



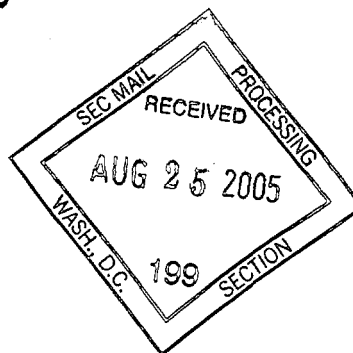
Our Ref : BS(2005)183(JY)



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19 August 2005

Office of International Corporate Finance  
Division of Corporation Finance  
Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549  
U.S.A.



BEST AVAILABLE COPY

Dear Sirs,

SUPPL

**BOC Hong Kong (Holdings) Limited**  
**Rule 12g3-2(b) File No.82-34675**

We enclose the following announcements and press release issued by BOC Hong Kong (Holdings) Limited in Hong Kong and dated 18 August 2005 for your attention:

- (1) 2005 interim results announcement;
- (2) Highlights of 2005 interim results;
- (3) Results Announcement Form; and
- (4) Press release in relation to 2005 interim results.

PROCESSED

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FINANCIAL

Please note that the above documents are being furnished to the Securities and Exchange Commission (the "SEC") on behalf of the Company pursuant to the exemption from the Securities Exchange Act of 1934 (the "Act") afforded by Rule 12g3-2(b) thereunder.

This information is being furnished under paragraph (1) of Rule 12g3-2(b) with the understanding that such information and documents will not be deemed to be "filed" with the SEC or otherwise subject to the liabilities of Section 18 of the Act and that neither this letter nor the furnishing of such information and documents shall constitute an admission for any purpose that the Company is subject to the Act.

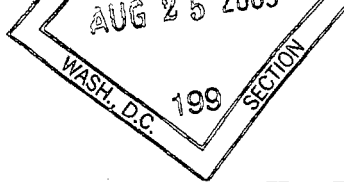
....page 2

Yours faithfully,  
For and on behalf of  
BOC Hong Kong (Holdings) Limited



Jason C.W. Yeung  
Company Secretary

Encl.



Date 19<sup>th</sup> August 2005



中銀香港(控股)有限公司

BOC HONG KONG (HOLDINGS) LIMITED

(HK Stock Code: "2388" ADR/OTC Symbol: "BHKLY")

## HIGHER PROFITS, MORE BROAD-BASED GROWTH

### *Highlights of 2005 Interim Results*

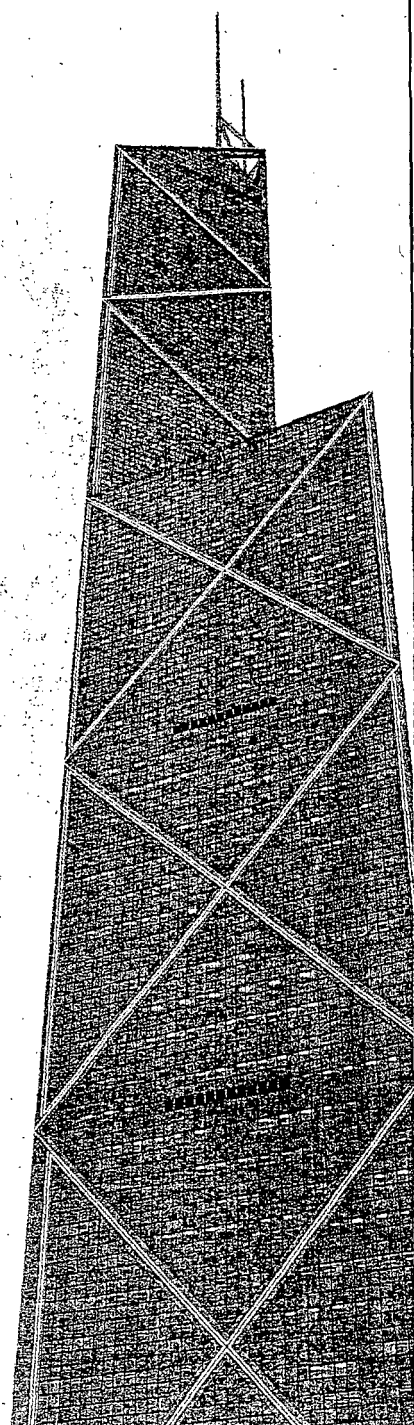
- Profit attributable to shareholders at HK\$6,522 million, up 16.9%
- Operating profit before impairment at HK\$5,549 million, up 3.6%
- Earnings per share at HK\$0.6169, up 16.9%
- Return on average shareholders' funds at 18.39%, up 0.20 percentage point
- Interim dividend at HK\$0.328 per share, up 2.5%, payable on September 23, 2005 (Friday)
- Classified impaired loan ratio at 1.89%, down 1.06 percentage points from end-2004
- Total advances to customers at HK\$337,654 million, up 7.8% from end-2004

"On the back of Hong Kong's economic recovery, we succeeded in pursuing growth and excellence through a proactive business strategy that stresses higher yield and higher asset quality. With the further strengthening of our management structure, effective implementation of our development strategies and business models, and the enhancement of our corporate governance, risk management and corporate culture, the Group was able to deliver substantial growth in profit attributable to shareholders as well as a significant improvement in asset quality. Looking ahead, we are well positioned to capture the new opportunities that may arise in the second half of 2005 from Hong Kong's economic upturn and the vibrant Mainland economy. Meanwhile, we are well prepared to meet the new challenges as we move along. We will continue to drive the growth of segments that promise higher yield and to realize the Group's vision to be customer's premier bank."

Xiao Gang, Chairman

BOC Hong Kong (Holdings) Limited is a leading listed commercial banking group in Hong Kong offering a comprehensive range of financial products and services to retail and corporate customers. Our extensive branch network in Hong Kong and the Mainland of China allows us to meet the cross-border financial service needs of Hong Kong and Mainland customers.

For detailed information of the interim results, please visit [www.bochk.com](http://www.bochk.com)





# 中銀香港(控股)有限公司

## BOC HONG KONG (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)  
(Stock Code: 2388)

South China Morning Post  
Date 19<sup>th</sup> August 2005



### CHAIRMAN'S STATEMENT

It gives me much pleasure to report that despite a challenging interest rate environment, the Group's total operating profit for the six months ended 30 June 2005 reached HK\$6,984 million, up 5.8% over the same period in 2004. Profit attributable to the equity holders of the Company was HK\$3,522 million, up 18.8% from the same period last year. This substantial growth was due mainly to a 3.39% increase in net interest income, an investment property income gain of HK\$378 million, a write-back of HK\$327 million impairment allowances on advances previously made, and the adoption of new accounting standards and strong recovery of loans previously classified as non-performing. The Board has declared an interim dividend of HK\$0.329 per share (2004 interim dividend: HK\$0.32 per share).

The Hong Kong economy continued to flourish in the first two quarters of 2005, giving rise to a better operating environment for the business sector. Domestically, GDP growth was sustained by strong consumption demand, an improving job market and a vibrant property market. Externally, exports grew strongly due to increasing trade flows originating from the Mainland and a relatively weaker USD in the early months of the year. Investment demand increased as the business outlook in general was looking positive. On the other hand, the banking sector was impacted by consistently low interest rates in the first quarter followed by surging rates in the second quarter.

Riding on the economic upturn that has given rise to a stronger demand for credit and banking services, the Group has continued to pursue growth and excellence through a proactive business strategy that stresses higher yield and higher asset quality. I believe that the further strengthening of our management structure, the various corporate reforms carried out last year, the enhancement of corporate governance and risk management as well as the continued effort of the staff are also crucial contributing factors to the Group's good performance so far this year.

In the first six months of 2005, the Group's corporate and retail banking businesses registered remarkable growth in loans and advances, especially in terms of trade finance, corporate loans, residential mortgages and credit card receivables. The expansion of our local SME business has made good progress since last year whereas our Mainland business continued to record phenomenal growth in the period under review.

As a result of proactive efforts in managing our interest rates amidst conflicting margins during the first quarter, we successfully improved our net interest margin for the six months ended 30 June 2005 compared to the same period last year and achieved a satisfactory improvement in net interest income.

The improvement of asset quality has remained a top priority for the Group. The upturn of the economy and our persistent effort in de-risking our corporate loan portfolio have resulted in considerable progress made by us in this area in the first half of 2005. The Group's classified loan ratio dropped significantly year-on-year.

In view of improved market conditions and the Group's business performance in 2004, the Board approved an increase of staff salary with effect from April this year.

Looking ahead, we believe the fundamentals of the Hong Kong domestic economy have become even stronger than a year ago and the current upturn should be sustainable, to be driven mainly by inbound tourism especially with the opening of the Hong Kong Disneyland for this year. However, we must remain alert to external uncertainties that have become increasingly significant, the escalation of oil prices and the rise of trade-related issues between the Mainland and the US and EU. If unresolved, will likely affect Hong Kong's overall trade outlook in the second half of 2005. The current trend of interest rate hike may also slow down the local property market and make it more challenging to grow the wealth management business.

In contrast, the recent reform of the RMB exchange rate regime and the possibility of a further expansion of the scope of RMB banking services in Hong Kong, hopefully in the not too distant future, will almost certainly improve, albeit in small measures initially, the operating environment of the banking sector. Our strengths in the RMB business have already been firmly established. We believe we are now in a highly advantageous position to benefit further from the gradual and orderly relaxation of the RMB currency control in the Mainland.

Despite the challenges we are going to face, our business strategy in the second half of 2005 will continue to focus on delivering higher profitability. We will continue to drive the growth of segments that promise higher yield and ensure higher asset quality so as to improve our provisioning operating profit.

The corporate reforms carried out in the past year or so and the new management team have greatly strengthened the Group's position as one of the leading banking groups in Hong Kong, which ensures that we can continue to maximise our value for shareholders and customers. As a dynamic organisation, we will keep in constant review the results of the reforms, with a view to making adjustment or initiating new reforms as and when necessary in anticipation of market needs.

I wish to thank the Directors and the Senior Adviser for their wise counsel. I also wish to thank all our staff for their dedication and hard work.

### 2005 Interim Results Announcement

Loan commissions fell by HK\$110 million, or 47.0%. Upon adoption of the new accounting standards, directly attributable loan fees of HK\$133 million were amortised to interest income over the expected life of the loans as part of the effective interest calculation. Excluding the impact of the new accounting standards, loan fees would have registered a modest increase. Bills commission dropped by HK\$13 million, or 4.8%, due to keen pricing competition.

Fees from card business recorded growth of 17.7%, driven by the increases in cardholder spending and merchant acquiring volumes by 20.4% and 21.5% respectively.

Compared to the second half of 2004, on a comparable basis, net fees and commission income increased by HK\$91 million or 6.0%, mainly attributable to the growth of wealth management income. The income from sales of life insurance and investment funds showed the strongest growth of 101.5% and 46.6% respectively.

#### Net Trading Income

Net trading income increased by HK\$84 million, or 12.7%, to HK\$746 million as compared to the first half of 2004. The adoption of HKAS 39 increased the volatility of the revenue recognition in the trading activities. On a comparable basis, after exclusion of the impact from the adoption of HKAS 39, net trading income declined by 23.0%.

Net trading income from foreign exchange and foreign exchange products decreased by HK\$14 million, or 2.3%, to HK\$596 million. Excluding about HK\$87 million gains derived from the changes in fair value of foreign exchange swap contracts recognised under the new accounting standards, the comparable decline was 16.8%. Previously these contracts were accounted for as interest income on an accrual basis. The lower income from foreign exchange business was attributable to a lack of customer interest in currency trading as a result of a weak US dollar. There were also concerns that pressure on the RMB to appreciate might also put pressure on a stronger Hong Kong dollar, which further dampened public interest in holding other currencies.

Net trading income from interest rate instruments mainly included changes in fair value relating to trading securities, other financial assets at fair value through profit or loss, available-for-sale securities designated in fair value hedges, interest rate derivatives and financial liabilities at fair value through profit or loss. The increase in income was mainly derived from the changes in fair value of interest rate derivatives and retail certificate of deposits designated at fair value through profit or loss. On a comparable basis, when hedge accounting on accruals basis was usually applied in previous years, the net gain from interest rate instruments was minimal for the first half of 2005 and two halves of 2004.

Compared to the second half of 2004, on a comparable basis, net trading income stayed flat and a quiet market environment.

#### Operating Expenses

Operating expenses rose slightly by HK\$3 million, or 0.3%, to HK\$2,676 million.

In the first half of 2005, the Group adjusted the estimated useful life of the premises by referring to the lease terms of the land element as the depreciable period on the basis that the major portion of property values in Hong Kong rests with the land element. Under the previous accounting standards, the Group separated the land and building elements using a 50:50 split and depreciated according to the corresponding lives of the two elements. The use of one common life under the current treatment has led to a lower depreciation charge. Depreciation should have been increased by HK\$121 million to HK\$407 million in view of the substantial upward revaluation of premises in 2004.

Staff costs slightly increased by HK\$27 million, or 1.7%, mainly attributable to upward adjustment of staff salaries in April 2005. Headcount measured in full time equivalents was 12,698 at the end of June 2005, a decrease of 257 from 30 June 2004.

#### Loan Impairment release

Under the new accounting standards and accounting policies, impairment allowances of individually significant loans and advances showing objective evidence of impairment are calculated using discounted future cash flow analysis. For the remaining loans and advances, impairment allowances are collectively assessed by using statistical models on portfolios of similar assets and are grouped by similar credit characteristics. The Group reported a release of allowances of HK\$1,124 million in the first half of 2005. The release was the result of improvement in the quality of the loan portfolio to a solid growth in economy, lower bad debt migration rate and rise in collateral value. This release was partially offset by an increase of HK\$796 million in new impairment allowances.

For the first half of 2005, the active property market also facilitated disposals of collateral. As a result, recoveries of loans previously written off increased by HK\$375 million, or 51.2%, to HK\$1,108 million.

#### Revaluation of investment properties

Revaluation gains on investment properties of HK\$918 million was recognised through the profit and loss account on the adoption of HKAS 40. The related deferred tax charge amounted to HK\$1,038 million.

Other operating income declined by 15.0% to HK\$1,228 million. Customers demanded investment products with higher potential returns as interest rate moved up. Increase in sales of structured products and property ended investment funds by 87.4% and 12.0% respectively partially offset the drop in sales of capital guaranteed funds. Commissions from stockbroking were affected by a decline in market transaction volume. Income from foreign exchange also dropped amid a weaker US dollar and less volatile market conditions.

Advances and other accounts, including mortgage loans and card advances, increased by 6.8% to HK\$130.108 million from end-2004. Customer deposits decreased slightly by 2.0% to HK\$32.568 million.

#### Wealth management

Wealth management is one of the key strategic focuses of our Retail Banking activities. After launching Wealth Management Prime service in December 2004, the Group introduced the brand-new Wealth Management VIP service in January 2005, a professional and personalised wealth management service for customers with an asset position of HK\$2 million or above. By end of 2005, the number of Wealth Management customers and assets under management grew by 30% and 25% respectively when compared to end-2004.

#### Residential mortgage

A buoyant property market and effective marketing contributed to the strong growth in our mortgage business. The Group's mortgage loan balance increased by 8.2% to HK\$103,411 million from end-2004. The pricing competition in the market remained intense but as the Prime - HIBOR spread narrowed, banks began raising their pricing. During the period, the Group also raised the pricing of new mortgage loans and reduced cash rebate. Benefiting from the property price appreciation and improved credit risk management, the asset quality of mortgage loans continued to improve.

#### Personal RMB banking business

The Group provides comprehensive personal RMB banking services. We recorded remarkable growth of 63.8% in RMB deposits to RMB8,438 million. The number of ATM that provides RMB withdrawal service also increased from 232 at end-2004 to 241. We also maintained our leading position in RMB credit card issuance. The total number of RMB cards issued increased by 23.3% from end-2004.

#### Credit cards

Card business continued to expand in terms of customer base and service range. The Group's card business sustained its growth momentum in the first half of 2005. Card advances increased by 2.2% and the number of cards issued grew by 3.2% from end-2004. Cardholder spending volume and merchant acquiring volume registered double-digit growth of 20.4% and 21.5% respectively as compared to the first half of 2004.

The Group successfully launched China UnionPay merchant acquiring business in Thailand in January and introduced a new BOC credit card in Singapore with BOC Singapore. We launched new Visa SMS-based Bill Payment Service, which enables cardholders to pay bills via mobile phone, and MasterCard SecureCode, which provides secure and easy-to-use online payment and shopping services to cardholders. In May, we introduced the Two-factor Authentication Service, which provides more secure and convenient online services to our cardholders.

The Group's outstanding performance and service quality were duly recognised by the market. During the year, we won a number of awards from MasterCard International, The Hong Kong Trade Development Council and The International Licensing Industry Merchants' Association.

- 2005 Gold prize of MasterCard Asia-Pacific Marketing Leadership Awards Best Program Launch
- 2005 Gold prize of MasterCard Asia-Pacific Marketing Leadership Awards Best Platinum Marketing
- 2005 Premier Asian Licensing Awards - Best Marketing Campaign in Hong Kong

#### Corporate Banking

##### Results

Corporate Banking reported a small decline in profit before taxation by 0.8% to HK\$3,117 million as compared to the first half of 2004.

Net interest income stayed flat. The benefit from widened deposit spread was offset by a narrower loan spread as keen market competition continued to exert pressure on the yield. Other operating income dropped by HK\$110 million mainly due to amortisation of directly attributable loan fees into interest income using the effective interest calculation upon the adoption of HKAS 39.

Loan impairment release amounted to HK\$1,350 million. Asset quality of our corporate loan portfolio continued to solidify as a result of a further improving bad debt migration rate and higher collateral value. Recoveries remained strong amid favorable market conditions.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Consolidated Financial Review

With effect from 1 January 2005, the Group is required to prepare its financial statements in accordance with new and revised HKFRSs and HKASs (hereafter collectively refer to as the "new accounting standards"). Due to the change in accounting standards, certain 2004 comparative figures are not strictly comparable.

Compared to the same period last year, the Group's profit attributable to shareholders increased by 16.9% to HK\$56,522 million. Earnings per share was HK\$0.6169, up HK\$0.0892. Return on average total assets and return on average shareholders' funds was 1.61% and 18.39%, up 0.13 and 0.20 percentage point against the first half of 2004.

The improvement in the Group's results was attributable to higher operating income, while operating expenses were kept at last year's level. Operating profit before impairment was correspondingly better than the same period last year. Attributable profit was also boosted by a substantial loan impairment allowance write-back and a large investment property revaluation gain. The latter represented a change in our accounting policies as no investment property revaluation was performed on 30 June 2004.

## Financial Performance

Analysis of the financial performance, business operations and risk management of the Group for the first half of 2005 is set out in the coming sections.

## Net Interest Income and Margin

Net Interest Income increased by HK\$352 million, or 6.4%, to HK\$5,961 million on a year-on-year basis. Average interest-earning assets grew by HK\$35,989 million, or 5.1%, to HK\$744,479 million. Net interest spread and net interest margin were 1.43% and 1.59% respectively. If the impact of the new accounting standards was removed, the comparable net interest income was HK\$5,900 million, HK\$391 million or 7.1% higher than the same period last year. Similarly, net interest margin was 1.60%, or 4 basis points higher than that of the first half in 2004 on a comparable basis.

The total negative impact of applying new accounting standards on the Group's net interest income amounted to approximately HK\$39 million. Net interest income was affected in the following ways:

- Interest accrued on impaired loans using effective interest rate was not recognised under the previous accounting regime.
- Swap points of foreign exchange swap contracts previously accounted for as interest was reported as net trading income under the new accounting standards.
- Directly attributable loan fees and costs previously recognised as commission income and expenses were reported as interest income using the effective interest calculation.

In the first half of 2005, the Hong Kong dollar interest rate remained at a low level. However, System by the HKMA in May 2005, the Hong Kong dollar interest rate rebounded, substantially narrowing the differential with US dollar interest rate. Average one-month LIBOR increased steadily to 2.86% from 1.13% for the first half of 2004. Average one-month LIBOR also rose from 1.13% to 2.86%.

Gross yield on average loans increased by 51 basis points. However, the weighted average pricing on the residential mortgage portfolio declined by 25 basis points compared to the period last year, dropping from 2.12% to 2.07%. Below best lending rate for the first half of 2004, the Group adjusted the mortgage pricing strategy by raising the effective interest rate and reducing cash rate incentives on new loans in the second quarter. Gross yield on debt securities increased 76 basis points as the Group continued to diversify its investment portfolio for portfolio enhancement. However, the improvement in net contribution from the debt securities portfolio was backed by the flattening yield curve. Deposit spread widened as a result of the Group's conscious effort in managing funding costs. However, cost of funding rose as average interest rates on savings and time deposits increased by 33 basis points and 37 basis points respectively.

Compared to the second half of 2004, on a comparable basis, net interest income increased by HK\$216 million, or 3.9%. Net interest spread was flat. Net interest margin as by 5 basis points mainly due to the increase in contribution of net free funds. Gross yield on average loans and debt securities rose by 49 and 51 basis points respectively. The new accounting standards resulted in a reduction of net fees and commission income, primarily in the form of fees and commission income would have registered a smaller drop of HK\$110 million, or 6.4%.

Against the backdrop of rising interest rates and the strong performance in the first half of 2004, income from stockworking and sales of investment funds declined by HK\$132 million or 28.6%, and HK\$90 million or 51.4%, respectively in the first half of 2005 compared to the same period in 2004. Customers demanded investments with higher potential returns and a rising interest rate environment. Consequently sales of capital or structured funds dropped significantly from over 50% of total fund sales in the first half of 2004 to less than 10% in the first half of 2005. Nevertheless, structured products and open-ended funds became more popular in the market and the Group was able to capture the growth opportunities resulting in 87.4% and 12.0% increases in sales volume. Commissions from stockworking reduced as a result of the decline in market transaction volume.

## Business Review

### Retail Banking

#### Results

Retail Banking recorded a growth in profit before taxation by 35.0% to HK\$3,071 million as compared to the first half in 2004, mainly due to an increase in net interest income. Net interest income improved by 34.2% to HK\$3,656 million. Rising Hong Kong dollar interest rate and our efforts in managing funding cost directly contributed to a widening of deposit spread. This was partially offset by narrowing residential mortgage loan spread as Prime - HIBOR spread contracted substantially during the period.

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profit and less account on the adoption of HKAS 40. The related deferred tax charge amounted to HK\$155 million.

## Financial Position

The Group's total assets as at 30 June 2005 were HK\$381,335 million, up HK\$16,559 million, or 2.1%, from end-2004.

- Interbank placements maturing between one and twelve months dropped by HK\$47,385 million, or 44.0%.
- Securities investments rose by HK\$24,988 million, or 13.2%, to HK\$214,376 million.
- The Group continued to actively manage the balance sheet. As a result, short-term surplus funds were reduced and usas of funds by our lending business and securities investment portfolios increased.

## Advances to customers

The Group registered a strong growth in advances to customers by HK\$24,428 million, or 7.8%, to HK\$337,654 million from end-2004.

Loans for use in Hong Kong rose by 5.9%.

- Lending to industrial, commercial and financial sectors recorded a robust expansion by HK\$8,191 million, or 5.5%, from end-2004. In particular, our SME loan portfolio increased by 8.1%.
- Residential mortgage loans (excluding those under the government-sponsored home purchasing schemes) increased by HK\$7,790 million, or 8.2%, to HK\$103,411 million.

Card advances grew by HK\$933 million, or 12.2%, from end-2004 as a result of an increase in cardholder spending encouraged by a favorable economic environment.

Trade finance increased by HK\$2,770 million or 20.9%. This was largely a result of strong import and export performance in Hong Kong. Loans for use outside Hong Kong was up 20.7%, mainly propelled by the strong growth of corporate lending business in our Mainland branches.

Deposits from customers (including structured deposits reported as trading liabilities and other financial instruments at fair value through profit or loss)

Deposits from customers were HK\$32,546 million, up HK\$1,216 million or 0.2%, from end-2004. Time deposits increased by HK\$4,150 million or 17.9%, whereas savings deposits declined by HK\$5,193 million or 18.6%. Overall, there was a substantial increase in interest rates, we saw a shift of funds from savings deposits to time deposits.

## Asset Quality

The Group's classified impaired loans decreased significantly by HK\$2,876 million or 31.1%. Good results in our collection and recovery efforts helped by an improving economy and property market. Total collections recovered efforts helped by an improving economy and classified impaired loans amounted to HK\$30.6 billion. About HK\$0.4 billion of the reduction in repossessed assets was due to reduction of the loans and advances related to impairment allowances amounted to HK\$2,876 million under the categories of individual and collective assessments. The Group also held a regulatory reserve amounting to HK\$3,584 million. This regulatory reserve balance was created by a transfer of HK\$3,410 million from retained earnings at the beginning of the financial year, plus an increase of HK\$1,174 million in the first six months of this year. Total allowances and regulatory reserve represents 1.94% of total advances to customers, or 103.0% coverage of the classified impaired loans.

The quality of the Group's residential mortgage loans continued to improve. The combined delinquency and restructured loan ratio decreased from 0.51% at end-2004 to 0.47%. The negative equity ratio dropped from 3.05% at end-2004 to 2.40%. The quality of card advances also improved, with the delinquency ratio and charge-off ratio dropping from 0.36% and 4.67% to 0.38% and 2.87%, respectively.

## Capital and Liquidity Ratios

Total capital base after deductions of the Group further increased to HK\$57,130 million, or a 3.8% increase over the balance at 31 December 2004. The increase was primarily due to the increase in retained earnings. The consolidated capital adequacy ratio declined by 0.40 percentage point to 15.74% as at 30 June 2005, mainly due to expansion of on-balance sheet risk-weighted assets. This was attributable to the strong growth in corporate loans and residential mortgage loans, partially offset by the reduction in interbank placements.

The impact of adoption of new accounting standards on the capital base was not significant. In accordance with the HKMA guideline, the impact of the New Hong Kong Accounting Standards, "Authorised Institutions' Capital Base and Regulatory Reporting", collective a significant amount of HK\$1,222 million and regulatory reserve of HK\$3,584 million appropriated from retained earnings were included in Tier 2 capital subsequent to the adoption of HKAS 39. At 31 December 2004, general provisions eligible to Tier 2 capital were capped to HK\$3,049 million.

## Business Review

### Retail Banking

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Retail Banking recorded a growth in profit before taxation by 35.0% to HK\$3,071 million as compared to the first half in 2004, mainly due to an increase in net interest income. Net interest income improved by 34.2% to HK\$3,656 million. Rising Hong Kong dollar interest rate and our efforts in managing funding cost directly contributed to a widening of deposit spread. This was partially offset by narrowing residential mortgage loan spread as Prime - HIBOR spread contracted substantially during the period.

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profit and less account on the adoption of HKAS 40. The related deferred tax charge amounted to HK\$155 million.

## Financial Position

The Group's total assets as at 30 June 2005 were HK\$381,335 million, up HK\$16,559 million, or 2.1%, from end-2004.

- Interbank placements maturing between one and twelve months dropped by HK\$47,385 million, or 44.0%.
- Securities investments rose by HK\$24,988 million, or 13.2%, to HK\$214,376 million.
- The Group continued to actively manage the balance sheet. As a result, short-term surplus funds were reduced and usas of funds by our lending business and securities investment portfolios increased.

## Advances to customers

The Group registered a strong growth in advances to customers by HK\$24,428 million, or 7.8%, to HK\$337,654 million from end-2004.

Loans for use in Hong Kong rose by 5.9%.

- Lending to industrial, commercial and financial sectors recorded a robust expansion by HK\$8,191 million, or 5.5%, from end-2004. In particular, our SME loan portfolio increased by 8.1%.
- Residential mortgage loans (excluding those under the government-sponsored home purchasing schemes) increased by HK\$7,790 million, or 8.2%, to HK\$103,411 million.

Card advances grew by HK\$933 million, or 12.2%, from end-2004 as a result of an increase in cardholder spending encouraged by a favorable economic environment.

Trade finance increased by HK\$2,770 million or 20.9%. This was largely a result of strong import and export performance in Hong Kong. Loans for use outside Hong Kong was up 20.7%, mainly propelled by the strong growth of corporate lending business in our Mainland branches.

Deposits from customers (including structured deposits reported as trading liabilities and other financial instruments at fair value through profit or loss)

Deposits from customers were HK\$32,546 million, up HK\$1,216 million or 0.2%, from end-2004. Time deposits increased by HK\$4,150 million or 17.9%, whereas savings deposits declined by HK\$5,193 million or 18.6%. Overall, there was a substantial increase in interest rates, we saw a shift of funds from savings deposits to time deposits.

## Asset Quality

The Group's classified impaired loans decreased significantly by HK\$2,876 million or 31.1%. Good results in our collection and recovery efforts helped by an improving economy and property market. Total collections recovered efforts helped by an improving economy and classified impaired loans amounted to HK\$30.6 billion. About HK\$0.4 billion of the reduction in repossessed assets was due to reduction of the loans and advances related to impairment allowances amounted to HK\$2,876 million under the categories of individual and collective assessments. The Group also held a regulatory reserve amounting to HK\$3,584 million. This regulatory reserve balance was created by a transfer of HK\$3,410 million from retained earnings at the beginning of the financial year, plus an increase of HK\$1,174 million in the first six months of this year. Total allowances and regulatory reserve represents 1.94% of total advances to customers, or 103.0% coverage of the classified impaired loans.

The quality of the Group's residential mortgage loans continued to improve. The combined delinquency and restructured loan ratio decreased from 0.51% at end-2004 to 0.47%. The negative equity ratio dropped from 3.05% at end-2004 to 2.40%. The quality of card advances also improved, with the delinquency ratio and charge-off ratio dropping from 0.36% and 4.67% to 0.38% and 2.87%, respectively.

## Capital and Liquidity Ratios

Total capital base after deductions of the Group further increased to HK\$57,130 million, or a 3.8% increase over the balance at 31 December 2004. The increase was primarily due to the increase in retained earnings. The consolidated capital adequacy ratio declined by 0.40 percentage point to 15.74% as at 30 June 2005, mainly due to expansion of on-balance sheet risk-weighted assets. This was attributable to the strong growth in corporate loans and residential mortgage loans, partially offset by the reduction in interbank placements.

The impact of adoption of new accounting standards on the capital base was not significant. In accordance with the HKMA guideline, the impact of the New Hong Kong Accounting Standards, "Authorised Institutions' Capital Base and Regulatory Reporting", collective a significant amount of HK\$1,222 million and regulatory reserve of HK\$3,584 million appropriated from retained earnings were included in Tier 2 capital subsequent to the adoption of HKAS 39. At 31 December 2004, general provisions eligible to Tier 2 capital were capped to HK\$3,049 million.

## Business Review

### Retail Banking

#### Results

Retail Banking recorded a growth in profit before taxation by 35.0% to HK\$3,071 million as compared to the first half in 2004, mainly due to an increase in net interest income. Net interest income improved by 34.2% to HK\$3,656 million. Rising Hong Kong dollar interest rate and our efforts in managing funding cost directly contributed to a widening of deposit spread. This was partially offset by narrowing residential mortgage loan spread as Prime - HIBOR spread contracted substantially during the period.

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Trade finance increased by HK\$2,770 million or 20.9%. This was largely a result of strong import and export performance in Hong Kong. Loans for use outside Hong Kong was up 20.7%, mainly propelled by the strong growth of corporate lending business in our Mainland branches.

Deposits from customers (including structured deposits reported as trading liabilities and other financial instruments at fair value through profit or loss)

Deposits from customers were HK\$32,546 million, up HK\$1,21



# CONSOLIDATED PROFIT AND LOSS ACCOUNT

| Notes                                                                           | (Unaudited)<br>Half-year ended<br>30 June 2005<br>HK\$'m | (Unaudited)<br>Half-year ended<br>30 June 2004<br>HK\$'m | (Unaudited)<br>Half-year ended<br>30 June 2004<br>HK\$'m |
|---------------------------------------------------------------------------------|----------------------------------------------------------|----------------------------------------------------------|----------------------------------------------------------|
|                                                                                 |                                                          |                                                          |                                                          |
| Interest income                                                                 | 10,065                                                   | 7,304                                                    | (1,795)                                                  |
| Interest expense                                                                | (5,861)                                                  | (2,005)                                                  | (510)                                                    |
| Net interest income                                                             | 4,204                                                    | 5,309                                                    | (1,795)                                                  |
| Fees and commission income                                                      | 2,005                                                    | 2,221                                                    | (510)                                                    |
| Fees and commission expenses                                                    | (508)                                                    | (1,497)                                                  | 1,711                                                    |
| Net fees and commission income                                                  | 1,497                                                    | 746                                                      | 662                                                      |
| Net trading income                                                              | 746                                                      | 662                                                      | 141                                                      |
| Other operating income                                                          | 121                                                      | 8,225                                                    | 8,023                                                    |
| Operating income                                                                | (2,676)                                                  | (2,687)                                                  | (2,687)                                                  |
| Operating profit before impairment/provisions on advances                       | 5,549                                                    | 5,356                                                    | 5,356                                                    |
| Reversal of loan impairment allowances on advances                              | 1,435                                                    | 1,240                                                    | 1,240                                                    |
| Write-back of bad and doubtful debts                                            | 6,984                                                    | 6,596                                                    | 6,596                                                    |
| Operating profit                                                                | (9)                                                      | 22                                                       | 22                                                       |
| Net (loss)/gain from disposal/revaluation of fixed assets                       | 927                                                      | 26                                                       | 26                                                       |
| Net gain from disposal/revaluation of investment properties                     | (3)                                                      | 1                                                        | 1                                                        |
| Net (loss)/gain from redemption/disposal of held-to-maturity securities         | 21                                                       | 4                                                        | 4                                                        |
| Net gain from disposal of available-for-sale securities                         | 150                                                      | (19)                                                     | (19)                                                     |
| Write-back of provision for impairment of interest in associates                | 7,923                                                    | 6,776                                                    | 6,776                                                    |
| Share of profits less losses of associates                                      | (1,328)                                                  | (1,119)                                                  | (1,119)                                                  |
| Profit before taxation                                                          | 6,595                                                    | 5,557                                                    | 5,557                                                    |
| Taxation                                                                        | 73                                                       | 76                                                       | 76                                                       |
| Profit for the period                                                           | 6,522                                                    | 5,581                                                    | 5,581                                                    |
| Attributable to:                                                                |                                                          |                                                          |                                                          |
| Equity holders of the Company                                                   | 6,522                                                    | 5,581                                                    | 5,581                                                    |
| Minority interests                                                              | 73                                                       | 76                                                       | 76                                                       |
| Dividend                                                                        | 6,595                                                    | 5,557                                                    | 5,557                                                    |
| Earnings per share for profit attributable to the equity holders of the Company | 3.468                                                    | 3.383                                                    | 3.383                                                    |

## CONSOLIDATED BALANCE SHEET

| Note                                                                                          | (Unaudited)<br>At 30 June<br>2005<br>HK\$'m | (Audited)<br>At 31 December<br>2004<br>HK\$'m |
|-----------------------------------------------------------------------------------------------|---------------------------------------------|-----------------------------------------------|
|                                                                                               |                                             |                                               |
| ASSETS                                                                                        |                                             |                                               |
| Cash and short-term funds                                                                     | 113,792                                     | 102,647                                       |
| Placements with banks and other financial institutions maturing between one and twelve months | 60,196                                      | 107,581                                       |
| Trade bills                                                                                   | 1,251                                       | 1,086                                         |
| Certificates of deposit held                                                                  | 19,440                                      | 22,338                                        |
| Hong Kong SAR Government certificates of indebtedness                                         | 33,900                                      | 34,760                                        |
| Available-for-sale securities                                                                 | 49,433                                      | 181,050                                       |
| Held-to-maturity securities                                                                   | 153,912                                     | 181,050                                       |
| Investment securities                                                                         | 50                                          | 50                                            |
| Other investments in securities                                                               | 62,908                                      | 62,908                                        |
| Trading securities and other                                                                  | 67,856                                      | 59,805                                        |

### HKAS 39: Financial Instruments - Recognition and Measurement (HKAS 39)

#### 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 until the debt was repaid. Interest income was recognised on a time-proportion basis, based on the carrying amount of the financial instrument. Interest expense was recognised on a time-proportion basis, based on the carrying amount of the financial instrument. Interest income and expense were recognised in the profit and loss account as they accrued, except in the case of doubtful debts, where interest was credited to a suspense account until the debt was repaid. Interest income was recognised on a time-proportion basis, based on the carrying amount of the financial instrument. Interest expense was recognised on a time-proportion basis, based on the carrying amount of the financial instrument.

From 1 January 2005 onward

Interest income and expense on interest-bearing financial assets or financial liabilities is 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 until the debt was repaid. Interest income was recognised on a time-proportion basis, based on the carrying amount of the financial instrument. Interest expense was recognised on a time-proportion basis, based on the carrying amount of the financial instrument.

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 assets or financial liabilities that are classified as held-to-maturity are recognised as interest income or interest expense in the profit and loss account.

#### 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 on quoted market prices. In an active market, the fair value was determined by reference to the quoted market price. In an inactive market, the fair value was determined by reference to the quoted market price of a similar instrument. Gains/losses on transactions which were marked to market were included in "Other assets" or "Other accounts and provisions" respectively. Gains or losses from changes in fair value were recognised through the profit and loss account.

Transactions undertaken for hedging purposes were designated at inception and the hedging instrument was required to be highly effective in accomplishing the objective of offsetting the risk being hedged throughout the life of the hedge. Hedging instruments were valued on an equivalent basis to the assets, liabilities or net positions that they were hedging. A 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 (fair value hedges); (2) hedges of highly probable forecasted transactions (cash flow hedges); (3) hedges of foreign exchange risk in foreign currency denominated assets or liabilities. 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.

#### 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 investments. The classification depends on the purpose for which the financial assets were held. All financial assets are classified as held-to-maturity or available-for-sale at the date of recognition. Financial assets that are classified as held-to-maturity or available-for-sale are subsequently measured at amortised cost, except for those that are subsequently classified as available-for-sale. Financial assets that are classified as available-for-sale are subsequently measured at fair value. For financial assets that are classified as available-for-sale, any gains or losses are recognised in other comprehensive income, except for impairment losses which are recognised in the profit and loss account.

### CONSOLIDATED CASH FLOW STATEMENT

|                                                     | (Unaudited)<br>Half-year ended<br>30 June 2005<br>HK\$'m | (Unaudited)<br>Half-year ended<br>30 June 2004<br>HK\$'m |
|-----------------------------------------------------|----------------------------------------------------------|----------------------------------------------------------|
|                                                     |                                                          |                                                          |
| Cash flows from operating activities                | 9,208                                                    | (10,250)                                                 |
| Operating cash inflow/(outflow) before taxation     | (359)                                                    | (160)                                                    |
| Hong Kong profits tax paid                          | (10)                                                     | -                                                        |
| Overseas profits tax paid                           | 8,339                                                    | (10,410)                                                 |
| Net cash inflow/(outflow) from operating activities | 8,839                                                    | (10,410)                                                 |
| Cash flows from investing activities                | 13                                                       | 13                                                       |
| Dividends received from investments in securities   | (154)                                                    | (87)                                                     |
| Purchases of fixed assets                           | 422                                                      | 122                                                      |
| Proceeds from disposal of fixed assets              | 51                                                       | 161                                                      |
| Proceeds from disposal of investment properties     | 6                                                        | 5                                                        |
| Proceeds from disposal of an associate              | 2                                                        | 5                                                        |
| Dividend received from an associate                 | -                                                        | (9)                                                      |
| Loans repaid by associates                          | -                                                        | 283                                                      |
| Net cash inflow from investing activities           | 340                                                      | 486                                                      |
| Cash flows from financing activities                | (4,176)                                                  | (3,383)                                                  |
| Final dividend paid                                 | (59)                                                     | (55)                                                     |
| Dividend paid to minority shareholders              | (4,231)                                                  | (3,438)                                                  |
| Net cash outflow from financing activities          | (4,231)                                                  | (3,438)                                                  |
| Increase/(decrease) in cash and cash equivalents    | 4,948                                                    | (13,360)                                                 |
| Cash and cash equivalents at 1 January              | 62,908                                                   | 73,165                                                   |
| Cash and cash equivalents at 30 June                | 67,856                                                   | 59,805                                                   |

In accordance with the requirements of HKAS 1, the amounts are set aside for general banking risks, including future losses or other unforeseeable risks, in addition to the four impairment allowances on advances recognised under HKAS 39.

### CONSOLIDATED CASH FLOW STATEMENT

|                                                     | (Unaudited)<br>Half-year ended<br>30 June 2005<br>HK\$'m | (Unaudited)<br>Half-year ended<br>30 June 2004<br>HK\$'m |
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date of transition to the new HKFRS and are recognised initially at fair value. Except for financial assets carried at fair value through profit or loss, all transaction costs of financial assets are included in their fair value.

Cash and cash equivalents at 30 June

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

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

Notes

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This category is further divided into two sub-categories: financial assets held for trading, and financial assets designated as at fair value through profit or loss at inception or date of transition to the new HKFRS. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term. A financial asset can be designated as at fair value through profit or loss if it is so designated at inception. The designation is intended to eliminate or reduce the inconsistency in measurement or recognition that would otherwise arise when there is an economic relationship between particular financial assets and liabilities by which different measurement and recognition requirements apply.

The information herein in this result announcement is extracted from the Group's unaudited interim report for the first half of 2005, which is prepared in accordance with HKAS 34 Interim Financial Reporting issued by the HKCPA and should be read in conjunction with the Group's Annual Report for 2004.

Advances and other accounts

such assets and liabilities are managed together on a fair value basis and the accounting results may differ from the underlying economics.

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

Interests in associates

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

HKAS 1 Presentation of Financial Statements

Fixed assets

Loans and receivables

HKAS 7 Cash Flow Statements

Deffered tax assets

Loans and receivables are non-derivative financial assets with fixed determinable payments that are not quoted in an active market. When the Group lends to a borrower, it is directly to a borrower with no intention of trading the receivable. Loans and receivables are measured at amortised cost after netting impairment allowances.

HKAS 10 Accounting Policies, Changes in Accounting Estimates and Errors

Deffered tax liabilities

Held-to-maturity investments

HKAS 16 Property, Plant and Equipment

Other accounts and provisions

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.

HKAS 17 Intangible Assets

Other liabilities

Available-for-sale financial assets

HKAS 18 Financial Instruments: Recognition and Measurement

Shareholders' funds

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

HKAS 19 Leases

Total capital resources

Financial liabilities

HKAS 20 Related Party Disclosures

Total liabilities and capital resources

From 1 January 2004 to 31 December 2004

Upon adoption of HKFRS 5, reprocessed 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, reprocessed assets are measured at the lower of their cost or not realisable value and are reported as 'Non-current assets held for sale' under 'Other assets'.

Shareholders' funds

From 1 January 2005 onward

From 1 January 2004 to 31 December 2004

Shareholders' funds

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

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.

Shareholders' funds

(1) Trading liabilities

From 1 January 2005 onward

Shareholders' funds

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.

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

Shareholders' funds

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

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

Shareholders' funds

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

On adoption of the deemed cost at the date of Merger, the Group made reference to the independent property valuation conducted as at 31 August 2001 for the purpose of the Merger, which did not split the values of the leasehold properties held for own use between the land and buildings elements. The Group has therefore adopted the valuation at the date of the Merger as the deemed cost for its leasehold properties held for own use to reflect the circumstances at the time of the Merger. It is determined that the values of the land and building elements of the Group's leasehold properties held for own use cannot be reliably split and the leasehold properties held for own use are treated as finance leases. The Group has also adopted the revaluation model under HKAS 16 by which assets arising under these finance leases are carried at fair value less any accumulated depreciation and impairment losses.

Shareholders' funds

(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.

Shareholders' funds

Valuation of securities and derivatives

From 1 January 2004 to 31 December 2004

Shareholders' funds

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 bid prices or closing prices as at the balance sheet date.

Shareholders' funds

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.

Shareholders' funds

From 1 January 2004 to 31 December 2004

From 1 January 2005 onward

Shareholders' funds

From 1 January 2004 to 31 December 2004

From 1 January 2005 onward

Shareholders' funds

From 1 January 2004 to 31 December 2004

From 1 January 2005 onward

Shareholders' funds

From 1 January 2004 to 31 December 2004

From 1 January 2005 onward

Shareholders' funds

From 1 January 2004 to 31 December 2004

From 1 January 2005 onward

Shareholders' funds



中銀香港(控股)有限公司  
BOC HONG KONG (HOLDINGS) LIMITED

(f) Impairment of financial assets

From 1 January 2004 to 31 December 2004

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

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

From 1 January 2005 onward

(1) Loans and advances

The Group assesses at each balance sheet date whether there is objective evidence that a loan or group of loans is impaired. 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 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 are recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

HKAS40: Investment Property (HKAS40)

HKAS-Int 21: Income Taxes - Recovery of Revoked Non-Depreciable Assets (HKAS-Int 21)

From 1 January 2004 to 31 December 2004

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

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

From 1 January 2005 onward

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

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

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

HKFRS 5

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

HKAS 39

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

3. Net Interest Income

|                                                          | Half-year ended<br>30 June 2005<br>HK\$'m | Half-year ended<br>30 June 2004<br>HK\$'m |
|----------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Interest income                                          |                                           |                                           |
| Cash and due from banks and other financial institutions | 1,411                                     | 1,105                                     |
| Advances to customers                                    | 5,034                                     | 3,967                                     |
| Listed investments                                       | 948                                       | 836                                       |
| Unlisted investments                                     | 2,379                                     | 1,257                                     |
| Others                                                   | 250                                       | 139                                       |
|                                                          | 10,065                                    | 7,304                                     |
| Interest expense                                         |                                           |                                           |
| Due to banks, customers and other financial institutions | (3,887)                                   | (1,516)                                   |
| Debt securities in portfolio                             | (54)                                      | (31)                                      |
| Other borrowed funds                                     | (263)                                     | (247)                                     |
| Others                                                   | (4,204)                                   | (1,795)                                   |
|                                                          | 5,861                                     | 5,509                                     |
| Net Interest Income                                      |                                           |                                           |
|                                                          | 4,261                                     | 1,799                                     |

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

4. Net fees and commission income

|                                                  | Half-year ended<br>30 June 2005<br>HK\$'m | Half-year ended<br>30 June 2004<br>HK\$'m |
|--------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Fees and commission income                       |                                           |                                           |
| Securities brokerage                             | 404                                       | 502                                       |
| Commissions                                      | 372                                       | 316                                       |
| Loan commissions                                 | 257                                       | 270                                       |
| Payment services                                 | 124                                       | 234                                       |
| Insurance                                        | 179                                       | 165                                       |
| Asset management                                 | 193                                       | 179                                       |
| Trust services                                   | 85                                        | 175                                       |
| Guarantees                                       | 49                                        | 32                                        |
| Others                                           | 21                                        | 21                                        |
|                                                  | 85                                        | 82                                        |
| Net gain from:                                   |                                           |                                           |
| - foreign exchange and foreign exchange products | 23                                        | 35                                        |
| - interest rate instruments                      | 23                                        | 24                                        |
| - equity instruments                             | 16                                        | 18                                        |
| - commodities                                    | 12                                        | 15                                        |
| - agency services                                | 6                                         | 11                                        |
| - postage and telegrams                          | 12                                        | 12                                        |
| - information search                             | 22                                        | 18                                        |
| - correspondent banking                          | 9                                         | 16                                        |
| - F&B business                                   | 17                                        | 17                                        |
| - sundries                                       | 30                                        | 31                                        |
|                                                  | 2,005                                     | 2,221                                     |
| Fees and commission expenses                     | (508)                                     | (510)                                     |
| Net fees and commission income                   |                                           |                                           |
|                                                  | 1,497                                     | 1,711                                     |

5. Net trading income

|                                                  | Half-year ended<br>30 June 2005<br>HK\$'m | Half-year ended<br>30 June 2004<br>HK\$'m |
|--------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Net gain from:                                   |                                           |                                           |
| - foreign exchange and foreign exchange products | 596                                       | 610                                       |
| - interest rate instruments                      | 129                                       | (1)                                       |
| - equity instruments                             | 4                                         | 32                                        |
| - commodities                                    | 17                                        | 52                                        |
|                                                  | 746                                       | 662                                       |

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

Other operating income

|                                                     | Half-year ended<br>30 June 2005<br>HK\$'m | Half-year ended<br>30 June 2004<br>HK\$'m |
|-----------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Dividend income from investments in securities      |                                           |                                           |
| - unlisted investments                              | 13                                        | 13                                        |
| Gross rental income from investment properties      | 93                                        | 108                                       |
| Less: Outgoings in respect of investment properties | (97)                                      | (57)                                      |
| Others                                              | 42                                        | 52                                        |
|                                                     | 121                                       | 141                                       |

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

|                                                         | Half-year ended<br>30 June 2005<br>HK\$'m | Half-year ended<br>30 June 2004<br>HK\$'m |
|---------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Profit before taxation                                  | 7,923                                     | 5,776                                     |
| Calculated at a taxation rate of 17.5% (2004: 17.5%)    | 1,387                                     | 1,186                                     |
| Effect of different taxation rates in other countries   | (15)                                      | (20)                                      |
| Income not subject to taxation                          | (389)                                     | (801)                                     |
| Excess of depreciation deductible for taxation purposes | 334                                       | 823                                       |
| Tax losses not recognised                               | 8                                         | 1                                         |
| Temporary differences not recognised                    | -                                         | (65)                                      |
| Over-provision in prior years                           | -                                         | (5)                                       |
| Taxation charge                                         | 1,328                                     | 1,119                                     |
| Effective tax rate                                      | 16.8%                                     | 16.5%                                     |

11. Dividend

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

At a meeting held on 18 August 2005, the Board declared an interim dividend of HK\$0.328 per ordinary share for the first half of 2005 amounting to approximately HK\$3,468 million. This declared dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

12. Earnings per share for profit attributable to the equity holders of the Company  
The calculation of basic earnings per share is based on the consolidated profit attributable to the equity holders of the Company for the first half of 2005 of approximately HK\$5,522 million (first half of 2004: HK\$5,581 million) and on the ordinary shares in issue of 10,572,780,266 shares (2004: 10,572,780,266 ordinary shares).

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

13. Advances and other accounts

|                                                    | At 30 June<br>2005<br>HK\$'m | At 31 December<br>2004<br>HK\$'m |
|----------------------------------------------------|------------------------------|----------------------------------|
| Advances to customers                              | 337,654                      | 313,226                          |
| Accrued interest                                   | -                            | 2,480                            |
|                                                    | 337,654                      | 315,706                          |
| Loan impairment allowances (Note a)                | (2,976)                      | (7,785)                          |
| Provision for bad and doubtful debts (Note b)      | -                            | (7,785)                          |
|                                                    | 334,678                      | 307,921                          |
| Advances to banks and other financial institutions | 1,230                        | 1,230                            |
| Total                                              | 336,290                      | 309,211                          |

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

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

|                                                                                     | At 30 June<br>2005<br>HK\$'m |
|-------------------------------------------------------------------------------------|------------------------------|
| Gross impaired advances to customers                                                | 5,370                        |
| Loan impairment allowances made in respect of such advances                         | 2,420                        |
| Gross impaired advances to customers as a percentage of gross advances to customers | 1.8%                         |

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

|                                                      | At 31 December<br>2004<br>HK\$'m |
|------------------------------------------------------|----------------------------------|
| Non-performing loans                                 | 9,239                            |
| Specific provisions made in respect of such advances | 2,269                            |
| As a percentage of total advances to customers       | 2.55%                            |

# HKAS 40 HKAS-Int 21

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

## 2. Effect of adopting new HKAS

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

|                                                                                                 | HKAS 39  | HKAS 40 |
|-------------------------------------------------------------------------------------------------|----------|---------|
|                                                                                                 | HK\$'m   | HK\$'m  |
| (i) HKAS 39                                                                                     |          |         |
| Assets:                                                                                         |          |         |
| - Cash and short-term funds                                                                     |          |         |
| - Placements with banks and other financial institutions maturing between one and twelve months |          |         |
| - Certificates of deposit held                                                                  | 319      |         |
| - Available-for-sale securities                                                                 | 45       |         |
| - Held-to-maturity securities                                                                   | 21,968   |         |
| - Investment securities                                                                         | (22,821) |         |
| - Other investments in securities                                                               | (50)     |         |
| - Trading securities and other financial instruments                                            | (8,288)  |         |
| - Advances and other accounts                                                                   | 11,594   |         |
| - Deferred tax assets                                                                           | 1,274    |         |
| - Other assets                                                                                  | 92       |         |
|                                                                                                 | 2,784    |         |
| Liabilities:                                                                                    |          |         |
| - Deposits and balances of banks and other financial institutions                               | 16       |         |
| - Deposits from customers                                                                       | (1,357)  |         |
| - Trading liabilities and other financial instruments at fair value through profit or loss      | 3,792    |         |
| - Derivative financial instruments (net)                                                        | 471      |         |
| - Certificates of deposit issued                                                                | 63       |         |
| - Deferred tax liabilities                                                                      | 389      |         |
| - Other accounts and provisions                                                                 | (4,024)  |         |
|                                                                                                 | (451)    |         |
| Capital resources:                                                                              |          |         |
| - Minority interests                                                                            | 37       |         |
| - Regulatory reserve                                                                            | 3,410    |         |
| - Retained earnings                                                                             | (213)    |         |
|                                                                                                 | 3,235    |         |
| (ii) HKAS 40 and HKAS-Int 21                                                                    |          |         |
| Liabilities:                                                                                    |          |         |
| - Deferred tax liabilities                                                                      | 637      |         |
| Capital resources:                                                                              |          |         |
| - Investment properties revaluation reserve                                                     | (623)    |         |
| - Retained earnings                                                                             | (114)    |         |
|                                                                                                 | (637)    |         |
| Total effect on equity including:                                                               |          |         |
| - Investment properties revaluation reserve                                                     | (623)    |         |
| - Regulatory reserve                                                                            | 3,410    |         |
| - Retained earnings                                                                             | (226)    |         |
|                                                                                                 | 2,561    |         |

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

|                                                      | HKAS 39 | HKAS 40 |
|------------------------------------------------------|---------|---------|
|                                                      | HK\$'m  | HK\$'m  |
| (i) HKAS 39                                          |         |         |
| - Net interest income                                | (39)    |         |
| - Net fees and commission income                     | (104)   |         |
| - Net trading income                                 | 238     |         |
| - Reversal of loan impairment allowances on advances | 1,006   |         |
| - Taxation                                           | (227)   |         |
|                                                      | 872     |         |
| (ii) HKAS 40 and HKAS-Int 21                         |         |         |
| - Net gain from revaluation of investment properties | 918     |         |
| - Taxation                                           | (155)   |         |
|                                                      | 763     |         |
| Total effect for the period:                         | 1,635   |         |
| Effect on earnings per share:                        | 0.1546  |         |

## 7. Operating expenses

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

## 8. Reversal of loan impairment allowances on advances

|                                                       | Half-year ended 30 June 2005 | Half-year ended 30 June 2004 |
|-------------------------------------------------------|------------------------------|------------------------------|
|                                                       | HK\$'m                       | HK\$'m                       |
| Net release of loan impairment allowances on advances | 600                          |                              |
| Individually assessed                                 | 835                          |                              |
| Collectively assessed                                 | 1,435                        |                              |
| Of which:                                             |                              |                              |
| - new allowances                                      | (796)                        |                              |
| - releases                                            | 1,123                        |                              |
| - recoveries                                          | 1,106                        |                              |
| Net credit to profit and loss account                 | 1,435                        |                              |

## 9. Write-back of bad and doubtful debts

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

## 10. Taxation

|                                 | Half-year ended 30 June 2005 | Half-year ended 30 June 2004 |
|---------------------------------|------------------------------|------------------------------|
|                                 | HK\$'m                       | HK\$'m                       |
| Hong Kong profits tax           | 1,032                        | 1,184                        |
| - current period taxation       |                              | (5)                          |
| - over-provision in prior years | 263                          | (65)                         |
| Deferred tax charge/(credit)    |                              |                              |
| Hong Kong profits tax           | 1,315                        | 1,114                        |
| Overseas taxation               | 13                           | 5                            |
|                                 | 1,328                        | 1,119                        |

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

The Group has entered into a number of aircraft leasing and coupon strip transactions involving special purpose partnerships. As at 30 June 2005, the Group's investments in such partnerships, which are included in "Other assets" in the consolidated balance sheet, amounted to HK\$328 million (31 December 2004: HK\$313 million). The Group's investments in partnerships are amortised over the life of the partnerships in proportion to the taxation benefits resulting from those investments.

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

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

## Notes:

### (a) Loan impairment allowances

|                       | At 30 June 2005 | At 30 June 2004 |
|-----------------------|-----------------|-----------------|
|                       | HK\$'m          | HK\$'m          |
| Individually assessed | (1,818)         | (1,818)         |
| Collectively assessed | (1,158)         | (1,158)         |
|                       | (2,976)         | (2,976)         |

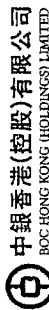
### (b) Provision for bad and doubtful debts

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

## 14. 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                  |                                 |              |         |         |
|-----------------------------------------------------------------|----------------------------------|---------------------------------|--------------|---------|---------|
|                                                                 | 1 year or less but over 3 months | 5 years or less but over 1 year | Over 5 years | Undated |         |
|                                                                 | HK\$'m                           | HK\$'m                          | HK\$'m       | HK\$'m  | HK\$'m  |
| Assets                                                          |                                  |                                 |              |         |         |
| Treasury bills                                                  | 6,768                            | 2,905                           | -            | -       | 9,673   |
| Cash and other short-term funds                                 | 28,292                           | 75,475                          | 352          | -       | 104,119 |
| Placements with banks and other financial institutions          | 43,108                           | 17,888                          | -            | -       | 60,996  |
| Certificates of deposit held                                    | 2,735                            | 6,138                           | 10,207       | 299     | 19,440  |
| Debt securities included in:                                    |                                  |                                 |              |         |         |
| - available-for-sale securities                                 | 3,142                            | 12,694                          | 27,891       | 5,851   | 49,378  |
| - held-to-maturity securities                                   | 10,455                           | 16,527                          | 119,465      | 16,363  | 153,964 |
| - trading securities and other financial instruments            | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | 574                              | 1,025                           | 7,234        | 1,359   | 11,010  |
| Advances to customers                                           | 24,817                           | 26,493                          | 137,143      | 112,447 | 337,654 |
| Advances to banks and other financial institutions              | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | 17,891                           | 19,552                          | 1,027        | -       | 38,471  |
| Customer accounts                                               | 273,087                          | 333,705                         | 18,790       | 6,557   | 632,546 |
| Certificates of deposit issued                                  | -                                | 883                             | 1            | 2,562   | 3,746   |
| Liabilities                                                     |                                  |                                 |              |         |         |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Advances to customers                                           | -                                | -                               | -            | -       | -       |
| at fair value through profit or loss                            | -                                | -                               | -            | -       | -       |
| Deposits and balances of banks and other financial institutions | -                                | -                               | -            | -       |         |



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

The above maturity classifications have been prepared in accordance with the guideline on "Interim Financial Disclosure by Locally Incorporated Authorized Institutions" under the Supervisory Policy Manual issued by the HKMA. In accordance with the guideline, the Group has reported assets such as advances and deposits as "Repayable on demand" and not as "Repayable on demand or instalments" and assets which are repayable on demand 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 the notes to the financial statements. The analysis of other investments in securities by remaining period to maturity is disclosed in the notes to the financial statements. The analysis of other investments in securities by remaining period to maturity is disclosed in the notes to the financial statements.

#### 15. Contingent liabilities, commitments and derivatives

The following is a summary of each significant class of contingent liabilities, commitments and derivatives:

|                                                               | At 30 June 2005 | At 31 December 2004 |
|---------------------------------------------------------------|-----------------|---------------------|
|                                                               | HK\$'m          | HK\$'m              |
| Contractual amounts of contingent liabilities and commitments |                 |                     |
| - Direct credit substitutes                                   | 1,043           | 1,132               |
| - Transaction-related contingencies                           | 5,172           | 4,647               |
| - Trade-related contingencies                                 | 18,648          | 16,286              |
| - Other commitments with an original maturity of              |                 |                     |
| - undated                                                     | 93,436          | 90,947              |
| - unconditionally cancellable                                 | 39,601          | 41,460              |
| - one year and over                                           | 156,900         | 154,452             |
| Total                                                         | 251,142         | 283,303             |
| - Aggregate credit risk weighted amount                       |                 |                     |
| Notional amounts of derivatives                               |                 |                     |
| - Exchange rate contracts                                     | 291,578         | 224,863             |
| - Interest rate contracts                                     | 28,987          | 25,579              |
| - Bullion contracts                                           | 8,105           | 1,092               |
| - Equity contracts                                            | 569             | 1,014               |
| Total                                                         | 329,239         | 252,568             |
| - Aggregate credit risk weighted amount                       | 571             | 777                 |
| - Aggregate replacement cost                                  | 894             | 1,379               |

The credit risk weighted amounts are the amounts that have been calculated in accordance with the Third Schedule of the Banking Ordinance and guidelines issued by the HKMA. The amounts are reported 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 at the balance sheet dates.

#### 16. 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

|                                | Bank   | Corporate | Treasury | Investment | Others | Elimination | Consolidated |
|--------------------------------|--------|-----------|----------|------------|--------|-------------|--------------|
|                                | HK\$'m | HK\$'m    | HK\$'m   | HK\$'m     | HK\$'m | HK\$'m      | HK\$'m       |
| Net interest income            | 1,613  | 1,784     | 584      | (140)      | 10     | 5,811       | 9,811        |
| Net fees and commission income | 99     | 42        | (17)     | 8          | (14)   | 1,407       | 1,497        |
| Net trading income             | 70     | 21        | 44       | 41         | 14     | 14          | 14           |
| Other operating income         | 1      | 1         | 1        | 1          | 1      | 30          | (21)         |

HK\$-year ended 30 June 2005

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

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

Treasury business includes money market, foreign exchange dealings and capital market activities. Treasury manages funding and capital of the Group. It provides funds to other business segments and receives funds from deposit taking activities of Retail Banking and Corporate Banking. These inter-segment funding transactions are mainly priced at market bid rates matched with the currencies and the terms of the transactions. Bids and other transactions (such as funding for the equipments employed) are priced at average one-week market bid rates. Information about Treasury business presented in this note includes the actual and loss information about one-month market bid rates matched with the currency. The profit and loss information about Treasury business presented in this note includes the actual and loss information about one-month market bid rates matched with the currency. The profit and loss information about Treasury business presented in this note includes the actual and loss information about one-month market bid rates matched with the currency.

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

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

Operating expenses of a functional unit are allocated to the relevant business segment that is the predominant user of the services provided by the unit. For these functional units supporting the Group's business, the operating expenses are allocated to the business segment 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 dealings and operations based in Hong Kong.

#### SUPPLEMENTARY FINANCIAL INFORMATION

|                                 | At 30 June 2005 | At 31 December 2004 |
|---------------------------------|-----------------|---------------------|
|                                 | HK\$'m          | HK\$'m              |
| Capital adequacy ratio          | 15.74%          | 16.14%              |
| Adjusted capital adequacy ratio | 15.71%          | 16.13%              |

The CAR is computed on the consolidated basis that comprises the positions of BOCHK and certain subsidiaries specified by the HKMA for its regulatory purposes and in accordance with the Third Schedule of the Banking Ordinance.

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

#### 2. Components of capital base after deductions

The consolidated capital base after deductions used in the calculation of the above capital adequacy ratios as at 30 June 2005 and 31 December 2004 and reported to the HKMA is analysed as follows:

|                                                    | At 30 June 2005 | At 31 December 2004 |
|----------------------------------------------------|-----------------|---------------------|
|                                                    | HK\$'m          | HK\$'m              |
| Core capital:                                      |                 |                     |
| - Paid up ordinary share capital                   | 42,043          | 43,043              |
| - Reserves                                         | 3,395           | 4,491               |
| - Retained earnings                                | 981             | 963                 |
| - Minority interests                               | 63,425          | 60,905              |
| Supplementary capital:                             |                 |                     |
| - Reserve for revaluation of securities            | (62)            |                     |
| - Not held for trading purposes                    | 1,222           |                     |
| - Collective loan impairment allowances            | 3,584           | 5,049               |
| - Regulatory reserve                               |                 |                     |
| - General provisions for doubtful debts            |                 |                     |
| Total capital base                                 | 68,149          | 65,954              |
| Deduction from total capital base:                 |                 |                     |
| - Shareholdings in subsidiaries or holding company | (337)           | (651)               |
| - Exposures to connected companies                 | (617)           | (645)               |
| - Equity investments of 20% or more                | (60)            | (60)                |
| - Investments in the capital of other banks        | (9)             | (1)                 |
| - or other financial institutions                  | (1,019)         | (1,257)             |

#### (b) Rescheduled advances to customers

|                                   | At 30 June 2005 | At 31 December 2004 |
|-----------------------------------|-----------------|---------------------|
|                                   | Amount          | Amount              |
|                                   | HK\$'m          | HK\$'m              |
| Rescheduled advances to customers | 419             | 974                 |
| % of gross advances to customers  | 0.12%           | 0.31%               |

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 the principal or interest is overdue and remains unpaid. Advances repayable on demand are classified as overdue 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 are included in overdue 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.

#### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the period under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

#### AUDIT COMMITTEE

The Audit Committee consists of only of Non-executive Directors, the majority of whom are Independent Non-executive Directors. It is chaired by Independent Non-executive Director Mr. Shan Weifan. Other members include Mr. Zheir Zaidun, Mr. Fung Victor Kwok King, Mr. Tung Chee Chen and Madam Yang Linda Tsao.

Based on the principle of independence, the Audit Committee assists the Board in monitoring the financial reports, internal control, internal audit and external audit of the Group.

At the request of the Audit Committee of the Company, the Group's external auditors have carried out a review of the unaudited financial statements in accordance with the Statement of Auditing Standards ("SAS") 700 issued by the HKICPA. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial report.

#### COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

The Code on Corporate Governance Practices (the "CG Code") issued by the Stock Exchange of Hong Kong came into effect on 1 January 2005. The CG Code provides useful guidelines to listed companies for assessing and enhancing their corporate governance practices. The CG Code sets out two levels of corporate governance practices, namely, code provisions and recommended best practices. Listed companies are expected to comply with the code provisions but if they choose to deviate from the same, they have to disclose and explain such deviations in their annual reports and interim reports. On the other hand, listed companies are encouraged, but are not required, to comply with the recommended best practices and make disclosure in their annual reports and interim reports.

In pursuit of the Company's stated objective to embrace good corporate governance principles and practices, the Company has been continuously enhancing its corporate governance practices in order to attain even higher standards. Since the implementation of the CG Code, the Company has conducted a gap analysis between the requirements of the CG Code on the one hand and the Group's internal requirements and practices on the other hand. The Company is pleased to announce that it has been in full compliance with the applicable code provisions and that it has substantially complied with the recommended best practices set out in the CG Code so far as applicable. The Company has also planned for a full review of the effectiveness of its internal control systems and mechanisms within this year and will report on the outcome of such review in the 2005 annual report in compliance with section C.2 of the CG Code which only applies to accounting periods commencing on or after 1 July 2005.

#### COMPLIANCE WITH HKAS 34

The interim report for the first half of 2005 complies with HKAS 34 "Interim Financial Reporting" issued by the HKICPA.

#### DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board declared an interim dividend of HK\$0.328 per share (2004: HK\$0.32), payable on Friday, 23 September 2005 to those persons registered as shareholders on Thursday, 15 September 2005.

The Register of Members of the Company will be closed, for the purpose of determining shareholders' entitlement to the interim dividend, from Monday, 12 September 2005 to Thursday, 15 September 2005 (both days inclusive), during which period no transfer of shares will be registered. In order to rank for the interim dividend, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4.00 pm on Thursday, 11 September 2005.



## IMPORTANT NOTES:

- 1) IT IS IMPROTANT THAT YOU READ THE NOTES ATTACHED TO THIS FORM. IF YOU ARE IN ANY DOUBT ABOUT THIS FORM, YOU SHOULD CONSULT THE EXCHANGE OR OTHER PROFESSIONAL ADVISER IMMEDIATELY.
- 2) PLEASE ENSURE ALL FIELDS ARE COMPLETED (YOU MAY FILL IN THE FIELD WITH "N/A" OR "NIL" WHERE IT IS NOT APPLICABLE) & ACCURATE WHEN COMPLETING THIS FORM AS INFORMATION CONTAINED IN THIS FORM WILL BE RELEASED ON THE EXCHANGE'S SYSTEM UPON RECEIPT.
- 3) PLEASE SIGN AT THE BOTTOM RIGHT CORNER ON EVERY PAGES OF THIS FORM AND THE NOTES ATTACHED (IF ANY).
- 4) ALL SUBSEQUENT CHANGES TO THE INFORMATION PROVIDED IN THIS FORM, IN PARTICULAR THE BOOK CLOSING DATES MUST BE NOTIFIED TO THE LISTING BY TELEPHONE AND FOLLOWED BY A WRITTEN CONFIRMATION IMMEDIATELY.

From: BOC HONG KONG (HOLDINGS) LIMITED  
(Name of Company)

No. of pages: 2

Mr. Norman Man Wah Law  
General Manager, Finance Department  
(Responsible Official)

2826 6242  
(Contact Telephone Number)

18 August 2005  
Date

Name of listed company : BOC HONG KONG (HOLDINGS) LIMITED

Stock code: 2388

Year end date : 31 December 2005

Currency : HKD

Change of any figures reported in the Results Announcement Form submitted previously for the Last Corresponding Period?

☐ Yes ☒ No

To be published in the newspapers

☒ Summarised results announcement ☐ Full results announcement

Auditors' Report

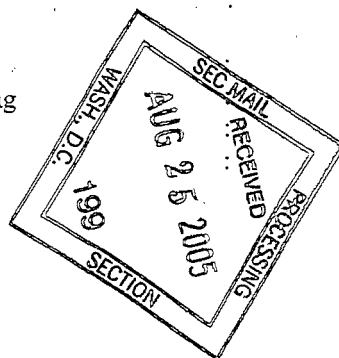
☐ Qualified ☐ Modified ☐ Unqualified ☒ N/A

(FOR INTERIM RESULTS ONLY)

Interim report reviewed by

☒ Audit committee ☒ Auditors ☐ Neither of the above

|                                                         | Unaudited<br>Current Period<br>from <u>1 January 2005</u><br>to <u>30 June 2005</u>      | Unaudited<br>Last Corresponding Period<br>from <u>1 January 2004</u><br>to <u>30 June 2004</u> |
|---------------------------------------------------------|------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|
| Interest Income                                         | <u>10.065 million</u>                                                                    | <u>7,304 million</u>                                                                           |
| Profit from Operations                                  | <u>7,924 million</u>                                                                     | <u>6,795 million</u>                                                                           |
| Finance cost                                            | <u>N/A</u>                                                                               | <u>N/A</u>                                                                                     |
| Share of Loss of Associates                             | <u>(1) million</u>                                                                       | <u>(19) million</u>                                                                            |
| Share of Profit / (Loss) of Jointly Controlled Entities | <u>N/A</u>                                                                               | <u>N/A</u>                                                                                     |
| Profit after Taxation & MI                              | <u>6,522 million</u>                                                                     | <u>5,581 million</u>                                                                           |
| % Change over Last Period – increase                    | <u>16.86 %</u>                                                                           |                                                                                                |
| EPS / (LPS) – Basic (in Dollars)                        | <u>0.6169</u>                                                                            | <u>0.5279</u>                                                                                  |
| – Diluted (in Dollars)                                  | <u>N/A</u>                                                                               | <u>N/A</u>                                                                                     |
| Extraordinary ("ETD") Gain/(Loss)                       | <u>N/A</u>                                                                               | <u>N/A</u>                                                                                     |
| Profit after ETD Items                                  | <u>6,522 million</u>                                                                     | <u>5,581 million</u>                                                                           |
| Interim Dividend per Share (in Dollars)                 | <u>0.328</u>                                                                             | <u>0.320</u>                                                                                   |
| (specify if with other options)                         | <u>N/A</u>                                                                               | <u>N/A</u>                                                                                     |
| B / C Dates for Interim Dividend                        | <u>12 September 2005 to</u><br><u>15 September 2005 bdi.</u><br><u>23 September 2005</u> |                                                                                                |
| Payable Date                                            | <u>N/A</u>                                                                               |                                                                                                |
| B / C Dates for ( - ) General Meeting                   | <u>N/A</u>                                                                               |                                                                                                |
| Other Distribution for Current Period                   | <u>N/A</u>                                                                               |                                                                                                |
| B / C Date for Other Distribution                       | <u>N/A</u>                                                                               |                                                                                                |



For and on behalf of  
BOC Hong Kong (Holdings) Limited

Signature : [Signature]

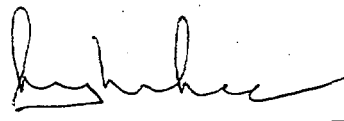
Name : Mr. Raymond Wing Hung Lee

Title : Chief Financial Officer

1. Due to the adoption of new Hong Kong Accounting Standards 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, and the details of which are set out in the Company's announcement available from the Company's website [www.bocbk.com](http://www.bocbk.com).
2. The calculation of basic earnings per share is based on the consolidated profit attributable to the equity holders of the Company for the first half of 2005 of approximately HK\$6,522 million (first half of 2004: HK\$5,581 million) and on the ordinary shares in issue of 10,572,780,266 shares (2004: 10,572,780,266 ordinary shares).
3. At a meeting held on 18 August 2005, the Board declared an interim dividend of HK\$0.328 per ordinary share for the first half of 2005 amounting to approximately HK\$3,468 million. This declared dividend is not reflected as a dividend payable in the accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

For and on behalf of  
BOC Hong Kong (Holdings) Limited

Signature

: 

Name

: Mr. Raymond Wing Hung Lee

Title

: Chief Financial Officer



Press Release  
18 August 2005

**BOC Hong Kong (Holdings) grows interim profit by 16.9%  
to HK\$6,522 million**

BOC Hong Kong (Holdings) Limited ("the Company", Stock Code 2388; US ADRs: BHKLY) today announced its 2005 interim results. The Company and its subsidiaries ("the Group") registered a profit attributable to shareholders of HK\$6,522 million for the first half of 2005, an increase of 16.9% compared with the same period of 2004. Earnings per share rose to HK\$0.6169 from HK\$0.5279, up 16.9%.

The growth in the Group's profits was mainly attributable to higher operating profit, increase in recovery of loans previously written off as well as a property revaluation gain.

Return on average shareholders' funds grew by 0.20 percentage point to 18.39% while return on average total assets increased by 0.13 percentage point to 1.61%.

The Group's asset quality further improved. Classified impaired loans dropped significantly by HK\$2,876 million or 31.1%, bringing the classified impaired loan ratio down to 1.89% at 30 June 2005, compared to 4.12% in mid-2004.

The Board has declared an interim dividend of HK\$0.328 per share, up 2.5 % as compared to the same period last year. The interim dividend will be payable on 23 September 2005 (Friday) to those persons registered as shareholders on 15 September 2005 (Thursday).

With effect from 1 January 2005, the Group is required to prepare its financial statements in accordance with new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards. As such, certain 2004 figures are not strictly comparable.

**Key Financial Results and Operating Performance**

On the back of Hong Kong's economic upturn and through the effective implementation of its business strategies to improve net interest income, income structure and cost-efficiency while accelerating product development and market expansion, the Group was able to deliver an increase in operating profit as well as a substantial growth in profit attributable to shareholders.

Operating profit before loan impairment was HK\$5,549 million, up 3.6%, which reversed a downward trend since 2001. Operating income increased by 2.5%. Rise in interest rates, growth of loans and advances, effective management of the cost of funds and higher net free fund contribution have led to an increase of net interest income by 6.4% to HK\$5,861 million, with net interest margin widened by 3 basis points to 1.59% year-on-year.

Non-interest income dropped by 6% during the period as a result of the fall in net fees and commission income. As customers demanded investments with higher potential returns in a rising interest rate environment, the sales of capital guaranteed funds dropped significantly. Nevertheless, structured products and open-ended funds were in greater demand in the market and the Group was able to capture the growth opportunities to increase their sales volumes by 87.4% and 12.0% respectively.

There was a substantial growth in loans arising from the corporate, personal and overseas sectors. Corporate lending increased by 8.8%. The Group's SME loan portfolio witnessed a robust expansion of 9.1% while trade finance increased by 20.9% due mainly to strong import and export performance in Hong Kong. Lending to individuals grew by 6.3%, driven primarily by an increase of 8.2% in residential mortgage loans. Loans for use outside Hong Kong was up 20.7% in view of the strong growth of the Mainland corporate lending business.

The Group was also on track to further strengthen its customer structure by growing its high-value customer base. With the introduction of Wealth Management VIP services in January this year and Prime services earlier, the number of wealth management customers and the amount of assets under management grew by 30% and 23% respectively when compared to end-2004.

Since the introduction of personal Renminbi (RMB) banking services in Hong Kong, the Group remained a clear market leader in personal RMB deposits and RMB credit cards. RMB deposits recorded an increase of 63.8% in the first six months of the year while the total number of RMB cards issued increased by 23%. It also enjoyed a leading position in China UnionPay Card merchant acquiring business in Hong Kong.

The Group's Mainland business performed well in the first half. Operating profit before impairment increased by over 90% to HK\$142 million, with classified impaired loan ratio down further to 1.07%.

Through disciplined cost management, the Group's operating expenses rose only marginally by 0.3% to HK\$2,676 million. Cost-to-income ratio improved by 0.71 percentage point to 32.53%, remaining low by industry standards.

Loan impairment release increased by 15.7% to HK\$1,435 million over the same period last year. The Group reported a release of impairment allowances of HK\$1,123 million in the first half, as a result of the improvement in asset quality, lower bad debt migration rate and rise in collateral value. This release was partially offset by an increase of HK\$796 million in new impairment allowances. During the same period, recoveries of loans previously written off increased by 51.2% to HK\$1,108 million as the active property market facilitated the disposals of collateral.

Against the backdrop of a buoyant property market, a revaluation gain on investment properties of HK\$918 million was recognized through the profit and loss account on the adoption of the new accounting standards.

Total assets amounted to HK\$813,335 million at end-June 2005, up 2.1% from end-2004, of which advances to customers registered a strong growth of 7.8% to HK\$337,654 million as compared to end-2004. Deposits from customers stood at HK\$632,546 million, with a migration from savings to time deposits caused by rising interest rates. Loan-to-deposit ratio rose from 49.61% at end-2004 to 53.38% at end-June 2005.

The Group remained healthy in capital and liquidity. The consolidated capital adequacy ratio was down by 0.4 percentage point to 15.74% at end-June 2005 while the average liquidity ratio was up by 4.51% to 39.15% for the first half of the year.

#### **Comments by Mr Xiao Gang, Chairman**

“Riding on the economic upturn of the Hong Kong economy that has given rise to a stronger demand for credit and banking services, the Group has continued to pursue growth and excellence through a proactive business strategy that stresses higher yield and higher asset quality. The further strengthening of our management structure, the various corporate reforms carried out last year, the enhancement of our corporate governance and risk management as well as the concerted effort of staff are also factors contributing to the Group’s good performance so far this year.

Looking ahead, the current economic upturn is likely to sustain. However, there are external uncertainties. The most significant ones will be the escalation of oil prices and the rise of trade-related issues between the Mainland and the US and EU, which may affect Hong Kong overall trade outlook. The current trend of interest rate hike may also slow down the local property market and make it more challenging to grow the wealth management business.

The recent reform of the RMB exchange rate regime and the possibility of a further expansion of the scope of RMB banking services in Hong Kong will have positive effects on the operating environment of the banking sector. Our strengths in the RMB business have already been firmly established. We believe we are now in a highly advantageous position to benefit further from the gradual and orderly relaxation of the RMB currency control in the Mainland.

Despite the challenges we are going to face, our business strategy in the second half of 2005 will continue to focus on delivering higher profitability. We will continue to drive the growth of segments that promise higher yield and ensure higher asset quality so as to improve our pre-provisioning operating profit. The corporate reforms carried out in the past year or so and the new management team have greatly strengthened the Group’s position as one of the leading banking groups in Hong Kong, which ensures that we can continue to maximise our value for shareholders and customers.”

#### **Comments by Mr He Guangbei, Vice Chairman and Chief Executive**

“The business growth and positive developments recorded in the first half of this year should be seen as the direct consequence of the effective implementation of an enhanced development strategy, business model, corporate governance and corporate culture in the last couple of years. Our efforts in those areas, especially after the reinforcement of our management structure last year through an open and competitive recruitment, have already

begun to bear fruits, as reflected in our growth momentum and the higher value we have created for shareholders. Through our commitment and effort, the Group has firmly landed on the growth track and is moving forward in the right direction.

While we are basically optimistic that market sentiments and business prospects would still be favourable in the second half of 2005, we are also aware of the need to manage the challenges that may arise in order to sustain growth and, above all, deliver higher profitability. Notwithstanding the external environment, we will strive to grow our business and increase our operating profit.

For the Group, top-line growth in the foreseeable future would come mainly from the improvement of interest spread, higher demand for lending, increase in income from high-margin products and services. In this regard, we will continue to make the best use of our extensive branch network and customer relationship building platform. In spite of the challenges we would face with regard to wealth management caused by higher deposit rates, it is still our policy to further upgrade our customer base and asset base for longer-term gains.

The relatively high growth recorded by the Group in corporate and personal loans should lay a solid foundation for the increase in net interest income in the second half of this year. To further improve our profitability, we will focus on optimizing the structure of our loan portfolio and enhancing loan yields.

To explore the vast potential in the Mainland market, we will continue to leverage the effective business model to grow our China-related business and offer quality cross-border services to customers. We are also confident that our expertise and experience in RMB services will give us unique advantages for the further extension of the RMB banking business in the foreseeable future.”

- End -

#### **About BOC Hong Kong (Holdings) Limited**

BOC Hong Kong (Holdings) Limited (“the Company”) was incorporated in Hong Kong on 12 September 2001 to hold the entire equity interest in Bank of China (Hong Kong) Limited (“BOCHK”), its principal operating subsidiary.

The Group is a leading commercial banking group in Hong Kong. With over 280 branches and about 450 ATMs and other delivery channels in Hong Kong, the Group offers a comprehensive range of financial products and services to retail and corporate customers. BOCHK is one of the three note-issuing banks in Hong Kong and serves as a Chairman Bank of the Hong Kong Association of Banks on a rotational basis. In addition, BOCHK has 14 branches and sub-branches in the Mainland of China to provide cross-boarder banking services to customers in Hong Kong and the Mainland. BOCHK was appointed by the People’s Bank of China as the only Renminbi (RMB) Clearing Bank in Hong Kong on 24 December 2003 and launched RMB clearing services on 25 February 2004.

The Company began trading on the main board of the Stock Exchange of Hong Kong on 25 July 2002, with stock code “2388”, ADR OTC Symbol: “BHKLY”.

Media Enquiry:

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Ms Angel Yip (852) 2826-6159