

Range Accrual (HIBOR) Index Linked Deposit

Enjoy potentially higher returns with Index Linked Deposit

| Principal Brochure |

What is Range Accrual (HIBOR) Index Linked Deposit?

The Range Accrual (HIBOR) Index Linked Deposit ("Linked Deposit") is a highly competitive alternate investment, which provides 100% principal protection plus an opportunity for investors to earn a maximum coupon of 30%. The Daily Range Accrual structure and the unique step-up range mechanism allow investors to accumulate the coupon on a daily basis if the 3-Month HIBOR stays within the predefined ranges. 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 the Range Accrual (HIBOR) Index Linked Deposit Structure

Principal Protection

Investors will receive 100% of the invested capital at maturity or on the Coupon Payment Date where the Bank calls and terminates the Linked Deposit.

Daily Range Accrual Structure

Investors may take advantage of the Daily Range Accrual structure, which allows investors to accumulate coupon on a daily basis if the 3-Month HIBOR stays within the predefined ranges. Even if the 3-Month HIBOR falls outside the corresponding range on any specific day or days, once the 3-Month HIBOR re-enters the range, daily coupon will accumulate again.

High Potential Coupons

Aggregate coupons could potentially be as high as 30% of the Deposit Amount, much higher than the current normal time deposit rate.

Step-up Range

Step-up range allows investors to enjoy a higher opportunity to accumulate coupons even in a monetary tightening cycle where interest rate will be raised to combat anticipated inflation.

Opportunity to Shorten the Investment Period

The Bank has the right to call and terminate the Linked Deposit on any Coupon Payment Date, which in turn may shorten the investment period. The shortest investment tenor will be 3 months.

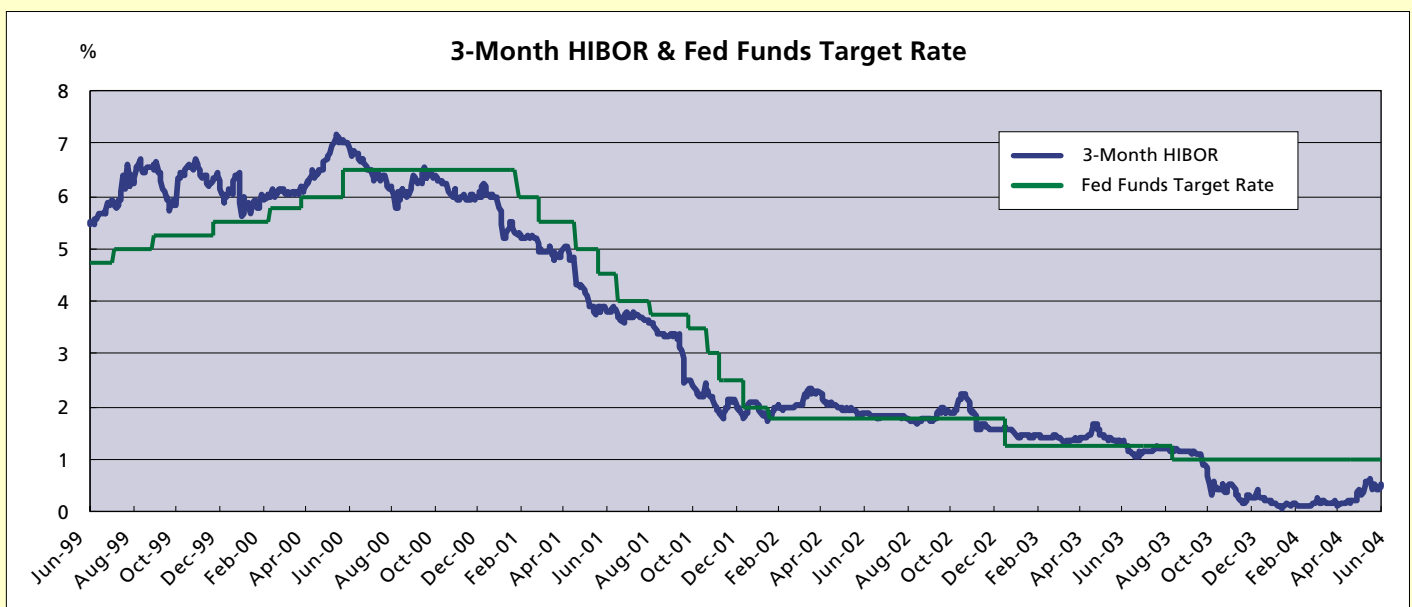
Current Market Situation

Hong Kong has always been known for its resiliency in combating adverse situations. The aftermath of 911 terrorist attacks in the US, the burst of the global tech bubbles, the deterioration of the local property market since 1998, the SARS epidemic in 2003...etc, just to name a few examples. Economic conditions are now at last improving. Since the second half of 2003, Hong Kong has been experiencing strong and broadening recovery. Key economic numbers released so far have been pointing to a better future for Hong Kong with stabilizing or improving unemployment and domestic consumption, easing deflationary pressure and a bottoming out of the residential property market.

Nevertheless, in the first quarter of 2004, the Composite Consumer Price Index in Hong Kong still registered a decline of 1.8%. Accordingly, even if the US Fed has to raise its rates before the November Presidential election, there is high chance that Hong Kong may not follow suit. In addition, it is now generally believed that even the US interest rate has to go up, the magnitude should be quite modest. Against this background, the current investment environment should be desirable for investment opportunities that link with interest rates.

All in all, Hong Kong's economy is currently experiencing a robust rebound from a year ago along with minimal inflation. Therefore, the interest rate is expected to remain at a low level (current 3-Month HIBOR is approximately 0.529%) at least for the foreseeable future.

5-Year Chart for 3-Month HIBOR



Mechanism of the Range Accrual (HIBOR) Index Linked Deposit

Coupon Rate: (6% x D / N) per annum, based on the following coupon payment condition:

	3-Month HIBOR Range (highest and lowest rates inclusive)
Year 1	0% - 3.0%
Year 2	0% - 4.0%
Year 3	0% - 4.5%
Year 4	0% - 5.0%
Year 5	0% - 5.5%

D = Total number of calendar days in the relevant Calculation Period on which the 3-Month HIBOR stays within the Range applicable to the relevant period set out above, as determined by the Bank.

N = Total number of calendar days in the relevant Calculation Period, as determined by the Bank.

For non-Business Day, the 3-Month HIBOR of the preceding Business Day will apply.

The 3-Month HIBOR on the 3rd last Business Day of the relevant Calculation Period will apply to the subsequent days in such Calculation Period irrespective of the actual 3-Month HIBOR on such days.

"3-Month HIBOR" : The 3-Month Hong Kong Interbank Offered Rate as shown in the Reuters page "HIBOR=" on each day.

Coupon Frequency: Quarterly

Coupon Payment Date(s): 09 Oct 2004, 09 Jan 2005, 09 Apr 2005, 09 Jul 2005, 09 Oct 2005, 09 Jan 2006, 09 Apr 2006, 09 Jul 2006, 09 Oct 2006, 09 Jan 2007, 09 Apr 2007, 09 Jul 2007, 09 Oct 2007, 09 Jan 2008, 09 Apr 2008, 09 Jul 2008, 09 Oct 2008, 09 Jan 2009, 09 Apr 2009 and 09 Jul 2009; or if such day is not a Business Day, then the next following Business Day. The "Calculation Period" in respect of the 1st Coupon Payment Date, will be the period from the Settlement Date to the day preceding the 1st Coupon Payment Date (both days inclusive); in respect of any other Coupon Payment Date, will be the period from the last expired Coupon Payment Date to the day preceding the relevant Coupon Payment Date (both days inclusive).

Bank's Callable Right: The Bank has the absolute right to call and terminate the Linked Deposit on any Coupon Payment Date whereupon the Linked Deposit will mature immediately. Once the Linked Deposit is called, no further Coupon will be paid.

Once the Bank exercises its Callable 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 HKD 50,000 deposit is illustrated as follows:

Assumption: 1) Current 3-Month HIBOR = 0.529%
 2) The Bank will not exercise the Callable Right throughout the investment period
 3) 3-Month HIBOR in the following scenario analysis remains the same throughout the relevant Calculation Period

Scenario 1: 3-Month HIBOR remains at current level **0.529%** throughout the investment period

Scenario 2: 3-Month HIBOR moves up by **0.25%** every quarter after launch

Scenario 3: 3-Month HIBOR moves up drastically by **0.5%** every quarter after launch

	3-Month HIBOR Range	Scenario 1 3-Mth HIBOR remains at current level			Scenario 2 3-Mth HIBOR ↑ 0.25% every quarter			Scenario 3 3-Mth HIBOR ↑ 0.5% every quarter		
		HIBOR	Quarterly Return	Cumul. Return	HIBOR	Quarterly Return	Cumul. Return	HIBOR	Quarterly Return	Cumul. Return
1Q Year 1	0% - 3.0%	0.529%	1.5%	1.5%	0.779%	1.5%	1.5%	1.029%	1.5%	1.5%
2Q Year 1	0% - 3.0%	0.529%	1.5%	3.0%	1.029%	1.5%	3.0%	1.529%	1.5%	3.0%
3Q Year 1	0% - 3.0%	0.529%	1.5%	4.5%	1.279%	1.5%	4.5%	2.029%	1.5%	4.5%
4Q Year 1	0% - 3.0%	0.529%	1.5%	6.0%	1.529%	1.5%	6.0%	2.529%	1.5%	6.0%
1Q Year 2	0% - 4.0%	0.529%	1.5%	7.5%	1.779%	1.5%	7.5%	3.029%	1.5%	7.5%
2Q Year 2	0% - 4.0%	0.529%	1.5%	9.0%	2.029%	1.5%	9.0%	3.529%	1.5%	9.0%
3Q Year 2	0% - 4.0%	0.529%	1.5%	10.5%	2.279%	1.5%	10.5%	4.029%	0%	9.0%
4Q Year 2	0% - 4.0%	0.529%	1.5%	12.0%	2.529%	1.5%	12.0%	4.529%	0%	9.0%
1Q Year 3	0% - 4.5%	0.529%	1.5%	13.5%	2.779%	1.5%	13.5%	5.029%	0%	9.0%
2Q Year 3	0% - 4.5%	0.529%	1.5%	15.0%	3.029%	1.5%	15.0%	5.529%	0%	9.0%
3Q Year 3	0% - 4.5%	0.529%	1.5%	16.5%	3.279%	1.5%	16.5%	6.029%	0%	9.0%
4Q Year 3	0% - 4.5%	0.529%	1.5%	18.0%	3.529%	1.5%	18.0%	6.529%	0%	9.0%
1Q Year 4	0% - 5.0%	0.529%	1.5%	19.5%	3.779%	1.5%	19.5%	7.029%	0%	9.0%
2Q Year 4	0% - 5.0%	0.529%	1.5%	21.0%	4.029%	1.5%	21.0%	7.529%	0%	9.0%
3Q Year 4	0% - 5.0%	0.529%	1.5%	22.5%	4.279%	1.5%	22.5%	8.029%	0%	9.0%
4Q Year 4	0% - 5.0%	0.529%	1.5%	24.0%	4.529%	1.5%	24.0%	8.529%	0%	9.0%
1Q Year 5	0% - 5.5%	0.529%	1.5%	25.5%	4.779%	1.5%	25.5%	9.029%	0%	9.0%
2Q Year 5	0% - 5.5%	0.529%	1.5%	27.0%	5.029%	1.5%	27.0%	9.529%	0%	9.0%
3Q Year 5	0% - 5.5%	0.529%	1.5%	28.5%	5.279%	1.5%	28.5%	10.029%	0%	9.0%
4Q Year 5	0% - 5.5%	0.529%	1.5%	30.0%	5.529%	0%	28.5%	10.529%	0%	9.0%
Total return		HKD 15,000			HKD 14,250			HKD 4,500		
Return per year		30.0% / 5 years = 6.0% p.a.			28.5% / 5 years = 5.7% p.a.			9.0% / 5 years = 1.8% p.a.		

Scenario 4: Assuming that the 3-Month HIBOR does not exceed 3% during the 1st Calculation Period; and the Bank exercises its Callable Right to call and terminate the Linked Deposit on the 1st Coupon Payment Date. The Linked Deposit will mature and the investment tenor will be shortened to 3 months.

Total return: HKD 750

Return per year: 1.5% / 0.25 year = 6.0% 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 the Bank's 1-year HKD Time Deposit as on 03 Jun 2004 for deposit amount HKD 50,000.

The Bank 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

This Linked Deposit may particularly be an ideal investment tool for investors who

- believe that the 3-Month HIBOR will not rise above 3% immediately after the Settlement Date and will not increase substantially to above their predefined ranges in every subsequent years (4% in Year 2, 4.5% in Year 3, 5% in Year 4 and 5.5% in Year 5); 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, 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 3-Month HIBOR rises sharply and trades beyond 3% immediately after the Settlement Date and keeps rising to above their predefined ranges in every subsequent years (4% in Year 2, 4.5% in Year 3, 5% in Year 4 and 5.5% in Year 5) and never falls within any of the predefined ranges, 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 3-Month HIBOR, the greater the opportunity that no coupon will be paid.
- Investors have to bear the reinvestment risk if the Bank calls and terminates the Linked Deposit.
- Investors should note that in case of early redemption of Linked Deposit before the Maturity Date, they may not receive the full original invested capital. The invested capital would only be 100% protected if investors hold the Linked Deposit until the Maturity Date or the Bank exercises its Callable Right, as the case may be.
- 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.

Early Redemption

Investors may early redeem the Linked Deposit (in whole but not in part) on the 3rd Business Day of March, June, September and December ("Dealing Day") starting from one year after the Settlement Date, subject to the Bank receiving the investor's written notice of such early redemption before the Dealing Day. Upon such early redemption, the Bank will pay to the investor an amount equals to 100% of the Deposit Amount less all costs, losses and expenses incurred by the Bank in discharging any related hedging or other underlying arrangement, as may be absolutely determined by the Bank, without any further coupon payment. Please contact our Marketing Officers for details.

Linked Deposit Details

Offer Period	28 June 2004 - 06 July 2004
Minimum Deposit Amount for each Investor	HKD 50,000 or in the multiple
Minimum Aggregate Amount for all Investors	HKD 50,000,000
Settlement Date	09 July 2004
Maturity Date	09 July 2009 (subject to the Bank's Callable Right)
Fees & Charges	No fees and charges are payable by investors. 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 Linked Deposit.
Early Redemption	Redemption prior to maturity is only permitted one year after the Settlement Date and is subject to costs, losses, and expenses absolutely determined by the Bank.

Act Now

Do not miss the opportunity to obtain an attractive return on your investment. For enquiries, please contact our Marketing Officers or call the hotline **2211 1311**. Information is also available at BEA Website: www.hkbea.com.

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