

For Immediate Release

BEA Reports 1H 2003 Profit of HK\$793 Million

Hong Kong, 1 August 2003 – The Bank of East Asia Group and its subsidiaries (the “BEA Group”) today announced a **consolidated profit attributable to shareholders** of HK\$793 million for the six months ended 30 June 2003, an increase of 5.1 per cent over the same period in 2002. The result was also HK\$277 million above the net profit of HK\$516 million for the second half of 2002, a hefty rise of 53.6 per cent. **Basic earnings per share** and **cash earnings per share** rose to HK\$0.55 and HK\$0.59, respectively.

The Directors recommended an **interim dividend** of HK\$0.23 per share, compared with the dividend of HK\$0.21 per share declared for the year-earlier period. The interim dividend will be paid in cash to shareholders on record at the close of business on 27 August 2003. Shareholders will also have the option to receive scrip in lieu of cash.

Although BEA’s **net interest income** declined by 2.3 per cent to HK\$1,777 million during the first six months in 2003, **non-interest income** continued to perform well, jumping 15.5 per cent to HK\$951 million. The rise was mainly attributable to gains in investments in securities. Non-interest income accounted for 35 per cent of total income for the period, up from 31 per cent in the year-earlier period. **Total operating income** amounted to HK\$2,728 million for the first half of 2003, a growth of 3.2 per cent over the HK\$2,642 million recorded for the first-half last year.

The BEA Group continued its efforts to rein in costs. During the reporting period, **operating expenses** fell by 3.5 per cent to HK\$1,327 million. As a result, the Group recorded a strong improvement in the **cost-to-income ratio**, down from 52.0 per cent in 2002 to 48.6 per cent in the first half of 2003. It is expected that the ratio will continue to drop, reflecting the rationalisation measures put in place following the merger of a number of units in recent years.

Operating profit before provisions saw healthy growth of 10.5 per cent over the year-ago period, to a total of HK\$1,401 million. The operating profit also compares favourably with the HK\$1,246 million recorded for the second half of 2002, representing a rise of 12.5 per cent.

Net interest margin narrowed to 2.01 per cent, primarily due to the lacklustre economic environment, intense competition within the industry and low interest rates.

BEA's asset quality continues to improve. As of 30 June 2003, **non-performing loans** to total advances to customers dropped slightly to 2.75 per cent, from 2.88 per cent as of the end of June 2002 and 2.87 per cent at the end of December. The **charge for bad and doubtful debts** decreased to HK\$291 million, down 9.3 per cent from HK\$321 million for the first half of the previous year. The figure is also a 40.5 per cent improvement on the HK\$490 million provided for the second half of 2002.

With the decline in provisions and the rise in operating profit, BEA Group's **operating profit after provisions** consequently recorded double-digit growth of 17.2 per cent to HK\$1,110 million, compared with the HK\$947 million recorded in the year-earlier period. The figure is also 46.8 per cent higher than the HK\$756 million recorded for the six months ended December 2002.

Total consolidated assets of the BEA Group at the end of June 2003 amounted to HK\$189 billion, a modest growth of 4.9 per cent compared with 2002. **Customer deposits** reached HK\$147 billion. As of the same date, **shareholders' funds** stood at HK\$19 billion, and **total capital resources** totalled HK\$23 billion, a slight increase of 1.1 per cent above the figure registered at the end of 2002.

BEA's **capital adequacy ratio** was maintained at 17.1 per cent as at the end of June 2003, while the **average liquidity ratio** for the first six months of 2003 stood at 46.0 per cent. The **loan-to-deposit ratio** was 68.3 per cent at 30 June 2003.

Dr. David K.P. Li, Chairman and Chief Executive of the BEA Group, commented that the first half of 2003 was a particularly difficult time for the Hong Kong economy and the banking industry. The Bank's improved results under these trying circumstances demonstrate the strength of BEA's strategic plan.

Dr. Li was particularly upbeat about the ongoing effort to frame a Closer Economic Partnership Arrangement ("CEPA") between China and Hong Kong.

"BEA is the leading foreign bank on the Mainland. Any provisions under CEPA to remove restrictions on our activities will be to our benefit, serving to enhance our leading position," Dr. Li said.

Dr. Li pointed out that, earlier this year, the Bank opened a sub-branch in Guangzhou, and upgraded its Beijing Representative Office to a full branch, which now becomes its flagship branch on the Mainland. Currently, BEA has a strong network of 16 branches and representative offices in China. Dr. Li revealed that a new sub-branch

in Shanghai is expected to open for business shortly.

Dr. Li added that the Guangzhou Branch has recently been granted approval by the People's Bank of China to operate Renminbi business in the city. BEA already offers Yuan services to foreign individuals and foreign invested enterprises from its branches in Shanghai, Shenzhen and Dalian.

In addition to expanding its presence in China, BEA has also been aggressively diversifying its range of products and services. BEA launched its SupremeGold wealth management product in Hong Kong and China in December 2002. Since then, the Bank had acquired over 7,700 SupremeGold accounts by the end of June this year.

Furthermore, BEA successfully launched several new investment products during the first half of 2003, including two BEA Guaranteed Coupon Funds and a range of currency, index and equity linked deposit services, all geared to the specific needs of investors amid the current low interest rate environment. These products and services were well received by the market and have contributed to the Bank's fee-based income during the reporting period.

Dr. Li highlighted the Bank's branch rationalisation strategy, an ongoing programme aimed at building a more efficient and effective local branch network. Dr. Li said: "We are taking advantage of the current property market to consolidate smaller branches into a single larger branch in prominent locations. The opening of One Peking Branch in Tsimshatsui is a prime example of this strategy". The Bank will continue to relocate branches to desirable strategic locations and to expand the SupremeGold centres.

Dr. Li concluded that, in future, BEA will step up efforts to develop new income streams and market opportunities by diversifying the array of products and services. The Bank will also strive to streamline and improve its operating efficiencies. Outside Hong Kong and China, BEA will continue to look for potential business and alliance opportunities to expand and create value.

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