

For Immediate Release

BEA Posts 1H 2004 Profit of HKD1,000 Million

Hong Kong, 30 July 2004 – The Bank of East Asia Group and its subsidiaries (the “BEA Group”) today announced a **consolidated profit attributable to shareholders** of HKD1,000 million for the six months ended 30 June 2004. This is an increase of 26.2 per cent over the same period in 2003. The result was also HKD207 million above the net profit of HKD793 million recorded for the first six months of 2003.

Basic earnings per share and **cash earnings per share** rose to HKD0.68 and HKD0.73 respectively, compared with the corresponding figures of HKD0.55 and HKD0.59 per share during the same period in 2003. **Return on average assets** and **return on average equity** improved to 1.02 per cent and 9.96 per cent in the first six months of 2004.

The Board of Directors recommended an **interim dividend** of HKD0.28 per share, compared with the interim dividend of HKD0.23 per share declared for 2003. The interim dividend will be paid in cash to shareholders on record at the close of business on 25 August 2004. Shareholders will also have the option to receive scrip in lieu of cash.

Although there has been an encouraging, broad-based upturn in the Hong Kong economy during the first half of 2004, the demand for loans remained soft. Nevertheless, the Bank increased **net interest income** by 1.4 per cent to HKD1,803 million from HKD1,777 million in the year earlier period, due mainly to the contributions from China and overseas operations.

Impacted by the decline in securities prices but largely compensated by a rise in net fee and commission income, **non-interest income** saw a slight decrease to HKD821 million, or 5.2 per cent, from the HKD866 million reported over the same period in 2003.

Total operating income dropped marginally to HKD2,624 million in the first half of this year, compared with HKD2,643 million over the corresponding period in 2003. **Total operating profit before provisions** fell to HKD1,324 million, a reduction of 5.5 per cent, or HKD77 million over the same period in 2003.

As a result of a number of productivity-enhancement investments made by the BEA Group, **operating expenses** rose 4.7 per cent to HKD1,300 million. The **cost-to-income ratio** stood at 49.5 per cent, compared to 47.0 per cent for the first half of 2003.

The BEA Group's **net interest margin** narrowed to 1.94 per cent from 2.01 per cent for the first six months of 2004.

The BEA Group's asset quality continued to improve during the reporting period. As of 30 June 2004, the **non-performing loans ratio** dropped to 1.78 per cent, from 2.75 per cent as of the same date last year, reflecting the healthy state of the Bank's asset quality. The **net charge for bad and doubtful debt** also fell substantially, by 50.9 per cent to HKD143 million, down from HKD291 million during the first half of 2003.

As a result, the BEA Group's **operating profit after provisions** reached HKD1,181 million, representing an increase of 6.3 per cent.

Total consolidated assets of the BEA Group at the end of June 2004 amounted to HKD194 billion, a modest growth of 2.6 per cent compared with the first half of 2003. **Total deposits** reached HKD156 billion during the reporting period. In addition, **shareholders' funds** stood at HKD20 billion, while **total capital resources** came to HKD25 billion, a slight increase of 5.8 per cent above the figure registered at the end of June 2003.

The BEA Group's **capital adequacy ratio** was maintained at 17.7 per cent as at the end of June 2004, while the **average liquidity ratio** for the first six months of the year stood at 43.9 per cent. The **loan-to-deposit ratio** was 67.7 per cent as of 30 June 2004.

Dr. David K.P. Li, Chairman and Chief Executive of the BEA Group, commented that the Group has spent the past six months building on the strong foundation laid down in recent years. Although expenses rose during the first half of the year, Dr. Li emphasised that such costs were necessary in order for the Group to execute its proven strategy, deliver more from existing resources, and create greater value for the Group's shareholders.

"We remain fully committed to reducing the cost-to-income ratio. In that regard, we made several vital investments in the first half. These included investments in I.T., in preparation for Basel II; and outfitting for Millennium City V, in preparation for our move in the first quarter of next year," Dr. Li said.

The Group has made significant investments in upgrading its risk management capability and plans are currently under way to replace the core banking system.

Dr. Li also highlighted the Group's effective use of existing resources during the first half of 2004. According to Dr. Li, these included the introduction of structured investment products, which contributed to the increase in fee income; and the establishment of a bancassurance unit to drive sales of BEA Group's insurance products developed by Blue Cross, the Group's insurance arm.

Dr. Li revealed the Bank's commitment to strengthening its wealth management services by setting up a new Wealth Management Division, which will lead the development and distribution of new investment products. The decision to create the new unit follows the success of both SupremeGold (launched in 2002) and BEA Funds (2003). Dr. Li stated that business development in the field of wealth management was particularly promising, given overall growth in this market segment.

He stated that the bottom line was further assisted by an ongoing reduction in non-performing loans and provisions, which fell to 1.78 per cent. Credit card operations, in particular, showed strong improvement, with the charge off rate falling to just 6.0 per cent from 18.3 per cent during the same period last year.

Dr. Li was confident that BEA would improve its market position in credit cards in the years ahead, in view of the rapidly evolving market following the introduction of the consumer credit data sharing mechanism.

He referred to the Group's efforts to optimise operating efficiencies. He said the office centralisation project, which will consolidate the Group's Hong Kong back office operations at Millennium City V in Kwun Tong, progressed smoothly. BEA's back offices would begin to move in the new office tower in the first quarter of 2005.

Dr. Li concluded his remarks on the BEA Group's China operations. BEA ranked among the top three in recorded profit in the fiscal year 2003, against 64 foreign banks presently operating on the Mainland.

Currently BEA operates eight branches, three sub-branches and six representative offices – the largest network amongst foreign banks in China. In an effort to tap on the expertise and strong network on the Mainland, and to expand its customer base in the longer term, BEA had signed a number of strategic alliances with major banks in Europe in the past one and a half years, including the cooperative agreement lately reached with Crédit Industriel et Commercial, the fourth largest banking group in France. BEA expected to enter into more such similar alliances with major banks in the future.

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