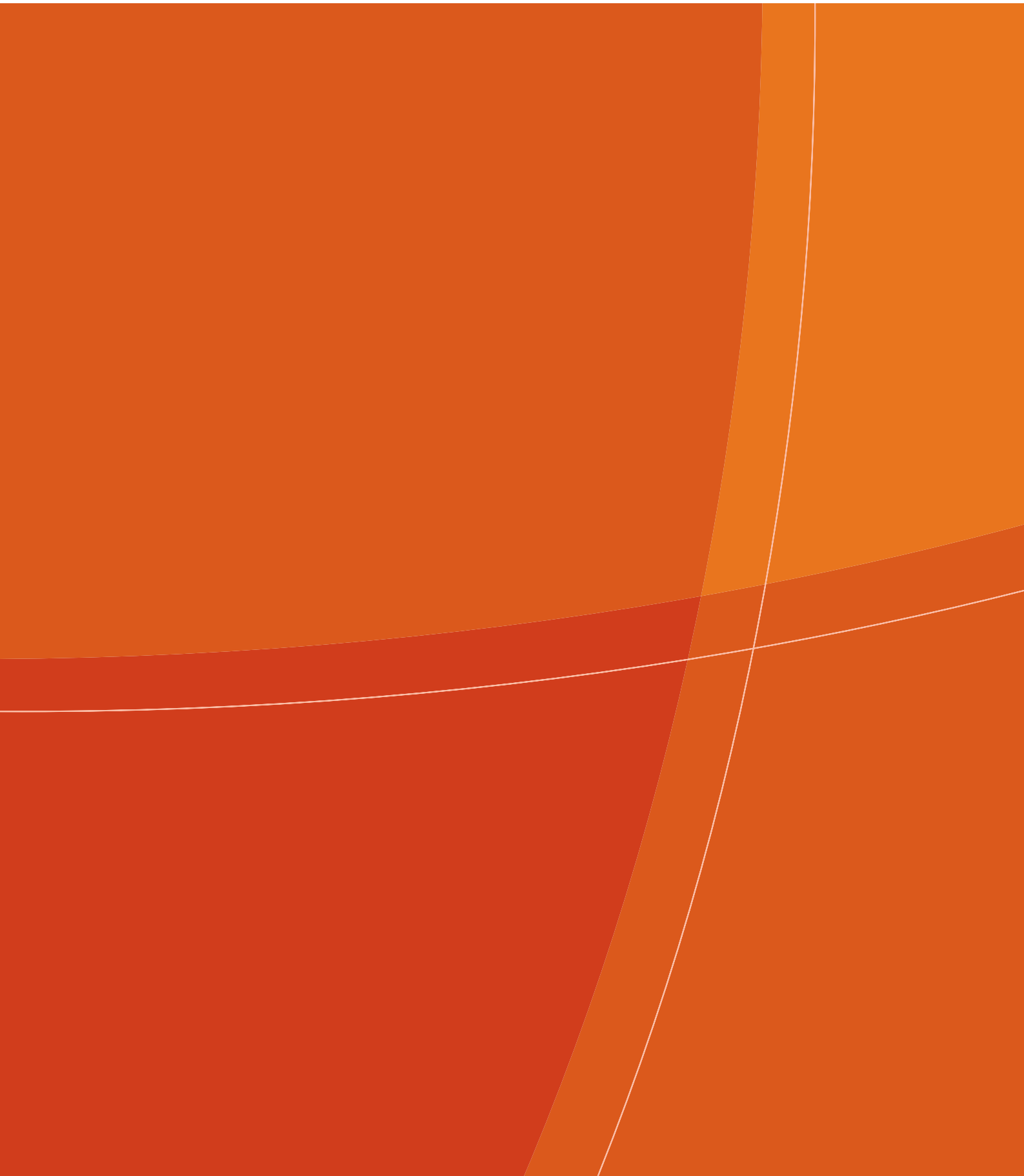


# The Bank of East Asia, Limited

## Interim Report 2005



## CONTENTS

	<i>Pages</i>
<b>INTERIM RESULTS</b>	<b>1</b>
<b>SUPPLEMENTARY FINANCIAL INFORMATION</b>	<b>27</b>
<b>INDEPENDENT REVIEW REPORT</b>	<b>34</b>
<b>INTERIM DIVIDEND</b>	<b>35</b>
<b>CLOSURE OF REGISTER OF MEMBERS</b>	<b>35</b>
<b>FINANCIAL REVIEW</b>	<b>35</b>
<b>OPERATIONS REVIEW</b>	<b>40</b>
<b>DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS</b>	<b>46</b>
<b>INFORMATION ON SHARE OPTIONS</b>	<b>48</b>
<b>INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS</b>	<b>49</b>
<b>DEALING IN LISTED SECURITIES OF THE BANK</b>	<b>49</b>
<b>COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES</b>	<b>50</b>
<b>COMPLIANCE WITH MODEL CODE</b>	<b>50</b>

# The Bank of East Asia, Limited

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

## INTERIM REPORT 2005

### INTERIM RESULTS

The Directors of The Bank of East Asia, Limited ("BEA") are pleased to announce the unaudited results<sup>1</sup> of the Bank and its subsidiaries (the "Group") for the six months ended 30th June, 2005. The interim financial report is unaudited, but has been reviewed by KPMG, in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors is included on page 34.

#### A. Consolidated Profit and Loss Account

	6 months ended 30/6/2005	6 months ended 30/6/2004 Restated	6 months ended 31/12/2004 Restated
	HK\$'000	HK\$'000	HK\$'000
Interest income	3,440,317	2,708,187	2,973,893
Interest expense	(1,724,673)	(905,425)	(1,149,080)
Net interest income	1,715,644	1,802,762	1,824,813
Fee and commission income	770,975	775,259	731,345
Fee and commission expense	(107,948)	(193,763)	(104,600)
Net trading profits	210,249	102,784	257,587
Other operating income	164,515	136,658	163,020
Operating income	2,753,435	2,623,700	2,872,165
Operating expenses	(1,410,489)	(1,314,209)	(1,447,971)
Operating profit before impairment allowances/provisions	1,342,946	1,309,491	1,424,194
Charge for bad and doubtful debts	—	(143,096)	(129,711)
Release of impairment losses and impairment allowances for impaired assets (other than the impairment allowances on held-to-maturity securities and available-for-sale securities)	24,314	—	—
Operating profit after impairment allowances/provisions	1,367,260	1,166,395	1,294,483
Net profit on disposal of fixed assets	35,260	6,575	8,664
Revaluation surplus on investment properties	—	—	227,941
(Charge)/write back of impairment loss on bank premises	(953)	—	18,538
Net (loss)/profit on disposal of held-to-maturity debt securities, investment securities and associates	(23)	46	13,712
Net profit on disposal of available-for-sale securities	6,604	—	—
Provision on held-to-maturity debt securities, investment securities and associates	—	(12,438)	(6,144)
Impairment allowances on held-to-maturity securities, available-for-sale securities and associates	(8,325)	—	—
Share of profits less losses of associates	(4,199)	8,172	56,204
Profit for the period before taxation	1,395,624	1,168,750	1,613,398
Income tax			
Current tax <sup>5</sup>			
— Hong Kong	(169,393)	(166,567)	(130,805)
— Overseas	(59,377)	(27,380)	(1,805)
Deferred tax	34,541	12,026	(99,760)
Associates	1,437	11,160	(6,541)
Profit for the period after taxation	1,202,832	997,989	1,374,487
Attributable to:			
Equity holders of the Group	1,182,965	986,109	1,361,601
Minority interests	19,867	11,880	12,886
Profit after taxation	1,202,832	997,989	1,374,487
Profit for the Bank	1,117,827	833,110	1,207,575
Proposed dividends	495,997	414,252	1,193,599

	6 months ended 30/6/2005	6 months ended 30/6/2004 Restated	6 months ended 31/12/2004 Restated
	HK\$	HK\$	HK\$
Per share			
— Basic earnings <sup>6</sup>	0.79	0.67	0.92
— Diluted earnings <sup>6</sup>	0.79	0.67	0.91
— Dividends	0.33	0.28	0.80

## B. Consolidated Balance Sheet

	30/6/2005	30/6/2004 Restated	31/12/2004 Restated
	HK\$'000	HK\$'000	HK\$'000
<b>ASSETS</b>			
Cash and short-term funds	33,020,537	36,749,106	39,877,738
Placements with banks and other financial institutions maturing between one and twelve months	5,768,067	12,198,154	9,832,258
Trade bills	1,597,825	751,361	1,400,138
Certificates of deposit held	2,615,056	2,410,042	2,446,947
Other investments in securities	—	9,277,648	8,563,367
Securities measured at fair value through profit or loss	10,963,935	—	—
— Trading	783,951	—	—
— Designated at inception	10,179,984	—	—
Advances and other accounts	134,203,693	110,089,402	122,949,653
Revaluation gain on derivatives	387,046	—	—
Held-to-maturity debt securities	11,533,315	15,360,498	16,096,084
Investment securities	—	242,858	236,373
Available-for-sale securities	3,643,548	—	—
Investments in associates	753,998	692,086	725,963
Goodwill	2,455,056	2,298,113	2,448,156
Deferred tax assets	73,811	73,173	95,119
Fixed assets	5,275,474	4,104,426	5,697,750
<b>Total Assets</b>	<b>212,291,361</b>	<b>194,246,867</b>	<b>210,369,546</b>
<b>EQUITY AND LIABILITIES</b>			
Deposits and balances of banks and other financial institutions	11,561,199	7,621,135	9,571,657
Deposits from customers	160,461,840	153,727,601	163,737,665
— Demand deposits and current accounts	11,883,561	10,905,376	11,919,118
— Saving deposits	39,043,427	44,535,957	48,729,729
— Time, call and notice deposits	109,534,852	98,286,268	103,088,818
Certificates of deposit issued	6,519,136	2,350,228	4,178,623
— At fair value through profit or loss	2,823,480	—	—
— At amortised cost	3,695,656	2,350,228	4,178,623
Current taxation	303,372	312,748	179,369
Other accounts and provisions	5,311,478	4,894,307	5,843,048
Revaluation loss on derivatives	389,548	—	—
Deferred tax liabilities	678,241	605,237	729,266
<b>Total Liabilities</b>	<b>185,224,814</b>	<b>169,511,256</b>	<b>184,239,628</b>
Loan capital measured at fair value through profit or loss	4,360,609	4,282,700	4,271,124
Share capital	3,757,553	3,698,675	3,729,996
Reserves	18,759,472	16,720,030	17,963,143
<b>Total equity attributable to equity holders of the Group</b>	<b>22,517,025</b>	<b>20,418,705</b>	<b>21,693,139</b>
Minority interests	188,913	34,206	165,655
<b>Total Equity</b>	<b>22,705,938</b>	<b>20,452,911</b>	<b>21,858,794</b>
<b>Total Equity and Liabilities</b>	<b>212,291,361</b>	<b>194,246,867</b>	<b>210,369,546</b>

### C. Consolidated Summary Statement of Changes in Equity

	6 months ended 30/6/2005	6 months ended 30/6/2004 Restated
	HK\$'000	HK\$'000
Balance as at 1st January		
— As previously reported	21,727,481	20,111,256
— Minority interests (as previously presented separately from liabilities and equity as at 31st December)	165,655	24,418
— Prior period adjustments arising from change in accounting policies	(34,342)	—
— As restated, before opening balance adjustments	21,858,794	20,135,674
— Opening balance adjustments arising from change in accounting policies	595,788	—
— As restated, after prior period and opening balance adjustments	22,454,582	20,135,674
Release of net deferred tax liabilities in revaluation reserve on bank premises	2,530	2,497
Acquisition/(increase in shareholding) of a subsidiary with minority interests	3,409	(2,092)
Capital reserve on share-based transactions	17,361	14,222
Changes in fair value of available-for-sale securities	(9,548)	—
Exchange and other adjustments	895	(17,833)
Net profit/(loss) not recognised in the profit and loss account	14,647	(3,206)
Net profit for the period	1,202,832	
— Attributable to equity holders of the Group (as previously reported)		1,000,331
— Minority interests (as previously presented separately in the consolidated profit and loss account)		11,880
— Prior period adjustments arising from change in accounting policies		(14,222)
— As restated		997,989
Dividends paid during the period	(1,195,300)	(910,707)
Movements in shareholders' equity arising from capital transactions with equity holders of the Group:		
Shares issued under Staff Share Option Schemes	49,459	82,108
Shares issued in lieu of dividends	179,760	151,122
Capital fee	(42)	(69)
	229,177	233,161
Balance as at 30th June	22,705,938	20,452,911

## D. Condensed Consolidated Cash Flow Statement

	6 months ended 30/6/2005	6 months ended 30/6/2004
	HK\$'000	HK\$'000
Cash (used in)/generated from operations	(8,739,522)	7,853,158
Tax paid	(100,749)	(25,769)
Net cash (used in)/generated from operating activities	(8,840,271)	7,827,389
Net cash generated from/(used in) investing activities	321,057	(136,282)
Net cash generated from/(used in) financing activities	1,114,381	(4,063,190)
Net (decrease)/increase in cash and cash equivalents	(7,404,833)	3,627,917
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	41,204,335	33,890,538
CASH AND CASH EQUIVALENTS AT 30TH JUNE	33,799,502	37,518,455
Cash flows from operating activities included:		
Interest received	3,784,245	2,682,846
Interest paid	1,425,819	878,235

### Notes:

- (1) The financial information set out in this interim report does not constitute the Group's statutory accounts for the year ended 31st December, 2004 but there is no material change as compared to those accounts, except for prior period adjustments made due to changes in accounting policies, nor for the six months ended 30th June, 2005. The statutory accounts for the year ended 31st December, 2004 are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 3rd February, 2005.
- (2) The interim financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2004 annual accounts except for the changes in accounting policies made thereafter in adopting certain new and revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") issued by the HKICPA which are expected to be reflected in the 2005 annual financial statements. Details of those changes in accounting policies are set out in Note 4.
- (3) Summary of the effect of changes in the accounting policies
  - (a) Effect on opening balance of total equity at 1st January, 2005 (as adjusted)

The following table sets out the adjustments that have been made to the opening balances as at 1st January, 2005. These are the aggregate effect of retrospective adjustments to the net assets as at 31st December, 2004 and the opening balance adjustments made as at 1st January, 2005.

	Retained profits	Capital and other reserves	Total
	HK\$'000	HK\$'000	HK\$'000
Effect of new policy (increase/(decrease))			
Prior period adjustments:			
HKFRS 2			
Equity settled share-based transactions	(41,749)	41,749	—
HK(SIC) Interpretation 21			
Deferred tax on movements in the value of investment properties	(34,342)	—	(34,342)
	(76,091)	41,749	(34,342)
Opening balance adjustments:			
HKAS 39			
Available-for-sale securities	(265,398)	265,398	—
Securities measured at fair value through profit and loss	100,054	—	100,054
Derivatives	(10,131)	—	(10,131)
Issued debts	(179,381)	—	(179,381)
Impairment allowance — individual	20,677	—	20,677
Impairment allowance — collective	723,500	—	723,500
Impaired loan interest	46,542	—	46,542
Deferred tax on impairment allowance — collective	(105,473)	—	(105,473)
	330,390	265,398	595,788
Total effect as at 1st January, 2005	254,299	307,147	561,446

(b) Effect on profit after taxation for the six months ended 30th June, 2005 (estimated)

In respect of the six month period ended 30th June, 2005, the following table provides estimates of the extent to which the profits for that period are higher or lower than they would have been had the previous policies still been applied in the period, where it is practicable to make such estimates.

	6 months ended 30/6/2005 Equity holders of the Group
	HK\$'000
Effect of new policy (increase/(decrease))	
HKFRS 2	
Equity settled share-based transactions	<u>(17,361)</u>
HKFRS 3	
Amortisation of goodwill	<u>76,105</u>
HK(SIC) Interpretation 21	
Deferred tax on movements in the value of investment properties	<u>17,573</u>
HKAS 39	
Available-for-sale securities	9,153
Securities measured at fair value through profit or loss	(27,171)
Derivatives	668
Issued debts	83,088
Impairment allowance — individual	36,047
Impairment allowance — collective	153,947
Impaired loan interest	28,713
Deferred tax on impairment allowance — collective	(14,620)
Others	<u>(196)</u>
	<u>269,629</u>
Total effect for the period	<u><u>345,946</u></u>
Effect on earnings per share:	
— Basic	HK\$0.23
— Diluted	HK\$0.23

(c) Effect on net loss recognised directly in equity for the six months ended 30th June, 2005 (estimated)

In respect of the six month period ended 30th June, 2005, the following table provides estimates of the extent to which the expenses recognised directly in equity are lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

	6 months ended 30/6/2005 Equity holders of the Group
	HK\$'000
Effect of new policy (decrease)	
HKAS 39	
Available-for-sale securities	<u>(9,548)</u>
Total effect for the period	<u><u>(9,548)</u></u>

(4) Changes in accounting policies

(a) Staff share option scheme

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Bank. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1st January, 2005, in order to comply with HKFRS 2 "Share-based Payment", the Group recognises the fair value of such share options as an expense in the profit and loss account. A corresponding increase is recognised in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognise the fair value in the period in which the options are granted.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the related capital reserve is transferred directly to retained earnings.

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKFRS 2, except that the Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

- (i) all options granted to employees on or before 7th November, 2002; and
- (ii) all options granted to employees after 7th November, 2002 but which had vested before 1st January, 2005.

No adjustments to the opening balances as at 1st January, 2004 are required as no options existed at that time which were unvested at 1st January, 2005.

The amount charged to the profit and loss account as a result of the change of policy increased staff costs for the six months ended 30th June, 2005 by HK\$17,361,000 (six months ended 30th June, 2004: HK\$14,222,000), with the corresponding amounts credited to the capital reserve.

Details of the staff share option scheme can be found in the Group's annual report for the year ended 31st December, 2004.

(b) Investment properties

In prior years the Group was required to apply the tax rate that would be applicable to the sale of investment properties to determine whether any amounts of deferred tax should be recognised on the revaluation of investment properties. As there would have been no tax payable on the disposal of the Group's investment properties, no deferred tax was provided in prior years.

As from 1st January, 2005, in accordance with HK(SIC) Interpretation 21 "Income Taxes — Recovery of Revalued Non-depreciable Assets", the Group recognises deferred tax on movements in the value of investment properties using tax rates that are applicable to the properties' use, if the Group has no intention to sell them and the properties would have been depreciable had the Group not adopted the fair value model.

HK(SIC) Interpretation 21 has been adopted retrospectively by reducing the opening balance of retained earnings as of 1st January, 2005 by HK\$34,342,000 (1st January, 2004: Nil) and increasing deferred tax liabilities by the same amount.

(c) Financial instruments

In prior years, the accounting policies for certain financial instruments were as follows:

- securities which are intended to be held on a continuing basis, and which are held for an identified long-term purpose were classified as investment securities and stated at cost less provisions for diminution in value;
- other investments in securities are securities which are not classified as held-to-maturity debt securities nor as investment securities, and are stated at fair value with changes in fair value recognised in the profit and loss account; and
- derivative financial instruments entered into by management to hedge risks arising from an underlying asset, liability (or a net position) or a committed future transaction were recognised on equivalent basis to the position or transaction being hedged.



(i) Classification

From 1st January, 2005, the Group has adopted HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement” and classified financial instruments under the following categories:

*Financial assets measured at fair value through profit or loss*

This category comprises financial assets held for trading and those that are designated as fair value through profit and loss at inception. A financial asset is classified as held for trading if it is either acquired principally for the purpose of selling it in the short term or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking or is a derivative that is not a designated and effective hedging instrument.

This category includes equity investments, derivative instruments with a positive fair value, debt securities and investments in investment funds but excludes those financial assets that do not have a quoted market price and whose fair value cannot be reliably measured.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (1) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading, (2) those that the Group, upon initial recognition, designates as fair value through profit and loss or available for sale, or (3) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available for sale.

This category includes assets which are shown on the balance sheet within cash and short-term funds, placements with banks and other financial institutions, trade bills and advances to customers and other accounts.

*Securities classified as loans and receivables*

Securities classified as loans and receivables typically comprise securities issued by the same customers with whom the Group has a lending relationship in its wholesale banking business. Investment decisions for credit substitute securities are subject to the same credit approval processes as loans, and the Group bears the same customer risk as it does for loans extended to those customers. Additionally the yield and maturity terms are generally directly negotiated by the Group with the issuer.

These securities include commercial papers, short term debentures and preference shares issued by the borrower.

*Available-for-sale financial assets*

This category comprises non-derivative financial assets that are designated as available-for-sale financial assets or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

This category includes equity investments, debt securities and investment fund units.

*Held-to-maturity investments*

This category comprises of non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than (1) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available for sale, and (2) those that meet the definition of loans and receivables.

*Financial liabilities measured at fair value through profit or loss*

Financial liabilities at fair value through profit or loss are financial liabilities held for trading or those designated at fair value through profit or loss at inception. A financial liability is classified in this category if it is incurred principally for the purpose of being repurchased or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-making, or is a derivative that is not a designated and effective hedging instrument.

This category includes derivative liabilities with negative fair values not accounted for as hedging instruments, obligations to deliver financial assets borrowed by a short seller, and financial liabilities that are incurred with an intention to repurchase them in the near term.

*Other financial liabilities*

This category comprises all financial liabilities other than those classified as financial liabilities measured at fair value through profit or loss.

This category includes liabilities presented on the balance sheet within deposits and balances of banks and other financial institutions, deposits from customers, certificate of deposits issued and issued debt.

(ii) Initial recognition and measurement

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

A regular way purchase of financial assets is recognised using trade date accounting. From this date, any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

Financial liabilities are not recognised unless one of the parties has performed or the contract is a derivative contract not exempted from the scope of HKAS 39.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price, plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities measured at fair value through profit or loss are expensed immediately.

(iii) Subsequent measurement

The subsequent measurement of financial instruments depends upon their classification.

*Financial assets measured at fair value through profit or loss*

Financial assets under this category are carried at fair value. Unrealised gains and losses arising from changes in the fair value are included in the profit and loss account in the period in which they arise. Upon disposal, the difference between the net sale proceeds and the carrying value is included in the profit and loss account.

*Loans and receivables*

Loans and receivables and securities classified as loans and receivables are carried at amortised cost using the effective interest method, less provision for impairment, if any and are accounted for in the profit and loss account.

*Available-for-sale financial assets*

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in the investment revaluation reserve.

For monetary securities, exchange differences resulting from changes in amortised cost are recognised in profit and loss account. When the securities are sold, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments in the investment revaluation reserve are treated as gains or losses on disposal and are accounted for in the profit and loss account.

*Held-to-maturity investments*

Held-to-maturity investments are carried at amortised cost using the effective interest method less provision for impairment, if any.

*Financial liabilities measured at fair value through profit or loss*

Financial liabilities under this category are carried at fair value. Unrealised gains and losses arising from changes in the fair value are included in profit and loss account in the period in which they arise. Upon repurchase, the difference between the net payments and the carrying value is included in the profit and loss account.

*Other financial liabilities*

Financial liabilities, other than those measured at fair value through profit or loss, are measured at amortised cost using the effective interest rate.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques that provides a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

Specifically, the fair value of a forward contract is determined as the present value of estimated future cash flows, discounted at appropriate market rates on the valuation date; and the fair value of an option contract is determined by applying the Black-Scholes option valuation model.

Investments in other unlisted open-ended investment funds are recorded at the net asset value per share as reported by the managers of such funds.

(v) Impairment and allowances for credit losses

Financial assets that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the profit and loss account as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost or a debt instrument classified as available-for-sale decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the profit and loss account.

The total allowance and provision for credit losses consists of two components: individual impairment allowances, and collective impairment allowances. The individual impairment allowance component applies to loans and receivables evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows which are expected to be received. In estimating these cash flows, management makes judgments about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its merits. Collective impairment allowances cover credit losses inherent in portfolios of loans and receivables with similar economic characteristics where there is objective evidence to suggest that they contain impaired loans and receivables but the individual impaired items cannot yet be identified. A component of collective impairment allowances is for country risks. In assessing the need for collective impairment allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, the Group makes assumptions both to define the way the Group models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the allowances and provisions the Group makes depends on how well the Group can estimate future cash flows for individually assessed counterparty allowances and the model assumptions and parameters used in determining collective allowances. While this necessarily involves judgment, the Group believes that the loan loss allowances are reasonable and supportable.

All impaired financial assets are reviewed and analysed periodically. Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the allowance for impairment losses and will be charged or credited to the profit and loss account.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with HKAS 39.

The Group uses the weighted average method to determine realised gains and losses on derecognition.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

(vii) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

Interest income is recognised using the effective interest method.

Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Group making a loan, the fee is recognised as revenue on expiry.

For impaired loans, the accrual of interest income based on the original terms of the loan is discontinued, but any increase of the present value of impaired claims due to the passage of time is reported as interest income.

(d) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit and loss account.

(e) Hedging

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction and the hedge is effective, the gain or loss on the derivative financial instrument in relation to the hedged risk is recognised directly in equity.

(ii) Fair value hedge

A fair value hedge seeks to offset risks of changes in the fair value of an existing asset or liability that will give rise to a gain or loss being recognised in the profit and loss account or reserves.

The hedging instrument is measured at fair value, with fair value changes recognised in the profit and loss account or reserves. The carrying amount of the hedged item is adjusted by the amount of the changes in fair value of hedging instrument attributable to the risk being hedged. This adjustment is recognised in the profit and loss account or reserves to offset the effect of the gain or loss on the hedging instrument.

(f) Amortisation of goodwill

In prior periods, positive goodwill which arose on or after 1st January, 2001 was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment.

With effect from 1st January, 2005, in accordance with HKFRS 3 "Business Combinations" and HKAS 36 "Impairment of Assets", the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

Also with effect from 1st January, 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the profit and loss account as it arises.

The new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. As a result, comparative amounts have not been restated, the cumulative amount of amortisation as at 1st January, 2005 has been offset against the cost of the goodwill and no amortisation charge for goodwill has been recognised in the profit and loss account for the six months ended 30th June, 2005. This has increased the Group's profit after tax for the six months ended 30th June, 2005 by HK\$76,105,000.

(g) Minority interests

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the profit and loss account as a deduction before arriving at the profit attributable to shareholders.

With effect from 1st January, 2005, in order to comply with HKAS 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements", minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Group, and minority interests in the results of the Group for the period are presented on the face of the consolidated profit and loss account as an allocation of the total profit for the period between the minority interests and the equity holders of the Group.

The presentation of minority interests in the consolidated balance sheet, profit and loss account and summary statement of changes in equity for the comparative period has been restated accordingly.

(5) The provision for Hong Kong profits tax is calculated at 17.5% of the estimated assessable profits for the six months ended 30th June, 2005. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

- (6) (a) The calculation of basic earnings per share is based on earnings of HK\$1,182,965,000 (six months ended 30th June, 2004: HK\$986,109,000) and on the weighted average of 1,497,491,867 (six months ended 30th June, 2004: 1,472,942,693) ordinary shares outstanding during the six months ended 30th June, 2005.
- (b) The calculation of diluted earnings per share is based on earnings of HK\$1,182,965,000 (six months ended 30th June, 2004: HK\$986,109,000) and on 1,501,798,518 (six months ended 30th June, 2004: 1,481,210,800) ordinary shares, being weighted average number of ordinary shares outstanding during the six months ended 30th June, 2005, adjusted for the effects of all dilutive potential shares.

#### E. Fee and Commission Income

Fee and commission income arises from the following services:

	6 months ended 30/6/2005	6 months ended 30/6/2004	6 months ended 31/12/2004
	HK\$'000	HK\$'000	HK\$'000
Corporate services	225,474	183,554	207,708
Loans, overdrafts and guarantees	150,579	221,158	137,680
Credit cards	107,246	98,476	106,192
Other retail banking services	78,051	56,522	55,092
Trade finance	51,414	53,415	63,550
Securities and asset management	88,900	101,928	91,046
Others	69,311	60,206	70,077
	<u>770,975</u>	<u>775,259</u>	<u>731,345</u>

#### F. Net Trading Profits

	6 months ended 30/6/2005	6 months ended 30/6/2004	6 months ended 31/12/2004
	HK\$'000	HK\$'000	HK\$'000
Profit on dealing in foreign currencies	152,553	100,817	59,819
Profit on investments in securities	43,352	(21,013)	173,063
Profit on other dealing activities	14,344	22,980	24,705
	<u>210,249</u>	<u>102,784</u>	<u>257,587</u>

#### G. Other Operating Income

	6 months ended 30/6/2005	6 months ended 30/6/2004	6 months ended 31/12/2004
	HK\$'000	HK\$'000	HK\$'000
Dividend income from listed equities	10,377	17,852	10,481
Dividend income from unlisted equities	15,178	8,006	6,621
Rental income on properties	23,096	22,953	23,045
Rental income on safe deposit box	42,830	42,522	42,824
Insurance revenue	47,598	30,597	57,059
Others	25,436	14,728	22,990
	<u>164,515</u>	<u>136,658</u>	<u>163,020</u>

## H. Operating Expenses

	6 months ended 30/6/2005	6 months ended 30/6/2004 Restated	6 months ended 31/12/2004 Restated
	HK\$'000	HK\$'000	HK\$'000
Contributions to defined contribution plan	52,808	51,115	52,363
Salary and other staff costs	722,479	657,014	714,446
<b>Total staff costs</b>	<b>775,287</b>	<b>708,129</b>	<b>766,809</b>
Premises and equipment expenses excluding depreciation			
— Rental of premises	78,912	67,847	74,695
— Maintenance, repairs and others	119,255	102,268	102,900
<b>Total premises and equipment expenses excluding depreciation</b>	<b>198,167</b>	<b>170,115</b>	<b>177,595</b>
Depreciation on fixed assets	119,795	122,483	121,478
Amortisation of goodwill	—	70,478	73,397
Other operating expenses			
— Communications, stationery and printing	85,784	75,604	83,443
— Legal and professional fees	57,405	39,177	49,950
— Advertising expenses	37,461	31,400	56,420
— Card related expenses	35,556	20,253	20,851
— Business promotions and business travel	23,313	22,508	27,611
— Stamp duty, overseas and PRC* business taxes, and value added taxes	22,493	4,790	16,650
— Insurance expenses	6,597	6,373	7,662
— Administration expenses of secretarial business	5,396	3,021	4,138
— Debt securities issue expenses	3,680	4,267	3,533
— Membership fees	2,805	3,089	2,037
— Donations	2,471	1,063	980
— Bank charges	2,135	5,085	2,211
— Bank licence	776	2,313	2,342
— Others	31,368	24,061	30,864
<b>Total other operating expenses</b>	<b>317,240</b>	<b>243,004</b>	<b>308,692</b>
<b>Total operating expenses</b>	<b>1,410,489</b>	<b>1,314,209</b>	<b>1,447,971</b>

\* PRC denotes the People's Republic of China.

## I. Cash and Short-term Funds

	30/6/2005	31/12/2004
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	4,335,387	3,655,593
Money at call and short notice	24,962,822	32,251,148
Treasury bills	3,722,328	3,970,997
	<b>33,020,537</b>	<b>39,877,738</b>

## J. Investments in Securities

### *Investments in securities 2005*

#### (a) *Certificates of Deposit Held — Unlisted*

	30/6/2005
	HK\$'000
— Fair value through profit or loss	48,725
— Loans and receivables, at amortised cost	977,201
— Held-to-maturity, at amortised cost	446,156
— Available-for-sale, at fair value	1,142,974
	<u>2,615,056</u>

#### (b) *Securities measured at fair value through profit or loss*

##### Listed

— in Hong Kong	
equity securities	258,774
debt securities	2,451,299
— outside Hong Kong	
equity securities	107,084
debt securities	2,712,863
	<u>5,530,020</u>

##### Unlisted

— debt securities	5,433,915
	<u>10,963,935</u>

Equity securities	365,858
Debt securities	10,598,077
	<u>10,963,935</u>

##### Market value of listed securities

— equity securities	365,858
— debt securities	5,164,162
	<u>5,530,020</u>

##### Issued by:

— Central governments and central banks	55,854
— Public sector entities	351,378
— Banks and other financial institutions	1,904,130
— Corporate entities	8,645,674
— Others	6,899
	<u>10,963,935</u>

(c) *Held-to-maturity debt securities*

	30/6/2005
	HK\$'000
Listed	
— in Hong Kong	45,188
— outside Hong Kong	1,617,090
	<u>1,662,278</u>
Unlisted	9,871,037
	<u>11,533,315</u>
Market value of listed securities	<u>1,688,503</u>
Issued by:	
— Central governments and central banks	7,745,253
— Public sector entities	871,459
— Banks and other financial institutions	1,805,515
— Corporate entities	1,111,088
	<u>11,533,315</u>

(d) *Available-for-sale securities*

Listed	
— in Hong Kong	
equity securities	255,833
debt securities	7,814
— outside Hong Kong	
equity securities	313,888
debt securities	993,991
	<u>1,571,526</u>
Unlisted	
— equity securities	186,502
— debt securities	1,885,520
	<u>2,072,022</u>
	<u>3,643,548</u>
Equity securities	756,223
Debt securities	2,887,325
	<u>3,643,548</u>
Market value of listed securities	
— equity securities	569,721
— debt securities	1,001,805
	<u>1,571,526</u>
Issued by:	
— Central governments and central banks	235,889
— Public sector entities	463,469
— Banks and other financial institutions	1,590,869
— Corporate entities	1,180,381
— Others	172,940
	<u>3,643,548</u>



(e) *Securities classified as loans and receivables*

	30/6/2005
	HK\$'000
Unlisted	
debt securities	284,429
Issued by:	
— Central governments and central banks	4,507
— Banks and other financial institutions	38,858
— Corporate entities	241,064
	284,429

**Investments in securities 2004**

(a) *Certificates of Deposit Held — Unlisted*

	31/12/2004
	HK\$'000
— Non-trading, at fair value	1,028,179
— Held-to-maturity, at amortised cost	1,418,768
	2,446,947

(b) *Other investments in securities*

Listed	
— in Hong Kong	
equity securities	410,594
debt securities	752,502
— outside Hong Kong	
equity securities	186,195
debt securities	2,947,608
	4,296,899
Unlisted	
— equity securities	315,881
— debt securities	3,950,587
	4,266,468
	8,563,367
Equity securities	912,670
Debt securities	7,650,697
	8,563,367
Market value of listed securities	
— equity securities	596,789
— debt securities	3,700,110
	4,296,899
Issued by:	
— Central governments and central banks	286,836
— Public sector entities	704,100
— Banks and other financial institutions	3,291,265
— Corporate entities	4,217,514
— Others	63,652
	8,563,367

(c) *Held-to-maturity debt securities*

	31/12/2004
	HK\$'000
Listed	
— in Hong Kong	518,281
— outside Hong Kong	2,919,372
	<u>3,437,653</u>
Unlisted	12,658,431
	<u>16,096,084</u>
Market value of listed securities	<u>3,450,682</u>
Issued by:	
— Central governments and central banks	7,843,778
— Public sector entities	1,196,216
— Banks and other financial institutions	2,181,169
— Corporate entities	4,874,921
	<u>16,096,084</u>

(d) *Investment securities*

Listed	
— outside Hong Kong debt securities	71,410
	<u>71,410</u>
Unlisted	
— equity securities	142,285
— debt securities	22,678
	<u>164,963</u>
	<u>236,373</u>
Equity securities	142,285
Debt securities	94,088
	<u>236,373</u>
Market value of listed securities	
— debt securities	81,943
	<u>81,943</u>
Issued by:	
— Corporate entities	154,414
— Central governments and central banks	14,577
— Banks and other financial institutions	3,910
— Others	63,472
	<u>236,373</u>

## K. Advances and Other Assets

### (a) Advances and other accounts

	30/6/2005	30/6/2004	31/12/2004
	HK\$'000	HK\$'000	HK\$'000
Advances to customers	128,418,266	105,692,926	117,258,753
Advances to banks and other financial institutions	2,319,294	1,776,263	2,114,655
Notes and bonds	284,429	—	—
Accrued interest	710,704	987,758	1,054,632
Less: Suspended interest	—	(330,752)	(319,779)
Other accounts	3,301,415	3,062,782	4,523,708
Construction in progress	—	602,598	—
	<u>135,034,108</u>	<u>111,791,575</u>	<u>124,631,969</u>
Less: Impairment loss allowances			
— Individual	362,778	—	—
— Collective	467,637	—	—
Less: Provisions for bad and doubtful debts			
— Specific	—	392,321	342,320
— General	—	1,309,852	1,339,996
	<u>134,203,693</u>	<u>110,089,402</u>	<u>122,949,653</u>

### (b) Impaired/Non-performing advances to customers

Impaired advances to customers are advances which have been classified as “substandard”; “doubtful” and “loss” under the Bank’s classification of loan quality.

Non-performing advances to customers were advances on which interest was being placed in suspense or on which interest accrual had ceased.

	30/6/2005		30/6/2004		31/12/2004	
	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers
Gross impaired advances to customers	1,506,108	1.17	—	—	—	—
Gross non-performing advances to customers	—	—	1,876,091	1.78	1,365,432	1.16
Individual impairment loss allowances	238,645		—		—	
Specific provisions	—		226,239		206,624	
Suspended interest *	—		387,495		380,129	

\* Inclusive of interest capitalised

There were no impaired advances to banks and other financial institutions as at 30th June, 2005 nor advances on which interest is being placed in suspense or on which interest accrual has ceased as at 30th June, 2004 and 31st December, 2004; nor were there any individual impairment loss allowances and specific provisions made for them on these three respective dates.

## **L. Segment Reporting**

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Personal banking business includes branch operations, personal Internet banking, consumer finance, property loans and credit card business.

Corporate banking business includes corporate lending and loan syndication, asset based lending, commercial lending, community lending, securities lending, trust services, mandatory provident fund business and corporate Internet banking.

Investment banking business includes treasury operations, securities broking and dealing, provision of internet security trading services.

Corporate services include company secretarial services, share registration and business services, and offshore corporate and trust services.

Other businesses include bancassurance, insurance business, property-related business and wealth management business.

Unallocated items mainly comprise the central management unit, bank premises, and any items which cannot be reasonably allocated to specific business segments.

## 6 months ended 30/6/2005

	Personal Banking	Corporate Banking	Investment Banking	Corporate Services	Others	Unallocated	Inter-segment elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income	696,433	818,748	315,981	50	3,112	(118,680)	—	1,715,644
Other operating income from external customers	240,275	154,014	280,433	227,740	90,232	45,097	—	1,037,791
Inter-segment income	—	—	—	—	—	61,329	(61,329)	—
<b>Total operating income</b>	<b>936,708</b>	<b>972,762</b>	<b>596,414</b>	<b>227,790</b>	<b>93,344</b>	<b>(12,254)</b>	<b>(61,329)</b>	<b>2,753,435</b>
Operating profit/(loss) before impairment allowances	362,261	685,145	476,675	104,893	5,586	(291,614)	—	1,342,946
Inter-segment transactions	49,569	5,725	2,174	—	626	(58,094)	—	—
Impairment losses and impairment allowances for impaired assets	37,982	(20,593)	1,380	(2,790)	2,268	6,067	—	24,314
Contribution from operations	449,812	670,277	480,229	102,103	8,480	(343,641)	—	1,367,260
Impairment loss on bank premises	—	—	—	—	—	(953)	—	(953)
Share of profits less losses of associates	359	11,313	(5,870)	—	(11,584)	1,583	—	(4,199)
Other income and expenses	—	3,934	(6,254)	—	592	35,244	—	33,516
Profit/(loss) before taxation	450,171	685,524	468,105	102,103	(2,512)	(307,767)	—	1,395,624
Income tax	—	—	—	—	—	(192,792)	—	(192,792)
Profit/(loss) for the period after taxation	<b>450,171</b>	<b>685,524</b>	<b>468,105</b>	<b>102,103</b>	<b>(2,512)</b>	<b>(500,559)</b>	<b>—</b>	<b>1,202,832</b>
Attributable to:								
Equity holders of the Group	450,171	685,524	468,105	82,142	(2,418)	(500,559)	—	1,182,965
Minority interests	—	—	—	19,961	(94)	—	—	19,867
Profit/(loss) attributable to equity holders is after charging:								
Depreciation for the period	(41,169)	(22,149)	(9,149)	(3,767)	(2,664)	(40,897)	—	(119,795)

## 6 months ended 30/6/2004 (Restated)

	Personal Banking	Corporate Banking	Investment Banking	Corporate Services	Others	Unallocated	Inter-segment elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income	915,921	615,169	269,194	(70)	25,747	(23,199)	—	1,802,762
Other operating income from external customers	228,462	133,102	172,776	183,298	56,237	47,063	—	820,938
Inter-segment income	—	—	—	—	—	54,678	(54,678)	—
Total operating income	<u>1,144,383</u>	<u>748,271</u>	<u>441,970</u>	<u>183,228</u>	<u>81,984</u>	<u>78,542</u>	<u>(54,678)</u>	<u>2,623,700</u>
Operating profit/(loss) before provisions	601,305	476,241	327,938	68,162	11,016	(175,171)	—	1,309,491
Inter-segment transactions (Charge for)/write back of bad and doubtful debts	46,303	4,080	1,995	—	—	(52,378)	—	—
	(72,655)	(70,466)	(612)	(2,683)	(131)	3,451	—	(143,096)
Contribution from operations	574,953	409,855	329,321	65,479	10,885	(224,098)	—	1,166,395
Share of profits less losses of associates	415	1,914	11,765	—	(5,760)	(162)	—	8,172
Other income and expenses	—	(15,643)	11,652	—	—	(1,826)	—	(5,817)
Profit/(loss) before taxation	575,368	396,126	352,738	65,479	5,125	(226,086)	—	1,168,750
Income tax	—	—	—	—	—	(170,761)	—	(170,761)
Profit for the period after taxation	<u>575,368</u>	<u>396,126</u>	<u>352,738</u>	<u>65,479</u>	<u>5,125</u>	<u>(396,847)</u>	<u>—</u>	<u>997,989</u>
Attributable to:								
Equity holders of the Group	575,368	396,126	352,738	53,773	5,125	(397,021)	—	986,109
Minority interests	—	—	—	11,706	—	174	—	11,880
Profit/(loss) attributable to equity holders is after charging:								
Depreciation for the period	(44,906)	(23,744)	(8,353)	(3,512)	(3,559)	(38,409)	—	(122,483)
Amortisation of goodwill	<u>(15,439)</u>	<u>(14,469)</u>	<u>(21,232)</u>	<u>(18,456)</u>	<u>(882)</u>	<u>—</u>	<u>—</u>	<u>(70,478)</u>

## M. Maturity Profile

	30/6/2005						
	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Assets</b>							
— Treasury bills	—	3,722,328	—	—	—	—	3,722,328
— Placements with banks and other financial institutions	—	3,924,738	1,843,329	—	—	—	5,768,067
— Certificates of deposit held	—	696,084	875,086	883,350	160,536	—	2,615,056
— Advances to customers	4,501,170	17,273,371	15,464,169	43,716,769	46,263,387	1,199,400	128,418,266
— Advances to banks and other financial institutions	—	62,782	114,286	652,673	—	1,489,553	2,319,294
— Debt securities included in:							
— Held-to-maturity debt securities	—	20,388	974,539	9,182,023	1,344,325	12,040	11,533,315
— Securities measured at fair value through profit or loss	—	157,145	2,045,571	7,476,408	673,217	245,736	10,598,077
— Available-for-sale securities	—	116,557	663,219	1,228,048	861,801	17,700	2,887,325
— Securities classified as loans and receivables	—	26,548	46,152	207,222	—	4,507	284,429
	<u>4,501,170</u>	<u>25,999,941</u>	<u>22,026,351</u>	<u>63,346,493</u>	<u>49,303,266</u>	<u>2,968,936</u>	<u>168,146,157</u>
<b>Liabilities</b>							
— Deposits and balances of banks and other financial institutions	1,086,571	5,393,981	4,892,514	188,133	—	—	11,561,199
— Deposits from customers	51,909,525	97,322,844	6,905,232	4,324,239	—	—	160,461,840
— Demand deposits and current accounts	11,883,561	—	—	—	—	—	11,883,561
— Savings deposits	39,043,427	—	—	—	—	—	39,043,427
— Time, call and notice deposits	982,537	97,322,844	6,905,232	4,324,239	—	—	109,534,852
— Certificates of deposit issued	—	594,694	2,946,147	2,978,295	—	—	6,519,136
	<u>52,996,096</u>	<u>103,311,519</u>	<u>14,743,893</u>	<u>7,490,667</u>	<u>—</u>	<u>—</u>	<u>178,542,175</u>

31/12/2004

	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Assets</b>							
— Treasury bills	—	3,784,702	186,295	—	—	—	3,970,997
— Placements with banks and other financial institutions	—	7,238,759	2,593,499	—	—	—	9,832,258
— Certificates of deposit held	—	1,038,530	258,799	988,323	161,295	—	2,446,947
— Advances to customers	4,964,737	15,193,618	15,172,290	42,237,184	38,372,449	1,318,475	117,258,753
— Advances to banks and other financial institutions	—	229,948	98,845	218,144	2,519	1,565,199	2,114,655
— Debt securities included in:							
— Held-to-maturity debt securities	—	175,500	1,179,776	12,891,652	1,849,156	—	16,096,084
— Investment securities	—	—	71,410	—	4,000	18,678	94,088
— Other investments in securities	—	666,131	1,550,987	3,982,813	1,192,379	258,387	7,650,697
	<u>4,964,737</u>	<u>28,327,188</u>	<u>21,111,901</u>	<u>60,318,116</u>	<u>41,581,798</u>	<u>3,160,739</u>	<u>159,464,479</u>
<b>Liabilities</b>							
— Deposits and balances of banks and other financial institutions	454,443	5,676,399	3,400,778	40,037	—	—	9,571,657
— Deposits from customers	62,612,821	91,293,158	5,912,264	3,919,422	—	—	163,737,665
— Demand deposits and current accounts	11,919,118	—	—	—	—	—	11,919,118
— Savings deposits	48,729,729	—	—	—	—	—	48,729,729
— Time, call and notice deposits	1,963,974	91,293,158	5,912,264	3,919,422	—	—	103,088,818
— Certificates of deposit issued	—	323,334	2,000,000	1,855,289	—	—	4,178,623
	<u>63,067,264</u>	<u>97,292,891</u>	<u>11,313,042</u>	<u>5,814,748</u>	<u>—</u>	<u>—</u>	<u>177,487,945</u>



## N. Deferred Tax Assets and Liabilities Recognised

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the period are as follows:

Deferred tax arising from:	Depreciation allowances in excess of related depreciation	Leasing partnership transactions	Revaluation of properties	Provisions	Tax losses	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2005							
— As previously reported	280,869	382,210	192,217	(184,504)	(72,640)	1,653	599,805
— Adjustments arising from change in accounting policies	34,342	—	—	106,110	(637)	—	139,815
— As restated	315,211	382,210	192,217	(78,394)	(73,277)	1,653	739,620
Write off against investment	—	(105,060)	—	—	—	—	(105,060)
Charged/(credited) to consolidated profit and loss account	(60,550)	(2,653)	—	11,083	21,281	(3,702)	(34,541)
Credited to reserves	—	—	(2,530)	—	—	—	(2,530)
Exchange and other adjustments	(20)	—	—	50	3,177	3,734	6,941
At 30th June, 2005	254,641	274,497	189,687	(67,261)	(48,819)	1,685	604,430
At 1st January, 2004							
— As previously reported	281,859	555,523	184,346	(171,480)	(67,324)	1,787	784,711
— Adjustments arising from change in accounting policies	—	—	5,997	—	—	—	5,997
— As restated	281,859	555,523	190,343	(171,480)	(67,324)	1,787	790,708
Write off against investment	—	(243,308)	—	—	—	—	(243,308)
Charged/(credited) to consolidated profit and loss account	33,235	69,995	—	(12,957)	(6,347)	3,808	87,734
Credited to reserves	—	—	1,874	—	—	—	1,874
Additions through acquisition of subsidiary	117	—	—	—	—	—	117
Exchange and other adjustments	—	—	—	(67)	1,031	(3,942)	(2,978)
At 31st December, 2004	315,211	382,210	192,217	(184,504)	(72,640)	1,653	634,147

## O. Reserves

	30/6/2005	30/6/2004 Restated	31/12/2004 Restated
	HK\$'000	HK\$'000	HK\$'000
Share premium	653,049	572,304	631,188
General reserve	12,286,962	11,898,218	12,045,266
Revaluation reserve on bank premises	948,099	985,249	1,007,505
Investment reserve	255,914	—	—
Exchange revaluation reserve	29,852	7,103	49,813
Other reserves	167,282	103,775	129,595
Retained profits*	4,418,314	3,153,381	4,099,776
	<u>18,759,472</u>	<u>16,720,030</u>	<u>17,963,143</u>
Total			
Proposed dividends, not provided for	<u>495,997</u>	<u>414,252</u>	<u>1,193,599</u>

\* The Group complies with Hong Kong Monetary Authority's requirement to maintain minimum impairment allowances in excess of those required under Hong Kong Accounting Standards. As at 30th June, 2005, HK\$362,000,000 was included in the retained profits in this respect which was distributable to equity holders of the Group subject to consultation with the Hong Kong Monetary Authority.

## P. Consolidated Cash Flow Statement

### (a) Purchase of subsidiaries

	30/6/2005	30/6/2004
	HK\$'000	HK\$'000
Advances and other accounts less provisions	1,196	—
Fixed assets	1,626	—
Other accounts and provisions	(879)	—
	<u>1,943</u>	<u>—</u>
Goodwill arising on consolidation	13,600	—
	<u>15,543</u>	<u>—</u>
Total purchase price	—	—
Less: Cash and cash equivalents acquired	—	—
	<u>15,543</u>	<u>—</u>
Cash flow on acquisition net of cash acquired		

### (b) Cash and cash equivalents

#### (i) Components of cash and cash equivalents in the consolidated cash flow statement

	30/6/2005	30/6/2004
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	4,335,388	3,460,662
Money at call and short notice	22,289,986	26,819,337
Placements with banks and other financial institutions		
with original maturity within three months	2,925,801	4,125,288
Treasury bills with original maturity within three months	3,664,690	2,459,839
Certificates of deposit held with original maturity		
within three months	583,637	653,329
	<u>33,799,502</u>	<u>37,518,455</u>

(ii) Reconciliation with the consolidated balance sheet

	30/6/2005	30/6/2004
	HK\$'000	HK\$'000
Cash and short-term funds	33,020,537	36,749,106
Placements with banks and other financial institutions maturing between one and twelve months	5,768,067	12,198,154
Certificates of deposit held	2,615,056	2,410,042
Amount shown in the consolidated balance sheet	41,403,660	51,357,302
Less: Amounts with an original maturity of beyond three months	(7,604,158)	(13,838,847)
	<u>33,799,502</u>	<u>37,518,455</u>

**Q. Off-balance Sheet Exposures**

**(a) Contingent liabilities and commitments**

The following is a summary of each significant class of off-balance sheet exposures:

	30/6/2005	30/6/2004	31/12/2004
	HK\$'000	HK\$'000	HK\$'000
Contractual amounts of contingent liabilities and commitments			
— Direct credit substitutes	5,104,542	4,600,597	5,375,979
— Transaction-related contingencies	621,610	433,008	486,028
— Trade-related contingencies	2,207,948	2,590,214	2,501,087
— Other commitments with an original maturity of:			
Under 1 year or which are unconditionally cancellable	28,340,478	26,458,527	27,786,426
1 year and over	9,842,342	6,639,302	8,136,611
— Others	—	250,447	—
Total	<u>46,116,920</u>	<u>40,972,095</u>	<u>44,286,131</u>
— Aggregate credit risk weighted amount	<u>9,388,216</u>	<u>7,636,483</u>	<u>8,822,965</u>
Notional amounts of derivatives			
— Exchange rate contracts	26,602,854	51,839,401	16,381,808
— Interest rate contracts	26,428,854	16,354,705	16,327,689
— Equity contracts	243,139	801,426	933,975
Total	<u>53,274,847</u>	<u>68,995,532</u>	<u>33,643,472</u>
— Aggregate replacement costs	<u>595,099</u>	<u>1,616,771</u>	<u>1,264,313</u>
— Aggregate credit risk weighted amount	<u>257,749</u>	<u>570,110</u>	<u>399,317</u>

The replacement costs and credit risk weighted amounts of the off-balance sheet exposures do not take into account the effects of bilateral netting arrangements.

**(b) Obligations under mortgage loans sold**

Included in the captions set out below are balances which are established as reserve funds for mortgage loan purchasers pursuant to the terms of mortgage sale agreements. The reserve funds are available to the purchasers to cover any losses or cash flow shortfalls that result from both credit risk and basis risk with respect to the loans sold and to protect the purchasers in the event that they have to appoint a substitute servicer.

These reserve funds are either set up in the name of the Bank and are charged in favour of the purchaser as security for the Bank's obligations to the purchaser or, in the name of the loan purchaser who retains absolute ownership, title, right and interest in the reserve funds, pursuant to the terms of the mortgage sale agreements.

	<u>30/6/2005</u>	<u>30/6/2004</u>	<u>31/12/2004</u>
	HK\$'000	HK\$'000	HK\$'000
Held-to-maturity debt securities	—	28,356	23,473
Accrued interest and other accounts	<u>17,789</u>	<u>70,933</u>	<u>74,663</u>
	<u>17,789</u>	<u>99,289</u>	<u>98,136</u>

**R. Statement of Compliance**

The Interim Report has fully complied with the guideline set out in the Supervisory Policy Manual "Interim Financial Disclosure by Locally Incorporated Authorized Institutions" issued by the Hong Kong Monetary Authority and the HKAS 34 "Interim Financial Reporting" issued by the HKICPA in October, 2004.

## SUPPLEMENTARY FINANCIAL INFORMATION

### 1. Capital Adequacy Ratio and Capital Base

#### (a) Capital adequacy ratio

	30/6/2005	30/6/2004	31/12/2004
	%	%	%
Unadjusted capital adequacy ratio	15.6	17.7	16.2
Adjusted capital adequacy ratio	15.5	17.5	16.1

The unadjusted capital adequacy ratio is computed on the consolidated basis which comprises the positions of the Bank and its subsidiaries as required by the Hong Kong Monetary Authority for its regulatory purposes, and is in accordance with the Third Schedule to the Hong Kong Banking Ordinance.

The adjusted capital adequacy ratio which takes into account market risks as at the balance sheet date is computed in accordance with the Guideline "Maintenance of Adequate Capital Against Market Risks" issued by the Hong Kong Monetary Authority and on the same consolidated basis as for the unadjusted capital adequacy ratio.

#### (b) Capital base after deductions

	30/6/2005	30/6/2004	31/12/2004
	HK\$'000	Restated HK\$'000	Restated HK\$'000
Core capital			
Paid up ordinary share capital	3,757,553	3,698,675	3,729,996
Share premium	653,049	572,304	631,188
Reserves	15,874,701	14,748,225	14,963,036
Minority interests	188,913	34,206	165,655
Deduct: Goodwill	(2,455,056)	(2,298,113)	(2,448,156)
Total core capital	<u>18,019,160</u>	<u>16,755,297</u>	<u>17,041,719</u>
Eligible supplementary capital			
Reserves on revaluation of land and interests in land (at 70%)	782,615	689,675	822,725
General provisions for doubtful debts	—	1,308,520	1,336,044
Collective impairment allowances for impaired assets and regulatory reserve	828,250	—	—
Term subordinated debt	4,360,609	4,282,700	4,271,124
Total eligible supplementary capital	<u>5,971,474</u>	<u>6,280,895</u>	<u>6,429,893</u>
Total capital base before deductions	23,990,634	23,036,192	23,471,612
Deductions from total capital base	<u>(874,050)</u>	<u>(934,071)</u>	<u>(969,261)</u>
Total capital base after deductions	<u><u>23,116,584</u></u>	<u><u>22,102,121</u></u>	<u><u>22,502,351</u></u>

## 2. Liquidity Ratio

	6 months ended 30/6/2005	6 months ended 30/6/2004	The year ended 31/12/2004
	%	%	%
Average liquidity ratio for the period	39.5	43.9	44.4

The average liquidity ratio for the period is the simple average of each calendar month's average liquidity ratio, which is computed on the consolidated basis as required by the Hong Kong Monetary Authority for its regulatory purposes, and is in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

## 3. Segmental Information

### (a) Advances to customers

#### (i) By industry sectors

The analysis of gross advances to customers by industry sector is based on the categories and definitions used by the Hong Kong Monetary Authority.

	30/6/2005	30/6/2004	31/12/2004
	HK\$'000	HK\$'000	HK\$'000
Loans for use in Hong Kong			
Industrial, commercial and financial			
— Property development	4,779,394	3,899,140	4,398,093
— Property investment	16,433,678	13,169,065	14,536,729
— Financial concerns	1,485,892	1,263,813	1,507,153
— Stockbrokers	176,836	236,667	277,903
— Wholesale and retail trade	1,683,867	1,628,150	1,569,771
— Manufacturing	1,859,708	1,296,981	1,822,971
— Transport and transport equipment	4,198,215	4,771,187	4,507,233
— Others	5,742,204	4,833,360	6,032,368
— Sub-total	<u>36,359,794</u>	<u>31,098,363</u>	<u>34,652,221</u>
Individuals			
— Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,422,812	1,678,114	1,522,173
— Loans for the purchase of other residential properties	37,991,408	33,444,295	34,928,247
— Credit card advances	1,371,012	1,254,594	1,649,200
— Others	3,600,915	3,061,263	3,230,750
— Sub-total	<u>44,386,147</u>	<u>39,438,266</u>	<u>41,330,370</u>
Total loans for use in Hong Kong	80,745,941	70,536,629	75,982,591
Trade finance	4,175,030	3,688,881	4,092,162
Loans for use outside Hong Kong	<u>43,497,295</u>	<u>31,467,416</u>	<u>37,184,000</u>
Total advances to customers	<u><u>128,418,266</u></u>	<u><u>105,692,926</u></u>	<u><u>117,258,753</u></u>

(ii) *By geographical areas*

The information concerning the breakdown of the gross amount of advances to customers by countries or geographical areas is derived according to the location of the counterparties after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	30/6/2005	
	Total advances to customers	Advances overdue for over three months
	HK\$'000	HK\$'000
Hong Kong	93,820,480	466,632
People's Republic of China	15,253,965	120,557
Other Asian Countries	7,129,398	115,168
Others	12,214,423	40,141
Total	<u>128,418,266</u>	<u>742,498</u>

	30/6/2004	
	Total advances to customers	Advances overdue for over three months
	HK\$'000	HK\$'000
Hong Kong	82,589,385	749,347
People's Republic of China	7,287,547	250,078
Other Asian Countries	5,465,585	151,034
Others	10,350,409	77,815
Total	<u>105,692,926</u>	<u>1,228,274</u>

	31/12/2004	
	Total advances to customers	Advances overdue for over three months
	HK\$'000	HK\$'000
Hong Kong	88,598,608	575,894
People's Republic of China	10,911,094	77,426
Other Asian Countries	6,354,111	103,688
Others	11,394,940	83,377
Total	<u>117,258,753</u>	<u>840,385</u>

**(b) Cross-border claims**

The information on cross-border claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country. Only regions constituting 10% or more of the aggregate cross-border claims are disclosed.

	30/6/2005			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
People's Republic of China	11,073,787	1,048,312	11,425,950	23,548,049
Asian countries, excluding People's Republic of China	9,213,301	1,282,925	8,010,298	18,506,524
North America	4,450,453	7,796,515	5,346,038	17,593,006
Western Europe	15,632,976	—	2,618,197	18,251,173

	30/6/2004			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
People's Republic of China	7,852,881	1,222,989	5,695,548	14,771,418
Asian countries, excluding People's Republic of China	11,153,832	1,269,974	6,827,439	19,251,245
North America	3,842,104	7,945,136	5,196,675	16,983,915
Western Europe	27,346,735	255	1,962,213	29,309,203

	31/12/2004			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
People's Republic of China	9,413,577	1,458,707	7,962,500	18,834,784
Asian countries, excluding People's Republic of China	10,764,517	1,413,490	7,519,486	19,697,493
North America	5,129,033	7,886,401	5,182,553	18,197,987
Western Europe	26,577,806	255	2,016,679	28,594,740



#### 4. Overdue, Rescheduled and Repossessed Assets

##### (a) Overdue and rescheduled advances

	30/6/2005		30/6/2004		31/12/2004	
	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers
Advances to customers overdue for						
— 6 months or less						
but over 3 months	293,895	0.2	350,991	0.4	242,893	0.2
— 1 year or less						
but over 6 months	124,510	0.1	236,118	0.2	194,645	0.2
— Over 1 year	324,093	0.3	641,165	0.6	402,847	0.3
	742,498	0.6	1,228,274	1.2	840,385	0.7
Rescheduled advances to customers	426,652	0.3	897,890	0.8	472,335	0.4
Total overdue and rescheduled advances	<u>1,169,150</u>	<u>0.9</u>	<u>2,126,164</u>	<u>2.0</u>	<u>1,312,720</u>	<u>1.1</u>
Secured overdue advances	<u>496,880</u>	<u>0.4</u>	<u>1,077,170</u>	<u>1.0</u>	<u>660,700</u>	<u>0.6</u>
Unsecured overdue advances	<u>245,618</u>	<u>0.2</u>	<u>151,104</u>	<u>0.2</u>	<u>179,685</u>	<u>0.1</u>
Market value of securities held against secured overdue advances	<u>695,523</u>		<u>1,650,331</u>		<u>1,122,161</u>	

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 30th June, 2005, 30th June, 2004 and 31st December, 2004; nor were there any rescheduled advances to banks and other financial institutions on these three dates.

**(b) Other overdue and rescheduled assets**

	30/06/2005	
	Accrued interest	Other assets*
	HK\$'000	HK\$'000
Other assets overdue for		
— 6 months or less but over 3 months	1,582	—
— 1 year or less but over 6 months	1,220	477
— Over 1 year	154	19,292
	<u>2,956</u>	<u>19,769</u>
Rescheduled assets	—	—
Total other overdue and rescheduled assets	<u>2,956</u>	<u>19,769</u>
	30/06/2004	
	Accrued interest	Other assets*
	HK\$'000	HK\$'000
Other assets overdue for		
— 6 months or less but over 3 months	1,469	41
— 1 year or less but over 6 months	979	408
— Over 1 year	254	17,626
	<u>2,702</u>	<u>18,075</u>
Rescheduled assets	—	—
Total other overdue and rescheduled assets	<u>2,702</u>	<u>18,075</u>
	31/12/2004	
	Accrued interest	Other assets*
	HK\$'000	HK\$'000
Other assets overdue for		
— 6 months or less but over 3 months	1,653	305
— 1 year or less but over 6 months	1,065	614
— Over 1 year	407	19,462
	<u>3,125</u>	<u>20,381</u>
Rescheduled assets	—	—
Total other overdue and rescheduled assets	<u>3,125</u>	<u>20,381</u>

\* Other assets refer to trade bills and receivables.

**(c) Repossessed assets**

	30/6/2005	30/6/2004	31/12/2004
	HK\$'000	HK\$'000	HK\$'000
Reposessed properties	81,279	189,338	107,745
Reposessed vehicles & machines	935	1,215	340
Total reposessed assets	<u>82,214</u>	<u>190,553</u>	<u>108,085</u>

The amount represents the estimated market value of the reposessed assets as at 30th June, 2005, 30th June, 2004 and 31st December, 2004.

## 5. Currency Concentrations

The net positions or net structural positions in foreign currencies are disclosed when each currency constitutes 10% or more of the respective total net position or total net structural position in all foreign currencies.

	30/6/2005 HK\$ Million							Total
	USD	CAD	GBP	CNY	JPY *	SGD	Others	
Spot assets	56,256	4,333	4,646	10,305	859	5,184	12,321	93,904
Spot liabilities	(55,290)	(4,433)	(6,527)	(9,427)	(806)	(4,510)	(17,395)	(98,388)
Forward purchases	31,644	623	2,757	—	603	473	9,286	45,386
Forward sales	(33,446)	(436)	(817)	—	(655)	(899)	(4,085)	(40,338)
Net options position	83	(23)	5	—	—	—	(125)	(60)
Net long/(short) position	<u>(753)</u>	<u>64</u>	<u>64</u>	<u>878</u>	<u>1</u>	<u>248</u>	<u>2</u>	<u>504</u>

	30/6/2004 HK\$ Million							Total
	USD	CAD	GBP*	CNY	JPY	SGD*	Others	
Spot assets	55,938	2,751	4,241	4,834	1,158	4,841	8,347	82,110
Spot liabilities	(49,898)	(4,748)	(6,119)	(4,618)	(560)	(4,688)	(17,477)	(88,108)
Forward purchases	31,773	2,411	2,253	—	1,448	572	23,711	62,168
Forward sales	(38,409)	(314)	(364)	—	(2,001)	(717)	(14,570)	(56,375)
Net options position	5	11	(6)	—	1	—	(9)	2
Net long/(short) position	<u>(591)</u>	<u>111</u>	<u>5</u>	<u>216</u>	<u>46</u>	<u>8</u>	<u>2</u>	<u>(203)</u>

	31/12/2004 HK\$ Million							Total
	USD	CAD	GBP	CNY	JPY*	SGD*	Others	
Spot assets	49,928	4,375	4,270	7,581	926	5,194	15,466	87,740
Spot liabilities	(52,103)	(4,458)	(6,690)	(7,364)	(920)	(4,815)	(16,857)	(93,207)
Forward purchases	18,257	484	2,727	—	821	706	4,275	27,270
Forward sales	(15,863)	(289)	(370)	—	(816)	(1,116)	(2,880)	(21,334)
Net options position	16	(1)	(1)	—	—	—	3	17
Net long/(short) position	<u>235</u>	<u>111</u>	<u>(64)</u>	<u>217</u>	<u>11</u>	<u>(31)</u>	<u>7</u>	<u>486</u>

\* The currency constitutes less than 10% of the total net position in all foreign currencies and is presented for comparative purpose only.

	30/6/2005 HK\$ Million				
	USD	CAD*	CNY	Others	Total
Net structural position	<u>1,607</u>	<u>240</u>	<u>751</u>	<u>387</u>	<u>2,985</u>

	30/6/2004 HK\$ Million				
	USD	CAD	CNY	Others	Total
Net structural position	<u>1,457</u>	<u>220</u>	<u>—</u>	<u>377</u>	<u>2,054</u>

	31/12/2004 HK\$ Million				
	USD	CAD*	CNY	Others	Total
Net structural position	<u>1,452</u>	<u>245</u>	<u>564</u>	<u>394</u>	<u>2,655</u>

\* The currency constitutes less than 10% of the total net structural position in all foreign currencies and is presented for comparative purpose only.

## INDEPENDENT REVIEW REPORT



TO THE BOARD OF DIRECTORS OF THE BANK OF EAST ASIA, LIMITED

### INTRODUCTION

We have been instructed by the Group to review the interim financial report set out on pages 1 to 26.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, Interim financial reporting issued by the Hong Kong Institute of Certified Public Accountants. The interim financial report is the responsibility of, and has been approved by, the Directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquires of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

### REVIEW CONCLUSION

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2005.

### KPMG

*Certified Public Accountants*  
Hong Kong, 3rd August, 2005

## **INTERIM DIVIDEND**

The Directors are pleased to declare an interim dividend of HK\$0.33 (2004: HK\$0.28) per share for the six months ended 30th June, 2005. The interim dividend will be paid in cash with an option to receive new, fully paid shares in lieu of cash, to shareholders whose names appear on the Register of Members at the close of business on Wednesday, 24th August, 2005. Details of the scrip dividend and the election form will be sent to shareholders on or about Wednesday, 24th August, 2005. The scrip dividend scheme is conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued under the scrip dividend scheme. The dividend warrants and the share certificates for the scrip dividend will be sent to shareholders by ordinary mail on or about Friday, 16th September, 2005.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members will be closed from Monday, 22nd August, 2005 to Wednesday, 24th August, 2005. In order to qualify for the above interim dividend, all transfer documents should be lodged for registration with Standard Registrars Limited, G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, by 4:00 p.m. on Friday, 19th August, 2005.

## **FINANCIAL REVIEW**

### **FINANCIAL PERFORMANCE**

The Hong Kong economy continued to improve in the first half of 2005. GDP grew solidly; domestic consumption held firm; and the unemployment rate fell. One important consequence of the upturn in economic prospects was a sharp decline in the number of negative equity cases. However, the improving economy did little to mute the fierce competition in the Hong Kong banking industry. In fact, the industry was subject to additional pressures as interest rate movements further squeezed net interest margins during the period.

The BEA Group's reported earnings for the first half of 2005 reflect certain accounting standard changes that have been implemented recently. The Hong Kong Institute of Certified Public Accountants ("HKICPA") announced a number of new or revised Hong Kong Accounting Standards ("HKAS") and Hong Kong Financial Reporting Standards ("HKFRS") last year. In preparing the financial statements for the first half of 2005, all applicable HKAS and HKFRS have been adopted. Prior period adjustments have been made to the financial statements for 2004, depending on the individual requirements of the HKAS and HKFRS concerned. The effects of adopting these HKAS and HKFRS on the preparation and presentation of financial statements are summarised in Note 3.

In the first six months of 2005, the BEA Group achieved a profit after tax of HK\$1,203 million, representing an increase of HK\$205 million, or 20.5%, over earnings of HK\$998 million for the corresponding period in 2004. Basic earnings per share were HK\$0.79. The adoption of HKAS 39 had a mild impact on the recognition of interest income and expense. Total operating income increased by 4.9% to HK\$2,753 million.

Total operating expenses increased by 7.3% over the corresponding figure in 2004 to HK\$1,410 million, due to continuing expansion of the Group's activities. The cost to income ratio rose from 50.1% in 2004 to 51.2% in 2005.

Operating profit before impairment allowances (previously referred to as the charge for bad and doubtful debts) for the first six months was HK\$1,343 million, an increase of HK\$34 million, or 2.6%, compared to the corresponding period in 2004.

As a result of an improvement in asset quality and the new approaches to assessing loan impairment due to the adoption of HKAS 39, the loan impairment allowance (previously referred to as the charge for bad and doubtful debts) fell by HK\$167 million.

The decrease in loan impairment allowance resulted in an increase in operating profit after impairment allowances of 17.2% to HK\$1,367 million.

During the period, BEA closed one transaction of disposal of a vacant bank premises upon the relocation of operations departments to Millennium City 5 in Kwun Tong. As a result, BEA recorded a profit on disposal of fixed assets of HK\$35 million, an increase of HK\$28 million as compared to the same period in 2004.

In the first six months of 2005, BEA shared pre-tax losses less profits from associates of HK\$4 million.

After taking into account income taxes, profit after taxation was HK\$1,203 million, an increase of 20.5% over the HK\$998 million recorded in the corresponding period in 2004, while profit attributable to equity holders of the Group was HK\$1,183 million, an increase of 20.0%.

### **Financial Position**

As at 30th June, 2005, total consolidated assets of the BEA Group were HK\$212,291 million, representing an increase of 0.9% from HK\$210,370 million at the end of 2004. The held-to-maturity investments decreased by 28.3% to HK\$11,533 million as a result of a change in classification of financial assets after adoption of HKAS 39. Advances to customers increased by 9.5% to HK\$128,418 million.

Total deposits decreased by 0.6% to HK\$166,981 million, while customer deposits decreased by HK\$3,276 million, or 2.0%, to HK\$160,462 million. Demand deposits and current accounts decreased by a combined HK\$35 million, or 0.3%, to HK\$11,884 million when compared with the balance at year-end 2004. Saving accounts decreased to HK\$39,043 million as at 30th June, 2005, a decrease of 19.9%. Time deposits as at 30th June, 2005 stood at HK\$109,535 million, an increase of 6.3%, when compared with the balance at year-end 2004.

Loan capital as at 30th June, 2005 stood at HK\$4,361 million, an increase of 2.1% when compared with the balance at year-end 2004. Total equity increased by 3.9% from HK\$21,859 million at the end of December 2004, to HK\$22,706 million at the end of June 2005.

In the first half of 2005, BEA issued floating rate certificates of deposit with a face value of HK\$1,500 million, and fixed rate certificates of deposits with a face value totalling HK\$500 million and TW\$7,525 million. The Bank redeemed certificates of deposit amounting to TW\$6,020 million upon maturity, and repurchased a quantity of its own certificates of deposit amounting to HK\$45 million equivalent.

At the end of June 2005, the face value of the outstanding portfolio of certificates of deposit was HK\$6,602 million, with the carrying amount equal to HK\$6,519 million.

After taking into account all debt instruments issued, the loan-to-deposit ratio was 76.9%, being 7.1% higher than the 69.8% reported at the end of 2004.

*Maturity Profile of Debt Issued  
As at 30th June, 2005  
(All expressed in millions of dollars)*

	<u>Currency</u>	<u>Total Face Value</u>	<u>Year of Maturity</u>			
			<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<b>Floating Rate</b>						
<b>Certificates of Deposit</b>						
Issued in 2004	HKD	1,500	1,500			
Issued in 2005	HKD	1,500				1,500
<b>Fixed Rate</b>						
<b>Certificates of Deposit</b>						
Issued in 2004	HKD	500	500			
Issued in 2005	HKD	500				500
Issued in 2005	TWD	2,825	2,825			
<b>Discounted</b>						
<b>Certificates of Deposit</b>						
Issued in 2002	HKD	314		314		
Issued in 2002	USD	87			87	
Issued in 2003	AUD	51		51		
Issued in 2003	NZD	44		44		
<b>Step Up</b>						
<b>Certificates of Deposit</b>						
Issued in 2003	USD	49				49
<b>Total Debts issued in HKD equivalent</b>		<b>6,602</b>	<b>2,696</b>	<b>852</b>	<b>676</b>	<b>2,378</b>

**Risk Management**

Risk management is an essential element of banking. The Group has in place a comprehensive risk management system to identify, measure, monitor and control the various types of risk that the Group faces and, where appropriate, to allocate capital against those risks. The risk management policies of the Group are reviewed regularly by the Management and related specialised committees, and recommendations are made by the Risk Management Committee for the approval of the Board of Directors. The internal auditors also perform regular audits on business units to check compliance with policies and procedures. The Group has also established an Investment Committee to plan the Group's investment strategies, and monitor the performance and compliance of investment activities.

**(a) Credit Risk Management**

Credit risk arises from the possibility that a customer or counterparty in a transaction may default. Such risk may arise from both lending and treasury activities. The Board of Directors has delegated authority to the Credit Committee to oversee management of the Group's credit risk, independent of the business units. The Credit Committee reports to the Board of Directors via the Risk Management Committee, which deals with all risk management related issues of the Bank Group.

The Credit Committee is responsible for all credit risk related issues for the Bank Group, including formulation of credit policies, credit approval and monitoring of asset quality.

In evaluating the credit risk associated with an individual customer or counterparty, financial strength and repayment ability are always the primary considerations. Credit risk may be mitigated by obtaining collateral from the customer or counterparty. Concentration risk is monitored by adopting appropriate risk control measures, such as setting limits on large exposures.

In this connection, comprehensive guidelines for management of credit risk have been laid down in the Group's Credit Manual. These guidelines stipulate delegated lending authorities, credit extension criteria, credit monitoring process, 10-grade loan classification system, credit recovery and provisioning policy.

The Group's Credit Manual is regularly reviewed by the Credit Committee to ensure the adequacy of credit risk management policies and systems.

**(b) Liquidity Risk and Market Risk Management**

The Asset and Liability Management Committee is authorised by the Board of Directors to manage the assets and liabilities of the Bank Group. The function of the Asset and Liability Management Committee is to oversee the Group's operations relating to interest rate risk, liquidity risk and market risk.

*(1) Liquidity Risk Management*

Liquidity risk is the risk that the Group cannot meet its current obligations. To manage liquidity risk, the Group has established the liquidity risk management policy, which is approved by the Board of Directors. The Group measures the liquidity of the Group through the statutory liquidity ratio, the loan-to-deposit ratio and the maturity mismatch portfolio.

The Asset and Liability Management Committee closely monitors the liquidity of the Group on a daily basis to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding needs, and that the Group remains in compliance with the statutory liquidity ratio. The Group's average liquidity ratio was 39.5% for the first half of 2005, which was well above the statutory minimum ratio of 25%.

Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected, material cash outflows in the ordinary course of business.

*(2) Market Risk Management*

Market risk is the risk arising from the net effect of changes in market rates and prices on the Group's assets, liabilities and commitments, thus causing profits or losses. Interest rates, foreign exchange rates, equity and commodity prices, among others, are monitored for market risk.

The Group's market risk originates from its trading-book holdings of foreign exchange, debt securities, equities and derivatives, which are measured at fair value; and from its investment and banking activities in financial assets and liabilities, which are valued at amortised cost in the balance sheet.

The Group has established a market risk management policy that incorporates guidelines, procedures and control measures to monitor its market risk exposures.

The Group's derivative instruments trading activities mainly arise from the execution of trade orders from customers and positions taken in order to hedge other elements of the trading books.

Financial derivatives are instruments that derive their value from the performance of underlying assets, interest or currency exchange rates or indices. The Group principally uses financial derivative instruments as investment alternatives or to manage foreign exchange, interest rate or equity risk, and is a limited end-user of such instruments. Guidelines on participating in derivatives activities are included in the Group's market risk management policy. The Group's major trading activities in derivative instruments involve exchange-traded HIBOR futures contracts, over-the-counter transacted currency options and equity options. Other over-the-counter transacted foreign exchange forwards, interest rate swaps and option contracts are mainly employed to hedge the interest rate risk and option risk of the banking book.

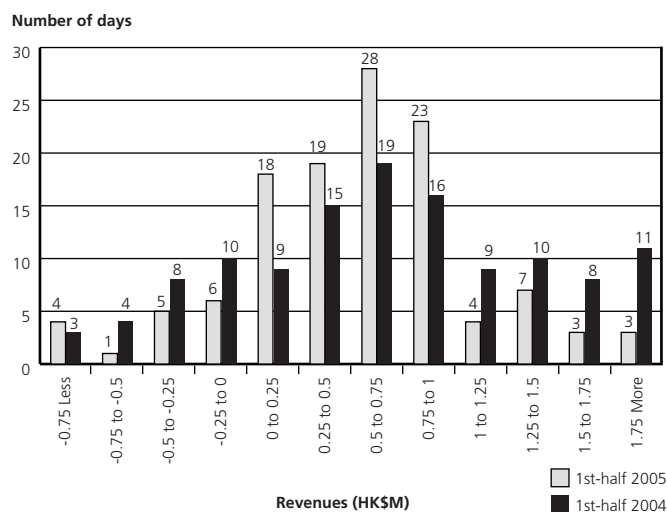
The Group's various market risk exposures are measured and monitored on the basis of principal (or notional) amount, outstanding position, stop-loss and options limits, and are controlled within established limits reviewed and approved by the Asset and Liability Management Committee where applicable for each business unit, business type and in aggregate. Independent middle and back offices monitor the risk exposure of trading activities against approved limits on a daily basis. The Group's market risk exposures are reviewed by the Asset and Liability Management Committee and reported to the Board of Directors on a regular basis. Exceptions to limits are reported when they occur.



The Group quantifies the market risk of the underlying trading portfolio by means of value-at-risk ("VaR"). VaR is a statistical estimate that measures the potential losses in market value of a portfolio as a result of unfavourable movements in market rates and prices, if positions are held unchanged over a certain horizon time period. The Group's VaR is calculated using historical movements in market rates and prices, a 99% confidence level and a one-day holding period, and takes into account correlations between different markets and rates.

The VaR for the Group's market risk-related treasury trading portfolio as at 30th June, 2005 was HK\$2.04 million (HK\$2.15 million at 31st December, 2004). The average daily revenue earned from the Group's market risk-related treasury trading activities for the first half of 2005 was HK\$0.53 million (HK\$0.58 million for the first half of 2004). The standard deviation of these daily revenues was HK0.77 million (HK\$2.01 million for the first half of 2004).

#### DAILY DISTRIBUTION OF MARKET RISK-RELATED TREASURY TRADING REVENUES 1st-half 2005 vs 1st-half 2004



An analysis of daily distribution of the Group's market risk-related treasury trading revenues for the first half of 2005 (comparing with the first half of 2004) is provided above. This shows that 16 out of 121 days (2004: 25 out of 122 days) are in loss positions. The most frequent results were daily revenue of between HK\$0.5 million and HK\$0.75 million, with 28 occurrences (2004: HK\$0.50 million to HK\$0.75 million with 19 occurrences). The maximum daily loss was HK\$2.70 million (2004: HK\$19.41 million) and the next maximum daily loss was HK\$2.49 million (2004: HK\$1.31 million). The highest daily revenue was HK\$3.57 million (2004: HK\$4.27 million).

(i) *Foreign exchange exposure*

The Group's foreign exchange risk exposure arises from foreign exchange dealing, commercial banking operations and structural foreign currency positions. All foreign exchange positions are managed by the Treasury units of the Group within limits approved by the Asset and Liability Management Committee.

The VaR related to foreign exchange dealing positions at 30th June, 2005 was HK\$0.84 million (HK\$0.91 million at 31st December, 2004). The average daily foreign exchange dealing profit for the first half of 2005 was HK\$0.55 million (HK\$0.74 million for the first half of 2004).

Foreign exchange positions which arise mainly from foreign currency investments in the Group's branches, subsidiaries and associates are excluded from VaR measurements, as related gains or losses are taken to reserves. Such foreign currency positions are managed with the principal objective of ensuring that the Group's reserves are protected from exchange rate fluctuation.

(ii) *Interest rate exposure*

The Group's interest rate exposure arises from treasury and commercial banking activities, where interest rate risk is inherent in both trading and non-trading portfolios. All trading positions are managed by the Treasury units of the Group within limits approved by the Asset and Liability Management Committee.

For the non-trading portfolio, interest rate risk primarily arises from the timing differences in the re-pricing of interest-bearing assets, liabilities and commitments and the maturities of certain fixed rate assets and liabilities. The interest rate risk of the non-trading portfolio is also monitored by the Group's Asset and Liability Management Committee.

The VaR related to interest rate exposure due to debt securities and derivatives trading positions, excluding foreign exchange forwards and options, at 30th June, 2005 was HK\$1.57 million (HK\$1.76 million at 31st December, 2004). The average daily loss due to these activities for the first half of 2005 was HK\$0.02 million (daily loss HK\$0.16 million for the first half of 2004).

(iii) *Equities exposure*

The Group's equities exposure mainly comprises trading equities and long-term equities investments. The Group's Investment Committee regularly reviews and monitors equities dealing activities. The VaR on equities trading positions at 30th June, 2005 was HK\$3.72 million (HK\$4.86 million at 31st December, 2004).

**(c) Operational Risk Management**

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Board of Directors has designated the Operational and Other Risks Management Committee to oversee the management of operational risk of the Bank Group.

The Group has adopted a risk-based operational risk management approach so as to focus on areas that are more vulnerable to operational risk. The Group has a comprehensive Operational Risk Management Policy in place. Every year, the Group conducts regular exercises to align its operational risk management practices with common practice in the industry. These include, among other initiatives, operational risk self-assessment, review of operating authorities, stress-testing, etc.

The Group has also developed a Business Continuity Plan to provide a set of procedures for contingency operations and business recovery. Besides, the Bank maintains sufficient insurance coverage to minimise potential losses for the Group in respect of operational risk.

**(d) Capital Management**

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to meet the statutory capital adequacy ratio. Both the Group's adjusted capital adequacy ratio incorporating market risk of 15.5% and the unadjusted ratio of 15.6% as at 30th June, 2005 were well above the statutory minimum ratio.

Capital is allocated to the various activities of the Group depending on the risk taken on by each business division. Where the subsidiaries or branches are directly regulated by the appropriate regulators, they are required to maintain a certain minimum capital according to rules of those regulatory authorities.

**OPERATIONS REVIEW**

**IMPROVEMENT TO OPERATIONS**

***Office Centralisation***

The relocation of departments to the Bank's new office tower in "Millennium City 5" in the Kwun Tong district of Hong Kong was completed satisfactorily in May 2005. In addition to enhancing operational efficiency, the office centralisation exercise will allow the Bank to manage its office space utilisation more effectively and match with future business needs. The Bank also took steps to dispose of some of the resulting surplus office premises.

***Computer System Enhancements — Core Banking System***

BEA completed the first phase of its Core Banking System Implementation project in January 2005. Apart from enhancing user friendliness related to customer information enquiry and maintenance, the first phase also strengthened BEA's sales and marketing initiatives by supporting campaign execution and customer sales contact activities.

## **PERSONAL BANKING**

### ***Branch Distribution***

With the aim of strengthening the branch network, BEA continues to implement the Branch Rationalisation Programme. Since the beginning of this year, two new branches have been opened and four additional branches have been merged with nearby branches or relocated to more prominent sites. By the end of July 2005, the total number of branches in Hong Kong stood at 93.

SupremeGold, BEA's wealth management service, has built a steadily growing customer base since its introduction in late 2002. A new SupremeGold Centre was opened at Shatin Plaza Branch in February, and a further Centre at Shaukiwan Branch in July, bringing the total number to 25 by the end of July.

A Marketing Programme for Kid Master Services was conducted from February to March 2005 to acquire new Kid Master members and to promote Education Insurance and BEA credit cards.

A series of road shows were organised at various shopping centres for the marketing of banking products. Road shows and sales promotions were also arranged at the shopping centres of public housing estates to further increase the brand awareness of BEA Life Insurance Series. On-site promotions were held at property sites to stimulate the sales of BEA mortgage loans and credit cards.

### ***Cyberbanking***

In the first half of 2005, Cyberbanking launched e-Statement and CyberDonation services over the Internet.

To further enhance security when processing online banking transactions, Cyberbanking implemented two-factor authentication in June 2005. As at the end of June, the Bank had over 294,000 registered Cyberbanking users. The average daily usage volume exceeded 136,000 transactions.

In May 2005, Cyberbanking was awarded the "Excellence in Internet Banking Award" under "The Asian Banker's Excellence in Retail Financial Services Awards 2004".

Corporate Cyberbanking recorded steady growth in customer numbers in the first half of 2005. By the end of June 2005, over 15,400 corporate customers had registered with BEA's Corporate Cyberbanking service, representing a 32% increase compared with the corresponding period last year.

### ***Property Loans***

Although the mortgage market benefited from the steady economic recovery in the first half of this year, competition remains keen. To strengthen its market offerings, BEA pioneered with the Hong Kong Mortgage Corporation ("HKMC") in May 2005 to launch the Fixed Rate Second Mortgage Financing Programme. The Programme provides an additional channel to mortgage customers who need 95% mortgage financing, complementing the existing Mortgage Insurance Programme.

To lessen the impact of rising interest rates on the local property market, BEA actively coordinated with various property developers to provide Tailored Mortgage Plans. Under these plans, developers subsidise interest payments to provide a buying incentive to new homebuyers.

On the back of solid economic growth and enhanced personal financial conditions in general, loan quality continues to improve, reflected by the drop in delinquency ratio.

### ***Credit Cards***

As one of the Bank's brand-building strategies, a series of marketing initiatives were launched, directed towards deepening business penetration in the whole card portfolio via appealing cardholder privileges, enhanced product positioning and major brand revamps. Sophisticated behavioural segmentation tools were used to formulate well-targeted marketing strategies.

With such support, brand awareness has been raised and cardholders' average spending recorded a sizeable increase. Encouragingly, BEA achieved above-the-market growth in overall card sales volume.

During the first half of 2005, BEA collaborated with Sun Hung Kai Properties to launch the SHKP Club VISA Card co-branded card.

Certain restrictions on access to customer credit data through the credit reference agency have recently been lifted, in line with the agreed implementation schedule. Coupled with the Bank's ongoing risk management efforts, continued improvement in loan quality can be anticipated.

Moreover, BEA maintains an optimistic outlook regarding the development of the Bank's Renminbi Credit Card business.

Operating efficiencies were improved by relocating service support operations to the Mainland.

### ***Blue Cross Insurance***

In the first half year of 2005, Blue Cross saw healthy growth in business, with an increase in premium income of 35%.

Life insurance business grew by 80% over the prior period. Efforts to expand the business will continue.

## **CORPORATE BANKING**

### ***Corporate Lending***

The local syndication and corporate lending market was active in the first half of 2005. Both large and medium-sized enterprises took advantage of the low interest rate environment to finance expansion projects and/or refinance existing debt. In addition, large PRC corporations continued to tap the local syndication market to finance their overseas acquisitions.

Despite the rise in activity, interest margins for syndicated deals continued to decline due to keen competition. To improve yield return and to broaden the clientele base, the Bank has been taking a pro-active approach in soliciting business from high quality medium-sized companies.

The Bank maintained an active presence in the syndicated loan market in the first half of 2005 by underwriting numerous deals, including a HK\$5,200 million syndicated loan facility to CITIC Pacific Limited, a HK\$3,800 million syndicated loan facility to Guangzhou Investment Company Limited, and a US\$200 million syndicated loan facility to China Resources Power Holdings Company Limited.

Trade finance business enjoyed healthy growth in the first half of 2005, although the yield on trade finance loans was squeezed by rising funding costs and keen competition. With the centralisation of the bills centre at Millennium City 5 and the deployment of a new bills system, the Bank was able to upgrade trade finance services to offer a more sophisticated range of options to customers.

With the improving business environment in the first half of 2005, loan demand from Small and Medium Enterprises ("SME") for new investments and business initiatives increased steadily. The Bank will continue to offer flexible and tailor-made loan products to increase penetration in this market segment.

BEA organised numerous informative seminars in the first half of 2005 for corporate customers. For example, in January this year, BEA organised the "Global Economic Outlook and Foreign Exchange Market for 2005" seminar. Offering a macro view of the global economy for 2005, the seminar provided useful background information to assist customers in developing their business plans for the year ahead.

### ***Asset Based Finance***

The private car and commercial vehicle loan portfolio recorded double digit growth in the first half of 2005, while the machinery loan portfolio also grew. The growth in business followed a decision to strengthen the marketing team and enhance business relationships with vehicle and machinery dealers. Looking ahead, BEA will continue to focus on expanding its market share and customer base in the equipment financing business.

Despite the narrowing interest margins in the taxi loan portfolio, BEA remained a key player in the taxi and public light bus loan market. Following a prudent lending policy, BEA continued to achieve a zero write-off record for the taxi and public light bus portfolio during the period.

### ***Securities Lending***

BEA continues to target the staggan loan business for subscription of new shares at Initial Public Offering ("IPO"). In the first half of 2005, BEA provided staggan loan finance for many IPO projects. In addition, the Bank acted as Receiving Bank for the IPO of Bank of Communications Co., Ltd.

## ***Bank of East Asia (Trustees) Limited***

### **Mandatory Provident Fund**

In response to the growing interest in financial planning for retirement, Bank of East Asia (Trustees) launched the MPF Personal Contribution Account ("PCA") in April 2005 to offer members more flexible arrangements for their voluntary MPF contributions. The company is the first approved MPF service provider in Hong Kong to allow non-BEA MPF customers to open a PCA. In addition, BEA's MPF Master Trust Scheme and Industry Scheme recorded stable growth in both membership and assets during the period.

## **WEALTH MANAGEMENT**

The Wealth Management Division of the Bank moved to improve product variety.

Flexibility was enhanced by more than doubling the number of structured products offered. The range of equity related products was expanded to complement the existing interest and currency linked products. The Bank embarked on a 3-month promotional programme in April to drive growth in the sale of investments funds.

### ***Structured Products***

A total of six principal protected Linked Deposits were launched in the first half of 2005 for the more conservative investors. In order to drive business volume and diversify the customer base, the minimum investment threshold for the majority of products was reduced to HK\$50,000. The newly launched products were well received, and have generated good returns for the Bank.

In a bid to explore business opportunities outside Hong Kong, the Bank sought and secured a license to produce and market structured products in China. Two principal protected products were successfully launched through BEA's branch network on the Mainland.

### ***Asset Management***

The pioneering multi-manager retail product launched in partnership with the Russell Investment Group in late 2004, BEA Signature Portfolio Funds, has been well received, with the total fund size increasing steadily from the initial launch size of some HK\$800 million to almost HK\$900 million as of the end of June 2005.

The investment performance of the two BEA MPF schemes has continued to receive recognition from the market. The one-year investment return achieved by all three life-style funds within the BEA Industry Scheme were ranked among the top 6 in their categories, according to a recent market survey<sup>1</sup>. The strong performance has had a positive impact on the assets under management of East Asia Asset Management ("EAAM").

With strong growth of assets under management from MPF, unit trust and discretionary portfolio management businesses, EAAM recorded a more than 20% profit increase during the first half of 2005 as compared to the same period last year.

### ***Bancassurance***

Bancassurance business recorded an encouraging 25% growth in terms of total life and non-life premium received in the first half of 2005.

In a bid to meet the diversified savings and protection needs of customers, a number of new plans were introduced in the first six months of 2005, including Single Premium Savings Insurance, Elder Savings Insurance, Wealth Builder Savings Insurance and Secure Retirement Insurance.

## **INVESTMENT BANKING AND SERVICES**

### ***East Asia Securities Company Limited — Securities Cybertrading***

For the first six months of the year 2005, East Asia Securities continued to benefit from the improvement in local market sentiment and investor confidence.

<sup>1</sup>Source: Hong Kong Investment Fund Association (HKIFA), as at 31st May, 2005

When compared with the corresponding period last year, the Company registered growth of 19% in the number of Cybertrading accounts. As of 30th June, 2005, more than 47% of the Company's securities clients have subscribed to the Cybertrading Service.

East Asia Securities has instituted various incentive schemes to encourage clients to execute trades via its user-friendly electronic trading platform. Currently, the volume of transactions executed via the Cybertrading System, expressed as a percentage of total turnover, accounts for some 54% of the number of trades and 37% of transaction value.

With a view to further enhancing the Cybertrading Service, East Asia Securities has plans to enhance its Interactive Voice Recognition Trading System in the second half of 2005.

## **CHINA OPERATIONS**

BEA opened representative offices in Suzhou and Dongguan in the first half of 2005. At present, BEA has a total of 20 outlets in China, including 9 branches, 4 sub-branches and 7 representative offices. BEA is also preparing to set up 2 new full branches in Hangzhou and Chongqing in the second half of this year.

Following the China Banking Regulatory Commission's approval of the Bank's application to market derivative products on the Mainland, BEA launched its first two derivative products in the first half of 2005. BEA will continue to develop innovative investment products to cater to the needs of the local market.

BEA branches in Guangzhou, Xiamen, Dalian and Shanghai recently obtained agency licences allowing them to market life insurance products in China. This complements the branches existing permission to offer general insurance products to their customers. Other BEA branches also hope to market life insurance products in the near future.

## **OVERSEAS OPERATIONS**

BEA continues to strengthen its presence in the United States through its wholly owned banking subsidiary, The Bank of East Asia (USA) N.A. ("BEA (USA)"). BEA (USA) opened its fifth branch, in Torrance, California, on 28th June, 2005. It also targets to open a branch in Brooklyn, New York in December. By the end of the year, BEA (USA) will have four branches in California and two branches in New York.

BEA (USA) will continue to identify locations for new branches in the U.S. to increase its geographical coverage and enlarge its customer base, in particular to serve the growing population of Chinese immigrants in the U.S.

In Canada, The Bank of East Asia (Canada) opened its 6th branch, in Vancouver, British Columbia, on 18th March, 2005. An official grand opening ceremony will be held in August.

## **CORPORATE SERVICES**

Group member Tricor Holdings Limited ("Tricor") is the market leader in terms of both scope and scale of business in corporate and investor services in the region. These services include accounting, company formation, corporate compliance and company secretarial, executive search and selection, initial public offerings and share registration, payroll outsourcing and fund and trust administration.

Tricor recorded significant growth in revenue for the first half of the year. The continued improvement in the business environment in Hong Kong has benefited Tricor's operations. The company has experienced strong demand for its corporate compliance services from both private and publicly listed companies in Hong Kong. Furthermore, its overseas operations have made a respectable contribution to Tricor's total revenue.

In May this year, Tricor acquired the company secretarial business of Ernst & Young in the British Virgin Islands, adding strength to Tricor's already successful corporate services practice there. Continuing with its regional expansion strategy, in July 2005, Tricor acquired a substantial interest in the client accounting, payroll outsourcing and executive recruitment businesses of PricewaterhouseCoopers in Thailand, the leading accounting firm in that country.

## HUMAN RESOURCES

The number of Bank of East Asia Group employees by region at the end of June 2005 is shown in the table below:

Hong Kong	4,367
Other Greater China	1,269
Overseas	416
	<hr/>
Total	6,052

Job growth in the banking and finance sector has been strong since the third quarter of last year. The Bank has developed and executed a number of strategies to retain high-performing staff.

To upgrade staff competence, the Training and Development Department has pro-actively collaborated with external training consultants and university professors in designing and delivering customised training classes, with particular reference to those related to sales and marketing, and business creativity.

The office centralisation project allowed the Bank to provide additional amenities for use by staff. With the new facilities, the Staff Sports Recreation Club has been able to increase the number of activities on offer, and generate a higher level of team spirit.

## FUTURE PROSPECTS

During the first half of 2005, BEA continued its strategic focus on growth and efficiency enhancement.

BEA is committed to developing additional revenue streams through further broadening of its product range, upgrading product features, and exploring new market opportunities. The Bank's wealth management business, in particular the renowned SupremeGold Service, will remain as a core business development focus in the near future. In parallel, BEA will further enhance its leading corporate services and share registration business and providing more quality financial solutions to customers. The Bank will also continue to develop the insurance business of Blue Cross Insurance Limited and identify cross-selling opportunities among the customers of BEA and its subsidiaries.

Outside Hong Kong, BEA was able to maintain satisfactory growth and development in overseas locations including China, the U.S., Canada, and South East Asia. The China market, in particular the Pearl River Delta Region, will remain an important development focus for BEA. The Bank will strive to stay at the forefront to provide innovative products and extend its retail network to maintain its leading position in China.

BEA will continue to enhance operating efficiency. Following the centralisation of back office functions at Millennium City 5, BEA expects to realise the related synergy values in future years. Simultaneously, to further enhance efficiency and market competitiveness, BEA will continue to identify and relocate appropriate operating functions to the Mainland. In addition, BEA will place a high priority on investments in systems and risk management and governance. This will provide a solid foundation for BEA to further enhance its value and market franchise.

## **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS**

As at 30th June, 2005, the interests and short positions of the Directors and Chief Executive of the Bank in the shares, underlying shares and debentures of the Bank and its associated corporations as recorded in the Register required to be kept under section 352 of the Securities and Futures Ordinance (the "SFO") were as follows:

### **I. Long positions in shares of the Bank:**

<u>Name</u>	<u>Capacity and nature</u>	<u>No. of shares</u>	<u>Total</u>	<u>% of issued share capital</u>
David LI Kwok-po	Beneficial owner	20,693,919	21,341,519 <sup>1</sup>	1.42
	Interest of spouse	647,600		
LI Fook-wo	Beneficial owner	1,235,804	32,191,182 <sup>2</sup>	2.14
	Founder of discretionary trust	30,955,378		
WONG Chung-hin	Beneficial owner	46,810	390,941 <sup>3</sup>	0.03
	Interest of spouse	344,131		
LEE Shau-kee	Beneficial owner	647,985	1,647,985 <sup>4</sup>	0.11
	Interest of corporation	1,000,000		
Simon LI Fook-sean	Beneficial owner	894,000	16,193,133 <sup>5</sup>	1.08
	Interest of spouse	3,152,800		
	Founder of discretionary trust	12,146,333		
Allan WONG Chi-yun	Interest of spouse	124	10,483,025 <sup>6</sup>	0.70
	Founder of discretionary trust	10,482,901		
Aubrey LI Kwok-sing	Beneficial owner	23,391	30,993,803 <sup>7</sup>	2.06
	Interest of spouse	15,034		
	Beneficiary of discretionary trust	30,955,378		
Joseph PANG Yuk-wing	Beneficial owner	479,718	479,718	0.03
William MONG Man-wai	Beneficial owner	836,057	6,078,718 <sup>8</sup>	0.40
	Interest of corporation	5,242,661		
CHAN Kay-cheung	Beneficial owner	478,800	478,800	0.03
Winston LO Yau-lai	Trustee of trust	258,390	258,390 <sup>9</sup>	0.02
KHOO Kay-peng	Interest of corporation	1,000,000	1,000,000 <sup>10</sup>	0.07
Thomas KWOK Ping-kwong	—	—	Nil	Nil
Richard LI Tzar-kai	—	—	Nil	Nil
TAN Man-kou	—	—	Nil	Nil
Kenneth LO Chin-ming	—	—	Nil	Nil

#### *Notes:*

- David LI Kwok-po was the beneficial owner of 20,693,919 shares and he was deemed to be interested in 647,600 shares through the interests of his spouse, Penny POON Kam-chui.
- LI Fook-wo was the beneficial owner of 1,235,804 shares. The remaining 30,955,378 shares were held by The Fook Wo Trust, of which LI Fook-wo was the founder, but he had no influence on how the trustee exercises his discretion. The disclosure of these 30,955,378 shares was made on a voluntary basis. Aubrey LI Kwok-sing was also interested in this same block of 30,955,378 shares as one of the discretionary beneficiaries of the trust (please refer to note 7 below).



3. WONG Chung-hin was the beneficial owner of 46,810 shares and he was deemed to be interested in 344,131 shares through the interests of his spouse, LAM Mei-lin.

4. LEE Shau-kee was the beneficial owner of 647,985 shares.

LEE Shau-kee was deemed to be interested in 1,000,000 shares held through Superfun Enterprises Limited ("Superfun"). Superfun was wholly owned by The Hong Kong and China Gas Company Limited which was 37.15% held by Henderson Investment Limited which in turn was 73.48% held by Kingslee S.A., a wholly-owned subsidiary of Henderson Land Development Company Limited ("Henderson Land").

Henderson Land was 61.87% held by Henderson Development Limited ("Henderson Development"). Hopkins (Cayman) Limited ("Hopkins") as trustee of a unit trust (the "Unit Trust") owned all the issued ordinary shares of Henderson Development. Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"), as trustees of respective discretionary trusts, held units in the Unit Trust. The entire issued share capital of Hopkins, Rimmer and Riddick were owned by LEE Shau-kee.

5. Simon LI Fook-sean was the beneficial owner of 894,000 shares and he was deemed to be interested in 3,152,800 shares through the interests of his spouse, YANG Yen-ying. The remaining 12,146,333 shares were held by two discretionary trusts, Settlement of Dr. Simon F.S. Li and The Longevity Trust, of which Simon LI Fook-sean was the founder, but he had no influence on how the trustee exercises his discretion. The disclosure of these 12,146,333 shares was made on a voluntary basis.

6. Allan WONG Chi-yun was deemed to be interested in 124 shares through the interests of his spouse, Margaret KWOK Chi-wai. He was also deemed to be interested in 10,482,901 shares held by a discretionary trust, The Wong Chung Man 1984 Trust, of which Allan WONG Chi-yun was a founder.

7. Aubrey LI Kwok-sing was the beneficial owner of 23,391 shares and he was deemed to be interested in 15,034 shares through the interests of his spouse, Elizabeth WOO. The remaining 30,955,378 shares were held by The Fook Wo Trust, a discretionary trust in which Aubrey LI Kwok-sing was one of the discretionary beneficiaries. LI Fook-wo had also made disclosure in respect of the same block of 30,955,378 shares as founder of the discretionary trust (please refer to note 2 above).

8. William MONG Man-wai was the beneficial owner of 836,057 shares. Of the remaining 5,242,661 shares, (i) 4,502,798 shares were held through Shun Hing Electronic Trading Co. Ltd., (ii) 668,323 shares were held through Shun Hing Technology Co. Ltd., and (iii) 71,540 shares were held through Shun Hing Advertising Co. Ltd. Such corporations are accustomed to act in accordance with the directions or instructions of William MONG Man-wai who is the Chairman of these corporations.

9. Winston LO Yau-lai was deemed to be interested in 258,390 shares which were held by K.S. Lo Foundation of which he was a trustee.

10. KHOO Kay-peng was deemed to be interested in 1,000,000 shares which were held through Bonham Industries Limited, a company in which he held 99.9% of the issued capital.

## II. Long positions in (in respect of equity derivatives) underlying shares of the Bank:

Shares options, being unlisted physically settled equity derivatives, to subscribe for the ordinary shares of the Bank were granted to David LI Kwok-po, Joseph PANG Yuk-wing and CHAN Kay-cheung pursuant to the approved Staff Share Option Schemes. Information in relation to these shares options during the six months ended 30th June, 2005 was shown in the following section under the heading "Information on Share Options".

## III. Interests in debentures of the associated corporation of the Bank:

Name	Issuer	Capacity and nature	Amount of debentures	Total
Simon LI Fook-sean	East Asia Financial Holding (BVI) Limited	Beneficial owner	US\$1,000,000	US\$2,000,000
		Founder of discretionary trust	US\$1,000,000	

Note: Simon LI Fook-sean was the beneficial owner of the debentures of East Asia Financial Holding (BVI) Limited ("EAFH (BVI)") in the amount of US\$1,000,000 and he was deemed to be interested in the debentures of EAFH (BVI) in the amount of US\$1,000,000 held by a discretionary trust, Settlement of Dr. Simon F.S. Li, of which Simon LI Fook-sean was the founder, but he had no influence on how the trustee exercises his discretion. The disclosure of the US\$1,000,000 debentures held by the discretionary trust was made on a voluntary basis.

Save as disclosed above, no other interest or short position in the shares, underlying shares or debentures of the Bank or any of its associated corporations were recorded in the Register.

## INFORMATION ON SHARE OPTIONS

Information in relation to share options disclosed in accordance with the Listing Rules was as follows:

(1) Movement of share options during the six months ended 30th June, 2005:

Name	Date of Grant <sup>a</sup>	Number of Share Options				Outstanding at 30/06/2005
		Outstanding at 1/1/2005	Granted	Exercised	Lapsed	
David LI Kwok-po	20/4/2000	145,000	—	145,000 <sup>c</sup>	—	Nil
	19/4/2001	850,000	—	—	—	850,000
	18/4/2002	850,000	—	—	—	850,000
	02/5/2003	1,000,000	—	—	—	1,000,000
	22/4/2004	1,000,000	—	—	—	1,000,000
	03/5/2005	—	1,000,000 <sup>b</sup>	—	—	1,000,000
Joseph PANG Yuk-wing	20/4/2000	130,000	—	130,000 <sup>c</sup>	—	Nil
	19/4/2001	400,000	—	—	—	400,000
	18/4/2002	400,000	—	—	—	400,000
	02/5/2003	500,000	—	—	—	500,000
	22/4/2004	500,000	—	—	—	500,000
	03/5/2005	—	500,000 <sup>b</sup>	—	—	500,000
CHAN Kay-cheung	20/4/2000	130,000	—	130,000 <sup>c</sup>	—	Nil
	19/4/2001	400,000	—	—	—	400,000
	18/4/2002	400,000	—	—	—	400,000
	02/5/2003	500,000	—	—	—	500,000
	22/4/2004	500,000	—	—	—	500,000
	03/5/2005	—	500,000 <sup>b</sup>	—	—	500,000
Aggregate of other Employees*	20/4/2000	1,075,000	—	1,048,000 <sup>c</sup>	27,000	Nil
	19/4/2001	535,000	—	110,000 <sup>c</sup>	—	425,000
	18/4/2002	1,145,000	—	315,000 <sup>c</sup>	—	830,000
	02/5/2003	6,570,000	—	1,255,000 <sup>c</sup>	—	5,315,000
	22/4/2004	13,045,000	—	—	355,000	12,690,000
	03/5/2005	—	14,410,000 <sup>b</sup>	—	40,000	14,370,000

\* Employees working under employment contracts that were regarded as "Continuous Contracts" for the purpose of the Hong Kong Employment Ordinance.

(2) No share options were cancelled during the six months ended 30th June, 2005.

(3) The accounting policy adopted for share options:

Share options are granted to employees to acquire shares of the Bank. For option schemes adopted before 2002, the option exercise price was 95% of the average closing price of the existing shares of the Bank for the last five business days immediately preceding the date of offer. For option schemes adopted in and after 2002, the option exercise price equals the fair value of the underlying shares at the date of grant. The fair value of options granted is recognised as staff cost with a corresponding increase in equity. The fair value of the options granted is measured using a valuation technique commonly used by market participants, taking into account the terms and conditions upon which the options were granted.

With effect from 1st January, 2005, in order to comply with HKFRS 2 "Share-based Payment", the Group recognises the fair value of such share options as an expense in the profit and loss account. A corresponding increase is recognised in a capital reserve within equity. Details of the new accounting policy are set out in Note 4(a).

Notes:

a. Particulars of share options:

<u>Date of Grant</u>	<u>Vesting Period</u>	<u>Exercise Period</u>	<u>Exercise Price Per Share</u> HK\$
20/4/2000	20/4/2000 — 19/4/2001	20/4/2001 — 20/4/2005	16.46
19/4/2001	19/4/2001 — 18/4/2002	19/4/2002 — 19/4/2006	16.96
18/4/2002	18/4/2002 — 17/4/2003	18/4/2003 — 18/4/2007	15.80
02/5/2003	02/5/2003 — 01/5/2004	02/5/2004 — 02/5/2008	14.90
22/4/2004	22/4/2004 — 21/4/2005	22/4/2005 — 22/4/2009	23.23
03/5/2005	03/5/2005 — 02/5/2006	03/5/2006 — 03/5/2010	22.95

b. (i) The closing price of the shares of the Bank immediately before 3rd May, 2005 on which the options were granted was HK\$22.85.

(ii) Value of share options granted during the six months ended 30th June, 2005:

The Directors consider that it is not appropriate to disclose the value of options granted during the six months ended 30th June, 2005, since any valuation of the options would be subject to a number of assumptions that would be subjective and uncertain. The Directors believe that the evaluation of options based upon speculative assumptions would not be meaningful and would be misleading to shareholders.

c. The half-year weighted average ("HWA") closing price of the shares of the Bank immediately before the date on which the Options were exercised during the six months ended 30th June, 2005:

<u>Date of Grant</u>	<u>No. of Options Exercised</u>	<u>Exercise Price Per Share</u> HK\$	<u>HWA Closing Price</u> HK\$
20/4/2000	1,453,000	16.46	23.23
19/4/2001	110,000	16.96	23.47
18/4/2002	315,000	15.80	23.59
02/5/2003	1,255,000	14.90	23.35

Save as disclosed above, as at 30th June, 2005, none of the Directors or Chief Executive of the Bank or their spouses or children under 18 years of age were granted or exercised any right to subscribe for any equity or debt securities of the Bank or any of its associated corporations.

### **INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS**

As at 30th June, 2005, the interests and short positions of Substantial Shareholders and Other Persons of the Bank in the shares and underlying shares of the Bank as recorded in the Register required to be kept under section 336 of the SFO were as follows:

#### **Long positions in shares of the Bank:**

<u>Name</u>	<u>Capacity and nature</u>	<u>No. of shares</u>	<u>% on issued share capital</u>
East Asia International Trustees Limited	Trustee	83,137,567 <sup>1</sup>	5.53
Silchester International Investors Limited	Investment Manager	75,623,800 <sup>2</sup>	5.03

<sup>1</sup> East Asia International Trustees Limited was deemed to be interested in these 83,137,567 shares held by various trusts of which this company was the trustee.

<sup>2</sup> Silchester International Investors Limited was deemed to be interested in these 75,623,800 shares in their capacity as an Investment Manager for a number of commingled funds.

Save as disclosed above, no other interest or short position in the shares or underlying shares of the Bank were recorded in the Register.

### **DEALING IN LISTED SECURITIES OF THE BANK**

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of listed securities of the Bank during the six months ended 30th June, 2005.

## **COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES**

Being the largest independent local bank in Hong Kong, BEA is committed to maintaining the highest standard of corporate governance practices. The Board considers such commitment essential in balancing the interests of shareholders, customers and employees; and in upholding accountability and transparency.

BEA has complied with all the code provisions (with the exception of Code Provision C.2 on internal controls) set out in Appendix 14 Code on Corporate Governance Practices of the Listing Rules throughout the accounting period for the six months ended 30th June, 2005, except for the following deviations:

### **Code Provision A.2.1**

This Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Dr. David LI Kwok-po is the Chairman and Chief Executive of the Bank. The Board considers that this structure will not impair the balance of power and authority between the Board and the Management of the Bank. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high calibre individuals and meets regularly every two months to discuss issues affecting operations of the Bank. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Bank to make and implement decisions promptly and efficiently. The Board has full confidence in Dr. Li, and believes that his appointment to the posts of Chairman and Chief Executive is beneficial to the business prospects of the Bank.

### **Code Provision A.4.1 and A.4.2 (last sentence)**

Code A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Code A.4.2 (last sentence) stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Non-executive Directors of the Bank do not have a specific term of appointment. However, in accordance with Article 80 of the Articles of Association of the Bank, at every annual general meeting, one-third of the Directors for the time being or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third shall retire from office.

In order to ensure full compliance with Code A.4.1 and A.4.2, a special resolution will be proposed to amend the relevant Articles of Association of the Bank at the Annual General Meeting to be held in 2006, so that every Director shall be subject to retirement by rotation at least once every three years.

## **COMPLIANCE WITH MODEL CODE**

The Bank has established its own code of securities transactions by Directors and Chief Executive ("Own Code") on terms no less exacting than the required standard set out in Appendix 10 — Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") of the Listing Rules.

Having made specific enquiry of all Directors of the Bank, during the six months ended 30th June, 2005, Directors of the Bank have complied with the required standard set out in the Model Code and in the Own Code which is incorporated in the Bank's Policy on Insider Trading — Directors and Chief Executive.

By order of the Board

**David LI Kwok-po**

*Chairman & Chief Executive*

Hong Kong, 3rd August, 2005.

*As at the date of this report, the Executive Directors of the Bank are: Dr. David LI Kwok-po (Chairman and Chief Executive), Mr. Joseph PANG Yuk-wing (Deputy Chief Executive) and Mr. CHAN Kay-cheung (Deputy Chief Executive); Non-executive Directors of the Bank are: Dr. LI Fook-wo; Dr. Simon LI Fook-sean, Mr. Aubrey LI Kwok-sing, Dr. William MONG Man-wai, Tan Sri Dr. KHOO Kay-peng and Mr. Richard LI Tzar-kai; and Independent Non-executive Directors are: Mr. WONG Chung-hin, Dr. LEE Shau-kee, Dr. Allan WONG Chi-yun, Mr. Winston LO Yau-lai, Mr. Thomas KWOK Ping-kwong, Mr. TAN Man-kou and Mr. Kenneth LO Chin-ming.*