

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

23. DEFERRED TAXATION

	Accelerated tax depreciation HK\$'000	Revaluation of properties HK\$'000	General provisions for bad and doubtful debts HK\$'000	Others HK\$'000	Total HK\$'000
THE GROUP					
At 1 January 2002					
- as previously reported	-	-	-	-	-
- adjustments on adoption of SSAP 12 (revised)	3,893	107,857	(29,828)	2,085	84,007
- as restated	3,893	107,857	(29,828)	2,085	84,007
Credit to land and buildings revaluation reserve for the year	-	(2,461)	-	-	(2,461)
Charge (credit) to income statement for the year (Note 8)	1,314	(1,327)	(2,878)	974	(1,917)
Balance at 1 January 2003	5,207	104,069	(32,706)	3,059	79,629
Charge (credit) to income statement for the year (Note 8)	530	(95)	(538)	(1,907)	(2,010)
Effect of change in tax rate:					
Charge to land and buildings revaluation reserve for the year	-	10,454	-	-	10,454
Charge (credit) to income statement for the year (Note 8)	488	(697)	(3,066)	287	(2,988)
At 31 December 2003	6,225	113,731	(36,310)	1,439	85,085
THE BANK					
At 1 January 2002					
- as previously reported	-	-	-	-	-
- adjustments on adoption of SSAP 12 (revised)	3,893	97,037	(29,800)	2,085	73,215
- as restated	3,893	97,037	(29,800)	2,085	73,215
Charge (credit) to income statement for the year	1,314	(1,327)	(2,873)	974	(1,912)
Balance at 1 January 2003	5,207	95,710	(32,673)	3,059	71,303
Charge (credit) to income statement for the year	530	(95)	(552)	(1,907)	(2,024)
Effect of change in tax rate:					
Charge to land and buildings revaluation reserve for the year (Note 22)	-	9,670	-	-	9,670
Charge (credit) to income statement for the year	488	(697)	(3,064)	287	(2,986)
At 31 December 2003	6,225	104,588	(36,289)	1,439	75,963

24. SHARE OPTION SCHEME

The Bank's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 25 April 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 24 April 2012. Under the Scheme, the Board of Directors of the Bank may grant options to eligible employees, including directors of the Bank and its subsidiaries, to subscribe for shares in the Bank. Additionally, the Bank may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Bank.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Bank in issue at the date of approval of the Scheme, without prior approval from the Bank's shareholders. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the shares of the Bank in issue at any point in time, without prior approval from the Bank's shareholders.

Options granted must be taken up within 28 days of the date of offer, upon payment of HK\$10 per option. Options may be exercised at any time from the date of grant of the share option to the fifth anniversary of the date of grant. The exercise price is determined by the Board of Directors of the Bank, and will be the highest of the closing price of the Bank's shares on the date of offer, the average closing price of the shares for the five trading days immediately preceding the date of offer and the nominal value of the shares.

No options have been granted under the above-mentioned scheme since the Scheme was adopted.

25. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2003	2002
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	744,527	515,457
Money at call and short notice	10,745,214	11,267,918
Exchange fund bills	512,147	605,109
Placements with banks and other financial institutions (with original maturity within three months)	1,166,126	1,982,395
Deposits and balances of banks and other financial institutions (with original maturity within three months)	(1,035,392)	(420,845)
	<u>12,132,622</u>	<u>13,950,034</u>

26. LOANS TO OFFICERS

The aggregate relevant loans to officers disclosed pursuant to Section 161B(4B) of the Companies Ordinance are as follows:

	THE GROUP AND THE BANK	
	2003	2002
	HK\$'000	HK\$'000
Aggregate balance of all relevant loans outstanding at the balance sheet date	<u>105,554</u>	<u>125,227</u>
Maximum aggregate balance of relevant loans during the year	<u>135,502</u>	<u>132,101</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2003

27. OFF-BALANCE SHEET EXPOSURES

	THE GROUP		THE BANK	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Contingent liabilities and commitments - contractual amounts				
Direct credit substitutes	829,984	1,022,268	829,984	1,022,268
Trade - related contingencies	256,126	240,006	256,126	240,006
Other commitments				
With an original maturity of under one year or which are unconditionally cancellable	3,643,812	3,361,498	3,643,170	3,360,984
With an original maturity of one year and over	3,192,101	2,362,951	3,191,031	2,362,951
Forward assets purchases	165,981	176,919	165,981	176,919
	<u>8,088,004</u>	<u>7,163,642</u>	<u>8,086,292</u>	<u>7,163,128</u>

Included under "Other commitments" are non-cancellable operating leases commitments in respect of rented premises. At the balance sheet date, the Group had commitments for future minimum lease payments under these non-cancellable operating leases which fall due as follows:

	THE GROUP		THE BANK	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	33,708	27,896	33,066	27,382
In the second to fifth year inclusive	49,676	54,736	48,606	54,736
Over five years	816	-	816	-
	<u>84,200</u>	<u>82,632</u>	<u>82,488</u>	<u>82,118</u>

Operating lease payments represent rental payable by the Group for certain of its office properties. Leases are negotiated for an average term of three years and rentals are fixed.