

NANYANG COMMERCIAL BANK, LIMITED
DIRECTORS' REPORT AND ACCOUNTS
FOR THE SIX-MONTH PERIOD ENDED
30TH JUNE 2003

NANYANG COMMERCIAL BANK, LIMITED

REPORT OF THE DIRECTORS

The directors are pleased to present their report together with the audited consolidated accounts of Nanyang Commercial Bank, Limited (hereinafter as the “Bank”) and its subsidiaries (together with the Bank hereinafter as the “Group”) for the six-month period ended 30th June 2003 (“the period”).

Principal activities

The Bank is a licensed bank authorised under the Hong Kong Banking Ordinance. The principal activities of the Bank are the provision of banking and related financial services in Hong Kong. The principal activities of the Bank’s subsidiaries are shown in note 19 to the accounts.

Results and appropriations

The results of the Group for the period are set out in the consolidated profit and loss account on page 5.

The directors have declared an interim dividend of HK\$65 per ordinary share, totalling HK\$390,000,000 on 12th August 2003.

Reserves

Movements in the reserves of the Group and the Bank are set out in note 25 to the accounts.

Donations

Charitable and other donations made by the Group during the period amounted to HK\$176,000.

Fixed assets

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

Directors

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

Honorary Chairman: Chuang Shih Ping

Board of Directors

Chairman: He Guangbei (appointed as director on 27th June 2003 and elected as chairman on 7th July 2003)

Vice Chairman: Li Jiwen

Directors: Ho Shiu Chuen

Jao Yu Ching

Lan Hong Tsung, David

Lau Hon Chuen, Ambrose

Law Man Wah

Mao Xiaowei

Yuen Wai Keung

Zhu Yanlai

Liu Jinbao

(resigned on 28th May 2003)

Directors' interests in contracts

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

Directors' interests in equity or debt securities

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

On 5th July 2002, Mr. He Guangbei, Ms. Li Jiwen, Mr. Ho Shiu Chuen, Mr. Law Man Wah, Mr. Mao Xiaowei, Mr. Yuen Wai Keung, Ms. Zhu Yanlai and Dr. Liu Jinbao, were granted options by BOC Hong Kong (BVI) Limited ("BOC (BVI)"), the immediate holding company of BOCHKHL, pursuant to a Pre-listing Share Option Scheme of BOCHKHL to purchase from BOC (BVI) an aggregate of 5,441,200 existing issued shares of the BOCHKHL at a price of HK\$8.5 per share which is the same as the offer price. None of these options may be exercised within one year from 25th July 2002. These options have a vesting period of four years from 25th July 2002 with a valid exercise period of ten years. One-fourth of the number of shares subject to such options will be vested at the end of each year. No offer to grant any options under the Pre-listing Share Option Scheme may be made on or after 25th July 2002, the date on which dealings in the BOCHKHL's shares commenced on The Stock Exchange of Hong Kong Limited. According to the terms of the Pre-listing Share Option Scheme, the options granted to Dr. Liu Jinbao will remain exercisable before the expiration of three months after his cessation as an employee of BOC Hong Kong (Group) Limited, the immediate holding company of BOC (BVI), on 28th May 2003.

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

Management contracts

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

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

The accounts for the period fully comply with the requirements set out in the guideline on "Interim Financial Disclosure by Locally Incorporated Authorized Institutions" under the Supervisory Policy Manual issued by the Monetary Authority.

Auditors

The accounts of the Bank and the Group for the period have been audited by PricewaterhouseCoopers.

On behalf of the Board

He Guangbei
Chairman

Hong Kong, 4th September 2003

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
NANYANG COMMERCIAL BANK, LIMITED**
(Incorporated in Hong Kong with limited liability)

We have audited the accounts set out on pages 5 to 52 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

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

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

Basis of opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Bank and of the Group as at 30th June 2003 and of the Group's profit and cash flows for the six-month period then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

The comparative figures in respect of the Group's consolidated profit and loss account, cash flow statement, statement of changes in equity, and the related disclosure notes, for the six-month period ended 30th June 2002 are not audited. Details of this matter are described in Note 2(a) to the accounts.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 4th September 2003

NANYANG COMMERCIAL BANK, LIMITED

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE SIX-MONTH PERIOD ENDED 30TH JUNE 2003**

		Six-month period ended 30th June 2003 HK\$'000	(Unaudited) As restated Six-month period ended 30th June 2002 HK\$'000
Interest income	3	1,037,827	1,269,308
Interest expense		(312,773)	(475,719)
Net interest income		725,054	793,589
Other operating income	4	210,343	211,132
Operating income		935,397	1,004,721
Operating expenses	5	(320,345)	(336,531)
Operating profit before provisions		615,052	668,190
Reversal of provision for bad and doubtful debts	6	174,777	7,663
Operating profit after provisions		789,829	675,853
Net (loss)/gain on disposal of fixed assets		(661)	18
Loss on revaluation of premises		(1,711)	(5,684)
Net gain on disposal of held-to-maturity securities		-	17
Provision for impairment losses on investment securities		(120)	-
Net gain on disposal of investment securities		111	-
Profit before taxation		787,448	670,204
Taxation	8	(236,585)	(112,433)
Profit attributable to shareholders	9, 25	550,863	557,771
Dividends	10	390,000	396,000

NANYANG COMMERCIAL BANK, LIMITED

**CONSOLIDATED BALANCE SHEET
AS AT 30TH JUNE 2003**

	Note	As at 30th June 2003 HK\$'000	As restated As at 31st December 2002 HK\$'000
Assets			
Cash and short-term funds	11	18,181,898	16,725,121
Placements with banks and other financial institutions maturing between one and twelve months	32	12,575,489	16,748,408
Trade bills	12	301,342	245,012
Certificates of deposit held	13, 32	1,324,788	942,393
Other investments in securities	14	4,075	4,872
Advances and other accounts	15	36,332,356	34,744,023
Held-to-maturity securities	17	15,983,428	15,208,406
Investment securities	18	10,688	28,626
Investment in an associate	20	-	-
Fixed assets	21	1,764,671	1,877,591
Other assets		638,032	867,923
		<u>87,116,767</u>	<u>87,392,375</u>
Liabilities			
Deposits and balances of banks and other financial institutions	32	1,836,408	1,618,948
Deposits from customers	22, 32	73,041,414	74,493,671
Other accounts and provisions	23	2,296,867	1,551,782
Dividends payable		-	252,000
		<u>77,174,689</u>	<u>77,916,401</u>
Capital resources			
Share capital	24	600,000	600,000
Reserves	25	9,342,078	8,875,974
		<u>9,942,078</u>	<u>9,475,974</u>
Total liabilities and capital resources		<u>87,116,767</u>	<u>87,392,375</u>

Approved by the Board of Directors on 4th September 2003 and signed on behalf of the Board by:

Vice Chairman and Chief Executive Officer : Li Jiwen
 Director : Lau Hon Chuen, Ambrose
 Director : Ho Shiu Chuen
 Secretary : Leung Ka Chun

NANYANG COMMERCIAL BANK, LIMITED

**BALANCE SHEET
AS AT 30TH JUNE 2003**

	Note	As at 30th June 2003 HK\$'000	As restated As at 31st December 2002 HK\$'000
Assets			
Cash and short-term funds	11	18,181,898	16,725,121
Placements with banks and other financial institutions maturing between one and twelve months	32	12,575,489	16,748,408
Trade bills	12	301,342	245,012
Certificates of deposit held	13, 32	1,324,788	942,393
Other investments in securities	14	4,075	4,872
Advances and other accounts	15	36,278,758	34,682,158
Held-to-maturity securities	17	15,983,428	15,208,406
Investment securities	18	10,688	28,626
Investments in subsidiaries	19	70,049	70,049
Investment in an associate	20	-	-
Fixed assets	21	1,665,154	1,771,009
Other assets		636,318	898,367
Total assets		87,031,987	87,324,421
Liabilities			
Deposits and balances of banks and other financial institutions	32	1,836,408	1,618,948
Deposits from customers	22, 32	73,086,939	74,555,280
Other accounts and provisions	23	2,279,107	1,539,468
Dividends payable		-	252,000
Total liabilities		77,202,454	77,965,696
Capital resources			
Share capital	24	600,000	600,000
Reserves	25	9,229,533	8,758,725
Shareholders' funds		9,829,533	9,358,725
Total liabilities and capital resources		87,031,987	87,324,421

Approved by the Board of Directors on 4th September 2003 and signed on behalf of the Board by:

Vice Chairman and Chief Executive Officer : Li Jiwen
 Director : Lau Hon Chuen, Ambrose
 Director : Ho Shiu Chuen
 Secretary : Leung Ka Chun

NANYANG COMMERCIAL BANK, LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30TH JUNE 2003**

	Note	HK\$'000
Total equity as at 1st January 2003, as previously reported		9,442,865
Effect of adoption of SSAP12 (revised)	25	33,109
		<hr/>
Total equity as at 1st January 2003, as restated		9,475,974
Deficit on revaluation of investment properties	25	(17,621)
Deficit on revaluation of premises	25	(61,223)
Provision for deferred tax liabilities	25	(5,901)
Exchange difference arising on translation of overseas operations	25	(14)
		<hr/>
Net losses not recognised in the profit and loss account		(84,759)
Profit for the period	25	550,863
		<hr/>
Total equity as at 30th June 2003		<u>9,942,078</u>
Total equity as at 1st January 2002, as previously reported		8,954,203
Effect of adoption of SSAP12 (revised)	25	67,135
		<hr/>
Total equity as at 1st January 2002, as restated		9,021,338
Deficit on revaluation of investment properties		(9,822)
Surplus on revaluation of premises		49,600
Provision for deferred tax liabilities		(19,886)
Provision for impairment losses on premises	25	(599)
Exchange difference arising on translation of overseas operations		27
		<hr/>
Net gains not recognised in the profit and loss account		19,320
Profit for the period		557,771
2002 first interim dividend	25	(396,000)
		<hr/>
Total equity as at 30th June 2002		<u>9,202,429</u>
Total equity as at 1st July 2002		9,202,429
Deficit on revaluation of investment properties		(19,811)
Deficit on revaluation of premises		(35,072)
Release of deferred tax liabilities		8,523
Exchange difference arising on translation of overseas operations		(19)
		<hr/>
Net losses not recognised in the profit and loss account		(46,379)
Profit for the period		571,924
2002 second interim dividend	25	(252,000)
		<hr/>
Total equity as at 31st December 2002		<u>9,475,974</u>

NANYANG COMMERCIAL BANK, LIMITED

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX-MONTH PERIOD ENDED 30TH JUNE 2003**

	Note	Six-month period ended 30th June 2003 HK\$'000	(Unaudited) As restated Six-month period ended 30th June 2002 HK\$'000
Operating activities			
Net cash inflow from operating activities before taxation	29(a)	1,902,543	7,226,404
Hong Kong profits tax paid		(14,224)	(10,483)
Overseas profits tax refund/(paid)		982	(6,797)
		<hr/>	<hr/>
Net cash inflow from operating activities		1,889,301	7,209,124
		<hr/>	<hr/>
Investing activities			
Purchase of fixed assets		(875)	(1,648)
Proceeds from disposal of fixed assets		2,736	26
Proceeds from disposal of investment securities		17,929	308
Dividends received from investment securities		498	1,148
		<hr/>	<hr/>
Net cash inflow/(outflow) from investing activities		20,288	(166)
		<hr/>	<hr/>
Net cash inflow before financing		1,909,589	7,208,958
Financing			
2002 second interim dividend paid		(252,000)	-
		<hr/>	<hr/>
Increase in cash and cash equivalents		1,657,589	7,208,958
Cash and cash equivalents at 1st January		21,607,288	20,909,848
		<hr/>	<hr/>
Cash and cash equivalents at 30th June	29(b)	23,264,877	28,118,806
		<hr/> <hr/>	<hr/> <hr/>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

1 Organisation and operations

Nanyang Commercial Bank, Limited (hereinafter as the “Bank”) and its subsidiaries (together with the Bank hereinafter as the “Group”) were incorporated in Hong Kong. The Bank is a licensed bank authorised under the Hong Kong Banking Ordinance.

The principal activities of the Bank are the provision of banking and related financial services in Hong Kong. The principal activities of the Bank’s subsidiaries are shown in note 19 to the accounts.

2 Principal accounting policies

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

(a) Basis of preparation

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

The accounting policies and methods of computation used in the preparation of these accounts are consistent with those used in the preparation of the Group’s accounts for the year ended 31st December 2002. For the six-month period ended 30th June 2003, the Group adopted the following SSAP issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003:

SSAP 12 (revised) : Income taxes

The effect of adopting this new standard is set out in the accounting policies below.

The comparative figures in respect of the consolidated profit and loss account, the consolidated cash flow statement, the statement of changes in equity of the Company and the Group and the corresponding note disclosures, for the six-month period ended 30th June 2002 are not audited. The Group’s external auditors had carried out a review of the interim financial statements for the six-month period ended 30th June 2002 in accordance with the Statement of Auditing Standards (“SAS”) 700 “Engagements to Review Interim Financial Statements” issued by the Hong Kong Society of Accountants and issued a review report to the board of directors. The review report issued was unmodified from the specimen issued by the HKSA.

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(b) Basis of consolidation

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

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

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

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

(c) Associate

An associate is a company, not being a subsidiary, in which an equity interest is held for the long term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the result of the associate for the period. The consolidated balance sheet includes the Group's share of the net assets of the associate plus goodwill (net of accumulated amortisation) on acquisition less provision for impairment losses.

In the Bank's balance sheet, the investment in associate is stated at cost less provision for impairment losses. The result of the associate is accounted for by the Bank on the basis of dividends received and receivable.

Unless the Group has incurred obligations or guaranteed obligations in respect of the associate, share of further losses is discontinued when the share of losses of an associate equals or exceeds the carrying amount of investment.

(d) Revenue recognition

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

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

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

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

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(e) Advances

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

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

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

(f) Provisions for bad and doubtful debts

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

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

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

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(g) Fixed assets

(i) Premises

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

Leasehold land - Over the remaining period of the lease

Buildings - Over the shorter of the remaining period of the lease and 50 years

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

(ii) Investment properties

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

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

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

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

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(g) Fixed assets (Continued)

(iii) Other fixed assets

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

Furniture, fixtures and equipment - 3 to 7 years

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

(iv) Impairment and gain or loss on sale

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

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

(h) Investments in securities

(i) Held-to-maturity securities

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

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

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(h) Investments in securities (Continued)

(ii) Investment securities

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

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

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

(iii) Other investments in securities

All other investments in securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise.

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

(i) Operating leases

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

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

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(j) Provisions

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

(k) Deferred taxation

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

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

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

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

As detailed in note 25 to the accounts, opening retained earnings of the Group at 1st January 2002 and 2003 have been increased by approximately HK\$264,279,000 and HK\$241,616,000 respectively which represents the unrecognised net deferred tax assets. This change has resulted in an increase in deferred tax assets and deferred tax liabilities of the Group at 31st December 2002 by approximately HK\$41,049,000 and HK\$7,940,000 respectively. The amounts credited to the profit and loss accounts and equity for the year ended 31st December 2002 have been reduced by approximately HK\$22,663,000 and HK\$11,363,000 respectively.

(l) Foreign currency translation

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

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

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(m) Retirement benefit costs

(i) Retirement benefit costs

The Group contributes to defined contribution retirement schemes under either recognised occupation retirement scheme (“ORSO scheme”) or mandatory provident fund (“MPF”) scheme which are available to all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees’ basic salaries for the ORSO scheme and in accordance with the MPF rules for MPF scheme. The retirement benefit scheme costs are charged to the profit and loss account as incurred and represents contributions payable by the Group to the schemes. Forfeited contributions by those employees who leave the ORSO scheme prior to the full vesting of their contributions are used by the Group to reduce the existing level of contributions or to meet its expenses under the trust deed of the ORSO scheme.

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

(ii) Long service payment

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

(iii) Leave entitlements

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

Compensated absences other than annual and sick leaves are non-accumulating. They lapse if the current period’s entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the Group. As employee service does not increase the amount of the benefit, the Group recognises no liability or expense until the absences occur.

(iv) Bonus plans

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

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(n) Off-balance sheet financial instruments

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

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

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

Hedging derivative transactions are designated as such at inception and requires that the hedging instrument, hedging objective, strategy and all relationships between hedging risk and items be fully documented. It must also be demonstrated that a derivative would be expected to be highly effective in accomplishing the objective of offsetting the risk being hedged throughout the reporting period. Hedging instruments are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging. Any profit or loss is recognised in the profit and loss account on the same basis as that arising from the related assets, liabilities or net positions.

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

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

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

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(o) Contingent liabilities and contingent assets

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

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

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

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

(p) Cash and cash equivalents

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

(q) Dividends

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

3 Interest income

	Six-month period ended 30th June 2003 HK\$'000	(Unaudited) Six-month period ended 30th June 2002 HK\$'000
Interest income from listed investments	102,544	78,499
Interest income from unlisted investments	158,033	225,454
Other interest income	777,250	965,355
	<u>1,037,827</u>	<u>1,269,308</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

4 Other operating income

	Six-month period ended 30th June 2003 HK\$'000	(Unaudited) Six-month period ended 30th June 2002 HK\$'000
Fees and commission income	180,395	171,332
Less: Fees and commission expense	(32,161)	(28,374)
	<hr/>	<hr/>
Net fees and commission income	148,234	142,958
Dividend income from unlisted investments in securities	868	1,322
Net gain from foreign exchange activities	38,391	34,149
Gross rental income from investment properties	11,892	14,756
Others	10,958	17,947
	<hr/>	<hr/>
	<u>210,343</u>	<u>211,132</u>

5 Operating expenses

	Six-month period ended 30th June 2003 HK\$'000	(Unaudited) Six-month period ended 30th June 2002 HK\$'000
Staff costs including directors' emoluments (note (a))	201,510	215,893
Premises and equipment expenses excluding depreciation		
- rental of premises	7,510	12,929
- computer equipment and service expenses	39,262	35,108
- repair, maintenance and others	7,963	3,949
Depreciation	29,843	28,590
Auditors' remuneration	500	-
Water, electricity and telephone	10,021	10,586
Advertising	635	693
Outgoing in respect of investment properties	1,686	207
Others	21,415	28,576
	<hr/>	<hr/>
	<u>320,345</u>	<u>336,531</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

5 Operating expenses (Continued)

Note:

- (a) Staff costs including directors' emoluments

	Six-month period ended 30th June 2003 HK\$'000	(Unaudited) Six-month period ended 30th June 2002 HK\$'000
Wage and salaries	184,884	198,863
Termination benefits	11	339
Pension costs - defined contribution plans	16,615	16,691
	<u>201,510</u>	<u>215,893</u>

- (b) Pursuant to written resolutions of all the shareholders of the Bank's intermediate holding company, BOC Hong Kong (Holdings) Limited ("BOCHKHL"), passed on 10th July 2002, BOCHKHL has approved and adopted a 2002 Share Option Scheme and a 2002 Sharesave Plan. No options have been granted by BOCHKHL pursuant to the 2002 Share Option Scheme or the 2002 Sharesave Plan for the period ended 30th June 2003.
- (c) On 5th July 2002, certain directors and senior management were granted options by BOC Hong Kong (BVI) Limited ("BOC (BVI)"), the immediate holding company of BOCHKHL, pursuant to a Pre-listing Share Option Scheme of BOCHKHL to purchase from BOC (BVI) an aggregate of 5,615,200 existing issued shares of the BOCHKHL at a price of HK\$8.5 per share which is the same as the offer price. None of these options may be exercised within one year from 25th July 2002. These options have a vesting period of four years from 25th July 2002 with a valid exercise period of ten years. One-fourth of the number of shares subject to such options will be vested at the end of each year. No offer to grant any options under the Pre-listing Share Option Scheme may be made on or after 25th July 2002, the date on which dealings in the BOCHKHL's shares commenced on The Stock Exchange of Hong Kong Limited. The benefits arising from the granting of these share options are not included in the directors' emoluments and staff costs and have not been recognised in the profit and loss account.

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

6 Reversal of provision for bad and doubtful debts

	Six-month period ended 30th June 2003 HK\$'000	(Unaudited) Six-month period ended 30th June 2002 HK\$'000
Charge/(credit) for bad and doubtful debts		
Specific provisions		
- new provisions	126,581	113,080
- releases	(80,529)	(78,390)
- recoveries (note 16)	(55,829)	(42,353)
	<u>(9,777)</u>	<u>(7,663)</u>
General provisions (note (a))	(165,000)	-
Net credit to consolidated profit and loss account (note 16)	<u><u>(174,777)</u></u>	<u><u>(7,663)</u></u>

Note:

(a) After a review of the general provisions level, the Bank released HK\$165,000,000 from general provisions during the six-month period ended 30th June 2003.

7 Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Bank during the six-month period are as follows:

	Six-month period ended 30th June 2003 HK\$'000	(Unaudited) Six-month period ended 30th June 2002 HK\$'000
Fees	393	360
Other emoluments	3,309	1,906
	<u><u>3,702</u></u>	<u><u>2,266</u></u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

8 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

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

	Six-month period ended 30th June 2003 HK\$'000	(Unaudited) Six-month period ended 30th June 2002 HK\$'000
Hong Kong profits tax for the current period	95,195	108,506
Overseas taxation		
- taxation (credit)/charge for the current period	(230)	4,358
- overprovision in prior years	(2,432)	(6,470)
Deferred tax charge (note 26)	144,052	6,039
	<u>236,585</u>	<u>112,433</u>

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:

	Six-month period ended 30th June 2003 HK\$'000	(Unaudited) Six-month period ended 30th June 2002 HK\$'000
Profit before taxation	787,448	670,204
Calculated at taxation rate of 17.5% (2002: 16%) (note (a))	137,803	107,233
Effect of different taxation rates in other countries	(21,639)	(9,140)
Income not subject to taxation	(33,073)	(3,904)
Expenses not deductible for taxation purposes	9,442	12,205
Recognition of deferred taxation	144,052	6,039
Taxation charge	<u>236,585</u>	<u>112,433</u>

Note:

- (a) In 2003, the Hong Kong Government announced an increase in Profits Tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%.

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

8 Taxation (Continued)

The Bank has entered into certain aircraft leasing and coupon strip transactions involving special purpose partnerships in which the Bank is one of the general partners. The Bank does not control the partnerships and consequently they are not consolidated in the Group's consolidated accounts. As at 30th June 2003, the Bank's investment in such partnerships, which is included in "Other assets" in the balance sheet amounted to approximately HK\$256,266,000 (31st December 2002: HK\$421,980,000). The Bank's investments in these partnerships are amortised over the life of the partnership in proportion to the taxation benefits resulting from these investments. The total assets and liabilities of partnerships where the Bank is the majority general partner are as follows:

	<u>The Group and the Bank</u>	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Assets	678,067	1,389,505
Liabilities	497,045	929,564

The Group did not recognise the taxation effect arising from the aircraft leasing and coupon strip transactions to the consolidated accounts for the period as the net effect from i) the taxation credit due to the share of tax losses arising from investments in partnerships and ii) the taxation charges arising from the investments in partnerships written off, is not significant (six-month period ended 30th June 2002: Nil).

9 Profit attributable to shareholders

The profit attributable to shareholders for the six-month period ended 30th June 2003 is dealt with in the accounts of the Bank to the extent of approximately HK\$549,306,000 (six-month period ended 30th June 2002: HK\$552,762,000).

10 Dividends

	Six-month period ended 30th June 2003 HK\$'000	(Unaudited) Six-month period ended 30th June 2002 HK\$'000
Appropriations from retained earnings		
- 2003 interim dividend, proposed of HK\$65 per ordinary share on 12th August 2003	390,000	-
- 2002 first interim dividend, proposed of HK\$66 per ordinary share on 29th June 2002	-	396,000
	<u>390,000</u>	<u>396,000</u>

At a meeting held on 12th August 2003, the directors proposed an interim dividend of HK\$65 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2003.

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

11 Cash and short-term funds

	<u>The Group and the Bank</u>	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Cash	313,057	287,659
Balances with banks and other financial institutions	475,597	384,081
Money at call and short notice maturing within one month	16,373,850	15,050,581
Treasury bills (including Exchange Fund Bills)	1,019,394	1,002,800
	<u>18,181,898</u>	<u>16,725,121</u>

Treasury bills (including Exchange Fund Bills) are analysed as follows:

	<u>The Group and the Bank</u>	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Unlisted, held-to-maturity, at amortised cost	869,397	702,811
Unlisted, other investments in securities, at fair value	149,997	299,989
	<u>1,019,394</u>	<u>1,002,800</u>

12 Trade bills

	<u>The Group and the Bank</u>	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Trade bills	301,342	245,012
	<u>301,342</u>	<u>245,012</u>

13 Certificates of deposit held

	<u>The Group and the Bank</u>	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Unlisted, held-to-maturity, at amortised cost	1,324,788	942,393
	<u>1,324,788</u>	<u>942,393</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

14 Other investments in securities

	<u>The Group and the Bank</u>	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Unlisted equity securities, at fair value	3,401	3,401
Unlisted debt securities, at fair value	674	1,471
	<u>4,075</u>	<u>4,872</u>

Other investments in securities are analysed by issuer as follows:

	<u>The Group and the Bank</u>	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Public sector entities	674	1,471
Corporate entities	3,401	3,401
	<u>4,075</u>	<u>4,872</u>

15 Advances and other accounts

(a) Advances and other accounts

	<u>The Group</u>		<u>The Bank</u>	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Advances to customers	38,072,421	36,646,966	37,978,485	36,545,046
Accrued interest	219,134	277,217	218,972	277,042
	<u>38,291,555</u>	<u>36,924,183</u>	<u>38,197,457</u>	<u>36,822,088</u>
Provision for bad and doubtful debts (note 16)				
- Specific	(620,429)	(676,389)	(607,459)	(663,689)
- General	(1,338,770)	(1,503,771)	(1,311,240)	(1,476,241)
	<u>36,332,356</u>	<u>34,744,023</u>	<u>36,278,758</u>	<u>34,682,158</u>

At 30th June 2003 and 31st December 2002, there were no advances to banks and other financial institutions.

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

15 Advances and other accounts (Continued)

(b) Non-performing loans

Non-performing loans are analysed as follows:

	The Group		The Bank	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Non-performing loans	1,532,135	1,625,210	1,508,489	1,593,760
As a percentage to total advances to customers	4.02%	4.43%	3.97%	4.36%
Specific provisions made in respect of such loans	613,950	667,990	600,980	655,290
Amount of interest in suspense in respect of such loans (note 16)	5,367	3,855	5,367	3,855

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

16 Provisions for bad and doubtful debts

	The Group			Suspended interest HK\$'000
	As at 30th June 2003			
	Specific HK\$'000	General HK\$'000	Total HK\$'000	
Balance as at 1st January 2003	676,389	1,503,771	2,180,160	3,855
Credit to profit and loss account (note 6)	(9,777)	(165,000)	(174,777)	-
Amounts written off	(102,012)	-	(102,012)	(43)
Recoveries of advances written off in previous years (note 6)	55,829	-	55,829	-
Interest suspended during the period	-	-	-	1,955
Suspended interest recovered	-	-	-	(400)
Exchange adjustments	-	(1)	(1)	-
Balance as at 30th June 2003	620,429	1,338,770	1,959,199	5,367

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

16 Provisions for bad and doubtful debts (Continued)

	The Bank			Suspended interest HK\$'000
	As at 30th June 2003			
	Specific HK\$'000	General HK\$'000	Total HK\$'000	
Balance as at 1st January 2003	663,689	1,476,241	2,139,930	3,855
Credit to profit and loss account	(10,047)	(165,000)	(175,047)	-
Amounts written off	(102,012)	-	(102,012)	(43)
Recoveries of advances written off in previous years	55,829	-	55,829	-
Interest suspended during the period	-	-	-	1,955
Suspended interest recovered	-	-	-	(400)
Exchange adjustment	-	(1)	(1)	-
Balance as at 30th June 2003	<u>607,459</u>	<u>1,311,240</u>	<u>1,918,699</u>	<u>5,367</u>

	The Group			Suspended interest HK\$'000
	As at 31st December 2002			
	Specific HK\$'000	General HK\$'000	Total HK\$'000	
Balance as at 1st January 2002	718,139	1,587,670	2,305,809	6,782
Charge/(credit) to profit and loss account	112,020	(83,900)	28,120	-
Amounts written off	(228,214)	-	(228,214)	(4,431)
Recoveries of advances written off in previous years	74,444	-	74,444	-
Interest suspended during the year	-	-	-	3,881
Suspended interest recovered	-	-	-	(2,377)
Exchange adjustments	-	1	1	-
Balance as at 31st December 2002	<u>676,389</u>	<u>1,503,771</u>	<u>2,180,160</u>	<u>3,855</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

16 Provisions for bad and doubtful debts (Continued)

	The Bank			
	As at 31st December 2002			
	Specific HK\$'000	General HK\$'000	Total HK\$'000	Suspended interest HK\$'000
Balance as at 1st January 2002	710,349	1,521,760	2,232,109	6,782
Charge/(credit) to profit and loss account	105,557	(45,519)	60,038	-
Amounts written off	(226,658)	-	(226,658)	(4,431)
Recoveries of advances written off in previous years	74,441	-	74,441	-
Interest suspended during the year	-	-	-	3,881
Suspended interest recovered	-	-	-	(2,377)
	<u>663,689</u>	<u>1,476,241</u>	<u>2,139,930</u>	<u>3,855</u>
Balance as at 31st December 2002	<u>663,689</u>	<u>1,476,241</u>	<u>2,139,930</u>	<u>3,855</u>

17 Held-to-maturity securities

	The Group and the Bank	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Listed, at amortised cost		
- Listed in Hong Kong	679,424	592,735
- Listed outside Hong Kong	4,153,303	4,505,066
	<u>4,832,727</u>	<u>5,097,801</u>
Unlisted, at amortised cost	11,150,701	10,110,605
	<u>15,983,428</u>	<u>15,208,406</u>
Market value of listed securities	<u>5,051,493</u>	<u>5,238,949</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

17 Held-to-maturity securities (Continued)

The held-to-maturity securities are analysed by issuer as follows:

	<u>The Group and the Bank</u>	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Central governments and central banks	660,790	642,256
Public sector entities	1,624,324	2,507,270
Banks and other financial institutions	10,585,277	8,797,797
Corporate entities	3,113,037	3,261,083
	<u>15,983,428</u>	<u>15,208,406</u>

18 Investment securities

	<u>The Group and the Bank</u>	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Unlisted equity securities, at cost, issued by corporate entities	12,448	42,547
Less: provision for impairment in value	(1,760)	(13,921)
	<u>10,688</u>	<u>28,626</u>

19 Investments in subsidiaries

	<u>The Bank</u>	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Unlisted shares, at cost	70,049	70,049

Other balances with subsidiaries are set out in note 31 to the accounts.

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

20 Investment in an associate (Continued)

Details of the associate as at 30th June 2003 are set out below:

Name	Place of incorporation/ operation	Particulars of issued share capital	Equity interest held directly by the Bank	Principal activities
Zhejiang Commercial Bank Limited	Ningbo City, the Peoples' Republic of China	Registered capital	25%	Banking and related financial services

21 Fixed assets

	The Group			
	Investment properties HK\$'000	Premises HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost or valuation				
At 1st January 2003	207,310	1,629,323	159,602	1,996,235
Additions	-	-	875	875
Revaluation	(17,710)	(85,323)	-	(103,033)
Reclassifications	21,812	(21,818)	-	(6)
Disposals	-	(3,410)	(488)	(3,898)
At 30th June 2003	211,412	1,518,772	159,989	1,890,173
Accumulated depreciation and impairment losses				
At 1st January 2003	-	6,623	112,021	118,644
Charge for the period	95	22,405	7,343	29,843
Write back on revaluation	(89)	(22,389)	-	(22,478)
Write back on reclassifications	(6)	-	-	(6)
Disposals	-	(16)	(485)	(501)
At 30th June 2003	-	6,623	118,879	125,502
Net book value				
At 30th June 2003	211,412	1,512,149	41,110	1,764,671
At 31st December 2002	207,310	1,622,700	47,581	1,877,591

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

21 Fixed assets (Continued)

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

	The Group			Total HK\$'000
	Investment properties HK\$'000	Premises HK\$'000	Furniture, fixtures and equipment HK\$'000	
At 30th June 2003				
At cost	-	-	159,989	159,989
At valuation	211,412	1,518,772	-	1,730,184
	<u>211,412</u>	<u>1,518,772</u>	<u>159,989</u>	<u>1,890,173</u>
At 31st December 2002				
At cost	-	-	159,602	159,602
At valuation	207,310	1,629,323	-	1,836,633
	<u>207,310</u>	<u>1,629,323</u>	<u>159,602</u>	<u>1,996,235</u>

The net book value of investment properties and premises are analysed as follows:

	The Group			
	Investment properties		Premises	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
In Hong Kong, held on:				
- Long-term leases (over 50 years)	183,850	175,650	1,121,846	1,212,333
- Medium-term leases (10 to 50 years)	25,250	28,200	317,606	333,991
Outside Hong Kong, held on:				
- Long-term leases (over 50 years)	-	-	19,093	19,584
- Medium-term leases (10 to 50 years)	2,312	3,460	53,604	56,792
	<u>211,412</u>	<u>207,310</u>	<u>1,512,149</u>	<u>1,622,700</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

21 Fixed assets (Continued)

	The Bank			
	Investment properties HK\$'000	Premises HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost or valuation				
At 1st January 2003	158,414	1,571,637	159,585	1,889,636
Additions	-	-	875	875
Revaluation	(13,523)	(82,445)	-	(95,968)
Reclassifications	20,012	(20,018)	-	(6)
Disposals	-	(3,410)	(488)	(3,898)
At 30th June 2003	<u>164,903</u>	<u>1,465,764</u>	<u>159,972</u>	<u>1,790,639</u>
Accumulated depreciation and impairment losses				
At 1st January 2003	-	6,623	112,004	118,627
Charge for the period	95	21,706	7,343	29,144
Write back on revaluation	(89)	(21,690)	-	(21,779)
Write back on reclassifications	(6)	-	-	(6)
Disposals	-	(16)	(485)	(501)
At 30th June 2003	<u>-</u>	<u>6,623</u>	<u>118,862</u>	<u>125,485</u>
Net book value				
At 30th June 2003	<u>164,903</u>	<u>1,459,141</u>	<u>41,110</u>	<u>1,665,154</u>
At 31st December 2002	<u>158,414</u>	<u>1,565,014</u>	<u>47,581</u>	<u>1,771,009</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

21 Fixed assets (Continued)

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

	The Bank			Total HK\$'000
	Investment properties HK\$'000	Premises HK\$'000	Furniture, fixtures and equipment HK\$'000	
At 30th June 2003				
At cost	-	-	159,972	159,972
At valuation	164,903	1,465,764	-	1,630,667
	164,903	1,465,764	159,972	1,790,639
	164,903	1,465,764	159,972	1,790,639
At 31st December 2002				
At cost	-	-	159,585	159,585
At valuation	158,414	1,571,637	-	1,730,051
	158,414	1,571,637	159,585	1,889,636
	158,414	1,571,637	159,585	1,889,636

The net book value of investment properties and premises are analysed as follows:

	The Bank			
	Investment properties		Premises	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
In Hong Kong, held on:				
- Long-term leases (over 50 years)	151,250	142,650	1,092,480	1,179,299
- Medium-term leases (10 to 50 years)	11,341	12,304	293,964	309,339
Outside Hong Kong, held on:				
- Long-term leases (over 50 years)	-	-	19,093	19,584
- Medium-term leases (10 to 50 years)	2,312	3,460	53,604	56,792
	164,903	158,414	1,459,141	1,565,014
	164,903	158,414	1,459,141	1,565,014

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

21 Fixed assets (Continued)

Investment properties were revalued at 30th June 2003 on the basis of their open market value by an independent firm of chartered surveyors, Chesterton Petty Limited. At 30th June 2003, the premises are included in the balance sheet at directors' valuation, having regard to the independent professional valuations carried out on certain premises.

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

	The Group		The Bank	
	Investment properties HK\$'000	Premises HK\$'000	Investment properties HK\$'000	Premises HK\$'000
Decrease in valuation debited to property revaluation reserve	17,621	61,223	13,434	59,438
Decrease in valuation charged to profit and loss account	-	1,711	-	1,317
	<u>17,621</u>	<u>61,223</u>	<u>13,434</u>	<u>59,438</u>

At 30th June 2003 and 31st December 2002, the carrying amount of premises that would have been included in the accounts had the premises been carried at cost less accumulated depreciation and impairment losses are as follows:

	The Group		The Bank	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Premises	295,360	311,252	278,492	292,327
	<u>295,360</u>	<u>311,252</u>	<u>278,492</u>	<u>292,327</u>

22 Deposits from customers

	The Group		The Bank	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Demand deposits and current accounts	2,768,424	3,053,576	2,773,259	3,058,902
Savings deposits	25,042,157	23,389,025	25,042,379	23,389,268
Time, call and notice deposits	45,230,833	48,051,070	45,271,301	48,107,110
	<u>73,041,414</u>	<u>74,493,671</u>	<u>73,086,939</u>	<u>74,555,280</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

23 Other accounts and provisions

	The Group		The Bank	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Interest payable	99,308	129,329	99,313	129,372
Current taxation (note (a))	127,289	47,998	125,980	47,733
Deferred tax liabilities (note 26)	122,229	7,940	113,922	-
Accruals and other payables	1,948,041	1,366,515	1,939,892	1,362,363
	<u>2,296,867</u>	<u>1,551,782</u>	<u>2,279,107</u>	<u>1,539,468</u>

Note

(a) Current taxation:

	The Group		The Bank	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Hong Kong profits tax	120,349	39,378	119,040	39,113
Overseas taxation	6,940	8,620	6,940	8,620
	<u>127,289</u>	<u>47,998</u>	<u>125,980</u>	<u>47,733</u>

24 Share capital

	The Group and the Bank	
	As at 30 June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Authorised, issued and fully paid: 6,000,000 ordinary shares of HK\$100 each	<u>600,000</u>	<u>600,000</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

25

Reserves

	The Group						
	Capital reserve HK\$'000	General reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Premises revaluation reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2003	605	5,956,766	101,192	1,355,457	(9,598)	1,438,443	8,842,865
- As previously reported	-	-	-	(208,507)	-	241,616	33,109
- Effect of adopting SSAP 12 (revised)							
- As restated	605	5,956,766	101,192	1,146,950	(9,598)	1,680,059	8,875,974
Profit for the period	-	-	-	-	-	550,863	550,863
Deficit on revaluation	-	-	(17,621)	(61,223)	-	-	(78,844)
Release of reserve upon disposal of property	-	-	-	(2,248)	-	2,248	-
Provision for deferred tax liabilities	-	-	-	(5,901)	-	-	(5,901)
Exchange adjustments	-	-	-	-	(14)	-	(14)
At 30th June 2003	605	5,956,766	83,571	1,077,578	(9,612)	2,233,170	9,342,078
Representing:							
2003 interim dividend proposed						390,000	
Others						1,843,170	
Retained earnings as at 30th June 2003						2,233,170	
At 1st January 2002	605	5,956,766	225,186	1,250,476	(9,606)	930,776	8,354,203
- As previously reported	-	-	-	(197,144)	-	264,279	67,135
- Effect of adopting SSAP 12 (revised)							
- As restated	605	5,956,766	225,186	1,053,332	(9,606)	1,195,055	8,421,338
Profit for the year	-	-	-	-	-	1,129,695	1,129,695
(Deficit)/surplus on revaluation	-	-	(29,633)	14,528	-	-	(15,105)
Provision for impairment losses on premises	-	-	-	(599)	-	-	(599)
Release of reserve upon disposal of property	-	-	-	(3,309)	-	3,309	-
Provision for deferred tax liabilities	-	-	-	(11,363)	-	-	(11,363)
Reclassification	-	-	(94,361)	94,361	-	-	-
2002 first interim dividend (note 10)	-	-	-	-	-	(396,000)	(396,000)
2002 second interim dividend	-	-	-	-	-	(252,000)	(252,000)
Exchange adjustments	-	-	-	-	8	-	8
At 31st December 2002	605	5,956,766	101,192	1,146,950	(9,598)	1,680,059	8,875,974

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

25 Reserves (Continued)

	The Bank						Total HK\$'000
	General reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Premises revaluation reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000		
At 1st January 2003							
- As previously reported	5,936,000	79,444	1,309,492	320	1,396,830		8,722,086
- Effect of adopting SSAP 12 (revised)	-	-	(201,085)	-	237,724		36,639
- As restated	5,936,000	79,444	1,108,407	320	1,634,554		8,758,725
Profit for the period	-	-	-	-	549,306		549,306
Deficit on revaluation	-	(13,434)	(59,438)	-	-		(72,872)
Release of reserve upon disposal of property	-	-	(2,248)	-	2,248		-
Provision for deferred tax liabilities	-	-	(5,612)	-	-		(5,612)
Exchange adjustments	-	-	-	(14)	-		(14)
At 30th June 2003	5,936,000	66,010	1,041,109	306	2,186,108		9,229,533
Representing:							
2003 interim dividend proposed					390,000		
Others					1,796,108		
Retained earnings as at 30th June 2003					2,186,108		
At 1st January 2002							
- As previously reported	5,936,000	197,639	1,207,652	312	899,147		8,240,750
- Effect of adopting SSAP 12 (revised)	-	-	(190,265)	-	254,142		63,877
- As restated	5,936,000	197,639	1,017,387	312	1,153,289		8,304,627
Profit for the year	-	-	-	-	1,125,956		1,125,956
(Deficit)/surplus on revaluation	-	(28,074)	15,627	-	-		(12,447)
Provision for impairment losses on premises	-	-	(599)	-	-		(599)
Release of reserve upon disposal of property	-	-	(3,309)	-	3,309		-
Provision for deferred tax liabilities	-	-	(10,820)	-	-		(10,820)
Reclassification	-	(90,121)	90,121	-	-		-
2002 first interim dividend (note 10)	-	-	-	-	(396,000)		(396,000)
2002 second interim dividend	-	-	-	-	(252,000)		(252,000)
Exchange adjustments	-	-	-	8	-		8
At 31st December 2002	5,936,000	79,444	1,108,407	320	1,634,554		8,758,725

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

25 Reserves (Continued)

Note:

- (a) The Group's capital reserve is resulted from consolidation.
- (b) The general reserve comprises previous years' transfers from retained earnings.
- (c) The capital reserve and the revaluation reserves do not represent realised profits and are not available for distribution.

26 Deferred taxation

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

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

	The Group		The Bank	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1st January 2003/2002	33,109	67,135	36,639	63,877
Charge to profit and loss account (note 8)	(144,052)	(22,663)	(139,775)	(16,418)
Charge to equity (note 25)	(5,901)	(11,363)	(5,612)	(10,820)
At 30th June 2003/ 31st December 2002	(116,844)	33,109	(108,748)	36,639

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

	The Group					
	As at 30th June 2003					
Deferred tax assets/ (liabilities)	Accelerated tax depreciation HK\$'000	Asset revaluation HK\$'000	Tax loss HK\$'000	General provisions HK\$'000	Other temporary differences HK\$'000	Total HK\$'000
At 1st January 2003	7,794	(208,507)	-	239,905	(6,083)	33,109
Credit/(charge) to profit and loss account	888	-	-	(144,369)	(571)	(144,052)
Charge to equity	-	(5,901)	-	-	-	(5,901)
At 30th June 2003	8,682	(214,408)	-	95,536	(6,654)	(116,844)

	The Group					
	As at 31st December 2002					
Deferred tax assets/ (liabilities)	Accelerated tax depreciation HK\$'000	Asset revaluation HK\$'000	Tax loss HK\$'000	General provisions HK\$'000	Other temporary differences HK\$'000	Total HK\$'000
At 1st January 2002	13,691	(197,144)	3,627	253,503	(6,542)	67,135
Credit/(charge) to profit and loss account	(5,897)	-	(3,627)	(13,598)	459	(22,663)
Charge to equity	-	(11,363)	-	-	-	(11,363)
At 31st December 2002	7,794	(208,507)	-	239,905	(6,083)	33,109

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

26 Deferred taxation (Continued)

Deferred tax assets/ (liabilities)	The Bank					
	As at 30th June 2003					
	Accelerated tax depreciation HK\$'000	Asset revaluation HK\$'000	Tax loss HK\$'000	General provisions HK\$'000	Other temporary differences HK\$'000	Total HK\$'000
At 1st January 2003	8,306	(201,085)	-	235,501	(6,083)	36,639
Credit/(charge) to profit and loss account	965	-	-	(140,170)	(570)	(139,775)
Charge to equity	-	(5,612)	-	-	-	(5,612)
At 30th June 2003	<u>9,271</u>	<u>(206,697)</u>	<u>-</u>	<u>95,331</u>	<u>(6,653)</u>	<u>(108,748)</u>

Deferred tax assets/ (liabilities)	The Bank					
	As at 31st December 2002					
	Accelerated tax depreciation HK\$'000	Asset revaluation HK\$'000	Tax loss HK\$'000	General provisions HK\$'000	Other temporary differences HK\$'000	Total HK\$'000
At 1st January 2002	14,126	(190,265)	3,601	242,957	(6,542)	63,877
Credit/(charge) to profit and loss account	(5,820)	-	(3,601)	(7,456)	459	(16,418)
Charge to equity	-	(10,820)	-	-	-	(10,820)
At 31st December 2002	<u>8,306</u>	<u>(201,085)</u>	<u>-</u>	<u>235,501</u>	<u>(6,083)</u>	<u>36,639</u>

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

	The Group		The Bank	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Deferred tax assets (note)	5,385	41,049	5,174	36,639
Deferred tax liabilities	(122,229)	(7,940)	(113,922)	-
	<u>(116,844)</u>	<u>33,109</u>	<u>(108,748)</u>	<u>36,639</u>

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

	The Group		The Bank	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Deferred tax assets to be recovered after 12 months	102,391	246,002	102,179	241,592
Deferred tax liabilities to be settled after 12 months	(596)	(518)	-	-
	<u>101,795</u>	<u>245,484</u>	<u>102,179</u>	<u>241,592</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

27 Assets pledged as security

	<u>The Group and the Bank</u>	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Secured liabilities	299,993	-
	<u> </u>	<u> </u>
Assets pledged as security		
- Securities pledged as collateral	300,461	-
	<u> </u>	<u> </u>

Secured liabilities and assets pledged as security relate to short positions in Exchange Fund Bills and Notes ("EFBNs"), which are collateralised by long positions in EFBNs.

28 Loans to officers

Particulars of loans made to officers and disclosed pursuant to Section 161B(4B) of the Hong Kong Companies Ordinance are as follows:

	<u>The Group and the Bank</u>	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Aggregate amount of relevant loans outstanding	7,198	7,883
	<u> </u>	<u> </u>
	Six-month period ended 30th June 2003 HK\$'000	Year ended 31st December 2002 HK\$'000
Maximum aggregate amount of relevant loans outstanding during the period/year	7,883	8,940
	<u> </u>	<u> </u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

29 Notes to the consolidated cash flow statement

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

	Six-month period ended 30th June 2003 HK\$'000	(Unaudited) Six-month period ended 30th June 2002 HK\$'000
Operating profit after provisions	789,829	675,853
Depreciation	29,843	28,590
Reversal of provision for bad and doubtful debts	(174,777)	(7,663)
Advances written off net of recoveries	(46,183)	32,206
Dividends income from unlisted investment securities	(498)	(1,148)
Change in treasury bills with original maturity over three months	(133,160)	(513)
Change in placements with banks and other financial institutions with original maturity over three months	3,166,588	2,302,839
Change in money at call and short notice with original maturity over three months	1,289,533	1,296,306
Change in trade bills	(56,330)	(119,191)
Change in certificates of deposit held with original maturity over three months	7,357	536,255
Change in other investments in securities	797	(24)
Change in held-to-maturity securities	(775,022)	158,436
Change in advances and other accounts	(1,367,372)	1,291,275
Change in other assets	194,227	99,652
Change in deposits and balances of banks and other financial institutions repayable over three months	(121,523)	(101,982)
Change in deposits from customers	(1,452,257)	912,049
Change in other accounts and provisions	551,505	123,436
Exchange adjustments	(14)	28
	<hr/>	<hr/>
Net cash inflow from operating activities before taxation	1,902,543	7,226,404
	<hr/> <hr/>	<hr/> <hr/>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

29 Notes to the consolidated cash flow statement (Continued)

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

	As at 30th June 2003 HK\$'000	(Unaudited) As at 30th June 2002 HK\$'000
Cash and balances with banks and other financial institutions	788,655	1,026,194
Money at call and short notice with original maturity within three months	15,638,868	16,938,347
Treasury bills with original maturity within three months	636,763	452,849
Placements with banks and other financial institutions with original maturity within three months	7,490,582	11,313,904
Certificates of deposit held with original maturity within three months	389,752	-
Deposits and balances of banks and other financial institutions with original maturity within three months	(1,679,743)	(1,612,488)
	<u>23,264,877</u>	<u>28,118,806</u>

30 Related party transactions

The Group had significant related party transactions which were carried out in the normal course of business. The Group's immediate holding company, Bank of China (Hong Kong) Limited, incorporates the Group into its consolidated accounts. The consolidated accounts of Bank of China (Hong Kong) Limited contains related party disclosures comparable to those required by SSAP 20. Consequently, as permitted by SSAP 20, the Bank has taken advantage of the exemption from disclosing any information on related party transactions in these accounts.

Balances with the ultimate holding company, immediate holding company, fellow subsidiaries, subsidiaries and an associate of the Group and the Bank are disclosed in note 31 to the accounts to fully comply with the requirements set out in the guideline on "Financial Disclosure by Locally Incorporated Authorized Institutions" under the Supervisory Policy Manual issued by the Monetary Authority in November 2002.

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

31 Balances with the group companies and an associate

Included in the following balance sheet captions are balances with the ultimate holding company, immediate holding company, fellow subsidiaries, subsidiaries and an associate. During the period/year, the Group and the Bank entered into transactions with the ultimate holding company, immediate holding company, fellow subsidiaries, subsidiaries and an associate in the ordinary course of their banking business.

(a) Ultimate holding company

	<u>The Group and the Bank</u>	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Assets		
Cash and short-term funds		
Cash and balances with banks and other financial institutions	359,000	239,872
Money at call and short notice	1,490,036	1,511,089
Placements with banks and other financial institutions maturing between one and twelve months	4,188,848	3,745,721
	<u> </u>	<u> </u>
Liabilities		
Deposits and balances of banks and other financial institutions	675,770	151,387
	<u> </u>	<u> </u>

(b) Immediate holding company

	<u>The Group and the Bank</u>	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Assets		
Cash and short-term funds		
Cash and balances with banks and other financial institutions	58,202	25,114
Money at call and short notice	344,111	545,412
	<u> </u>	<u> </u>
Liabilities		
Deposits and balances of banks and other financial institutions	182,037	620,819
	<u> </u>	<u> </u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

31 Balances with group companies and associate (Continued)

(c) Fellow subsidiaries

	<u>The Group and the Bank</u>	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Assets		
Cash and short-term funds		
Cash and balances with banks and other financial institutions	50	2,686
Money at call and short notice	-	77,988
Advances and other accounts	401,915	352,077
Investment securities	11,040	28,642
	<u> </u>	<u> </u>
Liabilities		
Deposits and balances of banks and other financial institutions	162,982	145,838
Deposits from customers	1,223,362	728,348
	<u> </u>	<u> </u>

(d) Subsidiaries

	<u>The Bank</u>	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Assets		
Advances and other accounts	11,341	11,608
Other assets	-	36,600
	<u> </u>	<u> </u>
Liabilities		
Deposits from customers	45,525	61,610
Other accounts and provisions	6	43
	<u> </u>	<u> </u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

31 Balances with group companies and associate (Continued)

(e) Associate

	<u>The Group and the Bank</u>	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Liabilities		
Deposits and balances of banks and other financial institutions	548	534
	<u>548</u>	<u>534</u>

32 Maturity profile

The maturity profile of certain major assets and liabilities of the Group and the Bank as at 30th June 2003 and 31st December 2002 are analysed as follows:

	<u>The Group</u>						Total HK\$'000
	<u>As at 30th June 2003</u>						
	Repayable on demand HK\$'000	Three months or less HK\$'000	One year or less but over three months HK\$'000	Five years or less but over one year HK\$'000	Over five years HK\$'000	Undated HK\$'000	
Assets							
Treasury bills	-	839,677	179,717	-	-	-	1,019,394
Placements with banks and other financial institutions maturing between one and twelve months	-	11,237,677	1,337,812	-	-	-	12,575,489
Certificates of deposits held	-	687,420	157,219	480,149	-	-	1,324,788
Advances to customers	2,083,321	2,463,191	3,048,935	15,174,098	13,744,230	1,558,646	38,072,421
Debt securities included in							
- Held-to-maturity securities	-	5,893,742	4,001,090	4,055,780	2,032,816	-	15,983,428
- Other investments in securities	-	-	205	469	-	-	674
	<u>2,083,321</u>	<u>11,237,677</u>	<u>1,337,812</u>	<u>15,174,098</u>	<u>13,744,230</u>	<u>1,558,646</u>	<u>38,072,421</u>
Liabilities							
Deposits and balances of banks and other financial institutions	397,856	1,345,398	93,154	-	-	-	1,836,408
Deposits from customers	28,232,770	42,060,261	2,713,963	34,420	-	-	73,041,414
	<u>28,232,770</u>	<u>42,060,261</u>	<u>2,713,963</u>	<u>34,420</u>	<u>-</u>	<u>-</u>	<u>73,041,414</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

32 Maturity profile (Continued)

	The Bank						
	As at 30th June 2003						
	Repayable on demand HK\$'000	Three months or less HK\$'000	One year or less but over three months HK\$'000	Five years or less but over one year HK\$'000	Over five years HK\$'000	Undated HK\$'000	Total HK\$'000
Assets							
Treasury bills	-	839,677	179,717	-	-	-	1,019,394
Placements with banks and other financial institutions maturing between one and twelve months	-	11,237,677	1,337,812	-	-	-	12,575,489
Certificates of deposits held	-	687,420	157,219	480,149	-	-	1,324,788
Advances to customers	2,083,233	2,461,762	3,044,526	15,154,702	13,704,647	1,529,615	37,978,485
Debt securities included in							
- Held-to-maturity securities	-	5,893,742	4,001,090	4,055,780	2,032,816	-	15,983,428
- Other investments in securities	-	-	205	469	-	-	674
Liabilities							
Deposits and balances of banks and other financial institutions	397,856	1,345,398	93,154	-	-	-	1,836,408
Deposits from customers	28,237,827	42,100,729	2,713,963	34,420	-	-	73,086,939

	The Group						
	As at 31st December 2002						
	Repayable on demand HK\$'000	Three months or less HK\$'000	One year or less but over three months HK\$'000	Five years or less but over one year HK\$'000	Over five years HK\$'000	Undated HK\$'000	Total HK\$'000
Assets							
Treasury bills	-	952,957	49,843	-	-	-	1,002,800
Placements with banks and other financial institutions maturing between one and twelve months	-	15,380,381	1,368,027	-	-	-	16,748,408
Certificates of deposits held	-	128,124	548,028	266,241	-	-	942,393
Advances to customers	1,872,296	2,346,621	3,013,889	14,396,229	13,323,545	1,694,386	36,646,966
Debt securities included in							
- Held-to-maturity securities	-	5,113,346	5,805,125	2,659,489	1,630,446	-	15,208,406
- Other investments in securities	-	-	1,055	416	-	-	1,471
Liabilities							
Deposits and balances of banks and other financial institutions	371,818	1,042,545	204,585	-	-	-	1,618,948
Deposits from customers	26,725,492	44,968,310	2,746,795	53,074	-	-	74,493,671

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

32 Maturity profile (Continued)

	The Bank						
	As at 31st December 2002						
	Repayable on demand HK\$'000	Three months or less HK\$'000	One year or less but over three months HK\$'000	Five years or less but over one year HK\$'000	Over five years HK\$'000	Undated HK\$'000	Total HK\$'000
Assets							
Treasury bills	-	952,957	49,843	-	-	-	1,002,800
Placements with banks and other financial institutions maturing between one and twelve months	-	15,380,381	1,368,027	-	-	-	16,748,408
Certificates of deposits held	-	128,124	548,028	266,241	-	-	942,393
Advances to customers	1,872,190	2,345,006	3,009,117	14,374,712	13,281,111	1,662,910	36,545,046
Debt securities included in							
- Held-to-maturity securities	-	5,113,346	5,805,125	2,659,489	1,630,446	-	15,208,406
- Other investments in securities	-	-	1,055	416	-	-	1,471
Liabilities							
Deposits and balances of banks and other financial institutions	371,818	1,042,545	204,585	-	-	-	1,618,948
Deposits from customers	26,731,061	45,024,350	2,746,795	53,074	-	-	74,555,280

33 Off-balance sheet exposures

(a) Contingent liabilities and commitments

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

	The Group and the Bank	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Direct credit substitutes	330,305	292,228
Transaction-related contingencies	113,560	125,506
Trade-related contingencies	2,089,609	2,200,918
Other commitments with original maturity of:		
- under one year or which are unconditionally cancellable	6,202,043	6,157,936
- one year and over	5,580,763	4,839,530
	<u>14,316,280</u>	<u>13,616,118</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

33 Off-balance sheet exposures (Continued)

(b) Derivatives

The following is a summary of the aggregate notional contract amounts of each significant type of derivatives:

	The Group and the Bank					
	As at 30th June 2003			As at 31st December 2002		
	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000
Exchange rate contracts						
Spot	1,116,810	-	1,116,810	608,357	-	608,357
Forward contracts	21,753	-	21,753	17,487	-	17,487
Currency swaps	1,361,257	286,283	1,647,540	1,855,394	275,470	2,130,864
Foreign exchange options contracts						
- currency options purchased	103,453	-	103,453	68,461	-	68,461
- currency options written	103,453	-	103,453	68,461	-	68,461
Interest rate contracts						
Interest rate swaps	-	2,928,092	2,928,092	-	2,593,858	2,593,858
Equity contracts						
Equity options contracts						
- equity options purchased	74,639	-	74,639	54,846	-	54,846
- equity options written	74,639	-	74,639	54,846	-	54,846
	<u>2,856,004</u>	<u>3,214,375</u>	<u>6,070,379</u>	<u>2,727,852</u>	<u>2,869,328</u>	<u>5,597,180</u>

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

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

	The Group and the Bank			
	As at 30th June 2003		As at 31st December 2002	
	Replacement cost HK\$'000	Credit risk Weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk Weighted amount HK\$'000
Contingent liabilities and commitments		3,262,796		3,861,138
Exchange rate contracts	3,925	6,644	3,586	7,316
Interest rate contracts	12,640	9,626	30,167	14,155
	<u>16,565</u>	<u>3,279,066</u>	<u>33,753</u>	<u>3,882,609</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

33 Off-balance sheet exposures (Continued)

(b) Derivatives (Continued)

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

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

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

34 Capital and lease commitments

(a) Capital commitments

There were no significant capital commitments at 30th June 2003 and 31st December 2002.

(b) Operating lease commitments

As lessee

At 30th June 2003 and 31st December 2002, the Group and the Bank have commitments to make the following future minimum lease payments under non-cancellable operating leases:

	The Group		The Bank	
	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Leasehold land and buildings				
Not later than one year	12,660	10,910	15,504	16,598
Later than one year but not later than five years	17,969	14,724	17,969	14,724
Later than five years	7,057	8,235	7,057	8,235
	<u>37,686</u>	<u>33,869</u>	<u>40,530</u>	<u>39,557</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

34 Capital and lease commitments (Continued)

(b) Operating lease commitments (Continued)

As lessor

At 30th June 2003 and 31st December 2002, the Group and the Bank have following future minimum lease payments receivables under non-cancellable operating leases:

	The Group		The Bank	
	As at 30th June 2003	As at 31st December 2002	As at 30th June 2003	As at 31st December 2002
Leasehold land and buildings				
No later than one year	18,118	19,574	15,569	16,977
Later than one year but not later than five years	3,652	7,974	2,687	7,310
	<u>21,770</u>	<u>27,548</u>	<u>18,256</u>	<u>24,287</u>

35 Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

36 Ultimate holding company

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

37 Approval of accounts

The accounts were approved by the Board of Directors on 4th September 2003.

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

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

(A) Segmental information

(i) By class of business

	Six-month period ended 30th June 2003					
	Commercial banking HK\$'000	Treasury HK\$'000	Unallocated HK\$'000	Subtotal HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Operating income	770,581	145,055	70,445	986,081	(50,684)	935,397
Operating profit before provisions	467,753	139,066	8,233	615,052	-	615,052
Operating profit after provisions	642,530	139,066	8,233	789,829	-	789,829
Profit before taxation	642,530	139,066	5,852	787,448	-	787,448
	As at 30th June 2003					
Operating assets	36,993,668	48,071,599	2,051,500	87,116,767	-	87,116,767
	Six-month period ended 30th June 2002					
Operating income	773,581	213,494	71,557	1,058,632	(53,911)	1,004,721
Operating profit before provisions	446,786	207,185	14,219	668,190	-	668,190
Operating profit after provisions	454,449	207,185	14,219	675,853	-	675,853
Profit before taxation	454,449	207,185	8,570	670,204	-	670,204
	As at 31st December 2002					
Operating assets	35,267,726	49,740,205	2,384,444	87,392,375	-	87,392,375

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(A) Segmental information (Continued)

(i) By class of business (Continued)

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

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

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

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

(ii) By geographical area

The following information is presented based on the principal places of operations of the subsidiaries, or in the case of the Bank, on the locations of the branches responsible for reporting the results or booking the assets:

	Six-month period ended 30th June 2003		Six-month period ended 30th June 2002	
	Operating income HK\$'000	Profit before taxation HK\$'000	Operating income HK\$'000	Profit before taxation HK\$'000
Hong Kong	871,350	679,905	949,932	631,378
Mainland China	57,069	104,460	47,725	36,017
Americas	6,978	3,083	7,064	2,809
Total	<u>935,397</u>	<u>787,448</u>	<u>1,004,721</u>	<u>670,204</u>

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(A) Segmental information (Continued)

(ii) By geographical area (Continued)

	As at 30th June 2003			As at 31st December 2002		
	Total assets HK\$'000	Total liabilities HK\$'000	Contingent liabilities and commitments HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Contingent liabilities and commitments HK\$'000
Hong Kong	83,415,016	75,269,418	13,422,417	84,460,868	75,998,864	12,928,332
Mainland China	3,065,607	1,493,871	804,176	2,288,464	1,453,973	616,942
Americas	636,144	411,400	89,687	643,043	463,564	70,844
Total	87,116,767	77,174,689	14,316,280	87,392,375	77,916,401	13,616,118

(iii) Fees and commission income

	Six-month period ended 30th June 2003 HK\$'000	Six-month period ended 30th June 2002 HK\$'000
Bills and loans commissions	69,690	73,950
Payment services	22,264	20,958
Insurance	10,654	8,513
Securities	15,254	14,223
Asset management and trust services	12,301	13,169
Guarantees	1,830	2,620
Credit card	1,064	9
Other		
- Safe deposit box	7,874	8,578
- ATM cards	2,444	3,106
- Dormant accounts	1,138	2,374
- Sundry	35,882	23,832
Total	180,395	171,332

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(A) Segmental information (Continued)

(iv) Sectoral analysis of advances to customers

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

	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
- Property development	1,370,220	1,610,177
- Property investment	3,982,089	3,853,598
- Financial concerns	1,562,174	1,277,166
- Stockbrokers	805	558
- Wholesale and retail trade	2,120,615	2,051,742
- Manufacturing	940,082	801,145
- Transport and transport equipment	1,310,735	1,319,196
- Others	4,181,676	3,799,901
Individuals		
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	3,263,980	3,477,047
- Loans for the purchase of other residential properties	13,404,060	12,814,921
- Others	1,079,227	1,145,693
Trade finance	860,976	910,817
Loans for use outside Hong Kong	3,995,782	3,585,005
	<u>38,072,421</u>	<u>36,646,966</u>

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(A) Segmental information (Continued)

Advances to customers, advances overdue for over three months and non-performing advances by geographical areas are classified by the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when an advance is guaranteed by a party in an area which is different from that of the counterparty.

Gross advances to customers by geographical areas:

	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Hong Kong	35,221,822	34,237,170
Mainland China	1,825,783	1,494,358
Others	1,024,816	915,438
	<u>38,072,421</u>	<u>36,646,966</u>

Loans overdue for over three months by geographical areas:

	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Hong Kong	819,863	878,096
Mainland China	144,311	169,733
Others	39,916	40,328
	<u>1,004,090</u>	<u>1,088,157</u>

Non-performing loans by geographical areas:

	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Hong Kong	1,179,886	1,191,688
Mainland China	272,378	347,199
Others	79,871	86,323
	<u>1,532,135</u>	<u>1,625,210</u>

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(B) Overdue, rescheduled and repossessed assets

(i) Overdue and non-performing loans

	As at 30th June 2003		As at 31st December 2002	
	Amount HK\$'000	% of total advances to customers	Amount HK\$'000	% of total advances to customers
(a) Gross advances to customers which have been overdue for:				
- six months or less but over three months	165,195	0.44%	126,790	0.34%
- one year or less but over six months	114,623	0.30%	265,840	0.73%
- over one year	724,272	1.90%	695,527	1.90%
	<u>1,004,090</u>	<u>2.64%</u>	<u>1,088,157</u>	<u>2.97%</u>
(b) Overdue advances are reconciled to non-performing loans as follows:				
Advances overdue for more than three months	1,004,090	2.64%	1,088,157	2.97%
Less: advances which are overdue for more than three months and on which interest is still being accrued	(29,779)	(0.08%)	(34,472)	(0.10%)
Add: advances overdue for three months or less and on which interest is being placed in suspense or on which interest accrual has ceased				
- included in rescheduled advances	171,567	0.45%	172,335	0.47%
- others	386,257	1.01%	399,190	1.09%
Non-performing loans	<u>1,532,135</u>	<u>4.02%</u>	<u>1,625,210</u>	<u>4.43%</u>

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(B) Overdue, rescheduled and repossessed assets (Continued)

(ii) Other overdue assets

	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Accrued interests which have been overdue for:		
- six months or less but over three months	508	528
- one year or less but over six months	207	776
- over one year	43	35
	<u>758</u>	<u>1,339</u>

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

	As at 30th June 2003		As at 31st December 2002	
	Amount HK\$'000	% of total advances to customers	Amount HK\$'000	% of total advances to customers
Rescheduled advances to customers	<u>183,864</u>	<u>0.48%</u>	<u>188,635</u>	<u>0.51%</u>

There were no advances to banks and other financial institutions which were overdue for more than 3 months or rescheduled as at 30th June 2003 and 31st December 2002.

(iv) Repossessed assets held

	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Repossessed assets held	<u>128,043</u>	<u>125,426</u>

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

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(C) Capital adequacy and liquidity ratios

	As at 30th June 2003	As at 31st December 2002
Unadjusted capital adequacy ratio (note (a))	21.21%	19.84%
Adjusted capital adequacy ratio (note (a))	21.09%	19.79%
	Six-month period ended 30th June 2003	Six-month period ended 30th June 2002
Average liquidity ratio for the period	48.17%	53.81%

Note:

- (a) The capital adequacy ratio at 31st December 2002 has not been restated to incorporate the effect of adoption of SSAP 12 (revised).

The unadjusted capital adequacy ratio represents the consolidated ratio of the Bank and a subsidiary as specified by the Hong Kong Monetary Authority as at 30th June 2003 and 31st December 2002 computed in accordance with the Third Schedule of the Hong Kong Banking Ordinance.

The adjusted capital adequacy ratio represents the consolidated ratio of the Bank and a subsidiary as specified by the Hong Kong Monetary Authority as at 30th June 2003 and 31st December 2002 computed in accordance with the guideline of "Maintenance of Adequate Capital Against Market Risks" under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority taking into account both credit risk and market risk.

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

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(D) Components of capital base after deductions

The capital base after deductions used in the calculation of the above capital adequacy ratios as at 30th June 2003 and 31st December 2002 and reported to the Hong Kong Monetary Authority is analysed as follows:

	As at 30th June 2003 HK\$'000	As at 31st December 2002 HK\$'000
Core capital:		
Paid up ordinary share capital	600,000	600,000
Reserves	7,606,662	6,862,355
Profit and loss account	546,151	499,944
	<hr/>	<hr/>
Total core capital	8,752,813	7,962,299
	<hr/>	<hr/>
Supplementary capital:		
General provisions for bad and doubtful debts	571,762	564,029
	<hr/>	<hr/>
Eligible value of supplementary capital	571,762	564,029
	<hr/>	<hr/>
Total capital base before deductions	9,324,575	8,526,328
	<hr/>	<hr/>
Deductions from total capital base	(20,300)	(37,672)
	<hr/>	<hr/>
Total capital base after deductions	<u>9,304,275</u>	<u>8,488,656</u>

Note:

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

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(E) Cross-border claims

	As at 30th June 2003			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Australia (note (a))	2,934,029	65,531	38,624	3,038,184
Mainland China	7,165,371	475,522	2,628,630	10,269,523
Other Asia Pacific countries	1,739,238	45,773	783,754	2,568,765
North America	4,696,639	340,741	467,875	5,505,255
Germany (note (a))	4,168,289	-	286,668	4,454,957
Other Western European countries	17,956,974	502,417	1,090,343	19,549,734
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	As at 31st December 2002			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Australia	2,860,337	1,126,839	21,735	4,008,911
Mainland China	6,431,172	523,879	1,840,436	8,795,487
Other Asia Pacific countries	2,220,000	44,403	772,051	3,036,454
North America	4,598,981	212,203	452,955	5,264,139
Germany	4,849,115	-	325,596	5,174,711
Other Western European countries	18,707,795	495,676	592,869	19,796,340
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Cross border claims include receivables and loans and advances, balance due from banks and holdings of certificate of deposits, bills and other negotiable debt instruments and also include accrued interest and overdue interest on these assets classified according to the location of the counterparties after taking into account any transfer of risk. In general, transfer of risk from one country to another is recognised if the claims against a counterparty are guaranteed by another party in a different country or if the claims are on an overseas branch of a bank whose head office is located in a different country. Only regions constituting 10% or more of the aggregate cross-border claims are disclosed.

Note

- (a) The amounts constitute less than 10% of the aggregate cross border claims and are presented for comparative purpose only.

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(F) Currency concentration

The following is a summary of the major foreign currency exposures where the net position constitutes 10% or more of the total net position in all foreign currencies.

Equivalent in HK\$'000	As at 30th June 2003				
	US Dollars	New Zealand Dollars	Renminbi	Australian Dollars	Euro Dollars
Spot assets	18,627,614	1,420,243	494,045	2,642,180	2,429,391
Spot liabilities	(17,376,037)	(1,381,725)	(253,281)	(2,613,013)	(1,962,085)
Forward purchases	1,661,290	29,050	-	49,287	271,587
Forward sales	(3,143,938)	(69,894)	-	(81,160)	(755,950)
Net (short)/long position	(231,071)	(2,326)	240,764	(2,706)	(17,057)
Net structural position	790	-	-	-	-

Equivalent in HK\$'000	As at 31st December 2002				
	US Dollars	New Zealand Dollars (note (a))	Renminbi	Australian Dollars	Euro Dollars
Spot assets	20,220,393	1,486,590	470,494	3,221,430	1,367,607
Spot liabilities	(18,650,325)	(1,473,925)	(339,974)	(2,953,285)	(1,238,267)
Forward purchases	1,443,538	39,433	-	69,060	212,936
Forward sales	(3,191,059)	(50,195)	-	(351,656)	(332,594)
Net (short)/long position	(177,453)	1,903	130,520	(14,451)	9,682
Net structural position	957	-	-	-	-

Note

- (a) The amounts constitute less than 10% of the total net position in all foreign currencies and are presented for comparative purpose only.

(G) Capital management

The Group's policy is to maintain a strong capital base to support the development of the Group's business over a long time horizon and to meet the statutory capital adequacy ratio requirement. As disclosed in note (C) above, both the Group's adjusted capital adequacy ratio incorporating market risk of 21.09% and the unadjusted ratio of 21.21% as at 30th June 2003 were well above the statutory minimum requirement.

Capital is allocated to the various activities of the Group depending on the risk taken by each business division. Where the subsidiaries or offshore branches are directly regulated by other regulators, they are required to maintain minimum capital according to the respective regulatory requirements.

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(H) Management of risks

The Overview

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

Risk Management Structure

The Bank's Board of Directors (the "Board") holds the ultimate responsibility for the Group's overall risk management. It determines the risk management strategies and the risk management structure.

To achieve the Group's goals in risk management, the Board sets up the Risk Management Committee, which comprised of independent directors, to determine, evaluate and review the overall risk management strategies and policies.

According to the risk management strategies established by the Risk Management Committee, risk management policies and controls are devised and reviewed regularly by relevant departments and respective management committees chaired by the Chief Executive Officer (the "CEO").

The Risk Management Department has been established to develop policies and procedures for identifying, measuring, monitoring and controlling credit risk, market risk, foreign exchange risk and operational risk; to set appropriate risk limits; and to continually monitor risks. The Finance Department is responsible for developing policies and monitoring of the bank-wide interest rate risk and liquidity risk and reporting the risk levels to the Risk Management Committee and the Asset and Liability Management Committee (the "ALCO"), a management committee chaired by the CEO, on a regular basis.

The Auditing Department conducts independent reviews on the adequacy and effectiveness of these policies and controls to ensure that the Group is operating according to the established policies, procedures and limits.

Independence is crucial to effective risk management. To ensure the independence of the Risk Management Department and the Auditing Department, they report directly to the Risk Management Committee and the Audit Committee respectively. Both committees are specialised committees set up by the Board and all members are directors of the Bank.

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(H) Management of risks (Continued)

(i) Credit risk management

Credit risk is the risk that customers or counterparties may be unable or unwilling to fulfill the commitment entered into with the Group. Credit risk arises principally from the Group's lending, trade finance and treasury operations.

The Credit & Loans Management Committee, another management committee chaired by the CEO, is responsible for the implementation of the credit risk management strategies as well as the formulation of credit policies that defines the credit extension criteria, the credit approval mechanism, the reviewing and monitoring procedures, the loan classification system, the provision policy and the limits on exposures to large customer groups and different industry sectors. It also monitors various aspects of the Group's loan portfolio such as asset quality, risk concentration and specific segments of the portfolio etc.

The credit initiation units, including Retail and Corporate Banking Department, Offshore Banking Department and Business Operation Department, act as the frontier of the risk control. They are obliged to make thorough assessment on every credit application and are fully responsible for monitoring punctual repayments and collecting payments from overdue accounts. The business activities conducted should also be complied with the approved policies and procedures.

The Risk Management Department is responsible for identifying, measuring, monitoring and controlling credit risk. It reports directly to the Risk Management Committee and operates independently from the business units.

The credit risk management structure facilitates the Group to meet its primary objectives of the credit risk management by:

- establishing an appropriate credit risk environment;
- enforcing prudent lending principles in approving credits;
- maintaining effective credit administration, measurement and monitoring processes; and
- ensuring adequate independent review and monitor on credit risk.

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

- balancing the Group's tolerance for risk with the level of expected returns;
- diversifying the Group's loan portfolio by geographic regions, industries, products, customers, maturities and currencies;
- maintaining the independence of the credit review process to ensure risk assessment and monitoring are conducted in an objective, fair and comprehensive manner;
- complying with legal and regulatory requirements;
- assigning clearly defined credit risk management responsibilities and accountability to each relevant operating unit and people involved in the risk management process;
- measuring credit risk exposures accurately and disclosing them fully; and
- maintaining consistent credit policies.

Moreover, the Group has established a comprehensive reporting system. Reports on the performance of loan portfolio, loan asset quality, and credit risk concentration are reviewed by the Credit & Loans Management Committee and the Risk Management Committee.

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(H) Management of risks (Continued)

(i) Credit risk management (Continued)

Credit approval procedures

All credit approval authorities are delegated from the Board. Credit approval limits are assigned to credit officers depending on their responsibilities, professional expertise and skill.

The Group adopts multi-level credit approval procedures. Each credit application will be assessed by appropriate level of management according to its amount and nature.

Credit risk assessment

Good lending decision is based on an objective, fair and comprehensive credit risk assessment. The purpose and structure of the loan, the customer's financial status, repayment ability, management ability and style, risk of the industry associated with the customer and collaterals available etc. will be thoroughly assessed and evaluated in each credit application. The overall credit risk of the loan portfolio of the Group will also be considered to avoid any over-concentration of risk.

Credit risk monitoring

The Group has well-established policies and procedures to monitor credit risk consistently and continuously by means of robust and efficient administrative information systems. An independent dedicated division in the Risk Management Department conducts thorough and comprehensive monitoring to identify and control individual and overall credit risks of the Group's loan portfolio.

To achieve a sustainable improvement in asset quality, the Group has set up a set of targets to evaluate the effort and performance of the credit initiation units in the resolution of criticised loans. An early alert program for potential problem customers has been established for close monitoring, early intervention and arousing intensive attention.

Furthermore, the Credit & Loans Management Committee closely reviews and controls the asset quality, movement in criticised loan level, asset quality of the credit initiation units, debt recovery strategies and collection progress of those loans with significant exposures.

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(H) Management of risks (Continued)

(ii) Liquidity risk management

Liquidity risk is the risk that the Group cannot meet its current obligations as and when they fall due. It arises in the funding of lending, trading and investment activities and in the management of trading positions. It includes both the risk of unexpected increase in the cost of funding of the Group's asset portfolio at appropriate maturities and the risk of being unable to liquidate a position in a timely manner and/or at a reasonable price.

The Group maintains flexibility in meeting its funding requirements by maintaining diverse sources of liquidity. The Group funds its operations principally by accepting deposits from retail and corporate depositors. The Group can also borrow in interbank markets on a short term basis, although it is typically a net lender of funds. The Group maintains a portfolio of liquid, high quality debt securities that is managed by the ALCO. These debt securities can generally be sold at any time at market prices to meet the Group's emergent liquidity needs.

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

The Group's objective is to manage the liquidity structure of its assets, liabilities and commitments so as to ensure that the Group is able, even under adverse market conditions, to meet its repayment obligations on time and fund its investment opportunities on a timely basis. As disclosed in note (C) above, the Group's average liquidity ratio of 48.17% for the six-month period ended 30th June 2003 was well above the statutory minimum ratio of 25%.

The Board has formulated liquidity management policy, which aims at maintaining a stock of high quality liquid assets and a diversified and stable deposit base. The ALCO sets up procedures and systems to monitor and control liquidity risk on a regular basis.

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(H) Management of risks (Continued)

(iii) Market risk management

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

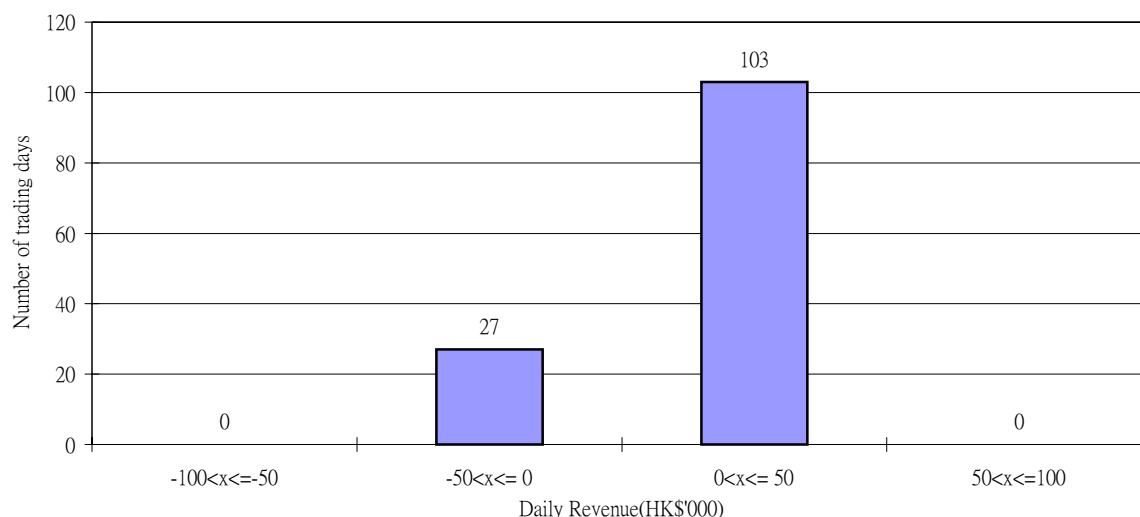
The Group's market risk originates from holding of foreign exchange, debt securities and derivatives in the trading books. The Group does not engage in proprietary trading in foreign exchange and equities. The Group's trading activities on foreign exchange and derivative instruments mainly arise from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

The Group's maximum market risk exposures in different activities are set by management. Exposures are measured and monitored on the basis of principal (or notional) amount, outstanding position and stop-loss limit, and are controlled within the limits approved by management for each business unit, business type and in aggregate. The Group considers that the market risk arising from its trading book is not material.

The average daily revenue earned from the Group's market risk-related treasury trading activities for the six-month period ended 30th June 2003 was HK\$1,000 (six-month period ended 30th June 2002: HK\$2,000). The standard deviation of these daily revenues was HK\$2,000 (six-month period ended 30th June 2002: HK\$7,000).

An analysis of the frequency distribution of the Group's market risk-related treasury trading revenues is shown below. This shows 27 out of 130 days are loss making. The maximum daily loss is HK\$11,000 (six-month period ended 30th June 2002: HK\$35,000) and the next maximum daily loss of HK\$5,000 (six-month period ended 30th June 2002: HK\$22,000). The most frequent result was a daily revenue of between HK\$0 and HK\$50,000 with 103 occurrences. The highest daily revenue during the period was HK\$7,000 (six-month period ended 30th June 2002: HK\$47,000).

Frequency distribution of total daily revenue from trading activities for the half year of 2003



NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(H) Management of risks (Continued)

(iii) Market risk management (Continued)

Interest rate risk management

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

The Finance Department is responsible for formulating the policy and developing the risk management system to assist ALCO in identifying, measuring, monitoring and controlling interest rate risk. Gap analysis is used to measure the Group's exposure to interest rate risk. The gap is the difference between the amount of interest-earning assets and interest-bearing liabilities that mature or must be re-priced within a specific time band. Gap analysis provides the Group with a static view of the maturity and re-pricing characteristics of its balance sheet positions. The Finance Department measures the gaps by classifying all assets, liabilities and off-balance sheet items for each currency into appropriate time bands according to contracted maturities or anticipated re-pricing time bands. The magnitude of the gaps indicates the extent to which the Group is exposed to the risk of potential changes in the margins on new or re-priced assets and liabilities, and is monitored by ALCO. The impact of basis risk is gauged by the change in net interest income as a result of uncorrelated movements between the base lending rate and key money market rates.

Foreign exchange risk management

Foreign exchange risk is the risk arising from changes in foreign exchange rates on the Group's assets, liabilities and commitments, thus causing profits or losses.

The Group's exchange exposures mainly comprised of currency exposures originated by its commercial banking business. It is the Group's policy to square foreign exchange positions at the end of a business day. The Settlement Division ensures that all foreign currency transactions are conducted in accordance with the guidelines established by management and the Risk Management Committee.

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(H) Management of risks (Continued)

(iv) Operational risk management

Operational risk is the risk of loss resulting from inadequate internal processes, people and systems or from external events. The Board recognises operational risk as a distinct risk category that should be managed with full attention and should be kept up with the best practice of the industry.

An operational risk management framework has been formulated. The framework provides a bank-wide definition of operational risk and lays down the requirements of how operational risk is to be identified, assessed, reported, monitored and mitigated.

To ensure operations being under proper monitoring and supervision, effective internal control system is enforced by computer systems and rigorous procedures. In addition, through coaching and frequent training, the Group has maintained teams of experienced and competent staff in all business areas to execute and monitor the operations of the Group.

The operating policies and procedures are reviewed and endorsed by the System and Method Division of the Risk Management Department and approved by the relevant management committees. Furthermore, the Auditing Department performs independent checking to ascertain that the procedures are properly followed and reports directly to the Audit Committee on discrepancies found. On the other hand, as compliance with laws and regulatory bodies' guidelines or codes are considered in the practice of business operations, the Group's policies and procedures will be reviewed vigilantly and updated in accordance with the new promulgated requirements from time to time.

Starting last year, records and details of the operational risk losses and incidents are collected and analysed centrally in order to meet Basel Committee's requirement and to facilitate the implementation of operational risk management framework.

Last year, the Group has reviewed and enhanced the Business Continuity Plan of all critical banking services. To ensure practicality of the plan, drill on contingency plans on certain critical business functions has been performed and the result was satisfactory.

Precautionary measures have been taken and special attentions have been drawn in the combat of the Anti-Money Laundering and Anti-Terrorist Financing activities. Specific procedure manuals and self-checking compliance list have been issued and trainings have been launched to all staff to stipulate the Group's policy and stance in order to prevent the Group's services being used by the villains for illegal activities.

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(I) Corporate Governance

The Board has committed to achieve a high standard of corporate governance and has complied with the guideline “Corporate Governance of Locally Incorporated Authorized Institutions” under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority in September 2001.

The Board is responsible for setting strategies and the overall management of the Group’s business. To enable the Board to discharge its responsibilities effectively, the senior management provides detailed reports on the Group’s performance to the Board on a regular basis. In order to focus its attention on strategic and material issues that have significant impact on the Group’s finances and long-term development, the Board has set up three committees to oversee the major areas of the Group. The details of the committees are given below.

Executive Committee

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

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

The members of Executive Committee are Ms. Li Jiwen (Chairman), Mr. Ho Shiu Chuen and Mr. Yuen Wai Keung. All are executive directors of the Bank.

Audit Committee

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

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

The members of Audit Committee are Mr. Ambrose Lau Hon Chuen (Chairman), Mr. David Lan Hong Tsung and Mr. Law Man Wah. All are non-executive directors of the Bank. Among them, Mr. Ambrose Lau Hon Chuen and Mr. David Lan Hong Tsung are independent non-executive directors.

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(I) Corporate Governance (Continued)

Risk Management Committee

The Risk Management Committee assists the Board to oversee the risk management of the Group, to formulate the Group's risk management strategies, policies and procedures, and to monitor the implementation of those strategies, policies and procedures. Its responsibilities include:

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

The members of the Risk Management Committee are Mr. Mao Xiaowei (Chairman), Mr. Law Man Wah, Mr. Jao Yu Ching, Mr. Ambrose Lau Hon Chuen, Ms. Li Jiwen and Mr. Ho Shiu Chuen. All are directors of the Bank.

NANYANG COMMERCIAL BANK, LIMITED

REVIEW OF OPERATIONS

The Hong Kong economy had no sign of recovery in the first half of 2003 and was affected by the sudden outbreak of SARS. The banking sector continued to experience a difficult environment with weak loans demand, increase in operating risk and shrinkage of the interest spread. Nevertheless, under the supervision of the Board, our Management took strong measures to face these challenges. We exerted greater efforts on developing business and enhancing risk management, reducing non-performing loans and controlling operating costs. With the diligence of our entire workforce, we achieved satisfactory results in the first half of 2003. The audited consolidated profit after tax was HK\$551 million, a decrease of HK\$7 million or 1.24% compared with the corresponding period of last year. The annualised Return on Average Assets and Return on Average Equity were 1.26% and 11.53% respectively.

Despite the sluggish demand of loans, the drop of overall loans market and the keen competition among banks, we still achieved a net increase in loans by HK\$1,425 million to HK\$38,072 million in the first half of 2003. As both our mortgage loans and commercial loans were increased, this further enlarged our consumer and commercial customers base. With the diligence of our staff and prevailing market condition, we are able to enhance our deposit structure. The low and interest free deposits and their proportion to total deposits were both increased and this will enable us to better control the costs of funding. At the end of June 2003, the deposits balance stood at HK\$73,041 million, a drop of HK\$1,452 million compared with the end of 2002. Due to the low economic condition, intensive competition and persistence low interest rate environment, our Bank's interest spread was further narrow in line with other banks. In the first half of 2003, our net interest income was decreased by HK\$69 million to HK\$725 million, a decrease of 8.64% compared with the corresponding period of last year.

Our Bank continued to strengthen every effort to promote the non-interest income personal banking business. A series of products have been introduced to provide more choice to our customers, including several numbers of guaranteed trust funds and retail bonds. To better serve the needs of our customers, our Bank also continued its partnership with insurance companies to provide various insurance products to our customers. The commission income from insurance products in the second quarter was doubled compared with the first quarter of this year. The proportion of net fees and commission income to operating income was increased from 14.56% for the whole year 2002 to 15.85% for the first half year 2003.

At present, we have six branches in Mainland. All the branches, except Shekou Branch and Haikou Branch, had got the approval from the People's Bank of China on running business in all foreign currencies for all customers. In addition to our Shenzhen Branch, our Shekou Branch was approved to offer Renminbi services in this July and our Guangzhou Branch also applied for providing Renminbi services. Our Bank will continue to explore the Mainland business in order to provide high quality cross border banking services to our customers.

Our asset quality remains satisfactory. We continued to emphasise credit risk assessment, review and monitoring and effectively reduced the non-performing loans to HK\$1,532 million at the end of June 2003, a drop of HK\$93 million compared with the end of last year. The non-performing loans ratio was further declined from 4.43% at the end of 2002 to 4.02% at 30th June 2003.

We have been exercising prudence in capital and liquidity management. The unadjusted consolidated capital adequacy ratio was 21.21% at the end of June 2003 and the average liquidity ratio of our local offices for the six-month period ended 30th June 2003 was 48.17%, both were still at a very safe level.

NANYANG COMMERCIAL BANK, LIMITED

REVIEW OF OPERATIONS

Looking forward to the second half of 2003, the lessen impact of SARS on Hong Kong economy, the signing of the Closer Economic Partnership Arrangement (“CEPA”) between Hong Kong and Mainland, the permission for people to travel to Hong Kong individually by certain Mainland counties will help the recovery of Hong Kong economy. Nevertheless, the outlook of global economy is still not certain and the low interest rate environment is expected to continue, the banking sector is still to face the challenge of sluggish loans demand and the shrinkage of the interest spread. Our Bank will grasp the opportunity of the CEPA and adopt every possible measure to develop our business, to increase our income and to reduce our operating cost in order to maximise the return to our shareholder.