

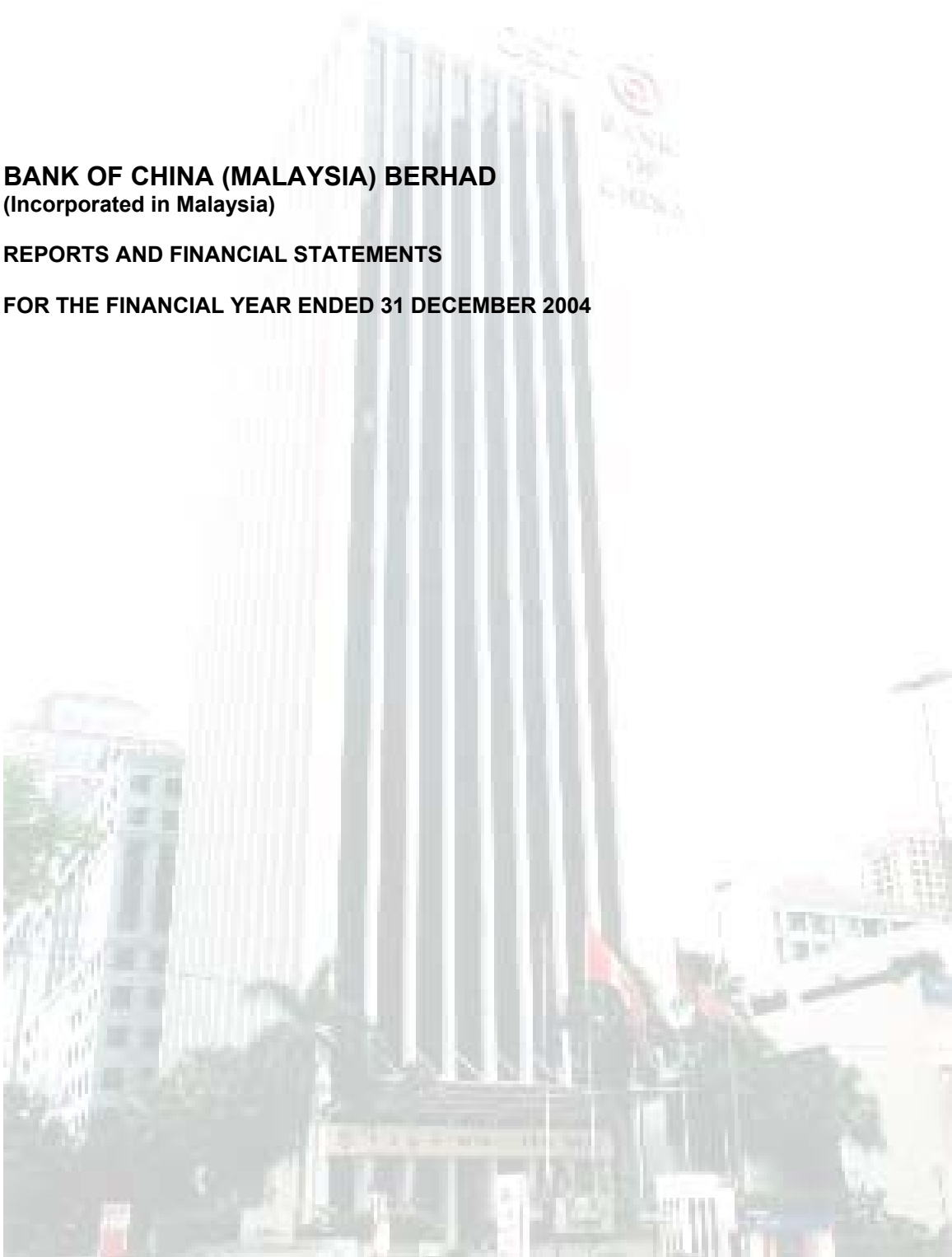
Company No.

511251	V
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BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004



Company No.

511251

V

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

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

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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 2004.

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	8,273
Taxation	(1,903)
Profit after taxation	<u>6,370</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 2004.

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:

Zhang Lianli	
Xu Qilin	(appointed on 27.5.2004)
Fang Yanmin	(appointed on 27.5.2004)
Jin Yuming	(appointed on 27.5.2004)
Dai Rongjie	(appointed on 1.6.2004)
Y Bhg Tan Sri Dato' Lim Guan Teik	
Tan Siak Tee	
Zhu Hua	(resigned on 27.5.2004)
Lin Juzheng	(resigned on 27.5.2004)
Ng Man-Kung	(resigned on 1.6.2004)

BANK OF CHINA (MALAYSIA) BERHAD
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DIRECTORS' REPORT (CONTINUED)

In accordance with Article 76 of the Articles of Association, Zhang Lianli and Tan Siak Tee retire from the Board by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

Y Bhg Tan Sri Dato' Lim Guan Teik retires pursuant to Section 129 of the Companies Act, 1965 at the forthcoming Annual General Meeting and offers himself for the re-appointment in accordance with Section 129 of the Companies Act, 1965 to hold office until the conclusion of the next Annual General Meeting of the Bank.

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.

BUSINESS PLAN AND STRATEGY FOR 2004

In the year 2004, the Malaysian Gross Domestic Product achieved a favourable rate at 7.1%, despite rising oil prices. Growth was driven mainly by the private sector, as the public sector remained committed to fiscal consolidation. The Bank recorded a higher profit compared with the preceding year while maintaining its good assets quality. In year 2004, the Bank continued to focus on building its core customer base by offering conventional commercial banking, trade finance and retail banking products. While pursuing its business objectives, the Bank had further enhanced its internal control and risk management systems to ensure a steady and healthy development of the future business of the Bank.

BANK OF CHINA (MALAYSIA) BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

OUTLOOK AND BUSINESS PLAN FOR 2004

Amidst the Malaysian government's ongoing fiscal consolidation process, the economy would continue to be private sector-driven, largely through expansion in domestic demand from higher consumption and investment. Despite expectation of some easing on global demand, positive business and consumption would remain favourable, supported by rising income amid stable labour market conditions.

In the light of this development, the Bank will focus its activities towards expanding its trade finance business and fees based income, 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.

INFORMATION ON COMMITTEES OF THE BANK

The Bank has obtained Bank Negara Malaysia's ("BNM") approval to dispense with the establishment of Nominating, Remuneration and Risk Management Committees. Accordingly, the Bank's Board of Director will undertake the responsibility for the roles and responsibilities expected of each of the committees as follow:

(i) Nominating Committee

The proposed appointment of new member(s) of the Board, as well as the proposed re-appointment/ re-election of directors seeking re-appointment / re-election at the General Meeting of the Bank, are assessed and recommended by the Board and approved by Bank of China Limited ("Holding Company") before the application on the proposed appointment is submitted to BNM for prior approval.

(ii) Remuneration Committee

The Board of Directors of the Bank will recommend on the policies and framework in relation to rewards and benefits of directors to the Holding Company for approval. The functions of the Remuneration Committee in the Holding Company are to research and develop remuneration and benefits policies and to review the annual remuneration budget. All the remuneration of the key senior management of the subsidiaries must first obtain the approval from the Holding Company. The above requirement provides a formal, independent and transparent procedure for developing remuneration policy for directors of the subsidiaries as well as ensuring that compensation is competitive and consistent with the objective and strategy of the Holding Company.

(iii) Risk Management Committee

The Board of Directors of the Bank has established the following committees to oversee the risk management, internal control and operations of the Bank: -

- a. The Integrated Risk Management Committee, headed by an independent director has been set up to monitor the various risk management functions of the Bank.
- b. The Credit Risk Management Committee chaired by a director (with no executive powers to approve credit) has been set up to overseeing the credit risk management of the Bank.

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BANK OF CHINA (MALAYSIA) BERHAD
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DIRECTORS' REPORT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

(iii) Risk Management Committee (continued)

- c. The Assets and Liability Committee was set-up to oversee the Bank's Balance Sheet structure and to ensure that it is consistent with both the policy of the Holding Company and the overall business plan of the Bank.

The Board meets regularly to oversee senior management's activities in managing credit risk, market risk, liquidity, operational, legal and other risk and to ensure that the risk management process of the Bank is in place and functioning.

ULTIMATE HOLDING COMPANY

The Directors regard Bank of China Limited (formerly known as Bank of China), a company incorporated in China, as the holding company and Central Huijin Investment Company, a company incorporated in China as the ultimate holding company 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 []

ZHANG LIANLI
DIRECTOR

TAN SIAK TEE
DIRECTOR

Kuala Lumpur

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

BALANCE SHEET
AS AT 31 DECEMBER 2004

	<u>Note</u>	<u>2004</u> RM'000	<u>2003</u> RM'000
ASSETS			
Cash and short-term funds	2	486,166	494,527
Investment securities	3	92,210	93,506
Loans and advances	4	253,444	257,097
Other assets	5	19,043	3,477
Fixed assets	7	1,248	1,898
Deferred tax assets	8	4,777	3,251
TOTAL ASSETS		<u>856,888</u>	<u>853,756</u>
LIABILITIES AND SHAREHOLDERS' FUNDS			
Deposits from customers	9	220,692	150,143
Deposits and placements of banks and other financial institutions	10	301,770	362,876
Bills and acceptances payable		420	12,122
Other liabilities	11	14,926	15,905
TOTAL LIABILITIES		<u>537,808</u>	<u>541,046</u>
Financed by:			
SHARE CAPITAL	12	304,000	304,000
RESERVES	13	15,080	8,710
SHAREHOLDERS' FUNDS		<u>319,080</u>	<u>312,710</u>
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		<u>856,888</u>	<u>853,756</u>
COMMITMENTS AND CONTINGENCIES	23	<u>372,274</u>	<u>263,266</u>

The accounting policies on pages 11 to 15 and notes on pages 16 to 42 form an integral part of these financial statements.

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BANK OF CHINA (MALAYSIA) BERHAD
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INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

	<u>Note</u>	<u>2004</u> RM'000	<u>2003</u> RM'000
Interest income	14	30,586	25,813
Interest expense	15	(12,524)	(9,143)
Net interest income		18,062	16,670
Loan loss provision	16	(2,167)	(2,976)
		15,895	13,694
Non-interest income	17	4,435	3,833
Net income		20,330	17,527
Overhead expenses	18	(12,057)	(10,767)
Profit from ordinary activities before taxation		8,273	6,760
Taxation	20	(1,903)	(2,302)
Net profit for the financial year		6,370	4,458
Basic earnings per share (sen)	21	2.1	1.5

The accounting policies on pages 11 to 15 and notes on pages 16 to 42 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 2004**

		Issued and fully paid ordinary shares of <u>RM1 each</u>	Non- distributable Statutory reserve	Accumulated profit/(loss)	Total
	<u>Note</u>	<u>Nominal value RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
At 1 January 2004		304,000	11,584	(2,874)	312,710
Net profit for the financial year		-	-	6,370	6,370
Transfer to statutory reserve	13	-	3,185	(3,185)	-
At 31 December 2004		<u>304,000</u>	<u>14,769</u>	<u>311</u>	<u>319,080</u>
At 1 January 2003		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>

The accounting policies on pages 11 to 15 and notes on pages 16 to 42 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 2004

	<u>Note</u>	<u>2004</u> RM'000	<u>2003</u> RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit from ordinary activities before taxation		8,273	6,760
Adjustments for:			
Depreciation of fixed assets		811	961
Amortisation of premium less accretion of discounts		1,296	1,100
Gains from sale of investment securities		(59)	(50)
Loan loss provision		2,167	2,976
Provision for interest in suspense		12	-
Interest income from investment securities		(4,463)	(3,112)
Unrealised foreign exchange gain		(3)	(2)
Cash flow from operating profit before changes in operating assets and liabilities		8,034	8,633
(INCREASE)/DECREASE IN OPERATING ASSETS			
Loans and advances		1,474	(95,063)
Other assets		(15,018)	(1,128)
INCREASE/(DECREASE) IN OPERATING LIABILITIES			
Deposits from customers		70,549	9,392
Deposits and placements of banks and other financial institutions		(61,106)	313,476
Bills and acceptances payable		(11,702)	2,493
Other liabilities		(57)	8,114
Cash generated from operating activities		(7,826)	245,917
Taxation paid		(4,896)	(3,011)
Net cash (used in)/generated from operating activities		(12,722)	242,906
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(161)	(295)
Net purchase of investment securities		-	(44,411)
Interest received on investment securities		4,522	2,562
Net cash generated from/(used in) investing activities		4,361	(42,144)

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BANK OF CHINA (MALAYSIA) BERHAD
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CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

	<u>Note</u>	<u>2004</u> RM'000	<u>2003</u> RM'000
CASH FLOWS FROM FINANCING ACTIVITIES		-	-
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS DURING THE FINANCIAL YEAR		(8,361)	200,762
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR		494,527	293,765
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	2	486,166	494,527

The accounting policies on pages 11 to 15 and notes on pages 16 to 42 form an integral part of these financial statements.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - 31 DECEMBER 2004

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.

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 three (3) 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
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - 31 DECEMBER 2004
(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%

At each balance sheet date, the Bank assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Repairs and maintenance are charged to the income statement during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Bank. Major renovations are depreciated over the remaining useful life of the related asset.

F BILLS AND ACCEPTANCES PAYABLE

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - 31 DECEMBER 2004
(CONTINUED)

G IMPAIRMENT OF ASSETS

Fixed assets and other non-current assets, including intangible assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows.

The impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Any subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset, in which case it is taken to revaluation surplus.

H 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.

I 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>2004</u> RM	<u>2003</u> RM
1 US Dollar	3.80	3.80
1 Singapore Dollar	2.33	2.24
1 Sterling Pound	7.33	6.77
1 Australia Dollar	2.96	2.85
100 Japanese Yen	3.70	3.55
1 EURO	5.18	4.79
1 Canadian Dollar	3.16	2.94
100 Hong Kong Dollar	48.88	48.95

J 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.

BANK OF CHINA (MALAYSIA) BERHAD
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - 31 DECEMBER 2004
(CONTINUED)

K 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.

L 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.

M 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".

N 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.

BANK OF CHINA (MALAYSIA) BERHAD
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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - 31 DECEMBER 2004
(CONTINUED)

O 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 Bank.

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.

P FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

Financial instruments recognised on the balance sheet

The particular recognition method adopted for financial instruments recognised on the balance sheet is disclosed in the individual accounting policy statements associated with each item.

Financial instruments not recognised on the balance sheet

The Bank is a party to financial instruments that comprise foreign currency forward contracts. These instruments are not recognised in the financial statements on inception.

Exchange gain and losses arising on contracts entered into as hedges of anticipated future transactions are deferred until the date of such transactions, at which they are included in the measurement of such transactions.

All other exchange gain and losses relating to hedge instruments are recognised in the income statement in the same period as the exchange differences on the underlying hedged items. Gains and losses on contracts that are no longer designated as hedges are included in the income statement.

BANK OF CHINA (MALAYSIA) BERHAD
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004**

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 56 (2003: 48) employees in the Bank.

The holding company is Bank of China Limited (formerly known as Bank of China), a company incorporated in China. The ultimate holding company is Central Huijin Investment Company, a company 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>2004</u> RM'000	<u>2003</u> RM'000
Cash and balances with banks and other financial institutions	11,466	6,527
Money at call and deposit placements maturing within one month	474,700	488,000
	<u>486,166</u>	<u>494,527</u>

3 INVESTMENT SECURITIES

Money market instruments:

Quoted

Malaysian Government Securities	94,460	94,460
Amortisation of premium less accretion of discounts	(2,250)	(954)
	<u>92,210</u>	<u>93,506</u>

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

3 INVESTMENT SECURITIES (CONTINUED)

	<u>2004</u> RM'000	<u>2003</u> RM'000
(i) Market value of quoted securities:		
Malaysian Government securities	93,158	92,329
(ii) The maturity structure of money market instruments held for investment is as follows:		
Maturing within one year	36,432	-
One year to three years	-	36,432
Three years to five years	58,028	58,028
	<u>94,460</u>	<u>94,460</u>

4 LOANS AND ADVANCES

Overdrafts	43,988	39,687
Term loans		
- floating rate	181,013	186,346
Trust receipts	16,312	17,794
Claims on customers under acceptance credits	20,479	19,170
Staff loans	1,332	1,330
Other loans	175	446
	<u>263,299</u>	<u>264,773</u>
Gross loans and advances		
Provision for bad and doubtful debts:		
- specific provision	(33)	-
- general provision	(9,810)	(7,676)
- interest-in-suspense	(12)	-
	<u>253,444</u>	<u>257,097</u>
Net loans and advances		

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

	<u>2004</u> RM'000	<u>2003</u> RM'000
Maturing within one year	80,954	77,097
One year to three year	40,419	27,705
Three years to five year	95,475	108,890
Over five years	46,451	51,081
	<u>263,299</u>	<u>264,773</u>

BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

4 LOANS AND ADVANCES (CONTINUED)

	<u>2004</u> RM'000	<u>2003</u> RM'000
(ii) Loans and advances according to economic sector are as follows:		
Agriculture, mining and quarrying	44,247	57,112
Manufacturing	29,053	37,865
Electricity, gas and water	35,776	22,837
Construction	1,621	1
Real estate	54,652	56,414
Purchase of landed property of which:		
(i) Residential	3,362	2,945
(ii) Non-residential	2,912	1,695
General commerce	58,441	53,992
Finance, insurance and business service	30,190	29,729
Purchase of transport vehicles	277	255
Others	2,768	1,928
	<u>263,299</u>	<u>264,773</u>
(iii) Movements in the non-performing loan and advances (including interest receivable) are as follows:		
	<u>2004</u> RM'000	<u>2003</u> RM'000
Non-performing during the year	404	-
Balance as at 31 December	<u>404</u>	<u>-</u>
Ratio of net non-performing loans to total loans less SP and IIS	0.15%	0.00%
(iv) General provision		
Balance as at 1 January	7,676	4,700
Provision made during the financial year	2,134	2,976
Balance as at 31 December	<u>9,810</u>	<u>7,676</u>
(as % of gross loans and advances)	3.7%	2.9%

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

4 LOANS AND ADVANCES (CONTINUED)

	<u>2004</u> RM'000	<u>2003</u> RM'000
(v) Specific provision		
Provision made during the financial year	33	-
Balance as at 31 December	33	-
(vi) Interest-in-suspense		
Provision made during the financial year	12	-
Balance as at 31 December	12	-

5 OTHER ASSETS

Interest receivable	1,826	1,888
Other debtors, deposits and prepayments	16,672	1,589
Tax recoverable	545	-
	19,043	3,477

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 2004 (2003: nil).

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

7 FIXED ASSETS

	Computer equipment & software RM'000	Motor vehicles RM'000	Office equipment RM'000	Renovation RM'000	Total RM'000
<u>2004</u>					
<u>Cost</u>					
At 1 January	3,333	449	876	656	5,314
Additions	94	-	67	-	161
At 31 December	<u>3,427</u>	<u>449</u>	<u>943</u>	<u>656</u>	<u>5,475</u>
<u>Accumulated depreciation</u>					
At 1 January	2,422	379	394	221	3,416
Charged during the financial year	592	28	126	65	811
At 31 December	<u>3,014</u>	<u>407</u>	<u>520</u>	<u>286</u>	<u>4,227</u>
Net book value	<u>413</u>	<u>42</u>	<u>423</u>	<u>370</u>	<u>1,248</u>
<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>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

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>2004</u> RM'000	<u>2003</u> RM'000
Loans and advances	2,747	2,149
Excess of capital allowance over depreciation	(133)	(253)
Other temporary difference	2,163	1,355
	<u>4,777</u>	<u>3,251</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 2004		2,149	(253)	1,355	3,251
Credited to income statement		598	120	808	1,526
At 31 December 2004		<u>2,747</u>	<u>(133)</u>	<u>2,163</u>	<u>4,777</u>
At 1 January 2003		1,316	(371)	758	1,703
Credited to income statement		833	118	597	1,548
At 31 December 2003		<u>2,149</u>	<u>(253)</u>	<u>1,355</u>	<u>3,251</u>

BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

9 DEPOSITS FROM CUSTOMERS

	<u>2004</u> RM'000	<u>2003</u> RM'000
Demand deposits	116,580	62,748
Savings deposits	16,924	14,124
Fixed deposits	87,188	73,271
	<u>220,692</u>	<u>150,143</u>

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

Due within six months	80,860	70,300
Six months to one year	6,012	2,971
One year to three year	316	-
	<u>87,188</u>	<u>73,271</u>

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

Business enterprises	163,949	104,842
Individuals	55,429	44,481
Others	1,314	820
	<u>220,692</u>	<u>150,143</u>

10 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>2004</u> RM'000	<u>2003</u> RM'000
Licensed banks	<u>301,770</u>	<u>362,876</u>

11 OTHER LIABILITIES

Interest payable	923	844
Other liabilities	14,003	14,139
Provision for taxation	-	922
	<u>14,926</u>	<u>15,905</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

12 SHARE CAPITAL

	<u>2004</u> RM'000	<u>2003</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 profit/(loss) (a)	311	(2,874)
Non-distributable: Statutory reserve (b)	<u>14,769</u>	<u>11,584</u>
	<u>15,080</u>	<u>8,710</u>

(a) Subject to agreement by Inland Revenue Board, the Bank has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends out of all its retained profit as at 31 December 2004.

(b) 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>2004</u> RM'000	<u>2003</u> RM'000
Loans and advances	11,149	9,266
Money at call and deposit placements with financial institutions	16,282	14,535
Investment securities	<u>4,463</u>	<u>3,112</u>
	31,894	26,913
Amortisation of premium less accretion of discounts	(1,296)	(1,100)
Net interest suspended	<u>(12)</u>	<u>-</u>
	<u>30,586</u>	<u>25,813</u>

BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

15 INTEREST EXPENSE

	<u>2004</u> RM'000	<u>2003</u> RM'000
Deposits and placements of banks and other financial institutions	9,988	7,213
Deposits from other customers	2,536	1,930
	<u>12,524</u>	<u>9,143</u>

16 LOAN LOSS PROVISION

Provision for bad and doubtful debts:

- specific provision	33	-
- general provision	2,134	2,976
	<u>2,167</u>	<u>2,976</u>

17 NON-INTEREST INCOME

Fees income:

Commission	2,316	1,856
Service charges and fees	344	237
	<u>2,660</u>	<u>2,093</u>

Investment income:

Gains from sale of investment securities	59	50
--	----	----

Other income:

Foreign exchange gain		
- realised	1,713	1,688
- unrealised	3	2
	<u>4,435</u>	<u>3,833</u>

BANK OF CHINA (MALAYSIA) BERHAD

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (CONTINUED)****18 OVERHEAD EXPENSES**

	<u>2004</u> RM'000	<u>2003</u> RM'000
Personnel costs	5,945	4,659
Establishment costs	2,377	3,005
Marketing expenses	597	652
Administration and general expenses	3,138	2,451
	<u>12,057</u>	<u>10,767</u>

The above expenditure includes the following statutory disclosures:

Directors' remuneration (Note 19)	825	381
Lease rental	948	1,305
Auditors' remuneration	38	35
Depreciation of fixed assets	811	961

Included in personnel costs of the Bank are wages, salaries and bonuses of RM4,710,000 (2003: RM3,639,000) and contributions to defined contribution retirement plan of RM482,000 (2003: RM346,000).

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

Xu Qilin	(appointed on 27.5.2004)
Fang Yanmin	(appointed on 27.5.2004)
Jin Yuming	(appointed on 27.5.2004)
Dai Rongjie	(appointed on 1.6.2004)
Y Bhg Tan Sri Dato' Lim Guan Teik	
Tan Siak Tee	
Zhu Hua	(resigned on 27.5.2004)
Lin Juzheng	(resigned on 27.5.2004)
Ng Man-Kung	(resigned on 1.6.2004)

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

19 DIRECTORS' REMUNERATION (CONTINUED)

	<u>2004</u> RM'000	<u>2003</u> RM'000
Executive Director		
- salary and other remuneration	484	156
- bonus	132	26
- benefits-in-kind	65	55
Non Executive Directors		
- fees	144	144
	<u>825</u>	<u>381</u>

The remuneration attributable to the Chief Executive Officer of the Bank, including benefits-in-kind during the financial year amounted to RM448,885 (2003: RM237,198).

20 TAXATION

	<u>2004</u> RM'000	<u>2003</u> RM'000
Current tax - Malaysian income tax	4,055	3,850
Deferred tax (relating to originating and reversal of temporary differences - Note 8)	(1,526)	(1,548)
Overprovision of prior year taxation	(626)	-
	<u>1,903</u>	<u>2,302</u>

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

	<u>2004</u> RM'000	<u>2003</u> RM'000
Profit from ordinary activities before taxation	<u>8,273</u>	<u>6,760</u>
Tax calculated at a rate of 28%	2,316	1,893
Expenses not deductible for tax purposes	213	409
Overprovision of prior year taxation	(626)	-
Taxation	<u>1,903</u>	<u>2,302</u>

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NOTES TO THE FINANCIAL STATEMENTS
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21 BASIC 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>2004</u> RM'000	<u>2003</u> RM'000
Net profit for the financial year	6,370	4,458
Weighted average number of ordinary shares in issue	304,000	304,000
Basic earnings per share (sen)	<u>2.1</u>	<u>1.5</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>
Central Huijin Investment Company	Ultimate holding company
Bank of China Limited (formerly known as Bank of China)	Holding company
Bank of China (Hong Kong) Ltd	Fellow subsidiaries
Bank of China (Canada)	Fellow subsidiaries

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.

<u>2004</u>	<u>Holding company</u> RM'000	<u>Other related companies</u> RM'000
INCOME		
Interest income on deposits and placements with banks	<u>354</u>	<u>85</u>
EXPENDITURE		
Interest expense on deposits and placement of banks	1,492	-
Management fees	<u>2,185</u>	<u>-</u>
AMOUNT DUE FROM		
Cash and bank balances	941	7,411
Money at call and deposit placements	26,600	-
Interest receivable	46	-
Management training fees	<u>60</u>	<u>-</u>

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NOTES TO THE FINANCIAL STATEMENTS
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22 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

	Holding company RM'000	Other related companies RM'000
<u>2004</u>		
AMOUNT DUE TO		
Deposits and placements of banks	117,770	-
Management fees payable	5,611	-
Interest payable	343	-
	<u> </u>	<u> </u>
<u>2003</u>		
INCOME		
Interest income on deposits and placements with banks	279	-
	<u> </u>	<u> </u>
EXPENDITURE		
Interest expense on deposits and placement of banks	840	-
Management fees	1,653	-
	<u> </u>	<u> </u>
AMOUNT DUE FROM		
Cash and bank balances	3,772	232
Money at call and deposit placements	20,900	-
Interest receivable	3	-
	<u> </u>	<u> </u>
AMOUNT DUE TO		
Deposits and placements of banks	117,876	-
Management fees payable	3,815	-
Interest payable	183	-
	<u> </u>	<u> </u>

BANK OF CHINA (MALAYSIA) BERHAD

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (CONTINUED)****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>2004</u>		<u>2003</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	1,026	1,026	6,274	6,274
Certain transaction related contingent items	179,897	89,949	153,810	76,905
Short-term self liquidating trade related contingencies	26,035	5,207	6,520	1,304
Irrevocable commitments to extend credit:				
- maturity exceeding one year	54,783	27,391	14,910	7,455
- maturity not exceeding one year	68,833	-	74,973	-
Foreign exchange related contract	5,700	-	4,495	5
Others	36,000	-	2,284	-
	<u>372,274</u>	<u>123,573</u>	<u>263,266</u>	<u>91,943</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 2004, the amount of contracts which were not hedged and, hence, exposed to market risk was RM12,628,000 (2003: RM8,768,000).

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 2004, the amounts of credit risk, measured in term of the cost to replace the profitable contracts, was RMnil (2003: RM739). 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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NOTES TO THE FINANCIAL STATEMENTS
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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>2004</u> RM'000	<u>2003</u> RM'000
Not later than 1 year	1,070	1,128
Later than 1 year but not later than 5 years	4,101	4,146
Later than 5 years	1,538	2,563
	<u>6,709</u>	<u>7,837</u>

25 CAPITAL ADEQUACY

The capital adequacy ratios of the Bank are as follows:

Tier-1 capital	314,303	309,459
Eligible Tier-2 capital	9,810	7,676
Total capital base	<u>324,113</u>	<u>317,135</u>
Capital ratios		
Core capital ratio	103%	115%
Risk-weighted capital ratio	<u>106%</u>	<u>118%</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)*	10,303	5,459
	<u>314,303</u>	<u>309,459</u>

Tier-2 capital

General provision for bad and doubtful debts	9,810	7,676
	<u>9,810</u>	<u>7,676</u>
Total capital base	<u>324,113</u>	<u>317,135</u>

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (CONTINUED)****25 CAPITAL ADEQUACY (CONTINUED)**

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

	<u>2004</u> RM'000	<u>2003</u> RM'000
0%	576,285	585,237
10%	-	-
20%	128,784	120,818
50%	4,565	2,417
100%	277,610	242,601
	<u>987,244</u>	<u>951,073</u>
 * Total risk-weighted assets	 <u>305,649</u>	 <u>267,973</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 Limited 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 Limited 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 2004 (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 Limited.

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.

Company No.

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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 2004 (CONTINUED)

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.

	2004							
	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	483,052	-	-	-	-	-	3,114	486,166
Investment securities	-	-	35,207	-	57,003	-	-	92,210
Loans and advances	126,031	27,919	107,838	26	318	1,167	(9,855)	253,444
Other assets	-	-	-	-	-	-	19,043	19,043
Property, plant and equipment	-	-	-	-	-	-	1,248	1,248
Deferred tax assets	-	-	-	-	-	-	4,777	4,777
Total assets	609,083	27,919	143,045	26	57,321	1,167	18,327	856,888

Company No.	
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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 2004 (CONTINUED)

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

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

	2004						Non-interest sensitive	Total
	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		
<u>Liabilities</u>								
Deposits from customers	81,791	8,444	7,561	5,997	316	-	116,583	220,692
Deposits and placements of banks and other financial institutions	204,520	45,505	51,745	-	-	-	-	301,770
Bills and acceptances payable	420	-	-	-	-	-	-	420
Other liabilities	-	-	-	-	-	-	14,926	14,926
Total liabilities	286,731	53,949	59,306	5,997	316	-	131,509	537,808
 On balance sheet - interest rate gap	 322,352	 (26,030)	 83,739	 (5,971)	 57,005	 1,167		

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

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

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

	2003						Non-interest sensitive	Total
	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		
<u>Assets</u>								
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
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

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

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

	2003						Non-interest sensitive RM'000	Total RM'000
	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		
<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	345,753	66,037	47,632	2,971	-	-	78,653	541,046
 On balance sheet - interest rate gap	 310,233	 (10,815)	 (3,816)	 (2,971)	 93,651	 1,608		

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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:

	31.12.2004		31.12.2003	
	MYR	USD	MYR	USD
	%	%	%	%
<u>Financial assets</u>				
Cash and short-term funds	2.77	2.27	2.99	0.94
Investment securities	3.53	-	3.44	-
Loans and advances	6.75	2.86	6.67	1.63
<u>Financial liabilities</u>				
Deposits from customers	2.88	0.73	2.86	0.62
Deposits and placements of banks and other financial institutions	2.72	2.42	2.83	1.19
Bills and acceptances payable	3.10	-	3.28	-
	<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 2004 (CONTINUED)

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

(c) **Credit risk**

	2004					
	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	-	-	44,247	-	44,247	215
Manufacturing	-	-	29,008	-	29,008	44,064
Electricity, gas and water	-	-	35,776	-	35,776	13,680
Construction	-	-	1,621	-	1,621	167,397
Real estate	-	-	54,652	-	54,652	53,497
General commerce	-	-	58,441	-	58,441	37,908
Finance, insurance and business services	36,956	-	30,190	-	67,146	8,316
Government and government agencies	446,614	92,210	-	18,160	556,984	-
Purchase of residential, landed property, securities and transport vehicles	-	-	6,551	-	6,551	3,045
Others	-	-	2,768	338	3,106	44,152
	<u>483,570</u>	<u>92,210</u>	<u>263,254</u>	<u>18,498</u>	<u>857,532</u>	<u>372,274</u>
Assets not subject to credit risk	2,596	-	-	6,570	9,166	-
	<u>486,166</u>	<u>92,210</u>	<u>263,254[^]</u>	<u>25,068[#]</u>	<u>866,698</u>	<u>372,274</u>

[^] Excludes general provision amounting to RM 9,810,000 (2003:RM7,676,000)

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

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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 2004 (CONTINUED)

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

(c) **Credit risk (continued)**

	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	35,219
Electricity, gas and water	-	-	22,837	-	22,837	-
Construction	-	-	1	-	1	161,409
Real estate	-	-	56,414	-	56,414	29,665
General commerce	-	-	53,992	-	53,992	24,833
Finance, insurance and business services	29,111	-	29,729	-	58,840	6,557
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	984
Others	-	-	1,928	278	2,206	4,599
	<u>492,858</u>	<u>93,506</u>	<u>264,773</u>	<u>3,477</u>	<u>854,614</u>	<u>263,266</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>263,266</u>

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

[#] 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 2004 (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>31.12.2004</u>		<u>31.12.2003</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	RM	RM	RM
<u>Financial assets</u>				
Investment securities	<u>92,210</u>	<u>93,158</u>	<u>93,506</u>	<u>92,329</u>
<u>Financial liabilities</u>				
Deposits from customer	<u>220,692</u>	<u>220,722</u>	<u>150,143</u>	<u>150,155</u>

BANK OF CHINA (MALAYSIA) BERHAD

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

The financial statements have been authorised for issue in accordance with a resolution of the Board of Directors on [].

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BANK OF CHINA (MALAYSIA) BERHAD
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**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 6 to 42 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2004 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

ZHANG LIANLI
DIRECTOR

TAN SIAK TEE
DIRECTOR

Kuala Lumpur

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

I, Chong Siew Chin, 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 6 to 42 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.

CHONG SIEW CHIN

Subscribed and solemnly declared by the abovenamed Chong Siew Chin at Kuala Lumpur on
, before me.

COMMISSIONER FOR OATHS

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 6 to 42. 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 2004 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: 1146)
Chartered Accountants

DATO' AHMAD JOHAN BIN MOHAMMAD RASLAN
(No. 1867/09/06 (J))
Partner of the firm

Kuala Lumpur
25 May 2005