

**2004 ANNUAL REPORT**

**CHIYU BANKING CORPORATION LIMITED**

# **CHIYU BANKING CORPORATION LIMITED**

## **REPORT OF THE DIRECTORS**

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 31 December 2004.

### **Principal Activities**

The principal activities of the Group are the provision of banking and related financial services. An analysis of the Group’s performance for the yearly business segments is set out in Note 31 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 6.

The directors declared a first interim dividend of HK\$50 per ordinary share, totalling HK\$150,000,000 on 29 June 2004.

The directors declared a second interim dividend of HK\$63 per ordinary share, totalling HK\$189,000,000 on 30 December 2004.

### **Reserves**

Details of movements in the reserves of the Group and the Bank are set out in the consolidated statement of changes in equity and statement of changes in equity on page 9 and page 10 respectively.

### **Fixed assets**

Details of movements in the fixed assets of the Group and the Bank are set out in note 21 to the accounts.

### **Directors**

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

<b>Chairman</b>	He Guangbei #
<b>Vice Chairman</b>	Ng Leung Sing #
	Ng Man Kung
<b>Directors</b>	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 #

# Non-executive directors

\* Independent non-executive directors

In accordance with Article 99 of the Bank’s Articles of Association, Mr. He Guangbei and Mr. Chiu Ming Wah retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

# **CHIYU BANKING CORPORATION LIMITED**

## **REPORT OF DIRECTORS (CONTINUED)**

### **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 10 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 31 December 2004.

On 5 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. These options have a vesting period of four years from 25 July 2002 with a valid exercise period of ten years. Twenty five percent of the 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 25 July 2002, the date on which dealings in the BOCHKHL's shares commenced on The Stock Exchange of Hong Kong Limited. Mr. He Guangbei, Mr. Ng Man Kung, Mr. Mao Xiaowei and Mr. To Chi Wing exercised some of their options to purchase an aggregate of 596,000 shares of the intermediate holding company during the year ended 31 December 2004.

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.

### **Directors' interests in contracts of significance**

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

### **Management contracts**

No contracts concerning the management or 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 31 December 2004 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.

**CHIYU BANKING CORPORATION LIMITED**

**REPORT OF DIRECTORS (CONTINUED)**

**Auditors**

The accounts have been audited by PricewaterhouseCoopers. A resolution for their re-appointment as auditors for the ensuing year will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

**He Guangbei**

Chairman

Hong Kong, 18 March 2005

# **CHIYU BANKING CORPORATION LIMITED**

## **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 members of Executive Committee are 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, 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.

## **AUDITORS' REPORT TO THE SHAREHOLDERS OF CHIYU BANKING CORPORATION LIMITED**

(Incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 6 to 56 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 Institute of Certified Public 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 31 December 2004 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, 18 March 2005

**CHIYU BANKING CORPORATION LIMITED**

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

**FOR THE YEAR ENDED 31 DECEMBER**

	Notes	2004 HK\$'000	2003 HK\$'000
Interest income	4	702,579	725,141
Interest expense		(168,020)	(168,195)
<b>Net interest income</b>		<b>534,559</b>	<b>556,946</b>
Other operating income	5	221,980	205,144
<b>Operating income</b>		<b>756,539</b>	<b>762,090</b>
Operating expenses	6	(210,155)	(201,978)
<b>Operating profit before provisions</b>		<b>546,384</b>	<b>560,112</b>
Charge for bad and doubtful debts	7	(2,908)	(6,695)
<b>Operating profit after provisions</b>		<b>543,476</b>	<b>553,417</b>
Net gain/(loss) from disposal/revaluation of fixed assets	8	21,542	(9,426)
Net gain from disposal of investment securities		-	106
Write-back of provision/(provision) for impairment losses on investment securities		740	(160)
<b>Profit before taxation</b>		<b>565,758</b>	<b>543,937</b>
Taxation	9	(72,608)	(58,509)
<b>Profit attributable to shareholders</b>	10	<b>493,150</b>	<b>485,428</b>
<b>Dividends</b>	11	<b>339,000</b>	<b>336,000</b>

**CHIYU BANKING CORPORATION LIMITED**

**CONSOLIDATED BALANCE SHEET**

**AS AT 31 DECEMBER**

	Notes	2004 HK\$'000	2003 HK\$'000
<b>Assets</b>			
Cash and short-term funds	14	9,434,661	11,069,635
Placements with banks and other financial institutions maturing between one and twelve months		3,798,731	1,926,803
Trade bills		103,647	56,456
Certificates of deposit held	15	2,047,188	1,331,471
Held-to-maturity securities	16	5,571,797	5,970,524
Investment securities	17	21,677	20,924
Advances and other accounts	18	8,822,697	8,877,282
Fixed assets	21	518,810	399,047
Other assets		607,871	1,159,294
Total assets		30,927,079	30,811,436
<b>Liabilities</b>			
Deposits and balances of banks and other financial institutions		1,045,819	1,146,023
Deposits from customers	22	24,764,174	24,273,634
Certificates of deposit issued		369,291	414,328
Other accounts and provisions	23	1,280,498	1,751,943
Total liabilities		27,459,782	27,585,928
<b>Capital resources</b>			
Share capital	25	300,000	300,000
Reserves	26	3,167,297	2,925,508
Shareholders' funds		3,467,297	3,225,508
Total liabilities and capital resources		30,927,079	30,811,436

Approved by the Board of Directors on 18 March 2005 and signed on behalf of the Board by:

HE Guangbei  
Director

NG Man Kung  
Director

CHIU Ming Wah  
Director

PO Yuen Fung  
Secretary



# CHIYU BANKING CORPORATION LIMITED

## BALANCE SHEET

AS AT 31 DECEMBER

	Notes	2004 HK\$'000	2003 HK\$'000
<b>Assets</b>			
Cash and short-term funds	14	9,434,661	11,069,635
Placements with banks and other financial institutions maturing between one and twelve months		3,798,731	1,926,803
Trade bills		103,647	56,456
Certificates of deposit held	15	2,047,188	1,331,471
Held-to-maturity securities	16	5,571,797	5,970,524
Investment securities	17	1,428	1,415
Advances and other accounts	18	8,823,434	8,878,454
Investments in subsidiaries	20	3,913	3,913
Amounts due from subsidiaries	20	53,573	53,052
Fixed assets	21	484,261	365,209
Other assets		604,544	1,155,998
Total assets		30,927,177	30,812,930
<b>Liabilities</b>			
Deposits and balances of banks and other financial institutions		1,045,819	1,146,023
Deposits from customers	22	24,810,289	24,314,004
Certificates of deposit issued		369,291	414,328
Other accounts and provisions	23	1,262,593	1,739,776
Amounts due to subsidiaries	20	20,523	20,528
Total liabilities		27,508,515	27,634,659
<b>Capital resources</b>			
Share capital	25	300,000	300,000
Reserves	26	3,118,662	2,878,271
Shareholders' funds		3,418,662	3,178,271
Total liabilities and capital resources		30,927,177	30,812,930

Approved by the Board of Directors on 18 March 2005 and signed on behalf of the Board by:

HE Guangbei  
Director

NG Man Kung  
Director

CHIU Ming Wah  
Director

PO Yuen Fung  
Secretary

**CHIYU BANKING CORPORATION LIMITED**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Share capital HK\$'000	Premises revaluation reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Translation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2003	300,000	128,151	269	241	2,839,152	3,267,813
Net profit for the year	-	-	-	-	485,428	485,428
Currency translation difference	-	-	-	167	4	171
2002 final dividend paid	-	-	-	-	(180,000)	(180,000)
2003 first interim dividend	-	-	-	-	(150,000)	(150,000)
2003 second interim dividend	-	-	-	-	(186,000)	(186,000)
Revaluation of properties (Note 21)	-	(18,745)	(1,145)	-	-	(19,890)
Release from deferred tax liabilities	-	1,420	-	-	-	1,420
Transfer on disposal of properties	-	(88)	6,566	-	88	6,566
At 31 December 2003	300,000	110,738	5,690	408	2,808,672	3,225,508
Bank and subsidiaries	300,000	110,738	5,690	408	2,808,672	3,225,508
At 1 January 2004	300,000	110,738	5,690	408	2,808,672	3,225,508
Net profit for the year	-	-	-	-	493,150	493,150
Currency translation differences	-	-	-	(54)	-	(54)
2004 first interim dividend	-	-	-	-	(150,000)	(150,000)
2004 second interim dividend	-	-	-	-	(189,000)	(189,000)
Revaluation of properties (Note 21)	-	102,028	3,310	-	-	105,338
Release from deferred tax liabilities	-	(17,645)	-	-	-	(17,645)
At 31 December 2004	300,000	195,121	9,000	354	2,962,822	3,467,297
Bank and subsidiaries	300,000	195,121	9,000	354	2,962,822	3,467,297

**CHIYU BANKING CORPORATION LIMITED**

**STATEMENT OF CHANGES IN EQUITY**

	Share capital	Premises revaluation reserve	Investment properties revaluation reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003	300,000	128,151	269	2,793,655	3,222,075
Net profit for the year	-	-	-	484,100	484,100
2002 final dividend paid	-	-	-	(180,000)	(180,000)
2003 first interim dividend	-	-	-	(150,000)	(150,000)
2003 second interim dividend	-	-	-	(186,000)	(186,000)
Revaluation of properties (Note 21)	-	(18,745)	(1,145)	-	(19,890)
Release from deferred tax liabilities	-	1,420	-	-	1,420
Transfer on disposal of properties	-	(88)	6,566	88	6,566
At 31 December 2003	<u>300,000</u>	<u>110,738</u>	<u>5,690</u>	<u>2,761,843</u>	<u>3,178,271</u>
At 1 January 2004	<b>300,000</b>	<b>110,738</b>	<b>5,690</b>	<b>2,761,843</b>	<b>3,178,271</b>
Net profit for the year	-	-	-	<b>491,698</b>	<b>491,698</b>
2004 first interim dividend	-	-	-	<b>(150,000)</b>	<b>(150,000)</b>
2004 second interim dividend	-	-	-	<b>(189,000)</b>	<b>(189,000)</b>
Revaluation of properties (Note 21)	-	<b>102,028</b>	<b>3,310</b>	-	<b>105,338</b>
Release from deferred tax liabilities	-	<b>(17,645)</b>	-	-	<b>(17,645)</b>
Transfer on disposal of properties	-	-	-	-	-
At 31 December 2004	<u><b>300,000</b></u>	<u><b>195,121</b></u>	<u><b>9,000</b></u>	<u><b>2,914,541</b></u>	<u><b>3,418,662</b></u>

**CHIYU BANKING CORPORATION LIMITED**

**CONSOLIDATED CASH FLOW STATEMENT**

**FOR THE YEAR ENDED 31 DECEMBER**

	Notes	<b>2004</b>	<b>2003</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Cash flow from operating activities</b>			
Operating cash inflow before taxation	27(a)	<b>222,858</b>	1,259,807
Hong Kong profits tax paid		<b>(64,228)</b>	(175)
Overseas profits tax paid		<b>(2,859)</b>	(1,591)
<b>Net cash inflow from operating activities</b>		<b>155,771</b>	1,258,041
<b>Cash flow from investing activities</b>			
Purchase of fixed assets		<b>(5,058)</b>	(10,939)
Proceeds from disposal of fixed assets		<b>1</b>	3,502
Proceeds from disposal of investment securities		<b>-</b>	8,143
Dividends received from investment securities		<b>1,107</b>	1,109
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(3,950)</b>	1,815
<b>Cash outflow from financing activities</b>			
Dividends paid on ordinary shares		<b>(336,000)</b>	(330,000)
<b>Net cash outflow from financing activities</b>		<b>(336,000)</b>	(330,000)
(Decrease)/Increase in cash and cash equivalents		<b>(184,179)</b>	929,856
Cash and cash equivalents at 1 January		<b>11,049,659</b>	10,119,803
<b>Cash and cash equivalents at 31 December</b>	27(b)	<b>10,865,480</b>	11,049,659

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 1 Principal activities

The Group is principally engaged in the provision of banking and related financial services in Hong Kong.

### 2 Basis of preparation

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain investments in securities, off-balance sheet financial instruments, premises and investment properties, and in accordance with accounting principles generally accepted in Hong Kong and comply with the Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). 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 (“HKMA”).

The accounting policies and methods of computation used in the preparation of the accounts are consistent with those used in the preparation of the Group’s accounts for the year ended 31 December 2003.

### 3 Principal accounting policies

#### (a) Basis of consolidation

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

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.

#### (b) Revenue recognition

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

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

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

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 3 Principal accounting policies (continued)

#### (b) Revenue recognition (continued)

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

#### (c) Advances

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

All advances are recognised when cash is advanced to the borrowers.

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

#### (d) Provisions for bad and doubtful debts

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

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

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

#### (e) Fixed assets

##### (i) Premises

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

Leasehold land	- Over the remaining period of the lease
Buildings	- Over the shorter of the remaining period of the leases and 15 to 50 years

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 3 Principal accounting policies (continued)

#### (e) Fixed assets (continued)

##### (i) Premises (continued)

Independent valuations are performed every three years on individual properties on the basis of open market values. In the intervening years, the directors review the carrying value of individual properties, by reference to the fair values of similar 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 premises revaluation reserve. Upon disposal of premises, the relevant portion of the premises revaluation reserve realised in respect of previous valuations is released and transferred from the revaluation reserve to retained earnings.

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

##### (ii) Investment properties

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

Investment properties are valued annually and independent valuations are performed at intervals of not more than three years; in each of the intervening years, valuations are undertaken by professionally qualified persons appointed by the Group. The valuations are on an open market value basis. Changes in the value of investment properties are treated as movements in the investment properties revaluation reserves, unless the total of the reserve is insufficient to cover a deficit on a portfolio basis. In such cases, the amount by which the deficit exceeds the total amount in the investment properties revaluation reserve is charged to profit and loss account. Where a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

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

##### (iii) Property under development

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

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 3 Principal accounting policies (continued)

#### (e) Fixed assets (continued)

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

Equipment, fixtures and fittings are stated at cost less accumulated impairment losses and accumulated depreciation is calculated on a straight-line basis to write off the assets 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 equipment, fixtures and fittings is recognised in the profit and loss account.

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

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

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

#### (f) Investments in securities

##### (i) Held-to-maturity securities

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

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



# **CHIYU BANKING CORPORATION LIMITED**

## **NOTES TO THE ACCOUNTS**

### **3 Principal accounting policies (continued)**

#### **(f) Investment in securities (continued)**

##### **(ii) Investment securities**

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

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

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

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.

#### **(g) Operating leases**

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

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

#### **(h) 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.

#### **(i) Deferred taxation**

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

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 3 Principal accounting policies (continued)

#### (i) Deferred taxation (continued)

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

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

#### (j) 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.

#### (k) 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 that are available to the Group’s employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees’ basic salaries for the ORSO schemes and in accordance with the MPF rules for MPF schemes. The retirement benefit scheme costs are charged to the profit and loss account as incurred and represent contributions payable by the Group to the schemes. 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.

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 3 Principal accounting policies (continued)

#### (k) Employee benefits (continued)

##### (iii) Leave entitlements

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

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

##### (iv) Bonus plans

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

#### (l) 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 hedge purposes. The Group designates a derivative as held for dealing or hedging purposes when it enters into a derivative contract.

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

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 the hedging instrument is required 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 positions.

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 3 Principal accounting policies (continued)

#### (l) Off balance sheet financial instruments (continued)

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.

#### (m) Contingent liabilities and contingent assets

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

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

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

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

#### (n) 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.

#### (o) 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.

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 3 Principal accounting policies (continued)

#### (p) Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards (the “HKFRSs”) and Hong Kong Accounting Standards (the “HKASs”), collectively the “new HKFRSs”, which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted any of the new HKFRSs in the accounts for the year ended 31 December 2004. The effect of first-time adoption of the new HKFRSs will be reported by the Group as an adjustment to the opening balance of the relevant assets, liabilities, equity reserve or retained earnings in 2005.

The Group is in the process of making an assessment of the impact of these new HKFRSs, and has so far concluded that the following HKFRSs will have significant financial or presentation effects on the Group’s accounts upon adoption in the areas as briefly described below:

#### (i) HKAS39 Financial instruments: Recognition and Measurement

##### Classification of investments in securities

The current accounting policy on investment in securities is set out in note 3(f) above. Upon adoption of HKAS39, all investment securities other than investments in subsidiaries and associates are classified into one of the following three categories:

- held-to-maturity debt securities are measured at amortised cost less any impairment loss;
- at fair value through profit or loss securities are measured at fair value with change of fair value recognised in the profit and loss account;
- available-for-sale securities are measured at fair value, with the difference between fair value and amortised cost reported in the equity reserve directly.

Upon first-time adoption of HKAS39, the Group has reclassified its investment securities into the above categories. Majority of the Group’s securities are classified as held-to-maturity or available-for-sale. The change in fair value of available-for-sale securities will cause volatility to the equity reserve.

##### Derivatives

The current accounting policy on derivatives is set out in note 3(l) above. Upon adoption of HKAS39, all derivatives are recognised separately as either assets or liabilities in the balance sheet and measured at fair value. The accounting for changes in the fair value of derivatives are recognised as follows:

For a derivative designated as fair value hedge, the gain or loss is recognised in the profit and loss account in the period of change together with the associated loss or gain on the hedged item;

For a derivative designated as cash flow hedge, the gain or loss on the derivative associated with the effective portion of the hedge is initially recognised in equity reserve and subsequently released into the profit and loss account in line with the recognition of the element of the recognised asset or liability which is being hedged. Any ineffective portion is recognised in the profit and loss account as it arises; and

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 3 Principal accounting policies (continued)

#### (p) Recently issued accounting standards (continued)

##### (i) HKAS39 Financial instruments: Recognition and Measurement (continued)

###### Derivatives (continued)

For other derivatives (including for dealing purpose and for economic hedging purpose which do not qualify for hedge accounting), the gain or loss is recognised in the profit and loss account.

Volatility in income will become higher due to stricter requirements under hedge accounting treatment. The volatility in equity reserve will also increase due to change in fair value of derivatives designated as cash flow hedges.

###### Revenue recognition

The current accounting policy on revenue recognition is set out in note 3(b) above. Upon adoption of HKAS39, interest accrual on doubtful loans ceased accrual previously will be recognised in the profit and loss account up to the extent of their outstanding carrying value net of impairment. Directly attributable loan origination fees and costs which were previously recognised as commission expenses will be recognised as interest income over the expected life of the loan as part of the effective interest calculation.

These changes in recognition and classification will have an effect on the Group's net interest income and net interest margin.

###### Provisions for bad and doubtful debts

The current accounting policy on loan provisions is set out in note 3(d) above. Upon adoption of HKAS39, loan impairment provisions are calculated using a discounted future cash flow analysis of loan repayments with significant carrying value. Collective assessment of impairment for individually insignificant items or items where no impairment has been identified on an individual basis is made by adopting formula-based approaches or statistical methods on groups of loan portfolio according to their credit characteristics.

Loan impairment provisions assessed individually and collectively will be presented in aggregate amount as allowance for losses on loans and advances instead of specific provisions and general provisions.

##### (ii) HKAS17: Leasing

###### Premises

The current accounting policy on premises is set out in note 3(e)(i) above. Upon adoption of HKAS17, the land element of a leasehold property held for own use would be recognised as operating lease if the land and building elements of the lease payment can be allocated reliably at the inception of the lease, otherwise both of the land and building elements will be recognised as finance lease. The land premiums and other related costs for acquiring the leasehold land will be amortised over the terms of the leases.

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 3 Principal accounting policies (continued)

#### (p) Recently issued accounting standards (continued)

##### (ii) HKAS17: Leasing (continued)

The Group will continue to adopt the fair value model. The financial impact of adopting HKAS 17 to existing premises is not significant based on the preliminary assumption that the value of the land and building elements of the Group's premises at inception of the leases cannot be separated. However, this preliminary assumption is subject to change pending further consultation with independent valuers.

##### (iii) HKAS40: Investment property

###### Investment properties

The current accounting policy on investment properties is set out in note 3(e)(ii) above. Upon adoption of HKAS40, change in fair value of investment properties will be recognised directly in the profit and loss account instead of equity reserve.

The Group will continue to adopt the fair value model. The change in fair value of investment properties will cause volatility in the profit and loss account.

##### (iv) HKAS12: Income taxes – HKAS Interpretation 21

###### Deferred tax

There is currently no deferred tax provided on revaluation surplus of investment properties. According to the HKAS Interpretation 21, the Group will calculate deferred tax on the change in fair value of investment properties based on the profits tax rate. On transition, retained earnings will be reduced by the amount of deferred tax derived.

The Group will continue with the assessment of the other new HKFRSs and other significant changes may be identified as a result.

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 4 Interest income

	<u>2004</u>	<u>2003</u>
	<b>HK\$'000</b>	HK\$'000
Interest income from listed investments	<b>48,899</b>	58,836
Interest income from unlisted investments	<b>176,868</b>	161,637
Other interest income	<b>476,812</b>	504,668
	<b><u>702,579</u></b>	<b><u>725,141</u></b>

### 5 Other operating income

	<u>2004</u>	<u>2003</u>
	<b>HK\$'000</b>	HK\$'000
Fees and commission income (Note)	<b>213,928</b>	194,290
Less: Fees and commission expenses	<b>(33,762)</b>	(29,247)
Net fees and commission income	<b>180,166</b>	165,043
Dividend income from investments in securities		
- listed investments	<b>94</b>	255
- unlisted investments	<b>1,013</b>	854
Net gain from foreign exchange activities	<b>38,252</b>	35,452
Gross rental income from investment properties	<b>1,355</b>	1,447
Less: Outgoings in respect of investment properties	<b>(66)</b>	(39)
Others	<b>1,166</b>	2,132
	<b><u>221,980</u></b>	<b><u>205,144</u></b>



# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 5 Other operating income (continued)

Note:

Fees and commission income

	2004	2003
	HK\$'000	HK\$'000
Securities brokerage	75,121	62,521
Credit cards	284	390
Bills commissions	41,402	42,507
Loan commissions	21,511	14,560
Payment services	14,031	13,036
Insurance	8,762	8,680
Asset management	4,351	4,576
Guarantees	1,589	1,910
Others		
- safe deposit box	8,927	8,900
- low deposit balance accounts	2,804	4,951
- currency exchange	368	292
- BOC cards	1,300	1,501
- dormant accounts	1,038	861
- agency services	372	311
- postage and telegrams	1,017	868
- information search	1,301	655
- correspondent banking	1,759	1,255
- sundries	27,991	26,516
	<b>213,928</b>	<b>194,290</b>

### 6 Operating expenses

	2004	2003
	HK\$'000	HK\$'000
Staff costs (including directors' emoluments)		
- salaries and other costs	119,648	116,390
- termination benefit	-	23
- pension cost	9,846	10,184
Premises and equipment expenses (excluding depreciation)		
- rental of premises	13,309	12,627
- information technology	22,638	20,510
- others	4,708	4,858
Depreciation on owned fixed assets	12,174	9,280
Auditors' remuneration		
- audit services	2,473	2,490
Other operating expenses	25,359	25,616
	<b>210,155</b>	<b>201,978</b>

# **CHIYU BANKING CORPORATION LIMITED**

## **NOTES TO THE ACCOUNTS**

### **7 Charge for bad and doubtful debts**

	<u>2004</u>	<u>2003</u>
	HK\$'000	HK\$'000
Net charge for bad and doubtful debts		
Specific provisions		
- new provisions	74,023	48,108
- releases	(50,869)	(19,020)
- recoveries (Note 19)	(20,246)	(9,372)
	<u>2,908</u>	<u>19,716</u>
General provisions (Note 19)	<u>-</u>	<u>(13,021)</u>
Net charge to profit and loss account (Note 19)	<u>2,908</u>	<u>6,695</u>

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

	<u>2004</u>	<u>2003</u>
	HK\$'000	HK\$'000
Net loss on disposal of premises	-	(1)
Loss on disposal of investment properties	-	(6,805)
Loss on disposal of other fixed assets	(24)	(31)
Gain/(deficit) on revaluation of premises (Note 21)	<u>21,566</u>	<u>(2,589)</u>
	<u>21,542</u>	<u>(9,426)</u>

### **9 Taxation**

Taxation in the profit and loss account represents:

	<u>2004</u>	<u>2003</u>
	HK\$'000	HK\$'000
Hong Kong profits tax		
- current year taxation	89,728	90,027
- over-provision in prior years	(19,800)	(18,823)
Deferred tax charge/(credit)	<u>241</u>	<u>(879)</u>
	70,169	70,325
Attributable share of estimated Hong Kong profits tax losses arising from investments in partnerships	<u>(3,386)</u>	<u>(65,150)</u>
	66,783	5,175
Investments in partnerships written off	<u>2,968</u>	<u>52,375</u>
Hong Kong profits tax	69,751	57,550
Overseas taxation	<u>2,857</u>	<u>959</u>
	<u>72,608</u>	<u>58,509</u>

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 9 Taxation (continued)

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

The Group has entered into a few of aircraft leasing and coupon strip transactions involving special purpose partnerships. As at 31 December 2004, the Group's investments in such partnerships, which are included in "Other assets" in the consolidated balance sheet, amounted to HK\$108,000,000 (2003: HK\$156,000,000). The Group's investments in partnerships are amortised over the life of the partnerships in proportion to the taxation benefits resulting from those investments.

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

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Assets	<u>-</u>	<u>203,462</u>
Liabilities	<u>-</u>	<u>131,445</u>

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

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Profit before taxation	<u>565,758</u>	<u>543,937</u>
Calculated at a taxation rate of 17.5% (2003: 17.5%)	<b>99,008</b>	95,189
Effect of different taxation rates in other countries	<b>507</b>	(1,518)
Income not subject to taxation	<b>(10,996)</b>	(13,248)
Expenses not deductible for taxation purposes	<b>4,548</b>	10,563
Temporary differences not recognised	<b>(241)</b>	(879)
Over-provision in prior years	<b>(19,800)</b>	(18,823)
Tax benefits from partnerships	<u><b>(418)</b></u>	<u>(12,775)</u>
Taxation charge	<u><b>72,608</b></u>	<u>58,509</u>

### 10 Profit attributable to shareholders

The profit of the Bank for the year ended 31 December 2004 attributable to shareholders and dealt with in the accounts of the Bank amounted to HK\$491,698,000 (2003: HK\$484,100,000).

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 11 Dividends

	2004		2003	
	Per share HK\$	Total HK\$'000	Per share HK\$	Total HK\$'000
First interim dividend paid	50	150,000	50	150,000
Second interim dividend declared	63	189,000	62	186,000
	<b>113</b>	<b>339,000</b>	112	336,000

### 12 Retirement benefit costs

The Group operates certain defined contribution schemes for the employees are ORSO schemes exempted under the Mandatory Provident Fund Schemes Ordinance ("MPF Schemes Ordinance") and the BOC-Prudential Easy Choice MPF Scheme. Under the ORSO 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 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 range from 20% to 95% for employees who have completed 3 to 20 years of service, on conditions of retirement, early retirement, permanent incapacity and ill-health or termination of employment other than summary dismissal.

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

The Group's total contributions made to the ORSO schemes for the year ended 31 December 2004 amounted to approximately HK\$9,011,000 (2003: approximately HK\$9,996,000), after a deduction of forfeited contributions of approximately HK\$911,000 (2003: approximately HK\$496,000). For the MPF Scheme, the Group contributed approximately HK\$268,000 (2003: approximately HK\$188,000) for the year ended 31 December 2004.

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 13 Directors' emoluments

Details of the emoluments paid and payable to the directors of the Bank in respect of their services rendered for managing the bank and the subsidiaries within the Group during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Fees	910	350
Other emoluments		
- basis salaries and allowances	4,134	4,282
- others (including benefits in kind)	402	266
	<u>5,446</u>	<u>4,898</u>

Fees of HK\$140,000 (2003: HK\$140,000) were paid to the Independent Non-Executive Directors during the year.

On 5 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 25 July 2002. These options have a vesting period of four years from 25 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 25 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 recognised in the profit and loss account.

Options to purchase 596,000 (2003:484,000) shares of the BOCHKHL were exercised by certain directors during the year ended 31 December 2004 at a gain of HK\$3,194,275 (2003: HK\$2,246,000), 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 recognised in the profit and loss account of the Bank, its fellow subsidiaries and its holding companies.

### 14 Cash and short-term funds

	The Group and the Bank 2004 HK\$'000	2003 HK\$'000
Cash	100,985	85,907
Balances with banks and other financial institutions	533,261	1,112,900
Money at call and short notice maturing within one month	<u>8,800,415</u>	<u>9,870,828</u>
	<u>9,434,661</u>	<u>11,069,635</u>

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 15 Certificates of deposit held

	The Group and the Bank	
	2004	2003
	HK\$'000	HK\$'000
Held-to-maturity, at amortised cost		
- Unlisted	<b>2,047,188</b>	1,331,471

### 16 Held-to-maturity securities

	The Group and the Bank	
	2004	2003
	HK\$'000	HK\$'000
Listed, at amortised cost		
- in Hong Kong	<b>302,135</b>	1,196,721
- outside Hong Kong	-	174,013
	<b>302,135</b>	1,370,734
Unlisted, at amortised cost	<b>5,269,662</b>	4,599,790
Total	<b>5,571,797</b>	5,970,524
Market value of listed securities	<b>304,072</b>	1,414,712

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

- Central governments and central banks	<b>352,380</b>	1,246,425
- Public sector entities	<b>310,000</b>	680,000
- Banks and other financial institutions	<b>4,909,417</b>	4,044,099
	<b>5,571,797</b>	5,970,524

### 17 Investment securities

	The Group		The Bank	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted debt securities, at cost	<b>250</b>	250	<b>250</b>	250
Equity securities				
- Listed outside Hong Kong, at cost	<b>653</b>	653	<b>653</b>	653
- Unlisted, at cost	<b>21,834</b>	21,821	<b>525</b>	512
Less: Provision for impairment in value	<b>(1,060)</b>	(1,800)	-	-
	<b>20,774</b>	20,021	<b>525</b>	512
	<b>21,427</b>	20,674	<b>1,178</b>	1,165
Total	<b>21,677</b>	20,924	<b>1,428</b>	1,415
Market value of listed equity securities	<b>5,279</b>	4,535	<b>5,279</b>	4,535

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 17 Investment securities (continued)

Investment securities are analysed by issuers as follows:

	The Group		The Bank	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Banks and other financial institutions	653	653	653	653
Corporate entities	21,024	20,271	775	762
	<u>21,677</u>	<u>20,924</u>	<u>1,428</u>	<u>1,415</u>

Details of the equity securities held by the Bank with equity interest over 20% as at 31 December 2004 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

### 18 Advances and other accounts

	The Group		The Bank	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Advances to customers	8,985,561	9,041,421	8,986,298	9,042,593
Accrued interest	85,813	98,783	85,813	98,783
	<u>9,071,374</u>	<u>9,140,204</u>	<u>9,072,111</u>	<u>9,141,376</u>
Provision for bad and doubtful debts				
- General (Note 19)	(159,012)	(159,012)	(159,012)	(159,012)
- Specific (Note 19)	(89,665)	(103,910)	(89,665)	(103,910)
	<u>(248,677)</u>	<u>(262,922)</u>	<u>(248,677)</u>	<u>(262,922)</u>
	<u>8,822,697</u>	<u>8,877,282</u>	<u>8,823,434</u>	<u>8,878,454</u>

No advances to banks and financial institutions were made in 2004 and 2003.

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 18 Advance and other accounts (continued)

Non-performing loans are analysed as follows:

	The Group		The Bank	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-performing loans	<u>266,710</u>	<u>387,631</u>	<u>266,710</u>	<u>387,631</u>
Specific provisions made in respect of such advances	<u>(89,665)</u>	<u>(103,910)</u>	<u>(89,665)</u>	<u>(103,910)</u>
As a percentage of total advances to customers	<u>2.97%</u>	<u>4.29%</u>	<u>2.97%</u>	<u>4.29%</u>
Amount of interest in suspense	<u>4,863</u>	<u>3,542</u>	<u>4,863</u>	<u>3,542</u>

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

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

### 19 Provisions for bad and doubtful debts

	The Group and the Bank			
	2004			
	Specific	General	Total	Suspended Interest
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2004	103,910	159,012	262,922	3,542
Charge to profit and loss account (Note 7)	2,908	-	2,908	-
Amounts written off	(37,399)	-	(37,399)	-
Recoveries of advances written off in previous year (Note 7)	20,246	-	20,246	-
Interest suspended during the year	-	-	-	2,270
Suspended interest recovered	-	-	-	(949)
At 31 December 2004	<u>89,665</u>	<u>159,012</u>	<u>248,677</u>	<u>4,863</u>
Deducted from:				
- Advances to customers	<u>89,665</u>	<u>159,012</u>	<u>248,677</u>	



# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 19 Provisions for bad and doubtful debts (continued)

	The Group and the bank			
	2003			
	Specific	General	Total	Suspended
	HK\$'000	HK\$'000	HK\$'000	Interest
				HK\$'000
At 1 January 2003	155,202	172,033	327,235	5,092
Charged/(credited) to profit and loss account (Note 7)	19,716	(13,021)	6,695	-
Amounts written off	(80,380)	-	(80,380)	(1,728)
Recoveries of advances written off in previous year (Note 7)	9,372	-	9,372	-
Interest suspended during the year	-	-	-	1,208
Suspended interest recovered	-	-	-	(1,030)
At 31 December 2003	<u>103,910</u>	<u>159,012</u>	<u>262,922</u>	<u>3,542</u>
Deducted from:				
- Advances to customers	<u>103,910</u>	<u>159,012</u>	<u>262,922</u>	

### 20 Interests in subsidiaries

	The Bank	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	3,913	3,913
Amounts due from subsidiaries (Note (a))	53,573	53,052
Amounts due to subsidiaries (Note (a))	<u>(20,523)</u>	<u>(20,528)</u>
	<u>36,963</u>	<u>36,437</u>

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

**CHIYU BANKING CORPORATION LIMITED****NOTES TO THE ACCOUNTS****20 Interests in subsidiaries (continued)**

Details of the subsidiaries as at 31 December 2004 are set out below:

<u>Name</u>	<u>Place of incorporation</u>	<u>Particulars of issued share capital</u>	<u>Interest held</u>	<u>Principal activities</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	The British Virgin Islands	1 shares of US\$1 each	100%	Investment holding
Glory Cardinal Limited	Hong Kong	2 shares of HK\$1each	*100%	Investment holding
Glister Company Limited	Hong Kong	2 shares of HK\$1each	*100%	Investment holding
Grace Charter Limited	Hong Kong	2 shares of HK\$1each	*100%	Investment holding
Seng Sun Development (Xiamen) Company Limited	The People's Republic of China	US\$5,000,000	*100%	Property development

\* Shares held indirectly by the  
Bank

**CHIYU BANKING CORPORATION LIMITED**

**NOTES TO THE ACCOUNTS**

**21 Fixed assets**

	<b>The Group</b>				
	<b>2004</b>				
	<b>Premises</b>	<b>Investment properties</b>	<b>Property under development</b>	<b>Equipment, fixtures and fittings</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Cost or valuation					
At 1 January 2004	323,096	17,380	38,849	89,981	469,306
Additions	-	-	-	5,058	5,058
Disposals	-	-	-	(6,476)	(6,476)
Revaluation	115,994	3,310	-	-	119,304
At 31 December 2004	439,090	20,690	38,849	88,563	587,192
Accumulated depreciation and impairment losses					
At 1 January 2004	(2,534)	-	(6,500)	(61,225)	(70,259)
Depreciation for the year	(5,066)	-	-	(7,108)	(12,174)
Disposals	-	-	-	6,451	6,451
Write-back on revaluation	7,600	-	-	-	7,600
At 31 December 2004	-	-	(6,500)	(61,882)	(68,382)
Net book value					
At 31 December 2004	439,090	20,690	32,349	26,681	518,810
At 31 December 2003	320,562	17,380	32,349	28,756	399,047
The analysis of cost or valuation of the above assets is as follows:					
At 31 December 2004					
At cost	-	-	38,849	88,563	127,412
At valuation	439,090	20,690	-	-	459,780
	439,090	20,690	38,849	88,563	587,192
At 31 December 2003					
At cost	-	-	38,849	89,981	128,830
At valuation	323,096	17,380	-	-	340,476
	323,096	17,380	38,849	89,981	469,306

**CHIYU BANKING CORPORATION LIMITED**

**NOTES TO THE ACCOUNTS**

**21 Fixed assets (continued)**

	<b>The Bank</b>			
	<b>2004</b>			
	<b>Premises</b>	<b>Investment properties</b>	<b>Equipment, fixtures and fittings</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Cost or valuation				
At 1 January 2004	321,592	17,380	89,965	428,937
Additions	-	-	5,058	5,058
Disposals	-	-	(6,476)	(6,476)
Revaluation	115,298	3,310	-	118,608
At 31 December 2004	436,890	20,690	88,547	546,127
Accumulated depreciation and impairment losses				
At 1 January 2004	(2,519)	-	(61,209)	(63,728)
Depreciation for the year	(5,034)	-	(7,108)	(12,142)
Disposals	-	-	6,451	6,451
Write-back on revaluation	7,553	-	-	7,553
At 31 December 2004	-	-	61,866	61,866
Net book value				
At 31 December 2004	436,890	20,690	26,681	484,261
At 31 December 2003	319,073	17,380	28,756	365,209
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2004				
At cost	-	-	88,547	88,547
At valuation	436,890	20,690	-	457,580
	436,890	20,690	88,547	546,127
At 31 December 2003				
At cost	-	-	89,965	89,965
At valuation	321,592	17,380	-	338,972
	321,592	17,380	89,965	428,937

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 21 Fixed assets (continued)

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

	The Group		The Bank	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Held in Hong Kong				
On long-term lease (over 50 years)	293,580	217,748	293,580	217,748
On medium-term lease (10-50 years)	135,270	92,694	133,070	91,205
Held outside Hong Kong				
On long-term lease (over 50 years)	8,620	8,633	8,620	8,633
On medium-term lease (10-50 years)	1,620	1,487	1,620	1,487
	<u>439,090</u>	<u>320,562</u>	<u>436,890</u>	<u>319,073</u>

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

	The Group		The Bank	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Held in Hong Kong				
On long-term lease (over 50 years)	17,650	14,400	17,650	14,400
Held outside Hong Kong				
On medium-term lease (10-50 years)	3,040	2,980	3,040	2,980
	<u>20,690</u>	<u>17,380</u>	<u>20,690</u>	<u>17,380</u>

As at 31 December 2004, the premises and investment properties of the Group and the Bank are included in balance sheet at valuation carried out at 31 October 2004 on the basis of their open market value by an independent firm of chartered surveyors, Chesterton Petty Limited. Chesterton Petty Limited also confirmed that there has been no material changes in valuations at 31 December 2004.

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 21 Fixed assets (continued)

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

The Group			
2004			
	Premises HK\$'000	Investment properties HK\$'000	Total HK\$'000
Increase in valuation credited to property revaluation reserve	102,028	3,310	105,338
Increase in valuation credited to profit and loss account (Note 8)	21,566	-	21,566
	<u>123,594</u>	<u>3,310</u>	<u>126,904</u>
The Bank			
2004			
	Premises HK\$'000	Investment properties HK\$'000	Total HK\$'000
Increase in valuation credited to property revaluation reserve	102,028	3,310	105,338
Increase in valuation credited to profit and loss account	20,823	-	20,823
	<u>122,851</u>	<u>3,310</u>	<u>126,161</u>
The Group			
2003			
	Premises HK\$'000	Investment properties HK\$'000	Total HK\$'000
Increase in valuation credited to property revaluation reserve	18,745	1,145	19,890
Increase in valuation credited to profit and loss account (Note 8)	2,589	-	2,589
	<u>21,334</u>	<u>1,145</u>	<u>22,479</u>
The Bank			
2003			
	Premises HK\$'000	Investment properties HK\$'000	Total HK\$'000
Increase in valuation credited to property revaluation reserve	18,745	1,145	19,890
Increase in valuation credited to profit and loss account	2,535	-	2,535
	<u>21,280</u>	<u>1,145</u>	<u>22,425</u>

As at 31 December 2004, the net book value of premises that would have been included in the Group's and the Bank's balance sheets had the assets been carried at cost less accumulated depreciation and impairment losses were HK\$180,000,000 (2003: HK\$183,000,000) and HK\$177,000,000 (2003: HK\$180,000,000) respectively.

**CHIYU BANKING CORPORATION LIMITED**

**NOTES TO THE ACCOUNTS**

**22 Deposits from customers**

	The Group		The Bank	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Demand deposits and current accounts	<b>1,497,472</b>	1,229,623	<b>1,497,834</b>	1,230,027
Saving deposits	<b>12,046,043</b>	11,318,253	<b>12,065,881</b>	11,332,341
Time, call and notice of deposits	<b>11,220,659</b>	11,725,758	<b>11,246,574</b>	11,751,636
	<b>24,764,174</b>	24,273,634	<b>24,810,289</b>	24,314,004

**23 Other accounts and provisions**

	The Group		The Bank	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Interest payable	<b>26,783</b>	21,238	<b>26,783</b>	21,238
Current taxation (Note 24(a))	<b>28,530</b>	26,218	<b>28,531</b>	26,218
Deferred taxation (Note 24(b))	<b>18,319</b>	414	<b>18,319</b>	414
Dividend payable	<b>189,404</b>	186,404	<b>189,404</b>	186,404
Accruals and other payables	<b>1,017,462</b>	1,517,669	<b>999,556</b>	1,505,502
	<b>1,280,498</b>	1,751,943	<b>1,262,593</b>	1,739,776

**24 Tax liabilities**

	The Group		The Bank	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Current taxation (Note a)	<b>28,530</b>	26,218	<b>28,531</b>	26,218
Deferred taxation (Note b)	<b>18,248</b>	362	<b>18,319</b>	414
	<b>46,778</b>	26,580	<b>46,850</b>	26,632

**(a) Current taxation**

	The Group		The Bank	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Hong Kong profits tax	<b>28,690</b>	26,376	<b>28,691</b>	26,376
Overseas taxation	<b>(160)</b>	(158)	<b>(160)</b>	(158)
	<b>28,530</b>	26,218	<b>28,531</b>	26,218

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 24 Tax liabilities (continued)

#### (b) Deferred taxation

During the year, deferred tax is recognised in respect of the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts according to SSAP12 (revised) "Income taxes".

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

The Group						
2004						
	Accelerated tax depreciation	Assets revaluation	Losses	Provisions	Other temporary differences	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2004	2,781	22,667	(255)	(27,705)	2,874	362
Charged/ (credited) to profit and loss account	2,011	-	(16)	(122)	(1,632)	241
Charged to equity	-	17,645	-	-	-	17,645
At 31 December 2004	<u>4,792</u>	<u>40,312</u>	<u>(271)</u>	<u>(27,827)</u>	<u>1,242</u>	<u>18,248</u>
The Group						
2003						
	Accelerated tax depreciation	Assets revaluation	Losses	Provisions	Other temporary differences	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003	4,669	24,087	(207)	(25,888)	-	2,661
Charged/ (credited) to profit and loss account	(1,888)	-	(48)	(1,817)	2,874	(879)
Credited to equity	-	(1,420)	-	-	-	(1,420)
At 31 December 2003	<u>2,781</u>	<u>22,667</u>	<u>(255)</u>	<u>(27,705)</u>	<u>2,874</u>	<u>362</u>



**CHIYU BANKING CORPORATION LIMITED**

**NOTES TO THE ACCOUNTS**

**24 Tax liabilities (continued)**

**(b) Deferred taxation (continued)**

	<b>The Bank</b>				
	<b>2004</b>				
	<b>Accelerated tax depreciation</b>	<b>Assets revaluation</b>	<b>Provisions</b>	<b>Other temporary differences</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
At 1 January 2004	2,578	22,667	(27,705)	2,874	414
Charged/(credited) to profit and loss account	2,014	-	(122)	(1,632)	260
Charged to equity	-	17,645	-	-	17,645
At 31 December 2004	<b>4,592</b>	<b>40,312</b>	<b>(27,827)</b>	<b>1,242</b>	<b>18,319</b>

	<b>The Bank</b>				
	<b>2003</b>				
	<b>Accelerated tax depreciation</b>	<b>Assets revaluation</b>	<b>Provisions</b>	<b>Other temporary differences</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
At 1 January 2003	4,481	24,087	(25,888)	-	2,680
Charged/(credited) to profit and loss account	(1,903)	-	(1,817)	2,874	(846)
Credited to equity	-	(1,420)	-	-	(1,420)
At 31 December 2003	<b>2,578</b>	<b>22,667</b>	<b>(27,705)</b>	<b>2,874</b>	<b>414</b>

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

	<b>The Group</b>		<b>The Bank</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Deferred tax assets (Note)	(71)	(52)	-	-
Deferred tax liabilities	<b>18,319</b>	414	<b>18,319</b>	414
	<b>18,248</b>	362	<b>18,319</b>	414

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

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 24 Tax liabilities (continued)

#### (b) Deferred taxation (continued)

	The Group		The Bank	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deferred tax assets to be recovered after more than twelve months	(28,098)	(27,960)	(27,827)	(27,705)
Deferred tax liabilities to be settled after more than twelve months	5,291	3,950	5,091	3,746
	<u>(22,807)</u>	<u>(24,010)</u>	<u>(22,736)</u>	<u>(23,959)</u>

### 25 Share capital

	2004	2003
	HK\$'000	HK\$'000
Authorised:		
3,000,000 ordinary shares of HK\$100 each	<u>300,000</u>	<u>300,000</u>
Issued and fully paid:		
3,000,000 ordinary shares of HK\$100 each	<u>300,000</u>	<u>300,000</u>

### 26 Reserves

The amounts of the Group's and the Bank's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity and statement of changes in equity on pages 9 and 10 of the accounts respectively.

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 27 Notes to consolidated cash flow statement

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

	2004	2003
	HK\$'000	HK\$'000
Operating profit after provisions	543,476	553,417
Dividend income from investment securities	(1,107)	(1,109)
Depreciation	12,174	9,280
Charge for bad and doubtful debts	2,908	6,695
Advances written off net of recoveries	(17,153)	(71,008)
Change in money at call and short notice with original maturity over three months	281,256	604,071
Change in placements with banks and other financial institutions with original maturity over three months	(783,932)	942,392
Change in trade bills	(47,191)	68,125
Change in certificates of deposit held with original maturity over three months	(715,717)	(644,968)
Change in held-to-maturity securities	398,727	(989,775)
Change in advances and other accounts	68,830	(1,033,102)
Change in other assets	551,423	(678,315)
Change in deposits and balances of banks and other financial institutions repayable over three months	(18,661)	93,813
Change in deposits from customers	490,540	1,214,080
Change in certificates of deposit issued	(45,037)	414,328
Change in other accounts and provisions	(497,611)	771,744
Exchange difference	(67)	139
Operating cash inflow before taxation	<u>222,858</u>	<u>1,259,807</u>

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

	2004	2003
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	634,246	1,198,807
Money at call and short notice with original maturity within three months	8,704,791	9,493,948
Placements with banks and other financial institutions with original maturity within three months	2,397,458	1,309,462
Deposits and balances of banks and other financial institutions with original maturity within three months	(871,015)	(952,558)
	<u>10,865,480</u>	<u>11,049,659</u>

# **CHIYU BANKING CORPORATION LIMITED**

## **NOTES TO THE ACCOUNTS**

### **28 Maturity profile**

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

	The Group						
	2004						
	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets							
Cash and other short-term funds	634,246	8,800,415	-	-	-	-	9,434,661
Placements with banks and other financial institutions	-	3,249,671	549,060	-	-	-	3,798,731
Certificates of deposit held	-	767,989	-	1,166,472	112,727	-	2,047,188
Debt securities included in:							
- held-to-maturity securities	-	962,130	1,140,819	3,035,820	433,028	-	5,571,797
- investment securities	-	-	-	-	250	-	250
Advances to customers	839,841	1,583,944	916,654	2,806,151	2,564,659	274,312	8,985,561
Liabilities							
Deposits and balances of banks and other financial institutions	113,106	886,476	46,237	-	-	-	1,045,819
Deposits from customers	13,627,081	8,852,677	911,178	1,107,357	265,881	-	24,764,174
Certificates of deposit issued	-	-	186,248	183,043	-	-	369,291

**CHIYU BANKING CORPORATION LIMITED**

**NOTES TO THE ACCOUNTS**

**28 Maturity profile (continued)**

	The Bank						
	2004						
	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets							
Cash and other short-term funds	634,246	8,800,415	-	-	-	-	9,434,661
Placements with banks and other financial institutions	-	3,249,671	549,060	-	-	-	3,798,731
Certificates of deposit held	-	767,989	-	1,166,472	112,727	-	2,047,188
Debt securities included in:							
- held-to							
-maturity securities	-	962,130	1,140,819	3,035,820	433,028	-	5,571,797
- investment securities	-	-	-	-	250	-	250
Advances to customers	839,841	1,584,056	917,001	2,806,429	2,564,659	274,312	8,986,298
Liabilities							
Deposits and balances of banks and other financial institutions	113,106	886,476	46,237	-	-	-	1,045,819
Deposits from customers	13,647,281	8,878,592	911,178	1,107,357	265,881	-	24,810,289
Certificates of deposit issued	-	-	186,248	183,043	-	-	369,291

**CHIYU BANKING CORPORATION LIMITED**

**NOTES TO THE ACCOUNTS**

**28 Maturity profile (continued)**

	The Group						
	2003						
	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets							
Cash and other short-term funds	1,198,807	9,870,828	-	-	-	-	11,069,635
Placements with banks and other financial institutions	-	1,672,818	253,985	-	-	-	1,926,803
Certificates of deposit held	-	-	191,750	1,085,379	54,342	-	1,331,471
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
Advances to customers	940,573	1,197,188	895,815	2,911,722	2,704,770	391,353	9,041,421
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

### 28 Maturity profile (continued)

	The Bank						
	2003						
	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets							
Cash and other short-term funds	1,198,807	9,870,828	-	-	-	-	11,069,635
Placements with banks and other financial institutions	-	1,672,818	253,985	-	-	-	1,926,803
Certificates of deposit held	-	-	191,750	1,085,379	54,342	-	1,331,471
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
Advances to customers	940,573	1,197,295	896,144	2,912,458	2,704,770	391,353	9,042,593
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

Apart from certain deferred tax assets and liabilities, the majority of other assets and other accounts and provisions are due within 1 year.

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

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 29 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	
	2004	2003
	HK\$'000	HK\$'000
Direct credit substitutes	13,519	59,040
Transaction-related contingencies	67,622	22,916
Trade-related contingencies	1,046,820	1,213,670
Other commitments with an original maturity of		
- under one year or which are unconditionally cancellable	2,958,119	2,933,877
- one year and over	788,307	884,117
	<u>4,874,387</u>	<u>5,113,620</u>



**CHIYU BANKING CORPORATION LIMITED**

**NOTES TO THE ACCOUNTS**

**29 Off-balance sheet exposures (continued)**

**(b) Derivatives**

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

	The Group and the Bank					
	2004			2003		
	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000
Exchange rate contracts						
Spot	94,516	-	94,516	73,134	-	73,134
Forward contracts	32,593	-	32,593	5,810	-	5,810
Swaps	10,604	11,374	21,978	-	10,889	10,889
Foreign exchange option contracts						
- currency options purchased	72,063	-	72,063	124,175	-	124,175
- currency options written	72,063	-	72,063	124,175	-	124,175
	<u>281,839</u>	<u>11,374</u>	<u>293,213</u>	<u>327,294</u>	<u>10,889</u>	<u>338,183</u>
Interest rate contracts						
Interest rate swaps	513,975	38,872	552,847	138,183	38,816	176,999
Interest rate option contracts						
- swaptions purchased	15,549	-	15,549	-	-	-
- swaptions written	205,847	-	205,847	205,710	-	205,710
	<u>735,371</u>	<u>38,872</u>	<u>774,243</u>	<u>343,893</u>	<u>38,816</u>	<u>382,709</u>
Equity contracts						
Equity option contracts						
- equity options purchased	52,245	-	52,245	154,718	-	154,718
- equity options written	52,245	-	52,245	154,718	-	154,718
	<u>104,490</u>	<u>-</u>	<u>104,490</u>	<u>309,436</u>	<u>-</u>	<u>309,436</u>
	<u>1,121,700</u>	<u>50,246</u>	<u>1,171,946</u>	<u>980,623</u>	<u>49,705</u>	<u>1,030,328</u>

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 29 Off-balance sheet exposures (continued)

#### (b) Derivatives (continued)

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

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			
	2004	2003	2004	2003
	Credit risk weighted amount		Replacement cost	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments	609,676	689,145	N/A	N/A
Derivatives:				
- Exchange rate contracts	847	170	1,398	130
- Interest rate contracts	835	338	1,024	415
	611,358	689,653	2,422	545

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

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

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

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 30 Operating lease commitments

#### (a) 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	
	2004	2003
	HK\$'000	HK\$'000
Land and buildings		
- not later than one year	11,049	9,430
- later than one year but not later than five years	13,933	10,481
	<u>24,982</u>	<u>19,911</u>

#### (b) As lessor

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	
	2004	2003
	HK\$'000	HK\$'000
Land and buildings		
- not later than one year	1,338	801
- later than one year but not later than five years	899	153
	<u>2,237</u>	<u>954</u>

### 31 Segmental reporting

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

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

**CHIYU BANKING CORPORATION LIMITED**

**NOTES TO THE ACCOUNTS**

**31 Segmental reporting (continued)**

**(a) By class of business**

	<b>2004</b>					
	<b>Commercial Banking</b>	<b>Treasury</b>	<b>Unallocated</b>	<b>Subtotal</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Net interest income	289,048	249,535	(4,024)	534,559	-	534,559
Other operating income	214,109	5,154	25,217	244,480	(22,500)	221,980
Operating income	503,157	254,689	21,193	779,039	(22,500)	756,539
Operating expenses	(170,470)	(2,990)	(59,195)	(232,655)	22,500	(210,155)
Operating profit/(loss) before provisions	332,687	251,699	(38,002)	546,384	-	546,384
Charge for bad and doubtful debts	(2,908)	-	-	(2,908)	-	(2,908)
Operating profit/(loss) after provisions	329,779	251,699	(38,002)	543,476	-	543,476
Net gain from disposal/ revaluation of fixed assets	-	-	21,542	21,542	-	21,542
Write-back of provision for impairment on investment securities	-	-	740	740	-	740
Profit/(loss) before taxation	329,779	251,699	(15,720)	565,758	-	565,758
<b>Assets</b>						
Segment assets	9,368,545	20,898,806	659,728	30,927,079	-	30,927,079
<b>Liabilities</b>						
Segment liabilities	25,889,197	1,295,395	275,190	27,459,782	-	27,459,782

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 31 Segmental reporting (continued)

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

	2003					
	Commercial Banking HK\$'000	Treasury HK\$'000	Unallocated HK\$'000	Subtotal HK\$'000	Elimination HK\$'000	Consolidated 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 on investment securities	-	-	(160)	(160)	-	(160)
Profit/(loss) before taxation	379,165	205,633	(40,861)	543,937	-	543,937
<b>Assets</b>						
Segment assets	9,827,917	20,393,230	590,289	30,811,436	-	30,811,436
<b>Liabilities</b>						
Segment liabilities	26,078,421	1,257,634	249,873	27,585,928	-	27,585,928

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

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

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 31 Segmental reporting (continued)

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

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

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

#### (b) By geographical area

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

### 32 Loans to directors and officers

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

	2004 HK\$'000	2003 HK\$'000
Aggregate amount of relevant loans outstanding at year end	<u>1,934</u>	<u>2,139</u>
Maximum aggregate amount of relevant loans outstanding during the year	<u>2,139</u>	<u>2,326</u>

### 33 Significant related party transactions

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

As detailed in Note 34, pursuant to the reorganisation of Bank of China Limited on 26 August 2004, the PRC government established Central Huijin Investment Company Limited ("Huijin") to hold the equity capital of Bank of China Limited and the equity capital of certain other financial institutions previously held directly by the State. The stated purpose of Huijin is to exercise the rights of an equity investor on behalf of the State and not to have any commercial operations. In accordance with SSAP 20 "Related Party Disclosures", Huijin and financial institutions, other than Bank of China Limited, that it controls have not been regarded as related parties, as such entities are acting on behalf of the State similar to government departments and agencies, simply by virtue of their normal dealings with the Bank.

During the year, the Group entered into various transactions with related parties which are carried out in the normal course of the Group's business and on commercial terms are summarised as follows:

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 33 Significant related party transactions (continued)

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

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

	<u>2004</u>	<u>2003</u>
	HK\$'000	HK\$'000
Profit and loss items:		
Interest income	48,036	83,510
Interest expense	3,899	13,427
Other operating income	50,653	43,295
Operating expenses	<u>25,149</u>	<u>22,326</u>
	<u>2004</u>	<u>2003</u>
	HK\$'000	HK\$'000
Balance sheet items:		
Cash and short-term funds	2,143,470	2,219,234
Placement with banks and other financial institutions	2,178,717	450,823
Advances and other accounts	209,823	257,595
Other assets	175,354	513,816
Deposits and balances of banks and other financial institutions	1,008,159	1,106,139
Deposits from customers	1,167,330	866,593
Other accounts and provisions	<u>291,343</u>	<u>530,643</u>

#### (b) Off-balance sheets items

##### Contingent liabilities and commitments

In the ordinary course of business, the Group provides loan facilities and trade finance services to, and guarantees for the obligations of intermediate holding company and fellow subsidiaries on normal commercial terms. As at 31 December 2004, the total undrawn loan commitments, trade finance-related contingencies and guarantees amounted to HK\$18,000,000 (2003: HK\$ Nil).

##### Derivatives

In the ordinary course of business, the Group enters into foreign exchange contracts and interest rate contracts with the intermediate holding company and fellow subsidiaries. The aggregate notional amount of such derivative transactions amounted to HK\$428,000,000 as at 31 December 2004 (2003: HK\$499,000,000). These transactions are executed on normal commercial terms with reference to prevailing market rates.

# CHIYU BANKING CORPORATION LIMITED

## NOTES TO THE ACCOUNTS

### 33 Significant related party transactions (continued)

#### (c) Key management personnel

The Group accepts deposits from and grants loans and credit facilities to key management personnel in the ordinary course of business. During the year and that of the prior year, no material transaction was conducted with key management personnel of the Bank, its holding companies and parties related to them.

#### (d) Balances with group companies

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

	<u>2004</u>	<u>2003</u>
	HK\$'000	HK\$'000
Cash and short-term funds	1,976,259	1,732,594
Placements with banks and other financial institutions	1,999,908	389,495
Advances and other accounts	6,629	1,012
Deposits and balances of banks and other financial institutions	648,931	147,318
Other accounts and provisions	<u>528</u>	<u>187</u>

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

	<u>2004</u>	<u>2003</u>
	HK\$'000	HK\$'000
Cash and short-term funds	155,559	446,374
Advances and other accounts	2,463	903
Other assets	71,100	91,309
Deposits and balances of banks and other financial institutions	359,228	958,821
Other accounts and provisions	<u>194,810</u>	<u>171,703</u>

Included in the following balance sheet captions are balances with fellow subsidiaries:

	<u>2004</u>	<u>2003</u>
	HK\$'000	HK\$'000
Cash and short-term funds	11,652	40,266
Placements with banks and other financial institutions	178,809	61,328
Advances and other accounts	200,731	255,680
Other assets	104,253	422,507
Deposits from customers	1,167,330	866,593
Other accounts and provisions	<u>96,005</u>	<u>358,753</u>



## **CHIYU BANKING CORPORATION LIMITED**

### **NOTES TO THE ACCOUNTS**

#### **34 Ultimate holding company**

With the approval of the State Council of the PRC, Bank of China, the former ultimate holding company of the Bank, has been reorganised into a joint stock company with limited liability in the PRC (the “Reorganisation”) and was renamed Bank of China Limited on 26 August 2004. Pursuant to the Reorganisation, Huijin, becomes the owner of the entire equity interest in Bank of China Limited. Huijin is approved by State of Council of the PRC to assume the rights and obligations of the equity owner on behalf of the State. Accordingly, Huijin, acting on behalf of the State, has become the ultimate holding company of the Bank by virtue of its interest in Bank of China Limited immediately after the Reorganisation.

#### **35 Approval of accounts**

The accounts were approved and authorised for issue by the Board of Directors on 18 March 2005.

# CHIYU BANKING CORPORATION LIMITED

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### (1) Capital adequacy ratio

	<u>2004</u>	<u>2003</u>
Capital adequacy ratio	<u>26.45%</u>	25.31%
Adjusted capital adequacy ratio	<u>26.42%</u>	<u>25.30%</u>

The Capital adequacy ratio (“CAR”) is computed on the combined basis, as specified by the HKMA for its regulatory purposes and in accordance with the Third Schedule of the Banking Ordinance.

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

### (2) Components of capital base after deductions

The consolidated capital base after deductions used in the calculation of the above capital adequacy ratios as at 31 December 2004 and 31 December 2003 and reported to the HKMA is analysed as follows:

	<u>2004</u>	<u>2003</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Core capital:		
Paid up ordinary share capital	300,000	300,000
Reserves	2,761,842	2,619,428
Profit and loss account	152,699	148,105
	<u>3,214,541</u>	<u>3,067,533</u>
Supplementary capital:		
Premises and investment properties revaluation reserves	224	224
General provisions for doubtful debts	158,182	156,664
Total capital base	<u>3,372,947</u>	<u>3,224,421</u>
Deductions from total capital base:		
Shareholdings in subsidiaries or holding company	(3,913)	(3,913)
Exposures to connected companies	(75,789)	(75,720)
Investments in the capital of other banks or other financial institutions	(653)	(653)
	<u>(80,355)</u>	<u>(80,286)</u>
Total capital base after deductions	<u>3,292,592</u>	<u>3,144,135</u>

# **CHIYU BANKING CORPORATION LIMITED**

## **UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)**

### **(3) Liquidity ratio**

	<u>2004</u>	<u>2003</u>
Average liquidity ratio	<u><b>51.25%</b></u>	<u>57.25%</u>

The average liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of the Bank for the year.

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

### **(4) Currency concentrations**

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

	<u>2004</u>							
	<u>Equivalent in thousand of HK\$</u>							
	US Dollars	Euro	Canadian Dollars	Australian Dollars	New Zealand Dollars	Renminbi Yuan	Others	Total
Spot assets	7,058,388	123,660	155,509	921,064	285,324	241,235	340,038	9,125,218
Spot liabilities	(6,046,774)	(169,163)	(167,376)	(886,058)	(287,789)	(250,839)	(986,911)	(8,794,910)
Forward purchases	79,319	71,864	14,211	4,242	3,734	12,746	699,617	885,733
Forward sales	(333,081)	(26,457)	(2,586)	(38,629)	(3,075)	(4,000)	(45,672)	(453,500)
Net long/(short) position	<u>757,852</u>	<u>(96)</u>	<u>(242)</u>	<u>619</u>	<u>(1,806)</u>	<u>(858)</u>	<u>7,072</u>	<u>762,541</u>
Net Structural position	-	-	-	-	-	93,941	-	93,941

	<u>2003</u>							
	<u>Equivalent in thousand of HK\$</u>							
	US Dollars	Euro	Canadian Dollars	Australian Dollars	New Zealand Dollars	Renminbi Yuan	Others	Total
Spot assets	5,792,701	131,204	237,936	1,006,772	483,273	124,204	362,817	8,138,907
Spot liabilities	(5,296,278)	(210,647)	(233,985)	(1,035,123)	(477,126)	(129,878)	(1,067,108)	(8,450,145)
Forward purchases	51,895	105,303	4,808	40,081	2,037	-	729,157	933,281
Forward sales	(385,230)	(24,975)	(7,993)	(7,580)	(7,662)	(214)	(24,805)	(458,459)
Net long/(short) position	<u>163,088</u>	<u>885</u>	<u>766</u>	<u>4,150</u>	<u>522</u>	<u>(5,888)</u>	<u>61</u>	<u>163,584</u>
Net Structural position	-	-	-	-	-	-	-	-

# CHIYU BANKING CORPORATION LIMITED

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

### (5) Segmental information

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

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

	<u>2004</u>	<u>2003</u>
	HK\$'000	HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
- Property development	469,928	490,529
- Property investment	1,518,515	1,503,078
- Financial concerns	300,783	300,163
- Stockbrokers	2,394	3,481
- Wholesale and retail trade	661,125	795,173
- Manufacturing	890,894	725,395
- Transport and transport equipment	123,143	63,298
- Others	595,017	855,061
Individuals		
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	152,903	174,042
- Loans for the purchase of other residential properties	2,414,109	2,655,325
- Others	356,836	394,972
Total loans for use in Hong Kong	7,485,647	7,960,517
Trade finance	874,176	671,294
Loans for use outside Hong Kong	625,739	409,610
Gross advances to customers	8,985,562	9,041,421

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

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

**CHIYU BANKING CORPORATION LIMITED**

**UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)**

**(5) Segmental information (continued)**

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

**(i) Gross advances to customers**

	<u>2004</u>	<u>2003</u>
	HK\$'000	HK\$'000
Hong Kong	8,369,354	8,565,803
Mainland China	<u>616,208</u>	<u>475,618</u>
	<u>8,985,562</u>	<u>9,041,421</u>

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

	<u>2004</u>	<u>2003</u>
	HK\$'000	HK\$'000
Hong Kong	166,793	242,537
Mainland China	<u>42,822</u>	<u>94,013</u>
	<u>209,615</u>	<u>336,550</u>

**(iii) Non-performing loans**

	<u>2004</u>	<u>2003</u>
	HK\$'000	HK\$'000
Hong Kong	186,430	294,413
Mainland China	<u>80,280</u>	<u>93,218</u>
	<u>266,710</u>	<u>387,631</u>

**(6) Cross-border claims**

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

**CHIYU BANKING CORPORATION LIMITED**

**UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)**

**(6) Cross-border claims (continued)**

	<u>Banks and other financial institutions</u>	<u>Others</u>	<u>Total</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
At 31 December 2004			
Asia, other than Hong Kong			
- Mainland China	<b>4,354,000</b>	<b>365,000</b>	<b>4,719,000</b>
- Others	<b>2,962,000</b>	<b>141,000</b>	<b>3,103,000</b>
	<b><u>7,316,000</u></b>	<b><u>506,000</u></b>	<b><u>7,822,000</u></b>
Western Europe			
- United Kingdom	<b>2,315,000</b>	<b>-</b>	<b>2,315,000</b>
- Others	<b>7,989,000</b>	<b>240,000</b>	<b>8,229,000</b>
	<b><u>10,304,000</u></b>	<b><u>240,000</u></b>	<b><u>10,544,000</u></b>
Total	<b><u>17,620,000</u></b>	<b><u>746,000</u></b>	<b><u>18,366,000</u></b>
	<u>Banks and other financial institutions</u>	<u>Others</u>	<u>Total</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
At 31 December 2003			
Asia, other than Hong Kong	4,562,000	395,000	4,957,000
Western Europe	<u>10,348,000</u>	<u>474,000</u>	<u>10,822,000</u>
Total	<b><u>14,910,000</u></b>	<b><u>869,000</u></b>	<b><u>15,779,000</u></b>

**CHIYU BANKING CORPORATION LIMITED**

**UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)**

**(7) Overdue and rescheduled assets**

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

	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>% of gross</u>	<u>Amount</u>	<u>% of gross</u>
	<u>HK\$'000</u>	<u>advances to</u>	<u>HK\$'000</u>	<u>advances to</u>
		<u>customers</u>		<u>customers</u>
Gross advances to customers which have been overdue for:				
- six months or less but over three months	29,271	0.33%	12,320	0.14%
- one year or less but over six months	2,022	0.02%	7,185	0.08%
- over one year	178,322	1.98%	317,045	3.50%
Amount overdue for over three months	209,615	2.33%	336,550	3.72%
Less:				
Amount overdue for over three months and on which interest is still being accrued	(2,045)	(0.02%)	(825)	(0.01%)
Add:				
Amount overdue for three months or less and on which interest is being placed in suspense or on which interest accrual has ceased				
- included in rescheduled advances	3,795	0.04%	11,235	0.13%
- others	55,345	0.62%	40,671	0.45%
Gross non-performing loans	266,710	2.97%	387,631	4.29%

At 31 December 2004 and 31 December 2003, there were no advances to banks and other financial institutions that were overdue for over three months.

**(b) Rescheduled advances to customers**

	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>% of gross</u>	<u>Amount</u>	<u>% of gross</u>
	<u>HK\$'000</u>	<u>advances to</u>	<u>HK\$'000</u>	<u>advances to</u>
		<u>customers</u>		<u>customers</u>
Rescheduled advances to customers	3,796	0.04%	12,961	0.14%

# CHIYU BANKING CORPORATION LIMITED

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

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

#### (b) Rescheduled advances to customers (continued)

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 in overdue advances. Rescheduled advances are stated after deduction of accrued interest that has been charged to customers but accrued to a suspense account and before deduction of specific provisions.

As at 31 December 2004 and 31 December 2003, there were no rescheduled advances to banks and other financial institutions.

#### (8) Repossessed assets held

	<u>2004</u> <u>HK\$'000</u>	<u>2003</u> <u>HK\$'000</u>
Reposessed assets held	<u>110,754</u>	<u>118,583</u>

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 reposessed assets which are yet to be disposed. Upon disposal of the reposessed assets, any specific provisions previously made will be utilised to write off the loans and advances.



**UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)**

**(9) Risk management**

**Overview**

The principal types of risk inherent in the Group's business include credit risk, market risk (exchange rate risk), interest 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, interest rate 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 Business Units;
- 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:

- 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.

**UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)**

**(9) Risk management (continued)**

**Credit Risk Management (continued)**

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.

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.

**UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)**

**(9) Risk Management (continued)**

**Credit Risk Management Structure (continued)**

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 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.

**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.

# CHIYU BANKING CORPORATION LIMITED

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

### (9) Risk Management (continued)

#### 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 HKMA. 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.

#### 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.

**UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)**

**(9) Risk Management (continued)**

**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 51.25% for the year ended 31 December 2004 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:

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

## **CHIYU BANKING CORPORATION LIMITED**

### **UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)**

#### **(9) Risk Management (continued)**

##### **Capital Management**

The Group monitors the adequacy of its capital using the 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 Assets and Liabilities Management Committee, with the assistance of the Finance Division, monitors the adequacy of its capital using the CAR as one of the major measurements, which is subject to HKMA's regulatory requirements. On combined basis, the Bank's unadjusted CAR and adjusted CAR incorporating market risk were 26.45% and 26.42% at 31 December 2004 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 2004. 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.

**(10) Regulatory development**

**The New Basel Capital Accord**

In June 2004, the Basel Committee released the New Capital Accord (also referred to as Basel II). Basel II will be implemented globally by end-2006. All internationally active banks in the major financial markets around the world will follow Basel II. The HKMA has announced that local banks will follow the same timetable of the Basel Committee and Hong Kong is among the first to announce the implementation proposals.

Firstly, Basel II helps promote the safety and stability of the banking sector. In assessing the capital requirements for credit risk, a more “risk-sensitive” approach will be adopted. Banks will be required to hold more capital against high-risk lending. Furthermore, banks will, for the first time, be required to hold capital against operational risk - the risk of loss from inadequate or failed internal processes, people or systems, or from external events. In addition to credit risk, market risk and operational risk, banks will be required to assess the full range of other type of risks they run and determine how much capital to hold against them. Secondly, Basel II will help promote the adoption of advanced risk management practices. Thirdly, Basel II requires greater public disclosure about a bank’s business.

The Group has formulated an implementation plan for Basel II according to the requirements of the Basel Committee and the HKMA. We are developing the required internal risk management system and conducting researches on the whole capital adequacy assessment process. The internal ratings-based approach will also be gradually adopted in our business decisions. In 2005, we will closely follow the latest requirements relating to the Basel II set by the HKMA and carry out its implementation plan step by step.

## **CHIYU BANKING CORPORATION LIMITED**

### **REVIEW AND PROSPECTS BY MANAGEMENT**

In 2004, the Hong Kong economy resumed its growth momentum. Exports and domestic demands continued to grow, the property and equity markets gradually recovered. The GDP growth is expected to be about 8.0% for the whole year.

The banking industry has been facing abundance of market capitals, low market rates and a weak demand for loans. In effect, the net interest margin of the industry narrowed, and banks in Hong Kong are more deliberate on offering personal wealth management services to gain a larger share of non-interest income. Furthermore, they have expanded their businesses in Mainland China more enthusiastically.

In 2004, the Bank achieved a profit attributable to shareholders of HK\$493 million, an increase of 1.6% compared with 2003. Return on average shareholders' funds and return on average assets were 14.74% and 1.60% 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 6 basis points to 1.77%, and net interest margin reduced by 6 basis points to 1.84%. Net interest income was HK\$535 million, a reduction of 4% compared with 2003.

During the year, the Bank made efforts to widen its range of personal wealth management services and develop innovative products to serve our customers' needs, as well as enlarging our income sources. The non-interest income to total revenue increased from 26.92% to 29.34%. Other operating income increased by 8.2% to HK\$222 million compared with 2003.

The operating expenses increased by 4% to HK\$210 million compared with 2003. However, through effective utilization of resources and cost controls, a comparatively low cost-to-income ratio of 27.78% has been maintained.

The Bank has continued to improve asset quality and enhance credit risks control. The non-performing loans ratio dropped from 4.29% to 2.97% compared with the end of 2003. The charge for bad and doubtful debts decreased by 56.6% compared with 2003.

At the end of 2004, the Bank reported an increase in consolidated total asset by HK\$116 million to HK\$30.93 billion. Loans and advances to customers were dropped by 0.6% to HK\$8.99 billion. Deposits from customers rose by 2.0% to HK\$24.76 billion.

In 2005, the Bank will put emphasis on providing high quality wealth management services. We will expand the professional sales team in the personal wealth management services. To further cultivate the Small Medium Enterprises market, the Bank will also strengthen the corporate banking services sales team, so as to underpin our competitive advantages in this sector. The Bank will continue to explore more innovative products and services to meet the demands of our customers, particularly, in the personal wealth management services. The Bank will also continue to expand business in the Pearl River Delta region, the Yangtze River Delta region, as well as Fujian Province.



## **CHIYU BANKING CORPORATION LIMITED**

### **REVIEW AND PROSPECTS BY MANAGEMENT (CONTINUED)**

In 2005, China's economy will sustain its growth rate. The Hong Kong economic and business environment will further improve, but the competition in banking industry will remain intense. We are convinced that, with the competence of the management and the entire staff, the Bank will continue to capitalize on every business opportunity arising from the growing economies of Hong Kong and Mainland China. The Bank will also allocate resources to ensure that the corporate governance is in line with international best practices. May we take this opportunity to express our thanks to our valued customers for their years support. We are committed to serve with our superior service all the time.

March 2005

## **CHIYU BANKING CORPORATION LIMITED**

### **BRANCH NETWORK**

<b>BRANCH (Br.)</b>	<b>ADDRESS</b>	<b>TELEPHONE</b>
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#### **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 Belvedere Garden Br.	Shop 112-114, G/F., On Wo House, Tai Wo Estate, Tai Po, N. T.	2656 3386
Tsuen Wan Br.	Shop 5A, G/F., Belvedere Square, Tsuen Wan, N.T	2411 6789
	Shop 1 and 1D, Level 2, Discovery Park Commercial Centre, Tsuen Wan, N.T.	2413 8111
Shatin Sui Wo Court	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

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