

For Immediate Release

BEA Enters 2005 with Strong Momentum Reports a 1H Profit of HKD1.2 Billion

Hong Kong, 3rd August, 2005 – The Bank of East Asia Group and its subsidiaries (the “BEA Group”) today announced a **profit after tax** of HKD1,203 million for the six months ended 30th June, 2005, an increase of 20.5 per cent over the same period in 2004. The result represented a rise of HKD205 million above the net profit of HKD998 million recorded for the first six months of last year.

Basic earnings per share rose to HKD0.79, compared with the corresponding figure of HKD0.67 per share during the same period in 2004. **Return on average assets** and **return on average equity** stood at 1.14 per cent and 10.91 per cent for the first six months of 2005.

The Board of Directors recommended an **interim dividend** of HKD0.33 per share, an increase of 17.9 per cent, compared with the dividend of HKD0.28 per share declared for the same period last year.

Total operating income amounted to HKD2,753 million for the first half of 2005, a growth of 4.9 per cent over the HKD2,624 million recorded for the first half of last year.

The adoption of the new Hong Kong Accounting Standards (HKAS) and Hong Kong Financial Reporting Standards (HKFRS) affected the recognition of interest income and expense.

BEA’s **net interest income** modestly fell by 4.8 per cent to HKD1,715 million during the first six months of this year. **Non-interest income**, however, performed well with a rise of 26.4 per cent to HKD1,038 million. Non-interest income accounted for 37.69 per cent of total income for the period, up from 31.29 per cent for the same period in 2004.

As the Group has committed considerable resources to upgrading its internal operations for long-term benefits, **operating expenses** increased by 7.3 per cent over the corresponding figure in 2004 to HKD1,410 million. The **cost-to-income ratio** consequently was slightly up from 50.1 per cent for the first half of 2004 to 51.2 per cent for the first six months of 2005.

Total operating profit before impairment allowances (previously referred to as “charge for bad and doubtful debts”) for the first six months of 2005 amounted to HKD1,343 million, an increase of 2.6 per cent or HKD34 million, compared with the first half of 2004.

The unusual interest rate environment experienced early this year, together with the adoption of the new accounting standard, squeezed the Group’s **net interest margin** down by 18 basis points to 1.76 per cent for the first half of 2005.

BEA's asset quality continued to show improvement. As of 30th June, 2005, the ratio of **impaired loans to total advances** to customers ratio stood at 1.17 per cent. As a result of the healthy state of the Group's asset quality, and also due to the new approaches to assessing loan impairment given the adoption of HKAS 39, BEA recorded a write back of impairment losses of HKD24 million for the first half of 2005, as compared with the provision of HKD143 million for the first half of 2004.

As a result, the BEA Group's **operating profit after impairment allowances** reached HKD1,367 million, representing an increase of 17.2 per cent.

Following the completion of the office centralisation project in May 2005, the Bank has begun to dispose of properties surplus to current needs. Consequently, the Bank closed one transaction and registered a **net profit on disposal of fixed assets** of HKD35 million. This compares to the HKD7 million recorded for the first half of 2004.

Total profit after taxation amounted to HKD1,203 million during the six months of this year; whereas **profit attributable to equity holders of the Group** reached HKD1,183 million, a 20 per cent increase over the corresponding figure of 2004.

Total consolidated assets of the BEA Group at the end of June 2005 amounted to HKD212.3 billion, a growth of 9.3 per cent over the figure as of the end of June 2004, and a 0.9 per cent increase over the end of December 2004. **Total deposits** decreased by 0.6 per cent to HKD167 billion during the reporting period. As of 30th June, 2005, **total loan balances** were HKD128.4 billion, an increase of 21.5 per cent compared with the same date in 2004. In addition, **total equity attributable to equity holders** stood at HKD22.5 billion as of end of June, 2005.

Dr. David K.P. Li, Chairman and Chief Executive of the BEA Group, commented that the Group's record first-half performance was achieved despite the unusual interest rate environment at the outset of the 2005, which put pressure on the Group's interest margin. Strong loan growth and strong growth in non-interest income spurred the results.

"We took advantage of the active mortgage loan market to explore cross-selling opportunities, promoting our credit card and insurance products through our on-site sales teams," Dr. Li said. "This is one reason that our credit card department performed exceptionally well during the first half, with sales volume and credit card balances both recording double-digit increases."

One of the BEA Group's core strategies has been to raise the share of non-interest income as part of its total revenue stream. The Group has made excellent progress in this regard; the value of bancassurance premiums was up by 25 per cent in the first half of this year, compared with the same period last year.

Dr. Li also highlighted a series of new principal protected structured products under the brand name BEA Linked Deposits that were released this year – more than double the number of such products over the same period last year. BEA's China branches have

also received permission to market such derivative products on the Mainland, and the initial response to these products has been very encouraging.

Tricor Group, the corporate, investor, and business services arm of the BEA Group, also performed well during the period under review. Tricor took advantage of opportunities in the market, acquiring the company secretarial business of Ernst & Young in the British Virgin Islands and a substantial interest in the client accounting, payroll outsourcing, and executive recruitment businesses of PricewaterhouseCoopers in Thailand. “These gains in non-interest income are built on our sterling reputation, our strong branding, and the synergy we have created within our organisation, Dr. Li said.

The Group has also focused on enhancing its operational efficiency and upgrading its internal operations in 2005. “We completed the consolidation of local back office operations to Millennium City 5 during the half,” Dr. Li stated. Plans are underway to dispose of any properties that are redundant to the Group’s needs following the centralisation initiative.

BEA’s China and International divisions also posted strong growth for the first half of 2005. Dr. Li referred to BEA’s clear, two-pronged China strategy consisting of a more localised Pearl River Delta focus as well as a broader China market focus covering many of China’s major cities. In May 2005, BEA opened a new representative office in Suzhou and in June 2005, a new representative office in Dongguan. BEA currently operates 20 outlets on the Mainland, one of the most extensive networks of any foreign bank in China.

On the international front, BEA’s earnings posted a strong growth of 60.3 per cent in the first half, compared with the same period last year. BEA has opened new branches in Vancouver, Canada and in Torrance, California, to capture rising business opportunities.

In his concluding remarks, Dr. Li was optimistic about the Group’s growth forecast for the second half of the year. “The good momentum we had coming into 2005 is still with us,” he said. “China’s recent decision on the Renminbi will have a positive effect on both the Chinese and Hong Kong economies, and we look forward to sustained growth through the rest of the year.”

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