

# HKD Floating Booster Index Linked Deposit

Enjoy potentially higher returns with Index Linked Deposit

I Principal Brochure I

## What is Floating Booster Index Linked Deposit?

The Floating Booster Index Linked Deposit is a highly competitive alternate investment, which provides 100% principal protection with the 1<sup>st</sup> year coupon rate fixed at 4.5% p.a., plus an opportunity to earn step-up coupons. The maximum investment period of 5 years may be shortened if the Bank exercises its callable right to call and terminate the Linked Deposit before maturity.

## Benefits of Floating Booster Structure

### Principal Protection

Investors will receive 100% of the invested capital at maturity or at any coupon payment date if the Bank calls and terminates the Linked Deposit.

### Fixed 1<sup>st</sup> Year Coupon

The 1<sup>st</sup> year annual coupon rate is fixed at 4.5%, payable semi-annually, which is much higher than the current normal time deposit rate.

### Step-up Coupons

From the 2<sup>nd</sup> year onwards, the mechanism of the floating coupon rate offers investor an opportunity to enjoy a rising income stream unless the interest rate rises drastically after launch or the Bank calls and terminates the Linked Deposit before maturity.

### Opportunity to Shorten the Investment Period

The Bank has the right to call and terminate the Linked Deposit on each coupon payment date, which in turn may shorten the investment period. The shortest investment tenor will be 6 months.

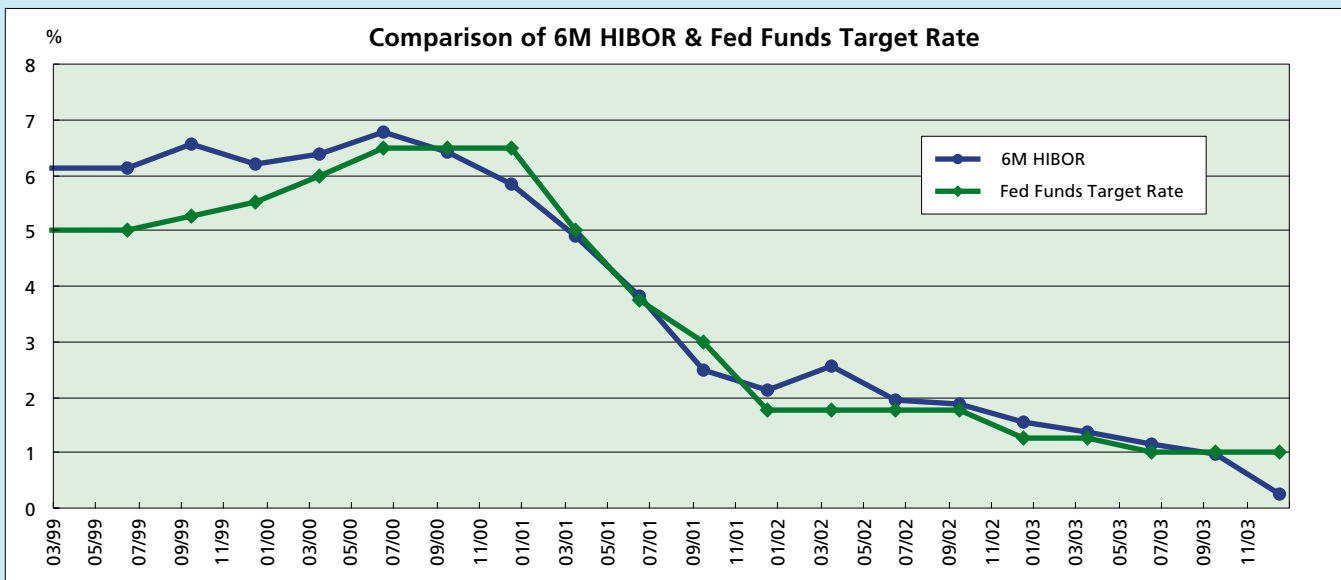
## Current Market Situation

Hong Kong's economy has posted a robust recovery after the SARS epidemic, mainly fueled by the Mainland travelers and favorable trade policies with the Mainland under the CEPA arrangement. Recent data and news flow keep showing encouraging signs of recovery, with 5.2% growth in November Retail Sale which was the biggest gain in 10 months; 4% rise in the 3<sup>rd</sup> Quarter GDP after contracting 0.5% in the 2<sup>nd</sup> Quarter of 2003. In addition, the special arrangement for banks in Hong Kong to accept Renminbi deposits should assure Hong Kong's position as Mainland's premier capital market and further enhance the city's competitiveness as an international financial centre.

Although markets keep on speculating the unpeg and appreciation of the Hong Kong dollar against the US dollar, the Hong Kong Monetary Authority has expressly and repeatedly reaffirmed their resolve to maintain the pegged rate system.

The interest rate in Hong Kong should follow the trend in the US and is expected to remain at low level "for a considerable period of time". The US Fed has, in recent months showed, its continuing easing policy albeit the improving financial data in the US.

## 6M HIBOR Historical Chart



## Mechanism of the Floating Booster Index Linked Deposit

<p>Coupon Rate:</p> <p>Coupon Frequency:</p> <p>Coupon Payment Date(s):</p> <p>Bank's Callable Right:</p>	<p>1<sup>st</sup> &amp; 2<sup>nd</sup>: 4.5% p.a.</p> <p>3<sup>rd</sup> &amp; 4<sup>th</sup>: The higher of [(Previous Coupon Rate + 2% - 6-Month HIBOR, in arrears) or 0%] p.a.</p> <p>5<sup>th</sup> &amp; 6<sup>th</sup>: The higher of [(Previous Coupon Rate + 3% - 6-Month HIBOR, in arrears) or 0%] p.a.</p> <p>7<sup>th</sup> &amp; 8<sup>th</sup>: The higher of [(Previous Coupon Rate + 4% - 6-Month HIBOR, in arrears) or 0%] p.a.</p> <p>9<sup>th</sup> &amp; 10<sup>th</sup>: The higher of [(Previous Coupon Rate + 5% - 6-Month HIBOR, in arrears) or 0%] p.a.</p> <p>* "6-Month HIBOR, in arrears": The 6-month HK dollar Interbank Offered Rate as shown in the Reuters page "HIBOR=" on 5 Hong Kong Business Days before Coupon Payment Date(s) from Year 2 onwards and is floored at 0%.</p> <p>** "Previous Coupon Rate": The latest applicable Annualized Coupon Rate.</p> <p>Semi-annually</p> <p>27 Aug 2004, 27 Feb 2005, 27 Aug 2005, 27 Feb 2006, 27 Aug 2006, 27 Feb 2007, 27 Aug 2007, 27 Feb 2008, 27 Aug 2008, 27 Feb 2009; or if such day is not a Business Day, the next following Business Day.</p> <p>The Bank has the absolute right to call and terminate the Linked Deposit on any of the Coupon Payment Dates.</p>
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**Once the Bank exercises its right to call the Linked Deposit, the Linked Deposit will be terminated and mature automatically.**

## Illustrative Examples

Depending on the interest rate movement, the total return for each HKD50,000 deposit is illustrated as follows:

**Assumption: 1) current 6-month HIBOR = 0.2%**

**2) The Bank will not exercise the Callable Right throughout the investment period**

Scenario 1: HIBOR remains at current level **0.2%** throughout the investment period

Scenario 2: HIBOR moves up by **0.5%** every half year after launch

Scenario 3: HIBOR moves up drastically by **1.0%** every half year after launch

Fixing Date	Scenario 1 6-Mth HIBOR remains at current level				Scenario 2 6-Mth HIBOR ↑ 0.5% every half year				Scenario 3 6-Mth HIBOR ↑ 1% every half year			
	HIBOR	Coupon Rate (p.a)	Semi-annual Return	Cumul. Return	HIBOR	Coupon Rate (p.a)	Semi-annual Return	Cumul. Return	HIBOR	Coupon Rate (p.a)	Semi-annual Return	Cumul. Return
1H Year 1	0.2%	4.50%	2.25%	2.25%	0.7%	4.50%	2.25%	2.25%	1.2%	4.50%	2.25%	2.25%
2H Year 1	0.2%	4.50%	2.25%	4.50%	1.2%	4.50%	2.25%	4.50%	2.2%	4.50%	2.25%	4.50%
1H Year 2	0.2%	4.5% + 2% - 0.2% = 6.3%	3.15%	7.65%	1.7%	4.5% + 2% - 1.7% = 4.8%	2.40%	6.90%	3.2%	4.5% + 2% - 3.2% = 3.3%	1.65%	6.15%
2H Year 2	0.2%	6.3% + 2% - 0.2% = 8.1%	4.05%	11.70%	2.2%	4.8% + 2% - 2.2% = 4.6%	2.30%	9.20%	4.2%	3.3% + 2% - 4.2% = 1.1%	0.55%	6.70%
1H Year 3	0.2%	8.1% + 3% - 0.2% = 10.9%	5.45%	17.15%	2.7%	4.6% + 3% - 2.7% = 4.9%	2.45%	11.65%	5.2%	1.1% + 3% - 5.2% = -1.1% ⇒ 0%	0.00%	6.70%
2H Year 3	0.2%	10.9% + 3% - 0.2% = 13.7%	6.85%	24.00%	3.2%	4.9% + 3% - 3.2% = 4.7%	2.35%	14.00%	6.2%	0% + 3% - 6.2% = -3.2% ⇒ 0%	0.00%	6.70%
1H Year 4	0.2%	13.7% + 4% - 0.2% = 17.5%	8.75%	32.75%	3.7%	4.7% + 4% - 3.7% = 5%	2.50%	16.50%	7.2%	0% + 4% - 7.2% = -3.2% ⇒ 0%	0.00%	6.70%
2H Year 4	0.2%	17.5% + 4% - 0.2% = 21.3%	10.65%	43.40%	4.2%	5% + 4% - 4.2% = 4.8%	2.40%	18.90%	8.2%	0% + 4% - 8.2% = -4.2% ⇒ 0%	0.00%	6.70%
1H Year 5	0.2%	21.3% + 5% - 0.2% = 26.1%	13.05%	56.45%	4.7%	4.8% + 5% - 4.7% = 5.1%	2.55%	21.45%	9.2%	0% + 5% - 9.2% = -4.2% ⇒ 0%	0.00%	6.70%
2H Year 5	0.2%	26.1% + 5% - 0.2% = 30.9%	15.45%	71.90%	5.2%	5.1% + 5% - 5.2% = 4.9%	2.45%	23.90%	10.2%	0% + 5% - 10.2% = -5.2% ⇒ 0%	0.00%	6.70%
<b>Total return</b>	<b>HKD 35,950</b>				<b>HKD 11,950</b>				<b>HKD 3,350</b>			
<b>Return per year</b>	<b>71.90% / 5 years = 14.38% p.a.</b>				<b>23.90% / 5 years = 4.78% p.a.</b>				<b>6.70% / 5 years = 1.34% p.a.</b>			

Scenario 4: If the Bank exercises its Callable Right to call and terminate the Linked Deposit on the 1<sup>st</sup> Coupon Payment Date, the Linked Deposit will mature and the investment tenor will be shortened to 6 months.

**Total Return: HKD 1,125**

**Return per year: 2.25% / 0.5 years = 4.50% p.a.**

## HKD Time Deposit (for comparison basis only)

Deposit Amount	HKD 50,000
1-Year Deposit Rate	0.0625% p.a. *
Deposit Period	12 months
1-Year Interest Earned	HKD 31.25
Total Interest Earned for 5 Years	HKD 156.25 #

\* 0.0625% is sourced from BEA's 1-year HKD Time Deposit as on 12 January 2004 for deposit amount HKD50,000

# BEA does not provide time deposit of over 1 year. The above time deposit return is for reference only and is subject to interest rate movement.

## Target Investors

Floating Booster Index Linked Deposit may particularly be an ideal investment tool for investors who

- believe that the 6-month HIBOR will not move up to 6.5% within an one and a half year period; and
- are willing to hold the Linked Deposit until maturity even if the interest rate rises drastically in later period.

## Risk Factors

- This Linked Deposit is not the same as nor should it be treated as a substitute for normal time deposits.
- By participating in such Linked Deposit, the investors are committed to hold the Linked Deposit until maturity (unless the Bank calls and terminates the Linked Deposit before maturity).
- The potential risk is that if the 6-month HIBOR rises sharply and trades beyond 6.5% one and a half year afterwards and stays at this level for the remaining investment period, investors will then receive no Coupon Payment on the relevant Coupon Payment Dates and need to hold the Linked Deposit for 5 years until maturity unless the Bank calls and terminates the Linked Deposit during the investment tenor. The higher the HIBOR, the lower the investment return.
- Investors have to bear the reinvestment risk if the Bank calls and terminates the Linked Deposit.
- Investors should fully understand all the risks associated with the Linked Deposit before making an investment decision.
- Investors should seek independent legal and financial advice.

## Overdraft Facility

Overdraft facility can be offered to investors. For the terms of overdraft facility, please contact our Marketing Officers.

## Linked Deposit Details

Offer Period	18 February 2004 - 24 February 2004
Minimum Deposit Amount for each Depositor	HKD 50,000 or in the multiple
Minimum Aggregate Amount For all Depositors	HKD 50,000,000
Settlement Date	27 February 2004
Maturity Date	27 February 2009 (subject to the Bank's Callable Right)
Fees & Charges	No fees and charges are payable by depositors. All related charges incurred by the Bank are already inherently contained in and subsumed into the calculation of the interest rate and other variables under the Deposit.
Early Withdrawal	Partial or full withdrawal or termination by depositors is not permitted prior to maturity.

## Act Now

Do not miss the opportunity to secure an attractive return on your investment. For enquiries, please contact our Marketing Officers or call the hotline **2211 1311**.

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