



集友銀行

Chiyu Banking Corporation Ltd.

中國銀行（香港）有限公司附屬機構
A SUBSIDIARY OF BANK OF CHINA (HONG KONG) LIMITED

2005

Interim Report



CONTENTS	PAGE
Consolidated Profit and Loss Account	2
Consolidated Balance Sheet	3
Consolidated Statement of Changes in Equity	4
Consolidated Cash Flow Statement	5
Notes to the Accounts	
1. Basis of preparation and accounting policies	6
2. Effect of adopting new HKFRSs	15
3. Net interest income	16
4. Net fees and commission income	17
5. Net trading income	17
6. Other operating income	18
7. Operating expenses	18
8. Reversal of loan impairment allowances on advances	19
9. Write-back of bad and doubtful debts	19
10. Net gain/(loss) from disposal/revaluation of fixed assets/investment properties	19
11. Taxation	20
12. Dividend	21
13. Retirement benefit costs	21
14. Share option schemes	22
15. Cash and short-term funds	23
16. Certificates of deposit held	23
17. Available-for-sale securities	24
18. Held-to-maturity securities	24
19. Investment securities	25
20. Other financial assets at fair value through profit or loss	25
21. Derivative financial instruments	26
22. Advances and other accounts	28
23. Deposits from customers	29
24. Other financial liabilities at fair value through profit or loss	29
25. Deferred taxation	30
26. Other accounts and provisions	31
27. Share capital	31
28. Reserves	31
29. Notes to consolidated cash flow statement	32
30. Maturity profile	33
31. Contingent liabilities and commitments	34
32. Segmental reporting	35
33. Significant related party transactions	37
34. Ultimate holding company	44
35. Comparative amounts	44
36. Statutory accounts	44
Supplementary Financial Information	
1. Capital adequacy ratio	45
2. Components of capital base after deductions	45
3. Liquidity ratio	46
4. Currency concentrations	46
5. Segmental information	47
6. Cross-border claims	48
7. Overdue and rescheduled assets	49
8. Repossessed assets held	49
Review and Prospects by Management	50
Independent Review Report	51



The directors of Chiyu Banking Corporation Limited are pleased to announce the unaudited consolidated interim results of the Group for the six months ended 30 June 2005 together with the comparative figures in 2004 as follows:-

Consolidated Profit and Loss Account

	Notes	(Unaudited) Half-year ended 30 June 2005 HK\$' 000	(Unaudited) Half-year ended 30 June 2004 HK\$' 000
Interest income		404,210	337,184
Interest expense		(142,954)	(72,397)
Net interest income	3	261,256	264,787
Fees and commission income		97,618	106,641
Fees and commission expenses		(14,683)	(10,081)
Net fees and commission income	4	82,935	96,560
Net trading income	5	21,144	22,545
Other operating income	6	1,490	1,634
Operating income		366,825	385,526
Operating expenses	7	(105,259)	(103,328)
Operating profit before impairment/provisions on advances		261,566	282,198
Reversal of loan impairment allowances on advances	8	4,948	-
Write-back of bad and doubtful debts	9	-	16,282
Operating profit		266,514	298,480
Net gain/(loss) from disposal/ revaluation of fixed assets / investment properties	10	4,051	(23)
Profit before taxation		270,565	298,457
Taxation	11	(45,413)	(43,026)
Profit Attributable to shareholders		225,152	255,431
Dividend	12	168,000	150,000



Consolidated Balance Sheet

	Notes	(Unaudited) At 30 June 2005 HK\$' 000	At 31 December 2004 HK\$' 000
ASSETS			
Cash and short-term funds	15	7,999,574	9,434,661
Placements with banks and other financial institutions maturing between one and twelve months		4,276,672	3,798,731
Trade bills		143,642	103,647
Certificates of deposit held	16	2,247,314	2,047,188
Available-for-sale securities	17	36,655	-
Held-to-maturity securities	18	5,561,766	5,571,797
Investment securities	19	-	21,677
Other financial assets at fair value through profit or loss	20	666,269	-
Derivative financial instruments	21	171,606	-
Advances and other accounts	22	9,812,434	8,822,697
Fixed assets		494,972	498,120
Investment properties		24,609	20,690
Deferred tax assets	25	72	71
Other assets		833,387	607,800
Total assets		32,268,972	30,927,079
LIABILITIES			
Deposits and balances of banks and other financial institutions		1,615,090	1,045,819
Deposits from customers	23	23,154,602	24,764,174
Other financial liabilities at fair value through profit or loss	24	2,208,676	-
Derivative financial instruments	21	62,069	-
Certificates of deposit issued		365,820	369,291
Deferred tax liabilities	25	43,346	18,319
Other accounts and provisions	26	1,170,525	1,262,179
Total liabilities		28,620,128	27,459,782
CAPITAL RESOURCES			
Share capital	27	300,000	300,000
Reserves	28	3,348,844	3,167,297
Shareholders' funds		3,648,844	3,467,297
Total liabilities and capital resources		32,268,972	30,927,079



Consolidated Statement of Changes in Equity

	Unaudited						
	Attributable to equity holders of the Group						
	Share capital	Premises revaluation reserve	Investment properties revaluation reserve	Translation reserve	Regulatory reserve*	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2004	300,000	110,738	5,690	408	-	2,808,672	3,225,508
Net profit for the first half of 2004	-	-	-	-	-	255,431	255,431
Currency translation difference	-	-	-	(175)	-	-	(175)
2004 first interim dividend paid	-	-	-	-	-	(150,000)	(150,000)
Release from deferred tax liabilities	-	85	-	-	-	-	85
At 30 June 2004	<u>300,000</u>	<u>110,823</u>	<u>5,690</u>	<u>233</u>	<u>-</u>	<u>2,914,103</u>	<u>3,330,849</u>
Bank and subsidiaries	<u>300,000</u>	<u>110,823</u>	<u>5,690</u>	<u>233</u>	<u>-</u>	<u>2,914,103</u>	<u>3,330,849</u>
At 1 July 2004	300,000	110,823	5,690	233	-	2,914,103	3,330,849
Net profit for the second half of 2004	-	-	-	-	-	237,719	237,719
Currency translation difference	-	-	-	121	-	-	121
2004 second interim dividend paid	-	-	-	-	-	(189,000)	(189,000)
Revaluation of premises	-	102,028	3,310	-	-	-	105,338
Release from deferred tax liabilities	-	(17,730)	-	-	-	-	(17,730)
At 31 December 2004	<u>300,000</u>	<u>195,121</u>	<u>9,000</u>	<u>354</u>	<u>-</u>	<u>2,962,822</u>	<u>3,467,297</u>
Bank and subsidiaries	<u>300,000</u>	<u>195,121</u>	<u>9,000</u>	<u>354</u>	<u>-</u>	<u>2,962,822</u>	<u>3,467,297</u>
At 1 January 2005							
As previously reported	300,000	195,121	9,000	354	-	2,962,822	3,467,297
Opening adjustment (Note 2)	-	-	(9,000)	-	140,148	(6,971)	124,177
Balance after opening adjustments	<u>300,000</u>	<u>195,121</u>	<u>-</u>	<u>354</u>	<u>140,148</u>	<u>2,955,851</u>	<u>3,591,474</u>
Net profit for the first half of 2005	-	-	-	-	-	225,152	225,152
Currency translation difference	-	-	-	10	-	-	10
2005 first interim dividend paid	-	-	-	-	-	(168,000)	(168,000)
Release from deferred tax liabilities	-	208	-	-	-	-	208
Transfer from retained earnings	-	-	-	-	7,241	(7,241)	-
At 30 June 2005	<u>300,000</u>	<u>195,329</u>	<u>-</u>	<u>364</u>	<u>147,389</u>	<u>3,005,762</u>	<u>3,648,844</u>
Bank and subsidiaries	<u>300,000</u>	<u>195,329</u>	<u>-</u>	<u>364</u>	<u>147,389</u>	<u>3,005,762</u>	<u>3,648,844</u>

*In accordance with the requirements of Hong Kong Monetary Authority, the amounts are set aside for general banking risks, including future losses or other unforeseeable risks, in addition to the impairment allowances on advances recognised under Hong Kong Accounting Standard 39.



Consolidated Cash Flow Statement

	Notes	(Unaudited) Half-year ended 30 June 2005 HK\$' 000	(Unaudited) Half-year ended 30 June 2004 HK\$' 000
Cash flow from operating activities			
Operating cash outflow before taxation	29(a)	(636,913)	(3,458,574)
Hong Kong profits tax (paid)/refunded		(21,240)	849
Overseas profits tax paid		(1,013)	(828)
Net cash outflow from operating activities		(659,166)	(3,458,553)
Cash flow from investing activities			
Dividends received from investment in securities		606	696
Purchase of fixed assets		(5,748)	(4,348)
Proceeds from disposal of fixed assets		3,139	-
Net cash outflow from investing activities		(2,003)	(3,652)
Cash flow from financing activities			
Dividend paid		(189,000)	(186,000)
Decrease in cash and cash equivalents		(850,169)	(3,648,205)
Cash and cash equivalents at 1 January		10,865,480	11,049,659
Cash and cash equivalents at 30 June	29(b)	10,015,311	7,401,454



Notes to the Accounts

1. Basis of preparation and accounting policies

This unaudited interim report has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and should be read in conjunction with the Group's Annual Report for 2004.

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

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

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

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



Notes to the Accounts (continued)

1. Basis of preparation and accounting policies (continued)

HKFRS 5: Non-Current Assets Held for Sale and Discontinued Operations ("HKFRS 5")

From 1 January 2004 to 31 December 2004

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

From 1 January 2005 onward

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

HKAS 17: Leasing ("HKAS 17")

From 1 January 2004 to 31 December 2004

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

From 1 January 2005 onward

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

Consistent with the accounting policy of BOC Hong Kong (Holdings) Limited ("BOCHKHL"), the Group has adopted the valuation at the date of the merger of BOCHKHL ("the Merger") as the deemed cost for its leasehold properties held for own use to reflect the circumstances at the time of the Merger.

It is also determined that the values of the land and building elements of the Group's leasehold properties held for own use cannot be reliably split and the leasehold properties held for own use are treated as finance leases. The Group has therefore adopted the revaluation model under HKAS 16 by which assets arising under these finance leases are carried at fair value less any accumulated depreciation and impairment losses.



Notes to the Accounts (continued)

1. Basis of preparation and accounting policies (continued)

HKAS 39: Financial Instruments – Recognition and Measurement

(a) Interest income and expense and fees and commission income and expense

From 1 January 2004 to 31 December 2004

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

From 1 January 2005 onward

Interest income and expense on interest-bearing financial assets or financial liabilities is recognised on a time-proportion basis using the effective interest method. Premiums or discounts of debt securities held, or debt instruments in issue, and directly attributable loan origination fees and costs which represent an integral part of the effective yield are amortised over the expected life of the financial instrument as part of the effective interest calculation.

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

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



Notes to the Accounts (continued)

1. Basis of preparation and accounting policies (continued)

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

(b) Derivative financial instruments

From 1 January 2004 to 31 December 2004

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

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

From 1 January 2005 onward

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

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

The Group documents at inception the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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

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



Notes to the Accounts (continued)

1. Basis of preparation and accounting policies (continued)

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

(c) Financial assets

From 1 January 2004 to 31 December 2004

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

From 1 January 2005 onward

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

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

This category is further divided into two sub-categories: financial assets held for trading, and financial assets designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term. A financial asset can be designated at fair value through profit or loss if it is so designated at inception. The designation is intended to eliminate or reduce the inconsistency in measurement or recognition that would otherwise arise when:

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

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

(2) Loans and receivables

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



Notes to the Accounts (continued)

1. Basis of preparation and accounting policies (continued)

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

(c) Financial assets (continued)

(3) Held-to-maturity

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

(4) Available-for-sale

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

(d) Financial liabilities

From 1 January 2004 to 31 December 2004

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

From 1 January 2005 onward

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

(1) Trading liabilities

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



Notes to the Accounts (continued)

1. Basis of preparation and accounting policies (continued)

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

(d) Financial liabilities (continued)

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

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

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

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

(e) Valuation of securities and derivatives

From 1 January 2004 to 31 December 2004

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

From 1 January 2005 onward

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

(f) Impairment of financial assets

From 1 January 2004 to 31 December 2004

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

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



Notes to the Accounts (continued)

1. Basis of preparation and accounting policies (continued)

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

(f) Impairment of financial assets (continued)

From 1 January 2005 onward

(1) Loans and advances

The Group assesses at each balance sheet date whether there is objective evidence that a loan or group of loans is impaired. Loans are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loans (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the loans that can be reliably estimated.

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

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

(2) Other financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of an equity investment below its cost is considered in determining whether this equity investment is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account – is removed from equity reserve and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.



Notes to the Accounts (continued)

1. Basis of preparation and accounting policies (continued)

HKAS 40 :Investment Property (“HKAS 40”) and HKAS 12:Income Taxes – HKAS Interpretation 21 (“HKAS-Int 12”)

From 1 January 2004 to 31 December 2004

Investment properties were carried at valuation assessed by professional valuers on the basis of open market value. Changes in the value of investment properties were treated as a movement in the investment properties revaluation reserve on a portfolio basis. Unless the total of the reserve was insufficient to cover a deficit, then the deficit exceeded the total revaluation reserve was charged to the profit and loss account. Any subsequent revaluation surplus was credited to the profit and loss account to the extent of the deficit previously charged. No deferred tax was provided on revaluation surpluses of investment properties.

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

From 1 January 2005 onward

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

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

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

HKFRS 5

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

HKAS 39

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

HKAS 40 and HKAS-Int 21

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



Notes to the Accounts (continued)

2. Effect of adopting new HKFRSs

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

	Increase/ (Decrease) HK\$'000
<u>(i) HKAS 39</u>	
Assets:	
- Cash and short-term funds	10,546
- Placements with banks and other financial institutions maturing between one and twelve months	4,369
- Trade bills	18
- Certificates of deposit held	(3,311)
- Available-for-sale securities	37,609
- Held-to-maturity securities	(582,480)
- Investment securities	(21,677)
- Other financial assets at fair value through profit or loss	611,556
- Derivative financial instruments	216,117
- Advances and other accounts	20,517
- Other assets	(124,012)
	<u>169,252</u>
Liabilities:	
- Deposits and balances of banks and other financial institutions	108
- Deposits from customers	(1,322,577)
- Other financial liabilities at fair value through profit or loss	1,319,111
- Derivative financial instruments	50,189
- Certificates of deposit issued	788
- Deferred tax liabilities	24,526
- Other accounts and provisions	(27,481)
	<u>44,664</u>
Capital resources	
- Regulatory reserve	140,148
- Retained earnings	(15,560)
	<u>124,588</u>
<u>(ii) HKAS 40 and HKAS-Int 21</u>	
Liabilities:	
- Deferred tax liabilities	411
Capital resources	
- Investment property revaluation reserve	(9,000)
- Retained earnings	8,589
	<u>(411)</u>
Total effect on equity including:	
- Investment property revaluation reserve	(9,000)
- Regulatory reserve	140,148
- Retained earnings	(6,971)
	<u>124,177</u>



Notes to the Accounts (continued)

2. Effect of adopting new HKFRSs (continued)

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

	Increase/ (Decrease) HK\$'000
(i) HKAS 39	
Net interest income	4,794
Net fee and commission income	(3,632)
Net trading income	1,890
Reversal of loan impairment allowances on advances	2,188
Taxation	(289)
	<u>4,951</u>
(ii) HKAS 40 and HKAS-Int 21	
Net gain from revaluation of fixed assets	3,919
Taxation	(686)
	<u>3,233</u>
Total effect for the period:	<u>8,184</u>

3. Net interest income

	Half-year ended 30 June 2005 HK\$' 000	Half-year ended 30 June 2004 HK\$' 000
Interest income		
Cash and due from banks and other financial institutions	134,510	71,697
Advances to customers	168,096	142,416
Listed investments	3,864	25,906
Unlisted investments	92,163	91,333
Others	5,577	5,832
	<u>404,210</u>	<u>337,184</u>
Interest expense		
Due to banks, customers and other financial institutions	(134,276)	(63,967)
Debt securities in issue	(5,188)	(5,892)
Others	(3,490)	(2,538)
	<u>(142,954)</u>	<u>(72,397)</u>
Net interest income	<u>261,256</u>	<u>264,787</u>

Interest income includes HK\$3,358,000 interest accrued on impaired advances.



Notes to the Accounts (continued)

4. Net fees and commission income

	Half-year ended 30 June 2005 HK\$' 000	Half-year ended 30 June 2004 HK\$' 000
Fees and commission income		
Securities brokerage	31,742	34,960
Credit cards	142	284
Bills commissions	18,665	21,255
Loan commissions	6,331	10,857
Payment services	7,092	6,591
Insurance	5,049	5,010
Asset management	2,434	3,416
Guarantees	624	837
Others		
- safe deposit box	5,613	5,238
- low deposit balance accounts	937	1,548
- currency exchange	180	141
- BOC cards	599	653
- dormant accounts	443	551
- agency services	149	234
- postage and telegrams	475	499
- information search	992	761
- correspondent banking	936	785
- sundries	15,215	13,021
	97,618	106,641
Fees and commission expenses	(14,683)	(10,081)
Net fees and commission income	82,935	96,560

5. Net trading income

	Half-year ended 30 June 2005 HK\$' 000	Half-year ended 30 June 2004 HK\$' 000
Net gain from:		
- foreign exchange and foreign exchange products	16,952	22,545
- interest rate instruments	4,198	-
- equity instruments	(6)	-
Total	21,144	22,545

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



Notes to the Accounts (continued)

6. Other operating income

	Half-year ended 30 June 2005 HK\$' 000	Half-year ended 30 June 2004 HK\$' 000
Dividend income from investments in securities		
- listed	59	36
- unlisted investments	547	660
Gross rental income from investment properties	679	655
Less: Outgoings in respect of investment properties	(57)	(23)
Others	262	306
	1,490	1,634

7. Operating expenses

	Half-year ended 30 June 2005 HK\$' 000	Half-year ended 30 June 2004 HK\$' 000
Staff costs (including directors' emoluments)		
- salaries and other costs	60,501	60,456
- termination benefit	79	-
- pension cost	5,257	4,893
	65,837	65,349
Premises and equipment expenses (excluding depreciation)		
- rental of premises	6,762	6,804
- information technology	11,385	9,741
- others	2,034	2,701
	20,181	19,246
Depreciation on owned fixed assets	5,890	6,240
Auditors' remuneration		
- audit services	240	183
Other operating expenses	13,111	12,310
	105,259	103,328



Notes to the Accounts (continued)

8. Reversal of loan impairment allowances on advances

	Half-year ended 30 June 2005 HK\$'000	Half-year ended 30 June 2004 HK\$'000
Net release of loan impairment allowances on advances		
Individually assessed	2,209	-
Collectively assessed	2,739	-
	<u>4,948</u>	<u>-</u>
Of which		
- new provisions	(3,893)	-
- releases	7,862	-
- recoveries	979	-
Net credit to profit and loss account	<u>4,948</u>	<u>-</u>

9. Write-back of bad and doubtful debts

	Half-year ended 30 June 2005 HK\$' 000	Half-year ended 30 June 2004 HK\$' 000
Net credit for bad and doubtful debts		
Specific provisions		
- new provisions	-	(26,952)
- releases	-	34,175
- recoveries	-	17,180
	-	<u>24,403</u>
General provisions	-	<u>(8,121)</u>
Net credit to profit and loss account	<u>-</u>	<u>16,282</u>

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

	Half-year ended 30 June 2005 HK\$' 000	Half-year ended 30 June 2004 HK\$' 000
Net gain on disposal of premises	133	-
Net loss on disposal of other fixed assets	(1)	(23)
Net gain on revaluation of investment properties	3,919	-
	<u>4,051</u>	<u>(23)</u>

As at 30 June 2005, the premises are included in the consolidated 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.



Notes to the Accounts (continued)

11. Taxation

Taxation in the profit and loss account represents:

	Half-year ended 30 June 2005 HK\$' 000	Half-year ended 30 June 2004 HK\$' 000
Hong Kong profits tax		
- current period taxation	43,943	49,705
- over-provision in prior years	-	(5,000)
Deferred tax charge/(credit)	297	(2,600)
Hong Kong profits tax	44,240	42,105
Overseas taxation	1,173	921
	45,413	43,026

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2005. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2005 at the rates of taxation prevailing in the countries in which the Group operates.

The Group has entered into an aircraft leasing transaction involving special purpose partnership. As at 30 June 2005, the Group's investments in such partnership, which is included in "Other assets" in the consolidated balance sheet, amounted to HK\$50,322,000 (31 December 2004: HK\$108,000,000). 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 taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong is as follows:

	Half-year ended 30 June 2005 HK\$' 000	Half-year ended 30 June 2004 HK\$' 000
Profit before taxation	270,565	298,457
Calculated at a taxation rate of 17.5% (2004: 17.5%)	47,349	52,230
Effect of different taxation rates in other countries	(645)	470
Income not subject to taxation	(2,023)	(5,169)
Expenses not deductible for taxation purposes	435	3,095
Temporary differences not recognised	297	(2,600)
Over-provision in prior years	-	(5,000)
Taxation charge	45,413	43,026
Effective tax rate	16.78%	14.42%



Notes to the Accounts (continued)

12. Dividend

	Half-year ended 30 June 2005		Half-year ended 30 June 2004	
	Per share HK\$	Total HK\$' 000	Per share HK\$	Total HK\$' 000
Interim dividend	56.00	168,000	50.00	150,000

13. Retirement benefit costs

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

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

The Group's total contributions made to the ORSO schemes for the first half of 2005 amounted to approximately HK\$4,775,000 (first half of 2004: approximately HK\$4,530,000), after a deduction of forfeited contributions of approximately HK\$290,000 (first half of 2004: approximately HK\$420,000). For the MPF Scheme, the Group contributed approximately HK\$157,000 and HK\$112,000 for the first half of 2005 and 2004 respectively.



Notes to the Accounts (continued)

14. Share option scheme

(a) Share Option Scheme and Sharesave Plan

The principal terms of the Share Option Scheme and the Sharesave Plan were approved and adopted by written resolutions of all the shareholders of the Bank's intermediate holding company, BOCHKHL, dated 10 July 2002.

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

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

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

(b) Pre-Listing Share Option Scheme

On 5 July 2002, several directors of the Group 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 to purchase from BOC (BVI) an aggregate of 3,652,800 existing issued shares of BOCHKHL.

Details of the share options outstanding as at 30 June 2005 are as follows:

	Total number of share options to Directors of the Group	Average exercise price (HK\$ per share)
At 1 January 2005	2,572,800	
Less: Share options exercised during the period	(325,000)	8.5
At 30 June 2005	2,247,800	
Exercisable at 30 June 2005	2,247,800	
 At 1 January 2004	 3,168,800	
Less: Share options exercised during the period	(381,000)	8.5
At 30 June 2004 and at 1 July 2004	2,787,800	
Less: Share options exercised during the period	(215,000)	8.5
At 31 December 2004	2,572,800	
Exercisable at 31 December 2004	2,572,800	



Notes to the Accounts (continued)

14. Share option scheme (continued)

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

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

15. Cash and short-term funds

	At 30 June 2005 HK\$' 000	At 31 December 2004 HK\$' 000
Cash	94,129	100,985
Balances with banks and other financial institutions	806,050	533,261
Money at call and short notice maturing within one month	7,099,395	8,800,415
	7,999,574	9,434,661

16. Certificates of deposit held

	At 30 June 2005 HK\$' 000	At 31 December 2004 HK\$' 000
Unlisted, at fair value		
- Other financial instruments at fair value through profit or loss	341,174	-
Unlisted, at amortised cost		
- Held-to-maturity securities	1,906,140	2,047,188
	2,247,314	2,047,188



Notes to the Accounts (continued)

17. Available-for-sale securities

	At 30 June 2005 HK\$' 000	At 31 December 2004 HK\$' 000
Debt securities, at fair value		
- Unlisted	10,628	-
Equity securities, at fair value		
- Listed outside Hong Kong	5,272	-
Equity securities, at cost		
- Unlisted	20,755	-
	26,027	-
Total	36,655	-
Available-for-sale securities are analysed by issuers as follows:		
Central governments and central banks	10,628	-
Banks and other financial institutions	5,272	-
Corporate entities	20,755	-
	36,655	-

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

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

18. Held-to-maturity securities

	At 30 June 2005 HK\$' 000	At 31 December 2004 HK\$' 000
Listed, at amortised cost	390,606	302,135
Unlisted, at amortised cost	5,171,160	5,269,662
Total	5,561,766	5,571,797
Listed, at amortised cost		
- in Hong Kong	312,369	302,135
- outside Hong Kong	78,237	-
	390,606	302,135
Market value of listed securities	382,736	304,072
Held-to-maturity securities are analysed by issuers as follows:		
Central governments and central banks	312,369	352,380
Public sector entities	592,731	310,000
Banks and other financial institutions	4,656,666	4,909,417
	5,561,766	5,571,797



Notes to the Accounts (continued)

19. Investment securities

	At 30 June 2005 HK\$' 000	At 31 December 2004 HK\$' 000
Unlisted debt securities, at cost	-----	250
Equity securities, at cost		
- Listed outside Hong Kong	-	653
- Unlisted,		21,834
Less: Provision for impairment in value	-	(1,060)
	-	20,774
	-----	21,427
Total	-	21,677
Market value of listed equity securities	-	5,279
Investment securities are analysed by issuers as follows:		
Banks and other financial institutions	-	653
Corporate entities	-	21,024
	-	21,677

20. Other financial assets at fair value through profit or loss

	At 30 June 2005 HK\$' 000	At 31 December 2004 HK\$' 000
At fair value		
Debt securities		
- Unlisted	666,269	-

Other financial assets at fair value through profit or loss are analysed by issuers as follows:

	At 30 June 2005 HK\$' 000	At 31 December 2004 HK\$' 000
Central governments and central banks	43,743	-
Banks and other financial institutions	622,526	-
	666,269	-



Notes to the Accounts (continued)

21. Derivative financial instruments

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

Currency forward represents commitments to purchase and sell foreign currency on a future date.

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

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

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



Notes to the Accounts (continued)

21. Derivative financial instruments (continued)

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

	At 30 June 2005			At 31 December 2004		
	Trading HK\$' 000	Hedging HK\$' 000	Total HK\$' 000	Trading HK\$' 000	Hedging HK\$' 000	Total HK\$' 000
Exchange rate contracts						
Spot	2,472,590	-	2,472,590	94,516	-	94,516
Forward and futures	16,254	-	16,254	32,593	-	32,593
Foreign currency option contracts						
- Options purchased	57,391	-	57,391	72,063	-	72,063
- Options written	57,391	-	57,391	72,063	-	72,063
	<u>2,603,626</u>	<u>-</u>	<u>2,603,626</u>	<u>271,235</u>	<u>-</u>	<u>271,235</u>
Interest rate contracts						
Swaps	1,409,331	10,542	1,419,873	524,579	50,246	574,825
Interest rate option contracts						
- Swaptions purchased	15,544	-	15,544	15,549	-	15,549
- Swaptions written	205,821	-	205,821	205,847	-	205,847
	<u>1,630,696</u>	<u>10,542</u>	<u>1,641,238</u>	<u>745,975</u>	<u>50,246</u>	<u>796,221</u>
Equity contracts						
Equity option contracts						
- Options purchased	88,531	-	88,531	52,245	-	52,245
- Options written	88,531	-	88,531	52,245	-	52,245
	<u>177,062</u>	<u>-</u>	<u>177,062</u>	<u>104,490</u>	<u>-</u>	<u>104,490</u>
Total	<u>4,411,384</u>	<u>10,542</u>	<u>4,421,926</u>	<u>1,121,700</u>	<u>50,246</u>	<u>1,171,946</u>

The following table summarises the fair values of each class of derivative financial instruments as at 30 June 2005:

	Fair value assets			Fair value liabilities		
	Trading HK\$' 000	Hedging HK\$' 000	Total HK\$' 000	Trading HK\$' 000	Hedging HK\$' 000	Total HK\$' 000
Exchange rate contracts	164,753	-	164,753	32,957	-	32,957
Interest rate contracts	5,896	674	6,570	28,829	-	28,829
Equity contracts	283	-	283	283	-	283
Total	<u>170,932</u>	<u>674</u>	<u>171,606</u>	<u>62,069</u>	<u>-</u>	<u>62,069</u>

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

	At 30 June 2005	At 31 December 2004	At 30 June 2005	At 31 December 2004
	Credit risk weighted amount HK\$' 000	HK\$' 000	Replacement cost HK\$' 000	HK\$' 000
Exchange rate contracts	231	847	299	1,398
Interest rate contracts	1,553	835	609	1,024
Total	<u>1,784</u>	<u>1,682</u>	<u>908</u>	<u>2,422</u>



Notes to the Accounts (continued)

21. Derivative financial instruments (continued)

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 Hong Kong Monetary Authority. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

Replacement cost is the cost of replacing all contracts 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.

22. Advances and other accounts

	At 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000
Advances to customers	9,883,389	8,985,561
Accrued interest	-	85,813
	<u>9,883,389</u>	<u>9,071,374</u>
Loan impairment allowances (Note a)	(70,955)	-
Provision for bad and doubtful debts (Note b)	-	(248,677)
	<u>(70,955)</u>	<u>(248,677)</u>
Total	<u>9,812,434</u>	<u>8,822,697</u>

Accrued interest on gross advances as at 30 June 2005 amounted to HK\$19,168,000.

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

	At 30 June 2005 HK\$'000
Gross impaired advances to customers	184,308
Loan impairment allowances made in respect of such advances	64,784
Gross impaired advances as a percentage of gross advances to customers	1.86%

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

	At 31 December 2004 HK\$'000
Non-performing loans	266,710
Specific provisions made in respect of such advances	89,665
As a percentage of total advances to customers	2.97%

No advances to banks and other financial institutions were made in the first half of 2005 and 2004.



Notes to the Accounts (continued)

22. Advances and other accounts (continued)

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

Notes:

(a) Loan impairment allowances

	At 30 June 2005 HK\$’000
Individually assessed	(55,040)
Collectively assessed	(15,915)
	<u>(70,955)</u>

(b) Provision for bad and doubtful debts

	At 31 December 2004 HK\$’000
General	(159,012)
Specific	(89,665)
	<u>(248,677)</u>

23. Deposits from customers

	At 30 June 2005 HK\$’000	At 31 December 2004 HK\$’000
Current, savings and other deposit accounts (per consolidated balance sheet)	23,154,602	24,764,174
Structured deposits reported as other financial liabilities at fair value through profit or loss (Note 24)	<u>2,208,676</u>	-
	<u>25,363,278</u>	<u>24,764,174</u>
By type		
Demand deposits and current accounts	1,354,807	1,497,472
Savings deposits	9,370,696	12,046,043
Time, call and notice deposits	<u>14,637,775</u>	<u>11,220,659</u>
	<u>25,363,278</u>	<u>24,764,174</u>

24. Other financial liabilities at fair value through profit or loss

	At 30 June 2005 HK\$’000	At 31 December 2004 HK\$’000
Structured deposits (Note 23)	<u>2,208,676</u>	-



Notes to the Accounts (continued)

25. Deferred taxation

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

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

	2005					
	Accelerated tax depreciation HK\$' 000	Asset revaluation HK\$' 000	Losses HK\$' 000	Provisions HK\$' 000	Other temporary differences HK\$' 000	Total HK\$' 000
At 1 January 2005						
As previously reported	4,792	40,312	(271)	(27,827)	1,242	18,248
Opening adjustments (Note 2)	-	411	-	24,526	-	24,937
Balance after opening adjustments	4,792	40,723	(271)	(3,301)	1,242	43,185
Charged/(credited) to profit and loss account	65	686	-	289	(743)	297
Credited to equity	-	(208)	-	-	-	(208)
At 30 June 2005	4,857	41,201	(271)	(3,012)	499	43,274

	2004					
	Accelerated tax depreciation HK\$' 000	Asset revaluation HK\$' 000	Losses HK\$' 000	Provisions HK\$' 000	Other temporary differences HK\$' 000	Total 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
Credited to equity	-	17,645	-	-	-	17,645
At 31 December 2004	4,792	40,312	(271)	(27,827)	1,242	18,248

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

	At 30 June 2005 HK\$' 000	At 31 December 2004 HK\$' 000
Deferred tax assets	(72)	(71)
Deferred tax liabilities	43,346	18,319
	43,274	18,248
	2005 HK\$' 000	2004 HK\$' 000
Deferred tax assets to be recovered after more than twelve months	(3,283)	(28,098)
Deferred tax liabilities to be settled after more than twelve months	4,857	5,291
	1,574	(22,807)



Notes to the Accounts (continued)

26. Other accounts and provisions

	At 30 June 2005 HK\$' 000	At 31 December 2004 HK\$' 000
Interest payable	-	26,783
Current taxation	51,392	28,530
Accruals and other payables	1,119,133	1,206,866
	1,170,525	1,262,179

27. Share capital

	At 30 June 2005 HK\$' 000	At 31 December 2004 HK\$' 000
Authorised: 3,000,000 ordinary shares of HK\$100 each	300,000	300,000
Issued and fully paid: 3,000,000 ordinary shares of HK\$100 each	300,000	300,000

28. Reserves

The amounts of the Group's reserves and the movements therein for the current and prior periods are presented in the consolidated statement of changes in equity on page 4 of the accounts.



集友銀行

Chiyu Banking Corporation Ltd.

中國銀行（香港）有限公司附屬機構
A subsidiary or Bank or Credit (Hong Kong) Limited

Notes to the Accounts (continued)

29. Notes to consolidated cash flow statement

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

	Half-year ended 30 June 2005 HK\$' 000	Half-year ended 30 June 2004 HK\$' 000
Operating profit	266,514	298,480
Dividend income from investments in securities	(606)	(696)
Depreciation	5,890	6,240
Write-back of bad and doubtful debts	-	(16,282)
Reversal of loan impairment allowances on advances	(4,948)	-
Advances written off net of recoveries	(26,973)	14,862
Change in money at call and short notice with original maturity over three months	(672,124)	211,887
Change in placements with banks and other financial institutions with original maturity over three months	441,376	(470,494)
Change in trade bills	(39,977)	(83,755)
Change in certificates of deposit held with original maturity over three months	(203,436)	(683,555)
Change in held-to-maturity securities	(572,448)	(1,249,396)
Change in advances and other accounts	(937,299)	(269,594)
Change in available-for-sale securities	953	-
Change in other financial assets/liabilities at fair value through profit or loss	(54,713)	-
Change in derivative financial instruments	945,955	-
Change in other assets	(349,600)	761,248
Change in deposits and balances of banks and other financial institutions repayable over three months	921,802	69,030
Change in deposits from customers	(286,995)	(1,205,878)
Change in certificates of deposit issued	(4,201)	(500)
Change in other accounts and provisions	(66,034)	(841,219)
Exchange difference	(49)	1,048
Operating cash outflow before taxation	<u>(636,913)</u>	<u>(3,458,574)</u>

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

	At 30 June 2005 HK\$' 000	At 30 June 2004 HK\$' 000
Cash and balances with banks and other financial institutions	900,178	972,703
Money at call and short notice with original maturity within three months	6,321,102	5,189,259
Treasury bills with original maturity within three months		
Placements with banks and other financial institutions with original maturity within three months	3,312,407	2,496,694
Deposits and balances of banks and other financial institutions with original maturity within three months	(518,376)	(1,257,202)
	<u>10,015,311</u>	<u>7,401,454</u>



Notes to the Accounts (continued)

30. Maturity profile

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

	At 30 June 2005						Total
	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	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Assets							
Cash and other short-term funds	900,179	7,099,395	-	-	-	-	7,999,574
Placements with banks and other financial institutions	-	3,830,959	445,713	-	-	-	4,276,672
Certificates of deposit held	-	196,809	961,858	989,925	98,722	-	2,247,314
Debt securities included in:							
- available-for-sale securities	26,027	10,628	-	-	-	-	36,655
- held-to-maturity securities	-	366,419	1,617,318	3,547,110	30,919	-	5,561,766
- other financial assets at fair value through profit or loss	-	-	-	132,137	534,132	-	666,269
Advances to customers	1,069,079	1,805,303	943,256	3,077,616	2,797,692	190,443	9,883,389
Liabilities							
Deposits and balances of banks and other financial institutions	1,037,705	533,940	43,445	-	-	-	1,615,090
Customer accounts	10,817,700	11,329,605	842,292	1,966,776	406,905	-	25,363,278
Certificates of deposit issued	-	183,123	588	182,109	-	-	365,820

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

	At 31 December 2004						Total
	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	
	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

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



Notes to the Accounts (continued)

30. Maturity profile (continued)

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

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

31. Contingent liabilities and commitments

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

	At 30 June 2005 HK\$' 000	At 31 December 2004 HK\$' 000
Direct credit substitutes	16,599	13,519
Transaction-related contingencies	72,502	67,622
Trade-related contingencies	1,210,752	1,046,820
Other commitments with an original maturity of		
- under one year or which are unconditionally cancellable	3,013,166	2,958,119
- one year and over	846,100	788,307
	5,159,119	4,874,387
Credit risk weighted amount	646,257	609,676

The calculation basis of credit risk weighted amount has been set out in Note 21 to the accounts.



Notes to the Accounts (continued)

32. 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.

(a) By class of business

	Retail HK\$' 000	Corporate HK\$' 000	Treasury HK\$' 000	Investment HK\$' 000	Others HK\$' 000	Subtotal HK\$' 000	Eliminations HK\$' 000	Consolidated HK\$' 000
Half-year ended 30 June 2005								
Net interest income	131,566	68,395	66,645	(5,350)	-	261,256	-	261,256
Net fees and commission income	53,729	29,497	(291)	-	-	82,935	-	82,935
Net trading income	10,301	3,362	7,485	(4)	-	21,144	-	21,144
Other operating income	55	196	11	12,478	-	12,740	(11,250)	1,490
Operating income	195,651	101,450	73,850	7,124	-	378,075	(11,250)	366,825
Operating expenses	(69,002)	(21,050)	(1,680)	(7,167)	(17,610)	(116,509)	11,250	(105,259)
Operating profit/(loss) before impairment on advances	126,649	80,400	72,170	(43)	(17,610)	261,566	-	261,566
Reversal of impairment losses on advances	1,196	3,752	-	-	-	4,948	-	4,948
Operating profit/(loss)	127,845	84,152	72,170	(43)	(17,610)	266,514	-	266,514
Net gain from disposal/revaluation of fixed assets/investment properties	-	-	-	4,051	-	4,051	-	4,051
Profit before taxation	127,845	84,152	72,170	4,008	(17,610)	270,565	-	270,565
At 30 June 2005								
Assets								
Segment assets	4,223,659	6,568,935	20,870,407	600,651	5,320	32,268,972	-	32,268,972
Liabilities								
Segment liabilities	23,589,202	2,903,483	1,825,775	188,658	113,010	28,620,128	-	28,620,128



Notes to the Accounts (continued)

32. Segmental reporting (continued)

(a) By class of business (continued)

	Retail HK\$' 000	Corporate HK\$' 000	Treasury HK\$' 000	Investment HK\$' 000	Others HK\$' 000	Subtotal HK\$' 000	Eliminations HK\$' 000	Consolidated HK\$' 000
Half-year ended 30 June 2004								
Net interest income	60,000	81,425	123,643	(281)	-	264,787	-	264,787
Net fees and commission income	61,567	35,397	(404)	-	-	96,560	-	96,560
Net trading income	15,023	2,220	5,180	122	-	22,545	-	22,545
Other operating income	16	-	7	12,861	-	12,884	(11,250)	1,634
Operating income	136,606	119,042	128,426	12,702	-	396,776	(11,250)	385,526
Operating expenses	(64,188)	(18,896)	(1,480)	(7,664)	(22,350)	(114,578)	11,250	(103,328)
Operating profit/(loss) before provisions on advances	72,418	100,146	126,946	5,038	(22,350)	282,198	-	282,198
Write-back of bad and doubtful debts	221	16,061	-	-	-	16,282	-	16,282
Operating profit/(loss)	72,639	116,207	126,946	5,038	(22,350)	298,480	-	298,480
Net loss from disposal of fixed assets	-	-	-	(23)	-	(23)	-	(23)
Profit before taxation	72,639	116,207	126,946	5,015	(22,350)	298,457	-	298,457
At 31 December 2004								
Assets								
Segment assets	3,647,016	5,724,701	20,898,806	652,853	3,703	30,927,079	-	30,927,079
Liabilities								
Segment liabilities	23,071,357	2,817,840	1,295,395	207,554	67,636	27,459,782	-	27,459,782

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

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

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

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



Notes to the Accounts (continued)

32. Segmental reporting (continued)

(a) By class of business (continued)

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

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

(b) By geographical area

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

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.

On 1 January 2005, the Group has adopted HKAS 24 "Related Party Disclosures" which has affected the identification of related parties and some other related-party disclosures. This HKAS requires the disclosure of the compensation of key management personnel. In addition, it requires the Group to disclose related party transactions with state-controlled entities as these profit-oriented state-controlled entities are no longer exempted from disclosures. The additional disclosures have been detailed in (d) and (e) below.

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

(a) Advances to third parties guaranteed by related parties

As at 30 June 2005, BOC, the intermediate holding company and fellow subsidiaries provided guarantees for loans in favour of the Group amounting to HK\$183,163,000 (31 December 2004: Nil) to certain third parties. The intermediate holding company and fellow subsidiaries held equity interests of not more than 20% in these third parties.



Notes to the Accounts (continued)

33. Significant related party transactions (continued)

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

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

		Half-year ended 30 June 2005	
		Immediate and intermediate holding companies ¹	Other related Parties ²
		HK\$'000	HK\$'000
Profit and loss items:	Notes		
Interest income	(i)	32,794	4,895
Interest expense	(ii)	(1,317)	(6,987)
Insurance commission received (net)	(iii)	-	3,662
Administrative services fees paid/payable	(iv)	(11,689)	(1,599)
Securities brokerage commission paid/payable (net)	(v)	-	(3,521)
Rental, property management and letting agency fees paid/payable	(v)	(567)	-
Funds selling commission received	(vi)	-	888
		Half-year ended 30 June 2004	
		Immediate and intermediate holding companies ¹	Other related Parties ²
		HK\$'000	HK\$'000
Profit and loss items:	Notes		
Interest income	(i)	14,706	1,044
Interest expense	(ii)	(1,025)	(255)
Insurance commission received (net)	(iii)	-	3,904
Administrative services fees paid/payable	(iv)	(10,995)	(1,419)
Securities brokerage commission paid/payable (net)	(v)	-	(5,412)
Rental, property management and letting agency fees paid/payable	(v)	(567)	-
Funds selling commission received	(vi)	-	1,368
		At 30 June 2005	
		Immediate and intermediate holding companies ¹	Other related Parties ²
		HK\$'000	HK\$'000
Balance sheet items:	Notes		
Cash and short-term funds	(i)	2,205,924	70,927
Placements with banks and other financial institutions	(i)	868,644	198,541
Advances and other accounts	(i)	-	250,423
Derivative financial instruments - assets	(vii)	922	-
Other assets	(viii)	30,707	62,552
Deposits and balances of banks and other financial institutions	(ii)	1,549,098	-
Deposits from customers	(ii)	-	1,784,091
Derivative financial instruments - liabilities	(vii)	7,353	-
Other accounts and provisions	(viii)	263,985	67,957



Notes to the Accounts (continued)

33. Significant related party transactions (continued)

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

	Notes	At 31 December 2004	
		Immediate and intermediate holding companies ¹	Other related Parties ²
		HK\$'000	HK\$'000
Balance sheet items:			
Cash and short-term funds	(i)	2,131,818	11,652
Placements with banks and other financial institutions	(i)	1,999,908	178,809
Advances and other accounts	(i)	9,092	200,731
Other assets	(viii)	71,100	104,253
Deposits and balances of banks and other financial institutions	(ii)	1,008,159	-
Deposits from customers	(ii)	-	1,167,330
Other accounts and provisions	(viii)	195,338	96,005

¹ Immediate and intermediate holding companies are state-controlled entities. Transactions with BOC for the six months ended 30 June 2004 have been disclosed as transactions with immediate and intermediate holding companies to ensure comparability notwithstanding that BOC was the Company's ultimate holding company as at that date. Following the reorganisation of BOC in August 2004, China SAFE holds the equity capital of BOC on behalf of the State. Accordingly, China SAFE, acting on behalf of the State has become the ultimate holding company of the Company whilst BOC became the Company's intermediate holding company.

² Fellow subsidiaries of the Company and associates of an intermediate holding company are collectively disclosed as other related parties and certain of which are state-controlled entities.

Notes:

(i) Interest income

In the ordinary course of business, the Group enters into various transactions with the immediate holding company, intermediate holding companies and fellow subsidiaries including deposit of cash and short-term funds, placement of interbank deposits and provision of loans and credit facilities. The transactions were conducted at prices and terms that are no more favourable than those charged to and contracted with other third party customers of the Group.

(ii) Interest expense

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

(iii) Insurance commission received (net)

In the ordinary course of business, the Group provides insurance agency services to and purchases general and life insurance policies from fellow subsidiaries at the relevant market rates at the time of the transactions.



Notes to the Accounts (continued)

33. Significant related party transactions (continued)

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

Notes: (continued)

(iv) Administrative services fees paid/payable

In the ordinary course of business, the Group pays administrative services fees for the provision of various administrative services including technology and training to the immediate holding company and fellow subsidiaries. These transactions have been entered into in the ordinary course of business and were priced at the relevant market rates at the time of the transactions.

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

In the ordinary course of business, the Group pays commission fees for securities brokerage services, property management and letting agency fees to the immediate holding company, intermediate holding companies and fellow subsidiaries. The Group also pays rental fees to the immediate holding company. These transactions have been entered into in the ordinary course of business and were priced at the relevant market rates at the time of the transactions.

(vi) Funds selling commission received

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

(vii) Derivative financial instruments assets/liabilities

In the ordinary course of business, the Group enters into foreign exchange contracts and interest rate contracts with the immediate holding company, intermediate holding companies and fellow subsidiaries. The aggregate notional amount of such derivative transactions amounted to HK\$376,692,000 as at 30 June 2005 whilst the corresponding derivative financial instruments assets and liabilities amounted to HK\$922,000 and HK\$7,353,000 respectively as at that date. These transactions are executed at the relevant market rates at the time of the transactions.

(viii) Other assets and other accounts and provisions

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



Notes to the Accounts (continued)

33. Significant related party transactions (continued)

(c) Contingent liabilities and commitments

In the ordinary course of business, the Group provides loan facilities and trade finance services to, and guarantees for the obligations of the immediate holding company, intermediate holding companies and fellow subsidiaries on normal commercial terms. As at 30 June 2005, the total undrawn loan commitments, trade finance-related contingencies and guarantees amounted to HK\$767,000 (31 December 2004: HK\$18,144,000).

(d) Key management personnel

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

The key management compensation for the six months ended 30 June 2005 and 2004 is detailed as follows:

	Half-year ended 30 June 2005 HK\$'000	Half-year ended 30 June 2004 HK\$'000
Director fees	910	910
Salaries and other short-term employee benefits	2,309	2,253
	3,219	3,163

(e) Transactions with other state-controlled entities

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

The state-controlled entities are those, other than BOC (the intermediate holding company and its fellow subsidiaries) over which the PRC government directly or indirectly holds over 50% of the outstanding shares or voting rights, and has the ability to control or the power to govern their financial or operational policies. It should be noted, however, that for those business activity of the Group which is conducted with the PRC companies, the influence of the PRC government with these companies is pervasive. In this regard, the PRC government indirectly holds interests in many companies. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests. Such interests, however, would not be known to the Group and are not reflected below.



集友銀行

Chiyu Banking Corporation Ltd.

中國銀行（香港）有限公司附屬機構
A subsidiary or Bank or Credit (Hong Kong) Limited

Notes to the Accounts (continued)

33. Significant related party transactions (continued)

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

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

(i) Advances to customers

	Half-year ended 30 June 2005 HK\$'000	Half-year ended 30 June 2004 HK\$'000
Interest income	8,073	5,651
Reversal of loan impairment allowances/ write-back of bad and doubtful debts	(1,222)	(9,902)
	At 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000
Outstanding balance at beginning of the period/ year	495,915	519,498
Outstanding balance at end of the period/ year	774,545	495,915
Less: individually assessed loan impairment allowances	2,931	-
Less: Specific provisions	-	4,408
	771,614	491,507

(ii) Due from banks and other financial institutions

	Half-year ended 30 June 2005 HK\$'000	Half-year ended 30 June 2004 HK\$'000
Interest income	4,892	1,836
	At 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000
Outstanding balance at beginning of the period/ year	336,401	325,156
Outstanding balance at end of the period/ year	784,723	336,401



Notes to the Accounts (continued)

33. Significant related party transactions (continued)

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

(iii) Due to banks and other financial institutions

	Half-year ended 30 June 2005 HK\$'000	Half-year ended 30 June 2004 HK\$'000
Interest expense	38	18
	At 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000
Outstanding balance at beginning of the period/ year	5,073	11,554
Outstanding balance at end of the period/ year	30,463	5,073

(iv) Deposits from customers

	Half-year ended 30 June 2005 HK\$'000	Half-year ended 30 June 2004 HK\$'000
Interest expense	1,149	245
	At 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000
Outstanding balance at beginning of the period/ year	315,929	266,759
Outstanding balance at end of the period/ year	305,353	315,929

(v) Off-balance sheet exposures

	At 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000
Contingent liabilities and commitments (including guarantees)	260,764	226,780
Derivative transactions unsettled (notional amount)	286	-



Notes to the Accounts (continued)

34. Ultimate holding company

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

35. Comparative amounts

As further explained in Note 1 to the accounts, due to the adoption of certain new HKASs and Interpretations during the current period, the accounting treatment and presentation of certain items and balances in the accounts have been prepared to comply with the new requirements. Accordingly, certain opening adjustments have been made and certain comparative amounts have been reclassified to conform with the current period's presentation.

36. Statutory accounts

The information in this interim report is unaudited and does not constitute statutory accounts. The statutory accounts for the year ended 31 December 2004 have been delivered to the Registrar of Companies and the Hong Kong Monetary Authority. The auditors expressed an unqualified opinion on those statutory accounts in their report dated 17 March 2005.



Supplementary Financial Information

1. Capital adequacy ratio

	At 30 June 2005	At 31 December 2004
Capital adequacy ratio	25.64%	26.45%
Adjusted capital adequacy ratio	25.49%	26.42%

The Capital adequacy ratio ("CAR") is computed on the combined basis, as specified by the Hong Kong Monetary Authority 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 Hong Kong Monetary Authority 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 30 June 2005 and 31 December 2004 and reported to the Hong Kong Monetary Authority is analysed as follows:

	At 30 June 2005 HK\$' 000	At 31 December 2004 HK\$' 000
Core capital:		
Paid up ordinary share capital	300,000	300,000
Reserves	2,909,306	2,761,842
Profit and loss account	66,580	152,699
	3,275,886	3,214,541
Supplementary capital:		
Premises and investment properties revaluation reserves	224	224
Reserve for revaluation of securities not held for trading purposes	(19,365)	-
Collective loan impairment allowance	15,915	-
Regulatory reserve	147,389	-
General provisions for doubtful debts	-	158,182
Total capital base	3,420,049	3,372,947
Deduction from total capital base:		
Shareholdings in subsidiaries or holding company	(3,913)	(3,913)
Exposures to connected companies	(75,791)	(75,789)
Investments in the capital of other banks or other financial institutions	(5,272)	(653)
	(84,976)	(80,355)
Total capital base after deductions	3,335,073	3,292,592



Supplementary Financial Information (continued)

3. Liquidity ratio

	Half-year ended 30 June 2005	Half-year ended 30 June 2004
Average liquidity ratio	46.79%	55.03%

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

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 Hong Kong Monetary Authority.

At 30 June 2005								
Equivalent in thousand of HK\$								
	US Dollars	Swiss Francs	Canadian Dollars	Australian Dollars	New Zealand Dollars	Renminbi Yuan	Others	Total
Spot assets	7,624,136	2,123	147,784	864,794	404,081	506,521	686,706	10,236,145
Spot liabilities	(7,398,868)	(77,306)	(160,266)	(811,165)	(386,485)	(441,002)	(856,738)	(10,131,830)
Forward purchases	286,683	82,094	12,570	14,510	4,064	7,156	361,506	768,583
Forward sales	(90,989)	(6,359)	(316)	(67,291)	(21,949)	-	(191,131)	(378,035)
Net long/(short) position	420,962	552	(228)	848	(289)	72,675	343	494,863
Net structural position	-	-	-	-	-	28,174	-	28,174

At 31 December 2004								
Equivalent in thousand of HK\$								
	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	757,852	(96)	(242)	619	(1,806)	(858)	7,072	762,541
Net structural position	-	-	-	-	-	93,941	-	93,941



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:

	At 30 June 2005 HK\$' 000	At 31 December 2004 HK\$' 000
Loans for use in Hong Kong		
Industrial, commercial and financial		
- Property development	548,244	469,928
- Property investment	1,629,695	1,518,515
- Financial concerns	477,434	300,783
- Stockbrokers	9,985	2,394
- Wholesale and retail trade	679,873	661,125
- Manufacturing	1,154,668	890,894
- Transport and transport equipment	131,912	123,143
- Others	736,742	595,017
Individuals		
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	139,483	152,903
- Loans for purchase of other residential properties	2,360,259	2,414,109
- Others	394,416	356,836
Total loans for use in Hong Kong	8,262,711	7,485,647
Trade finance	895,060	874,176
Loans for use outside Hong Kong	725,618	625,738
Gross advances to customers	9,883,389	8,985,561

(b) Geographical analysis of gross advances to customers and overdue advances

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

(i) Gross advances to customers

	At 30 June 2005 HK\$' 000	At 31 December 2004 HK\$' 000
Hong Kong	9,221,170	8,369,354
Mainland China	662,219	616,207
	9,883,389	8,985,561

(ii) Advances overdue for over three months

	At 30 June 2005 HK\$' 000	At 31 December 2004 HK\$' 000
Hong Kong	84,447	166,793
Mainland China	80,204	42,822
	164,651	209,615



Supplementary Financial Information (continued)

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:

	Banks and other financial institutions	Others	Total
	HK\$' 000	HK\$' 000	HK\$' 000
At 30 June 2005			
Asia, other than Hong Kong			
- China	3,334,000	673,000	4,007,000
- Others	3,180,000	135,000	3,315,000
	6,514,000	808,000	7,322,000
North America	2,441,000	3,000	2,444,000
Western Europe	9,348,000	250,000	9,598,000
Total	18,303,000	1,061,000	19,364,000
	Banks and other financial institutions	Others	Total
	HK\$' 000	HK\$' 000	HK\$' 000
At 31 December 2004			
Asia, other than Hong Kong			
- Mainland China	4,354,000	365,000	4,719,000
- Others	2,962,000	141,000	3,103,000
	7,316,000	506,000	7,822,000
Western Europe			
- United Kingdom	2,315,000	-	2,315,000
- Others	7,989,000	240,000	8,229,000
	10,304,000	240,000	10,544,000
Total	17,620,000	746,000	18,366,000



Supplementary Financial Information (continued)

7. Overdue and rescheduled assets

(a) Gross amount of overdue loans

	At 30 June 2005		At 31 December 2004	
	Amount	% of gross advances to customers	Amount	% of gross advances to customers
	HK\$' 000		HK\$' 000	
Gross advances to customers which have been overdue for:				
- six months or less but over three months	732	0.01%	29,271	0.33%
- one year or less but over six months	37,456	0.38%	2,022	0.02%
- over one year	126,463	1.28%	178,322	1.98%
Advances overdue for over three months	164,651	1.67%	209,615	2.33%

As at 30 June 2005 and 31 December 2004, there were no advances to banks and other financial institutions that were overdue for over three months.

(b) Rescheduled advances to customers

	At 30 June 2005		At 31 December 2004	
	Amount	% of gross advances to customers	Amount	% of gross advances to customers
	HK\$' 000		HK\$' 000	
Rescheduled advances to customers	1,679	0.02%	3,795	0.04%

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 before deduction of loan impairment allowances.

As at 30 June 2005 and 31 December 2004, there were no rescheduled advances to banks and other financial institutions.

8. Repossessed assets held

	At 30 June 2005	At 31 December 2004
	HK\$' 000	HK\$' 000
Estimated market value of repossessed assets held	74,300	110,754

Repossessed 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.



Review and Prospects by Management

In the first half of 2005, the Hong Kong economy and the business environment continued to improve. With the declining unemployment rate and blooming tourism, domestic consumption has been stimulated. The active property market also leads to rising property prices.

Though the economy has improved, the banking industry is still undergoing a fierce competition, banks' interest margin and growth of net interest income are under pressure. The successive increase in USD and HKD interest rates have a negative impact on the capital market business and thus slowed down our non-interest earning. In the first half year of 2005, the Bank has made effort to increase its loan business and improve the quality of wealth management services. We also renovated our Central District Branch and relocated our Western Branch so as to provide more convenient location and better service environment to our customers.

In the first half of 2005, the profit attributable to shareholders amounted to HK\$225 million. Return on average shareholders' fund and return on average assets were 12.76% and 1.44% respectively.

Net interest income fell by 1.33% to HK\$261million, and net interest margin narrowed by 5 basis points to 1.76%. Due to the decrease of fee and commission income from the securities trading and bills services, non-interest income of the Bank fell by 12.56% to 106 million compared with the same period last year.

To cope with future business expansion and provide more value-added services to the customers, total operating expenses increased. The cost to income ratio increased by 1.89% to 28.69% compared with the same period last year. Operating expenses reached HK\$105 million, recorded an increase of 1.87%.

The Bank has continued its effort on improving asset quality and enhancing credit risks control. The ratio of classified loans dropped from 2.97% to 1.86% compared with the end of 2004. Because of the reduction in the recovery of the bad debts, which have been written off, the reversal of loan impairment allowances recorded a decline of HK\$11 million compared with the same period last year.

At the end of June 2005, the Bank recorded an increase in consolidated total assets by HK\$1.34 billion to HK\$32.27 billion. Loans and advances to customers reached HK\$98.83 billion and customer deposits reached HK\$253.63 billion, representing an increase of 9.98% and 2.42% respectively from December 2004.

Looking forward to the second half of 2005, with the continuing rise in interest rates, persistent high oil price and the tighten measures introduced by the Chinese government to prevent the over-rapid growing of economy, we predict the competition in banking industry remains intense. The Bank will focus on developing loan businesses, promoting personal wealth management services and Internet banking services. The Bank will strengthen its services provided to the small and medium sized corporate customers, in an attempt to support their business growth in PRC market and build up a closer partner relationship. The Bank will continue to explore more wealth management products and provide higher quality services to meet the demands of our customers.



Independent Review Report

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF CHIYU BANKING CORPORATION LIMITED

(incorporated in Hong Kong with limited liability)

Introduction

We have been instructed by Chiyu Banking Corporation Limited and its subsidiaries ("the Group") to review the interim financial report set out on pages 2 to 44.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standards 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the Group's management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2005.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 17 August 2005