

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 2007

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

REPORTS AND FINANCIAL STATEMENTS
 FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

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DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements of the Bank for the financial year ended 31 December 2007.

PRINCIPAL ACTIVITIES

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

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

FINANCIAL RESULTS

	RM'000
Profit before tax	18,606
Taxation	(5,662)
Net profit for the financial year	<u><u>12,944</u></u>

DIVIDENDS

The dividends on ordinary shares paid by the Bank since 31 December 2006 were as follows:

	RM'000
In respect of the financial year ended 31 December 2006, as shown in the Directors' report for that financial year:	
Final dividend of 3.93 sen less tax paid on 25 April 2007	<u><u>8,721</u></u>

The Directors now recommend the payment of a final gross dividend of 2.85 sen less income tax of 26% amounting to RM6,411,360, which is subject to the approval of members at the forthcoming Annual General Meeting.

CHANGES IN DEBT AND EQUITY SECURITIES

There were no issuance and repayment of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares for the period under review.

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are shown in the financial statements.

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DIRECTORS' REPORT (CONTINUED)

BAD AND DOUBTFUL DEBTS

Before the financial statements 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 allowance for doubtful debts, and satisfied themselves that all known bad debts, if any, had been written-off and adequate allowance 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 allowance for doubtful debts in the financial statements of the Bank inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements 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.

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.

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DIRECTORS' REPORT (CONTINUED)

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.

SUBSEQUENT EVENTS

There were no material events subsequent to the balance sheet date that requires disclosure or adjustments 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:

Zheng Jingbo (appointed on 28.08.2007)
 Zhang Lianli (resigned on 27.08.2007)
 Li Yuhua (appointed on 03.09.2007)
 Xu Qilin (resigned on 03.09.2007)
 Fang Yanmin
 Du Chaohua (appointed on 19.04.2007)
 Y Bhg Tan Sri Dato' Lim Guan Teik
 Tan Siak Tee

In accordance with Article 76 of the Company's Articles of Association, Mr Du Chaohua retires but being eligible, offers himself for re-election.

In accordance with Article 76 of the Company's Articles of Association, Mr Fang Yanmin retires but does not wish to seek re-election.

In accordance with Section 129 of the Companies Act, 1965, Y Bhg Tan Sri Dato' Lim Guan Teik retires but being eligible, offers himself for re-election.

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.

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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' BENEFITS (CONTINUED)

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.

HOLDING COMPANIES

The holding company of the Bank is Bank of China Limited, whereas the ultimate holding company is Central SAFE Investments Limited, both incorporated in China.

BUSINESS REVIEW 2007

In the year 2007, the Bank had continued to make efforts to increase its lending activities and focus on fee-based generating business.

BUSINESS OUTLOOK FOR 2008

In view of the increasingly volatile financial market, the Bank expects a more challenging operating environment. To sustain the Bank's profitability growth in this challenging environment, the Bank will continue to focus its activities towards expanding fee-based income and its trade finance business as well as marketing for more loans.

RATINGS BY EXTERNAL RATING AGENCY

The Bank is not rated by any external agency.

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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' PROFILES

Li Yuhua – Chairman, Non-Independent Non-Executive Director

Mr. Li Yuhua, People's Republic of China citizen, aged 57, graduated from University of International Business and Economics (Former Beijing Institute of Foreign Trade) in 1976, was appointed to the Board in year 2007 as Chairman of the Board of Directors, representing Bank of China Limited.

Mr. Li joined Bank of China in 1976. He was promoted as Deputy Manager in 1985 and Manager in 1987 heading the protocol division. He was transferred to Bank of China Tokyo Branch in 1989 as Assistant General Manager and was later the Deputy General Manager of Bank of China Tokyo Branch responsible for the bank's operations and management.

In 1993, Mr. Li was transferred to the International Department of Bank of China Head Office as Deputy General Manager responsible for foreign correspondent banking.

In 1998, Mr. Li was again transferred to Bank of China Tokyo Branch as the General Manager of the branch responsible for the branch's overall performance and management.

Mr. Li has familiarised himself with various rules and regulations of branches management and financial institutions. With his rich experience and knowledge in commercial banking and branch management, he could contribute towards improving the management and controls of the Bank of China more effectively.

Fang Yanmin – Non-Independent Non-Executive Director

Mr. Fang Yanmin, People's Republic of China citizen, aged 51, was appointed to the Board in year 2004 as a Non-Executive Director of the Bank, representing Bank of China Limited.

Mr. Fang obtained his Bachelor of Economy from Jilin University of China in 1984. He obtained his Master of Finance from Wuhan University of China in year 2000.

Mr. Fang was engaged as the Manager of Overseas Business Management Department of Bank of China Limited, responsible for the general administration and for developing the strategic plans of the bank's overseas operations since 1998. He was promoted as Deputy General Manager responsible for the day-to-day business management of overseas branches of the holding company in year 2001.

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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' PROFILES (CONTINUED)

Du Chaohua – Non-Independent Non-Executive Director

Mr. Du Chaohua, People's Republic of China citizen, aged 53, was appointed to the Board in Year 2007 representing Bank of China Limited. He is also a member of the Audit Committee of the Bank. He graduated from Tianjin Nankai University in October 1975.

Mr. Du joined Bank of China Trust and Consultancy Company in 1975. He was promoted to Deputy Manager in 1984 and Manager in 1987 heading the investment division. He was transferred to Bank of China Toronto representative office in 1988 as the Chief Representative and was later the Deputy General Manager of Bank of China (Canada) assisting in Branch Management.

Mr. Du was transferred to the International Division of Bank of China Head Office in 1995 responsible for foreign correspondent banking. He was transferred to the Financial Institution Division in 1998 in charge of correspondent banking.

In 2005, Mr. Du was promoted to be the Director of Financial Institution, Customer Relationship Management Division responsible for banking financial institutions in China and Asia.

Mr. Du has familiarised himself with various rules and regulations of branches management and Financial Institution. With his vast experience and knowledge in branches management, investment and Financial Institution, he could contribute towards improving the management and controls of the Bank more effectively.

Zheng Jingbo – Non-Independent Executive Director/Chief Executive Officer

Mr. Zheng Jingbo, People's Republic of China citizen, aged 50, was appointed to the Board in Year 2007 as an executive director representing Bank of China Limited. He obtained his Master in World Economy from East China University, Shanghai, China.

Mr. Zheng joined Bank of China Limited in 1978. He has been in the banking industry for approximately 29 years. He has held several managerial positions during his tenure of employment involving in Corresponding Banking, International Settlement, Investment, Trust and Consultant business, Branch Management and Operations.

With his vast knowledge and experience in banking operations, he is capable of assuming the role of an Executive Director for Bank of China (Malaysia) Berhad.

Tan Sri Dato' Lim Guan Teik – Independent Non-Executive Director

Tan Sri Dato' Lim Guan Teik, Malaysian, aged 72, was appointed to the Board in year 2000 as an Independent Non-Executive Director of the Bank. No family relationship with any director and /or the shareholder of the Bank. He is also the chairman of the Bank's Audit Committee.

Tan Sri Dato' Lim obtained his Bachelor of Commerce from Nanyang University, Singapore. He has been appointed as the Chairman of Muda Holdings Berhad, a public listed company, since 1988. He was the Group Managing Director from 1983 until April 2004 when he relinquished this post in compliance with the best practices of the Malaysian Code on Corporate Governance. Tan Sri is also the Chairman of Unico Holdings Berhad.

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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' PROFILES (CONTINUED)

Tan Sri Dato' Lim Guan Teik – Independent Non-Executive Director (continued)

Tan Sri Dato' Lim has been actively involved in the paper industry and has more than 40 years experience in the commercial and industrial sector. He was the President of the Malaysian Pulp and Paper Manufacturers Association from 1980 to 1992 and is currently one of the Advisors of the Association. He was the President of both the Associated Chinese Chamber of Commerce and Industry Malaysia (ACCCIM) from 1995 to 2003 and The Kuala Lumpur and Selangor Chinese Chamber of Commerce and Industry (KLSCCCI) from 1998 to 2003. He is now the Honorary President of both ACCCIM and KLSCCCI.

Tan Siak Tee – Independent Non-Executive Director

Mr. Tan Siak Tee, Malaysian, aged 67, was appointed to the Board in year 2000 as an Independent Non-Executive Director of the Bank. No family relationship with any director and /or the shareholder of the Bank. He is the chairman of the Bank's Integrated Risk Management Committee and Credit Risk Management Committee as well as an Audit Committee member of the Bank.

Mr. Tan obtained his Bachelor of Commerce degree from University of New South Wales, Australia. He is an Associate of the Institute of Chartered Accountants of Australia and the Institute of Chartered Secretaries and Administrators. He is also a member of the Malaysian Institute of Certified Public Accountants.

Mr. Tan started his career as an Auditor with Coopers and Lybrand, Sydney and later seconded to Coopers and Lybrand, Kuala Lumpur. He has extensive experience in banking industry. He was the Chief Internal Auditor for Malaysian operations in OCBC Bank and Chung Khiaw Bank for the period from 1969 to 1971 and 1971 to 1973 respectively. He joined Lee Wah Bank Limited in 1973 as Manager of Malaysia Central Office and was promoted to Director and Chief Executive Officer for Malaysian operations in 1975. He was made a Director and Chief Executive Officer in United Overseas Bank (M) Berhad for the period from 1994 to 1997 after Lee Wah Bank Malaysian Operations was incorporated in Malaysia in 1994. After his retirement from UOB Group, he became the Non-Executive Director in Asia Commercial Finance Berhad from 1997 to 1999. He joined the Bank in April 2000. His other directorships in public companies are as follows:

Independent Non-Executive Director of Sun City Berhad, a public listed company.
Independent Non-Executive Director of Amsteel Corporation Berhad, a public company.

Mr. Tan is well verse in rules and regulations in relation to the banking industry in Malaysia. With his vast banking experience, he could contribute significantly to the strategic direction of the Bank as well as the risk management and internal controls of the Bank.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT

BOARD OF DIRECTORS

Adherence to the highest standards of corporate governance continues to be the cornerstone of the Bank's corporate culture.

Roles and Responsibilities of the Board of Directors

The Board of Directors of the Bank plays a critical role in ensuring sound and prudent policies and practices of the Bank. The Board carries ultimate responsibility for the proper stewardship of the Bank, ensures maximization of shareholders' value and safeguarding the stakeholders' interests. It needs to oversee the affairs, establishing, amongst others, the corporate values, vision and strategy that will direct the activities of the Bank. It also provides effective check and balance mechanism in the overall management of the Bank.

The major duties and responsibilities of the Board include:

1. Review and approve strategies, business plans and significant policies and monitor management's performance in implementing them;
2. Prescribes minimum standards and establishes policies on the management of credit risks and other key areas of the Bank's operations;
3. Regular oversight of the Bank's business operations and performance, and ensuring that the infrastructure, internal controls, and risk management processes are well in place to assess and manage business risks. The Board carries out various functions and responsibilities laid down by Bank Negara Malaysia in the s and directives issued from time to time.

Board Meetings and Supply of Information to the Board

Board meetings are held regularly, 6 times a year, whereby reports on the progress of the Bank's business operations and minutes of the meetings of Audit Committee and other committees set up by the Bank to oversee various risks undertaken are tabled for review by Members of the Board. The Board meetings are convened to review and approve the Bank's quarterly financial statements, deliberate on the performance of the Bank and to provide policy direction and guidance for the management.

The agenda for every Board meeting, together with Management reports, proposal papers and supporting documents, are furnished to all the Members of the Board for their perusal well in advance of the Board meeting date, so that the Directors have ample time to review matters to be deliberated at the Board meeting and to facilitate informed decision making by the Directors.

Minutes of Board meetings are circulated to all Directors for their perusal prior to confirmation of minutes at the following Board meeting.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

The Directors are regularly updated and advised by the Company Secretary on new statutory as well as regulatory requirements relating to the duties and responsibilities of Directors, including policy guidelines issued by BNM that concern the Bank or the discharge of their duties as Directors of a financial institution. Every member of the Board has ready and unrestricted access to the advice and services of the Company Secretary and the Directors have the liberty to seek external professional advice if so required by them.

The attendance of the Board of Directors' meetings held during 2007 is as follows:

Composition of Board of Directors	Number of Board Meetings	
	Held	Attended
Zheng Jingbo, Executive Director	2	2
Fang Yanmin, Non Executive Director	6	5
Li Yuhua, Chairman/Non Executive Director	2	2
Du Chaohua, Non Executive Director	4	4
Tan Sri Dato' Lim Guan Teik, Non Executive Director	6	6
Tan Siak Tee, Non Executive Director	6	5
Zhang Lianli (resigned on 27 August 2007)	4	3
Xu Qilin (resigned on 3 September 2007)	4	4

Effectiveness of the Board of Directors

1. **Division of Responsibilities Between the Chairman and Chief Executive Officer**

The roles of the Chairman and the Chief Executive Officer (CEO) are distinct and separate, with each having his respective scope of duties and responsibilities, to ensure a proper balance of power and authority.

The Chairman of the Board is a Non-Executive Director and his main responsibility is to lead and manage the work of the Board in order to ensure that it operates effectively and fully discharges its legal and regulatory responsibilities. Together with the rest of the Non-Executive and Independent Directors, he leads the discussions on the strategies and policies recommended by the Management.

The responsibilities for the day-to-day management of the Bank rest with the CEO. He is accountable for leading the management team, implementing the policies or decisions approved by the Board. He is also responsible for charting the future direction of the Bank for the Board's consideration and approval.

The Board considers and approves a set of expectations on the CEO. This subsequently acts as a yardstick against which his performance will be measured, evaluated and rewarded.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

2. Composition of the Board

The Board currently comprises personnel with differing expertise and of high standing in the society. The Board comprises 6 members, of whom one is Executive director, and 2 out of 5 Non-Executive Directors are independent as defined under BNM/GP1 Guidelines issued by Bank Negara Malaysia.

There is effective check and balance on the Board, with four-fifth of the Board Members being Non-Executive Directors and the Independent Directors consisted of one-third of the Board members.

3. Appointments to the Board

The proposed appointment of new member(s) of the Board or the re-election of Directors at the General Meeting of the Bank, are assessed and recommended by the Board and approved by the holding company before the application on the proposed appointment is submitted to BNM for approval. The selection criteria with regard to the desired candidate encompass the combination of competencies, the minimum qualifications specified by regulatory authorities and relevant experience.

The Board of Directors has a broad range of skills and credentials. Each brings a high degree of independent judgement and knowledge to the Board's discussions. They are individuals of high calibre and social standing with backgrounds in banking, law, accounting and economics.

One-third of the Directors for the time being must retire at each AGM and if eligible, may offer themselves for re-election. The profiles of the members of the Board are set out on pages 5 to 7 of the Report.

4. Directors' Performance and Remuneration

The holding company will carry out assessment on the performance of the Board annually. The members of the Board will be assessed based on the specific criteria set as well as the performance assessment of the Bank as a whole.

The Board will recommend on the policies and framework in relation to rewards and benefits of Directors to the holding company for approval.

The Independent Directors who had served for the financial year are paid annual directors' fee with the shareholders' approval at the AGM.

The appointment, compensation and benefits of the CEO will be assessed by the holding company and the Board based on the qualification, experience and achievement of targets set.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

5. Induction and Training

The newly appointed Directors will receive in-house orientation and education programmes to assist them to familiarize with the industry and the Bank within 3 months of the appointment. The programmes should cover at a minimum the nature of business, the corporate strategy of the Bank, responsibilities and duties of the Board as a whole, an overview of the risks of the businesses, the risk management strategy of the Bank, legal requirements and financial overview of the Bank.

The holding company would ensure that all Directors receive continuous training in order to keep abreast with latest developments in the industry, particularly on relevant new laws, regulations and the changing risk factors from time to time.

INFORMATION ON COMMITTEES OF THE BANK

The Board has established Audit Committee as well as various Management Committees to assist the Board in the running of the Bank.

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

1. 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 the holding company before the application on the proposed appointment is submitted to BNM for prior approval.

2. 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 holding company are to research and develop remuneration and benefits policies and to review the annual remuneration budget. 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.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

3. Risk Management Committee

The Board meets periodically 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.

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) Integrated Risk Management Committee

The Integrated Risk Management Committee, headed by an independent director has been set up to monitor the various risk management functions of the Bank.

Currently, the committees coordinated by the Integrated Risk Management Committee are:

- (i) Assets and Liabilities Committee;
- (ii) Credit Risk Management Committee;
- (iii) Credit and Loan Committee;
- (iv) Anti-Money Laundering and Counter Financing of Terrorism Committee;
- (v) Operational Risk Management Committee.

The Committee shall meet on a quarterly basis or on a need basis.

(b) Assets and Liabilities Committee ("ALCO")

The ALCO is responsible for ensuring that the Bank's Balance Sheet is structured in a way that is consistent with both the Board-approved policy on acceptable interest rate risk levels and the Bank's overall business plan.

The ALCO shall meet monthly, or regularly as required, i.e., upon a significant change in the Bank's environment (either external or internal), which is expected to have an impact on the Bank's financial position.

(c) Credit Risk Management Committee ("CRM")

The objective of CRM is to assist the Board of Directors of the Bank in overseeing the credit risk management process, thereby upgrading the conduct of the credit-granting activities of the Bank.

The CRM is an independent committee chaired by a director, without power to approve credit. The Committee is to assist the Board of Directors in carrying the supervision role of the Bank.

The Committee comprised persons experienced in credit and risk management.

The CRM reports directly to the Board and meets on a quarterly basis or on a need basis.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

3. Risk Management Committee (continued)

(d) Credit and Loan Committee ("CLC")

The objective of the CLC is to assist the General Manager/CEO of the Bank in overseeing the credit risk management process, thereby upgrading the conduct of the credit-granting activities of the Bank.

The main functions of the CLC are the credit appraisal functions and the review functions.

The Committee shall conduct weekly meeting or on need basis.

(e) Anti-Money Laundering and Counter Financing of Terrorism ("AML/CFT") Committee

The objective of the AML/CFT Committee is to ensure the proper development, monitoring, compliance and avoid of all forms of Money Laundering and Terrorism Financing activities in the Bank, as well as to ensure the adoption of a coordinate approach in this regards.

The Committee shall meet on a quarterly basis or on a need basis.

(f) Operational Risk Management Committee ("ORMC")

The objective of the ORMC is to manage the operational risk associated with the bank's activities and to mitigate the risks accordingly.

So far, each department has identified the risk areas and a risk scorecard for each department has been developed to prevent/mitigate the risk areas. The risk scorecard is being reviewed periodically.

The Committee shall meet on a quarterly basis or on a need basis.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

The Board has approved the establishment of Audit Committee and its terms of reference.

1. Audit Committee

(a) Membership and Attendance

The Audit Committee ("AC") comprises the following members and details of attendance of each member at the AC meetings held during 2007 are as follows:

Composition of Audit Committee	Number of AC Meetings	
	Held	Attended
Tan Sri Dato' Lim Guan Teik Chairman/Independent Non-Executive Director	5	5
Xu Qilin Member/Non-Independent Non-Executive Director	2	2
Tan Siak Tee Member/Independent Non-Executive Director	5	5
Du Chaohua Member/Non-Independent Non-Executive Director	3	3

(b) Composition and Terms of Reference

The Audit Committee shall comprise only Non-Executive Directors with at least (3) three members but not more than (5) five members, of which the majority should be Independent Directors. At least one member should have accounting expertise or experience in the field of finance.

The Audit Committee members shall elect a Chairman among them who is an Independent Non-Executive Director.

A minimum of four meetings per year are planned although meetings may be called at any time at the Chairman's discretion. Meeting includes by way of physical presence and telephone/video conferencing.

The quorum shall be not less than (2) two.

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

INFORMATION ON COMMITTEES OF THE BANK (CONTINUED)

1. Audit Committee (continued)

(c) Roles and Responsibilities

The Audit Committee is given full authority to investigate any matter within its terms of reference, full access to and co-operation by management and full discretion to invite any director or executive director to attend its meetings, and reasonable resources to enable it to discharge its functions properly. The Audit Committee should have full and unrestricted access to information and be able to obtain independent professional advice.

(d) Key Internal Control Processes

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

- (i) The Audit Committee reviews internal control issues identified by the Internal Audit and Compliance Department, the external auditors, regulatory authorities, the auditors from the holding company and the management, and evaluates the adequacy and effectiveness of the internal control systems. The minutes of the Audit Committee meetings are tabled to the Board of the Bank on a periodic basis;
- (ii) The Internal Audit and Compliance Department of the Bank monitors compliance with policies and procedures and the effectiveness of the internal control systems and highlights significant findings in respect of any non-compliance. Audits are carried out on all departments except the Information Technology Department where the audit would be covered by the auditors from the holding company. The frequency of the audit is determined by the level of risk assessed, to provide an independent and objective report on operational and management activities of the departments. The annual audit plan is reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review at their periodic meetings.

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DIRECTORS' REPORT (CONTINUED)

AUDITORS

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

In accordance with a resolution of the Board of Directors dated 27 March 2008.

ZHENG JINGBO
DIRECTOR

TAN SIAK TEE
DIRECTOR

Kuala Lumpur

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BALANCE SHEET
AS AT 31 DECEMBER 2007

	<u>Note</u>	<u>2007</u> RM'000	<u>2006</u> RM'000
ASSETS			
Cash and short-term funds	2	587,326	397,732
Deposits and placements with banks and other financial institutions	3	71,000	285,200
Held-to-maturity securities	4	55,125	55,770
Loans and advances	5	376,712	335,108
Other assets	6	5,008	5,195
Deferred tax assets	7	3,598	3,226
Tax recoverable		-	374
Statutory deposits with Bank Negara Malaysia	8	-	-
Property and equipment	9	1,388	693
Intangible assets	10	1,140	28
TOTAL ASSETS		<u>1,101,297</u>	<u>1,083,326</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits from customers	11	428,645	528,196
Deposits and placements of banks and other financial institutions	12	252,849	189,431
Other liabilities	13	71,397	22,527
Provision for taxation		1,011	-
TOTAL LIABILITIES		<u>753,902</u>	<u>740,154</u>
Financed by:			
Share capital	14	304,000	304,000
Reserves	15	43,395	39,172
SHAREHOLDERS' EQUITY		<u>347,395</u>	<u>343,172</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>1,101,297</u>	<u>1,083,326</u>
COMMITMENTS AND CONTINGENCIES	26	<u>289,025</u>	<u>323,592</u>

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

INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

	<u>Note</u>	<u>2007</u> RM'000	<u>2006</u> RM'000
Interest income	16	49,011	44,569
Interest expense	17	(26,021)	(22,244)
Net interest income		22,990	22,325
Other operating income	18	12,577	11,117
Other operating expenses	19	(14,124)	(6,549)
Allowance for losses on loans and advances	21	(2,837)	(468)
Profit before tax		18,606	26,425
Taxation	22	(5,662)	(7,496)
Net profit for the financial year		12,944	18,929
Attributable to:			
Equity holders of the Bank		12,944	18,929
Earnings per share - basic/fully diluted (sen)			
	23	4.3	6.2
Dividend per ordinary share of 2.85 sen (2006: 3.93 sen) less income tax of 26% (2006: 27%)	24	6,411	8,721

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STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

	<u>Issued and fully paid ordinary shares of RM1 each</u>	<u>Non- distributable</u>	<u>Distributable</u>	
	<u>Nominal value</u> RM'000	<u>Statutory reserves</u> RM'000	<u>Retained profits</u> RM'000	<u>Total</u> RM'000
At 1 January 2007	304,000	29,333	9,839	343,172
Net profit for the financial year	-	-	12,944	12,944
Total recognised income for the year	-	-	12,944	12,944
Transfer to statutory reserve	-	6,472	(6,472)	-
Dividends paid	-	-	(8,721)	(8,721)
At 31 December 2007	<u>304,000</u>	<u>35,805</u>	<u>7,590</u>	<u>347,395</u>
At 1 January 2006	304,000	19,868	5,409	329,277
Net profit for the financial year	-	-	18,929	18,929
Total recognised income for the year	-	-	18,929	18,929
Transfer to statutory reserve	-	9,465	(9,465)	-
Dividends paid	-	-	(5,034)	(5,034)
At 31 December 2006	<u>304,000</u>	<u>29,333</u>	<u>9,839</u>	<u>343,172</u>

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CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

	<u>Note</u>	<u>2007</u> RM'000	<u>2006</u> RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		18,606	26,425
<i>Adjustments for:</i>			
Depreciation of property and equipment		338	311
Amortisation of intangible assets		91	65
Amortisation of premium less accretion of discount		645	626
Allowance for losses on loans and advances		2,754	600
Write back of allowance for losses on loans and advances		(38)	(132)
Interest income from held-to-maturity securities		(2,703)	(2,705)
Unrealised foreign exchange gain		(91)	(1,141)
		<hr/>	<hr/>
Operating profit before changes in operating assets and liabilities		19,602	24,049
(INCREASE)/DECREASE IN OPERATING ASSETS			
Deposits and placements with banks and other financial institutions		214,200	(156,800)
Loans and advances		(44,320)	(49,276)
Other assets		274	390
INCREASE/(DECREASE) IN OPERATING LIABILITIES			
Deposits from customers		(99,551)	207,586
Deposits and placements of banks and other financial institutions		63,418	10,509
Bills and acceptances payable		-	(26,746)
Other liabilities		48,870	(357)
		<hr/>	<hr/>
Cash generated from operating activities		202,493	9,355
Taxation paid		(4,649)	(5,778)
		<hr/>	<hr/>
Net cash generated from operating activities		197,844	3,577
		<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(1,033)	(207)
Purchase of intangible assets		(1,203)	(5)
Interest received on held-to-maturity securities		2,707	2,707
		<hr/>	<hr/>
Net cash generated from investing activities		471	2,495
		<hr/>	<hr/>

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CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

	<u>Note</u>	<u>2007</u> RM'000	<u>2006</u> RM'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(8,721)	(5,034)
Net cash used in financing activities		<u>(8,721)</u>	<u>(5,034)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS DURING THE FINANCIAL YEAR			
		189,594	1,038
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR			
		<u>397,732</u>	<u>396,694</u>
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR			
	2	<u><u>587,326</u></u>	<u><u>397,732</u></u>

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007**

The following accounting policies have been applied consistently in dealing with items that are considered material in relation to the financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

1 BASIS OF PREPARATION

The financial statements of the Bank have been prepared under the historical cost convention unless otherwise indicated in this summary of significant accounting policies in accordance with the Malaysian Accounting Standard Board ("MASB") approved accounting standards for Entities Other Than Private Entities, as well as comply with the provisions of the Companies Act, 1965 and Bank Negara Malaysia Guidelines.

The preparation of financial statements in conformity with the provisions of the Companies' Act, 1965, the MASB approved accounting standards for Entities Other Than Private Entities and BNM's Guidelines requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported year. It also requires Directors to exercise their judgment in the process of applying the Bank's accounting policies. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ from estimates.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 31.

(a) Standards and amendments to published standards that are applicable to the Bank and are effective

The new accounting standards and amendments to published standards effective for the Bank's financial periods beginning 1 January 2007 are as follows:

- FRS 117 Leases
- FRS 124 Related Party Disclosures

All changes in accounting policies have been made in accordance with the transitional provisions in the respective standards.

(b) Standards, amendments and interpretations to existing standards that is effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Bank's operations:

- FRS 6 Exploration for and Evaluation of Mineral Resources (effective for accounting periods beginning on or after 1 January 2007). This standard is not relevant to the Bank's operations as the Bank does not carry out exploration for and evaluation of mineral resources.

BANK OF CHINA (MALAYSIA) BERHAD
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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)**

1 BASIS OF PREPARATION (CONTINUED)

(b) Standards, amendments and interpretations to existing standards that is effective in 2007 but not relevant (continued)

- Amendment to FRS 119 Employee Benefits – *Actuarial Gains and Losses, Group Plans and Disclosures* (effective for accounting periods beginning on or after 1 January 2007). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. The amendment to FRS 119 has no impact to the financial statements of the Bank as the Bank do not have any defined benefit plans for its employees other than termination benefits.

(c) Standards, amendments to published standards and interpretations to existing standards that are not yet effective and have not been early adopted

The new standards, amendments to published standards and interpretations that are mandatory for the Group's financial period beginning on or after 1 January 2008 or later periods, but which the Bank has not early adopted, is as follows:

- Amendment to FRS 121 The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operations (effective for accounting periods beginning on or after 1 July 2007). This amendment requires exchange differences on monetary items that form part of the net investment in a foreign operation to be recognised in equity instead of in profit or loss regardless of the currency in which these items are denominated in. This amendment has no impact to the financial statements of the Bank as the Bank does not have investment in foreign operations.
- FRS 112 Income Taxes (effective for accounting period beginning on or after 1 July 2007). This revised standard removes the requirements that prohibit recognition of deferred tax on unutilised reinvestment allowances or other allowances in excess of capital allowances. The Bank will apply this standard from financial periods beginning on 1 January 2008.
- FRS 139 Financial Instruments: Recognition and Measurement (effective date yet to be determined by the Malaysian Accounting Standards Board). This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted only under strict circumstances. The Bank will apply this standard when effective. The Bank has applied the transitional provision in FRS 139 which exempts entities from disclosing the possible impact arising from the initial application of this standard on the financial statements of the Bank.
- Other revised standards (effective for accounting periods beginning on or after 1 July 2007) that have no significant changes compared to the original standards:
 - FRS 107 Cash Flow Statements
 - FRS 118 Revenue
 - FRS 137 Provisions, Contingent Liabilities and Contingent Assets

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)**

1 BASIS OF PREPARATION (CONTINUED)

(c) Standards, amendments to published standards and interpretations to existing standards that are not yet effective and have not been early adopted (continued)

- The Bank will apply these standards from financial periods beginning on 1 January 2008. The adoption of these standards and amendments will not have any significant impact on the results of the Bank.

(d) Standards, amendments to published standards and interpretations to existing standards that are not yet effective and not relevant to the Bank's operations

The following interpretations to existing standards have been published and are mandatory for the Bank's financial period beginning on or after 1 January 2008 or later periods, but are not relevant for the Bank's operations:

- IC Interpretation 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities (effective for accounting periods beginning on or after 1 July 2007). This interpretation deals with changes in the estimated timing or amount of the outflow of resources required to settle the obligation or a change in the discount rate.
- IC Interpretation 2 Members' Shares in Co-operative Entities and Similar Instruments (effective for accounting periods beginning on or after 1 July 2007). This interpretation deals with liability or equity classification of financial instruments which give the holder the right to request redemption, but subject to limits on whether it will be redeemed.
- IC Interpretation 5 Rights to Interests arising from Decommission, Restoration and Environmental Rehabilitation Funds (effective for accounting periods beginning on or after 1 July 2007). This interpretation deals with accounting by a contributor for its interests arising from decommissioning funds.
- IC Interpretation 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective for accounting periods beginning on or after 1 July 2007). This interpretation provides guidance on the recognition, in the financial statements of the producers, of liabilities for waste management under the European Union Directive in respect of sales of historical household equipment.
- IC Interpretation 7 Applying the Restatement Approach under FRS 129 Financial Reporting in Hyperinflationary Economies (effective for accounting periods beginning on or after 1 July 2007). This interpretation provides guidance on how to apply the requirements of FRS 129 in a reporting period in which an entity identifies the existence of hyperinflationary in the economy of its functional currency, when that economy was not hyperinflationary in the prior period.
- IC Interpretation 8 Scope of FRS 2 (effective for accounting periods beginning on or after 1 July 2007). This interpretation clarifies that FRS 2 Share-based Payment applies even in the absence of specifically identifiable goods and services.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)**

2 RECOGNITION OF INTEREST INCOME ON LOANS AND ADVANCES

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

Where an account becomes non-performing, interest accrued and recognised as income prior to the date the loans are classified as non-performing is reversed out of income by debiting the interest income in the income statement and crediting the accrued interest receivable account in the balance sheet. Subsequently, interest earned on non-performing loans is recognised as income on cash basis.

Customers' account are classified as 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.

Interest income from securities portfolio is recognised on an accrual basis using the effective yield method. The interest income includes coupons earned/accrued and accretion/amortisation of discount/premium on these securities.

3 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 securities are recognised when received.

4 SECURITIES PORTFOLIO

The Bank classify securities portfolio into held-for-trading securities, available-for-sale securities and held-to-maturity securities. Management determines the classification of the securities at initial recognition, at the point when the transactions are entered into.

For initial recognition, all securities are measured at fair value, which corresponds to the transaction price or purchase consideration given (in the case of acquisition of securities) or received (in the case of securities sold). All securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)**

4 SECURITIES PORTFOLIO (CONTINUED)

Subsequent measurements for each type of securities are as follows:

(a) Held-for-trading securities

Held-for-trading ("HFT") securities held with the objective of short-term resale and/or with the intent of benefiting from actual or expected short-term price movement to lock in arbitrage profits. HFT securities are stated at fair value at initial recognition. Any gain or loss arising from a change in the fair value is recognised in the income statement.

The realised gains or losses on derecognition of HFT securities, which are derived on the difference between the proceeds received and the carrying value of the securities, are credited or charged to the income statement.

(b) Available-for-sale securities

Available-for-sale ("AFS") securities are financial assets that are not classified as held for trading or held-to-maturity securities and are subsequently measured at fair value, with unrealised gains and losses arising from changes in fair value recognised in equity, net of income tax, until such securities are sold, collected or otherwise disposed of, or until such securities are determined to be impaired.

Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost, less impairment losses.

Dividends on an available-for-sale equity instrument are recognised in the income statement when the right to receive payment is established.

(c) Held-to-maturity securities

Held-to-maturity ("HTM") securities are securities with fixed or determinable payments and fixed maturity as well as positive intention and ability to hold to maturity.

HTM securities are measured at amortised cost using the effective yield method. Gains or losses are recognised in income statement when the securities are derecognised or impaired and through the amortisation process.

Any sale or reclassification of more than an insignificant amount of HTM securities before maturity during the current financial year or the last two preceding financial years will "taint" the entire category and result in the remaining held-to-maturity securities being reclassified to available-for-sale securities. However, the "tainting" rules will not apply under the conditions stated in revised BNM/GP8.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)**

5 LOANS AND ADVANCES

Loans and advances include overdrafts, term loans, acceptances credit and staff loans are recognised when cash is advanced to borrowers. They are initially recorded at fair value, which is the cash given to originate the loans and advances, and subsequently are carried at amortised cost, which is represented by the gross value of the outstanding balance, net of allowance for bad and doubtful debts and unearned interest.

6 PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation of property and equipment is calculated to write-off the cost of the property and equipment, or their revalued amounts, to their residual values on a straight line basis over their estimated useful lives as follows:

Computer equipment	2.5 to 3 years
Motor vehicles	6 years
Office equipment	5 to 7 years
Renovation	5 to 10 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date.

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. See Note 10 in summary of significant accounting policies on impairment of non-financial assets.

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.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)**

7 INTANGIBLE ASSETS

Computer Software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their estimated useful lives.

Costs associated with developing or maintaining computer software programmes are recognized as an expense when incurred.

8 FINANCIAL LIABILITIES

All non-trading financial liabilities are initially recognised at fair value, being the consideration received at transaction date.

Non-trading financial liabilities are derecognised when the obligations specified in the contracts are discharged or cancelled or expired.

9 IMPAIRMENT OF SECURITIES

The Bank assess at each balance sheet date whether there is objective evidence that a security is impaired. A security is impaired and impairment loss is incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the securities that can be reliably estimated.

(a) Securities carried at amortised cost

If there is objective evidence that an impairment loss on HTM securities carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a HTM security has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement. For HTM securities stated at cost, no reversal of impairment loss is allowed when the amount of impairment loss decreases.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)**

9 IMPAIRMENT OF SECURITIES (CONTINUED)

(b) Securities carried at fair value

When a decline in fair value of AFS securities has been recognised directly in equity and there is objective evidence that the security is impaired, the cumulative loss that has been recognised directly in equity is removed from equity and recognised in the income statement even though the security has not been derecognised. The amount of cumulative loss is the difference between the acquisition price (net of principal repayment and amortisation) and current fair value, less any impairment loss on that security previously recognised in the income statement.

If, in subsequent periods, the fair value of a debts instrument classified as AFS increase and the increase can be objectively related to an event occurring after the impairment was recognised in the income statement, that portion of impairment loss is reversed through the income statement. For equity instruments, no reversal of impairment loss through the income statement is allowed when there is an increase in fair value of the equity instrument in subsequent period.

10 IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An 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 (cash generating units).

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.

11 DIVIDENDS PAYABLE

Dividends on ordinary shares are recognised as liabilities in the period in which the dividends are declared.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)**

12 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Bank does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Bank or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Bank. The Bank does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

13 FORWARD EXCHANGE CONTRACTS

Immature 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. Positive fair value is carried as assets and negative fair value is carried as liabilities.

14 CURRENCY TRANSLATIONS

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates (the "functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

15 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 are readily convertible into cash without significant risk of change in value.

16 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.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)**

17 INCOME TAX

Current tax

Current tax expense is determined according to the tax laws of each jurisdiction in which the Bank operates and includes all taxes based upon the taxable profits for the financial year.

Deferred tax

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. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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.

Deferred tax is recognised on temporary differences principally arising from depreciation of property and equipment, amortisation of intangible assets, general allowance for loans and advances and provision for other liabilities.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

18 ALLOWANCE FOR BAD AND DOUBTFUL DEBTS

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

Write-back of specific allowance is permitted where there is cash inflow or enhancement in the value of security.

A general allowance 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 allowance 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". The Bank's non-performing loans classification policy is explained in accounting policy Note 2.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)**

19 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.

20 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 to the National Pension Scheme, the Employees' Provident Fund ("EPF") 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 the defined contribution 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.

21 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 favorable, 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 unfavorable.

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 measured at fair value and are carried as assets when the fair value is positive and as liabilities when fair value is negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as either:

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)**

21 FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hedge

Where a derivative financial instrument hedges the change in fair value of a recognised asset or liability, any gain or loss on the hedging instrument is recognised in the income statement. The hedged item is also stated at fair value in respect of the risk being hedge, with any gain or loss being recognised in the income statement to offset the value change on the hedging instrument.

Cash flow hedge

Gains and losses on the hedging instrument, to the extent that the hedge is effective are deferred in equity. The deferred gains or losses are released to the income statement when the hedged cash flow items affect income. The ineffective part of any gain or loss is recognised in the income statement.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

1 GENERAL INFORMATION

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

The holding company of the Bank is Bank of China Limited, whereas the ultimate holding company is Central SAFE Investments Limited, both 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
Jalan Ampang, 50450 Kuala Lumpur

2 CASH AND SHORT-TERM FUNDS

	<u>2007</u> RM'000	<u>2006</u> RM'000
Cash and balances with banks and other financial institutions	58,526	49,832
Money at call and deposit placements maturing within one month	528,800	347,900
	<u>587,326</u>	<u>397,732</u>

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>2007</u> RM'000	<u>2006</u> RM'000
Bank Negara Malaysia	71,000	285,200
	<u>71,000</u>	<u>285,200</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

4 HELD-TO-MATURITY SECURITIES

	<u>2007</u> RM'000	<u>2006</u> RM'000
At amortised cost		
Money market instrument:		
Malaysian Government Securities	58,029	58,029
Amortisation of premium less accretion of discounts	(2,904)	(2,259)
	<u>55,125</u>	<u>55,770</u>

5 LOANS AND ADVANCES

(i) By type

	<u>2007</u> RM'000	<u>2006</u> RM'000
Overdrafts	47,578	45,567
Term loans		
- Housing loans	6,453	6,704
- Syndicated term loan	118,124	92,997
- Other term loans	98,735	95,849
Bills receivable	-	7
Trust receipts	8,424	6,809
Claims on customers under acceptance credits	51,444	36,362
Staff loans	2,884	1,314
Of which: RMnil (2006: RMnil) were to Directors		
Loans to banks and other financial institutions	56,685	60,294
	<u>390,327</u>	<u>345,903</u>
Less: Unearned interest and income	(330)	(226)
	<u>389,997</u>	<u>345,677</u>
Gross loans and advances		
Allowance for bad and doubtful debts:		
- General	(12,710)	(10,410)
- Specific	(575)	(159)
	<u>376,712</u>	<u>335,108</u>

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NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

5 LOANS AND ADVANCES (CONTINUED)

(ii) By type of customer

	<u>2007</u> RM'000	<u>2006</u> RM'000
Domestic banking institutions	49,582	52,991
Domestic non-bank financial institutions	7,103	7,303
Domestic business enterprises		
- Small medium enterprises ("SME")	131,910	147,585
- Non-SME	70,508	55,543
Government and statutory bodies	50,263	53,724
Individuals	12,770	10,872
Foreign entities	67,861	17,659
	<hr/>	<hr/>
	389,997	345,677
	<hr/>	<hr/>

(iii) By interest rate sensitivity

	<u>2007</u> RM'000	<u>2006</u> RM'000
Fixed rate		
- Housing loans	-	914
- Other fixed rate loan	2,884	1,314
Variable rate		
- BLR plus	168,293	161,318
- Cost plus	51,114	36,143
- Other variable rates	167,706	145,988
	<hr/>	<hr/>
	389,997	345,677
	<hr/>	<hr/>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

5 LOANS AND ADVANCES (CONTINUED)

(iv) By purpose

	<u>2007</u> RM'000	<u>2006</u> RM'000
Purchase of transport vehicles	104	135
Purchase of landed property	50,189	46,761
- Residential	10,447	8,062
- Non-residential	39,742	38,699
Personal use	3,002	2,164
Construction	7,200	11,259
Working capital	261,640	256,204
Other purpose	67,862	29,154
	<u>389,997</u>	<u>345,677</u>

(v) Non-performing loans ("NPLs")

(a) Movement in non-performing loans and advances

	<u>2007</u> RM'000	<u>2006</u> RM'000
At beginning of year	7,616	403
Classified as non-performing during the financial year	-	7,303
Amount recovered	(392)	(132)
Amount written-off	(121)	-
Other adjustments (referring to payment made for legal fees, insurance premium, deposit to Land Office, quit rent and assessment and valuation fees)	-	42
At end of the financial year	7,103	7,616
Specific allowance	(575)	(159)
Net non-performing loans and advances	<u>6,528</u>	<u>7,457</u>
Ratio of net non-performing loans and advances to gross loans and advances less specific allowance	1.68%	2.16%

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

5 LOANS AND ADVANCES (CONTINUED)

(v) Non-performing loans ("NPLs") (continued)

(b) Movement in allowance for bad and doubtful debts

	<u>2007</u> RM'000	<u>2006</u> RM'000
<u>General allowance</u>		
At beginning of the financial year	10,410	9,810
Allowance made during the financial year	2,300	600
At end of the financial year	<u>12,710</u>	<u>10,410</u>
 As % of gross loans and advances less specific allowance		
	3.26%	3.01%
 <u>Specific allowance</u>		
At beginning of the financial year	159	291
Allowance made during the financial year	575	-
Amount recovered	(38)	(132)
Amount written-off	(121)	-
At end of the financial year	<u>575</u>	<u>159</u>

(c) NPLs by purpose

	<u>2007</u> RM'000	<u>2006</u> RM'000
Working capital	<u>7,103</u>	<u>7,616</u>
	<u>7,103</u>	<u>7,616</u>

6 OTHER ASSETS

	<u>2007</u> RM'000	<u>2006</u> RM'000
Interest receivable	1,716	2,741
Other debtors, deposits and prepayments	3,292	2,454
	<u>5,008</u>	<u>5,195</u>

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NOTES TO THE FINANCIAL STATEMENTS
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7 DEFERRED TAX ASSETS / (LIABILITIES)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets and 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>2007</u> RM'000	<u>2006</u> RM'000
Deferred tax assets	3,805	3,231
Deferred tax liabilities	(207)	(5)
	<hr/>	<hr/>
	3,598	3,226
	<hr/>	<hr/>
At beginning of the financial year	3,226	5,172
Credited/(charged) to income statements (Note 22)	372	(1,946)
	<hr/>	<hr/>
At end of the financial year	3,598	3,226
	<hr/>	<hr/>

The movements in deferred tax assets and liabilities during the financial year are as follows:

	<u>2007</u> RM'000	<u>2006</u> RM'000
At beginning of the financial year	3,226	5,172
Credited/(charged) to income statements (Note 22)		
- property and equipment	(26)	42
- intangible assets	(176)	-
- general allowance on loans and advances	557	(71)
- provision for other liabilities	17	(1,917)
	<hr/>	<hr/>
At end of the financial year	3,598	3,226
	<hr/>	<hr/>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

7 DEFERRED TAX ASSETS / (LIABILITIES) (CONTINUED)

	<u>2007</u> RM'000	<u>2006</u> RM'000
Subject to income tax:-		
General allowance on loans and advances	3,305	2,748
Provision for other liabilities	500	483
	<hr/>	<hr/>
Offsetting	(207)	(5)
	<hr/>	<hr/>
Deferred tax assets (after offsetting)	3,598	3,226
	<hr/>	<hr/>
Property and equipment	(31)	(5)
Intangible assets	(176)	-
	<hr/>	<hr/>
Offsetting	(207)	(5)
	<hr/>	<hr/>
Deferred tax liabilities (after offsetting)	-	-
	<hr/>	<hr/>

8 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

During the financial year, no statutory deposits were maintained with Bank Negara Malaysia as the total eligible liabilities of the Bank are nil in December 2007 (2006: nil).

BANK OF CHINA (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

9 PROPERTY AND EQUIPMENT

	Computer equipment RM'000	Motor vehicles RM'000	Office equipment RM'000	Renovation RM'000	Total RM'000
<u>2007</u>					
<u>Cost</u>					
At 1 January	2,156	449	1,070	692	4,367
Additions	167	845	21	-	1,033
Disposal	-	(309)	-	-	(309)
At 31 December	<u>2,323</u>	<u>985</u>	<u>1,091</u>	<u>692</u>	<u>5,091</u>
<u>Accumulated depreciation</u>					
At 1 January	2,015	449	788	422	3,674
Charge for the financial year	98	57	114	69	338
Disposals	-	(309)	-	-	(309)
At 31 December	<u>2,113</u>	<u>197</u>	<u>902</u>	<u>491</u>	<u>3,703</u>
Net book value	<u>210</u>	<u>788</u>	<u>189</u>	<u>201</u>	<u>1,388</u>
<u>2006</u>					
<u>Cost</u>					
At 1 January	2,038	449	994	679	4,160
Additions	118	-	76	13	207
At 31 December	<u>2,156</u>	<u>449</u>	<u>1,070</u>	<u>692</u>	<u>4,367</u>
<u>Accumulated depreciation</u>					
At 1 January	1,922	435	653	353	3,363
Charge for the financial year	93	14	135	69	311
At 31 December	<u>2,015</u>	<u>449</u>	<u>788</u>	<u>422</u>	<u>3,674</u>
Net book value	<u>141</u>	<u>-</u>	<u>282</u>	<u>270</u>	<u>693</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

10 INTANGIBLE ASSETS

	<u>2007</u> RM'000	<u>2006</u> RM'000
Computer Software		
<u>Cost</u>		
At 1 January	1,535	1,530
Additions	1,203	5
At 31 December	<u>2,738</u>	<u>1,535</u>
<u>Accumulated amortisation</u>		
At 1 January	1,507	1,442
Charge for the financial year	91	65
At 31 December	<u>1,598</u>	<u>1,507</u>
Net book value	<u>1,140</u>	<u>28</u>

11 DEPOSITS FROM CUSTOMERS

(i) By type of deposits

	<u>2007</u> RM'000	<u>2006</u> RM'000
Demand deposits	85,922	86,103
Savings deposits	20,735	16,894
Fixed deposits	221,977	189,186
Negotiable instruments of deposits	100,000	236,000
Others	11	13
	<u>428,645</u>	<u>528,196</u>

Maturity structure of fixed deposits and negotiable instrument of deposits are as follows:

	<u>2007</u> RM'000	<u>2006</u> RM'000
Due within six months	306,275	414,045
Six months to one year	15,586	11,141
One year to three year	116	-
	<u>321,977</u>	<u>425,186</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)**

11 DEPOSITS FROM CUSTOMERS (CONTINUED)

(ii) By type of customer

	<u>2007</u> RM'000	<u>2006</u> RM'000
Government and statutory bodies	45,011	40,606
Business enterprises	275,878	408,419
Individuals	107,485	79,000
Others	271	171
	<hr/>	<hr/>
	428,645	528,196
	<hr/>	<hr/>

**12 DEPOSITS AND PLACEMENTS OF BANKS AND
OTHER FINANCIAL INSTITUTIONS**

	<u>2007</u> RM'000	<u>2006</u> RM'000
Licensed banks	252,849	189,431
	<hr/>	<hr/>
	252,849	189,431
	<hr/>	<hr/>

13 OTHER LIABILITIES

	<u>2007</u> RM'000	<u>2006</u> RM'000
Interest payable	4,193	2,981
Accrued expenses	2,739	2,463
Margin deposits	54,653	7,961
Other liabilities	9,812	9,122
	<hr/>	<hr/>
	71,397	22,527
	<hr/>	<hr/>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

14 SHARE CAPITAL

		<u>2007</u> RM'000	<u>2006</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 31 December		<u>304,000</u>	<u>304,000</u>

15 RESERVES

		<u>2007</u> RM'000	<u>2006</u> RM'000
Distributable:			
Retained profits		7,590	9,839
Non-distributable:			
Statutory reserves		<u>35,805</u>	<u>29,333</u>
		<u>43,395</u>	<u>39,172</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 2007.
- (b) The statutory reserves are maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and are not distributable as cash dividends.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

16 INTEREST INCOME

	<u>2007</u> RM'000	<u>2006</u> RM'000
Loans and advances		
- Interest income other than recoveries from NPLs	23,295	19,646
- Recoveries from NPLs	7	288
Money at call and deposit placement with financial institutions	23,650	22,729
Securities		
- Held-to-maturity investments	2,703	2,705
	<u>49,655</u>	<u>45,368</u>
Amortisation of premium less accretion of discount	(644)	(626)
Interest suspended	-	(173)
	<u>49,011</u>	<u>44,569</u>

17 INTEREST EXPENSE

	<u>2007</u> RM'000	<u>2006</u> RM'000
Deposits and placements of banks and other financial institutions	12,445	9,370
Deposits from customers	13,139	12,874
Others	437	-
	<u>26,021</u>	<u>22,244</u>

18 OTHER OPERATING INCOME

	<u>2007</u> RM'000	<u>2006</u> RM'000
Fees income:		
- Fee on loans and advances	1,515	1,215
- Service charges and fees	4,656	4,518
- Guarantee fees	1,007	942
- Other fee income	110	-
	<u>7,288</u>	<u>6,675</u>
Foreign exchange income:		
- Realised	5,198	3,301
- Unrealised	91	1,141
	<u>12,577</u>	<u>11,117</u>

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NOTES TO THE FINANCIAL STATEMENTS
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19 OTHER OPERATING EXPENSES

	<u>2007</u> RM'000	<u>2006</u> RM'000
<u>Personnel expenses</u>		
Salaries and wages (includes CEO/EDs)	4,880	3,836
Bonus	1,457	846
Defined contribution plan ("EPF")	812	902
Staff welfare expenses	523	687
Other personnel costs	1,018	538
	<hr/> 8,690	<hr/> 6,809
<u>Marketing expenses</u>		
Entertainment	521	813
Other	151	150
	<hr/> 672	<hr/> 963
<u>Establishment costs</u>		
Rental of premises	1,412	1,414
Depreciation of property and equipment	338	311
Amortisation of intangible assets	91	65
Repairs and maintenance	800	673
Other establishment costs	440	524
	<hr/> 3,081	<hr/> 2,987
<u>Administration and general expenses</u>		
Management fees (Reversal of amount no longer required)	-	(6,100)
Insurance premium	289	278
Auditors' remuneration - statutory audit fees	55	50
- other fees	20	11
Other administration and general expenses	1,317	1,551
	<hr/> 1,681	<hr/> (4,210)
	<hr/> 14,124	<hr/> 6,549
The above expenditure includes the following expense:		
Directors' remuneration (Note 20)	<hr/> 768	<hr/> 769

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NOTES TO THE FINANCIAL STATEMENTS
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20 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 Directors

Zheng Jingbo (appointed on 28.08.2007)
Zhang Lianli (resigned on 27.08.2007)

Non Executive Directors

Li Yuhua (appointed on 03.09.2007)
Xu Qilin (resigned on 03.09.2007)
Fang Yanmin
Du Chaohua (appointed on 19.04.2007)
Y Bhg Tan Sri Dato' Lim Guan Teik
Tan Siak Tee

	<u>2007</u> RM'000	<u>2006</u> RM'000
<u>Executive Directors</u>		
- salary and other remuneration	427	380
- bonus	132	168
- benefits-in-kind	65	77
<u>Non Executive Directors</u>		
- fees	144	144
	<hr/> 768	<hr/> 769
	<hr/> <hr/>	<hr/> <hr/>

The remuneration attributable to the Executive Director/Chief Executive Officer of the Bank, including benefits-in-kind during the financial year amounted to RM624,346 (2006: RM625,405).

The number of Directors of the Bank whose total remuneration including benefits-in-kind for the financial year falls into the following remuneration bands:

	<u>Number of Directors</u>	
	<u>2007</u>	<u>2006</u>
<u>Executive Directors</u>		
RM250,001 - RM350,000	1	-
RM350,001 - RM450,000	1	-
RM450,001 - RM550,000	-	-
RM550,001 - RM650,000	-	1
<u>Non-Executive Directors</u>		
Below RM50,000	5	4
RM100,001 - RM150,000	1	1

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

21 ALLOWANCE FOR LOSSES ON LOANS AND ADVANCES

		<u>2007</u> RM'000	<u>2006</u> RM'000
Allowance for bad and doubtful debts on loans and advances			
(a) Specific allowance			
- made during the financial year	575	-	
- written-back	(38)	(132)	
(b) General allowance			
- made during the financial year	2,300	600	
	<u>2,837</u>	<u>468</u>	
	<u><u>2,837</u></u>	<u><u>468</u></u>	

22 TAXATION

		<u>2007</u> RM'000	<u>2006</u> RM'000
Malaysian income tax:			
- Current tax	6,111	5,626	
- Deferred tax (Note 7)	(372)	1,946	
	<u>5,739</u>	<u>7,572</u>	
Over provision in prior years	(77)	(76)	
	<u>5,662</u>	<u>7,496</u>	
	<u><u>5,662</u></u>	<u><u>7,496</u></u>	

The explanation of the relationship between tax expense and profit before tax is as follows:

		<u>2007</u> RM'000	<u>2006</u> RM'000
Profit before tax		<u>18,606</u>	<u>26,425</u>
Statutory tax rate in Malaysia (2007: 27%, 2006: 28%)		5,024	7,399
Tax effect in respect of:			
Change in tax rate		-	246
Non-allowable expenses		608	192
Non-taxable income		(41)	(265)
Over provision in prior years		(77)	(76)
Recognition of deferred tax previously not recognised		148	-
		<u>5,662</u>	<u>7,496</u>
		<u><u>5,662</u></u>	<u><u>7,496</u></u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)**

23 EARNINGS PER SHARE

The basic and fully diluted earnings per ordinary share for the Bank have been calculated based on the net profit attributable to equity holders of the Bank and weighted average number of ordinary shares in issue during the financial year.

	<u>2007</u> RM'000	<u>2006</u> RM'000
Net profit attributable to equity holders of the Bank	12,944	18,929
Weighted average number of ordinary shares in issue	304,000	304,000
Basic / fully diluted earnings per share (sen)	4.3	6.2

24 DIVIDENDS

Dividends declared during the respective financial year are as follows:

	2007		2006	
	Gross dividend per share Sen	Amount of dividend net of tax RM'000	Gross dividend per share Sen	Amount of dividend net of tax RM'000
Ordinary shares:				
Final dividend	3.93	8,721	2.30	5,034

The Directors recommend the payment of a final gross dividend in respect of the current financial year of 2.85 sen (2006: 3.93 sen) per share less income tax of 26% amounting to RM6,411,360 (2006: RM8,721,456), subject to the approval of shareholders at the forthcoming Annual General Meeting. These financial statements do not reflect this final dividend which will be accrued as a liability in the financial year ending 31 December 2008 when approved by the shareholders.

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25 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

The related parties that have transactions and their relationship with the Bank are as follows:

<u>Related party</u>	<u>Relationship</u>
Central SAFE Investments Limited	Ultimate holding company
Bank of China Limited	Holding company
Bank of China (Sydney)	Fellow subsidiaries
Bank of China (Toronto)	Fellow subsidiaries
Bank of China (Tokyo)	Fellow subsidiaries
Bank of China (Frankfurt)	Fellow subsidiaries
Bank of China (Singapore)	Fellow subsidiaries
Bank of China (London)	Fellow subsidiaries
Bank of China (New York)	Fellow subsidiaries
Bank of China (Hong Kong)	Fellow subsidiaries

(a) Related party transactions

Significant transactions of the Bank with its related parties are as follows:

<u>2007</u>	<u>Holding Company</u> RM'000	<u>Fellow subsidiarie s</u> RM'000	<u>Key manageme nt personnel</u> RM'000
INCOME			
Interest income:			
- Deposits and placements with bank and other financial institutions	71	2,455	-
- Housing loan	-	-	10
	<u>71</u>	<u>2,455</u>	<u>10</u>
EXPENSES			
Interest expenses:			
- Deposits and placements of banks and other financial institutions	9,950	3	-
- Deposits from customers	-	-	662
	<u>9,950</u>	<u>3</u>	<u>662</u>

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25 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(a) Related party transactions (continued)

	Holding Company	Fellow subsidiarie s	Key manageme nt personnel
	RM'000	RM'000	RM'000
<u>2006</u>			
INCOME			
Interest income:			
- Deposits and placements with bank and other financial institutions	89	1,218	-
	<u>89</u>	<u>1,218</u>	<u>-</u>
EXPENSES			
Interest expenses:			
- Deposits and placements of banks and other financial institutions	7,754	44	-
- Deposits from customers	-	-	234
	<u>7,754</u>	<u>44</u>	<u>234</u>

The related party transactions are conducted at arm's length basis and on normal commercial terms, which are not more favourable than those generally available to the public.

(b) Related party balances

Significant outstanding balances of the Bank with its related parties are as follows:

	Holding Company	Fellow subsidiarie s	Key manageme nt personnel
	RM'000	RM'000	RM'000
<u>2007</u>			
AMOUNT DUE FROM			
Advances	6,977	46,924	-
Housing loan	-	-	498
	<u>6,977</u>	<u>46,924</u>	<u>498</u>
AMOUNT DUE TO			
Deposits and placements of banks and other financial institutions	165,482	-	-
Deposits from customers	-	-	1,848
	<u>165,482</u>	<u>-</u>	<u>1,848</u>

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26 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Related party balances (continued)

	Holding Company	Fellow subsidiarie s	Key manageme nt personnel
	RM'000	RM'000	RM'000
<u>2006</u>			
AMOUNT DUE FROM			
Advances	3,854	44,141	-
	<u>3,854</u>	<u>44,141</u>	<u>498</u>
AMOUNT DUE TO			
Deposits and placements of banks and other financial institutions	145,954	-	-
Deposits from customers	-	-	1,725
	<u>145,954</u>	<u>-</u>	<u>1,725</u>

There were no loans granted to the Directors of the Bank. The loans granted to other key management personnel of the Bank are on similar terms and conditions generally available to other employees within the Bank.

Included in the table above are deposits payable to the Directors of the Bank amounting to RM744,791 (2006: RM719,681).

(c) Key management personnel compensation

The remuneration of Directors and other key management personnel ⁽¹⁾ during the financial year are as follows:

	2007 RM'000	2006 RM'000
Fees	144	144
Salaries and other short-term benefits	1,401	1,364
Benefits-in-kind	91	106
	<u>1,636</u>	<u>1,614</u>

Included in the above table are Directors' remuneration as disclosed in Note 20.

(1) Key management personnel includes the Directors of the Bank and senior management of the Bank.

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26 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs 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:

	2007			2006		
	Principal RM'000	Credit equivalent RM'000	Risk weighted RM'000	Principal RM'000	Credit equivalent RM'000	Risk weighted RM'000
Transaction-related contingent items	95,719	47,860	10,690	132,621	66,311	13,009
Short-term self liquidation trade related contingencies	63,490	12,698	532	22,983	4,597	265
Irrevocable commitments to extend credit:						
- Maturity not exceeding one year	105,899	-	-	98,183	-	-
- Maturity exceeding one year	13,489	6,745	6,700	25,878	12,939	12,652
Foreign exchange related contracts:						
- Less than one year	9,915	-	-	17,012	-	-
Others	513	-	-	26,915	-	-
	<u>289,025</u>	<u>67,303</u>	<u>17,922</u>	<u>323,592</u>	<u>83,847</u>	<u>25,926</u>

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

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27 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>2007</u> RM'000	<u>2006</u> RM'000
Not later than 1 year	1,381	1,381
Later than 1 year but not later than 5 years	1,846	3,193
	<hr/> 3,227	<hr/> 4,574
	<hr/> <hr/>	<hr/> <hr/>

28 CAPITAL ADEQUACY

The capital adequacy ratios of the Bank are as follows:

	<u>2007</u> RM'000	<u>2006</u> RM'000
<u>Tier-1 capital</u>		
Paid-up ordinary share capital	304,000	304,000
Retained profits	7,590	9,839
Other reserves	35,805	29,333
	<hr/> 347,395	<hr/> 343,172
Less: Deferred tax assets	(3,598)	(3,226)
	<hr/> 343,797	<hr/> 339,946
<u>Tier-2 capital</u>		
General allowance for bad and doubtful debts	12,710	10,410
Total Tier-2 Capital	<hr/> 12,710	<hr/> 10,410
Total capital base	<hr/> 356,507	<hr/> 350,356
<u>Capital ratios</u>		
Core capital ratio (inclusive of market risk)	133%	97%
Risk-weighted capital ratio (inclusive of market risk)	138%	100%
Core capital ratio (inclusive of market risk and net of proposed dividends)	131%	95%
Risk-weighted capital ratio (inclusive of market risk and net of proposed dividends)	<hr/> 136%	<hr/> 97%
	<hr/> <hr/>	<hr/> <hr/>

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28 CAPITAL ADEQUACY (CONTINUED)

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

	<u>2007</u>	<u>2006</u>
	<u>Principal</u> <u>RM'000</u>	<u>Risk-Weighted</u> <u>RM'000</u>
0%	817,405	-
20%	124,466	24,893
50%	10,627	5,314
100%	225,787	225,787
 Total risk-weighted assets for credit risk	 1,178,285	 255,994
 Total risk-weighted assets for market risk #	 -	 2,128
 Total risk-weighted assets for credit and market risks	 1,178,285	 258,122
	<u><u>1,178,285</u></u>	<u><u>258,122</u></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 tax income/(expense) is excluded from the computation of Tier 1 capital and deferred tax assets is excluded from the calculation of risk weighted assets.

The Bank Negara Malaysia Guidelines on Market Risk Adequacy Framework are effective from 1 April 2005.

29 FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

The objectives of the Bank's 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.

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29 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Credit Risk (continued)

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.

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 result 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 drawdown, 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.

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29 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.

	<u>2007</u>	Non Trading Book						Effective Interest Rate %
		Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	
Assets								
Cash and short-term funds	582,700	-	-	-	-	-	4,626	587,326
Deposits and placement with banks and other financial institutions	-	71,000	-	-	-	-	-	71,000
Held-to-maturity securities	-	15,135	39,990	-	-	-	-	55,125
Loans and advances								
- performing	292,931	73,308	13,771	104	2,780	(12,710)	370,184	5.95%
- non-performing	-	-	-	-	-	6,528	6,528	
Other assets	-	-	-	-	-	5,008	5,008	
Deferred tax assets	-	-	-	-	-	3,598	3,598	
Property and equipment	-	-	-	-	-	1,388	1,388	
Intangible assets	-	-	-	-	-	1,140	1,140	
Total assets	875,631	159,443	53,761	104	2,780	9,578	1,101,297	

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29 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest rate risk (continued)

	2007	Non Trading Book						Effective Interest Rate %
		Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	
<u>Liabilities</u>								
Deposits from customers	302,911	17,910	28,487	116	-	79,221	428,645	3.29%
Deposits and placements of banks and other financial institutions	203,274	49,575	-	-	-	-	252,849	4.56%
Other liabilities	-	-	-	-	-	71,397	71,397	
Provision for tax	-	-	-	-	-	1,011	1,011	
Total liabilities	506,185	67,485	28,487	116	-	151,629	753,902	
 Shareholders' equity	 -	 -	 -	 -	 -	 347,395	 347,395	
Total liabilities and shareholders' equity	506,185	67,485	28,487	116	-	499,024	1,101,297	
On balance sheet – interest rate gap	369,446	91,958	25,274	(12)	2,780	(489,446)	-	
Off balance sheet – interest rate gap	-	-	-	-	-	-	-	
Total interest sensitivity gap	369,446	91,958	25,274	(12)	2,780	(489,446)	-	

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29 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest rate risk (continued)

Assets	Non Trading Book						Total RM'000	Effective Interest Rate %
	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000		
Cash and short-term funds	395,894	-	-	-	-	1,838	397,732	3.58%
Deposits and placement with banks and other financial institutions	-	285,200	-	-	-	-	285,200	3.67%
Held-to-maturity securities	-	-	-	55,770	-	-	55,770	4.92%
Loans and advances								
- performing	209,231	119,297	8,218	208	1,107	(10,410)	327,651	6.19%
- non-performing	-	-	-	-	-	7,457	7,457	
Other assets	-	-	-	-	-	5,195	5,195	
Deferred tax assets	-	-	-	-	-	3,226	3,226	
Tax recoverable	-	-	-	-	-	374	374	
Property and equipment	-	-	-	-	-	693	693	
Intangible assets	-	-	-	-	-	28	28	
Total assets	605,125	404,497	8,218	55,978	1,107	8,401	1,083,326	

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29 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest rate risk (continued)

	2006	Non Trading Book						Effective Interest Rate %
		Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 12 months RM'000	1 – 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	
<u>Liabilities</u>								
Deposits from customers	285,759	136,875	21,092	-	-	84,470	528,196	3.24%
Deposits and placements of banks and other financial institutions	83,531	105,900	-	-	-	-	189,431	5.08%
Other liabilities	-	-	-	-	-	22,527	22,527	
<u>Total liabilities</u>	<u>369,290</u>	<u>242,775</u>	<u>21,092</u>	<u>-</u>	<u>-</u>	<u>106,997</u>	<u>740,154</u>	
<u>Shareholders' equity</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>343,172</u>	<u>343,172</u>	
<u>Total liabilities and shareholders' equity</u>	<u>369,290</u>	<u>242,775</u>	<u>21,092</u>	<u>-</u>	<u>-</u>	<u>450,169</u>	<u>1,083,326</u>	
On balance sheet – interest rate gap	235,835	161,722	(12,874)	55,978	1,107	(441,768)	-	
Off balance sheet – interest rate gap	-	-	-	-	-	-	-	
<u>Total interest sensitivity gap</u>	<u>235,835</u>	<u>161,722</u>	<u>(12,874)</u>	<u>55,978</u>	<u>1,107</u>	<u>(441,768)</u>	<u>-</u>	

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29 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Credit risk

2007

	Short-term funds and placements with financial institutions RM'000	Held- to-maturity 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:						
Primary agriculture	-	-	35,721	-	35,721	3,826
Mining and quarrying	-	-	-	-	-	4,200
Manufacturing	-	-	57,243	-	57,243	19,209
Electricity, gas and water supply	-	-	-	-	-	-
Construction	-	-	-	-	-	21,537
Real estate	-	-	63,897	-	63,897	4,782
Wholesale and retail trade and restaurants and hotels	-	-	39,445	-	39,445	4,508
Transport, storage and communication	-	-	54,241	-	54,241	8,971
Finance, insurance and business services	54,274	-	56,685	-	110,959	5
Household	-	-	12,770	-	12,770	180
Government and government agencies	602,158	55,125	67,862	1,716	726,861	-
Education, health and others	-	-	2,133	-	2,133	85
	656,432	55,125	389,997	1,716	1,103,270	67,303
Assets not subject to credit risk	1,894	-	-	9,418	11,312	-
	658,326	55,125	389,997 [^]	11,134#	1,114,582	67,303

[^] Excludes general allowance and specific allowance amounting to RM 12,710,000 and RM575,000.

Other assets include property and equipment, deferred tax assets and tax recoverable.

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29 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Credit risk (continued)

2006

	Short-term funds and placements with financial institutions RM'000	Held- to-maturity 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:						
Primary agriculture	-	-	27,905	-	27,905	10,150
Mining and quarrying	-	-	-	-	-	-
Manufacturing	-	-	38,341	-	38,505	7,446
Electricity, gas and water supply	-	-	21,614	-	21,450	-
Construction	-	-	147	-	147	53,175
Real estate	-	-	71,873	-	71,873	2,307
Wholesale and retail trade and restaurants and hotels	-	-	37,732	-	37,732	2,221
Transport, storage and communication	-	-	57,722	-	57,722	7,477
Finance, insurance and business services	82,059	-	60,294	10	142,363	-
Household	-	-	10,872	-	10,872	675
Government and government agencies	599,377	55,770	-	4,784	659,830	-
Education, health and others	-	-	19,018	401	19,520	396
	681,436	55,770	345,518	5,195	1,087,919	83,847
Assets not subject to credit risk	1,496	-	-	4,321	5,817	-
	682,932	55,770	345,518 [^]	9,516#	1,093,736	83,847

[^] Excludes general allowance amounting to RM 10,410,000.

Other assets include property and equipment, deferred tax assets and tax recoverable.

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29 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees, and from margin and other calls on cash-settled derivatives. The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

The Bank has always complied with the liquidity compliance requirement as agreed by Bank Negara Malaysia under the first two time buckets for "up to 1 week" and ">1 week to 1 month".

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30 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 FRS 132 which requires the fair value information to be disclosed. These include property and equipment, 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:

	31.12.2007		31.12.2006	
	Carrying amount RM	Fair value RM	Carrying amount RM	Fair value RM
<u>Financial assets</u>				
Held-to-maturity securities	55,125	55,250	55,770	55,941
<u>Financial liabilities</u>				
Deposits from customers	428,634	428,678	528,183	528,205

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

30 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) Held-to-maturity 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 allowance, 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 deposits 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.

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 2007 (CONTINUED)

31 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Allowances for losses on loans and advances

The Bank makes allowance for losses on loans and advances based on assessment of recoverability. Whilst management's judgement is guided by the relevant BNM Guidelines, judgement is made about the future and other key factors in respect of the recovery of loans and advances. Among the factors considered are the Bank's aggregate exposure to the borrower, the net realisable value of the underlying collateral value, the viability of the customer's business model and the capacity to generate sufficient cash flow to service debt obligations and the aggregate amount and ranking of all other creditor claims.

32 CHANGES IN ACCOUNTING POLICIES

The list of new accounting standards and amendments to published standards that are relevant and effective for the Bank's accounting periods beginning on or after 1 January 2007 are set out in Note 1 of the summary of significant accounting policies.

The adoption of those FRS has no material effect on the Bank's accounting policies and did not have material impact on the financial statements.

33 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been authorised for issue in accordance with a resolution of the Board of Directors on 24 March 2008.

Company No.	
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BANK OF CHINA (MALAYSIA) BERHAD
(Incorporated in Malaysia)

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

We, Zheng Jingbo 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 17 to 66 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2007 and of the results and cash flows of the Bank for the financial year ended on that date and in accordance with the MASB approved accounting standards in Malaysia for Entities Other Than Private Entities, the provisions of the Companies Act, 1965 and Bank Negara Malaysia Guidelines.

In accordance with a resolution of the Board of Directors dated 27 March 2008.

ZHENG JINGBO
DIRECTOR

TAN SIAK TEE
DIRECTOR

Kuala Lumpur

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

I, Cho Lai Kuan, 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 17 to 66 are, to the best of my knowledge and belief, 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.

CHO LAI KUAN

Subscribed and solemnly declared by the abovenamed Cho Lai Kuan at Kuala Lumpur on 27 March 2008, 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 17 to 66. These financial statements are the responsibility of the Bank's Directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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 MASB approved accounting standards for Entities Other Than Private Entities 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 2007 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

SOO HOO KHOON YEAN
(No. 2682/10/09 (J))
Partner of the firm

Kuala Lumpur
27 March 2008