost convention as modified by the revaluation of certain investments in securities, off-balance sheet instruments, premises and investment properties, and in accordance with accounting principles generally accepted in Hong Kong and comply with the Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants ("HKSA"). In addition, these accounts comply fully with the requirements set out in the guideline on "Financial Disclosure by Locally Incorporated Authorized Institutions" under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority.

The accounting policies and methods of computation used in the preparation of the accounts are consistent with those used in the preparation of the Group's accounts for the year ended 31st December 2002. In the current year, the Group has adopted SSAP12 (revised): Income taxes issued by the HKSA, which is effective for accounting periods commencing on or after 1st January 2003.

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

(b) Basis of consolidation

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

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

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(b) Basis of consolidation (Continued)

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

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

(c) Revenue recognition

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

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

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

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

(d) Advances

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

Cash rebates granted in relation to residential mortgage loans are capitalised and amortised on a straight-line basis over the prepayment penalty period not exceeding three years.

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

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(e) Provisions for bad and doubtful debts

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

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

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

(f) Fixed assets

(i) Bank premises

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

Leasehold land - Over the remaining period of the lease

Buildings - Over the shorter of the remaining period of the leases and 15-50 years

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

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(f) Fixed assets (Continued)

(ii) Investment properties

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

Investment properties are valued annually and independent valuations are performed at intervals of not more than three years; in each of the intervening years, valuations are undertaken by professionally qualified personnel appointed by the Group. The valuations are on an open market value basis related to individual properties and incorporated in the accounts on a portfolio basis. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations and thereafter are debited to the profit and loss account. Any subsequent increases in valuation are credited to the profit and loss account up to the amount previously debited, and then to the revaluation reserve.

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

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

(iii) Properties under development

Properties under development are carried at cost less impairment losses. The cost includes development and construction expenditure incurred and interest and other direct costs attributable to the development. On completion, the properties are transferred to bank premises or investment properties.

(iv) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation on other fixed assets is calculated to write off the assets on a straight-line basis over their estimated useful lives as follows:

Motor vehicles	3 to 10 years
Furniture, fixtures and equipment	3 to 15 years

The gain or loss on disposal of other fixed assets is recognised in the profit and loss account.

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(f) Fixed assets (Continued)

(v) Impairment and gain or loss on sale

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

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

(g) Investments in securities

(i) Held-to-maturity securities

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

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

(ii) Investment securities

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

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

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

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(g) Investments in securities (Continued)

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

(h) Operating leases

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

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

(i) Provisions

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

(j) Deferred taxation

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

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

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

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(j) Deferred taxation (Continued)

In prior year, deferred taxation was provided at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the profit and loss account to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in Note 27 to the accounts, opening retained earnings of the Group at 1st January 2002 and 2003 have been increased by HK\$31,054,000 and HK\$21,426,000 respectively which represent the unrecognised net deferred tax assets. This change has resulted in an increase in deferred tax assets and deferred tax liabilities of the Group at 31st December 2002 by HK\$19,000 and HK\$2,680,000 respectively. The profit and amount credited to equity for the year ended 31st December 2002 have been reduced by HK\$9,628,000 and increased by HK\$1,817,000 respectively.

(k) Foreign currency translation

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

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

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(I) Employee benefits

(i) Retirement benefit costs

The Group contributes to defined contribution retirement schemes under either recognised occupation retirement schemes (“ORSO schemes”) or mandatory provident fund (“MPF”) schemes which are available to all employees. Contributions to the scheme 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 represents contributions payable by the Group to the schemes. Forfeited contributions by those employees who leave the ORSO scheme prior to the full vesting of their contributions are used by the Group to reduce the existing level of contributions or to meet its expenses under the trust deed of the ORSO schemes.

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

(ii) Long service payment

The Group pays long service payment to staff who is dismissed without committing any offence and have been employed by the Group for more than 5 years. Employer’s portion of the relevant retirement fund, on an individual basis, will be first utilised to offset the long service payment for which dismissed employees entitled, any shortfall will be further provided by the Group. The directors will estimate any such shortfall payment during employee’s years of service on a portfolio basis, and recognise in the profit and loss account if material.

(iii) Leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for unused annual leave as a result of services rendered by employees up to the balance sheet date. Unused sick leave may be carried forward up to 120 days but are non-vesting. The Group recognises annual and sick leave obligations if they are estimated to be material.

Compensated absences other than annual 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. As employee service does not increase the amount of the benefit, the Group recognises no liability or expense until the absences occur.

(iv) Bonus plans

The expected cost of bonus payments is recognised as a liability when the group has a present or 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.

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(m) Off-balance sheet financial instruments

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

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

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

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

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

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

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

(n) Contingent liabilities and contingent assets

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

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

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(n) Contingent liabilities and contingent assets (Continued)

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

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

(o) Related parties

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, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(p) Cash and cash equivalents

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

(q) Dividends

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

3 Interest income

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Interest income from listed investments	58,836	59,612
Interest income from unlisted investments	161,637	120,212
Other interest income	504,668	665,594
	<u>725,141</u>	<u>845,418</u>

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

4 Other operating income

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Fees and commission income (Note)	194,290	159,292
Less: Fees and commission expenses	(29,247)	(17,958)
Net fees and commission income	165,043	141,334
Dividend income from		
- listed investments in securities	255	50
- unlisted investments in securities	854	1,456
Net gain from foreign exchange activities	35,452	29,966
Gross rental income from investment properties	1,447	1,489
Less : Outgoing in respect of investment properties	(39)	-
Others	2,132	1,037
	205,144	175,332

Note:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Bills and loans commissions	57,067	62,120
Payment services	13,036	13,112
Insurance	8,680	6,210
Securities	62,521	32,080
Asset management and trust services	4,576	8,298
Guarantees	1,910	1,536
Credit card	390	1,002
Others		
- Safe deposit box	8,900	8,207
- Automatic Teller Machine cards	1,501	2,019
- Dormant accounts	861	1,197
- Low deposit balance	4,951	2,250
- Sundry	29,897	21,261
	194,290	159,292

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

5 Operating expenses

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Staff costs including directors' emoluments (Note 6)	126,597	141,356
Premises and equipment expenses excluding depreciation		
- rental of premises	12,627	13,062
- information technology	20,510	19,176
- others	4,858	5,017
Depreciation	9,280	17,386
Auditors' remuneration	2,490	2,080
Other operating expenses	25,616	22,827
	<u>201,978</u>	<u>220,904</u>

6 Staff costs including directors' emoluments

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Wages and salaries	116,390	131,466
Pension costs – defined contribution plans	10,184	9,693
Termination benefits	23	197
	<u>126,597</u>	<u>141,356</u>

Pursuant to written resolutions of all the shareholders of the Bank's intermediate holding company, BOCHKHL, passed on 10th July 2002, BOCHKHL has approved and adopted a 2002 Share Option Scheme and a 2002 Sharesave Plan. No options have been granted by BOCHKHL pursuant to the 2002 Share Option Scheme or the 2002 Sharesave Plan for the year ended 31st December 2003.

7 Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Bank during the year are as follows:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Fee	350	350
Other emoluments		
Basic salaries and allowances	4,282	3,397
Discretionary bonuses	266	205
	<u>4,898</u>	<u>3,952</u>

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

7 Directors' emoluments (Continued)

On 5th July 2002, certain directors were granted options by BOC Hong Kong (BVI) Limited ("BOC (BVI)"), the immediate holding company of BOCHKHL, pursuant to a Pre-listing Share Option Scheme of BOCHKHL to purchase from BOC (BVI) an aggregate of 3,652,800 existing issued shares of the BOCHKHL at a price of HK\$8.5 per share which is the same as the offer price. None of these options may be exercised within one year from 25th July 2002. These options have a vesting period of four years from 25th July 2002 with a valid exercise period of ten years. One-fourth of the number of shares subject to such options will be vested at the end of each year. No offer to grant any options under the Pre-listing Share Option Scheme may be made on or after 25th July 2002, the date on which dealings in the BOCHKHL's shares commenced on The Stock Exchange of Hong Kong Limited. The benefits arising from the granting and exercising of these share options are not included in the directors' emoluments and staff costs and have not been recognized in the profit and loss account.

Options to purchase 484,000 (2002: Nil) shares of the intermediate holding company were exercised by certain directors during the year ended 31st December 2003 at a gain of HK\$2,246,000 (2002: Nil), representing the difference between the market price of the shares and the exercise price of share options at the date of exercise. The gain has not been recognized in the profit and loss account of the Bank, its fellow subsidiaries and its holding companies.

8 Charge for bad and doubtful debts

	The Group	
	2003 HK\$'000	2002 HK\$'000
Net charge for bad and doubtful debts		
Specific provisions		
- new provisions	48,108	102,585
- releases	(19,020)	(29,090)
- recoveries (Note 20)	(9,372)	(12,586)
	19,716	60,909
General provisions	(13,021)	(40,465)
Net charge to profit and loss account (Note 20)	6,695	20,444

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

9 Net loss from disposal/revaluation of fixed assets

	The Group	
	2003	2002
	HK\$'000	HK\$'000
(Loss)/ Gain on disposal of bank premises	(1)	519
Loss on disposal of investment properties	(6,805)	-
Loss on disposal of other fixed assets	(31)	(656)
Deficit on revaluation of bank premises	(2,589)	(1,027)
	<u>(9,426)</u>	<u>(1,164)</u>

10 Taxation

The amount of taxation charged to the consolidated profit and loss account represents:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Hong Kong profits tax		
- current year taxation	90,027	71,500
- over-provision in prior years	(18,823)	-
Deferred taxation (credit)/charge (note 25)	(879)	9,628
Attributable share of estimated Hong Kong profits tax losses arising from investments in partnerships	(65,150)	(64,030)
	<u>5,175</u>	<u>17,098</u>
Investments in partnerships written off	52,375	47,247
	<u>57,550</u>	<u>64,345</u>
Hong Kong profits tax	57,550	64,345
Overseas taxation	959	1,696
	<u>58,509</u>	<u>66,041</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year. In 2003, the Hong Kong Government announced an increase in Profits Tax rate applicable to the Group's operation in Hong Kong from 16% to 17.5%.

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

The Group's tax over-provision of approximately HK\$19 million represents a write-back of excess tax provision made in prior years. This amount was written back after the finalisation of tax losses arising from predecessor merging branches and tax positions of the Bank by the Inland Revenue Department in 2003.

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

10 Taxation (Continued)

The Group has entered into a number of aircraft leasing and coupon strip transactions involving special purpose partnerships. As at 31st December 2003, the Group's investments in such partnerships, which are included in "Other assets" in the consolidated balance sheet amounted approximately to HK\$156 million (2002: HK\$197 million). The Group's investments in these partnerships are amortised over the life of the partnership in proportion to the taxation benefits resulting from those investments.

The total assets and liabilities of partnerships where the Group is the majority general partner are as follows:

	The Group and the Bank	
	2003 HK\$'000	2002 HK\$'000
Assets	203,462	224,068
Liabilities	131,445	144,697

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

	The Group	
	2003 HK\$'000	2002 HK\$'000
Profit before taxation	543,937	521,869
Calculated at a taxation rate of 17.5% (2002: 16%)	95,189	83,499
Effect of different taxation rates in other countries	(1,518)	(406)
Income not subject to taxation	(13,248)	(20,253)
Expenses not deductible for taxation purposes	10,563	10,357
Recognition of previously unrecognised temporary differences	(879)	9,628
Tax benefits from partnerships	(12,775)	(16,784)
Over provision in prior year	(18,823)	-
Taxation charge	58,509	66,041

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

11 Profit attributable to shareholders

The profit for the Bank for the year ended 31st December 2003 attributable to shareholders and dealt with in the accounts of the Bank amounted to HK\$484,100,000 (2002: HK\$455,615,000).

12 Dividends

	2003 HK\$'000	2002 HK\$'000
- Final, proposed of HK\$ Nil (2002: HK\$60) per ordinary share	-	180,000
- First interim, paid of HK\$50 (2002: HK\$50) per ordinary share	150,000	150,000
- Second interim, declared of HK\$62 (2002: HK\$ Nil) per ordinary share	186,000	-
	<u>336,000</u>	<u>330,000</u>

At a meeting held on 18th March 2003, the directors proposed to declare a 2002 final dividend of HK\$60 per ordinary share amounting to HK\$180,000,000. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ended 31st December 2003.

13 Retirement benefit costs

The Group operates certain defined contribution schemes which are ORSO schemes exempted under the Mandatory Provident Fund Schemes Ordinance ("MPF Schemes Ordinance"). Under the schemes, the 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 their 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 of 20% to 95% after completing 3 to less than 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 1st December 2000, the Group also participates in the BOC-Prudential Easy Choice Mandatory Provident Fund Scheme (the "MPF Scheme"), the trustee of which is BOCI-Prudential Trustee Limited, a fellow subsidiary, and the investment manager of which is BOCI-Prudential Asset Management Limited, a fellow subsidiary. For the year ended 31st December 2003, total employer's contributions to the MPF scheme amounted to approximately HK\$188,000 (2002: approximately HK\$130,000).

The Group's total contributions for those ORSO schemes for the year ended 31st December 2003 amounted to approximately HK\$9,996,000 (2002: approximately HK\$9,563,000), after a deduction of forfeited contributions of approximately HK\$496,000 (2002: approximately HK\$955,000).

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

14 Cash and short-term funds

	The Group and the Bank	
	2003	2002
	HK\$'000	HK\$'000
Cash	85,907	91,748
Balances with banks and other financial institutions	1,112,900	248,868
Money at call and short notice maturing within one month	9,870,828	10,033,702
Treasury bills (including Exchange Fund Bills) (Note 29)	-	41,990
	<u>11,069,635</u>	<u>10,416,308</u>

Treasury bills (including Exchange Fund Bills) are unlisted, held-to-maturity and stated at amortised cost.

15 Trade bills

	The Group and the Bank	
	2003	2002
	HK\$'000	HK\$'000
Trade bills	<u>56,456</u>	<u>124,581</u>

Trade bills represent letters of credit obligation of third parties that the Bank purchased from customers at a discount.

16 Certificates of deposit held

	The Group and the Bank	
	2003	2002
	HK\$'000	HK\$'000
Unlisted, held-to-maturity securities, at amortised cost	<u>1,331,471</u>	<u>686,503</u>

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

17 Held-to-maturity securities

	The Group and the Bank	
	2003	2002
	HK\$'000	HK\$'000
Listed, at amortised cost		
- Listed in Hong Kong	1,196,721	1,251,359
- Listed outside Hong Kong	174,013	276,446
	<u>1,370,734</u>	<u>1,527,805</u>
Unlisted, at amortised cost	4,599,790	3,452,944
	<u>5,970,524</u>	<u>4,980,749</u>
	<u><u>1,414,712</u></u>	<u><u>1,579,035</u></u>

Held-to-maturity securities are analysed by issuer as follows:

	The Group and the Bank	
	2003	2002
	HK\$'000	HK\$'000
Central governments and central banks	1,246,425	1,270,183
Public sector entities	680,000	390,000
Banks and other financial institutions	4,044,099	3,290,536
Corporate entities	-	30,030
	<u>5,970,524</u>	<u>4,980,749</u>

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

18 Investment securities

	The Group		The Bank	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted debt securities, at cost (Note 29)	250	944	250	944
Equity securities, at cost				
- Listed outside Hong Kong	653	653	653	653
- Unlisted	21,821	35,377	512	14,068
	22,474	36,030	1,165	14,721
Less: provision for impairment losses	(1,800)	(7,190)	-	(5,550)
	20,674	28,840	1,165	9,171
	20,924	29,784	1,415	10,115
Market value of listed investments	4,535	3,558	4,535	3,558

Investment securities are analysed by issuer as follows:

	The Group		The Bank	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Banks and other financial institutions	653	653	653	653
Corporate entities	20,271	28,437	762	8,768
Others	-	694	-	694
	20,924	29,784	1,415	10,115

Details of the equity securities held by the Bank with equity interest over 20% as at 31st December 2003 are set out below:

Name	Place of incorporation/ operation	Particulars of issued and paid up ordinary share capital	Equity interest held by the Bank		Principal activities
			Directly	Indirectly	
Harbin Guo Ying Real Estate Development Company Limited	The People's Republic of China	US\$4,000,000	-	30%	Property development

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

19 Advances and other accounts

(a) Advances and other accounts

	The Group		The Bank	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Advances to customers (Note 29)	9,041,421	7,983,965	9,042,593	7,985,553
Accrued interest	98,783	122,395	98,783	122,395
	<u>9,140,204</u>	<u>8,106,360</u>	<u>9,141,376</u>	<u>8,107,948</u>
Provision for bad and doubtful debts (Note 20)				
- General	(159,012)	(172,033)	(159,012)	(172,033)
- Specific	(103,910)	(155,202)	(103,910)	(155,202)
	<u>(262,922)</u>	<u>(327,235)</u>	<u>(262,922)</u>	<u>(327,235)</u>
	<u>8,877,282</u>	<u>7,779,125</u>	<u>8,878,454</u>	<u>7,780,713</u>
Advances to banks and other financial institutions	-	742	-	742
	<u>8,877,282</u>	<u>7,779,867</u>	<u>8,878,454</u>	<u>7,781,455</u>

(b) Non-performing loans

Non-performing loans are analysed as follows:

	The Group and the Bank	
	2003	2002
	HK\$'000	HK\$'000
Non-performing loans	387,631	510,690
As a percentage to total advances to customers	4.29%	6.40%
Specific provisions made in respect of such loans	103,910	154,082
Amount of interest in suspense (Note 20)	3,542	5,092

Non-performing loans are defined as loan and advances to customers on which interest is being placed in suspense or on which interest accrual has ceased. The 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 31st December 2003 and 31st December 2002 nor were there any specific provisions made.

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

20 Provisions for bad and doubtful debts

	The Group and the Bank As at 31st December 2003			
	Specific HK\$'000	General HK\$'000	Total HK\$'000	Suspended interest HK\$'000
Balances as at 1st January 2003	155,202	172,033	327,235	5,092
Charge/(credit) to profit and loss account (Note 8)	19,716	(13,021)	6,695	-
Amounts written off	(80,380)	-	(80,380)	(1,728)
Recoveries of advances written off in previous years (Note 8)	9,372	-	9,372	-
Interest suspended during the year	-	-	-	1,208
Suspended interest recovered	-	-	-	(1,030)
Balance as at 31st December 2003	<u>103,910</u>	<u>159,012</u>	<u>262,922</u>	<u>3,542</u>
Representing provisions against: Advances to customers (Note 19)	<u>103,910</u>	<u>159,012</u>	<u>262,922</u>	<u>3,542</u>

	The Group and the Bank As at 31st December 2002			
	Specific HK\$'000	General HK\$'000	Total HK\$'000	Suspended interest HK\$'000
Balances as at 1st January 2002	164,665	212,498	377,163	5,596
Charge/(credit) to profit and loss account (Note 8)	60,909	(40,465)	20,444	-
Amounts written off	(82,958)	-	(82,958)	(609)
Recoveries of advances written off in previous years (Note 8)	12,586	-	12,586	-
Interest suspended during the year	-	-	-	3,303
Suspended interest recovered	-	-	-	(3,198)
Balance as at 31st December 2002	<u>155,202</u>	<u>172,033</u>	<u>327,235</u>	<u>5,092</u>
Representing provisions against: Advances to customers (Note 19)	<u>155,202</u>	<u>172,033</u>	<u>327,235</u>	<u>5,092</u>

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

21 Investments in subsidiaries

	The Bank	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	3,913	3,913
Amounts due from subsidiaries (Note (a))	53,052	75,638
Amounts due to subsidiaries (Note (a))	(20,528)	(39,082)
	<u>36,437</u>	<u>40,469</u>

Note:

- (a) Amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Details of the subsidiaries as at 31st December 2003 are set out below:

<u>Name</u>	<u>Place of incorporation/ operation</u>	<u>Particulars of issued and paid up ordinary share capital</u>	<u>Equity interest held by the Bank</u>		<u>Principal activities</u>
			<u>Directly</u>	<u>Indirectly</u>	
Chiyu Banking Corporation (Nominees) Limited	Hong Kong	1,000 shares of HK\$100 each	100%	-	Investment holding
Seng Sun Development Company Limited	Hong Kong	2,800 shares of HK\$1,000 each	100%	-	Investment holding
Pacific Trend Profits Corporation Limited	The British Virgin Islands	1 share of US\$1	100%	-	Investment holding
Glory Cardinal Limited	Hong Kong	2 shares of HK\$1 each	-	100%	Investment holding
Glister Company Limited	Hong Kong	2 shares of HK\$1 each	-	100%	Investment holding
Grace Charter Limited	Hong Kong	2 shares of HK\$1 each	-	100%	Investment holding
Seng Sun Development (Xiamen) Company Limited	The People's Republic of China	US\$5,000,000	-	100%	Property development

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

22 Fixed assets

	The Group				
	Properties under development HK\$'000	Bank premises HK\$'000	Investment properties HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost or valuation					
At 1st January 2003	38,839	347,486	22,025	81,335	489,685
Additions	10	-	-	10,929	10,939
Revaluation	-	(24,220)	(1,145)	-	(25,365)
Disposals	-	(170)	(3,500)	(2,283)	(5,953)
At 31st December 2003	<u>38,849</u>	<u>323,096</u>	<u>17,380</u>	<u>89,981</u>	<u>469,306</u>
Accumulated depreciation and impairment losses					
At 1st January 2003	6,500	-	-	59,546	66,046
Charge for the year	-	5,422	-	3,858	9,280
Write back on revaluation	-	(2,886)	-	-	(2,886)
Disposals	-	(2)	-	(2,179)	(2,181)
At 31st December 2003	<u>6,500</u>	<u>2,534</u>	<u>-</u>	<u>61,225</u>	<u>70,259</u>
Net book value					
At 31st December 2003	<u>32,349</u>	<u>320,562</u>	<u>17,380</u>	<u>28,756</u>	<u>399,047</u>
At 31st December 2002	<u>32,339</u>	<u>347,486</u>	<u>22,025</u>	<u>21,789</u>	<u>423,639</u>

The analysis of cost or valuation of the above assets is as follows:

	Properties Under Development HK\$'000	Bank premises HK\$'000	Investment properties HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
At 31st December 2003					
At cost	38,849	-	-	89,981	128,830
At valuation 2003	<u>-</u>	<u>323,096</u>	<u>17,380</u>	<u>-</u>	<u>340,476</u>
	<u>38,849</u>	<u>323,096</u>	<u>17,380</u>	<u>89,981</u>	<u>469,306</u>
At 31st December 2002					
At cost	38,839	-	-	81,335	120,174
At valuation 2002	<u>-</u>	<u>347,486</u>	<u>22,025</u>	<u>-</u>	<u>369,511</u>
	<u>38,839</u>	<u>347,486</u>	<u>22,025</u>	<u>81,335</u>	<u>489,685</u>

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

22 Fixed assets (Continued)

The carrying amounts of bank premises and investment properties of the Group are analysed based on the remaining terms of the leases as follows:

	The Group			
	Bank premises		Investment properties	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
In Hong Kong, held on:				
- Long-term leases (over 50 years)	217,748	244,380	14,400	18,900
- Medium-term leases (10 to 50 years)	92,694	92,701	-	-
Outside Hong Kong, held on:				
- Long-term leases (over 50 years)	8,633	8,880	-	-
- Medium-term leases (10 to 50 years)	1,487	1,525	2,980	3,125
	<u>320,562</u>	<u>347,486</u>	<u>17,380</u>	<u>22,025</u>
	<u><u>320,562</u></u>	<u><u>347,486</u></u>	<u><u>17,380</u></u>	<u><u>22,025</u></u>
	The Bank			
	Bank premises HK\$'000	Investment properties HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost or valuation				
At 1st January 2003	345,912	22,025	81,319	449,256
Additions	-	-	10,929	10,929
Revaluation	(24,150)	(1,145)	-	(25,295)
Disposals	(170)	(3,500)	(2,283)	(5,953)
	<u>321,592</u>	<u>17,380</u>	<u>89,965</u>	<u>428,937</u>
At 31st December 2003	<u><u>321,592</u></u>	<u><u>17,380</u></u>	<u><u>89,965</u></u>	<u><u>428,937</u></u>
Accumulated depreciation				
At 1st January 2003	-	-	59,530	59,530
Charge for the year	5,391	-	3,858	9,249
Write back on revaluation	(2,870)	-	-	(2,870)
Disposals	(2)	-	(2,179)	(2,181)
	<u>2,519</u>	<u>-</u>	<u>61,209</u>	<u>63,728</u>
At 31st December 2003	<u><u>2,519</u></u>	<u><u>-</u></u>	<u><u>61,209</u></u>	<u><u>63,728</u></u>
Net book value				
At 31st December 2003	<u><u>319,073</u></u>	<u><u>17,380</u></u>	<u><u>28,756</u></u>	<u><u>365,209</u></u>
At 31st December 2002	<u><u>345,912</u></u>	<u><u>22,025</u></u>	<u><u>21,789</u></u>	<u><u>389,726</u></u>

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

22 Fixed assets (Continued)

The analysis of cost or valuation of the above assets is as follows:

	The Bank			
	Bank premises HK\$'000	Investment properties HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
At 31st December 2003				
At cost	-	-	89,965	89,965
At valuation 2003	321,592	17,380	-	338,972
	<u>321,592</u>	<u>17,380</u>	<u>89,965</u>	<u>428,937</u>
At 31st December 2002				
At cost	-	-	81,319	81,319
At valuation 2002	345,912	22,025	-	367,937
	<u>345,912</u>	<u>22,025</u>	<u>81,319</u>	<u>449,256</u>

The carrying amounts of bank premises and investment properties of the Bank are analysed based on the remaining terms of the leases as follows:

	The Bank			
	Bank premises		Investment properties	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
In Hong Kong, held on:				
- Long-term leases (over 50 years)	217,748	244,380	14,400	18,900
- Medium-term leases (10 to 50 years)	91,205	91,127	-	-
Outside Hong Kong, held on:				
- Long-term leases (over 50 years)	8,633	8,880	-	-
- Medium-term leases (10 to 50 years)	1,487	1,525	2,980	3,125
	<u>319,073</u>	<u>345,912</u>	<u>17,380</u>	<u>22,025</u>

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

22 Fixed assets (Continued)

Revaluations of the Group's and the Bank's investment properties and premises were performed separately at 30th June 2003 and at 31st October 2003.

At 30th June 2003, bank premises and investment properties revalued on the basis of their open market value at directors' valuation and by an independent firm of chartered surveyors, Chesterton Petty Limited respectively. The results of the revaluations were fully incorporated into the accounts at 30th June 2003.

At 31st October 2003, investment properties were revalued on the basis of their open market value by Chesterton Petty Limited, and the change in valuation was recognized in the property revaluation reserve.

Bank premises are included in the balance sheet at directors' valuation, having regard to the valuation carried out at 31st October 2003 on the basis of their open market value by Chesterton Petty Limited on the majority of the premises. As there was no material change in valuations since the previous revaluation at 30th June 2003, no adjustment was made to the carrying amount of premises. Chesterton Petty Limited also confirmed that there was no material change in valuations at 31st December 2003.

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

	For the year ended 31st December 2003			
	The Group		The Bank	
	Investment properties HK\$'000	Bank premises HK\$'000	Investment properties HK\$'000	Bank premises HK\$'000
Decrease in valuation debited to properties revaluation reserve	1,145	18,745	1,145	18,745
Decrease in valuation charged to profit and loss account	-	2,589	-	2,535
	<u>1,145</u>	<u>21,334</u>	<u>1,145</u>	<u>21,280</u>
	<u><u>1,145</u></u>	<u><u>21,334</u></u>	<u><u>1,145</u></u>	<u><u>21,280</u></u>
	For the year ended 31st December 2002			
	The Group		The Bank	
	Investment properties HK\$'000	Bank premises HK\$'000	Investment Properties HK\$'000	Bank premises HK\$'000
Decrease in valuation debited to properties revaluation reserve	175	9,855	175	9,855
Decrease in valuation charged to profit and loss account	-	1,027	-	1,004
	<u>175</u>	<u>10,882</u>	<u>175</u>	<u>10,859</u>
	<u><u>175</u></u>	<u><u>10,882</u></u>	<u><u>175</u></u>	<u><u>10,859</u></u>

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

22 Fixed assets (Continued)

At 31st December 2003, the carrying amounts of bank premises that would have been included in the accounts had the premises been stated at cost less accumulated depreciation and impairment losses are as follows:

	The Group		The Bank	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank premises	182,608	185,728	179,580	182,629

23 Deposits from customers

	The Group		The Bank	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Demand deposits and current accounts	1,229,623	947,237	1,230,027	947,677
Savings deposits	11,318,253	7,942,207	11,332,341	7,956,298
Time, call and notice deposits	11,725,758	14,170,110	11,751,636	14,284,365
	24,273,634	23,059,554	24,314,004	23,188,340

24 Other accounts and provisions

	The Group		The Bank	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest payable	21,238	31,186	21,238	31,203
Dividend payable	186,404	404	186,404	404
Current taxation (Note)	26,218	20,971	26,218	20,851
Deferred tax liabilities (Note 25)	414	2,680	414	2,680
Accruals and other payables	1,517,669	683,635	1,505,502	585,482
	1,751,943	738,876	1,739,776	640,620

Note:

Current taxation

	The Group		The Bank	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong profits tax	26,376	20,497	26,376	20,497
Overseas taxation	(158)	474	(158)	354
	26,218	20,971	26,218	20,851

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

25 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the balance sheet liability method using a principal taxation rate of 17.5% (2002: 16%).

The movement on the deferred tax liabilities/(assets) account is as follows:

	The Group		The Bank	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1st January	2,661	(5,150)	2,680	(5,154)
Deferred taxation (credit)/charge to profit and loss account (Note 10)	(879)	9,628	(846)	9,651
Deferred taxation credit to equity (Note 27)	(1,420)	(1,817)	(1,420)	(1,817)
At 31st December	<u>362</u>	<u>2,661</u>	<u>414</u>	<u>2,680</u>

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax (assets)/liabilities	The Group As at 31st December 2003					
	Accelerated tax depreciation	Assets revaluation	Tax losses	General provisions	Other temporary difference	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2003	4,669	24,087	(207)	(25,888)	-	2,661
(Credit)/ charge to profit and loss account	(1,888)	-	(48)	(1,817)	2,874	(879)
Credit to equity	-	(1,420)	-	-	-	(1,420)
At 31st December 2003	<u>2,781</u>	<u>22,667</u>	<u>(255)</u>	<u>(27,705)</u>	<u>2,874</u>	<u>362</u>

Deferred tax (assets)/liabilities	The Group As at 31st December 2002					
	Accelerated tax depreciation	Assets revaluation	Tax losses	General provisions	Other temporary difference	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2002	4,976	25,904	(186)	(35,844)	-	(5,150)
(Credit)/ charge to profit and loss account	(307)	-	(21)	9,956	-	9,628
Credit to equity	-	(1,817)	-	-	-	(1,817)
At 31st December 2002	<u>4,669</u>	<u>24,087</u>	<u>(207)</u>	<u>(25,888)</u>	<u>-</u>	<u>2,661</u>

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

25 Deferred taxation (Continued)

Deferred tax (assets)/liabilities	The Bank				
	As at 31st December 2003				
	Accelerated tax depreciation	Assets revaluation	General provisions	Other temporary difference	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2003	4,481	24,087	(25,888)	-	2,680
(Credit)/charge to profit and loss account	(1,903)	-	(1,817)	2,874	(846)
Credit to equity	-	(1,420)	-	-	(1,420)
At 31st December 2003	<u>2,578</u>	<u>22,667</u>	<u>(27,705)</u>	<u>2,874</u>	<u>414</u>

Deferred tax (assets)/liabilities	The Bank				
	As at 31st December 2002				
	Accelerated tax depreciation	Assets revaluation	General provisions	Other temporary difference	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2002	4,786	25,904	(35,844)	-	(5,154)
(Credit)/charge to profit and loss account	(305)	-	9,956	-	9,651
Credit to equity	-	(1,817)	-	-	(1,817)
At 31st December 2002	<u>4,481</u>	<u>24,087</u>	<u>(25,888)</u>	<u>-</u>	<u>2,680</u>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	The Group		The Bank	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deferred tax assets recognised in the balance sheet (Note)	(52)	(19)	-	-
Deferred tax liabilities recognised in the balance sheet (Note 24)	414	2,680	414	2,680
	<u>362</u>	<u>2,661</u>	<u>414</u>	<u>2,680</u>

Note: This amount is included in "Other assets".

	The Group		The Bank	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deferred tax assets to be recovered after more than 12 months	(27,960)	(26,095)	(27,705)	(25,888)
Deferred tax liabilities to be settled after more than 12 months	3,950	4,669	3,746	4,481
	<u></u>	<u></u>	<u></u>	<u></u>

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

26 Share capital

	The Bank	
	2003	2002
	HK\$'000	HK\$'000
Authorised, issued and fully paid:		
3,000,000 (2002: 3,000,000) ordinary shares of HK\$100 each	300,000	300,000

27 Reserves

	The Group				
	Bank premises revaluation reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Translation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2003, as previously reported	152,238	269	241	2,817,726	2,970,474
Effect of adopting SSAP12 (revised)	(24,087)	-	-	21,426	(2,661)
At 1st January 2003, as restated	128,151	269	241	2,839,152	2,967,813
Exchange difference	-	-	167	4	171
Profit for the year	-	-	-	485,428	485,428
2002 final dividend paid	-	-	-	(180,000)	(180,000)
2003 first interim dividend paid	-	-	-	(150,000)	(150,000)
2003 second interim dividend declared	-	-	-	(186,000)	(186,000)
Release of reserve upon disposal of properties	(88)	6,566	-	88	6,566
Revaluation of properties	(18,745)	(1,145)	-	-	(19,890)
Release of deferred tax liabilities	1,420	-	-	-	1,420
At 31st December 2003	110,738	5,690	408	2,808,672	2,925,508
At 1st January 2002, as previously reported	162,093	444	270	2,622,270	2,785,077
Effect of adopting SSAP12 (revised)	(25,904)	-	-	31,054	5,150
At 1st January 2002, as restated	136,189	444	270	2,653,324	2,790,227
Exchange difference	-	-	(29)	-	(29)
Profit for the year	-	-	-	455,828	455,828
2001 final dividend paid	-	-	-	(120,000)	(120,000)
2002 interim dividend paid	-	-	-	(150,000)	(150,000)
Revaluation of properties	(9,855)	(175)	-	-	(10,030)
Release of deferred tax liabilities	1,817	-	-	-	1,817
At 31st December 2002	128,151	269	241	2,839,152	2,967,813
Representing:					
2002 final dividend proposed				180,000	
Others				2,659,152	
Retained earnings as at 31st December 2002				2,839,152	

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

27 Reserves (Continued)

	The Bank			
	Bank premises revaluation reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2003, as previously reported	152,238	269	2,772,248	2,924,755
Effect of adopting SSAP12 (revised)	(24,087)	-	21,407	(2,680)
At 1st January 2003, as restated	128,151	269	2,793,655	2,922,075
Profit for the year	-	-	484,100	484,100
2002 final dividend paid	-	-	(180,000)	(180,000)
2003 first interim dividend paid	-	-	(150,000)	(150,000)
2003 second interim dividend declared	-	-	(186,000)	(186,000)
Release of reserve upon disposal of properties	(88)	6,566	88	6,566
Revaluation of properties	(18,745)	(1,145)	-	(19,890)
Release of deferred tax liabilities	1,420	-	-	1,420
At 31st December 2003	110,738	5,690	2,761,843	2,878,271
At 1st January 2002, as previously reported	162,093	444	2,576,982	2,739,519
Effect of adopting SSAP12 (revised)	(25,904)	-	31,058	5,154
At 1st January 2002, as restated	136,189	444	2,608,040	2,744,673
Profit for the year	-	-	455,615	455,615
2001 final dividend paid	-	-	(120,000)	(120,000)
2002 interim dividend paid	-	-	(150,000)	(150,000)
Revaluation of properties	(9,855)	(175)	-	(10,030)
Release of deferred tax liabilities	1,817	-	-	1,817
At 31st December 2002	128,151	269	2,793,655	2,922,075
Representing:				
2002 final dividend proposed			180,000	
Others			2,613,655	
Retained earnings as at 31st December 2002			2,793,655	

Note: The Bank's investment properties and bank premises reserves do not represent realised profits and are not available for distribution.

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

28 Notes to the consolidated cash flow statement

(a) Reconciliation of operating profit after provisions to net cash inflow/(outflow) from operating activities before taxation

	2003 HK\$'000	2002 HK\$'000
Operating profit after provisions	553,417	527,239
Depreciation	9,280	17,386
Charges for bad and doubtful debts	6,695	20,444
Advances written off net of recoveries	(71,008)	(70,372)
Dividends received from investment securities	(1,109)	(1,506)
Change in treasury bills with original maturity over three months	-	39,474
Change in placements with banks and other financial institutions with original maturity over three months	942,392	1,009,611
Change in money at call and short notice with original maturity over three months	604,071	79,523
Change in trade bills	68,125	(80,885)
Change in certificates of deposit held with original maturity over three months	(644,968)	(636,533)
Change in held-to-maturity securities	(989,775)	(2,963,181)
Change in advances and other accounts	(1,033,102)	292,456
Change in deposits and balances of banks and other financial institutions repayable over three months	93,813	98,652
Change in other assets	(678,315)	(58,291)
Change in deposits from customers	1,214,080	(3,756)
Change in certificate of deposits issued	414,328	-
Change in other accounts and provisions	771,744	24,995
Exchange differences	139	(62)
Net cash inflow/(outflow) from operating activities before taxation	<u>1,259,807</u>	<u>(1,704,806)</u>

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

28 Notes to the consolidated cash flow statement (Continued)

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

	2003 HK\$'000	2002 HK\$'000
Cash and balances with banks and other financial institutions	1,198,807	340,616
Money at call and short notice with original maturity within three months	9,493,948	9,052,751
Treasury bills with original maturity within three months	-	41,990
Placements with banks and other financial institutions with original maturity within three months	1,309,462	1,769,564
Deposits and balances of banks and other financial institution with original maturity within three months	(952,558)	(1,085,118)
	<u>11,049,659</u>	<u>10,119,803</u>

29 Maturity profile

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

	The Group						
	As at 31st December 2003						
	Repayable on demand HK\$'000	Three months or less HK\$'000	One year or less but over three months HK\$'000	Five years or less but over one year HK\$'000	Over Five years HK\$'000	Undated HK\$'000	Total HK\$'000
Assets							
Treasury bills	-	-	-	-	-	-	-
Placements with banks and other financial institutions maturing between one and twelve months	-	1,672,818	253,985	-	-	-	1,926,803
Certificates of deposit held	-	-	191,750	1,085,379	54,342	-	1,331,471
Advances to customers	940,573	1,197,188	895,815	2,911,722	2,704,770	391,353	9,041,421
Advances to banks and other financial institutions	-	-	-	-	-	-	-
Debt securities included in							
- Held-to-maturity securities	-	50,000	2,733,094	3,129,207	58,223	-	5,970,524
- Investment securities	-	-	-	-	250	-	250
Liabilities							
Deposits and balances of banks and other financial institutions	132,334	1,013,689	-	-	-	-	1,146,023
Deposits from customers	12,743,430	10,363,476	1,158,594	8,134	-	-	24,273,634
Certificates of deposit issued	-	-	-	414,328	-	-	414,328

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

29 Maturity profile (Continued)

	The Bank						
	As at 31st December 2003						
	Repayable on demand HK\$'000	Three months or less HK\$'000	One year or less but over three months HK\$'000	Five years or less but over one year HK\$'000	Over five years HK\$'000	Undated HK\$'000	Total HK\$'000
Assets							
Treasury bills	-	-	-	-	-	-	-
Placements with banks and other financial institutions maturing between one and twelve months	-	1,672,818	253,985	-	-	-	1,926,803
Certificates of deposit held	-	-	191,750	1,085,379	54,342	-	1,331,471
Advances to customers	940,573	1,197,295	896,144	2,912,458	2,704,770	391,353	9,042,593
Advances to banks and other financial institutions	-	-	-	-	-	-	-
Debt securities included in							
- Held-to-maturity securities	-	50,000	2,733,094	3,129,207	58,223	-	5,970,524
- Investment securities	-	-	-	-	250	-	250
Liabilities							
Deposits and balances of banks and other financial institutions	132,334	1,013,689	-	-	-	-	1,146,023
Deposits from customers	12,757,922	10,389,354	1,158,594	8,134	-	-	24,314,004
Certificates of deposit issued	-	-	-	414,328	-	-	414,328

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

29 Maturity profile (Continued)

	The Group						
	As at 31st December 2002						
	Repayable On demand HK\$'000	Three months or less HK\$'000	One year or less but over three months HK\$'000	Five years or less but over one year HK\$'000	Over five years HK\$'000	Undated HK\$'000	Total HK\$'000
Assets							
Treasury bills	-	41,990	-	-	-	-	41,990
Placements with banks and other financial institutions maturing between one and twelve months	-	2,882,825	446,472	-	-	-	3,329,297
Certificates of deposit held	-	10,104	139,989	536,410	-	-	686,503
Advances to customers	794,410	1,096,770	587,595	2,268,258	2,720,845	516,087	7,983,965
Advances to banks and other financial institutions	-	742	-	-	-	-	742
Debt securities included in							
- Held-to-maturity securities	-	564,180	1,579,432	2,798,143	38,994	-	4,980,749
- Investment securities	-	-	-	-	250	694	944
Liabilities							
Deposits and balances of banks and other financial institutions	81,760	1,081,491	21,519	-	-	-	1,184,770
Deposits from customers	8,939,491	13,080,596	999,908	39,559	-	-	23,059,554
	<u>81,760</u>	<u>1,081,491</u>	<u>21,519</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,184,770</u>
	<u>8,939,491</u>	<u>13,080,596</u>	<u>999,908</u>	<u>39,559</u>	<u>-</u>	<u>-</u>	<u>23,059,554</u>
	The Bank						
	As at 31st December 2002						
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets							
Treasury bills	-	41,990	-	-	-	-	41,990
Placements with banks and other financial institutions maturing between one and twelve months	-	2,882,825	446,472	-	-	-	3,329,297
Certificates of deposit held	-	10,104	139,989	536,410	-	-	686,503
Advances to customers	794,410	1,096,872	587,908	2,269,431	2,720,845	516,087	7,985,553
Advances to banks and other financial institutions	-	742	-	-	-	-	742
Debt securities included in							
- Held-to-maturity securities	-	564,180	1,579,432	2,798,143	38,994	-	4,980,749
- Investment securities	-	-	-	-	250	694	944
Liabilities							
Deposits and balances of banks and other financial institutions	81,760	1,081,491	21,519	-	-	-	1,184,770
Deposits from customers	8,954,021	13,194,852	999,908	39,559	-	-	23,188,340
	<u>81,760</u>	<u>1,081,491</u>	<u>21,519</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,184,770</u>
	<u>8,954,021</u>	<u>13,194,852</u>	<u>999,908</u>	<u>39,559</u>	<u>-</u>	<u>-</u>	<u>23,188,340</u>

The majority of “Other assets” and “Other accounts and provisions” are fall within one year.

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

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

30 Off-balance sheet exposures

(a) Contingent liabilities and commitments

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

	The Group and the Bank	
	2003 HK\$'000	2002 HK\$'000
Direct credit substitutes	59,040	58,214
Transaction-related contingencies	22,916	10,408
Trade-related contingencies	1,213,670	1,235,298
Other commitments with an original maturity of:		
- under one year or which are unconditionally cancellable	2,933,877	3,052,955
- one year and over	884,117	627,618
	<u>5,113,620</u>	<u>4,984,493</u>

(b) Derivatives

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

	The Group and the Bank					
	As at 31st December 2003			As at 31st December 2002		
	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000
Exchange rate contracts:						
Spots and forwards	78,944	-	78,944	572,334	-	572,334
Swaps	-	10,889	10,889	-	9,860	9,860
Foreign exchange option contracts						
- currency options purchased	124,175	-	124,175	48,872	-	48,872
- currency options written	124,175	-	124,175	48,872	-	48,872
Interest rate contracts						
Interest rate swaps	138,183	38,816	176,999	-	38,994	38,994
Interest rate option contracts						
- swaption written	205,710	-	205,710	-	-	-
Equity contracts						
Equity options purchased	154,718	-	154,718	102,423	-	102,423
Equity options written	154,718	-	154,718	102,423	-	102,423
	<u>980,623</u>	<u>49,705</u>	<u>1,030,328</u>	<u>874,924</u>	<u>48,854</u>	<u>923,778</u>

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

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

30 Off-balance sheet exposures (Continued)

(b) Derivatives (Continued)

The replacement costs and credit risk weighted amounts of the above off-balance sheet exposures which do not take into account the effects of bilateral netting arrangements are as follows:

	The Group and the Bank			
	As at 31st December 2003		As at 31st December 2002	
	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000
Contingent liabilities and commitments	689,145		1,039,400	
Exchange rate contracts	170	130	200	361
Interest rate contracts	338	415	117	-
	<u>689,653</u>	<u>545</u>	<u>1,039,717</u>	<u>361</u>

The contract or notional amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet dates. They do not represent the amounts at risk.

The credit risk weighted amounts are the amounts which have been calculated in accordance with the Third Schedule of the Hong Kong Banking Ordinance and guidelines issued by the Hong Kong Monetary Authority. 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 which 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.

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

31 Capital and lease commitments

(a) Capital commitments

There were no significant capital commitments as at 31st December 2003 (2002: Nil).

(b) Operating lease commitments

As lessee:

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

	The Group and the Bank	
	2003 HK\$'000	2002 HK\$'000
Leasehold land and buildings		
Not later than one year	9,430	11,310
Later than one year but not later than five years	10,481	12,172
Later than five years	-	360
	<u>19,911</u>	<u>23,842</u>

As lessor:

The Group and the Bank have contracted with tenants for the following future minimum lease receivables:

	The Group and the Bank	
	2003 HK\$'000	2002 HK\$'000
Leasehold land and buildings		
Not later than one year	801	1,101
Later than one year but not later than five years	153	828
	<u>954</u>	<u>1,929</u>

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

32 Loans to directors and officers

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

	The Group and the Bank	
	2003 HK\$'000	2002 HK\$'000
Aggregate amount of relevant loans outstanding	2,139	2,326
Maximum aggregate amount of relevant loans outstanding during the year	2,326	2,505

33 Related party transactions

The Group entered into various transactions with the Group's related parties, including fellow subsidiaries, immediate holding company and the ultimate holding company and entities, directly or indirectly, controlled or significantly influenced by the ultimate holding company.

Significant related party transactions, which were carried out in the normal course of the Group's business and on commercial terms are as follows:

(a) Transactions with the ultimate holding company

(i) Interbank activities

During the year, the Group entered into transactions at prevailing market rates with the ultimate holding company in the ordinary course of its interbank activities, including the acceptance and placement of interbank deposits.

Information relating to income and expense from these transactions during the year and balances outstanding at the balance sheet date is set out below:

	The Group	
	2003 HK\$'000	2002 HK\$'000
Interest income	71,450	113,434
Interest expense	2,147	1,447

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

33 Related party transactions (Continued)

(a) Transactions with the ultimate holding company (Continued)

(i) Interbank activities (Continued)

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Cash and short-term funds	1,732,594	3,278,510
Placements with banks and other financial institutions	389,495	1,143,602
Deposits and balances of banks and other financial institutions	147,318	294,176
	<u> </u>	<u> </u>

(ii) Off-balance sheet transactions

Details of contract amounts, credit risk weighted amounts and replacement costs of off-balance sheet transactions with the ultimate holding company are set out below:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Exchange rate contracts:		
Contract amount	10,889	62,172
Credit risk weighted amounts	131	164
Replacement costs	111	326
	<u> </u>	<u> </u>

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

33 Related party transactions (Continued)

(b) Transactions with the immediate holding company

(i) Interbank activities

During the year, the Group entered into transactions at prevailing market rates with the immediate holding company in the ordinary course of its interbank activities, including the acceptance and placement of interbank deposits.

Information relating to income and expense from these transactions during the year and balances outstanding at the balance sheet date is set out below:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Interest income	9,038	4,672
Interest expense	4,358	5,843
	<u> </u>	<u> </u>
	2003	2002
	HK\$'000	HK\$'000
Cash and short-term funds	446,374	1,128,862
Placements with banks and other financial institutions	-	116,982
Deposits and balances of banks and other financial institutions	958,821	660,554
	<u> </u>	<u> </u>

(ii) Agency services

During the year, the Group received commission from provision of agency services in respect of foreign exchange transactions from the immediate holding company. In addition, the Group paid commission to the immediate holding company for cheque clearing and settlement services.

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Commission income	6,232	11,820
Commission expense	2,694	3,232
	<u> </u>	<u> </u>

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

33 Related party transactions (Continued)

(b) Transactions with the immediate holding company (Continued)

(iii) Off-balance sheet transactions

Details of contract amounts, credit risk weighted amounts and replacement costs of off-balance sheet transactions with the immediate holding company are set out below:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Exchange rate contracts:		
Contract amount	135,380	67,691
Credit risk weighted amounts	-	-
Interest rate contracts:		
Contract amount	244,525	38,994
Credit risk weighted amounts	116	117
Equity contracts:		
Contract amount	108,352	102,423

(iv) Other service fees

During the year the Group paid service fees to the immediate holding company for the computer support, staff training and other administrative services received by the Group.

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Other service fees	20,722	19,303

(v) Others

Details of unsettled balances outstanding at the balance sheet date is set out below:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Other assets	91,309	38,897
Other accounts and provisions	171,686	81,786

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

33 Related party transactions (Continued)

(c) Transactions with fellow subsidiaries

(i) Interbank activities

During the year, the Group entered into transactions at prevailing market rates with the fellow subsidiaries in the ordinary course of its interbank activities, including the acceptance and placement of interbank deposits.

Information relating to income and expense from these transactions during the year and balances outstanding at the balance sheet date is set out below:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Interest income	2,090	1,726
Interest expense	507	1,089
	<u> </u>	<u> </u>
	2003	2002
	HK\$'000	HK\$'000
Cash and short-term funds	40,266	117,346
Placements with banks and other financial institutions	61,328	36,654
Deposits and balances of banks and other financial institutions	-	77,988
	<u> </u>	<u> </u>

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

33 Related party transactions (Continued)

(c) Transactions with fellow subsidiaries (Continued)

(ii) Lending and deposit taking activities

During the year, the Group extended credit facilities to and accepted deposits at prevailing market rates from the fellow subsidiaries.

Information relating to income and expense from these transactions during the year and balances outstanding at the balance sheet date is set out below:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Interest income	932	3,905
Interest expense	6,415	12,401
	<u> </u>	<u> </u>
	2003	2002
	HK\$'000	HK\$'000
Advances	255,588	80,000
Deposits from customers	866,593	783,170
	<u> </u>	<u> </u>

(iii) Agency services

During the year, the Group received commission from provision of agency services in respect of security brokerage and credit card promotion services to fellow subsidiaries.

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Commission income	33,188	21,354
	<u> </u>	<u> </u>

Details of the unsettled security brokerage balances outstanding at the balance sheet date is set out below:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Other assets	422,507	-
Other accounts and provisions	358,692	37,706
	<u> </u>	<u> </u>

CHIYU BANKING CORPORATION LIMITED

NOTES TO THE ACCOUNTS

33 Related party transactions (Continued)

(c) Transactions with fellow subsidiaries (Continued)

(iv) Insurance agency services

During the year, the Group provided insurance agency services to two fellow subsidiaries, BOC Group Insurance Co. Ltd. and BOC Group Life Assurance Co. Ltd. In return, the Group received commission from these two entities.

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Commission income	6,569	6,041

(v) Insurance expense

During the year, the Group purchased general and life insurance policies from two fellow subsidiaries, BOC Group Insurance Co. Ltd. and BOC Group Life Assurance Co. Ltd. Total premiums paid by the Group for the year ended 31st December 2003 amounted to approximately HK\$1,604,000 (2002: HK\$1,858,000).

34 Comparative figures

As further explained in Notes 10 and 25 to the accounts, due to the adoption of SSAP 12 (revised) "Income taxes" during the year, the presentation of certain items and balances in the accounts have been revised to comply with the new requirements.

35 Ultimate holding company

The directors consider Bank of China (Hong Kong) Limited, a bank incorporated in Hong Kong, to be the immediate holding company, and Bank of China, a wholly state-owned commercial bank incorporated in the People's Republic of China, as being the ultimate holding company.

36 Approval of accounts

The accounts were approved by the Board of Directors on 16th March 2004.

CHIYU BANKING CORPORATION LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

The following information is disclosed as part of the accompanying information to the accounts and does not form part of the audited accounts.

(1) Capital adequacy and liquidity ratios

	2003	2002
Capital adequacy ratio (Note)	25.31%	26.00%
Adjusted capital adequacy ratio	25.30%	25.98%
Average liquidity ratio for the year	57.25%	43.64%

The capital adequacy ratio is computed on the combined basis, as specified by the Hong Kong Monetary Authority for its regulatory purposes, and is in accordance with the Third Schedule of the Hong Kong Banking Ordinance.

The adjusted capital adequacy ratio represents the ratio of the Bank as specified by the Hong Kong Monetary Authority as at 31st December computed in accordance with the guideline of “Maintenance of Adequate Capital Against Market Risks” issued by the Hong Kong Monetary Authority taking into account both credit risk and market risk.

The average liquidity ratio for the year is calculated as the simple average of each calendar month’s average liquidity ratio for the year of the Bank’s Hong Kong office computed in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance.

Note:

The capital adequacy ratio at 31st December 2002 has not been restated to incorporate the effect of adoption of SSAP12 (revised).

CHIYU BANKING CORPORATION LIMITED**UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)****(2) Components of capital base after deductions**

The capital base after deductions used in the calculation of the above capital adequacy ratios as at 31st December and reported to the Hong Kong Monetary Authority is analysed as follows:

	2003 HK\$'000	2002 HK\$'000
Core capital:		
Paid up ordinary share capital	300,000	300,000
Reserves	2,619,428	2,456,977
Profit and loss account	148,105	135,265
	<hr/>	<hr/>
Total core capital	3,067,533	2,892,242
	<hr/>	<hr/>
Supplementary capital:		
Bank premises and investment properties revaluation reserves	224	224
General provisions for bad and doubtful debts	156,664	131,000
	<hr/>	<hr/>
Eligible value of supplementary capital	156,888	131,224
	<hr/>	<hr/>
Total capital base before deductions	3,224,421	3,023,466
Deductions:		
Shareholdings in subsidiaries or holding company	(3,913)	(3,913)
Exposures to connected companies	(75,720)	(65,246)
Investments in the capital of other banks or other financial institutions	(653)	(653)
	<hr/>	<hr/>
Total capital base after deductions	3,144,135	2,953,654
	<hr/>	<hr/>

Note:

The components of capital base after deductions at 31st December 2002 has not been restated to incorporate the effect of adoption of SSAP12 (revised).

CHIYU BANKING CORPORATION LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

(3) Currency concentration

The following is a summary of the major foreign currency exposures.

	The Group						Total
	As at 31st December 2003						
	US Dollars	Pound Sterling	New Zealand	Australian Dollars	Japanese Yen	Others	
Equivalent in Hong Kong dollars	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Spot assets	5,792,701	146,604	483,273	1,006,772	215,527	494,030	8,138,907
Spot liabilities	(5,296,278)	(144,042)	(477,126)	(1,035,123)	(781,825)	(715,751)	(8,450,145)
Forward purchases	51,895	346	2,037	40,081	581,559	257,363	933,281
Forward sales	(385,230)	(2,132)	(7,662)	(7,580)	(16,142)	(39,713)	(458,459)
Net long/(short) position	163,088	776	522	4,150	(881)	(4,071)	163,584

There were no significant net structural positions for the Group as at 31st December 2003

	The Group						
	As at 31st December 2002						
	US Dollars	Pound Sterling	New Zealand	Australian Dollars	Japanese Yen	Others	Total
Equivalent in Hong Kong dollars	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Spot assets	5,497,078	178,662	674,433	1,260,190	152,037	612,655	8,375,055
Spot liabilities	(5,258,819)	(174,763)	(674,365)	(1,215,753)	(549,496)	(795,349)	(8,668,545)
Forward purchases	402,240	3,189	87,211	59,938	636,033	209,053	1,397,664
Forward sales	(553,620)	(6,509)	(84,248)	(100,420)	(238,521)	(33,773)	(1,017,091)
Net long/(short) position	86,879	579	3,031	3,955	53	(7,414)	87,083
Net structural position	-	-	-	-	-	211	211

CHIYU BANKING CORPORATION LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

(4) Segmental information

(a) By class of business

	As at and for the year ended 31st December 2003					
	Commercial Banking	Treasury	Unallocated	Subtotal	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income	356,975	206,811	(6,840)	556,946	-	556,946
Other operating income	198,549	1,802	29,443	229,794	(24,650)	205,144
Operating income	555,524	208,613	22,603	786,740	(24,650)	762,090
Operating expenses	(169,664)	(2,980)	(53,984)	(226,628)	24,650	(201,978)
Operating profit/(loss) before provisions	385,860	205,633	(31,381)	560,112	-	560,112
Charge for bad and doubtful debts	(6,695)	-	-	(6,695)	-	(6,695)
Operating profit/(loss) after provisions	379,165	205,633	(31,381)	553,417	-	553,417
Net loss from disposal/revaluation of fixed assets	-	-	(9,426)	(9,426)	-	(9,426)
Net gain from disposal of investment securities	-	-	106	106	-	106
Provision for impairment in investment securities	-	-	(160)	(160)	-	(160)
Profit/(loss) before taxation	379,165	205,633	(40,861)	543,937	-	543,937
ASSETS						
Segment assets	9,827,917	20,393,230	590,289	30,811,436	-	30,811,436
LIABILITIES						
Segment liabilities	26,078,421	1,257,634	249,873	27,585,928	-	27,585,928

CHIYU BANKING CORPORATION LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

(4) Segmental information (Continued)

(a) By class of business (Continued)

	As at and for the year ended 31st December 2002					
	Commercial Banking	Treasury	Unallocated	Subtotal	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income	418,742	181,515	(7,002)	593,255	-	593,255
Other operating income	170,820	41	29,951	200,812	(25,480)	175,332
Operating income	589,562	181,556	22,949	794,067	(25,480)	768,587
Operating expenses	(172,832)	(3,080)	(70,472)	(246,384)	25,480	(220,904)
Operating profit/(loss) before provisions	416,730	178,476	(47,523)	547,683	-	547,683
Charge for bad and doubtful debts	(20,444)	-	-	(20,444)	-	(20,444)
Operating profit/(loss) after provisions	396,286	178,476	(47,523)	(527,239)	-	(527,239)
Net loss from disposal/revaluation of fixed assets	-	-	(1,164)	(1,164)	-	(1,164)
Provision for impairment in investment securities	-	-	(4,206)	(4,206)	-	(4,206)
Profit/(loss) before taxation	396,286	178,476	(52,893)	521,869	-	521,869
ASSETS						
Segment assets	8,120,451	19,474,341	656,221	28,251,013	-	28,251,013
LIABILITIES						
Segment liabilities	23,567,806	1,268,410	146,984	24,983,200	-	24,983,200

CHIYU BANKING CORPORATION LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

(4) Segmental information (Continued)

(a) By class of business (Continued)

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

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

Unallocated items mainly comprised fixed assets of the Group, investment securities and other items which cannot be reasonably allocated to a specific business segment. Rental expenses are allocated to business segments based on a fixed rate per square footage occupied.

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

(b) By geographical areas

The information concerning geographical analysis has been presented based on the principal places of operations of the subsidiaries, or in the case of the Bank, on the location of the branches responsible for reporting the results or booking the assets.

For the year 2003 and 2002, more than 90% of the Group's income and profit before taxation were generated by the operation of, and more than 90% of the Group's total assets, liabilities and off-balance sheet items were booked in the accounts of the branches of the Bank and subsidiaries located in Hong Kong.

CHIYU BANKING CORPORATION LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

(4) Segmental information (Continued)

(c) Sectoral analysis of advances to customers

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

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
- Property development	490,529	352,853
- Property investment	1,503,078	1,339,654
- Financial concerns	300,163	148,127
- Stockbrokers	3,481	31,370
- Wholesale and retail trade	795,173	869,832
- Manufacturing	725,395	621,977
- Transport and transport equipment	63,298	56,492
- Others	855,061	893,342
Individuals		
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Schemes	174,042	197,968
- Loans for the purchase of other residential properties	2,655,325	2,526,796
- Others	394,972	237,251
Total loans for use in Hong Kong	7,960,517	7,275,662
Trade finance	671,294	396,679
Loans for use outside Hong Kong	409,610	311,624
Total advances to customers	9,041,421	7,983,965

CHIYU BANKING CORPORATION LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

(4) Segmental information (Continued)

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

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

(i) Gross advances to customers

	The Group	
	2003 HK\$'000	2002 HK\$'000
Hong Kong	8,565,803	7,650,550
Mainland China	475,618	333,415
	<u>9,041,421</u>	<u>7,983,965</u>

(ii) Advances overdue for over three months

	The Group	
	2003 HK\$'000	2002 HK\$'000
Hong Kong	242,537	333,252
Mainland China	94,013	108,093
	<u>336,550</u>	<u>441,345</u>

(iii) Non-performing loans

	The Group	
	2003 HK\$'000	2002 HK\$'000
Hong Kong	294,413	402,807
Mainland China	93,218	107,883
	<u>387,631</u>	<u>510,690</u>

CHIYU BANKING CORPORATION LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

(5) Cross-border claims

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

	As at 31st December 2003		
	Banks and other financial institutions HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	4,562,000	395,000	4,957,000
Western Europe	10,348,000	474,000	10,822,000
	<u> </u>	<u> </u>	<u> </u>
	As at 31st December 2002		
	Banks and other financial institutions HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	8,093,000	448,000	8,541,000
Western Europe	6,331,000	1,000	6,332,000
	<u> </u>	<u> </u>	<u> </u>

CHIYU BANKING CORPORATION LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

(6) Overdue and rescheduled assets

(a) Overdue and non-performing loans

	The Group			
	<u>2003</u>		<u>2002</u>	
	Amount HK\$'000	% of total advances to customers	Amount HK\$'000	% of total advances to customers
Gross advances to customers which have been overdue for:				
- six months or less but over three months	12,320	0.14%	11,830	0.15%
- one year or less but over six months	7,185	0.08%	38,431	0.48%
- over one year	317,045	3.50%	391,084	4.90%
Advances overdue for over three months	336,550	3.72%	441,345	5.53%
Less:				
Advances which are overdue for more than three months and on which interest is still being accrued	(825)	(0.01%)	(5,310)	(0.07%)
Add:				
Advances overdue for three months or less and on which interest is being placed in suspense or on which interest accrual has ceased				
- included in rescheduled advances	11,235	0.13%	16,436	0.21%
- others	40,671	0.45%	58,219	0.73%
Gross non-performing loans	387,631	4.29%	510,690	6.40%

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

CHIYU BANKING CORPORATION LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

(6) Overdue and rescheduled assets (Continued)

(b) Rescheduled advances to customers net of amounts included in overdue advances

	The Group			
	<u>2003</u>		<u>2002</u>	
	Amount	% of gross	Amount	% of gross
	HK\$'000	advances to	HK\$'000	advances to
		customers		customers
Rescheduled advances to customers	12,961	0.14%	26,425	0.33%

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

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

(7) Repossessed assets held

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Reposessed assets held	118,583	167,807

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

CHIYU BANKING CORPORATION LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

(8) Risk Management

Overview

The principal types of risk inherent in the Group's business include credit risk, market risk (including interest rate and exchange rate risk), liquidity risk and operational risk. The Group's risk management goal is to maximise its return on capital while maintaining risk exposure within acceptable parameters.

Risk Management Structure

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

To achieve the Group's risk management goals, the Group has established a centralised risk management structure that involves the following elements:

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

The Group faces the same types of inherent business risks and adopts consistent risk management strategies and policies as its immediate holding company, Bank of China (Hong Kong) Limited ("BOCHK"). The Group executes its risk management strategy independently and functionally reports to BOCHK on a regular basis.

Credit Risk Management

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

The Group's primary goal in credit risk management is to maximise its risk-adjusted rate of return while maintaining its credit risk exposure within acceptable parameters. In particular, the Group has developed and implemented comprehensive policies and procedures to identify, measure, monitor and control credit risk across the organisation. The Group's Board of Directors, with the assistance of the Risk Management Committee, sets the Group's overall risk management strategy and policies, and the Group's overall risk limits and credit authorisation guidelines. The Risk Management Committee is responsible for reviewing and approving the Group's risk management policies and procedures as well as modifications to these policies and procedures. The primary goals of the credit risk management structure are:

CHIYU BANKING CORPORATION LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

(8) Risk Management (Continued)

Credit Risk Management (Continued)

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

To be consistent with the Group's overall risk management objectives, the key principles that ensure effective implementation of the Group's credit risk management strategy are:

- balancing the Group's tolerance for risk with the level of expected returns;
- diversifying the Group's loan portfolio by geographic regions, industries, products, customers, maturities and currencies;
- maintaining the independence of the credit review process to ensure risk assessment and monitoring are conducted in an objective, fair and comprehensive manner;
- emphasising the importance of cash flow as an essential factor in assessing borrowers' repayment ability;
- ensuring compliance with legal and regulatory requirements;
- assigning clearly defined credit risk management responsibilities and accountability to each relevant operating unit and staff involved in the risk management process;
- avoiding over-reliance on collaterals and guarantees;
- ensuring accurate measurement and full disclosure of credit risk exposure; and
- maintaining of consistent credit policy.

Credit Risk Management Structure

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

The Risk Management Committee is a board level committee that has the responsibility of determining and revising the Group's credit risk management policies and procedures.

The Group believes that independence and proper checks-and-balances are of critical importance in effective risk management. To achieve these purposes, in the Group's managerial/organisational structure, the Credit Risk Management Division ("CRMD") and the Audit Division report directly to the Risk Management Committee and Audit Committee respectively. All these committees and departments form an independent line of control.

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

The General Manager is responsible for, among other things, implementing the credit risk management strategy and significant policies approved by the Board. The General Manager is also charged with balancing the Group's goal of generating a high yield on its assets and the need to maintain risk exposure within the tolerance levels stipulated by the Risk Management Committee.

CHIYU BANKING CORPORATION LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

(8) Risk Management (Continued)

Credit Risk Management Structure (Continued)

The Risk Management Committee has the responsibility for reviewing and approving loans exceeding the credit approval limit of the General Manager.

The Group's credit initiation units, such as Corporate Banking Department, Retail Banking Department, Treasury Division and China Business Division, act as the first line of risk control. They are required to conduct business activities within the limits of delegated authorities and in accordance with the Group's credit risk management strategy, policies and procedures. Multi-level credit approval authorities are set depending mostly on the credit officers' professional experience, skill and responsibilities.

The CRMD, being structurally independent from credit initiation units, reports to and assists the General Manager in managing credit risk based on the credit risk management strategies and policies. It also provides independent analysis and review for the purpose of identifying, measuring, monitoring and controlling credit risk.

To avoid any potential conflicts of interest, the credit review functions are independent of the business development units.

The CRMD is also responsible for the collection of non-performing loans ("NPL").

Credit Approval Procedures

The Group employs discriminatory approval procedures for high-risk loans and low-risk loans. All credit approval and review authorities are originated from the Group's Board of Directors.

Low-risk loans that fulfil certain requirements relating to loan types, loan purposes, loan amount, guarantee, collateral coverage and security adequacy can be approved by authorised credit officers in the credit initiation units without prior review of the CRMD. Loan review officers in the CRMD conduct independent post-approval reviews and assess if initial credit decisions have been made in accordance with the established policies and procedures.

On the other hand, high-risk loans are subject to pre-approval review by the review officers in the CRMD to assess compliance with policies and procedures, adequacy of credit risk assessment, and information sufficiency. The CRMD is authorised to exercise the right of veto or concurrence based on the review conclusions.

Credit Risk Assessment

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

CHIYU BANKING CORPORATION LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

(8) Risk Management (Continued)

Credit Risk Monitoring

The Group has well-established policies and procedures by means of robust and just-in-time administrative information systems. An independent dedicated section in CRMD conducts thorough and comprehensive monitoring of each obligor and group of obligors to identify and control the individual and overall credit risk in the loan portfolio.

An early alert program for potential problem customers has been established in order to detect early signs of deterioration in the credit status of obligors and trigger close monitoring to prevent further deterioration. Also, conservative collateral discount policy has been implemented to reflect the current stagnant property market in Hong Kong.

To achieve sustainable reduction of the NPLs and improvement in asset quality, the Group has established internal targets to evaluate the effort and performance in the resolution of criticised loans. CRMD provides regular monitoring reports to senior management for high-level oversight. An incentive scheme has also been developed to provide appreciation and reward to those who have made the most contribution and merit in the process.

Market Risk Management

Market risk is the risk of losses in on- and off-balance sheet positions arising from changes in interest rates, foreign exchange rates and equity prices, on the Group's assets, liabilities and commitments.

The Group's market risk is originated from the holding of its foreign exchange position, debt securities and derivatives in its trading books. The Group does not engage in proprietary trading in foreign exchange and equity instruments. The Group's trading activities on foreign exchange and derivative instruments mainly arise from the execution of trade orders from customers and positions taken in order to hedge other elements of the trading books.

The Group's maximum market risk exposures in different activities are set by management. Exposures are measured and monitored on the basis of principal (or notional) amount, outstanding position and stop-loss limit, and are controlled within the limits approved by the management for each business unit, business type and in aggregate.

The Group has met the "de minimis" criteria set out in the Maintenance of Adequate Capital Against Market Risk guideline issued by the Hong Kong Monetary Authority. As a result, the Group considers that the market risk arising from its trading book is not material and no further qualitative or quantitative disclosure is made of market risk in these accounts.

Foreign Exchange Risk Management

The Group provides foreign exchange deposit, margin trading and forward transaction services to its customers. Foreign exchange risk is the risk arising from changes in foreign exchange rates on the Group's assets, liabilities and commitments, thus causing profits or losses.

The Group's exchange exposures mainly comprise of currency exposures originated from its commercial banking business. It is the Group's policy to close out foreign exchange positions by the end of the business day. The Settlement Section in Operation Division ensures that all foreign currency transactions are conducted in accordance with the guidelines established by management.

CHIYU BANKING CORPORATION LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

(8) Risk Management (Continued)

Interest Rate Risk Management

The Group's balance sheet consists predominantly of Hong Kong dollar-denominated interest rate sensitive assets and liabilities. The Group's primary sources of interest rate risk are mismatches in the maturities or re-pricing periods of these assets and liabilities and movements in market interest rates. In addition, different pricing bases for different transactions may also lead to interest rate risk for the Group's assets and liabilities within the same re-pricing period.

Interest rate risk management is to limit potential adverse effects of interest rate movements on net interest income. The Risk Management Committee sets up strict internal guidelines to monitor and control interest rate exposures. The Assets and Liabilities Management Committee formulates strategies to manage the Group's money market operations, investment in bills, commercial papers, certificates of deposit and notes. Only small interest rate positions may be taken for yield enhancement within the risk limits.

Liquidity Risk Management

Liquidity risk arises in the funding of lending, trading and investment activities and in the management of trading positions. Liquidity risk includes both the risk of unexpected increase in the cost of funding to refinance the Group's asset portfolio at appropriate maturities and the risk of being unable to liquidate a position in a timely manner and/or at a reasonable price. The goal of liquidity management is for the Group to be able, even under adverse market conditions, to meet all its maturing repayment obligations on time and to fund all its asset growth and strategic opportunities. The Group's average liquidity ratio of 57.25% for the year ended 31st December 2003 was well above the statutory minimum ratio of 25%.

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

The Group uses the majority of funds raised to extend loans, to make investments in debt securities or to conduct interbank placements. Generally, the average maturity of deposits is shorter than that of loans or investments but is longer than that of interbank placements.

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

CHIYU BANKING CORPORATION LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

(8) Risk Management (Continued)

Liquidity risk Management (Continued)

- improve its management information system to provide timely information on the movement of its liquid assets and that of its customer deposits on a daily, weekly and monthly basis;
- monitor liquidity ratios in compliance with the Hong Kong Monetary Authority's requirements;
- prepare regular maturity gap analysis to enable management to review and monitor the Group's liquidity position on a timely basis;
- conduct scenario analysis to estimate the impact of various risk factors on the liquidity position;
- establish a range of liquidity risk factors for monitoring purposes and a liquidity risk warning index system to detect early signs of any irregularities; and
- create a three-tier response system to effectively deal with any emergencies.

Capital Management

The Group monitors the adequacy of its capital using the Capital Adequacy Ratio ("CAR") as one of the major measurements, which is subject to the Hong Kong Monetary Authority's regulatory requirements. The Group maintains its capital to comply with all the statutory standards for all the periods presented in the report. The ALCO, with the assistance of the Finance Division, monitors the adequacy of its capital using the CAR as one of the major measurements. On combined basis, the Bank's unadjusted CAR and adjusted CAR incorporating market risk were 25.31% and 25.30% at 31st December 2003 respectively. Both were well above the statutory minimum ratio of 8%.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or the failure of internal processes, people and systems or from external events. It is the Group's objective to manage this risk consistent with the best practice of the industry.

In order to achieve effective internal controls, the Group maintains adequate documentation of its business processes and operating procedures. It also emphasises proper segregation of duties and independent authorisation among all business activities.

Every department is primarily responsible for establishing procedures managing operational risk and within its own business functions. This is monitored by the Compliance Section and Audit Division, which play an important role in the periodic review of various business operations.

Our Business Continuity Plan is further enhanced in this year. Adequate facilities are maintained and tested for the recovery of critical business functions in the event of a disaster. The Group also arranges insurance cover to mitigate potential losses in respect of operational risk.

CHIYU BANKING CORPORATION LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

(9) Corporate Governance

The Group has made reference to the Hong Kong Monetary Authority's guidelines set out in the Supervisory Policy Manual "Corporate Governance of Locally Incorporated Authorized Institutions".

In order to focus on the strategic and material issues that have significant impact on the Group's operation, financial performance, risk management and long-term development, three committees have been established under the Board of Directors to oversee the major areas of the Group. The details of the committees are given below.

Executive Committee

The Executive Committee has been delegated with authorities from the Board to handle matters which require the Board's review, but arise between board meetings. Its responsibilities include:

- approving policies, implementation plans and management measures to effect the group-wise development strategies and business plans approved by the Board;
- reviewing the implementation progress of the strategies and business plans;
- recommending strategic proposals to the Board for its consideration and approval; and
- approving the Group's rules and regulations according to the policies imposed by the supervisory authorities and the holding companies.

The member of Executive Committee is Mr. Ng Man Kung (Chairman), Mr. Chan Yiu Fai and Mr. To Chi Wing. All are directors of the Bank.

Audit Committee

The Audit Committee assists the Board in overseeing the auditing activities of the Group and monitoring compliance with approved policies and procedures, so that the effectiveness of financial reporting process and internal control systems of the Group can be assured. Its responsibilities include:

- reviewing and monitoring the effectiveness of the internal control systems, the controls over financial risks and the procedures of financial reporting and auditing;
- assessing independently the effectiveness and efficiency of financial reporting system and its controlling mechanism, and the sufficiency of operating policies and system; and
- monitoring the operation of the Group to ensure the Group is running in compliance with the relevant rules and regulations.

The members of Audit Committee are Mr. Chiu Ming Wah (Chairman), Ms. Liu Yanfen and Mr. Tan Wan Chye and Mr. Woo Chia Wei. All are non-executive directors of the Bank.

Risk Management Committee

The Risk Management Committee assists the Board in overseeing the risk management of the Group, to formulating the Group's risk management strategies, policies and procedures, and monitoring the implementation of those strategies, policies and procedures. Its responsibilities include:

- assisting the Board to measure and monitor the risk exposures of the Group;
- recommending appropriate risk management strategies to the Board; and
- formulating risk management related policies such as risk management policies and authorities and duties delegation policies in accordance with the requirements set by the Board.

The members of the Risk Management Committee are Mr. Mao Xiaowei (Chairman), Mr. Ng Leung Sing, Mr. Ng Man Kung, Mr. Chen Yiao Zhong, Mr. To Chi Wing and Mr. Yu Kwok Chun. All are directors of the Bank.

CHIYU BANKING CORPORATION LIMITED

REVIEW AND PROSPECTS BY MANAGEMENT

The Hong Kong economy was still affected by deflation and declining property market in the first half of 2003. Besides, the outbreak of Severe Acute Respiratory Syndrome (“SARS”) in Hong Kong seriously affected the economy in the second quarter. It was a particularly difficult time for the banking industry. However, the economy rebounded in the second half, led by a surge in tourist arrivals from Mainland China and the implementation of Closer Economic Partnership Arrangement (“CEPA”) fully supported by the Central Government of China. Local consumptions and investment sentiment have been improved, backed by better employment prospects and local stock and property market conditions.

In 2003, the Bank achieved a profit after tax of HK\$485million, an increase of 6.5% compared with 2002. Return on average shareholders’ fund and return on average assets were 14.95% and 1.64% respectively.

The declining market interest rate and intensive market competition led to a fall in the contribution from interest free funds and lower loan interest spread. Net interest spread narrowed by 19 basis points to 1.83%, with a reduction in net interest margin of 23 basis points to 1.90%. Net interest income fell by 6.1% to HK\$557 million compared with the year of 2002.

In 2003, the Bank introduced alternative personal wealth management products that enhanced the segmented customer services. Benefiting from the efforts, the non-interest income to total revenue rose to 26.92% compared with 22.81% the previous year. Other operating income increased by 17% to HK\$205 million.

Through effective utilization of resources and cost controls, the Bank has maintained a comparatively low cost to income ratio of 26.50%. Operating expenses decreased by 8.6% to HK\$202 million compared with 2002.

The Bank has continued to put efforts in improving the asset quality and enhancing credit risks control. The ratio of non-performing loans dropped from 6.40% to 4.29% compared with the end of 2002. The charge for bad and doubtful debts decreased by 67.2% compared with 2002.

By the end of 2003, the consolidated total assets increased HK\$2.56 billion to HK\$30.81 billion compared with the end of 2002. Loans and advances to customers and customer deposits were increased 13.2% and 7.1% in 2003 to HK\$9.04 billion and HK\$24.69 billion respectively.

The Hong Kong economy is expected to grow rapidly in 2004 due to the improving economy and business environment. The robust economy of China and the Central Government policy are positively affecting Hong Kong. The banking and finance industry will continue to benefit from these positive trends.

In 2004, we will strive to provide professional wealth management and quality lending services to our customers. We will enhance our professional wealth management team through staff training and recruitment. In order to fit customer needs, tailor-made investment products and wealth management products will be delivered. We will continue to develop our corporate banking business by enhancing our strength in the small and medium enterprises services and providing flexible and tailor-made services. We will utilize our extensive experience in the China market to accompany with our industrial and commercial enterprise customers in developing their businesses in the China market. We also plan to provide a full range of banking services in the Pearl River Delta, Fujian Province and Yangtse River Delta regions.

Although the low interest rate environment is likely to persist for some time and competition for quality lending will remain intense in 2004, we believe that the current economic climate will continue to be favourable in the foreseeable future, due to better local stock and property market conditions, improving consumptions and investment sentiment, and also the benefits from CEPA and tourist arrivals from Mainland China. We are convinced that the Bank will benefit from the strong support granted by the immediate holding company, the competence of the Bank, the economic recovery in Hong Kong the rapid economic development in China.

March, 2004

BRANCH NETWORK

BRANCH (Br.)	ADDRESS	TELEPHONE
HONG KONG ISLAND		
Central Br.	78, Des Voeux Road Central, Hong Kong	2843 1817
North Point Br.	390-394 King's Road, North Point, Hong Kong	2570 6381
Wanchai Br.	325 Hennessy Road, Wanchai, Hong Kong	2572 2823
Sheung Wan Br.	22-24 Bonham Strand West, Hong Kong	2544 1678
Western Br.	429-431 Queen's Road West, Hong Kong	2548 2298
Quarry Bay Br.	997 King's Road, Quarry Bay, Hong Kong	2811 3131
KOWLOON		
Hung Hom Br.	23-25 Gillies Avenue, Hung Hom, Kowloon	2362 0051
Kwun Tong Br.	42-44 Mut Wah Street, Kwun Tong, Kowloon	2343 4174
Sham Shui Po Br.	235-237 Laichikok Road, Kowloon	2789 8668
San Po Kong Br.	61-63 Hong Keung Street, San Po Kong, Kowloon	2328 5691
Yau Ma Tei Br.	117-119 Shanghai Street, Yaumatei, Kowloon	2332 2533
Castle Peak Road Br.	226-228 Castle Peak Road, Kowloon	2720 5187
Kowloon Bay Br.	Shop 10 G/F., Kai Lok House, Kai Yip Estate, Kowloon Bay, Kowloon	2796 8968
Tokwawan Br.	G/F, Shop 11-13, 78 Tokwawan Road, Kowloon	2765 6118
Tsz Wan Shan Br.	Shop 202, 2/F., Tsz Wan Shan Shopping Centre, 23 Yuk Wah ST., Tsz Wan Shan	2322 3313
NEW TERRITORIES		
Tuen Mun Yau Oi Estate Br.	Shop 103-104 G/F Restaurant Block Yau Oi Estate Tuen Mun N. T.	2452 3666
Kwai Hing Estate Br.	Shop 1, G/F, Hing Yat House, Kwai Hing Estate, Kwai Chung, N. T.	2487 3332
Tai Po Tai Wo Estate Br.	Shop 112-114, G/F., On Wo House, Tai Wo Estate, Tai Po, N. T.	2656 3386
Belvedere Garden Br.	Shop 5A, G/F., Belvedere Square, Tsuen Wan, N.T	2411 6789
Tsuen Wan Centre Br.	Shop 1-9, UG/F., B15-17 Tsuen Wan Centre, Phase II, Tsuen Wan, N.T.	2413 8111
Shatin Sui Wo Court Br.	Shop F7 Commercial Centre, Sui Wo Court, Shatin, N.T.	2601 5888
Ma On Shan Br.	Shop 313 Level 3, Ma On Shan Plaza Bayshore Tower, Ma On Shan, N.T.	2640 0733
Sheung Tak Estate Br.	Shop 238, Sheung Tak Shopping Centre, Sheung Tak Est., Tseung Kwan O, N.T.	2178 2278
THE MAINLAND OF CHINA		
Xiamen Branch	1/F, 859 Xiahe Road, Xiamen, Fujian Province, China	(86-592) 585 1691
Fuzhou Branch	1/F, International Bldg., 210 Wusi Road, Fuzhou Fujian Province, China	(86-591) 781 0078
Harbin Representative Office	Room 301, 6 Hong Jun St., Harbin, China	(86-451)5367 3518