



THE BANK OF EAST ASIA, LIMITED

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

ANNOUNCEMENT OF 2004 INTERIM RESULTS

INTERIM RESULTS

The Directors of The Bank of East Asia, Limited ("BEA") are pleased to announce the unaudited results¹ of the Bank and its subsidiaries (the "Group") for the six months ended 30th June, 2004. This interim financial report, which has been reviewed by the Bank's Audit Committee, is prepared on a basis consistent with the accounting policies and methods adopted in the 2003 annual accounts.

A. Consolidated Profit and Loss Account

| | 6 months ended 30/6/2004 | 6 months ended 30/6/2003 Restated | 6 months ended 31/12/2003 |
|---|--------------------------------|--|---------------------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Interest income | 2,708,187 | 2,946,979 | 2,816,750 |
| Interest expense | (905,425) | (1,169,966) | (997,683) |
| Net interest income | 1,802,762 | 1,777,013 | 1,819,067 |
| Fees and commission income | 775,259 | 580,473 | 685,821 |
| Fees and commission expense | (193,763) | (87,952) | (122,866) |
| Net trading profits | 102,784 | 232,472 | 240,607 |
| Other operating income | 136,658 | 140,559 | 131,053 |
| Operating income | 2,623,700 | 2,642,565 | 2,753,682 |
| Operating expenses | (1,299,987) | (1,241,118) | (1,284,422) |
| Operating profit before provisions | 1,323,713 | 1,401,447 | 1,469,260 |
| Charge for bad and doubtful debts | (143,096) | (291,211) | (207,459) |
| Operating profit after provisions | 1,180,617 | 1,110,236 | 1,261,801 |
| Net profit/(loss) on disposal of fixed assets | 6,575 | (6,287) | (4,908) |
| Revaluation (deficit)/surplus on investment properties | - | (19,515) | 32,331 |
| Impairment loss on bank premises | - | (80,041) | (33,741) |
| Net profit/(loss) on disposal of held-to-maturity debt securities, investment securities and associates | 46 | - | (14,040) |
| (Provision)/write back on held-to-maturity debt securities, investment securities and associates | (12,438) | 2,098 | 13,776 |
| Share of profits less losses of associates | 8,172 | 22,695 | 89,903 |
| Profit for the period before taxation | 1,182,972 | 1,029,186 | 1,345,122 |
| Income tax | | | |
| Current tax ² | | | |
| - Hong Kong | (166,567) | (165,722) | 102,686 |
| - Overseas | (27,380) | (18,532) | (28,943) |
| Deferred tax | 12,026 | (40,571) | (261,116) |
| Associates | 11,160 | (167) | (21,036) |
| Profit for the period after taxation | 1,012,211 | 804,194 | 1,136,713 |
| Minority interests | (11,880) | (11,692) | (7,501) |
| Profit attributable to shareholders | 1,000,331 | 792,502 | 1,129,212 |
| Profit for the Bank | 847,331 | 772,964 | 977,042 |
| Proposed dividends | 414,252 | 333,930 | 909,821 |
| Per share | | | |
| - Basic earnings ³ | HK\$0.68 | HK\$0.55 | HK\$0.77 |
| - Diluted earnings ³ | HK\$0.68 | HK\$0.55 | HK\$0.77 |
| - Cash earnings ³ | HK\$0.73 | HK\$0.59 | HK\$0.82 |
| - Dividends | HK\$0.28 | HK\$0.23 | HK\$0.62 |

B. Consolidated Balance Sheet

| | <u>30/6/2004</u> | <u>30/6/2003</u> | <u>31/12/2003</u> |
|---|---------------------------|---------------------------|---------------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| ASSETS | | | |
| Cash and short-term funds | 36,749,106 | 36,616,791 | 36,033,510 |
| Placements with banks and other financial institutions maturing between one and twelve months | 12,198,154 | 17,779,931 | 21,075,521 |
| Trade bills less provisions | 751,361 | 677,583 | 623,273 |
| Certificates of deposit held | 2,410,042 | 3,036,466 | 3,016,556 |
| Other investments in securities | 9,277,648 | 11,338,395 | 10,151,335 |
| Advances and other accounts less provisions | 110,089,402 | 108,173,680 | 108,379,794 |
| Held-to-maturity debt securities | 15,360,498 | 4,054,475 | 11,709,225 |
| Investment securities | 242,858 | 291,229 | 243,097 |
| Investments in associates | 692,086 | 661,516 | 736,484 |
| Goodwill | 2,298,113 | 2,347,937 | 2,343,408 |
| Deferred tax assets | 73,173 | 67,809 | 79,217 |
| Fixed assets | <u>4,088,672</u> | <u>4,277,260</u> | <u>4,084,698</u> |
| Total Assets | <u>194,231,113</u> | <u>189,323,072</u> | <u>198,476,118</u> |
| LIABILITIES | | | |
| Deposits and balances of banks and other financial institutions | 7,621,135 | 7,192,423 | 7,516,565 |
| Deposits from customers | 153,727,601 | 147,145,610 | 155,420,612 |
| - Demand deposits and current accounts | 10,905,376 | 8,258,225 | 9,612,966 |
| - Saving deposits | 44,535,957 | 31,808,299 | 37,553,395 |
| - Time, call and notice deposits | 98,286,268 | 107,079,086 | 108,254,251 |
| Certificates of deposit issued | 2,350,228 | 6,411,922 | 5,527,339 |
| Convertible bonds issued | - | 119,621 | - |
| Current taxation | 312,748 | 279,994 | 144,644 |
| Other accounts and provisions | 4,894,307 | 4,210,852 | 4,616,361 |
| Deferred tax liabilities | <u>599,239</u> | <u>590,729</u> | <u>863,928</u> |
| Total Liabilities | <u>169,505,258</u> | <u>165,951,151</u> | <u>174,089,449</u> |
| CAPITAL RESOURCES | | | |
| Loan capital | <u>4,282,700</u> | <u>4,277,803</u> | <u>4,260,751</u> |
| Share capital | 3,698,675 | 3,629,676 | 3,668,634 |
| Reserves | <u>16,710,274</u> | <u>15,541,201</u> | <u>16,432,866</u> |
| Shareholders' Funds | <u>20,408,949</u> | <u>19,170,877</u> | <u>20,101,500</u> |
| Minority interests | <u>34,206</u> | <u>(76,759)</u> | <u>24,418</u> |
| Total Capital Resources | <u>24,725,855</u> | <u>23,371,921</u> | <u>24,386,669</u> |
| Total Capital Resources and Liabilities | <u>194,231,113</u> | <u>189,323,072</u> | <u>198,476,118</u> |

C. Consolidated Summary Statement of Changes in Equity

| | 6 months ended 30/6/2004 <u>HK\$'000</u> | 6 months ended 30/6/2003 <u>HK\$'000</u> |
|--|---|---|
| Balance as at 1 st January | 20,101,500 | 18,786,519 |
| Release / (recognition) of net deferred tax liabilities in revaluation reserve on bank premises | 2,497 | (15,575) |
| Exchange and other adjustments | <u>(17,833)</u> | <u>36,878</u> |
| Net (loss) / profit not recognised in the profit and loss account | <u>(15,336)</u> | <u>21,303</u> |
| Net profit for the period | <u>1,000,331</u> | <u>792,502</u> |
| Dividends paid during the period | <u>(910,707)</u> | <u>(506,232)</u> |
| Movements in shareholders' funds arising from capital transactions with shareholders: | | |
| Shares issued under Staff Share Option Schemes | 82,108 | 13,030 |
| Shares issued in lieu of dividends | 151,122 | 63,755 |
| Capital fee | <u>(69)</u> | <u>-</u> |
| | <u>233,161</u> | <u>76,785</u> |
| Balance as at 30 th June | <u><u>20,408,949</u></u> | <u><u>19,170,877</u></u> |

D. Consolidated Cash Flow Statement

| | 6 months ended 30/6/2004 HK\$'000 | 6 months ended 30/6/2003 HK\$'000 |
|---|--|--|
| OPERATING ACTIVITIES | | |
| Profit for the period before taxation | 1,182,972 | 1,029,186 |
| Adjustments for non-cash items: | | |
| Charge for bad and doubtful debts | 143,096 | 291,211 |
| Provision / (write-back) on held-to-maturity debt securities, investment securities and associates | 12,438 | (2,098) |
| Share of profits less losses of associates | (8,172) | (22,695) |
| Net profit on disposal of held-to-maturity debt securities, investment securities and associates | (46) | - |
| Net (profit) / loss on disposal of fixed assets | (6,575) | 6,287 |
| Interest expense on loan capital, certificates of deposit and bonds issued | 110,421 | 244,543 |
| Depreciation on fixed assets | 122,483 | 112,307 |
| Amortisation of goodwill | 70,478 | 68,335 |
| Impairment loss on bank premises | - | 80,041 |
| Dividend income from equity securities | (25,858) | (17,009) |
| Amortisation of premium/discount on certificates of deposit and loan capital issued | 15,752 | 41,940 |
| Revaluation deficit on investment properties | - | 19,515 |
| OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL | 1,616,989 | 1,851,563 |
| (Increase)/decrease in operating assets: | | |
| Placements with banks and other financial institutions with original maturity beyond three months | 11,851,401 | (6,780,304) |
| Trade bills | (128,090) | (5,671) |
| Certificates of deposit held with original maturity beyond three months | 523,222 | (464,350) |
| Other investments in securities | 915,569 | 1,971,049 |
| Advances to customers | (2,865,105) | 3,079,542 |
| Advances to banks and other financial institutions | (212,282) | (101,315) |
| Treasury bills with original maturity beyond three months | 21,579 | 100,740 |
| Held-to-maturity debt securities and investment securities | (3,639,315) | (967,205) |
| Other accounts and accrued interest | 1,224,542 | 376,971 |
| Deferred tax assets | 6,044 | 9,220 |
| Increase/(decrease) in operating liabilities: | | |
| Deposits and balances of banks and other financial institutions | 104,570 | 1,437,586 |
| Deposits from customers | (1,693,011) | 5,483,721 |
| Other accounts and provisions | 347,481 | 436,405 |
| Deferred tax liabilities | (250,104) | (175,777) |
| Exchange adjustments | 29,668 | (56,962) |
| NET CASH INFLOW FROM OPERATIONS | 7,853,158 | 6,195,213 |
| Hong Kong profits tax paid | (7,143) | (5,217) |
| Overseas profits tax paid | (18,626) | (24,413) |
| NET CASH FLOWS GENERATED FROM OPERATING ACTIVITIES | 7,827,389 | 6,165,583 |

D. Consolidated Cash Flow Statement (Continued)

| | 6 months ended 30/6/2004 HK\$'000 | 6 months ended 30/6/2003 HK\$'000 |
|---|--|--|
| INVESTING ACTIVITIES | | |
| Dividends received from associates | 549 | 17,288 |
| Dividends received from equity securities | 25,858 | 17,009 |
| Purchase of equity securities | (54,213) | (67,996) |
| Proceeds from sale of equity securities | 12,421 | 11,374 |
| Purchase of fixed assets | (168,401) | (108,048) |
| Proceeds from disposal of fixed assets | 50,013 | 21,974 |
| Increase in shareholding of an associate | (8,400) | - |
| Proceeds from disposal of associates | 32,711 | - |
| Increase in shareholding of a subsidiary | (26,820) | (39,139) |
| Purchase of subsidiaries | - | (326,509) |
| NET CASH USED IN INVESTING ACTIVITIES | (136,282) | (474,047) |
| FINANCING ACTIVITIES | | |
| Ordinary dividends paid | (759,585) | (442,477) |
| Issue of ordinary share capital | 82,108 | 13,030 |
| Capital fee paid on increase in issued share capital | (69) | - |
| Issue of certificates of deposit | - | 2,670,441 |
| Redemption of certificates of deposit | (3,205,668) | (6,371,760) |
| Interest paid on loan capital | (129,689) | (124,836) |
| Interest paid on certificates of deposit | (50,287) | (124,506) |
| Interest paid on bonds issued | - | (1,197) |
| NET CASH USED IN FINANCING ACTIVITIES | (4,063,190) | (4,381,305) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 3,627,917 | 1,310,231 |
| CASH AND CASH EQUIVALENT AT 1ST JANUARY | 33,890,538 | 36,325,022 |
| CASH AND CASH EQUIVALENT AT 30TH JUNE | 37,518,455 | 37,635,253 |
| Cash flows from operating activities included: | | |
| Interest received | 2,682,846 | 3,049,876 |
| Interest paid | 878,235 | 1,212,000 |

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, 2003 but there is no material change as compared to those accounts, nor for the six months ended 30th June, 2004. The statutory accounts for the year ended 31st December, 2003 are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 10th February, 2004.
- (2) The provision for Hong Kong profits tax is calculated at 17.5% of the estimated assessable profits for the six months ended 30th June, 2004. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.
- (3)
 - (a) The calculation of basic earnings per share is based on earnings of HK\$1,000,331,000 (six months ended 30th June, 2003 : HK\$792,502,000) and on the weighted average of 1,472,942,693 (six months ended 30th June, 2003 : 1,448,907,082) ordinary shares outstanding during the six months ended 30th June, 2004.
 - (b) The calculation of diluted earnings per share is based on earnings of HK\$1,000,331,000 (six months ended 30th June, 2003 : HK\$793,473,000) and on 1,481,210,800 (six months ended 30th June, 2003 : 1,454,161,148) ordinary shares, being weighted average number of ordinary shares outstanding during the six months ended 30th June, 2004, adjusted for the effects of all dilutive potential shares.
 - (c) The calculation of cash earnings per share is based on earnings of HK\$1,070,809,000 (six months ended 30th June, 2003 : HK\$860,837,000) adjusted for goodwill amortised of HK\$70,478,000 (six months ended 30th June, 2003 : HK\$68,335,000) and on the weighted average of 1,472,942,693 (six months ended 30th June, 2003 : 1,448,907,082) ordinary shares outstanding during the six months ended 30th June, 2004. This supplementary information is considered a useful additional indication of performance.
- (4) Effective 31st December, 2003, commission related expenses, which were previously classified under operating expenses, are shown as fees and commission expenses in line with the market practice. Such expenses amounting to HK\$85,193,000 for the six months ended 30th June, 2003 are restated to conform with this presentation. The corresponding figure for the six months ended 30th June, 2004 is HK\$192,425,000.

E. Fees and Commission Income

Fees and commission income arises from the following services:

| | 6 months ended 30/6/2004 HK\$'000 | 6 months ended 30/6/2003 HK\$'000 | 6 months ended 31/12/2003 HK\$'000 |
|----------------------------------|--|--|---|
| Corporate services | 183,554 | 180,103 | 179,267 |
| Loans, overdrafts and guarantees | 221,158 | 102,518 | 137,812 |
| Credit cards | 98,476 | 86,794 | 101,370 |
| Other retail banking services | 56,522 | 60,923 | 68,988 |
| Trade finance | 53,415 | 49,057 | 52,318 |
| Securities and asset management | 101,928 | 48,140 | 87,676 |
| Others | 60,206 | 52,938 | 58,390 |
| Total fees and commission income | <u>775,259</u> | <u>580,473</u> | <u>685,821</u> |

F. Operating Expenses

| | 6 months ended 30/6/2004 HK\$'000 | 6 months ended 30/6/2003 HK\$'000 | 6 months ended 31/12/2003 HK\$'000 |
|---|--|--|---|
| Contributions to defined contribution plan | 51,115 | 47,009 | 47,182 |
| Salary and other staff costs | <u>642,792</u> | <u>618,649</u> | <u>632,501</u> |
| Total staff costs | <u>693,907</u> | <u>665,658</u> | <u>679,683</u> |
| Premises and equipment expenses excluding depreciation | | | |
| - Rental of premises | 67,847 | 72,639 | 60,064 |
| - Maintenance, repairs and others | 102,268 | 87,936 | 98,703 |
| Total premises and equipment expenses excluding depreciation | <u>170,115</u> | <u>160,575</u> | <u>158,767</u> |
| Depreciation on fixed assets | 122,483 | 112,307 | 116,535 |
| Amortisation of goodwill | 70,478 | 68,335 | 71,752 |
| Other operating expenses | | | |
| - Communications, stationery and printing | 75,604 | 67,586 | 76,272 |
| - Advertising, business promotions and business trips | 53,908 | 45,976 | 61,622 |
| - Legal and professional fees | 39,177 | 37,550 | 40,871 |
| - Card related expenses | 20,253 | 16,053 | 15,059 |
| - Stamp duty, overseas and PRC* business taxes, and value added taxes | 4,790 | 12,438 | 12,420 |
| - Debt securities issue expenses | 4,267 | 6,146 | 4,452 |
| - Administration expenses of secretarial business | 323 | 6,396 | 841 |
| - Bank charges | 5,085 | 2,678 | 3,166 |
| - Insurance expenses | 6,373 | 2,656 | 2,894 |
| - Membership fees | 3,089 | 2,769 | 2,174 |
| - Bank licence | 2,313 | 2,433 | 2,337 |
| - Donations | 1,063 | 1,347 | 2,534 |
| - Others | 26,759 | 30,215 | 33,043 |
| Total other operating expenses | <u>243,004</u> | <u>234,243</u> | <u>257,685</u> |
| Total operating expenses | <u>1,299,987</u> | <u>1,241,118</u> | <u>1,284,422</u> |

* PRC denotes the People's Republic of China.

G. Advances and Other Assets

1. Advances and Other Accounts less Provisions

| | 30/6/2004 | 30/6/2003 | 31/12/2003 |
|--|--------------------|--------------------|--------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Advances to customers | 105,692,926 | 104,942,980 | 102,908,836 |
| Advances to banks and other financial institutions | 1,776,263 | 1,189,877 | 1,563,981 |
| Accrued interest | 987,758 | 962,417 | 1,137,979 |
| Less: Suspended interest | (330,752) | (486,634) | (439,982) |
| Other accounts | 3,062,782 | 2,900,156 | 4,380,696 |
| Construction in progress | 602,598 | 334,132 | 468,235 |
| | <u>111,791,575</u> | <u>109,842,928</u> | <u>110,019,745</u> |
| Less: Provisions for bad and doubtful debts | | | |
| - Specific | 392,321 | 407,495 | 380,400 |
| - General | 1,309,852 | 1,261,753 | 1,259,551 |
| | <u>110,089,402</u> | <u>108,173,680</u> | <u>108,379,794</u> |

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.

| | 30/6/2004 | 30/6/2003 | 31/12/2003 |
|---|--------------------|--------------------|--------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Loans for use in Hong Kong | | | |
| Industrial, commercial and financial | | | |
| - Property development | 3,899,140 | 4,952,113 | 4,969,798 |
| - Property investment | 13,169,065 | 11,923,707 | 11,883,891 |
| - Financial concerns | 1,263,813 | 1,908,668 | 2,045,115 |
| - Stockbrokers | 236,667 | 130,572 | 322,112 |
| - Wholesale and retail trade | 1,628,150 | 1,955,738 | 1,790,164 |
| - Manufacturing | 1,296,981 | 1,363,476 | 1,250,396 |
| - Transport and transport equipment | 4,771,187 | 4,330,293 | 4,564,759 |
| - Others | 4,833,360 | 6,296,263 | 4,500,757 |
| - Sub-total | <u>31,098,363</u> | <u>32,860,830</u> | <u>31,326,992</u> |
| Individuals | | | |
| - Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme | 1,678,114 | 2,047,159 | 1,848,337 |
| - Loans for the purchase of other residential properties | 33,444,295 | 36,716,304 | 34,595,575 |
| - Credit card advances | 1,254,594 | 1,384,054 | 1,432,687 |
| - Others | 3,061,263 | 3,204,082 | 2,950,460 |
| - Sub-total | <u>39,438,266</u> | <u>43,351,599</u> | <u>40,827,059</u> |
| Total loans for use in Hong Kong | 70,536,629 | 76,212,429 | 72,154,051 |
| Trade finance | 3,688,881 | 3,166,708 | 3,314,514 |
| Loans for use outside Hong Kong | 31,467,416 | 25,563,843 | 27,440,271 |
| Total advances to customers | <u>105,692,926</u> | <u>104,942,980</u> | <u>102,908,836</u> |

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.

| | 30/6/2004 | | |
|----------------------------|--|-------------------------------------|--|
| | Total advances to customers HK\$'000 | Non-performing loans HK\$'000 | Advances overdue for over three months HK\$'000 |
| Hong Kong | 82,589,385 | 1,052,409 | 749,347 |
| People's Republic of China | 7,287,547 | 499,918 | 250,078 |
| Other Asian Countries | 5,465,585 | 236,694 | 151,034 |
| Others | 10,350,409 | 87,070 | 77,815 |
| Total | 105,692,926 | 1,876,091 | 1,228,274 |

| | 30/6/2003 | | |
|----------------------------|--|-------------------------------------|--|
| | Total advances to customers HK\$'000 | Non-performing loans HK\$'000 | Advances overdue for over three months HK\$'000 |
| Hong Kong | 84,694,817 | 1,911,321 | 1,178,335 |
| People's Republic of China | 4,593,239 | 745,156 | 748,877 |
| Other Asian Countries | 4,990,938 | 159,451 | 176,111 |
| Others | 10,663,986 | 66,350 | 66,886 |
| Total | 104,942,980 | 2,882,278 | 2,170,209 |

| | 31/12/2003 | | |
|----------------------------|--|-------------------------------------|--|
| | 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 |

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.

| | 30/6/2004 | | | |
|--|--|--|--------------------|-------------------|
| | Banks and other financial institutions HK\$'000 | Public sector entities HK\$'000 | Others HK\$'000 | Total 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 |
| | 30/6/2003 | | | |
| | Banks and other financial institutions HK\$'000 | Public sector entities HK\$'000 | Others HK\$'000 | Total HK\$'000 |
| People's Republic of China | 5,414,255 | 529,127 | 3,753,810 | 9,697,192 |
| Asian countries, excluding People's Republic of China | 13,200,385 | 976,714 | 6,089,785 | 20,266,884 |
| North America | 4,986,105 | 963,601 | 4,868,598 | 10,818,304 |
| Western Europe | 32,469,016 | 105,683 | 1,213,058 | 33,787,757 |
| | 31/12/2003 | | | |
| | 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 |

5. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and Rescheduled Advances

| | 30/6/2004 | | 30/6/2003 | | 31/12/2003 | |
|--|------------------|----------------------------------|------------------|----------------------------------|------------------|----------------------------------|
| | 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 | 350,991 | 0.4 | 489,949 | 0.5 | 276,799 | 0.3 |
| - 1 year or less but over 6 months | 236,118 | 0.2 | 550,957 | 0.5 | 339,092 | 0.3 |
| - Over 1 year | 641,165 | 0.6 | 1,129,303 | 1.1 | 882,782 | 0.9 |
| | <u>1,228,274</u> | <u>1.2</u> | <u>2,170,209</u> | <u>2.1</u> | <u>1,498,673</u> | <u>1.5</u> |
| Rescheduled advances to customers | <u>897,890</u> | <u>0.8</u> | <u>655,882</u> | <u>0.6</u> | <u>1,123,114</u> | <u>1.1</u> |
| Total overdue and rescheduled advances | <u>2,126,164</u> | <u>2.0</u> | <u>2,826,091</u> | <u>2.7</u> | <u>2,621,787</u> | <u>2.6</u> |
| Secured overdue advances | <u>1,077,170</u> | <u>1.0</u> | <u>2,037,119</u> | <u>2.0</u> | <u>1,323,712</u> | <u>1.3</u> |
| Unsecured overdue advances | <u>151,104</u> | <u>0.1</u> | <u>133,090</u> | <u>0.1</u> | <u>174,961</u> | <u>0.2</u> |
| Market value of securities held against secured overdue advances | <u>1,650,331</u> | | <u>3,058,217</u> | | <u>1,736,962</u> | |

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 30th June, 2004, 30th June, 2003 and 31st December, 2003, nor were there any rescheduled advances to banks and other financial institutions on these three 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.

| | 30/6/2004 | | 30/6/2003 | | 31/12/2003 | |
|--|-----------|----------------------------------|-----------|----------------------------------|------------|----------------------------------|
| | HK\$'000 | % of total advances to customers | HK\$'000 | % of total advances to customers | HK\$'000 | % of total advances to customers |
| Gross non-performing advances to customers | 1,876,091 | 1.78 | 2,882,278 | 2.75 | 2,526,389 | 2.45 |
| Specific provisions | 226,239 | | 260,401 | | 219,528 | |
| Suspended interest * | 387,495 | | 560,325 | | 508,890 | |

* Inclusive of interest capitalised

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 30th June, 2004, 30th June, 2003 and 31st December, 2003, nor were there any specific provisions made for them on these three dates.

(c) Reconciliation

| | 30/6/2004 | 30/6/2003 | 31/12/2003 |
|---|-----------|-----------|------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Overdue advances (Note 1) | 1,228,274 | 2,170,209 | 1,498,673 |
| Rescheduled advances (Note 2) | 897,890 | 655,882 | 1,123,114 |
| Total overdue and rescheduled advances | 2,126,164 | 2,826,091 | 2,621,787 |
| Less: Overdue advances on which interest is still being accrued | (164,602) | (280,964) | (150,286) |
| Less: Rescheduled advances on which interest is still being accrued | (344,873) | (23,740) | (173,813) |
| Add: Non-performing loans which are not overdue or rescheduled | 259,402 | 360,891 | 228,701 |
| Total non-performing loans | 1,876,091 | 2,882,278 | 2,526,389 |

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

| | 30/06/2004 | |
|--|------------------------------|---------------------------|
| | Accrued interest HK\$'000 | Other assets* 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 |
| | 2,702 | 18,075 |
| Rescheduled assets | - | - |
| Total other overdue and rescheduled assets | 2,702 | 18,075 |

| | 30/06/2003 | |
|--|------------------------------|---------------------------|
| | Accrued interest HK\$'000 | Other assets* HK\$'000 |
| Other assets overdue for | | |
| - 6 months or less but over 3 months | 3,112 | 29,701 |
| - 1 year or less but over 6 months | 2,594 | 1,165 |
| - Over 1 year | 1,342 | 6,999 |
| | 7,048 | 37,865 |
| Rescheduled assets | - | - |
| Total other overdue and rescheduled assets | 7,048 | 37,865 |

| | 31/12/2003 | |
|--|------------------------------|---------------------------|
| | 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 |
| | 4,045 | 17,094 |
| Rescheduled assets | - | 827 |
| Total other overdue and rescheduled assets | 4,045 | 17,921 |

* Other assets refer to trade bills and receivables.

(e) Repossessed Assets

| | <u>30/6/2004</u> HK\$'000 | <u>30/6/2003</u> HK\$'000 | <u>31/12/2003</u> HK\$'000 |
|---------------------------------|------------------------------|------------------------------|-------------------------------|
| Repossessed properties | 189,338 | 226,748 | 176,265 |
| Repossessed vehicles & machines | <u>1,215</u> | <u>6,645</u> | <u>671</u> |
| Total repossessed assets | <u><u>190,553</u></u> | <u><u>233,393</u></u> | <u><u>176,936</u></u> |

The amount represents the estimated market value of the repossessed assets as at 30th June, 2004, 30th June, 2003 and 31st December, 2003.

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.

6 months ended 30/6/2004

| | 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 | 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 | 1,144,383 | 748,271 | 441,970 | 183,228 | 81,984 | 78,542 | (54,678) | 2,623,700 |
| Operating profit / (loss) before provisions | 601,305 | 476,241 | 327,938 | 68,162 | 11,016 | (160,949) | - | 1,323,713 |
| 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 | (209,876) | - | 1,180,617 |
| Provision for impairment loss for the period | - | (15,638) | - | - | - | (8,401) | - | (24,039) |
| Share of profits less losses of associates | 415 | 1,914 | 11,765 | - | (5,760) | (162) | - | 8,172 |
| Other income and expenses | - | (5) | 11,652 | - | - | 6,575 | - | 18,222 |
| Profit / (loss) before taxation | 575,368 | 396,126 | 352,738 | 65,479 | 5,125 | (211,864) | - | 1,182,972 |
| Income tax | - | - | - | - | - | (170,761) | - | (170,761) |
| Minority interests | - | - | - | (11,706) | - | (174) | - | (11,880) |
| Profit / (loss) attributable to shareholders | 575,368 | 396,126 | 352,738 | 53,773 | 5,125 | (382,799) | - | 1,000,331 |
| Depreciation for the period | (44,906) | (23,744) | (8,353) | (3,512) | (3,559) | (38,409) | - | (122,483) |
| Amortisation of goodwill | (15,439) | (14,469) | (21,232) | (18,456) | (882) | - | - | (70,478) |

6 months ended 30/6/2003 (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 | 976,928 | 557,757 | 274,915 | 21 | 13,919 | (46,527) | - | 1,777,013 |
| Other operating income from external customers | 184,706 | 121,137 | 280,779 | 181,356 | 61,321 | 36,253 | - | 865,552 |
| Inter-segment income | - | - | - | - | - | 68,055 | (68,055) | - |
| Total operating income | <u>1,161,634</u> | <u>678,894</u> | <u>555,694</u> | <u>181,377</u> | <u>75,240</u> | <u>57,781</u> | <u>(68,055)</u> | <u>2,642,565</u> |
| Operating profit / (loss) before provisions | 665,973 | 426,866 | 431,800 | 52,408 | 4,595 | (180,195) | - | 1,401,447 |
| Inter-segment transactions | 56,380 | 4,746 | 4,091 | - | - | (65,217) | - | - |
| Charge for of bad and doubtful debts | <u>(124,651)</u> | <u>(75,741)</u> | <u>(69,667)</u> | <u>(4,924)</u> | <u>(5,515)</u> | <u>(10,713)</u> | - | <u>(291,211)</u> |
| Contribution from operations | 597,702 | 355,871 | 366,224 | 47,484 | (920) | (256,125) | - | 1,110,236 |
| Write-back of / (increase in) impairment loss for the period | - | (2,223) | - | - | 5,557 | 971 | - | 4,305 |
| Impairment loss on bank premises | - | - | - | - | - | (80,041) | - | (80,041) |
| Share of profits less losses of associates | (2,537) | 13,561 | (10,701) | - | 23,421 | (1,049) | - | 22,695 |
| Other income and expenses | - | - | (2,207) | - | - | (25,802) | - | (28,009) |
| Profit / (loss) before taxation | 595,165 | 367,209 | 353,316 | 47,484 | 28,058 | (362,046) | - | 1,029,186 |
| Income tax | - | - | - | - | - | (224,992) | - | (224,992) |
| Minority interests | - | - | - | (11,827) | 135 | - | - | (11,692) |
| Profit / (loss) attributable to shareholders | <u>595,165</u> | <u>367,209</u> | <u>353,316</u> | <u>35,657</u> | <u>28,193</u> | <u>(587,038)</u> | - | <u>792,502</u> |
| Depreciation for the period | (42,038) | (18,685) | (8,174) | (3,540) | (4,327) | (35,543) | - | (112,307) |
| Amortisation of goodwill | <u>(16,887)</u> | <u>(13,216)</u> | <u>(21,040)</u> | <u>(16,722)</u> | <u>(470)</u> | - | - | <u>(68,335)</u> |

I. 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 | Unrealised gains on FX contracts / unearned discount | Tax losses | Others | Total |
|--|---|----------------------------------|---------------------------|------------------|--|-----------------|--------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 st January, 2004 | 281,859 | 555,523 | 184,346 | (171,480) | - | (67,324) | 1,787 | 784,711 |
| Write off against investment | - | (243,308) | - | - | - | - | - | (243,308) |
| Charged / (credited) to consolidated profit and loss account | (8,874) | (3,058) | - | (8,008) | - | 8,974 | (1,060) | (12,026) |
| Charged to reserves | - | - | (2,497) | - | - | - | - | (2,497) |
| Exchange and other adjustments | - | - | - | - | - | (814) | - | (814) |
| At 30 th June, 2004 | <u>272,985</u> | <u>309,157</u> | <u>181,849</u> | <u>(179,488)</u> | <u>-</u> | <u>(59,164)</u> | <u>727</u> | <u>526,066</u> |
| At 1 st January, 2003 | 256,709 | 436,636 | 169,044 | (164,620) | 23,972 | (92,386) | 3,974 | 633,329 |
| Write off against investment | - | (166,824) | - | - | - | - | - | (166,824) |
| Charged / (credited) to consolidated profit and loss account | 29,793 | (77) | - | (377) | 8,169 | 2,148 | 915 | 40,571 |
| Credited to reserves | - | - | 15,575 | - | - | - | - | 15,575 |
| Exchange and other adjustments | - | - | - | - | - | 269 | - | 269 |
| At 30 th June, 2003 | <u>286,502</u> | <u>269,735</u> | <u>184,619</u> | <u>(164,997)</u> | <u>32,141</u> | <u>(89,969)</u> | <u>4,889</u> | <u>522,920</u> |

J. Off-balance Sheet Exposures

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

| | 30/6/2004 HK\$'000 | 30/6/2003 HK\$'000 | 31/12/2003 HK\$'000 |
|---|-----------------------|-----------------------|------------------------|
| Contractual amounts of contingent liabilities and commitments | | | |
| - Direct credit substitutes | 4,600,597 | 4,159,808 | 4,381,620 |
| - Transaction-related contingencies | 433,008 | 514,149 | 496,632 |
| - Trade-related contingencies | 2,590,214 | 2,358,338 | 2,596,662 |
| - Other commitments with an original maturity of: | | | |
| Under 1 year or which are unconditionally cancellable | 26,458,527 | 20,682,040 | 20,395,121 |
| 1 year and over | 6,639,302 | 7,633,186 | 6,775,946 |
| - Others | 250,447 | 57,594 | 50,117 |
| Total | <u>40,972,095</u> | <u>35,405,115</u> | <u>34,696,098</u> |
| - Aggregate credit risk weighted amount | <u>7,636,483</u> | <u>8,171,875</u> | <u>8,087,367</u> |
| Notional amounts of derivatives | | | |
| - Exchange rate contracts | 51,839,401 | 23,714,955 | 35,334,684 |
| - Interest rate contracts | 16,354,705 | 12,926,891 | 13,541,671 |
| - Equity contracts | 801,426 | 586,888 | 840,638 |
| Total | <u>68,995,532</u> | <u>37,228,734</u> | <u>49,716,993</u> |
| - Aggregate credit risk weighted amount | <u>570,110</u> | <u>326,358</u> | <u>471,430</u> |
| - Aggregate replacement costs | <u>1,616,771</u> | <u>932,254</u> | <u>1,458,276</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.

K. 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.

| | 30/6/2004 HK\$ Million | | | | | | Total |
|-----------------------------|---------------------------|------------|----------|------------|-----------|-----------|--------------|
| | USD | CAD | GBP* | CNY | JPY | Others | |
| Spot assets | 55,938 | 2,751 | 4,241 | 4,834 | 1,158 | 13,188 | 82,110 |
| Spot liabilities | (49,898) | (4,748) | (6,119) | (4,618) | (560) | (22,165) | (88,108) |
| Forward purchases | 31,773 | 2,411 | 2,253 | - | 1,448 | 24,283 | 62,168 |
| Forward sales | (38,409) | (314) | (364) | - | (2,001) | (15,287) | (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>10</u> | <u>(203)</u> |

| | 30/6/2003 HK\$ Million | | | | | | Total |
|-----------------------------|---------------------------|--------------|--------------|-----------|----------------|----------------|-----------------|
| | USD | CAD | GBP | CNY* | JPY* | Others | |
| Spot assets | 43,998 | 5,112 | 3,714 | 1,936 | 960 | 15,342 | 71,062 |
| Spot liabilities | (42,663) | (5,146) | (6,199) | (1,880) | (427) | (18,448) | (74,763) |
| Forward purchases | 12,703 | 657 | 2,953 | - | 828 | 6,665 | 23,806 |
| Forward sales | <u>(13,109)</u> | <u>(524)</u> | <u>(589)</u> | <u>-</u> | <u>(1,438)</u> | <u>(3,520)</u> | <u>(19,180)</u> |
| Net long / (short) position | <u>929</u> | <u>99</u> | <u>(121)</u> | <u>56</u> | <u>(77)</u> | <u>39</u> | <u>925</u> |

| | 31/12/2003 HK\$ Million | | | | | | Total |
|-----------------------------|----------------------------|--------------|--------------|-----------|----------------|----------------|-----------------|
| | USD | CAD | GBP | CNY | JPY* | Others | |
| Spot assets | 50,041 | 4,337 | 4,374 | 2,544 | 1,448 | 13,050 | 75,794 |
| Spot liabilities | (45,079) | (5,088) | (7,305) | (2,508) | (483) | (21,144) | (81,607) |
| Forward purchases | 23,881 | 1,674 | 2,110 | - | 1,137 | 13,328 | 42,130 |
| Forward sales | <u>(27,768)</u> | <u>(780)</u> | <u>(171)</u> | <u>-</u> | <u>(2,095)</u> | <u>(5,223)</u> | <u>(36,037)</u> |
| Net options position | <u>(9)</u> | <u>2</u> | <u>(3)</u> | <u>-</u> | <u>(3)</u> | <u>(3)</u> | <u>(16)</u> |
| Net long / (short) position | <u>1,066</u> | <u>145</u> | <u>(995)</u> | <u>36</u> | <u>4</u> | <u>8</u> | <u>264</u> |

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

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

| | 30/6/2003 HK\$ Million | | | Total |
|-------------------------|---------------------------|------------|------------|--------------|
| | USD | CAD | Others | |
| Net structural position | <u>1,431</u> | <u>220</u> | <u>366</u> | <u>2,017</u> |

| | 31/12/2003 HK\$ Million | | | Total |
|-------------------------|----------------------------|------------|------------|--------------|
| | USD | CAD | Others | |
| Net structural position | <u>1,423</u> | <u>228</u> | <u>376</u> | <u>2,027</u> |

L. Capital, Capital Adequacy and Liquidity Information

1. Capital Adequacy Ratio

| | <u>30/6/2004</u> | <u>30/6/2003</u> | <u>31/12/2003</u> |
|-----------------------------------|------------------|------------------|-------------------|
| | % | % | % |
| Unadjusted capital adequacy ratio | 17.7 | 17.1 | 17.2 |
| Adjusted capital adequacy ratio | 17.5 | 17.0 | 17.1 |

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

| | <u>30/6/2004</u> | <u>30/6/2003</u> | <u>31/12/2003</u> |
|--|--------------------------|--------------------------|--------------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Core capital | | | |
| Paid up ordinary share capital | 3,698,675 | 3,629,676 | 3,668,634 |
| Share premium | 572,304 | 355,427 | 520,305 |
| Reserves | 14,778,428 | 13,787,298 | 14,059,945 |
| Minority interests | 34,206 | (76,759) | 24,418 |
| Deduct: Goodwill | <u>(2,298,113)</u> | <u>(2,347,937)</u> | <u>(2,343,408)</u> |
| Total core capital | <u>16,785,500</u> | <u>15,347,705</u> | <u>15,929,894</u> |
| Eligible supplementary capital | | | |
| Reserves on revaluation of land and interests in land (at 70%) | 661,704 | 745,173 | 659,956 |
| General provisions for doubtful debts | 1,308,520 | 1,256,804 | 1,266,365 |
| Term subordinated debt | <u>4,282,700</u> | <u>4,277,803</u> | <u>4,260,751</u> |
| Total eligible supplementary capital | <u>6,252,924</u> | <u>6,279,780</u> | <u>6,187,072</u> |
| Total capital base before deductions | 23,038,424 | 21,627,485 | 22,116,966 |
| Deductions from total capital base | <u>(934,071)</u> | <u>(971,491)</u> | <u>(1,049,318)</u> |
| Total capital base after deductions | <u><u>22,104,353</u></u> | <u><u>20,655,994</u></u> | <u><u>21,067,648</u></u> |

3. Reserves

| | <u>30/6/2004</u> HK\$'000 | <u>30/6/2003</u> HK\$'000 | <u>31/12/2003</u> HK\$'000 |
|--------------------------------------|------------------------------|------------------------------|-------------------------------|
| Share premium | 572,304 | 355,427 | 520,305 |
| General reserve | 11,898,218 | 11,725,166 | 11,747,096 |
| Revaluation reserve on bank premises | 945,291 | 1,064,534 | 942,794 |
| Exchange revaluation reserve | 7,103 | 18,971 | 24,939 |
| Other reserves | 89,553 | 53,969 | 91,968 |
| Retained profits | <u>3,197,805</u> | <u>2,323,134</u> | <u>3,105,764</u> |
| Total | <u>16,710,274</u> | <u>15,541,201</u> | <u>16,432,866</u> |
| Proposed dividends, not provided for | <u>414,252</u> | <u>333,930</u> | <u>909,821</u> |

4. Liquidity Ratio

| | <u>6 months ended</u> <u>30/6/2004</u> % | <u>6 months ended</u> <u>30/6/2003</u> % | <u>The year ended</u> <u>31/12/2003</u> % |
|--|--|--|---|
| Average liquidity ratio for the period | 43.9 | 46.0 | 44.8 |

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.

M. 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 on 8th November, 2002 and the revised Statement of Standard Accounting Practice 25 'Interim Financial Reporting' issued by the Hong Kong Society of Accountants in December, 2001.

INTERIM DIVIDEND

The Directors are pleased to declare an interim dividend of HK\$0.28 (2003: HK\$0.23) per share for the six months ended 30th June, 2004. 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, 25th August, 2004. Details of the scrip dividend and the election form will be sent to shareholders on or about Wednesday, 25th August, 2004. 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 Wednesday, 15th September, 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 23rd August, 2004 to Wednesday, 25th August, 2004. 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, 20th August, 2004.

FINANCIAL REVIEW

Financial Performance

The economy of Hong Kong continued to stabilise in the first half of 2004, continuing the rebound that began in the third quarter of last year. Despite the improved performance of the overall economy, the banking industry was still faced with weak loan demand and intense competition. Amid this challenging operating environment, in the first six months of 2004, the BEA Group achieved a profit attributable to shareholders of HK\$1,000 million, representing an increase of HK\$207 million, or 26.2%, over that of HK\$793 million for the corresponding period in 2003. Basic earnings per share were HK\$0.68. Return on average assets and return on average equity were 1.02% and 9.96%, respectively.

Although advances to customers increased only slightly, BEA's net interest income increased by HK\$26 million, or 1.4%, from HK\$1,777 million in the first half of 2003 to HK\$1,803 million in the first half of 2004. The improved performance was a result of the success of BEA's active management of assets and liabilities. Net interest margin declined to 1.94%.

The decline in securities prices in the first half led to an increase in revaluation loss on debt securities. However, due to an increase in net fees and commission income, non-interest income declined only slightly, falling 5.2% from HK\$866 million in the first half of 2003 to HK\$821 million over the corresponding period in 2004. As a result, total operating income decreased marginally, by 0.7% to HK\$2,624 million.

Total operating expenses increased by 4.7% over the corresponding figure in 2003 to HK\$1,300 million. The cost to income ratio rose from 47.0% in 2003 to 49.5% in 2004.

Operating profit before provisions was HK\$1,324 million, a decrease of HK\$77 million, or 5.5%, over that of the HK\$1,401 million in the corresponding period of 2003.

With the improvement in the economic outlook and the precautionary measures undertaken by the Group to minimise potential loan loss, BEA's asset quality continued to improve. The charge for bad and doubtful debts decreased by 50.9% from HK\$291 million in the first six months of 2003 to HK\$143 million in the corresponding period for 2004. As at 30th June, 2004 non-performing loans ratio dropped to 1.8% from 2.7% and 2.5% at the end of June and December 2003 respectively. This demonstrates the good quality of BEA's assets. Further decline in the non-performing loans ratio is expected.

BEA's operating profit after provisions increased by 6.3% to HK\$1,181 million.

In the first six months of 2004, BEA shared pre-tax profits less losses from associates of HK\$8 million, as compared with HK\$23 million in the same period in 2003.

Minority interests increased by HK\$0.2 million to HK\$12 million. Taxation decreased by 24.1% to HK\$171 million. Net profit attributable to shareholders for the first half of 2004 was HK\$1,000 million.

Financial Position

As at 30th June, 2004, total consolidated assets were HK\$194,231 million, of which 54.4%, or HK\$105,693 million, were advances to customers. Customer deposits stood at HK\$153,728 million. With HK\$4,283 million loan capital, total capital resources increased by 1.4% from HK\$24,387 million at the end of 2003 to HK\$24,726 million.

In the first half of 2004, BEA redeemed certificates of deposit amounting to HK\$3,061 million upon maturity, and repurchased a quantity of its own certificates of deposit amounting to HK\$137 million equivalent.

At the end of June 2004, the face value of the outstanding debt portfolio was HK\$2,497 million, with the carrying amount equal to HK\$2,350 million.

After taking into account all debt instruments issued, the loan-to-deposit ratio was 67.7%, being 3.8% higher than the 63.9% reported at the end of 2003.

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> |
| Fixed Rate | | | | | | |
| Certificates of Deposit | | | | | | |
| Issued in 1999 | HKD | 100 | 100 | | | |
| Discounted | | | | | | |
| Certificates of Deposit | | | | | | |
| Issued in 2002 | HKD | 423 | 423 | | | |
| Issued in 2002 | USD | 88 | | | 88 | |
| Issued in 2003 | AUD | 52 | 52 | | | |
| Issued in 2003 | NZD | 47 | 47 | | | |
| Step Up | | | | | | |
| Certificates of Deposit | | | | | | |
| Issued in 2003 | USD | 49 | | | | 49 |
| Retail Callable | | | | | | |
| Certificates of Deposit | | | | | | |
| Issued in 2002 | HKD | 392 | | | 392 | |
| Total Debts issued in HKD equivalent | | 2,497 | 100 | 934 | 1,080 | 383 |

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 which 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 to 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 will report 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 to deal with 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 43.9% for the first half of 2004, 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 valued at current market prices (mark-to-market basis); from its investment and banking activities in financial assets and liabilities, which are valued at cost plus any accrued interest (accrual basis); and from its holdings of securities classified as other investments, which are measured at fair value 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.

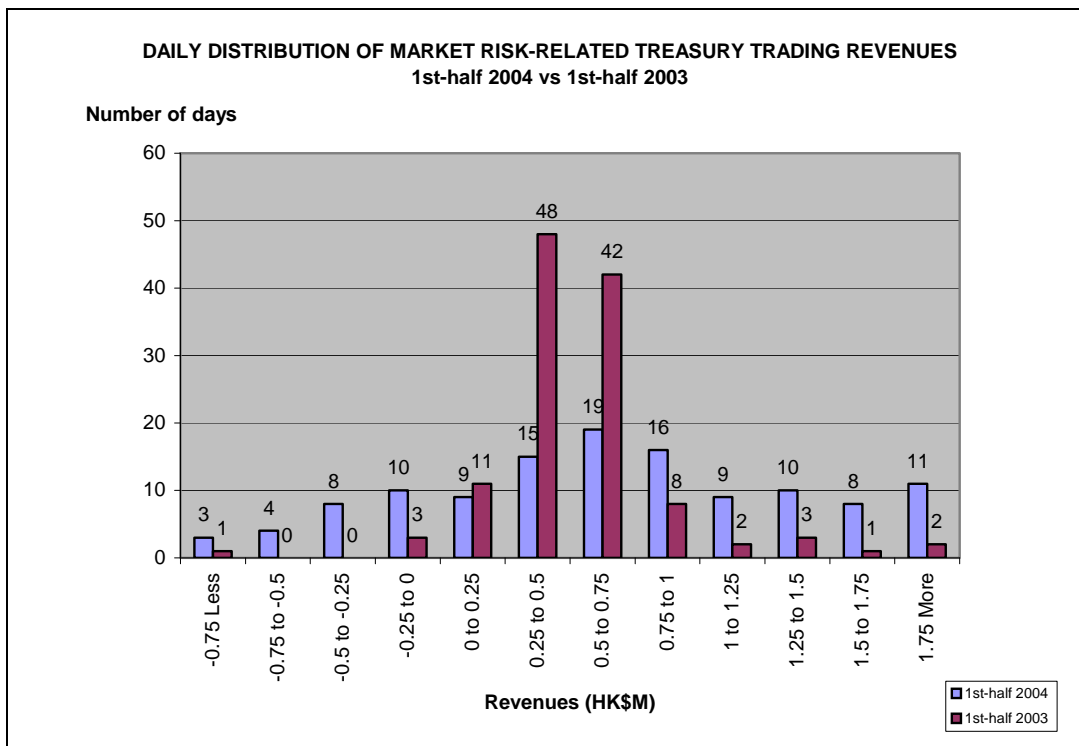
Financial derivatives are instruments that derive their value from the performance of underlying assets, interest or currency exchange rates, or indices. The Group principally uses financial derivative instruments as investment alternatives or to manage foreign exchange, interest rate or equity risk, 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 and over-the-counter transacted currency 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.

Prior to 2002, VaR was calculated to a 95% confidence level. From the beginning of 2002, VaR is calculated at a 99% confidence level. This change has been made to facilitate consistency with the regulatory guidance in confidence level to measure market risk.

The VaR for the Group's market risk-related treasury trading portfolio as at 30th June, 2004 was HK\$2.42 million (HK\$2.68 million at 31st December, 2003). The average daily revenue earned from the Group's market risk-related treasury trading activities for the first half of 2004 was HK\$0.58 million (HK\$0.53 million for the first half of 2003). The standard deviation of these daily revenues was HK\$2.01 million (HK\$0.42 million for the first half of 2003).



An analysis of daily distribution of the Group's market risk-related treasury trading revenues for the first half of 2004 (comparing with the first half of 2003) is provided above. This shows that 25 out of 122 days (2003: 4 out of 121 days) are in loss positions. The most frequent result was daily revenue of between HK\$0.50 million and HK\$0.75 million, with 19 occurrences (2003: HK\$0.25 million to HK\$0.50 million with 48 occurrences). The maximum daily loss was HK\$19.41 million (2003: HK\$0.89 million) and the next maximum daily loss was HK\$1.31 million (2003: HK\$0.22 million). The highest daily revenue was HK\$4.27 million (2003: HK\$3.17 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, 2004 was HK\$1.24 million (HK\$0.72 million at 31st December, 2003). The average daily foreign exchange dealing profit for the first half of 2004 was HK\$0.74 million (HK\$0.47 million for the first half of 2003).

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 repricing 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, 2004 was HK\$1.96 million (HK\$2.11 million at 31st December, 2003). The average daily loss due to these activities for the first half of 2004 was HK\$0.16 million (daily profit HK\$0.05 million for the first half of 2003).

(iii) Equities exposure

The Group's equities exposure comprises trading equities and long-term equities investments. The Group's Investment Committee regularly reviews and monitors the equities dealing activities. The VaR on equities trading positions at 30th June, 2004 was HK\$12.78 million (HK\$6.71 million at 31st December, 2003).

(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 a regular exercise to align its operational risk management framework with the industrial practice. This involves an annual operational risk self-assessment, collection of operational loss data, review of operating authorities, stress-testing and review of operation procedures.

The Group has also developed a Business Continuity Plan to provide a set of procedures for contingency operation and business recovery. In addition, 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 17.5%, and the unadjusted ratio of 17.7% as at 30th June, 2004, 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 minimum level of capital according to the rules of the appropriate regulatory authority.

OPERATIONS REVIEW

IMPROVEMENT TO OPERATIONS

Strategic Alliances

On 6th July, the Bank signed a Cooperative Agreement with Crédit Industriel et Commercial (“CIC”), the fourth largest banking group in France, which is comprised of a network of regional banks covering the entire country. This is the seventh alliance that BEA has concluded in the past year and a half. Similar to the previous alliances, the purpose of this agreement is to provide a channel for CIC to leverage the network and expertise of BEA, for the benefit of both banks. BEA will offer its banking services to CIC clients seeking to do business in Hong Kong and China. The Bank is currently in discussion with a major German bank for a similar alliance.

Customer Relationship Management

The third phase of the Customer Relationship Management project will be completed in the last quarter of 2004. The project will further enhance the Bank’s capability in the areas of segmentation studies, pricing strategies and new product development.

Core Banking System

Following the kick-off of the core banking system implementation project in September 2003, the project team completed the first key project milestone – Project Definition and Planning – in March 2004. The business and technical requirements have now been defined and confirmed with Bank users. The project team commenced the functional and technical design stage in April 2004.

Relocating Back-Office Operations to the Mainland

Since its inauguration in 2002, the Operating Centre at Guangzhou (incorporated under the name of East Asia Electronic Data Processing (Guangzhou) Limited – “EAEDP”) has been operating smoothly.

The EAEDP has set up a platform to handle different back-office processes transferred from Head Office, including data input and call centre operations. The Bank will continue to relocate new processes of similar nature from different business units to the EAEDP. Recently, the Bank has begun relocating certain processes that involve some decision-making skills to the EAEDP.

PERSONAL BANKING

Branch Distribution

The branch renewal programme is continuing, aimed at refining the image of the Bank. Under the programme, the design of the banking hall is being modernised and a more pleasant ambience created. Public response has been good, and sales revenue has shown a promising improvement. More branches will be remodelled in the coming years.

BEA continues to rationalise its branch network in order to increase sales opportunities and improve operational efficiency. Since the beginning of this year, three branches were opened and three branches were relocated or merged with nearby branches. At present, BEA has more than 100 branches and SupremeGold Centres in Hong Kong.

To further strengthen the SupremeGold service, three additional SupremeGold Centres were opened, in North Point in January, and at Prince Edward and Yaumatei in July, bringing the

total to 16. By the end of 2004, it is anticipated that 20 SupremeGold Centres will have been established in Hong Kong.

BEA continues to design and promote new retail products and services to enhance its competitive edge:

- Personal Renminbi Services were introduced in February, and an encouraging response was received from customers.
- In June, BEA launched a Value Added Tax (“VAT”) refund service. BEA is the sole agent of Global Refund in Hong Kong, and the first bank in Hong Kong to provide VAT cash refunds. Through this service, Hong Kong residents returning from abroad and travellers visiting Hong Kong can obtain VAT cash refunds by presenting completed and validated refund cheques at BEA’s Main Branch.

The Branch Service Quality Programme has been introduced to raise the service standard at branches. Customer response has been positive, and greater effort will be made to raise the already high standard of service in future.

Cyberbanking

In the first half of 2004, BEA launched a service for trading of bonds and notes online through Cyberbanking. BEA also pioneered the provision of online Renminbi deposit services and digital certificate login via the Internet. As at 30th June, 2004, nearly 270,000 Cyberbanking users had registered, and the average daily volume exceeded 110,000 transactions.

In May 2004, Cyberbanking - CyberWealth was awarded the “Product / Service Excellence in Retail Financial Services Award” by *The Asian Banker*. In the same month, the Internet Professionals Association recognised BEA’s efforts to enhance website accessibility for different user groups, with the “Web Care Award 2004”.

Moreover, Hongkong Post awarded BEA the “Distinguished Partnership Award” in March 2004 in recognition of the Bank’s dedication to promoting e-Business and e-Cert to the public.

Property Loans

With the successful containment of the outbreak of Severe Acute Respiratory Syndrome and the rebound in the economy, the property market began to recover in the last quarter of 2003. Both the number and the value of property transactions have risen significantly.

Despite this revival, competition in the property loan market remains intense. To respond to the stiff competition, BEA has developed a variety of loan products to accommodate the diversified needs of customers. In January 2004, BEA pioneered in teaming up with The Hong Kong Mortgage Corporation Limited to launch the “90% Fixed Rate Mortgage Scheme”. Satisfactory results were achieved.

BEA also actively cooperated with land developers to offer preferential mortgage plans for purchasers of new properties. This sales tactic has dominated the market in recent months.

Consumer Loans

Capitalising on the improving employment rate and optimistic economic outlook, BEA launched a new Personal Loan Programme targeted at customers with good credit standing. With the benefit of highly personalised pricing and attractive associated offerings, the Loan Programme received an encouraging market response.

Credit Cards

The risk management efforts of the Bank have been effective in significantly improving the credit card charge off ratio in the first half of 2004, aligning with the general market level. The implementation of the Positive Data Sharing Scheme and recovery in the economy should further ameliorate the level of bad credit card debt this year.

BEA has established relationships with a number of renowned merchants to offer exclusive privileges and discounts to cardholders. Marketing initiatives were introduced to grow receivables. In addition, a new affinity card programme, the St. James Settlement MasterCard, was launched in January this year.

In April, BEA became a full member of China UnionPay (“CUP”). The associated acquiring business was launched successfully prior to the peak-spending season during the Labour Day holiday in May 2004. Looking ahead, the said acquiring business can undoubtedly benefit from the upsurge of visitors and resurgence of retail sector under the Individual Visit Scheme. On the other hand, in view of the closer ties between Hong Kong and the Mainland, BEA is preparing to launch its own CUP-branded Renminbi credit card in the latter half of the year.

Bancassurance

To strengthen the life insurance business, BEA life insurance products were re-branded in the first quarter of 2004. The new brand – “BEA Life Insurance Series” – has successfully captured the attention of both customers and the general public. In the first and second quarters, BEA achieved tremendous growth in life insurance sales compared to the same period last year.

BEA will continue to broaden the product range for both life and general insurance to meet customer needs. Happy Target Savings Insurance and Accidental Protection Plan were introduced in the first half of this year. Golf Insurance was launched in July, and a series of new or revamped products, such as medical plans, life protection and life savings insurance plans, will be rolled out in the second half of this year.

Blue Cross Insurance

In the first half of 2004, Blue Cross outperformed its business target by 11%, with a growth of 24% in premium income.

The company’s life insurance business continues to expand, and achieved a growth rate of 140% over the period.

CORPORATE BANKING

Corporate Lending

BEA has always maintained a strong position in the local syndication and corporate lending market. Notwithstanding the robust local syndicated loan market in the first half of 2004, interest margins for syndicated deals continue to decline due to keen competition. To improve yield return and to broaden its client base, BEA has taken a pro-active approach to solicit new business from high quality medium-sized companies.

In the first half of 2004, BEA underwrote numerous deals, including a HK\$5,500 million syndicated loan facility for Sun Hung Kai Properties, a HK\$3,300 million syndicated loan facility for New World First Bus Group Services Limited / Merryhill Group Limited and a HK\$7,000 million syndicated loan facility for Kerry Properties Limited.

In the first half of 2004, Hong Kong saw strong growth in exports as trade recovered. In April 2004, the Bank re-launched the Bonus System Programme, a reward programme offered to

selected customers who meet a preset bills turnover volume within a specified period. Additional programmes will be launched in the following months targeting new firms opening offices in Hong Kong and China.

The improvement in the business environment has encouraged Small & Medium Enterprises (“SME”) to undertake new investment. The Bank intensified its effort to extend flexible working capital and term loans on competitive terms to well managed companies.

The Bank continues to promote sound corporate governance and best accounting practice among SMEs by conducting seminars together with professional bodies and trade associations. Seminars on business start up and operations conducted under the “Meet-the Advisors” programme organised by the Trade and Industry Department continued to generate good response.

Asset Based Finance

Driven by a sharp increase in refinancing activity, the volume of taxi lending business saw significant growth in the first half of 2004. BEA continued to maintain a strong foothold in this competitive market, achieving a zero write-off record during the period. New loans for private cars and commercial vehicles also reported encouraging growth, up 22% compared to the same period last year.

As a result of the combined effect of good organic growth and the acquisition of the entire loan and leasing portfolio of Trilease International Limited, an associated company of the Bank, the equipment finance portfolio more than doubled during the period. The acquisition will further strengthen the market share of the Bank in the machinery leasing and financing market.

Securities Lending

In line with the recovery in the local stock market in 2004, BEA achieved its targets in this sector. Staggering loans for subscription of new shares at Initial Public Offer remains a key target for business in this sector. In the first half of 2004, BEA participated in three Receiving Bank projects. The Bank aims to participate in additional Receiving Bank projects in the second half of the year.

Bank of East Asia (Trustees) Limited

Mandatory Provident Fund (“MPF”)

BEA's MPF Master Trust Scheme and Industry Scheme recorded continuous growth in both membership and assets during the period. With a view to providing better customer-focused services, a large-scale customer satisfaction survey was conducted at the beginning of the year to collect opinions and recommendations from customers. In general, the survey results reflected a high level of customer satisfaction.

Trust Service

In addition to the provision of MPF services, Bank of East Asia (Trustees) Limited also offers a wide range of trustee services. In March 2004, BEA Global Bond Fund, a sub-fund of BEA Capital Growth Fund (which is also under the trusteeship of the Company) was launched to provide more diversified investment options for the MPF Schemes.

Corporate Cyberbanking

The first half of 2004 saw a healthy growth in the number of Corporate Cyberbanking accounts. By the end of June 2004, over 11,600 corporate customers had registered with BEA's Corporate Cyberbanking, representing a 73% rise as compared to the same period last year.

To encourage more customers to conduct transactions online, a series of promotional campaigns were carried out. These were targeted at specific services, including remittance, payroll and MPF.

Business Development

As part of the Bank's effort to provide value-added services to its customers and cement customer relationships, BEA organised a number of seminars with business partners. For example, in March this year, BEA jointly organised a seminar with Hong Kong Export Insurance Corporation and The Chinese Manufacturers' Association of Hong Kong to provide an update on the Closer Economic Partnership Arrangement ("CEPA") and the procedures to claim "zero-tariff" benefits under CEPA.

In June, BEA organised its annual forum, "BEA Forum 2004: Helping You Stay Ahead". The Forum brought together distinguished experts and business leaders to share their personal insights and real-life experience with BEA customers. The Forum was much appreciated by customers.

INVESTMENT BANKING AND SERVICES

East Asia Securities Company Limited - Cybertrading Service

For the first six months of the year, East Asia Securities maintained its excellent market position.

During the period, the company focused on raising service standards to meet the growing demands of clients and the market. These efforts generated very encouraging results, with a growth of 41% in the number of Cybertrading accounts compared to the corresponding period last year. As of 30th June, more than 42% of the company's securities clients had subscribed to the Internet Trading Service.

East Asia Securities has instituted various incentive schemes to encourage clients to execute trades via its electronic trading platform, generating strong positive response. Currently, the volume of transactions executed via the Cybertrading System, expressed as a percentage of total turnover, accounts for some 49% of trades and 32% of transaction value.

With a view to further enhancing the Cybertrading Service, in the third quarter of 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 as 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 second half of 2004.

Structured Investment Products

With a view to further expanding its wealth management services, in April 2004 the Bank began offering a new series of equity linked deposits, the "Basket Equity Linked Deposit". This new product has enjoyed overwhelming response from customers.

In addition to the linked deposits normally offered to customers, the Bank took advantage of the low interest rate environment in the first half of 2004 to launch several principal protected index linked deposits, namely the "Floating Booster Index Linked Deposit - Series I and II" and the "Target Redemption Index Linked Deposit". These were again well received by the Bank's customers, and have accordingly broadened the portfolio of structured investment products of the Bank.

In the first half of 2004, the linked deposit portfolio and related fee income have grown 1.35 times and 4.84 times, respectively, when compared with the corresponding period last year. Going forward into the second half of 2004, the Bank will structure more tailor-made basket

equity linked deposits and other linked deposits in order to enable customers to leverage the rising interest rate cycle.

CHINA DIVISION

In April 2004, BEA succeeded in obtaining preliminary approval from the China Banking Regulatory Commission to upgrade its Chengdu Representative Office to a full branch, further enhancing the Bank's premier position in the China market. Related preparatory work is in progress. It is expected that BEA Chengdu Branch will commence business by the end of 2004.

To cater for future business expansion, BEA Shenzhen Branch was relocated to a newly purchased branch premises in Futian District in June 2004. The former premises of Shenzhen Branch will be converted into Shenzhen Luohu Sub-branch, tentatively in the third quarter of 2004. Once this expansion is complete, the total number of BEA outlets on the Mainland will reach 18.

In the first half of 2004, BEA Shanghai, Dalian, Guangzhou, Shenzhen and Zhuhai branches were accredited to provide Renminbi banking services to locally-owned companies in China. All five branches can now offer Renminbi services to foreign individuals as well as all local and foreign-invested enterprises operating in China.

OVERSEAS OPERATIONS

BEA Group continues to implement its international business strategy, both expanding and enhancing the service quality of its overseas banking services. In the USA, a new Information Technology platform was launched for US operations in mid-June 2004. This unified banking application serves to provide a real time computer system in the USA to offer better operational efficiency, and to serve the growing customer base of overseas Chinese doing business in the USA.

Following the relocation of the headquarters of The Bank of East Asia (USA) NA from Alhambra, California to New York City in 2003, the West Coast Regional Headquarters was relocated to a new building in Alhambra, California in mid-July 2004.

The Bank of East Asia (Canada) launched its Cyberbanking Services in April 2004.

CORPORATE SERVICES

The BEA Group, through Group member Tricor Holdings Limited ("Tricor"), is a leading provider of business, corporate and investor services in Hong Kong. These services include Accounting, Company Formation, Corporate Compliance & Company Secretarial, Executive Search & Selection, Initial Public Offerings ("IPO") & Share Registration, Payroll and Trust Administration.

Tricor's performance during the first half of the year has shown improvement, mainly as a result of successful cost control measures and the synergies obtained from successful integration of the units that had been acquired from third parties over the past two years. The company's new businesses – Tricor Executive Resources Limited (the former Executive Search and Selection practice of PricewaterhouseCoopers, Hong Kong) and East Asia Corporate Services (BVI) Limited in the British Virgin Islands ("BVI"), both of which Tricor acquired in late 2003 – have also performed well. Tricor's investor services practice, which already services some 60% of all listed companies in Hong Kong, has benefited from the IPO activity in the capital markets during the first half of the year.

Tricor, which currently has offices in Beijing, the BVI, Hong Kong and Macau, will open a Shanghai office in the second half of the year in response to client demand.

HUMAN RESOURCES

The BEA Group employees at the end of June 2004:

| | |
|---------------------|--------------|
| Hong Kong | 4,160 |
| Other Greater China | 994 |
| Overseas | 391 |
| Total | 5,545 |

The human resources focus for first half of 2004 was on further enhancing the rewards policies of the Bank. After implementing a salary on freeze for the past two years, the Bank granted a salary increment to high performers in the 2004 salary review exercise. In addition, a new Senior Executive Bonus Plan was implemented with effect from January 2004.

With a view to improving the quality of training programmes, the Training and Development Department worked closely with user departments to identify needs, and design and assess relevant programmes. This has helped improve staff ability to promote and deliver bank services at a high standard. To promote greater team spirit, the Bank supported the Staff Sports Recreation Club in its efforts to organise more activities and participate in external sports tournaments.

STRATEGY AND FUTURE PROSPECTS

During the first half of 2004, the Bank maintained its strategic focus on growth, revitalising the branch network, creating cross-selling opportunities, and enhancing efficiency. The Bank continued to grow organically through providing quality financial services and solutions to customers. Although both the local and world economies began to recover during the period, the operating environment remained challenging due to the expectation that global interest rates would rise and the aura of uncertainty created by high oil prices. The Bank continues to develop and build up its retail financial product distribution ability in order to meet such market challenges.

The Bank strives to develop effective income sources to maintain and improve its competitive position, and has developed a number of innovative products to serve customer needs. The Bank will continue to actively develop its wealth management business, in particular the SupremeGold Service, which has received strong market acceptance. In addition, the Bank will further leverage its position in corporate services and share registration through Tricor, as well as in insurance through Blue Cross (Asia-Pacific) Insurance Limited. The Bank will also enhance cross-selling opportunities across the customers of the Bank, Tricor, Blue Cross and other subsidiaries.

The Bank will continue its efforts to further optimise operating efficiencies. The office centralisation project, which will consolidate Hong Kong back office operations at Millennium City 5 in Kwun Tong, has been progressing smoothly. The office tower is expected to be ready for occupation in the first quarter of 2005. The Bank will also continue to relocate appropriate back office operations to the Mainland. Furthermore, the operational systems of the Bank will be reviewed to gain further improvements in efficiency. These initiatives will improve the Bank's overall operating efficiency and further facilitate its business development and growth in the years ahead.

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, 2004.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Bank is not, or was not for any part of the six months ended 30th June, 2004 in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

By order of the Board

David LI Kwok-po

Chairman & Chief Executive

Hong Kong, 30th July, 2004.

As at the date of this announcement, 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 and Mr. Thomas KWOK Ping-kwong.