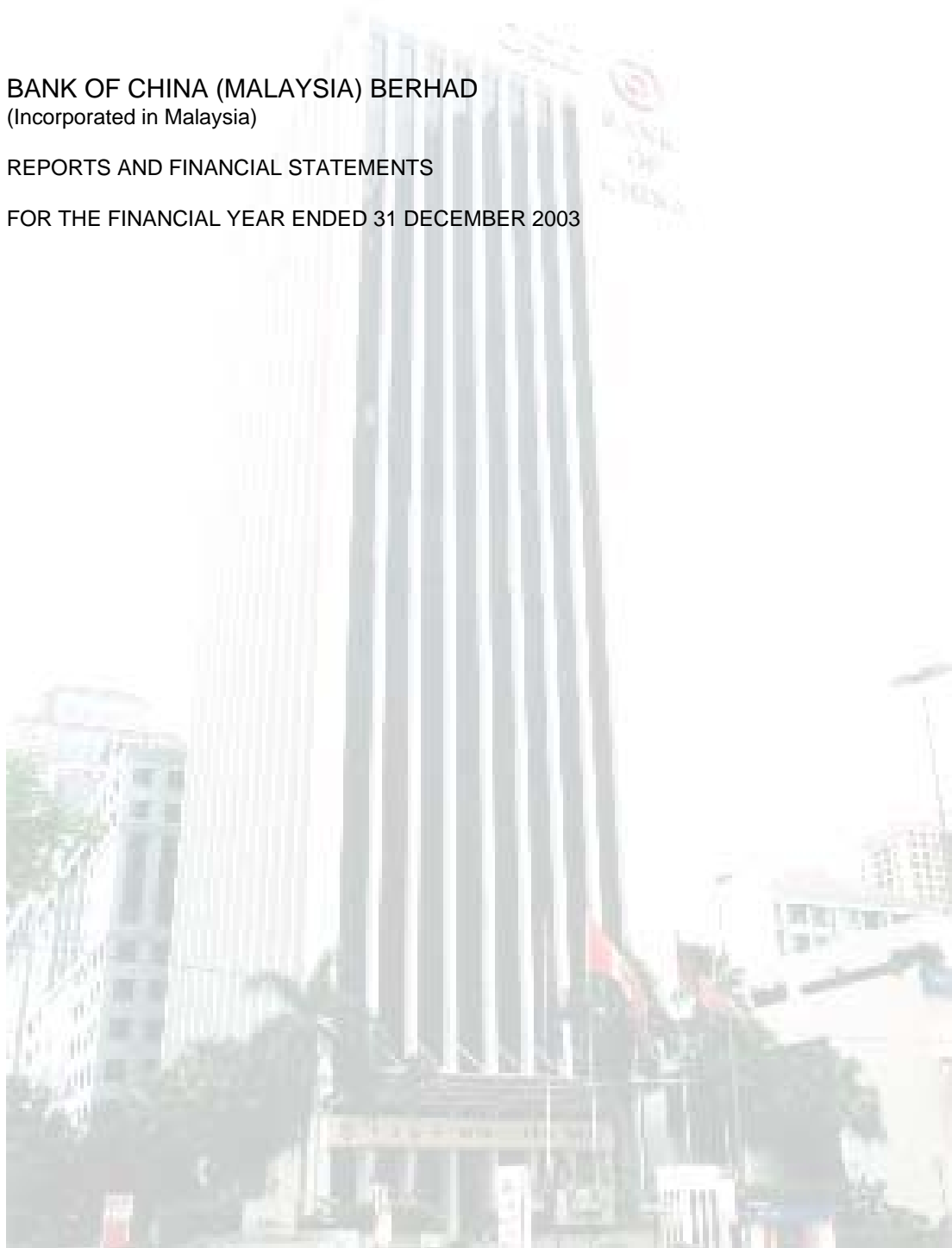


BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003



Company No.

511251

V

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

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Company No.

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BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements of the Bank for the financial year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are commercial banking and related financial services.

There was no significant changes in these activities during the financial year.

FINANCIAL RESULTS

	RM'000
Profit from ordinary activities before taxation	6,760
Taxation	(2,302)
Profit after taxation	<u>4,458</u>

DIVIDENDS

No dividend has been paid, declared or proposed since the end of the previous financial year.

The Directors do not recommend the payment of any dividend for the financial year ended 31 December 2003.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements and notes to the financial statements.

DIRECTORS

The Directors who have held office during the period since the date of the last report and at the date of this report are as follows:

Zhu Hua
Zhang LianLi
Lin Juzheng
Ng Man-Kung
Y Bhg Tan Sri Dato' Lim Guan Teik
Tan Siak Tee

In accordance with Article 76 of the Articles of Association, Zhu Hua and Zhang LianLi retire from the Board by rotation at the forthcoming Annual General Meeting and Zhang LianLi being eligible, offers himself for re-election. Zhu Hua is not seeking re-election.

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS IN SHARES

According to the Register of Directors' Shareholdings, none of the directors in office at the end of the financial year held any interest in shares of the Bank and its related companies.

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Bank is a party, being arrangements with the object or objects of enabling 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.

During and at the end of the financial year, no Director has received or become entitled to receive a benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the financial statements, or the fixed salary of a full time employee of the Bank) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest except the Directors received remuneration from related corporations in their capacities as executives of those related corporations.

BAD AND DOUBTFUL DEBTS

Before the income statement and balance sheet of the Bank were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts, and satisfied themselves that all known bad debts, if any, had been written off and adequate provision had been made for doubtful debts.

At the date of this report, the Directors of the Bank are not aware of any circumstances which would render the amounts written off for bad debts, or the amount of the provision for doubtful debts in the financial statements of the Bank inadequate to any substantial extent.

CURRENT ASSETS

Before the income statement and balance sheet of the Bank were made out, the Directors took reasonable steps to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of the Bank had been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Bank misleading.

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Bank misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

- (a) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (b) any contingent liability in respect of the Bank that has arisen since the end of the financial year other than in the ordinary course of banking business.

No contingent or other liability of the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Bank to meet their obligations when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in their report or the financial statements of the Bank, that would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Bank for the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature, likely to affect substantially the results of the operations of the Bank for the current financial year in which this report is made.

Company No.

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BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

BUSINESS PLAN AND STRATEGY FOR 2003

The year 2003 was a challenging one, the recovery of the Malaysian economy has been riddled with obstacles – the US-led attack on Afghanistan and Iraq, the outbreak of the Severe Acute Respiratory Syndrome (SARS) and the geopolitical tension and terrorist attacks. Despite all the above obstacles, the Bank recorded a higher profit compared with the preceding year while maintaining its assets quality. In year 2003, the Bank continued to focus on building its core customer base by offering traditional commercial banking, trade finance and retail banking products. While pursuing its business objectives, the Bank has further enhanced its internal control and risk management systems to ensure the steady and healthy development of the future business of the Bank.

OUTLOOK AND BUSINESS PLAN FOR 2004

In 2004, the Malaysian economy is projected to perform better than the preceding year. Indeed, statistics in recent months have certainly substantiated this optimistic outlook. The sustained export-led trade expansion and surplus, business confidence as well as consumer sentiment have continued to strengthen the nation's economy amid an encouraging environment of low interest rate and subdued inflation. In light of this development, the Bank will focus its activities towards expanding its trade finance business, enhancing its competitive edge in the market place while maintaining its superior assets quality as well as striving for the optimal utilization of its resources. As part of its business strategies, the Bank will conduct its business with prudence, greater emphasis in risk management and stringent compliance with legal and regulatory requirements.

ULTIMATE HOLDING CORPORATION

The Directors regard Bank of China, Beijing, China, a corporation incorporated in China, as the ultimate holding corporation of the Bank.

RATINGS BY EXTERNAL RATING AGENCY

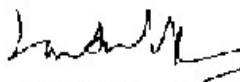
The Bank is not rated by any external agency.

AUDITORS

The auditors PricewaterhouseCoopers, have expressed their willingness to continue in office.

In accordance with a resolution of the Board of Directors dated **30 APR 2004**


ZHANG TIANLI
DIRECTOR


TAN SIAM TEE
DIRECTOR

Kuala Lumpur

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

BALANCE SHEET
AS AT 31 DECEMBER 2003

	<u>Note</u>	<u>2003</u> RM'000	<u>2002</u> RM'000
ASSETS			
Cash and short-term funds	2	494,527	293,765
Investment securities	3	93,506	50,145
Loans and advances	4	257,097	165,010
Other assets	5	3,477	3,345
Fixed assets	7	1,898	2,564
Deferred tax assets	8	3,251	1,703
TOTAL ASSETS		853,756	516,532
LIABILITIES AND SHAREHOLDERS' FUNDS			
Deposits from customers	9	150,143	140,751
Deposits and placements of banks and other financial institutions	10	362,876	49,400
Bills and acceptances payable		12,122	9,629
Other liabilities	11	14,983	8,417
Provision for taxation		922	83
TOTAL LIABILITIES		541,046	208,280
Financed by:			
SHARE CAPITAL	12	304,000	304,000
RESERVES	13	8,710	4,252
SHAREHOLDERS' FUNDS		312,710	308,252
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		853,756	516,532
COMMITMENTS AND CONTINGENCIES	23	263,266	201,741

The accounting policies on pages 10 to 13 and notes on pages 14 to 38 form an integral part of these financial statements.

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

	<u>Note</u>	<u>2003</u> RM'000	<u>2002</u> RM'000
Interest income	14	25,813	18,620
Interest expense	15	(9,143)	(3,510)
Net interest income		16,670	15,110
Loan loss provision	16	(2,976)	(2,320)
		13,694	12,790
Non-interest income	17	3,833	3,496
Net income		17,527	16,286
Overhead expenses	18	(10,767)	(9,704)
Profit from ordinary activities before taxation		6,760	6,582
Taxation	20	(2,302)	(2,331)
Net profit for the financial year		4,458	4,251
Basic/diluted earnings per share (sen)	21	1.5	1.4

The accounting policies on pages 10 to 13 and notes on pages 14 to 38 form an integral part of these financial statements.

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

**STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003**

	<u>Note</u>	Issued and fully paid ordinary shares of <u>RM1 each</u> <u>Nominal</u> <u>value</u> RM'000	<u>Non-</u> <u>distributable</u> <u>Statutory</u> <u>reserve</u> RM'000	<u>Accumulated</u> <u>loss</u> RM'000	<u>Total</u> RM'000
At 1 January 2003					
- as previously reported		304,000	8,504	(5,955)	306,549
- prior year adjustment	28	-	851	852	1,703
- as restated		304,000	9,355	(5,103)	308,252
Net profit for the financial year		-	-	4,458	4,458
Transfer to statutory reserve	13	-	2,229	(2,229)	-
At 31 December 2003		<u>304,000</u>	<u>11,584</u>	<u>(2,874)</u>	<u>312,710</u>
At 1 January 2002					
- as previously reported		304,000	6,854	(7,604)	303,250
- prior year adjustment	28	-	375	376	751
- as restated		304,000	7,229	(7,228)	304,001
Net profit for the financial year		-	-	4,251	4,251
Transfer to statutory reserve	13	-	2,126	(2,126)	-
At 31 December 2002		<u>304,000</u>	<u>9,355</u>	<u>(5,103)</u>	<u>308,252</u>

The accounting policies on pages 10 to 13 and notes on pages 14 to 38 form an integral part of these financial statements.

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

	<u>Note</u>	<u>2003</u> RM'000	<u>2002</u> RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit from ordinary activities before taxation		6,760	6,582
Adjustments for:			
Depreciation of fixed assets		961	972
Amortisation of premium less accretion of discounts		1,100	962
Gains from sale of investment securities		(50)	(791)
Loan loss provision		2,976	2,320
Interest income from investment securities		(3,112)	(2,573)
Unrealised foreign exchange gain		(2)	(1)
Cash flow from operating profit before changes in operating assets and liabilities		8,633	7,471
(INCREASE)/DECREASE IN OPERATING ASSETS			
Deposits and placements with financial institutions		-	89,500
Loans and advances		(95,063)	(52,689)
Other assets		(1,128)	(906)
Statutory deposits with Bank Negara Malaysia		-	2,221
INCREASE/(DECREASE) IN OPERATING LIABILITIES			
Deposits from customers		9,392	67,687
Deposits and placements of banks and other financial institutions		313,476	(64,790)
Bills and acceptances payable		2,493	5,121
Other liabilities		8,114	1,451
Cash generated from operating activities		245,917	55,066
Taxation paid		(3,011)	(3,200)
Net cash generated from operating activities		242,906	51,866
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(295)	(1,278)
Net (purchase)/disposal of investment securities		(44,411)	46,402
Interest received on investment securities		2,562	3,377
Net cash generated from investing activities		(42,144)	48,501

Company No.

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BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

	<u>Note</u>	<u>2003</u> RM'000	<u>2002</u> RM'000
CASH FLOWS FROM FINANCING ACTIVITIES		-	-
NET INCREASE IN CASH AND CASH EQUIVALENTS DURING THE FINANCIAL YEAR		200,762	100,367
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR		293,765	193,398
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	2	494,527	293,765

The accounting policies on pages 10 to 13 and notes on pages 14 to 38 form an integral part of these financial statements.

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - 31 DECEMBER 2003

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements.

A BASIS OF PREPARATION

The financial statements of the Bank have been prepared under the historical cost convention unless otherwise indicated.

The financial statements comply with the applicable approved accounting standards in Malaysia, the provisions of the Companies Act, 1965 and Bank Negara Malaysia Guidelines.

The new accounting standards, adopted in the financial statements are as follows:

- < MASB 25 Income Taxes
- < MASB 29 Employee Benefits

With the exception of MASB 25, there were no changes in accounting policies that affect net profit or shareholder's equity for the financial year as a result of the adoption of the above standards.

The change in accounting policy arising from the adoption of MASB 25 has been applied retrospectively and the effects arising from the adoption of this standard are disclosed in Note 28 to the financial statements.

B RECOGNITION OF INTEREST INCOME

Interest income is recognised on an accrual basis using the effective yield method. Interest income on housing and term loans is recognised by reference to monthly rest periods.

Where an account becomes non-performing, interest is suspended until it is realised on a cash basis. Customers' account are deemed to be non-performing where repayments are in arrears for more than six (6) months for loans and overdrafts, and three (3) months after maturity date for trade bills, bankers' acceptances and trust receipt. The policy on suspension of interest is in conformity with Bank Negara Malaysia's "Guidelines on Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts, BNM/GP3."

C RECOGNITION OF FEES AND OTHER INCOME

Loan arrangement fees and commissions are recognised as income when all conditions precedent are fulfilled.

Commitment fees and guarantee fees which are material are recognised as income based on time apportionment.

Dividends from investment securities are recognised when received.

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - 31 DECEMBER 2003
(CONTINUED)

D INVESTMENT SECURITIES

Investment securities are securities that are acquired and held for yield or capital growth or to meet minimum liquid assets requirement pursuant to Section 38 of the Banking and Financial Institutions Act, 1989, and are usually held to maturity.

Malaysian Government securities, Malaysian Government investment certificates, Cagamas bonds, other Government securities, and Bank Guaranteed Private Debt Securities held for investment are stated at cost adjusted for amortisation of premium or accretion of discount to maturity date. Other private debt securities are valued at lower of cost and market value. Other investment securities are stated at cost and provision is made in the event of any diminution in value.

Amortisation of premium or accretion of discount is recognised using effective yield method. Interest earned while holding investment securities are reported as interest income. Dividends received are included in dividend income.

Permanent diminution in the value of investment securities is recognised as an expense in the period in which the diminution is identified.

On disposal, the difference between the net disposal proceeds and its carrying amount is charged or credited to the income statement.

E FIXED ASSETS AND DEPRECIATION

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation of fixed assets is calculated to write off the cost of the fixed assets on a straight line basis over the expected useful life of the assets concerned. The principal annual rates are:

Computer equipment and software	40%
Motor vehicles	20%
Office equipment	14%
Renovation	10%

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

F BILLS AND ACCEPTANCES PAYABLE

Bills and acceptances payable represent the Bank's own bills and acceptances rediscounted and outstanding in the market.

G FORWARD EXCHANGE CONTRACTS

Unmatured forward exchange contracts are valued at forward rates as at balance sheet date, applicable to their respective dates of maturity, and unrealised losses and gains are recognised in the income statement for the financial year.

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - 31 DECEMBER 2003
(CONTINUED)

H CURRENCY TRANSLATIONS

Individual monetary foreign currency assets and liabilities are stated in the balance sheet at spot rates which closely approximate to those ruling at the balance sheet date. Foreign currency transactions items are translated at rates prevailing on transaction dates. Exchange gains and losses (realised/unrealised) are recognised in the income statement as normal revenue item in the financial year they arise.

The principal closing rates used in translation of foreign currency amounts are as follows:

<u>Foreign currency</u>	<u>2003</u> RM	<u>2002</u> RM
1 US Dollar	3.80	3.80
1 Singapore Dollar	2.24	2.19
1 Sterling Pound	6.77	6.09
1 Australia Dollar	2.85	2.15
100 Japanese Yen	3.55	3.20
1 EURO	4.79	3.98
1 Canadian Dollar	2.94	2.41
100 Hong Kong Dollar	48.95	48.73

I CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, bank balances and deposit placements maturing less than one month held for the purpose of meeting short term commitments and readily convertible into cash without significant risk of changes in value.

J OPERATING LEASE

Leases of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charge to the income statement on a straight line basis over the period of the lease.

K DEFERRED TAXATION

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. The principal temporary differences arise from loans and advances and excess of capital allowance over depreciation.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised.

Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - 31 DECEMBER 2003
(CONTINUED)

L PROVISION FOR BAD AND DOUBTFUL DEBTS

Specific provisions are made for doubtful debts which have been individually reviewed and specifically identified as bad or doubtful.

A general provision is established to cover possible losses that are judged to be present in the lending portfolio at balance sheet date, but which have not been specifically identified as such.

An uncollectible loan and advances or portion of a loan and advances classified as bad is written-off after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

The Bank's provision for non-performing loans is in conformity with the minimum requirements of Bank Negara Malaysia's "Guidelines on the Classification of Non-performing Loans and Provision for Substandard, Bad and Doubtful Debts, BNM/GP3".

M PROVISIONS

Provisions, other than provision for bad and doubtful debts, are recognised when the Bank have a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

N EMPLOYEE BENEFITS

Short term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

Post-employment benefits - defined contribution plans

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a fund and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

The Bank's contributions to a national defined contribution plan (the Employee Provident Fund) on a mandatory basis and the amounts contributed to the plan are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Bank has no further payment obligations.

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003**

1 GENERAL INFORMATION

The principal activities of the Bank are commercial banking and related financial services.

The number of employees at the end of the financial year amounted to 48 (2002: 44) employees in the Bank.

The holding and ultimate holding corporation is Bank of China, Beijing, China, a corporation incorporated in China.

The Bank is a limited liability company, incorporated and domiciled in Malaysia.

The address of the registered office of the Bank is:

Mezzanine Floor, Plaza OSK
25, Jalan Ampang, 50450 Kuala Lumpur

2 CASH AND SHORT-TERM FUNDS

	<u>2003</u> RM'000	<u>2002</u> RM'000
Cash and balances with banks and other financial institutions	6,527	10,765
Money at call and deposit placements maturing within one month	488,000	283,000
	<u>494,527</u>	<u>293,765</u>

3 INVESTMENT SECURITIES

Money market instruments:

Quoted

Malaysian Government Securities	94,460	51,134
Amortisation of premium less accretion of discounts	(954)	(989)
	<u>93,506</u>	<u>50,145</u>

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 (CONTINUED)

3 INVESTMENT SECURITIES (CONTINUED)

	<u>2003</u> RM'000	<u>2002</u> RM'000
(i) Market value of quoted securities:		
Malaysian Government securities	<u>92,329*</u>	<u>50,185</u>
(ii) The maturity structure of money market instruments held for investment is as follows:		
Maturing within one year	-	51,134
One year to three years	36,432	-
Three years to five years	58,028	-
	<u>94,460</u>	<u>51,134</u>

* The carrying amount is higher than the market value. The Directors are of the opinion that no permanent diminution in value exist.

4 LOANS AND ADVANCES

	<u>2003</u> RM'000	<u>2002</u> RM'000
Overdrafts	39,687	30,981
Term loans		
- floating rate	186,346	110,327
Trust receipts	17,794	11,957
Claims on customers under acceptance credits	19,170	14,519
Staff loans	1,330	1,492
Other loans	446	434
	<u>264,773</u>	<u>169,710</u>
Gross loans and advances		
Provision for bad and doubtful debts:		
- general provision	(7,676)	(4,700)
	<u>257,097</u>	<u>165,010</u>
Net loans and advances		

(i) The maturity structure of the loans and advances are as follows:

	<u>2003</u> RM'000	<u>2002</u> RM'000
Maturing within one year	77,097	57,891
One year to three year	27,705	24,200
Three years to five year	108,890	40,092
Over five years	51,081	47,527
	<u>264,773</u>	<u>169,710</u>

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 (CONTINUED)

4 LOANS AND ADVANCES (CONTINUED)

	<u>2003</u> RM'000	<u>2002</u> RM'000
(ii) Loans and advances according to economic sector are as follows:		
Agriculture, mining and quarrying	57,112	-
Manufacturing	37,865	40,489
Electricity, gas and water	22,837	30,454
Construction	1	6
Real estate	56,414	38,193
Purchase of landed property of which:		
(i) Residential	2,945	2,830
(ii) Non-residential	1,695	955
General commerce	53,992	22,177
Finance, insurance and business service	29,729	32,275
Purchase of transport vehicles	255	224
Others	1,928	2,107
	<u>264,773</u>	<u>169,710</u>
(iii) There is no non-performing loan during the financial year ended 31 December 2003 (2002: Nil).		
(iv) Movement in the general provision is as follows:		
	<u>2003</u> RM'000	<u>2002</u> RM'000
Balance as at 1 January	4,700	2,380
Provision made during the financial year	2,976	2,320
Balance as at 31 December	<u>7,676</u>	<u>4,700</u>
(as % of gross loans and advances)	2.9%	2.8%

5 OTHER ASSETS

Interest receivable	1,888	944
Other debtors, deposits and prepayments	1,589	2,401
	<u>3,477</u>	<u>3,345</u>

6 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act 1958 (Revised-1994), the amounts of which are determined as set percentages of total eligible liabilities.

During the year, no statutory deposits were maintained with Bank Negara Malaysia as the total eligible liabilities of the Bank is nil in December 2003 (2002: nil).

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 (CONTINUED)

7 FIXED ASSETS

	Computer equipment & software RM'000	Motor vehicles RM'000	Office equipment RM'000	Renovation RM'000	Total RM'000
<u>2003</u>					
<u>Cost</u>					
At 1 January	3,088	449	826	656	5,019
Additions	245	-	50	-	295
At 31 December	<u>3,333</u>	<u>449</u>	<u>876</u>	<u>656</u>	<u>5,314</u>
<u>Accumulated depreciation</u>					
At 1 January	1,707	317	276	155	2,455
Charged during the financial year	715	62	118	66	961
At 31 December	<u>2,422</u>	<u>379</u>	<u>394</u>	<u>221</u>	<u>3,416</u>
Net book value	<u>911</u>	<u>70</u>	<u>482</u>	<u>435</u>	<u>1,898</u>
<u>2002</u>					
<u>Cost</u>					
At 1 January	2,201	449	764	647	4,061
Additions	1,207	-	62	9	1,278
Write off	(320)	-	-	-	(320)
At 31 December	<u>3,088</u>	<u>449</u>	<u>826</u>	<u>656</u>	<u>5,019</u>
<u>Accumulated depreciation</u>					
At 1 January	1,330	220	163	90	1,803
Charged during the financial year	697	97	113	65	972
Write off	(320)	-	-	-	(320)
At 31 December	<u>1,707</u>	<u>317</u>	<u>276</u>	<u>155</u>	<u>2,455</u>
Net book value	<u>1,381</u>	<u>132</u>	<u>550</u>	<u>501</u>	<u>2,564</u>

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8 DEFERRED TAX ASSETS

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 tax authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	<u>2003</u> RM'000	<u>2002</u> RM'000
Loans and advances	2,149	1,316
Excess of capital allowance over depreciation	(253)	(371)
Other temporary difference	1,355	758
	<u>3,251</u>	<u>1,703</u>

The movements in deferred tax assets/(liabilities) during the year comprise the following:

	<u>Note</u>	<u>Loans and advances</u> RM'000	<u>Excess of capital allowance over depreciation</u> RM'000	<u>Other temporary differences</u> RM'000	<u>Total</u> RM'000
At 1 January 2003					
- as previously reported		-	-	-	-
- prior year adjustment	28	1,316	(371)	758	1,703
		<u>1,316</u>	<u>(371)</u>	<u>758</u>	<u>1,703</u>
- as restated		1,316	(371)	758	1,703
Credited to income statement		833	118	597	1,548
		<u>833</u>	<u>118</u>	<u>597</u>	<u>1,548</u>
At 31 December 2003		<u>2,149</u>	<u>(253)</u>	<u>1,355</u>	<u>3,251</u>
At 1 January 2002					
- as previously reported		-	-	-	-
- prior year adjustment	28	666	(271)	356	751
		<u>666</u>	<u>(271)</u>	<u>356</u>	<u>751</u>
- as restated		666	(271)	356	751
(Charged)/credited to income statement		650	(100)	402	952
		<u>650</u>	<u>(100)</u>	<u>402</u>	<u>952</u>
At 31 December 2002		<u>1,316</u>	<u>(371)</u>	<u>758</u>	<u>1,703</u>

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9 DEPOSITS FROM CUSTOMERS

	<u>2003</u> RM'000	<u>2002</u> RM'000
Demand deposits	62,748	77,419
Savings deposits	14,124	9,637
Fixed deposits	73,271	53,695
	<u>150,143</u>	<u>140,751</u>

(i) Maturity structure of fixed deposits is as follows:

Due within six months	70,300	51,535
Six months to one year	2,971	2,054
One year to three year	-	106
	<u>73,271</u>	<u>53,695</u>

(ii) The deposits are sourced from the following customers:

Business enterprises	104,842	100,150
Individuals	44,481	37,555
Others	820	3,046
	<u>150,143</u>	<u>140,751</u>

10 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>2003</u> RM'000	<u>2002</u> RM'000
Licensed banks	<u>362,876</u>	<u>49,400</u>

11 OTHER LIABILITIES

Interest payable	844	468
Other liabilities	14,139	7,949
	<u>14,983</u>	<u>8,417</u>

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NOTES TO THE FINANCIAL STATEMENTS
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12 SHARE CAPITAL

	<u>2003</u> RM'000	<u>2002</u> RM'000
Authorised:		
304,000,000 ordinary shares of RM1 each	<u>304,000</u>	<u>304,000</u>
Issued and fully paid:		
Ordinary shares of RM1 each		
Balance as at 1 January/31 December	<u>304,000</u>	<u>304,000</u>

13 RESERVES

Accumulated loss	(2,874)	(5,103)
Non-distributable:		
Statutory reserve	<u>11,584</u>	<u>9,355</u>
	<u>8,710</u>	<u>4,252</u>

The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and are not distributable as cash dividends.

14 INTEREST INCOME

	<u>2003</u> RM'000	<u>2002</u> RM'000
Loans and advances	9,266	8,010
Money at call and deposit placements with financial institutions	14,535	8,999
Investment securities	<u>3,112</u>	<u>2,573</u>
	26,913	19,582
Amortisation of premium less accretion of discounts	<u>(1,100)</u>	<u>(962)</u>
	<u>25,813</u>	<u>18,620</u>

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15 INTEREST EXPENSE

	<u>2003</u> RM'000	<u>2002</u> RM'000
Deposits and placements of banks and other financial institutions	7,213	2,104
Deposits from other customers	1,930	1,406
	<u>9,143</u>	<u>3,510</u>

16 LOAN LOSS PROVISION

Provision for bad and doubtful debts: - general provision	<u>2,976</u>	<u>2,320</u>
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17 NON-INTEREST INCOME

Fees income:

Commission	1,856	1,163
Service charges and fees	237	257
	<u>2,093</u>	<u>1,420</u>

Investment income:

Gains from sale of investment securities	50	791
--	----	-----

Other income:

Foreign exchange gain		
- realised	1,688	1,284
- unrealised	2	1
	<u>3,833</u>	<u>3,496</u>

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18 OVERHEAD EXPENSES

	<u>2003</u> RM'000	<u>2002</u> RM'000
Personnel costs	4,803	3,642
Establishment costs	2,990	2,817
Marketing expenses	641	387
Administration and general expenses	2,333	2,858
	<u>10,767</u>	<u>9,704</u>

The above expenditure includes the following statutory disclosures:

Directors' remuneration (Note 19)	381	378
Lease rental	1,305	1,094
Auditors' remuneration	35	30
Depreciation of fixed assets	961	972
	<u>2,682</u>	<u>2,474</u>

Included in personnel costs of the Bank are wages, salaries and bonuses of RM3,639,000 (2002: RM2,675,000) and contributions to defined contribution retirement plan of RM346,000 (2002: RM431,000).

19 DIRECTORS' REMUNERATION

The Directors who have held office during the period since the date of the last report and at the date of this report are as follows:

Executive Director

Zhang LianLi

Non-Executive Directors

Zhu Hua

Lin Juzheng

Ng Man-Kung

Y Bhg Tan Sri Dato' Lim Guan Teik

Tan Siak Tee

	<u>2003</u> RM'000	<u>2002</u> RM'000
Executive Director		
- salary and other remuneration	156	156
- bonus	26	26
- benefits-in-kind	55	52
Non Executive Directors		
- fees	144	144
	<u>381</u>	<u>378</u>

The remuneration attributable to the Chief Executive Officer of the Bank, including benefits-in-kind during the financial year amounted to RM237,198 (2002: RM233,510).

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20 TAXATION

	<u>2003</u> RM'000	<u>2002</u> RM'000
Current tax - Malaysian income tax	3,850	3,283
Deferred tax (relating to originating and reversal of temporary differences - Note 8)	(1,548)	(952)
	<u>2,302</u>	<u>2,331</u>

The explanation on the relationship between taxation and profit from ordinary activities before taxation is as follows:

	<u>2003</u> RM'000	<u>2002</u> RM'000
Profit from ordinary activities before taxation	<u>6,760</u>	<u>6,582</u>
Tax calculated at a rate of 28%	1,893	1,843
Expenses not deductible for tax purposes	409	584
Previously unrecognized tax losses	-	(96)
Taxation	<u>2,302</u>	<u>2,331</u>

21 BASIC/DILUTED EARNINGS PER SHARE

Basic earnings per ordinary share is calculated by dividing the net profit for the financial year by the weighted average number of ordinary shares in issue during the financial year.

	<u>2003</u> RM'000	<u>2002</u> RM'000
Net profit for the financial year	4,458	4,251
Weighted average number of ordinary shares in issue	304,000	304,000
Basic/diluted earnings per share (sen)	<u>1.5</u>	<u>1.4</u>

22 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of, and their relationship with the Bank are as follows:

<u>Related company</u>	<u>Relationship</u>
Bank of China, Beijing, China	Holding and ultimate holding corporation
Bank of China (Hong Kong) Ltd	Fellow subsidiaries
Bank of China (Canada)	Fellow subsidiaries

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22 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

A number of banking transactions are entered into with related parties in the normal course of business. These transactions were carried out on commercial terms and at market rates.

	Holding corporation RM'000	Other related companies RM'000
<u>2003</u>		
INCOME		
Interest income on deposits and placements with banks	279	-
EXPENDITURE		
Interest expense on deposits and placement of banks	840	-
Management fees	1,653	-
AMOUNT DUE FROM		
Cash and bank balances	3,772	232
Money at call and deposit placements	20,900	-
Interest receivable	3	-
AMOUNT DUE TO		
Deposits and placements of banks	117,876	-
Management fees payable	3,815	-
Interest payable	183	-
<u>2002</u>		
INCOME		
Interest income on deposits and placements with banks	341	-
EXPENDITURE		
Interest expense on deposits and placements of banks	1,070	-
Management fees	2,043	-
AMOUNT DUE FROM		
Cash and bank balances	8,677	112
Money at call and deposit placements	20,900	-
Interest receivable	6	-
AMOUNT DUE TO		
Deposits and placements of banks	49,400	-
Management fees payable	2,162	-
Interest payable	137	-

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23 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank make various commitments and incur certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions, and hence are not provided for in the financial statements.

The commitments and contingencies constitute the following:

	<u>2003</u>		<u>2002</u>	
	<u>Principal</u>	<u>Credit</u>	<u>Principal</u>	<u>Credit</u>
	<u>RM'000</u>	<u>equivalent</u>	<u>RM'000</u>	<u>equivalent</u>
		<u>RM'000</u>		<u>RM'000</u>
Direct credit substitutes	6,274	6,274	6,241	6,241
Certain transaction related contingent items	153,810	76,905	77,693	38,847
Short-term self liquidating trade related contingencies	6,520	1,304	23,308	4,662
Irrevocable commitments to extend credit:				
- maturity exceeding one year	14,910	7,455	17,360	8,680
- maturity not exceeding one year	74,973	-	74,807	-
Foreign exchange related contract	4,495	5	266	-
Others	2,284	-	2,066	-
	<u>263,266</u>	<u>91,943</u>	<u>201,741</u>	<u>58,430</u>

The credit equivalent amount is arrived at using the credit conversion factor as per Bank Negara Malaysia guidelines.

Foreign exchange related contract is subject to market risk and credit risk.

Market risk

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Exposure to market risk may be reduced through offsetting on and off-balance sheet positions. As at end of 2003, the amount of contracts which were not hedged and, hence, exposed to market risk was RM2,859,995 (2002: RM9,640,534).

Credit risk

Credit risk arises from the possibility that a counterparty may be unable to meet the terms of a contract in which the Bank has a gain position. As at end of 2003, the amounts of credit risk, measured in term of the cost to replace the profitable contracts, was RM739 (2002: RM Nil). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

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24 LEASE COMMITMENTS

The Bank has lease commitments in respect of rented premises, all of which are classified as operating leases. A summary of the non-cancellable long term commitments is as follows:

	<u>2003</u> RM'000	<u>2002</u> RM'000
Not later than 1 year	1,128	1,113
Later than 1 year but not later than 5 years	4,146	4,163
Later than 5 years	2,563	2,563
	<u>7,837</u>	<u>7,839</u>

25 CAPITAL ADEQUACY

The capital adequacy ratios of the Bank are as follows:

Tier-1 capital	309,459	306,549
Eligible Tier-2 capital	<u>7,676</u>	<u>4,700</u>
Total capital base	<u>317,135</u>	<u>311,249</u>
Capital ratios		
Core capital ratio	115%	182%
Risk-weighted capital ratio	<u>118%</u>	<u>185%</u>

(i) Components of Tier-1 and Tier-2 capital are as follows:

Tier-1 capital

Paid-up share capital	304,000	304,000
Reserves (adjusted)*	<u>5,459</u>	<u>2,549</u>
	<u>309,459</u>	<u>306,549</u>

Tier-2 capital

General provision for bad and doubtful debts	<u>7,676</u>	<u>4,700</u>
	<u>7,676</u>	<u>4,700</u>

Total capital base	<u>317,135</u>	<u>311,249</u>
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 (CONTINUED)****25 CAPITAL ADEQUACY (CONTINUED)**

(ii) Breakdown of risk-weighted assets in the various categories of risk-weights:

	<u>2003</u> RM'000	<u>2002</u> RM'000
0%	585,237	326,614
10%	-	-
20%	120,818	95,003
50%	2,417	2,830
100%	242,601	147,652
	<u>951,073</u>	<u>572,099</u>
 * Total risk-weighted assets	 <u>267,973</u>	 <u>168,068</u>

* Pursuant to Bank Negara Malaysia's circular "Recognition of Deferred Tax Assets ('DTA') and treatment of DTA for RWCR Purposes" dated 8 August 2003, deferred taxation income/(expense) is excluded from the computation of Tier 1 capital and deferred taxation assets is excluded from the calculation of risk weighted assets.

26 USE OF FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

The objectives of the Bank financial risk management is to establish an integrated risk management system which will help evaluate risk with reward and maximise income within an acceptable risk level through risk identification, measurement, monitoring and management.

The Board of Directors and our holding company, Bank of China Beijing approves the extent of the Bank's risk appetite in the pursuit of agreed business strategies and objectives. The Board of Directors also approves risk limits and regularly reviews major policies designed to control risk within the Bank.

Credit Risk

Credit risk is the risk of financial loss that results from customers failing to meet their obligations. Credit risk arises primarily from lending activities and represents the major risk of the Bank. The Board of Directors of the Bank approves major policies and limits that govern monitoring of the credit risk. The Board of Directors delegates authorities to the Credit Risk Management Committee for overseeing the credit risk of the Bank.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk acceptable in relation to one borrower, or group of borrowers and industry segments. Such risks are monitored on a regular basis and are subject to annual or more frequent review. Limits on the single customer, by group of customers, by industry sectors and other procedures set by the relevant authorities and Bank of China, Beijing were adopted by the Bank for monitoring of the credit risks.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 (CONTINUED)****26 USE OF FINANCIAL INSTRUMENTS (CONTINUED)****(a) Financial risk management objectives and policies (continued)****Market Risk**

Market risk arises from adverse movements in the level and volatility of market factors such as interest rates, foreign exchange rates which will have an effect on the balance sheet structure in terms of liquidity and funding.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates and foreign exchange rates on its financial position and cash flow. Interest margins may increase as a results of such changes but may reduce or create losses in the event that unexpected movements arise. The Assets and Liabilities Committee of the Bank monitor the interest rate risk and currency risk on a regular basis.

Liquidity Risk

Liquidity risk is the potential inability of the Bank to meet its payment obligations. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees etc.

The objective of the liquidity policy of the Bank is to ensure that the Bank is able to meet its financial obligations, whether such obligations are scheduled or unforeseen. The Bank has set a limit on the minimum proportion of maturing funds available to meet such calls, and complies with the limits set by Bank Negara Malaysia under the New Liquidity Framework and relevant procedures set by the Head Office, Bank of China Beijing.

Operational Risk

Operational risk can be defined as the risk of monetary loss resulting from inadequate or failed internal processes, people, and system or from external events. The Operational Risk Management Committee of the Bank is responsible for the development of a control framework, the promotion of a strong risk management culture in the Bank, and the monitoring and administration of operational risk.

Some of the key management and control techniques include segregation of duties, clear delegation of authority, sound project management and disaster recovery plan. Our internal audit function independently appraises the adequacy and effectiveness of the internal control environment and reports results independently to the Audit Committee of the Bank.

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NOTES TO THE FINANCIAL STATEMENTS
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26 **USE OF FINANCIAL INSTRUMENTS (CONTINUED)**

(b) **Interest rate risk**

The tables below summarise the Bank's exposure to interest rate risks. Included in the tables are the Bank's assets and liabilities at their full carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The off-balance sheet gap represents the net notional amounts of all interest rate sensitive derivative financial instruments. As interest rates and yield curves change over time the Bank may be exposed to a loss in earnings due to the effects of interest rates on the structure of the balance sheet. Sensitivity to interest rates arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liability funding.

	2003							
	Up to 1 month RM'000	1 – 3 months RM'000	3 – 6 months RM'000	6 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Total RM'000
Assets								
Cash and short - term funds	492,004	-	-	-	-	-	2,523	494,527
Investment securities	-	-	-	-	93,506	-	-	93,506
Loans and advances	163,982	55,222	43,816	-	145	1,608	(7,676) ^	257,097
Other assets	-	-	-	-	-	-	3,477	3,477
Property, plant and equipment	-	-	-	-	-	-	1,898	1,898
Deferred tax assets	-	-	-	-	-	-	3,251	3,251
Total assets	655,986	55,222	43,816	-	93,651	1,608	3,473	853,756

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NOTES TO THE FINANCIAL STATEMENTS
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26 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest rate risk (continued)

	2003							
	Up to 1 month RM'000	1 – 3 months RM'000	3 – 6 months RM'000	6 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Total RM'000
<u>Liabilities</u>								
Deposits from customers	77,332	3,236	3,856	2,971	-	-	62,748	150,143
Deposits and placements of banks and other financial institutions	264,000	55,100	43,776	-	-	-	-	362,876
Bills and acceptances payable	4,421	7,701	-	-	-	-	-	12,122
Other liabilities	-	-	-	-	-	-	15,905	15,905
Total liabilities	<u>345,753</u>	<u>66,037</u>	<u>47,632</u>	<u>2,971</u>	<u>-</u>	<u>-</u>	<u>78,653</u>	<u>541,046</u>
On balance sheet - interest rate gap	<u>310,233</u>	<u>(10,815)</u>	<u>(3,816)</u>	<u>(2,971)</u>	<u>93,651</u>	<u>1,608</u>		

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 (CONTINUED)

26 **USE OF FINANCIAL INSTRUMENTS (CONTINUED)**

(b) **Interest rate risk (continued)**

	2002							
	Up to 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 – 5 years	Over 5 years	Non-interest sensitive	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Assets</u>								
Cash and short - term funds	291,789	-	-	-	-	-	1,976	293,765
Investment securities	-	50,145	-	-	-	-	-	50,145
Loans and advances	118,785	-	49,579	-	-	1,346	(4,700) ^	165,010
Other assets	-	-	-	-	-	-	3,345	3,345
Property, plant and equipment	-	-	-	-	-	-	2,564	2,564
Deferred tax assets	-	-	-	-	-	-	1,703	1,703
Total assets	410,574	50,145	49,579	-	-	1,346	4,888	516,532

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26 **USE OF FINANCIAL INSTRUMENTS (CONTINUED)**

(b) **Interest rate risk (continued)**

	2002							
	Up to 1 month RM'000	1 – 3 months RM'000	3 – 6 months RM'000	6 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Total RM'000
Liabilities								
Deposits from customers	52,256	3,861	5,055	2,054	106	-	77,419	140,751
Deposits and placements of banks and other financial institutions	-	19,000	30,400	-	-	-	-	49,400
Bills and acceptances payable	3,501	6,128	-	-	-	-	-	9,629
Other liabilities	-	-	-	-	-	-	8,500	8,500
Total liabilities	55,757	28,989	35,455	2,054	106	-	85,919	208,280
On balance sheet - interest rate gap	354,817	21,156	14,124	(2,054)	(106)	1,346		

There is no off balance sheet interest rate gap as the off balance sheet items are non-interest sensitive.

^ The negative balance represents general provisions for loans and advances.

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NOTES TO THE FINANCIAL STATEMENTS
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26 **USE OF FINANCIAL INSTRUMENTS (CONTINUED)**

(b) **Interest rate risk (continued)**

The tables below summarises the effective average interest rate by major currencies for each class of financial asset and financial liability:

	31.12.2003		31.12.2002	
	MYR	USD	MYR	USD
	%	%	%	%
<u>Financial assets</u>				
Cash and short-term funds	2.99	0.94	2.99	1.40
Investment securities	3.44	-	4.28	-
Loans and advances	6.67	1.63	7.58	2.08
<u>Financial liabilities</u>				
Deposits from customers	2.86	0.62	3.08	0.72
Deposits and placements of banks and other financial institutions	2.83	1.19	-	1.58
Bills and acceptances payable	3.28	-	2.89	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 (CONTINUED)

26 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Credit risk

	2003					
	Short term funds and placements with financial institutions RM'000	Investment securities RM'000	Loans and advances RM'000	Other assets RM'000	On-balance sheet total RM'000	Commitments and contingencies RM'000
The following tables set out the credit risk concentrations by sector:						
Agriculture, mining and quarrying	-	-	57,112	-	57,112	-
Manufacturing	-	-	37,865	-	37,865	4,398
Electricity, gas and water	-	-	22,837	-	22,837	-
Construction	-	-	1	-	1	78,369
Real estate	-	-	56,414	-	56,414	5,671
General commerce	-	-	53,992	-	53,992	1,976
Finance, insurance and business services	29,111	-	29,729	-	58,840	920
Government and government agencies	463,747	93,506	-	3,199	560,452	-
Purchase of residential, landed property, securities and transport vehicles	-	-	4,895	-	4,895	84
Others	-	-	1,928	278	2,206	520
	<u>492,858</u>	<u>93,506</u>	<u>264,773</u>	<u>3,477</u>	<u>854,614</u>	<u>91,938</u>
Assets not subject to credit risk	1,669	-	-	5,149	6,818	-
	<u>494,527</u>	<u>93,506</u>	<u>264,773[^]</u>	<u>8,626[#]</u>	<u>861,432</u>	<u>91,938</u>

[^] Excludes general provision amounting to RM 7,676,000.

[#] Other assets include fixed assets and deferred tax assets.

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BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 (CONTINUED)

26 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Credit risk (continued)

	2002					
	Short term funds and placements with financial institutions RM'000	Investment securities RM'000	Loans and advances RM'000	Other assets RM'000	On-balance sheet total RM'000	Commitments and contingencies RM'000
The following tables set out the credit risk concentrations by sector:						
Manufacturing	-	-	40,489	-	40,489	3,898
Electricity, gas and water	-	-	30,454	-	30,454	-
Construction	-	-	6	-	6	43,156
Real estate	-	-	38,193	-	38,193	9,172
General commerce	-	-	22,177	-	22,177	758
Finance, insurance and business services	40,895	-	32,275	-	73,170	614
Government and government agencies	251,144	50,145	-	944	302,233	-
Purchase of residential, landed property, securities and transport vehicles	-	-	4,009	-	4,009	559
Others	-	-	2,107	2,401	4,508	273
	<u>292,039</u>	<u>50,145</u>	<u>169,710</u>	<u>3,345</u>	<u>515,239</u>	<u>58,430</u>
Assets not subject to credit risk	1,726	-	-	4,267	5,993	-
	<u>293,765</u>	<u>50,145</u>	<u>169,710[^]</u>	<u>7,612[#]</u>	<u>521,232</u>	<u>58,430</u>

[^] Excludes general provision amounting to RM 4,700,000

[#] Other assets include fixed assets and deferred tax assets.

BANK OF CHINA (MALAYSIA) BERHAD

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 (CONTINUED)****27 FAIR VALUE OF FINANCIAL INSTRUMENTS**

Financial instruments comprise financial assets, financial liabilities and off-balance sheet financial instruments. Fair value is the amount at which a financial asset could be exchanged or a financial liability settled, between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents the estimates of fair values as at the balance sheet date.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

In addition, fair value information for non-financial assets and liabilities are excluded as they do not fall within the scope of MASB 24 which requires the fair value information to be disclosed. These include fixed assets, investment in subsidiary and associated companies and intangibles.

A range of methodologies and assumptions had been used in deriving the fair values of the Bank's financial instruments at balance sheet date. The total fair value by each financial instrument is not materially different from the total carrying amount, except for the following financial assets and liabilities:

	<u>31.12.2003</u>		<u>31.12.2002</u>	
	<u>Carrying</u>	<u>Fair</u>	<u>Carrying</u>	<u>Fair</u>
	<u>amount</u>	<u>value</u>	<u>amount</u>	<u>value</u>
	RM'000	RM'000	RM'000	RM'000
<u>Financial assets</u>				
Investment securities *	<u>93,506</u>	<u>92,329</u>	<u>50,145</u>	<u>50,185</u>
<u>Financial liabilities</u>				
Deposits from customer	<u>150,143</u>	<u>150,155</u>	<u>140,751</u>	<u>140,762</u>

* The carrying amount of investment securities is higher than the fair value. The Directors are of the opinion that no permanent diminution in value exist. The full carrying amount is recoverable.

BANK OF CHINA (MALAYSIA) BERHAD

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 (CONTINUED)****27 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

The fair values are based on the following methodologies and assumptions:

(a) Deposits and placements with financial institutions

For deposits and placements with financial institutions with maturities of less than six months, the carrying amount is a reasonable estimate of fair value. For deposits and placements with maturities six months and above, estimated fair value is based on discounted cash flows using prevailing money market interest rates at which similar deposits and placements would be made with financial institutions of similar credit risk and remaining period to maturity.

(b) Investment securities

The estimated fair value is generally based on quoted and observable market prices.

(c) Loans and advances

For floating rate loans, the carrying amount is generally a reasonable estimate of fair value.

For fixed rate loans, the fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of loans with similar credit risks and maturities.

The fair values of impaired floating and fixed rate loans are represented by their carrying value, net of specific provision and interest-in-suspense, being the expected recoverable amount.

(d) Deposits from customers

For deposits from customers with maturities of less than six months, the carrying amounts are a reasonable estimate of their fair value. For deposit with maturities of six months or more, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

(e) Deposits and placements of banks and other financial institutions

The estimated fair values of deposits and placements of banks and other financial institutions with maturities of less than six months approximate the carrying amounts. For deposits and placements with maturities six months or more, the fair values are estimated based on discounted cash flows using prevailing money market interest rates for deposits and placements with similar remaining period to maturities.

(f) Foreign exchange rate and interest rate contracts

The fair values of foreign exchange rate, interest rate and equity contracts are the estimated amounts the Bank would receive or pay to terminate the contracts at the balance sheet date.

BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 (CONTINUED)

28 PRIOR YEAR ADJUSTMENT

During the financial year, the Bank changed its accounting policy with respect to the recognition of deferred tax in compliance with the MASB 25, Income Taxes.

Deferred taxation

In the previous year, provision was made by using the "liability" method for deferred taxation in respect of all material timing differences between accounting and taxable income. Timing differences that give rise to deferred tax benefits were not taken into account except where there was reasonable expectation of realisation. Under MASB 25, Income Taxes, a deferred tax liability is recognised for all temporary differences unless otherwise specified in the standard. Deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised except in cases specified in the standard.

This change in accounting policy has been accounted for retrospectively and comparatives have been restated as follows:

	As previously <u>reported</u> RM'000	Effect of change in <u>policy</u> RM'000	As <u>restated</u> RM'000
<u>At 1 January 2002</u>			
Balance Sheet:			
- accumulated loss	(7,604)	376	(7,228)
- statutory reserve	6,854	375	7,229
- deferred tax assets	-	751	751
	<u> </u>	<u> </u>	<u> </u>
<u>At 31 December 2002</u>			
Balance Sheet:			
- accumulated loss	(5,955)	852	(5,103)
- statutory reserve	8,504	851	9,355
- deferred tax assets	-	1,703	1,703
	<u> </u>	<u> </u>	<u> </u>
Income Statement:			
- taxation	3,283	(952)	2,331
- net profit for the financial year	3,299	952	4,251
	<u> </u>	<u> </u>	<u> </u>

29 AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements have been authorised for issue in accordance with a resolution of the Board of Directors on 30 April 2004.

Company No.

511251 V

BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

**STATEMENT BY DIRECTORS PURSUANT TO
SECTION 169(15) OF THE COMPANIES ACT, 1965**

We, Zhang LianLi and Tan Siak Tee, being two of the Directors of Bank of China (Malaysia) Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 5 to 38 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2003 and of the results and cash flows of the Bank for the financial year ended on that date and in accordance with the applicable approved accounting standards in Malaysia, the provisions of the Companies Act, 1965 and Bank Negara Malaysia Guidelines.

In accordance with a resolution of the Board of Directors dated **30 APR 2004**


ZHANG LIANLI
DIRECTOR


TAN SIAK TEE
DIRECTOR

Kuala Lumpur

**STATUTORY DECLARATION PURSUANT TO
SECTION 169(16) OF THE COMPANIES ACT, 1965**

I, Wong Teck Keong, the officer primarily responsible for the financial management of Bank of China (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 5 to 38 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.


WONG TECK KEONG

Subscribed and solemnly declared by the abovenamed Wong Teck Keong at Kuala Lumpur on
, before me.

30 APR 2004



Level 10, Menara Agia Life
189 Jalan Tun Razak

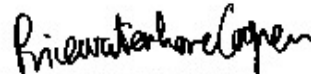
**REPORT OF THE AUDITORS TO THE MEMBER OF
BANK OF CHINA (MALAYSIA) BERHAD**
(Company No. 511251 V)

We have audited the financial statements set out on pages 5 to 38. These financial statements are the responsibility of the Bank's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965, the applicable approved accounting standards in Malaysia and Bank Negara Guidelines so as to give a true and fair view of:
 - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
 - (ii) the state of affairs of the Bank as at 31 December 2003 and of the results and cash flows of the Bank for the financial year ended on that date;
- and
- (b) the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.


PRICEWATERHOUSECOOPERS
(No. AF: 1148)
Chartered Accountants



DATUK AHMAD JOHAN BIN MOHAMMAD RASLAN
(No. 1867/09/04 (J))
Partner of the firm

Kuala Lumpur

30 APR 2004