



BEA 東亞銀行

THE BANK OF EAST ASIA, LIMITED

(Incorporated in Hong Kong with limited liability in 1918)

ANNOUNCEMENT OF 2003 FINAL RESULTS

SUMMARY OF RESULTS

The Directors of The Bank of East Asia, Limited ("BEA") are pleased to announce the audited results¹ of the Bank and its subsidiaries (the "Group") for the year ended 31st December, 2003. This financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2002 annual accounts except for the accounting policy change made thereafter in adopting a revised Statement of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants².

A. Consolidated Profit and Loss Account

	2003	2002	Variance
	HK\$'000	Restated HK\$'000	%
Interest income	5,763,729	6,379,553	- 9.7
Interest expense	<u>(2,167,649)</u>	<u>(2,727,277)</u>	- 20.5
Net interest income	3,596,080	3,652,276	- 1.5
Fees and commission income	1,266,294	1,133,295	+ 11.7
Fees and commission expense	(210,818)	(183,696)	+ 14.8
Net trading profits	473,079	195,860	+ 141.5
Other operating income	<u>271,612</u>	<u>258,561</u>	+ 5.0
Operating income	5,396,247	5,056,296	+ 6.7
Operating expenses	<u>(2,525,540)</u>	<u>(2,542,594)</u>	- 0.7
Operating profit before provisions	2,870,707	2,513,702	+ 14.2
Charge for bad and doubtful debts	<u>(498,670)</u>	<u>(810,939)</u>	- 38.5
Operating profit after provisions	2,372,037	1,702,763	+ 39.3
Net loss on disposal of fixed assets	(11,195)	(31,167)	- 64.1
Revaluation surplus/(deficit) on investment properties	12,816	(92,257)	+ 113.9
Impairment loss on bank premises	(113,782)	-	-
Net (loss)/profit on disposal of held-to-maturity debt securities, investment securities and associates	(14,040)	456	- 3178.9
Write back/(provision) on held-to-maturity debt securities, investment securities and associates	15,874	(39,581)	+ 140.1
Share of profits less losses of associates	112,598	32,656	+ 244.8
Profit for the year before taxation	<u>2,374,308</u>	<u>1,572,870</u>	+ 51.0
Income tax			
Current taxation ³			
- Hong Kong	(63,036)	(60,399)	+ 4.4
- Overseas	(47,475)	(47,902)	- 0.9
Deferred taxation	(301,687)	(159,352)	+ 89.3
Associates	<u>(21,203)</u>	<u>(9,360)</u>	+ 126.5
Profit for the year after taxation	1,940,907	1,295,857	+ 49.8
Minority interests	<u>(19,193)</u>	<u>(26,071)</u>	- 26.4
Profit attributable to shareholders	<u>1,921,714</u>	<u>1,269,786</u>	+ 51.3
Proposed final dividend per share	<u>HK\$0.62</u>	<u>HK\$0.35</u>	+ 77.1
Per share			
- Basic earnings ⁴	HK\$1.32	HK\$0.88	+ 50.0
- Diluted earnings ⁴	HK\$1.32	HK\$0.88	+ 50.0
- Cash earnings ⁴	HK\$1.42	HK\$0.98	+ 44.9
- Dividends	HK\$0.85	HK\$0.56	+ 51.8

B. Consolidated Balance Sheet

	2003	2002	Variance	
	<u>HK\$'000</u>	<u>Restated HK\$'000</u>		%
ASSETS				
Cash and short-term funds	36,033,510	34,937,640	+	3.1
Placements with banks and other financial institutions maturing between one and twelve months	21,075,521	11,670,652	+	80.6
Trade bills less provisions	623,273	671,763	-	7.2
Certificates of deposit held	3,016,556	2,370,751	+	27.2
Other investments in securities	10,151,335	13,255,164	-	23.4
Advances and other accounts less provisions	108,379,794	111,824,208	-	3.1
Held-to-maturity debt securities	11,709,225	3,125,686	+	274.6
Investment securities	243,097	253,428	-	4.1
Investments in associates	736,484	639,500	+	15.2
Goodwill	2,343,408	2,181,433	+	7.4
Deferred tax assets	79,217	77,029	+	2.8
Fixed assets	<u>4,084,698</u>	<u>4,407,057</u>	-	7.3
Total Assets	<u><u>198,476,118</u></u>	<u><u>185,414,311</u></u>	+	7.0
LIABILITIES				
Deposits and balances of banks and other financial institutions	7,516,565	5,754,837	+	30.6
Deposits from customers	155,420,612	141,661,889	+	9.7
Certificates of deposit issued	5,527,339	10,157,757	-	45.6
Convertible bonds issued ⁵	-	119,637	-	100.0
Current taxation	144,644	123,535	+	17.1
Other accounts and provisions	4,616,361	3,778,844	+	22.2
Deferred tax liabilities	<u>863,928</u>	<u>710,358</u>	+	21.6
Total Liabilities	<u>174,089,449</u>	<u>162,306,857</u>	+	7.3
CAPITAL RESOURCES				
Loan capital	<u>4,260,751</u>	<u>4,276,227</u>	-	0.4
Share capital	3,668,634	3,615,863	+	1.5
Reserves	<u>16,432,866</u>	<u>15,170,656</u>	+	8.3
Shareholders' Funds	<u>20,101,500</u>	<u>18,786,519</u>	+	7.0
Minority interests	<u>24,418</u>	<u>44,708</u>	-	45.4
Total Capital Resources	<u>24,386,669</u>	<u>23,107,454</u>	+	5.5
Total Capital Resources and Liabilities	<u><u>198,476,118</u></u>	<u><u>185,414,311</u></u>	+	7.0

C. Consolidated Statement of Changes in Equity

	2003	2002
	HK\$'000	Restated HK\$'000
Balance as at 1 st January		
- As previously reported	18,875,039	18,247,501
- Prior period adjustments in respect of deferred tax	(88,520)	(76,025)
- As restated	<u>18,786,519</u>	<u>18,171,476</u>
(Recognition)/release of net deferred tax liabilities in:		
Revaluation reserve on bank premises	(15,302)	2,137
Revaluation reserve on investment properties	-	3,960
Revaluation deficit on investment properties	-	(108,341)
Impairment loss on bank premises	(122,013)	-
Exchange and other adjustments	<u>42,844</u>	<u>32,570</u>
Net losses not recognised in the profit and loss account	<u>(94,471)</u>	<u>(69,674)</u>
Net profit for the year		
- As previously reported		1,288,378
- Prior period adjustments in respect of deferred tax		(18,592)
Profit attributable to shareholders (2002: as restated)	<u>1,921,714</u>	<u>1,269,786</u>
Dividends declared or approved during the year	<u>(840,289)</u>	<u>(775,546)</u>
Movements in shareholders' funds arising from capital transactions with shareholders:		
Shares issued under Staff Share Option Schemes	217,003	12,678
Shares issued in lieu of dividends	111,161	177,809
Capital fee	(137)	(10)
	<u>328,027</u>	<u>190,477</u>
Balance as at 31 st December	<u>20,101,500</u>	<u>18,786,519</u>

D. Consolidated Cash Flow Statement

	2003	2002
	HK\$'000	Restated HK\$'000
OPERATING ACTIVITIES		
Profit for the year before taxation	2,374,308	1,572,870
Adjustments for non-cash items:		
Charge for bad and doubtful debts	498,670	810,939
(Write back)/provision on held-to-maturity debt securities, investment securities and associates	(15,874)	39,581
Share of profits less losses of associates	(112,598)	(32,656)
Net loss/(profit) on disposal of held-to-maturity debt securities, investment securities and associates	14,040	(456)
Net loss on disposal of fixed assets	11,195	31,167
Interest expense on certificates of deposit and bonds issued	396,750	544,459
Depreciation on fixed assets	228,842	226,223
Amortisation and impairment of goodwill	140,087	138,361
Impairment loss on bank premises	113,782	-
Dividend income from equity securities	(26,271)	(24,982)
Amortisation of premium/discount on certificates of deposit and loan capital issued	84,782	32,793
Revaluation (surplus)/deficit on investment properties	(12,816)	92,257
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL	3,694,897	3,430,556
(Increase)/decrease in operating assets:		
Placements with banks and other financial institutions maturing beyond three months	(12,354,207)	1,367,626
Trade bills	48,434	(93,727)
Certificates of deposit held with original maturity beyond three months	(135,799)	(191,844)
Other investments in securities	3,141,065	(9,113,558)
Advances to customers	4,870,312	(1,215,229)
Advances to banks and other financial institutions	(475,419)	(527,913)
Treasury bills with original maturity beyond three months	(1,091,022)	555,589
Held-to-maturity debt securities and investment securities	(8,629,332)	(798,273)
Other accounts and accrued interest	(1,459,241)	(1,043,832)
Deferred tax assets	(2,188)	11,814
Increase/(decrease) in operating liabilities:		
Deposits and balances of banks and other financial institutions	1,761,728	586,586
Deposits from customers	13,758,723	845,138
Other accounts and provisions	844,638	(75,745)
Deferred tax liabilities	(163,423)	(71,821)
Exchange adjustments	58,442	21,736
NET CASH INFLOW/(OUTFLOW) FROM OPERATIONS	3,867,608	(6,312,897)
Hong Kong profits tax paid	(45,154)	(21,941)
Overseas profits tax paid	(45,176)	(43,629)
NET CASH FLOWS GENERATED FROM/(USED IN) OPERATING ACTIVITIES	3,777,278	(6,378,467)

D. Consolidated Cash Flow Statement (Continued)

	2003	2002
	HK\$'000	Restated HK\$'000
INVESTING ACTIVITIES		
Dividends received from associates	17,669	34,785
Dividends received from equity securities	26,271	35,797
Purchase of equity securities	(85,692)	(4,828)
Proceeds from sale of equity securities	95,173	14,613
Purchase of fixed assets	(223,673)	(173,225)
Proceeds from disposal of fixed assets	88,092	146,514
Purchase of interest in associates	-	(25,545)
Proceeds from disposal of associates	-	5,324
Purchase of subsidiaries	(300,509)	(334,477)
Increase in shareholding of a subsidiary	(39,139)	-
NET CASH USED IN INVESTING ACTIVITIES	(421,808)	(301,042)
FINANCING ACTIVITIES		
Ordinary dividends paid	(729,128)	(597,737)
Issue of ordinary share capital	217,003	12,678
Capital fee paid on increase in issued share capital	(137)	(10)
Issue of certificates of deposit	2,991,300	9,033,181
Redemption of certificates of deposit	(7,735,365)	(7,490,941)
Redemption of convertible bonds	(119,621)	(197,337)
Interest paid on loan capital	(196,343)	(238,619)
Interest paid on certificates of deposit	(215,668)	(351,873)
Interest paid on bonds issued	(1,995)	(6,487)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES	(5,789,954)	162,855
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,434,484)	(6,516,654)
CASH AND CASH EQUIVALENT AT 1ST JANUARY	36,325,022	42,841,676
CASH AND CASH EQUIVALENT AT 31ST DECEMBER	33,890,538	36,325,022
Cash flows from operating activities included:		
Interest received	5,691,064	6,383,798
Interest paid	2,179,925	2,719,753

Notes:

- (1) The financial information set out in this report does not constitute the Group's statutory accounts for the year ended 31st December, 2003 but there is no material change as compared to those accounts. The statutory accounts for the year ended 31st December, 2003 will be available from the website of The Stock Exchange of Hong Kong Limited. The auditors have expressed an unqualified opinion on those accounts in their report dated 10th February, 2004.
- (2)
 - (a) In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1st January, 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) issued by the Hong Kong Society of Accountants, the Group adopted a new policy for deferred tax. As a result of the adoption of this accounting policy, the Group's profit for the year has been decreased by HK\$23,762,000 (2002 : HK\$18,592,000) and the net assets as at the year end have been decreased by HK\$115,257,000 (2002 : HK\$88,520,000).
 - (b) The new accounting policy has been adopted retrospectively, with the opening balances of retained profits and reserves and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.
- (3) In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase is taken into account in the preparation of the Group's 2003 accounts. Accordingly, the provision for Hong Kong Profits Tax for 2003 is calculated at 17.5% (2002 : 16%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.
- (4)
 - (a) The calculation of basic earnings per share is based on earnings of HK\$1,921,714,000 (2002 restated : HK\$1,269,786,000) and on the weighted average of 1,453,702,043 (2002 : 1,440,175,619) ordinary shares outstanding during the year.
 - (b) The calculation of diluted earnings per share is based on earnings of HK\$1,922,793,000 (2002 restated : HK\$1,274,182,000) and on 1,459,024,994 (2002 : 1,451,175,354) ordinary shares, being the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.
 - (c) The calculation of cash earnings per share is based on earnings of HK\$2,061,801,000 (2002 restated : HK\$1,408,147,000) adjusted for goodwill amortised and impaired of HK\$140,087,000 (2002 restated : HK\$138,361,000) and on the weighted average of 1,453,702,043 (2002 : 1,440,175,619) ordinary shares outstanding during the year. This supplementary information is considered a useful additional indication of performance.
- (5) The 2 per cent Convertible Bonds issued were fully redeemed at par upon maturity on 19th July, 2003 pursuant to the terms and conditions. Interest expense for the year amounted to HK\$1,307,000 (2002 : HK\$5,352,000).
- (6)
 - (a) Comparative figures for 2002 are restated to conform with the current year's presentation. The restatements for the consolidated profit and loss account, consolidated and the Bank's balance sheet are due to the change in accounting policy for deferred taxation.
 - (b) Cash rebates for mortgage loans amounting to HK\$181,749,000 (2002 : HK\$173,362,000), which were previously classified under operating expenses, are netted off against interest income in line with market practice. Prior year figures are restated to conform with the current year's presentation.
 - (c) Commission related expenses amounting to HK\$206,504,000 (2002 : HK\$178,268,000), which were previously classified under operating expenses is now shown as fees and commission expense to be in line with market practice. Prior year figures are restated to conform with the current year's presentation.

E. Fees and Commission Income

Fees and commission income arises from the following services:

	2003	2002	Variance	
	HK\$'000	HK\$'000		%
Corporate services	359,370	282,766	+	27.1
Loans, overdrafts and guarantees	240,330	230,307	+	4.4
Credit cards	188,164	213,821	-	12.0
Retail banking	129,911	110,304	+	17.8
Trade finance	101,375	106,332	-	4.7
Securities and asset management	135,816	92,125	+	47.4
Others	111,328	97,640	+	14.0
Total fees and commission income	<u>1,266,294</u>	<u>1,133,295</u>	+	11.7

F. Operating Expenses

	2003	2002	Variance	
	HK\$'000	Restated HK\$'000		%
Contributions to defined contribution plan	94,191	88,531	+	6.4
Salary and other staff costs	<u>1,251,150</u>	<u>1,202,764</u>	+	4.0
Total staff costs	<u>1,345,341</u>	<u>1,291,295</u>	+	4.2
Premises and equipment expenses excluding depreciation:				
- Rental of premises	132,703	142,518	-	6.9
- Maintenance, repairs and others	<u>186,639</u>	<u>205,289</u>	-	9.1
Total premises and equipment expenses excluding depreciation	<u>319,342</u>	<u>347,807</u>	-	8.2
Depreciation on fixed assets	228,842	226,223	+	1.2
Amortisation of goodwill	140,087	125,011	+	12.1
Impairment of goodwill	-	13,350	-	100.0
Other operating expenses				
- Communications, stationery and printing	143,858	144,719	-	0.6
- Advertising, business promotions and business trips	107,598	122,839	-	12.4
- Legal and professional fees	78,421	81,395	-	3.7
- Card related expenses	31,112	38,315	-	18.8
- Stamp duty and PRC business taxes	24,858	30,625	-	18.8
- Debt securities issue expenses	10,598	16,279	-	34.9
- Administration expenses of secretarial business	7,237	27,839	-	74.0
- Bank charges	5,844	5,210	+	12.2
- Insurance expenses	5,550	2,869	+	93.4
- Membership fees	4,943	5,521	-	10.5
- Bank licence	4,770	5,772	-	17.4
- Donations	3,881	2,008	+	93.3
- Audit fee	3,803	4,509	-	15.7
- Others	<u>59,455</u>	<u>51,008</u>	+	16.6
Total other operating expenses	<u>491,928</u>	<u>538,908</u>	-	8.7
Total operating expenses	<u>2,525,540</u>	<u>2,542,594</u>	-	0.7

G. Advances and Other Assets

1. Advances and Other Accounts less Provisions

	2003 HK\$'000	2002 HK\$'000	Variance %
Advances to customers	102,908,836	108,408,574	- 5.1
Advances to banks and other financial institutions	1,563,981	1,088,562	+ 43.7
Accrued interest	1,137,979	1,065,314	+ 6.8
Other accounts	4,408,949	3,021,728	+ 45.9
	<u>110,019,745</u>	<u>113,584,178</u>	- 3.1
Less: Provisions for bad and doubtful debts			
- Specific	380,400	426,713	- 10.9
- General	1,259,551	1,333,257	- 5.5
	<u>108,379,794</u>	<u>111,824,208</u>	- 3.1

2. Advances to Customers – by Industry Sectors

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

	2003 HK\$'000	2002 HK\$'000	Variance %
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property development	4,969,798	4,847,778	+ 2.5
- Property investment	11,883,891	11,744,929	+ 1.2
- Financial concerns	2,045,115	2,223,813	- 8.0
- Stockbrokers	322,112	104,602	+ 207.9
- Wholesale and retail trade	1,790,164	2,107,598	- 15.1
- Manufacturing	1,250,396	1,459,648	- 14.3
- Transport and transport equipment	4,564,759	4,511,617	+ 1.2
- Others	4,500,757	6,907,826	- 34.8
- Sub-total	<u>31,326,992</u>	<u>33,907,811</u>	- 7.6
Individuals			
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,848,337	2,207,192	- 16.3
- Loans for the purchase of other residential properties	34,595,575	39,930,918	- 13.4
- Credit card advances	1,432,687	1,692,322	- 15.3
- Others	2,950,460	3,333,374	- 11.5
- Sub-total	<u>40,827,059</u>	<u>47,163,806</u>	- 13.4
Total loans for use in Hong Kong	72,154,051	81,071,617	- 11.0
Trade finance	3,314,514	3,272,588	+ 1.3
Loans for use outside Hong Kong	27,440,271	24,064,369	+ 14.0
Total advances to customers	<u>102,908,836</u>	<u>108,408,574</u>	- 5.1

3. Advances to Customers - 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.

	2003		
	Total advances to customers HK\$'000	Non-performing loans HK\$'000	Advances overdue for over three months HK\$'000
Hong Kong	81,092,324	1,587,928	872,215
People's Republic of China	5,588,249	747,602	470,946
Other Asian Countries	5,150,091	108,408	83,713
Others	11,078,172	82,451	71,799
Total	102,908,836	2,526,389	1,498,673

	2002		
	Total advances to customers HK\$'000	Non-performing loans HK\$'000	Advances overdue for over three months HK\$'000
Hong Kong	89,449,624	2,041,748	1,234,390
People's Republic of China	4,132,169	769,605	859,330
Other Asian Countries	5,024,629	171,560	145,336
Others	9,802,152	125,088	38,807
Total	108,408,574	3,108,001	2,277,863

4. 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.

	2003			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
People's Republic of China	5,942,870	1,117,031	4,763,759	11,823,660
Asian countries, excluding People's Republic of China	13,068,878	1,156,111	6,184,322	20,409,311
North America	5,526,584	8,245,582	4,920,474	18,692,640
Western Europe	33,240,941	-	1,088,757	34,329,698
	2002			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
People's Republic of China	6,022,429	560,217	3,051,859	9,634,505
Asian countries, excluding People's Republic of China	10,942,142	1,107,992	5,933,867	17,984,001
North America	4,375,369	3,597,083	4,234,618	12,207,070
Western Europe	25,357,970	167,455	858,420	26,383,845

5. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and Rescheduled Advances

	2003		2002	
	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	276,799	0.3	642,305	0.6
- 1 year or less but over 6 months	339,092	0.3	391,029	0.4
- Over 1 year	882,782	0.9	1,244,529	1.1
	<u>1,498,673</u>	<u>1.5</u>	<u>2,277,863</u>	<u>2.1</u>
Rescheduled advances to customers	<u>1,123,114</u>	<u>1.1</u>	<u>624,138</u>	<u>0.6</u>
Total overdue and rescheduled advances	<u>2,621,787</u>	<u>2.6</u>	<u>2,902,001</u>	<u>2.7</u>
Secured overdue advances	<u>1,323,712</u>	<u>1.3</u>	<u>2,189,786</u>	<u>2.0</u>
Unsecured overdue advances	<u>174,961</u>	<u>0.2</u>	<u>88,077</u>	<u>0.1</u>
Market value of securities held against secured overdue advances	<u>1,736,962</u>		<u>3,462,986</u>	

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 31st December, 2003 and 31st December, 2002, nor were there any rescheduled advances to banks and other financial institutions on these two dates.

(b) Non-performing Advances to Customers

Non-performing advances to customers are advances on which interest is being placed in suspense or on which interest accrual has ceased.

	2003		2002	
	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers
Gross non-performing advances to customers	2,526,389	2.45	3,108,001	2.87
Specific provisions	219,528		279,713	
Suspended interest	508,890		559,576	

There were no advances to banks and other financial institutions on which interest is being placed in suspense or on which interest accrual has ceased as at 31st December, 2003 and 31st December, 2002, nor were there any specific provisions made for them on these two dates.

(c) Reconciliation

	2003 HK\$'000	2002 HK\$'000
Overdue advances (Note 1)	1,498,673	2,277,863
Rescheduled advances (Note 2)	1,123,114	624,138
Total overdue and rescheduled advances	2,621,787	2,902,001
Less: Overdue advances on which interest is still being accrued	(150,286)	(242,684)
Less: Rescheduled advances on which interest is still being accrued	(173,813)	(57,247)
Add: Non-performing loans which are not overdue or rescheduled	228,701	505,931
Total non-performing loans	<u>2,526,389</u>	<u>3,108,001</u>

Notes:

- (1) Advances which are overdue for more than three months.
- (2) Rescheduled advances which have been overdue for more than three months under the revised repayment terms are included under overdue advances and not rescheduled advances.

(d) Other Overdue and Rescheduled Assets

	2003	
	Accrued interest HK\$'000	Other assets* HK\$'000
Other assets overdue for		
- 6 months or less but over 3 months	1,699	2,592
- 1 year or less but over 6 months	1,442	1,096
- Over 1 year	904	13,406
	<u>4,045</u>	<u>17,094</u>
Rescheduled assets	-	827
Total other overdue and rescheduled assets	<u>4,045</u>	<u>17,921</u>

	2002	
	Accrued interest HK\$'000	Other assets* HK\$'000
Other assets overdue for		
- 6 months or less but over 3 months	4,029	1,275
- 1 year or less but over 6 months	1,096	9,850
- Over 1 year	1,202	6,486
	<u>6,327</u>	<u>17,611</u>
Rescheduled assets	-	-
Total other overdue and rescheduled assets	<u>6,327</u>	<u>17,611</u>

* Other assets refer to trade bills and receivables.

(e) Repossessed Assets

	<u>2003</u>	<u>2002</u>
	HK\$'000	HK\$'000
Repossessed properties	176,265	390,499
Repossessed vehicles	<u>671</u>	<u>4,990</u>
Total repossessed assets	<u><u>176,936</u></u>	<u><u>395,489</u></u>

The amount represents the estimated market value of the repossessed assets as at 31st December.

H. 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, and asset management.

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

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

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

2003

	Personal Banking HK\$'000	Corporate Banking HK\$'000	Investment Banking HK\$'000	Corporate Services HK\$'000	Others HK\$'000	Unallocated HK\$'000	Inter- segment elimination HK\$'000	Consolidated HK\$'000
Net interest income	1,932,393	1,170,885	526,811	24	34,481	(68,514)	-	3,596,080
Other operating income from external customers	393,717	254,897	566,819	358,375	147,970	78,389	-	1,800,167
Inter-segment income	-	-	-	-	-	136,566	(136,566)	-
Total operating income	2,326,110	1,425,782	1,093,630	358,399	182,451	146,441	(136,566)	5,396,247
Operating profit / (loss) before provisions	1,286,224	880,649	858,429	112,477	36,722	(303,794)	-	2,870,707
Inter-segment transactions	112,394	11,256	6,779	-	-	(130,429)	-	-
Charge for bad and doubtful debts	(343,519)	(112,574)	(16,138)	(9,995)	(15,944)	(500)	-	(498,670)
Contribution from operations	1,055,099	779,331	849,070	102,482	20,778	(434,723)	-	2,372,037
Write-back of impairment loss for the year	-	1,333	-	-	-	8,895	-	10,228
Impairment loss on bank premises	-	-	-	-	-	(113,782)	-	(113,782)
Share of profits less losses of associates	(3,994)	26,007	1,314	-	97,932	(8,661)	-	112,598
Other income and expenses	-	1,917	(16,252)	-	5,941	1,621	-	(6,773)
Profit / (loss) before taxation	1,051,105	808,588	834,132	102,482	124,651	(546,650)	-	2,374,308
Income tax	-	-	-	-	-	(433,401)	-	(433,401)
Minority interests	-	-	-	(18,992)	(150)	(51)	-	(19,193)
Profit / (loss) attributable to shareholders	1,051,105	808,588	834,132	83,490	124,501	(980,102)	-	1,921,714
Depreciation for the year	(84,255)	(40,938)	(16,340)	(6,468)	(7,593)	(73,248)	-	(228,842)
Amortisation of goodwill	(31,425)	(25,214)	(45,638)	(36,870)	(940)	-	-	(140,087)
Segment assets	48,173,407	56,294,715	82,861,682	1,169,400	1,241,602	90,214	-	189,831,020
Investments in associates	31,926	342,601	53,840	-	304,705	3,412	-	736,484
Unallocated assets	-	-	-	-	-	7,908,614	-	7,908,614
Total assets	48,205,333	56,637,316	82,915,522	1,169,400	1,546,307	8,002,240	-	198,476,118
Segment liabilities	110,392,305	45,031,831	13,440,069	62,760	737,779	-	-	169,664,744
Unallocated liabilities	-	-	-	-	-	4,424,705	-	4,424,705
Total liabilities	110,392,305	45,031,831	13,440,069	62,760	737,779	4,424,705	-	174,089,449
Capital expenditure incurred during the year	44,118	53,071	79,940	25,483	5,329	15,732	-	223,673

	2002 (Restated)							
	Personal Banking HK\$'000	Corporate Banking HK\$'000	Investment Banking HK\$'000	Corporate Services HK\$'000	Others HK\$'000	Unallocated HK\$'000	Inter- segment elimination HK\$'000	Consolidated HK\$'000
Net interest income	2,143,026	1,130,792	419,643	17	21,268	(62,470)	-	3,652,276
Other operating income from external customers	454,868	222,439	290,054	282,309	87,773	66,577	-	1,404,020
Inter-segment income	17,052	56,782	172	-	-	142,263	(216,269)	-
Total operating income	2,614,946	1,410,013	709,869	282,326	109,041	146,370	(216,269)	5,056,296
Operating profit / (loss) before provisions	1,377,032	866,019	407,708	97,033	(22,873)	(211,217)	-	2,513,702
Inter-segment transactions (Charge for)/ write back of bad and doubtful debts	180,185	(48,427)	6,794	-	-	(138,552)	-	-
	(640,238)	(139,583)	10,029	(2,246)	(10,092)	(28,809)	-	(810,939)
Contribution from operations	916,979	678,009	424,531	94,787	(32,965)	(378,578)	-	1,702,763
Write-back of / (increase in) impairment loss for the year	-	7,312	566	-	4,354	(3,983)	-	8,249
Share of profits less losses of associates	514	41,039	1,886	-	(10,725)	(58)	-	32,656
Other income and expenses	-	474	(46,609)	-	(2,083)	(122,580)	-	(170,798)
Profit / (loss) before taxation	917,493	726,834	380,374	94,787	(41,419)	(505,199)	-	1,572,870
Income tax	-	-	-	-	-	(277,013)	-	(277,013)
Minority interests	-	-	-	(26,112)	-	41	-	(26,071)
Profit / (loss) attributable to shareholders	917,493	726,834	380,374	68,675	(41,419)	(782,171)	-	1,269,786
Depreciation for the year	(90,633)	(37,703)	(14,024)	(5,464)	(7,878)	(70,521)	-	(226,223)
Amortisation of goodwill	(36,823)	(27,353)	(38,110)	(21,785)	(940)	-	-	(125,011)
Impairment of goodwill	-	-	-	-	(13,350)	-	-	(13,350)
Segment assets	52,728,649	55,928,804	66,925,896	549,984	1,096,412	85,859	-	177,315,604
Investments in associates	36,171	319,590	53,963	-	226,895	2,881	-	639,500
Unallocated assets	-	-	-	-	-	7,459,207	-	7,459,207
Total assets	52,764,820	56,248,394	66,979,859	549,984	1,323,307	7,547,947	-	185,414,311
Segment liabilities	100,511,305	41,150,584	16,123,840	33,184	453,663	-	-	158,272,576
Unallocated liabilities	-	-	-	-	-	4,034,281	-	4,034,281
Total liabilities	100,511,305	41,150,584	16,123,840	33,184	453,663	4,034,281	-	162,306,857
Capital expenditure incurred during the year	47,187	54,372	55,443	8,604	4,554	10,788	-	180,948

I. Off-balance Sheet Exposures

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

	<u>2003</u> HK\$'000	<u>2002</u> HK\$'000	<u>Variance</u> %
Contractual amounts of contingent liabilities and commitments			
- Direct credit substitutes	4,381,620	4,125,735	+ 6.2
- Transaction-related contingencies	496,632	519,227	- 4.4
- Trade-related contingencies	2,596,662	2,152,000	+ 20.7
- Other commitments with an original maturity of:			
Under 1 year or which are unconditionally cancellable	20,395,121	20,615,082	- 1.1
1 year and over	6,775,946	8,416,217	- 19.5
- Others	50,117	-	-
Total	<u>34,696,098</u>	<u>35,828,261</u>	- 3.2
- Aggregate credit risk weighted amount	<u>8,087,367</u>	<u>8,559,065</u>	- 5.5
Notional amounts of derivatives			
- Exchange rate contracts	35,334,684	21,062,568	+ 67.8
- Interest rate contracts	13,541,671	11,347,330	+ 19.3
- Equity contracts	840,638	372,262	+ 125.8
Total	<u>49,716,993</u>	<u>32,782,160</u>	+ 51.7
- Aggregate credit risk weighted amount	<u>471,430</u>	<u>218,951</u>	+ 115.3
- Aggregate replacement costs	<u>1,458,276</u>	<u>425,196</u>	+ 243.0

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.

J. Currency Concentrations

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

	2003 HK\$ Million					Total
	USD	CAD	GBP	CNY	Others	
Spot assets	50,041	4,337	4,374	2,544	14,498	75,794
Spot liabilities	(45,079)	(5,088)	(7,305)	(2,508)	(21,627)	(81,607)
Forward purchases	23,881	1,674	2,110	-	14,465	42,130
Forward sales	(27,768)	(780)	(171)	-	(7,318)	(36,037)
Net options position	(9)	2	(3)	-	(6)	(16)
Net long / (short) position	<u>1,066</u>	<u>145</u>	<u>(995)</u>	<u>36</u>	<u>12</u>	<u>264</u>

	2002 HK\$ Million					Total
	USD	CAD	GBP	CNY*	Others	
Spot assets	50,001	4,049	4,838	1,638	15,640	76,166
Spot liabilities	(48,381)	(4,425)	(6,161)	(1,602)	(18,219)	(78,788)
Forward purchases	11,731	805	1,434	-	6,466	20,436
Forward sales	(12,830)	(311)	(236)	-	(3,858)	(17,235)
Net long / (short) position	<u>521</u>	<u>118</u>	<u>(125)</u>	<u>36</u>	<u>29</u>	<u>579</u>

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

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

	2003 HK\$ Million			Total
	USD	CAD	Others	
Net structural position	<u>1,423</u>	<u>228</u>	<u>376</u>	<u>2,027</u>

	2002 HK\$ Million			Total
	USD	CAD*	Others	
Net structural position	<u>1,416</u>	<u>188</u>	<u>367</u>	<u>1,971</u>

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

K. Capital, Capital Adequacy and Liquidity Information

Prior year adjustments resulting from change in accounting policy have been taken into account in the calculation of Capital Adequacy Ratio and Capital Base as at 31st December, 2002.

1. Capital Adequacy Ratio

	2003	2002 Restated
	%	%
Unadjusted capital adequacy ratio as at 31 st December	17.2	16.9
Adjusted capital adequacy ratio as at 31 st December	17.1	16.8

The unadjusted capital adequacy ratio is computed on the consolidated basis which comprises the positions of the Bank and all 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 unadjusted capital adequacy ratio.

2. Capital base after deductions

	2003	2002 Restated	Variance
	HK\$'000	HK\$'000	%
Group Core capital			
Paid up ordinary share capital	3,668,634	3,615,863	+
Share premium	520,305	356,210	+
Reserves	14,059,945	13,228,115	+
Minority interests	24,418	44,708	-
Deduct: Goodwill	(2,343,408)	(2,181,433)	+
Total core capital	<u>15,929,894</u>	<u>15,063,463</u>	+
Eligible supplementary capital			
Reserves on revaluation of land and interests in land (at 70%)	659,956	756,077	-
General provisions for doubtful debts	1,266,365	1,339,533	-
Term subordinated debt	4,260,751	4,276,227	-
Total eligible supplementary capital	<u>6,187,072</u>	<u>6,371,837</u>	-
Total capital base before deductions	22,116,966	21,435,300	+
Deductions from total capital base	<u>(1,049,318)</u>	<u>(953,797)</u>	+
Total capital base after deductions	<u>21,067,648</u>	<u>20,481,503</u>	+

3. Reserves

	2003	2002	Variance	
	HK\$'000	Restated HK\$'000		%
Share premium	520,305	356,210	+	46.1
General reserve	11,747,096	11,623,411	+	1.1
Revaluation reserve on bank premises	942,794	1,080,109	-	12.7
Exchange revaluation reserve	24,939	(17,905)	+	239.3
Other reserves	91,968	91,968		-
Retained profits	3,105,764	2,036,863	+	52.5
Total	<u>16,432,866</u>	<u>15,170,656</u>	+	8.3
Proposed dividends, not provided for	<u>909,821</u>	<u>506,221</u>	+	79.7

4. Liquidity ratio

	2003	2002
	%	%
Average liquidity ratio for the year	44.8	46.1

The average liquidity ratio for the year 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.

L. Statement of Compliance

- (1) In preparing the accounts for 2003, the Bank has fully complied with the guideline set out in the Supervisory Policy Manual "Financial Disclosure by Locally Incorporated Authorized Institutions" issued by the Hong Kong Monetary Authority.
- (2) The Bank has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 31st December, 2003.

CHAIRMAN'S STATEMENT

In 2003, BEA Group achieved a profit attributable to shareholders of HK\$1,922 million, representing an increase of HK\$652 million, or 51.3%, over that of HK\$1,270 million for 2002. Basic earnings per share were HK\$1.32. Return on average assets and return on average equity were 1.0% and 10.0%, respectively.

As at 31st December, 2003, total consolidated assets were HK\$198,476 million, an increase of HK\$13,062 million over the position at the end of 2002. Advances to customers were HK\$102,909 million, representing 51.8% of total consolidated assets. Customer deposits were HK\$155,421 million, while debt instruments issued stood at HK\$5,527 million. The loan-to-deposit ratio was 63.9%, compared with 71.3% at the end of 2002. Total capital resources increased by 5.5% to HK\$24,387 million.

At the Annual General Meeting, the Directors will propose a final dividend of HK\$0.62 per share, which, together with the interim dividend of HK\$0.23 per share paid in September 2003, will constitute a total dividend of HK\$0.85 per share for the full year. This represents an increase of 51.8% over the total dividend of HK\$0.56 per share for the year 2002. Shareholders whose names are on the Register of Members at the close of business on Wednesday, 10th March, 2004 will be entitled to the proposed final dividend. The final dividend will be paid in cash, with an option to receive new, fully paid shares in lieu of cash. This scrip dividend scheme is conditional upon the passing of the relevant resolution at the Annual General Meeting and the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares. The dividend warrants and the share certificates for the scrip dividend will be sent to shareholders by ordinary mail on or about Wednesday, 31st March, 2004. Details of the scrip dividend and the election form will be sent to shareholders on or about Wednesday, 10th March, 2004.

The year 2003 presented a difficult environment for the Hong Kong banking industry, particularly following the outbreak of Severe Acute Respiratory Syndrome ("SARS") in the first half of the year. Banks in Hong Kong had to deal with worsened credit quality, sluggish loan demand and depressed market sentiment. The outlook for 2004 remains challenging, although it is generally expected that economic recovery will gather pace in 2004. In view of the keen competition in the Hong Kong banking industry, banks will continue to explore new revenue and profit streams. In addition, following the SARS outbreak and the forthcoming implementation of new Basel Capital Accord recommendations, banks will place more emphasis on business continuity plans and various risk control mechanisms, extending coverage from credit and market risks to operational and strategic risks.

BEA continued to pursue a growth strategy in 2003, despite the difficult environment. With the implementation of the Bank's new corporate identity and with a new focus on promotion of retail financial products and services through the branch network, BEA was able to attract keen interest in its one-stop financial solutions.

BEA has also successfully developed alternate income streams and business opportunities. Following acquisition of a majority stake in Tengis Limited in 2002, the Bank acquired PricewaterhouseCoopers' company secretarial and client accounting businesses in Hong Kong in early 2003, to further strengthen the Bank's position as the largest provider of business and corporate secretarial services in Hong Kong. Furthermore, BEA has continued to develop its wealth management business, under the banner of SupremeGold.

BEA further streamlined and improved operating efficiencies during the year, in order to optimise the value of its resources and to control costs. The Bank stepped up the branch rationalisation exercise, targeted at optimising the branch network, and relocated a number of back-office operations to Mainland China. BEA will centralise its supporting operations in Hong Kong at Millennium City 5 in Kwun Tong in early 2005.

BEA will continue to leverage its strong position and presence in China and capture business opportunities in the China market. In 2003, the Bank successfully upgraded its Beijing Representative Office to a full branch. The Bank also opened a new sub-branch in Guangzhou. All BEA branches and sub-branches in China are accredited to provide full foreign currency services. In addition, Shenzhen, Shanghai, Dalian, Guangzhou and Zhuhai branches are allowed to offer Reminbi (RMB) services. The Bank will continue to capitalise on the opportunities in China arising from China's accession to the World Trade Organization and the recent opening up of the RMB business to Hong Kong banks.

With the improving economic and business environment, and the emerging business opportunities arising from retail banking and RMB business, we remain positive about the prospects for the banking industry in Hong Kong. BEA will continue to grow and leverage its niche and market strength and provide more value added financial services and solutions to customers.

The Directors and Staff of the Bank were deeply saddened by the death of Mr. Alan LI Fook-sum on 30th December, 2003. Mr. Li was appointed a Director of the Bank in 1982, and served the Board with distinction for more than 21 years. His contribution to the strength and vitality of the Bank has been invaluable, and his wise counsel will be sorely missed.

David LI Kwok-po
Chairman and Chief Executive

Hong Kong
10th February, 2004

EXECUTIVE DIRECTORS' REPORT

Financial Review

Financial Performance

2003 was a challenging year for both Hong Kong and the BEA Group. The outbreak of Severe Acute Respiratory Syndrome ("SARS") in March 2003 in Hong Kong seriously affected the economy in the second quarter, especially retail sales, tourism and catering. However, the economy rebounded sharply in the second half, led by a surge in tourist arrivals from Mainland China and vibrant offshore trade. Local consumer spending increased, backed by better employment prospects and improving conditions in the local stock and property markets. The banking environment also improved slightly, although the loan market has not yet fully recovered.

Benefiting from these positive trends, BEA recorded a significant growth in income for the year ended 31st December, 2003, with profit attributable to shareholders rising 51.3% to HK\$1,922 million. Total operating income increased 6.7% to HK\$5,396 million, while operating profit before provisions grew to HK\$2,871 million. Net charge for bad and doubtful debts fell to HK\$499 million.

Net interest income decreased by HK\$56 million due to the continued narrowing of net interest margin and the inactive loan market. Non-interest income increased by HK\$396 million, or 28.2%, when compared with 2002, mainly due to the growth of fee-based and trading income. As a result, total operating income increased by HK\$340 million, or 6.7%, from HK\$5,056 million in 2002 to HK\$5,396 million in 2003.

Total operating expenses decreased slightly by 0.7% over the corresponding figure in 2002 to HK\$2,525 million, despite the cost implications of a major acquisition in January 2003. This reflects BEA's keen determination to control costs. The cost to income ratio decreased from 50.3% in 2002 to 46.8% in 2003.

Operating profit before provisions was HK\$2,871 million for the year ended 31st December, 2003, an increase of HK\$357 million, or 14.2%, over the HK\$2,514 million attained in 2002, signifying the strong performance of BEA.

BEA's asset quality continued to improve, as a result of the precautionary measures undertaken by the Bank to minimise potential credit losses during the economic downturn. The net charge for bad and doubtful debts decreased significantly compared to 2002, by HK\$312 million, or 38.5%, to HK\$499 million. Non-performing loans dropped to 2.5% from 2.9% at the end of the previous year.

The decrease in the net bad and doubtful debt charge combined with the improvement in operating income mentioned above, resulted in an increase in operating profit after provisions of HK\$669 million, or 39.3%, to HK\$2,372 million in 2003.

The Bank recorded a HK\$13 million rebound in the value of its investment properties, while an impairment loss of HK\$114 million was made on its bank premises.

Share of profits less losses from associates increased by HK\$80 million to HK\$113 million, reflecting the improving performance of associates.

With the increase in pre-tax profit and in the profits tax rate, and the adoption of the revised accounting standard relating to deferred taxation, taxation increased by 56.5% to HK\$433 million. Minority interests decreased by HK\$7 million to HK\$19 million. After taking into account taxation and minority interests, profit attributable to shareholders was HK\$1,922 million, a significant 51.3% increase over the HK\$1,270 million recorded in the previous year.

Financial Position

Total consolidated assets of the BEA Group were HK\$198,476 million at the end of 2003, representing a rise of 7.0% from HK\$185,414 million at the end of the previous year. Advances to customers decreased by 5.1% to HK\$102,909 million, while held-to-maturity debt securities increased by 274.6% to HK\$11,709 million.

Total deposits increased by 5.9% to HK\$160,948 million, while customer deposits increased by HK\$13,759 million, or 9.7%, to HK\$155,421 million. Demand deposits and current accounts grew by

a combined HK\$2,568 million, or 36.5%, to HK\$9,613 million at year-end 2003, compared with HK\$7,045 million at the previous year-end. Savings accounts increased by HK\$9,784 million to HK\$37,553 million. Time deposits at year-end 2003 stood at HK\$108,254 million, an increase of HK\$1,406 million, or 1.3%, when compared with the balance at the previous year-end.

During the year, BEA issued certificates of deposit with a face value of HK\$2,000 million, step up certificates of deposit with a face value of US\$50 million, and discounted certificates of deposit totalling A\$68 million and NZ\$74 million. The Bank redeemed certificates of deposit amounting to US\$560 million and HK\$3,135 million upon maturity, and repurchased a quantity of its own certificates of deposit amounting to HK\$243 million equivalent.

In July 2003, the bank redeemed convertible bonds amounting to US\$15 million upon maturity.

At the end of December 2003, the face value of the outstanding debt portfolio was HK\$5,728 million, with the carrying amount equal to HK\$5,527 million.

After taking into account all debt instruments issued, the loan-to-deposit ratio was 63.9%, being 7.4 percentage points lower than the 71.3% reported at the end of 2002.

At 31st December, 2003, shareholders' funds stood at HK\$20,102 million, an increase of HK\$1,315 million or 7.0%, compared with HK\$18,787 million at the end of 2002.

Maturity Profile of Debts Issued

(All expressed in millions of dollars)

	<u>Currency</u>	<u>Total Face Value</u>	<u>Year of Maturity</u>			
			<u>2004</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Floating Rate						
Certificates of Deposit						
Issued in 2002	HKD	1,061	1,061			
Issued in 2003	HKD	2,000	2,000			
Total	HKD	3,061	3,061			
Fixed Rate						
Certificates of Deposit						
Issued in 1999	HKD	100	100			
Discounted						
Certificates of Deposit						
Issued in 2002	HKD	447		447		
Issued in 2002	USD	89			89	
Issued in 2003	AUD	63		63		
Issued in 2003	NZD	56		56		
Step Up						
Certificates of Deposit						
Issued in 2003	USD	49				49
Retail Callable						
Certificates of Deposit						
Issued in 2002	HKD	395			395	
Total Debts issued in HKD equivalent		5,728	3,161	1,097	1,088	382

Risk Management

BEA has established comprehensive risk management procedures that enable it to identify, measure, monitor and control the various types of risk it faces, and, where appropriate, to allocate capital against those risks. All risk management policies have been approved by the Board of Directors. Risk management mechanisms have been established at different levels throughout the Group. This is supplemented by active management involvement, effective internal controls and comprehensive audits in the best interests of BEA.

Operations Review

IMPROVEMENT TO OPERATIONS

Strategic Alliances

In 2003, BEA established strategic alliances with five major international banks, entering into formal Cooperative Agreements with them. The five banks are: Resona Bank, Japan; Unicredito Italiano, Italy; Hsinchu International Bank, Taiwan; Shenzhen Commercial Bank, China; and Banco Popular Español, Spain. The agreements called for closer cooperation on all business fronts, with a particular focus on China where BEA's convenient branch network complements the growing activities of the clients of the Bank's strategic partners. Looking ahead, the Bank hopes to enter into similar cooperative arrangements with partners in the U.K., Germany, France and the U.S.

Integration and Merger Exercise

On 26th May, 2003, East Asia Finance Company, Limited ("EAF") and East Asia Credit Company Limited ("EAC") merged with The Bank of East Asia, Limited, following the passage of a private ordinance by the Legislative Council in early 2003.

The merger of the two companies will give the customers of EAF and EAC access to the wider range of banking and financial services offered by the BEA Group in Hong Kong and overseas. The merger also allows BEA to enjoy greater economies of scale and to operate more efficiently.

Office Centralisation

In 2003, the Bank acquired 15 floors, totalling 406,660 sq.ft., of the new intelligent office building Millennium City 5, which is located in Kwun Tong. The building is currently under construction and will be ready for occupation in the fourth quarter of 2004. Most BEA back offices in Hong Kong will be relocated to the new office tower before mid-2005.

The Bank has worked with the developer and appointed consultants to apply the latest technology in the construction and decoration of the new office tower, incorporating state-of-the-art facilities to provide a superior working environment. The advanced design has been recognised with the award of the Business Environment Council's "Certificate of Assessment in Excellence for New Office Design".

The project is expected to improve the Bank's overall operating efficiency and further facilitate its business development and growth in the long term.

Relocating Back-Office Operations to Mainland China

In 2003, the Operating Centre at Guangzhou (East Asia Electronic Data Processing (Guangzhou) Limited – "EAEDP") successfully took over four areas of back-office operations from Head Office, including data entry, call centre operation, computer programming and web-page design. In future, the Bank will relocate more of its operations to EAEDP. EAEDP currently has a workforce of around 160.

In the area of data entry, EAEDP now handles credit card applications, account opening, customer information documentation, and Mandatory Provident Fund ("MPF") document indexing and data maintenance.

EAEDP handles over 2,500 calls daily for the hotlines of Card Services Department, China branches (general enquiry and China Phonebanking hotlines) and eDistribution Department (customer service hotline, ATM enquiry and Cyberbanking/Corporate Cyberbanking hotlines).

The computer programming teams at EAEDP are handling nine main programming development projects relating to Trade Services, Central Liability, Securities Clearing, and Cyberbanking Systems.

Meanwhile, the web page design team at EAEDP had completed 34 assignments by the end 2003.

Computer System Enhancements

Customer Relationship Management

BEA implemented Stage 3 of the Customer Relationship Management System in 2003. The system enables the Bank to analyse customer behaviour more effectively and better manage the range of products offered. The system also assists the Bank in retaining customers, acquiring new prospects, and bringing innovative and customised products to market.

Core Banking System

In August 2003, BEA selected Alnova as the Bank's future core banking system and entered into a contract with Accenture covering implementation of the system. The Project Definition and Planning ("PDP") phase, which aimed at defining the core banking application capabilities from both a business and a technical perspective, began in September 2003. Development work will commence in the first quarter of 2004.

Apart from the replacement of the Core Banking System, the Bank will also continue to enhance the computer systems for banking operations, to improve operational efficiency and customer service. In 2004, the Bank will introduce the new Treasury and Trade Services systems.

PERSONAL BANKING

Branch Distribution

BEA continues to refine the Bank's image and to enhance the overall ambience of branches through the branch renewal programme. The modern design standard is built around a spacious and pleasant banking hall, providing a comfortable environment for sales staff to serve customers more effectively. This new image has been well received by the public and more branches will be renovated in accordance with the new standard in the years to come.

Meanwhile, the Branch Rationalisation Programme is ongoing. A total of three branches were relocated during the year, while six others were closed and merged with nearby branches in more suitable locations.

Following the successful launch of the first SupremeGold Centre at Tsim Sha Tsui in December 2002, BEA opened an additional 12 SupremeGold Centres in 2003, bringing the total to 13 by the end of the year. The Bank plans to open four additional SupremeGold Centres in the first half of 2004.

In July 2003, BEA launched the Branch Service Quality Programme, with a view to raising the service level at all branches. Customer surveys indicate good progress is being made.

Cyberbanking

The popularity of Internet banking services increased during 2003. More than 250,000 users had registered for Cyberbanking by the end of the year, and the average daily transaction volume exceeded 100,000.

A number of new services were launched in 2003, including CyberShopping for e-commerce, Cyberbanking Card with ATM functions, retail bonds and IPO online subscription services, and Cybertrading for SupremeGold customers. BEA also pioneered the provision of real-time fund transfers to BEA accounts in China, and offered online subscription to currency and equity linked deposits.

Property Loans

The property loan market suffered a severe slump in the first half of 2003, as the outbreak of SARS in March further depressed the already sluggish property market. Responding to the deteriorating business environment and intensified competition, BEA employed a segmented marketing strategy.

The SupremeGold Mortgage Plan, tailored for affluent customers, was launched in April. Essentially a home mortgage facility bundled with a deposit account, customers can deposit surplus cash and earn interest at a rate equal to the mortgage rate.

In the third quarter, the property market showed signs of recovery, with a rise in property transactions. Capitalising on this upswing, BEA cooperated with land developers to offer mortgage plans for purchasers of various new property developments.

The high level of new bankruptcy petitions and the number of mortgages in negative equity both remained a concern. Collection efforts were strengthened and debt restructuring was arranged with customers with financial difficulties wherever possible. These efforts, coupled with the rebound in the economy in the last quarter of 2003, contributed to a decline in the number of new cases of bankruptcy and negative equity since September. With respect to the management of loan quality, BEA monitored the delinquency ratio at a better-than-market level.

Consumer Loans

Following the introduction of a formal mechanism to share consumer credit data in mid-2003, BEA launched a new Personal Loan Programme targeting customers with specific loan objectives and offering personalised interest rates based on a client's credit standing.

Credit Cards

BEA took several risk management initiatives during the year to monitor the credit card charge off ratio effectively. The launch of the consumer credit agency, coupled with the recent rebound in the economy, should assist in further reducing the bad debt situation.

To further develop its credit card business, BEA has enhanced the range of benefits offered to cardholders. In 2003, one new co-branded card programme, the Hong Kong Management Association MasterCard, was launched.

Bancassurance

The Children Education Fund Sponsorship Programme was held for a third year in May 2003. The contest received a great deal of publicity and has been very effective in raising the profile of BEA's bancassurance offerings.

In line with the Bank's strategy of increasing fee-based income and developing its life insurance business, rebranding of life insurance products will be carried out in the first quarter of 2004. The BEA Life Insurance Series, with an enriched product range, provides more options to meet customer needs.

Blue Cross Insurance

As a leader in travel insurance, Blue Cross was the first insurer in Hong Kong to provide extra SARS coverage to travellers.

In January 2003, BEA introduced an Intelligent Insurance Machine that allows travellers to purchase Blue Cross China Travel Accident Insurance as they are waiting to board transport to China. The Intelligent Insurance Machine won two major awards for innovation: "Innovative Technology of Year 2002" from the Asia Pacific Customer Service Consortium and "2003 Hong Kong Award for Services: Innovation Award" from the Hong Kong General Chamber of Commerce.

Blue Cross deployed a new managed healthcare system for enrolment and claim processing. One of the features of the new system is an advanced medical directory that provides easy and convenient access to a wide range of useful information for insured members.

In March 2003, Blue Cross established a representative office in Shanghai. The office is currently exploring business opportunities in anticipation of the liberalisation of the mainland insurance market under CEPA.

Blue Cross recorded a growth of 18% in premium income to HK\$713 million in 2003. Life insurance business grew at a rate of 66%, and non-life insurance at 5%.

CORPORATE BANKING

Corporate Lending

Amid the prevailing low interest rate environment, the Bank has taken a pro-active approach to expand its exposure to high quality medium-sized companies by arranging club deals or providing structured facilities on a bilateral basis. This has allowed the Bank to maintain growth in clientele and income base.

Despite weak loan demand, the Bank upheld its strong market presence during the year. In particular, the Bank was awarded the mandate to co-arrange a number of syndicated facilities, including a US\$75 million facility for Asia Aluminum Holdings Limited and a HK\$300 million facility for Leo Paper Bags Manufacturing Limited. In addition, to mitigate narrowing interest margins, BEA has placed new emphasis on non-interest income by taking up the roles of arranger, facility agent and security agent for several syndicated deals.

Looking ahead, BEA will continue to broaden its client base and increase regional exposure.

The gloomy economic conditions and the outbreak of SARS during the first half of 2003 had a severe negative impact on trade finance business in Hong Kong. In response, BEA adopted more flexible credit policies for affected corporate customers. Since July, the economy has gradually recovered. To meet customers' changing financing needs, an Export Loan Financing scheme was launched to provide working capital finance. Market response was encouraging, and the product has made a significant contribution to the growth of the Bank's export loan business. The Bank also actively participated in the Accounts Receivable Financing programme under the SME Loan Guarantee Scheme. Another new product, Matching Facilities, will be launched at the beginning of 2004 to assist customers with their business expansion plans. The Bank will continue to explore and promote new products to corporate customers, and seek niche markets with potential for better returns.

The Bank continued to participate actively in promoting and underwriting loans under the revised government SME Loan Guarantee Scheme. The result was encouraging, with an expanding number of SMEs adopting the scheme to improve their financial resources and enhance their productivity and competitiveness. The Bank was also the first to launch a Corporate Tax Loan directed at SME customers.

Asset Based Finance

BEA remained a key player in the taxi lending market, and achieved significant business growth in the second half of 2003 as the value of taxi licences saw a quick rebound after the SARS crisis. Performance in the private car and commercial vehicle loan business was encouraging, with a year-on-year 34% jump in new business.

The equipment finance portfolio recorded double-digit growth in the year. In addition to an ongoing effort to build business partnerships with machine dealers and participation in the government's SME Loan Guarantee Scheme, the Asset Based Finance Department has extended its reach to the retail segment by offering loan services to members of the Hong Kong Article Numbering Association.

Securities Lending

With the recovery of the local securities market in the fourth quarter, BEA has actively participated in staggan loan business for subscription of new shares under initial public offerings. An improvement in loans outstanding has been achieved. BEA also successfully completed four receiving bank projects.

Bank of East Asia (Trustees) Limited

Mandatory Provident Fund

Bank of East Asia (Trustees) Limited is one of two approved trustees under the Mandatory Provident Fund ("MPF") Schemes Ordinance to offer both the Master Trust Scheme and Industry Scheme in Hong Kong. By providing professional one-stop MPF services, covering trustee, scheme administration, custody and investment management services, BEA recorded a growth of 18% in its MPF membership in 2003, despite the sluggish economy and high unemployment rate. With the rebound of the global economy, all constituent funds of BEA MPF schemes recorded positive investment returns in 2003. In order to further lower costs and increase the efficiency of MPF

operations, BEA relocated some MPF administration functions to China during 2003.

Trust Service

In addition to the provision of MPF services, Bank of East Asia (Trustees) Limited also offers a wide range of trustee services, including acting as executor or trustee of wills, trustee of family trusts, investment funds, unit trusts, charities and public funds. In 2003, the Company was appointed as trustee to BEA Capital Growth Fund, an Approved Pooled Investment Fund launched by the Bank. A sub-fund, BEA Asia Strategic Growth Fund, was successfully launched for public subscription in September 2003. During the year, the Company provided custodian services for the maintenance funds of various estates under the Tenants Purchase Scheme of the Hong Kong Housing Authority.

Corporate Cyberbanking

The use of electronic banking services by corporate users exhibited a rising trend in 2003, both in terms of number of customers and number of transactions. At the end of 2003, over 9,300 corporate customers had registered with the Bank's Corporate Cyberbanking service, representing a net increase of 5,700 customers, or 156%, compared to the end of 2002. In addition, the number of transactions conducted through Corporate Cyberbanking has grown significantly.

An innovative real-time Funds Transfer to China service was introduced in May 2003. This new service enables customers to conduct real-time funds transfer from local BEA accounts to BEA accounts in China through the Corporate Cyberbanking platform.

Business Development

BEA has deepened its strategic alliances with The Chinese Manufacturers' Association of Hong Kong and Hong Kong Trade Development Council, assisting local enterprises to expand their business in Hong Kong and the Mainland. In December, the Bank formed a collaborative relationship with The Hong Kong Article Numbering Association to offer a host of privileged corporate banking services to the Association's members.

BEA organised a forum – "Sharing of Success in China" – in June 2003 to enhance its relationships with corporate customers. Three renowned business leaders were invited to share their success stories in China at the forum.

To help both existing and prospective customers to take full advantage of business opportunities under CEPA, the Bank, together with its subsidiary, Tricor Services Limited, is promoting a one-stop financial and corporate service package.

The Bank also participated in various seminars and exhibitions, such as the SME Market Day and the CEPA Expo, organised by the Trade Development Council.

In September 2003, BEA partnered with E-Business Technology Institute, a joint effort between the University of Hong Kong and IBM China/Hong Kong Limited to facilitate local e-commerce, to launch the e-Donation Box campaign. The e-Donation Box is an Internet payment solution that facilitates making donations to local charities on line. To date, BEA has secured the participation of over 10 local charities in the e-Donation Box programme.

INVESTMENT BANKING AND SERVICES

East Asia Securities Company Limited – Securities Cybertrading

The number of Cybertrading accounts grew by 33% during the year. As of 31st December, 2003, more than 37% of securities clients had subscribed to the Internet Trading Service.

Following the abolition of the minimum brokerage commission rate effective April 2003, East Asia Securities has accordingly lowered its standard brokerage commission rate for telephone call-in orders and orders placed over the counter.

East Asia Securities has instituted various incentive schemes to encourage clients to execute trades via its user-friendly electronic trading platform. The schemes have generated strong positive response from clients. Currently, the volume of transactions executed via the Cybertrading System, expressed

as a percentage of total turnover, accounts for some 62% of number of trades and 39% of transaction value.

With a view to further enhancing the Cybertrading Service, in March 2004, East Asia Securities will introduce the "Snapshot" real-time stock price quote service over the Internet. The snapshot price quote system offers a similar level of service to the existing "streaming" real-time stock price quotes service, but at a much lower cost. East Asia Securities will also further enhance its IVRS Trading System in the first half of 2004.

Currency/Indices/Equity Linked Deposit Services

With a view to further extending its wealth management services, the Bank launched a Currency and Equity Linked Deposit service through its *Cyberbanking* platform in September 2003.

To cater to the increasing demand for sophisticated investment products under the current low interest rate environment, in the fourth quarter of 2003 the Bank began offering tailor-made linked deposits, such as the principal protected Target Redemption Index Linked Deposit and Stock Basket Equity Linked Deposit.

In 2003, the portfolio of linked deposits has grown nearly three-fold, and the related income nearly six-fold, compared with last year.

BUSINESS, CORPORATE AND INVESTOR SERVICES

The BEA Group, through Group member Tricor Holdings Limited ("Tricor"), is the largest provider of business, corporate and investor services in Hong Kong. These services include share registration, corporate secretarial, trust and outsourced administration services. Tricor, which is 75% owned by the Bank, has built its business through the acquisition of leading service providers from major international accounting firms.

During the first half of the year, Tricor experienced a decline in servicing inward investment into Hong Kong/Greater China due to the challenges arising from the war in Iraq, the SARS outbreak and the unfavourable economic climate. In addition, some clients postponed initial public offerings in Hong Kong, and there was general pressure on fees from clients. With these incidents now in the past, Tricor's service lines started to pick up in the fourth quarter of the year.

To rationalise its operating structure, the BEA Group sold its offshore corporate services entity located in the British Virgin Islands ("BVI"), East Asia Corporate Services (BVI) Limited ("EACS"), to Tricor in late 2003. Thus, Tricor now offers a full range of offshore corporate services to complement its domestic practice. EACS employs legally qualified and experienced staff in the BVI, who are assisted by Tricor staff in Hong Kong.

In addition, Tricor established an executive recruitment business in late 2003 by hiring practice leaders of the former PricewaterhouseCoopers Executive Search and Selection division in Hong Kong. The new business has good growth prospects as the economy recovers.

Tricor has successfully maintained its market leading position. Of all companies newly listed in Hong Kong in 2003, 55% chose Tricor to provide public share registration services. The recent signing of CEPA further enhances Tricor's prospects.

CHINA DIVISION

During 2003, BEA emerged as the foreign bank with the largest branch network in China, with the opening of Beijing Branch, Guangzhou Huanshilu Sub-branch and Shanghai Gubei Sub-branch. Further expansion is planned for 2004, with the opening of Chengdu Branch and Shenzhen Luohu Sub-branch.

BEA Guangzhou and Zhuhai branches were granted Renminbi business licenses during 2003, joining BEA Shanghai, Shenzhen and Dalian branches to provide Renminbi banking services to foreigners and foreign-owned companies in China. With the further liberalisation of China's banking sector, all five branches have lodged applications to conduct RMB business with wholly locally-owned companies. In February 2004, Shanghai Branch was among the first batch of foreign banks in China accredited to provide RMB service to locally-owned companies.

As all BEA branches in China have been granted the authority to provide foreign currency services to all clients from 2003, a series of new personal banking products have been launched, including SupremeGold and Kid Master. BEA will strive to remain at the forefront of the market, and introduce innovative banking products to maintain its leading role in China.

OVERSEAS OPERATIONS

In 2003, the BEA Group achieved several major milestones in expanding its operations in the United States. The Group's wholly owned subsidiary, The Bank of East Asia (U.S.A.) N.A. took the first steps toward multi-state operations by relocating its headquarters from Alhambra, California to New York City, and opening its first branch in New York on 5th December. Earlier in the year, it opened a branch in Temple City, its third in the greater Los Angeles area. Plans are under way to open additional branches in New York and California in 2004. To manage the expanding U.S. operations more effectively, the BEA Group also established a U.S. Regional Headquarters in New York City.

The overseas business units recorded a growth of 9% in the loan portfolio in 2003. Despite the low interest rate environment and narrowed interest margins, overseas business units achieved growth of 15% in net operating profit before provisions for the year ended 31st December, 2003. The risk distribution of the overseas loan portfolio on a geographical basis remains fairly balanced.

BEA's overseas business units will continue to work to improve profitability and provide high quality niche banking services to its target customers.

HUMAN RESOURCES

BEA Group staff at 31st December, 2003:

Hong Kong	4,139
Other Greater China	943
Overseas	386
<hr/>	
Total	5,468

Throughout 2003, efforts were focussed on monitoring and improving the standardised personnel policies that had been implemented the previous year. To further enhance organisational effectiveness, a new Management Performance System, integrating individual and corporate objectives, was introduced.

A series of new training courses covering enhanced financial products, regulatory compliance and risk management were held during the year. Furthermore, the training records system was upgraded to form a more solid basis for tracking staff competencies and to facilitate staff development planning.

The outbreak of SARS in late March severely tested the Bank's employee care and support policy, and the system proved to be highly robust.

Dealings in Listed Securities of the Bank

During the year, the Bank fully redeemed the Convertible Bonds due 2003 (the "Bonds") in the amount of HK\$119,621,000 (US\$15,340,000) upon maturity pursuant to the terms and conditions of the Bonds. Save for the redemption of the Convertible Bonds, there was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of listed securities of the Bank during the year ended 31st December, 2003.

CHAN Kay-cheung
Executive Director

Joseph PANG Yuk-wing
Executive Director

David LI Kwok-po
Chairman & Chief Executive

Hong Kong
10th February, 2004

Remark: A detailed results announcement containing all information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited in due course.