

# THE BANK OF EAST ASIA, LIMITED

(Incorporated in Hong Kong with limited liability in 1918)

## ANNOUNCEMENT OF 2001 FINAL RESULTS

### SUMMARY OF RESULTS

The Directors of The Bank of East Asia, Limited (the “Bank”) are pleased to announce the audited results <sup>1</sup> of the Group for the year ended 31<sup>st</sup> December, 2001. This financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2000 annual accounts except for the changes in accounting policies mentioned in note 2.

#### A. Consolidated Profit and Loss Account

	2001	2000		
	HK\$'000	Restated HK\$'000	Variance %	
Interest income	9,742,663	10,666,351	-	8.7
Interest expense	(5,765,245)	(6,971,021)	-	17.3
Net interest income	3,977,418	3,695,330	+	7.6
Non-interest income	1,234,567	1,274,531	-	3.1
Operating income	5,211,985	4,969,861	+	4.9
Operating expenses <sup>3</sup>	(2,860,768)	(2,098,752)	+	36.3
Operating profit before provisions	2,351,217	2,871,109	-	18.1
Charge for bad and doubtful debts	(432,385)	(680,614)	-	36.5
Operating profit after provisions	1,918,832	2,190,495	-	12.4
Net profit/(loss) on disposal of fixed assets	8,369	(5,167)	+	262.0
Net profit on disposal of held-to-maturity debt securities, investment securities and associates	21,445	16,071	+	33.4
Provisions on held-to-maturity debt securities, investment securities and associates	(45,049)	(72,530)	-	37.9
Share of profits less losses of associates	(12,741)	51,878	-	124.6
Profit for the year before taxation	1,890,856	2,180,747	-	13.3
Taxation <sup>4</sup>				
- Hong Kong	(3,769)	(111,020)	-	96.6
- Overseas	(45,659)	(54,499)	-	16.2
- Deferred	(221,444)	(116,665)	+	89.8
- Associates	(8,247)	(7,357)	+	12.1
Profit for the year after taxation	1,611,737	1,891,206	-	14.8
Minority interests	(11,931)	(4,128)	+	189.0
Profit attributable to shareholders	1,599,806	1,887,078	-	15.2
Profit for the Bank	1,580,062	1,484,891	+	6.4
Proposed final dividend per share	HK\$0.33	HK\$0.45	-	26.7
Per share				
- basic earnings <sup>5</sup>	HK\$1.12	HK\$1.34	-	16.4
- diluted earnings <sup>5</sup>	HK\$1.12	HK\$1.34	-	16.4
- cash earnings <sup>5</sup>	HK\$1.19	HK\$1.36	-	12.5
- dividend	HK\$0.54	HK\$0.65	-	16.9

## B. Consolidated Balance Sheet

	2001	2000	Variance	
	HK\$'000	Restated HK\$'000	%	
<b>ASSETS</b>				
Cash and short-term funds	43,760,587	46,040,764	-	5.0
Placements with banks and other financial institutions maturing between one and twelve months	11,045,510	11,969,489	-	7.7
Trade bills less provisions	578,962	563,321	+	2.8
Certificates of deposit held	2,419,445	2,127,126	+	13.7
Other investments in securities	4,150,218	2,790,091	+	48.7
Advances and other accounts less provisions	109,851,558	105,621,128	+	4.0
Held-to-maturity debt securities	2,433,861	2,802,104	-	13.1
Investment securities	201,346	205,795	-	2.2
Investments in associates	608,584	710,626	-	14.4
Goodwill	1,885,986	1,594,072	+	18.3
Fixed assets	4,828,876	4,743,734	+	1.8
<b>Total Assets</b>	<b>181,764,933</b>	<b>179,168,250</b>	+	1.4
<b>LIABILITIES</b>				
Deposits and balances of banks and other financial institutions	5,168,251	4,899,329	+	5.5
Deposits of customers	140,816,751	138,747,250	+	1.5
Certificates of deposit issued	8,585,600	8,544,198	+	0.5
Convertible bonds issued <sup>6</sup>	316,891	1,952,254	-	83.8
Tax and deferred taxation	430,290	332,880	+	29.3
Other accounts and provisions	3,909,434	4,604,220	-	15.1
<b>Total Liabilities</b>	<b>159,227,217</b>	<b>159,080,131</b>	+	0.1
<b>CAPITAL RESOURCES</b>				
Loan capital <sup>7</sup>	4,271,123	2,339,850	+	82.5
Minority interests	19,092	441,174	-	95.7
Share capital	3,583,711	3,536,945	+	1.3
Reserves	14,663,790	13,770,150	+	6.5
<b>Shareholders' Funds</b>	<b>18,247,501</b>	<b>17,307,095</b>	+	5.4
<b>Total Capital Resources</b>	<b>22,537,716</b>	<b>20,088,119</b>	+	12.2
<b>Total Capital Resources and Liabilities</b>	<b>181,764,933</b>	<b>179,168,250</b>	+	1.4

Notes:

- (1) The financial information set out in this report does not constitute the Group's statutory accounts for the year ended 31<sup>st</sup> December 2001 but is derived from those accounts.
- (2) Changes in Accounting Policies

In the current year, the Group made a number of changes in accounting policies and the result of which is summarised as follows.

Proposed dividends which were still subject to shareholders' approval were previously treated as post balance sheet adjusting events, thus being accrued as a liability in the Group's balance sheet at the balance sheet date for dividends declared by the Bank, and as income in the Bank's profit and loss account for dividends declared by subsidiaries. On adoption of SSAP 9 (revised) "Events after the balance sheet date", a proposed dividend is not so accrued until approval is obtained.

This change in accounting policy has been applied retrospectively. As a result, the proposed final dividend of HK\$637 million appearing in the Group's balance sheet as at 31<sup>st</sup> December 2000 was reclassified as an item in shareholders' funds and was recorded as a dividend paid for the year ended 31<sup>st</sup> December 2001. Prior period adjustments on the opening balances of retained earnings of the Bank and of the Group were made accordingly.

Goodwill arising on acquisition of subsidiaries was previously eliminated against general reserves. Subsequent to the adoption of SSAP 30 "Business combinations", any goodwill is capitalised and amortised on a straight line basis over its estimated useful life not exceeding 20 years. Any impairment loss identified will be recognised as an expense in the profit and loss account immediately.

The requirements of SSAP 30 have been applied retrospectively. Goodwill previously eliminated against general reserves is restated, resulting in an additional amortisation of goodwill of HK\$16 million and HK\$98 million for 2000 and 2001 respectively. The opening balances of retained earnings brought forward as at 1<sup>st</sup> January 2000 and 2001 are reduced by HK\$36 million and HK\$52 million respectively, representing amortisation of goodwill which would have been made if the goodwill previously eliminated against general reserves were instead capitalised on the date of acquisition and amortised on a straight line basis over its useful life.

In prior years, investments in associates were accounted for using the cost method. In the consolidated balance sheet, investments in associates were stated at cost less provisions, and in the consolidated profit and loss account, the results and reserves of associates were not incorporated except to the extent of dividends received. In light of the introduction of SSAP 31 "Impairment of assets" which sets out specific requirements for determining the recoverable amount of associates, the Board of Directors considers that it is fairer for the Group to adopt the equity method to account for the results of associates. The equity method has been applied retrospectively. As a result, the retained profits brought forward as at 1<sup>st</sup> January, 2000 increased by HK\$204 million, and HK\$2 million was credited to the retained profits for 2000 due to the exchange adjustment of the associates' retained profits. The profit attributable to shareholders for 2000 and 2001 also increased by HK\$32 million and HK\$5 million respectively due to the Group's share of associates' results for the year after dividends, the retained profits brought forward as at 1<sup>st</sup> January, 2001 increased by HK\$238 million.

- (3) Included depreciation on fixed assets amounting to HK\$205,896,000 (2000 – HK\$170,395,000), and amortisation of goodwill amounting to HK\$98,064,000 (2000 – HK\$15,789,000).
- (4) (a) The provision for Hong Kong profits tax is calculated at 16% (2000 – 16%) of the estimated assessable profits for the year. Taxation for branches and subsidiaries outside Hong Kong is similarly charged at the appropriate current rates of taxation ruling in the countries in which they operate.  
  
(b) There is no significant deferred taxation liability not provided for.
- (5) (a) The calculation of basic earnings per share is based on earnings of HK\$1,599,806,000 (2000 restated - HK\$1,887,078,000) and on the weighted average of 1,428,057,773 (2000 - 1,404,239,697) shares outstanding during the year.  
  
(b) The calculation of diluted earnings per share is based on earnings of HK\$1,599,806,000 (2000 restated - HK\$1,887,078,000) and on 1,431,632,696 (2000 - 1,409,280,781) ordinary shares, being 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 basic earnings per share adjusted for goodwill amortised for the year. This supplementary information is considered a useful additional indication of performance.

- (6) The 2 per cent Convertible Bonds amounting to HK\$1,634,863,000 (US\$209,665,000) were redeemed on 19<sup>th</sup> July, 2001 at the option of the bond holders. Interest expense for the year amounted to HK\$82,063,000 (2000 – HK\$159,197,000).
- (7) Loan capital of face value of HK\$4,288,625,000 (US\$550,000,000) and carrying amount of HK\$4,271,123,000 (US\$547,755,000) represents 7.5% subordinated notes qualifying as tier 2 capital which were issued on 30th January, 2001 by East Asia Financial Holding (BVI) Limited, a single purpose wholly owned finance subsidiary of the Bank. The Bank unconditionally and irrevocably guarantees all amounts payable under the notes which are listed on the Luxemburg Stock Exchange. The notes will mature on 1<sup>st</sup> February, 2011.

Loan capital outstanding at 31<sup>st</sup> December, 2000 represented floating rate subordinated notes qualifying as lower tier 2 capital issued by the Bank. These notes were redeemed on 13<sup>th</sup> February, 2001.

## C. Advances and Other Assets

### 1. Advances to Customers – by Industry Sectors

The information concerning advances to customers by industry sectors has been classified according to the usage of the loan and is stated gross of any provisions.

	2001 HK\$'000	2000 HK\$'000	Variance %
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property development	5,158,882	5,220,885	- 1.2
- Property investment	11,477,370	10,590,097	+ 8.4
- Financial concerns	1,819,351	2,679,540	- 32.1
- Stockbrokers	82,405	135,947	- 39.4
- Wholesale and retail trade	2,701,901	2,865,242	- 5.7
- Manufacturing	1,568,309	1,332,082	+ 17.7
- Transport and transport equipment	4,322,030	3,387,521	+ 27.6
- Others	7,350,675	7,564,898	- 2.8
- Sub-total	<u>34,480,923</u>	<u>33,776,212</u>	+ 2.1
Individuals			
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	2,596,815	2,647,378	- 1.9
- Loans for the purchase of other residential properties	42,169,173	41,120,118	+ 2.6
- Credit card advances	1,955,494	1,601,340	+ 22.1
- Others	3,760,291	3,742,416	+ 0.5
- Sub-total	<u>50,481,773</u>	<u>49,111,252</u>	+ 2.8
Total loans for use in Hong Kong	84,962,696	82,887,464	+ 2.5
Trade finance	3,067,857	3,110,720	- 1.4
Loans for use outside Hong Kong	<u>20,144,009</u>	<u>17,995,775</u>	+ 11.9
Total advances to customers	<u><u>108,174,562</u></u>	<u><u>103,993,959</u></u>	+ 4.0

2. 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.

	Total advances to customers		Non-performing loans		Advances overdue for over three months	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Hong Kong	92,212,501	90,016,930	2,326,930	2,459,904	2,375,517	2,931,325
People's Republic of China	3,491,205	3,188,183	591,638	855,006	692,299	894,893
Other Asian Countries	3,894,150	3,261,599	184,111	226,110	133,191	132,690
Others	8,576,706	7,527,247	217,353	204,188	14,601	156,797
Total	<u>108,174,562</u>	<u>103,993,959</u>	<u>3,320,032</u>	<u>3,745,208</u>	<u>3,215,608</u>	<u>4,115,705</u>

3. Advances and Other Accounts less Provisions

	2001 HK\$'000	2000 HK\$'000	Variance %	
Advances to customers	108,174,562	103,993,959	+	4.0
Advances to banks and other financial institutions	560,649	510,625	+	9.8
Accrued interest and other accounts	<u>3,037,584</u>	<u>3,058,343</u>	-	0.7
	111,772,795	107,562,927	+	3.9
Less: Provisions for bad and doubtful debts				
- Specific	601,150	671,226	-	10.4
- General	<u>1,320,087</u>	<u>1,270,573</u>	+	3.9
	<u>109,851,558</u>	<u>105,621,128</u>	+	4.0

#### 4. Cross-border Claims

The information of 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.

	2001			
	Bank and other financial institutions	Public entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other Asian countries	16,294,762	742,314	4,707,965	21,745,041
North America	5,172,573	127,487	3,078,734	8,378,794
Western Europe	27,980,835	10,206	285,992	28,277,033

  

	2000			
	Bank and other financial institutions	Public entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other Asian countries	20,139,117	742,392	3,868,548	24,750,057
North America	8,202,895	73,655	3,213,945	11,490,495
Western Europe	25,121,665	-	170,617	25,292,282

#### 5. Overdue and Rescheduled Assets

##### (a) Overdue and Rescheduled Advances

	2001		2000	
	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	590,368	0.6	887,241	0.9
- 1 year or less but over 6 months	558,080	0.5	840,726	0.8
- Over 1 year	2,067,160	1.9	2,387,738	2.3
	3,215,608	3.0	4,115,705	4.0
Rescheduled advances to customers	223,648	0.2	770,123	0.7
Total overdue and rescheduled advances	3,439,256	3.2	4,885,828	4.7
Secured overdue advances	2,543,835	2.4	2,953,053	2.9
Unsecured overdue advances	671,773	0.6	1,162,652	1.1

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 31<sup>st</sup> December, 2001 and 31<sup>st</sup> December, 2000, nor were there any rescheduled advances to banks and other financial institutions on these two days.

(b) Non-performing Loans

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

	<u>2001</u>	<u>2000</u>	<u>Variance</u>
	HK\$'000	HK\$'000	%
Gross advances to customers	3,320,032	3,745,208	- 11.4
As percentage of total advances to customers	3.07%	3.60%	
Specific provisions	490,414	550,197	- 10.9
Suspended interest	566,646	741,039	- 23.5

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 31<sup>st</sup> December, 2001 and 31<sup>st</sup> December, 2000, nor were there any specific provisions made for them on these two days.

(c) Reconciliation

	<u>2001</u>	<u>2000</u>
	HK\$'000	HK\$'000
Overdue advances (Note 1)	3,215,608	4,115,705
Rescheduled advances (Note 2)	<u>223,648</u>	<u>770,123</u>
Total overdue and rescheduled advances	3,439,256	4,885,828
Less: Overdue advances on which interest is still being accrued	(315,046)	(1,079,466)
Less: Rescheduled advances on which interest is still being accrued	(116,270)	(355,157)
Add: Non-performing loans which are not overdue or rescheduled	<u>312,092</u>	<u>294,003</u>
Total non-performing loans	<u><u>3,320,032</u></u>	<u><u>3,745,208</u></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 Assets

	<u>2001</u>			<u>2000</u>		
	Debt securities	Accrued Interest	Other assets*	Debt securities	Accrued Interest	Other assets*
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other assets overdue for						
- 6 months or less but over 3 months	-	3,641	2,476	27,298	28,126	189
- 1 year or less but over 6 months	-	3,861	1,159	54,507	7,914	431
- Over 1 year	<u>15,595</u>	<u>2,062</u>	<u>890</u>	<u>59,688</u>	<u>1,812</u>	<u>3,897</u>
	15,595	9,564	4,525	141,493	37,852	4,517
Rescheduled assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,381</u>
	<u><u>15,595</u></u>	<u><u>9,564</u></u>	<u><u>4,525</u></u>	<u><u>141,493</u></u>	<u><u>37,852</u></u>	<u><u>6,898</u></u>

\* Other assets refer to trade bills and receivables

**D. Off-balance Sheet Exposures**

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

	2001	2000	Variance	
	HK\$'000	HK\$'000	%	
Contractual amounts of contingent liabilities and commitments				
- Direct credit substitutes	3,717,540	2,250,206	+	65.2
- Transaction-related contingencies	460,168	260,214	+	76.8
- Trade-related contingencies	2,197,335	2,705,737	-	18.8
- Note issuance and revolving underwriting facilities	23,178	31,368	-	26.1
- Other commitments	31,861,150	27,576,787	+	15.5
- Others	-	1,993		
Total	38,259,371	32,826,305	+	16.6
- Aggregate credit risk weighted amount	7,789,246	5,194,552	+	50.0
Notional amounts of derivatives				
- Exchange rate contracts	20,670,582	22,496,789	-	8.1
- Interest rate contracts	6,432,526	1,845,645	+	248.5
- Equity contracts	38,730	-		
Total	27,141,838	24,342,434	+	11.5
- Aggregate credit risk weighted amount	144,416	155,731	-	7.3
- Aggregate replacement costs	190,405	358,712	-	46.9

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.

**E. 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.

	2001				2000		
	HK\$ Million				HK\$ Million		
	USD	CAD	Others	Total	USD	Others	Total
Spot assets	47,398	3,700	18,303	69,401	49,274	16,275	65,549
Spot liabilities	(49,546)	(3,944)	(19,792)	(73,282)	(48,191)	(20,223)	(68,414)
Forward purchases	13,777	318	4,041	18,136	13,571	6,336	19,907
Forward sales	(11,156)	(118)	(2,571)	(13,845)	(15,219)	(2,316)	(17,535)
Net long/ (short) position	473	(44)	(19)	410	(565)	72	(493)

	2001					2000				
	HK\$ Million					HK\$ Million				
	USD	CAD	SGD	Others	Total	USD	CAD	SGD	Others	Total
Net structural position	710	162	172	152	1,196	657	172	184	108	1,121



## F. Capital, Capital Adequacy and Liquidity Information

Prior year adjustments resulting from changes in accounting policies have been taken into account in calculation of Capital Adequacy Ratio and Capital Base as at 31<sup>st</sup> December 2000.

### 1. Capital adequacy ratio

	2001	2000
	<u>%</u>	<u>Restated</u> <u>%</u>
Unadjusted capital adequacy ratio	17.5	16.3
Adjusted capital adequacy ratio	17.4	16.2

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 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 as reported under capital adequacy return

	2001	2000	
	<u>HK\$'000</u>	<u>Restated</u> <u>HK\$'000</u>	<u>Variance</u> <u>%</u>
Core capital			
Paid up ordinary share capital	3,583,711	3,536,945	+ 1.3
Share premium	375,694	338,071	+ 11.1
Reserves	12,422,457	11,388,012	+ 9.1
Minority interests	19,092	441,174	- 95.7
Deduct: Goodwill	<u>(1,885,986)</u>	<u>(1,594,072)</u>	+ 18.3
Total core capital	<u>14,514,968</u>	<u>14,110,130</u>	+ 2.9
Eligible supplementary capital			
Reserves on revaluation of land and interests in land (at 70%)	963,083	969,824	- 0.7
General provisions for doubtful debts	1,330,094	1,277,672	+ 4.1
Term subordinated debt	<u>4,271,123</u>	<u>2,339,850</u>	+ 82.5
Total eligible supplementary capital	<u>6,564,300</u>	<u>4,587,346</u>	+ 43.1
Total capital base before deductions	21,079,268	18,697,476	+ 12.7
Deductions from total capital base	<u>(913,104)</u>	<u>(1,029,437)</u>	- 11.3
Total capital base after deductions	<u><u>20,166,164</u></u>	<u><u>17,668,039</u></u>	+ 14.1

### 3. Group reserves

	31/12/2001	31/12/2000	Variance	
	<u>HK\$'000</u>	<u>Restated HK\$'000</u>	<u>%</u>	
Share premium	375,694	338,071	+	11.1
General reserve <sup>a</sup>	11,418,601	10,693,195	+	6.8
Property revaluation reserve	1,375,832	1,385,463	-	0.7
Capital reserve	86,436	86,436	-	
Exchange revaluation reserve	(49,712)	(20,573)	+	141.6
Retained profits <sup>b</sup>	1,452,170	1,281,948	+	13.3
Statutory reserves	5,532	5,534	-	
Other revaluation reserves	(763)	76	-	1103.9
	<u>                    </u>	<u>                    </u>		
Total	<u>14,663,790</u>	<u>13,770,150</u>	+	6.5
Proposed dividends, not provided for	<u>473,050</u>	<u>636,650</u>	-	25.7

#### a. General reserve

As previously reported	9,041,002
Restatement of goodwill	1,645,623

Restatement due to adoption of equity accounting  
for investments in associates

6,570

As restated

10,693,195

#### b. Profits and loss account

As previously reported	458,973
Proposed final dividend restated	636,650
Amortisation of restated goodwill	(51,551)

Restatement due to adoption of equity accounting  
for investments in associates

237,876

As restated

1,281,948

### 4. Liquidity ratio

	2001	2000
	<u>%</u>	<u>%</u>
Average liquidity ratio for the year	46.6	48.4

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 Banking Ordinance.

## CHAIRMAN'S STATEMENT

I am pleased to inform shareholders that Tan Sri Dr. Khoo Kay-peng, Mr. Thomas Kwok Ping-kwong and Mr. Richard Li Tzar-kai, were appointed Non-executive Directors of the Bank in October 2001. Dr. Khoo is Chairman & Group Chief Executive of MUI Group of Companies, Mr. Thomas Kwok is Vice Chairman & Managing Director of Sun Hung Kai Properties Limited and Mr. Richard Li is Chairman & Chief Executive of Pacific Century CyberWorks Limited. I am confident that the valuable contribution of these gentlemen will lead to the further success of The Bank of East Asia.

In 2001, The Bank of East Asia Group achieved profit attributable to shareholders of HK\$1,600 million, which represents a decrease of HK\$287 million, or 15.2%, over the 2000 figure of HK\$1,887 million. Basic earnings per share were HK\$1.12. Return on average assets and return on average equity were 0.9% and 9.7% respectively.

As at 31st December, 2001, total consolidated assets were HK\$181,765 million, of which 59.5%, or HK\$108,175 million, were advances to customers. Customer deposits were HK\$140,817 million, while debt instruments issued stood at HK\$8,902 million. The loan to deposit ratio was 72.3%, compared with 69.7% at the end of last year. Total capital resources increased by 12.2% to HK\$22,538 million.

At the Annual General Meeting to be held on Tuesday, 26th March, 2002, the Directors will propose a final dividend of HK\$0.33 per share which, together with the interim dividend of HK\$0.21 per share paid in September 2001, will constitute a total dividend of HK\$0.54 per share for the full year. This represents a decrease of 16.9% over the total dividend of HK\$0.65 per share for the year 2000 (*Note*).

The year 2001 was a difficult one for the Hong Kong banking industry. Margins were squeezed owing to sluggish loan demand and strong competition, and the 11<sup>th</sup> September terrorist attacks aggravated an already difficult trading environment. The operating outlook for 2002 remains weak, and most businesses have adopted a cautious attitude. Credit growth will continue sluggish, maintaining the current pressure on pricing. In order to gain competitive advantage, banks will step up the pace of innovation and introduction of new products. Further consolidation within the industry is possible, as banks look to achieve greater economies of scale.

In the face of these external challenges, our Bank is strengthening its position as one of the most respected financial institutions in Hong Kong. The Bank's achievements continue to garner international attention. Among other distinctions, during 2001 the Bank was named **Best Retail Bank** in the Omega Outstanding Technology and Financial Enterprise Awards, and was awarded **Best Retail Bank** in the Asian Banker Excellence in Retail Financial Service Award 2001.

As a leading bank in Hong Kong serving the Hong Kong, the Mainland of China and Overseas Chinese communities, we continue to build for the future and strengthen our franchise in Hong Kong, the Mainland and international markets through strategic acquisitions and organic growth. In March 2001, the Bank completed the previously announced acquisition of FPB Bank Holding Company Limited, the holding company of First Pacific Bank. In August 2001, United Chinese Bank Limited was formally merged with the Bank, after having operated as a subsidiary for the preceding six years. Also in August 2001, the Bank acquired Grand National Bank in the US. Legal merger with First Pacific Bank will take effect from 1<sup>st</sup> April, 2002. The work of integrating United Chinese Bank and First Pacific Bank with the Bank is progressing well, achieving the expected synergies and building value for shareholders.

Based on our well-developed, rational branch network and well-respected reputation, we will continue to develop our domestic retail banking business and build our consumer franchise. To this end, we have launched the Corporate Identity and Branch Transformation projects. These initiatives will have a significant impact during 2002, enhancing the Bank's brand image and improving the sales performance of our branches. The Bank also will seek to broaden the scope of products and services offered, in order to diversify sources of income. As part of this exercise, the Bank will develop new non-collateral based banking products and services, as well as new businesses to assist e-commerce.

With the gradual relaxation of restrictions imposed on foreign banks following China's accession to the World Trade Organization, we will take advantage of our long-standing and leading position in China to capture potential business opportunities. In addition, we will explore opportunities to form strategic partnerships with local financial institutions in China.

We will continue to pursue growth through expansion of our core business. Furthermore, we will seek growth through strategic acquisitions where we identify business opportunities that allow us to successfully leverage our brand services and operations.

**David LI Kwok-po**  
*Chairman and Chief Executive*

Hong Kong  
5<sup>th</sup> February, 2002

*Note: Shareholders whose names are on the Register of Members at the close of business on Tuesday, 5<sup>th</sup> March, 2002 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 forthcoming 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 Tuesday, 26<sup>th</sup> March, 2002. Details of the scrip dividend and the election form will be sent to shareholders on or about Tuesday, 5<sup>th</sup> March, 2002.*

## **EXECUTIVE DIRECTORS' REPORT**

### **Financial Review**

#### **Financial Performance**

The trading environment remained difficult during 2001. The slowdown in the US economy, compounded by the effects of the events of 11<sup>th</sup> September, seriously affected the Hong Kong banking industry's asset quality and profit growth. Against this difficult environment, The Bank of East Asia Group recorded a 15.2% decrease in profit attributable to shareholders, from HK\$1,887 million in 2000 to HK\$1,600 million.

Although the Bank acquired 75% of First Pacific Bank on 22nd December, 2000, its results for the period from 22nd to 31st December, 2000 were not included in the consolidated profit and loss account for the year 2000, as they were considered by the Directors to be immaterial to the Group. First Pacific Bank's net profits for 2001, however, were consolidated into year 2001's accounts.

During the year, the Bank made a number of changes in accounting policies. The material changes include, among others, accruing proposed dividends when approval is obtained, capitalising and amortising on a straight-line basis the goodwill arising on acquisition of subsidiaries, and the adoption of equity accounting for investments in associates. Prior period adjustments have been made in respect of these accounting policy changes.

Following the series of interest rates adjustments in the US, Hong Kong interest rates fell to exceptionally low levels. The Hong Kong mortgage market, however, did not exhibit much recovery, due primarily to the weak market sentiment. Fierce competition exerted severe pressure on the net interest spread, but this was partially offset by the Bank's prudent control of funding costs. Due largely to the increase in loan business and other interest earning assets and the consolidation of First Pacific Bank, net interest income grew 7.6% from HK\$3,695 million to HK\$3,977 million. Net interest margins decreased to 2.32%.

Non-interest income dropped slightly by 3.1% to HK\$1,235 million in 2001. Excluding the non-recurrent surplus in the retirement fund recognised in 2000, growth of 8.4% would be recorded. Such growth is mainly due to expansion of business volume, and consolidation of subsidiaries acquired in the later part of 2000. Operating income grew 4.9% to HK\$5,212 million from HK\$4,970 million in 2000. The proportion of non-interest income to operating income decreased from 25.6% in 2000 to 23.7% in 2001.

Operating expenses increased 36.3% to HK\$2,861 million, primarily due to consolidation of subsidiaries acquired and the incurrence of non-recurrent consultancy fees in connection with merger of United Chinese Bank and First Pacific Bank with The Bank of East Asia Group. As a result, the cost-to-income ratio rose from 42.2% in 2000 to 54.9% in 2001. However, it is expected that gains will be realised in future years, following this one-off expense.

Operating profit before provisions recorded negative growth of 18.1% from HK\$2,871 million to HK\$2,351 million. As a result of the improvement in the overall asset quality in the Hong Kong banking industry in the first three quarters of 2001, despite the asset quality problems arising in the last quarter, the Bank's charge for bad and doubtful debts for the year 2001 decreased by 36.5% to HK\$432 million. Non-performing loans dropped from 3.6% of total loans at the end of 2000 to 3.1% at December 2001. Operating profit after provisions decreased by 12.4% to HK\$1,919 million.

Starting from 2001, the Bank adopted the equity accounting method to account for the financial performance of investments in associates. As a result, share of profits less losses of associates decreased 124.6% from a profit of HK\$52 million in 2000 to a loss of HK\$13 million. Minority interests in non-wholly owned subsidiaries stood at HK\$12 million, representing an increase of 189% over that for 2000. Net profit attributable to shareholders was HK\$1,600 million, a 15.2% decrease over the previous year's HK\$1,887 million.

Financial Position

The total assets of The Bank of East Asia Group were HK\$181,765 million at the end of 2001, 1.4% up from HK\$179,168 million the previous year. The Bank also achieved an increase of 4.0% in advances to customers, which totalled HK\$108,175 million at the end of the year.

In 2001, total deposits increased by 0.3% to HK\$150 billion, with customer deposits growing by 1.5%.

During the year, the Bank issued certificates of deposit totalling US\$650 million and HK\$1,000 million respectively. Certificates of deposit amounting to US\$497 million and HK\$2,150 million were redeemed upon maturity.

In January 2001, the Bank issued US\$550 million in subordinated notes, and redeemed subordinated floating rate notes amounting to US\$300 million in February 2001.

In July 2001, convertible bonds totalling US\$210 million were redeemed at the option of the bondholders.

At the end of 2001, the face value of the outstanding debt portfolio was HK\$8,902 million, including floating rate certificates of deposit with a value of US\$13 million issued by the Bank's subsidiary, First Pacific Bank.

After taking into account all debt instruments issued, the ratio of loans to deposits was 72.3%, being 2.6% higher than the 69.7% reported at the end of 2000.

**Maturity Profile of Debt Issued**

*(All expressed in millions of dollars)*

	<u>Currency</u>	<u>Total Face Value</u>	<u>Year of Maturity</u>		
			<u>2002</u>	<u>2003</u>	<u>2004</u>
<b>Issued by Bank of East Asia</b>					
<b>Floating Rate</b>					
<b>Certificates of Deposit</b>					
issued in 1999	USD	297	297		
issued in 2001	USD	650	650		
issued in 2001	HKD	1,000		1,000	
<b>Total</b>	<b>HKD</b>	<b>1,000</b>		<b>1,000</b>	
<b>Total</b>	<b>USD</b>	<b>947</b>	<b>947</b>		
<b>Fixed Rate</b>					
<b>Certificates of Deposit</b>					
issued in 1999	HKD	100			100
<b>Convertible Bonds</b>					
issued in 1996	USD	41		41	
<b>Issued by First Pacific Bank</b>					
<b>Floating Rate</b>					
<b>Certificates of Deposit</b>					
issued in 1997	USD	5	5		
issued in 2000	USD	8	8		
<b>Total</b>	<b>USD</b>	<b>13</b>	<b>13</b>		
<b>Total Debts issued in HKD equivalent</b>					
		<b>8,902</b>	<b>7,485</b>	<b>1,317</b>	<b>100</b>

## Risk Management

The Bank of East Asia has established comprehensive risk management procedures that enable the Bank to identify, measure, monitor and control the various types of risk that the Bank faces and, where appropriate, to allocate capital against those risks. 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 the Bank.

## Operations Review

### *RECOGNITION*

*The Banker* ranked The Bank of East Asia as the **Number 1 bank** (in terms of capital) in Hong Kong and **Number 181** (in terms of capital) on a worldwide basis in 2001, up from Number 190 the previous year. In April, the Bank was recognised as one of **Hong Kong's Best Managed Companies** by *FinanceAsia* magazine.

The Bank's achievements continue to garner international attention. In 2001, the Bank was awarded the **2000 JP Morgan / FIA Best Asian Corporate Website Award**. In addition, the Bank was named **Best Retail Bank** in the Omega Outstanding Technology and Financial Enterprise Awards, and was awarded **Best Retail Bank** in the Asian Banker Excellence in Retail Financial Service Award 2001.

### *INTEGRATION AND MERGER EXERCISE*

Following compulsory acquisition of all outstanding shares in FPB Bank Holding Company Limited in March 2001, the company became a wholly-owned subsidiary of the Bank and was delisted from the Stock Exchange of Hong Kong.

In August, the Bank successfully completed the legal merger with United Chinese Bank. Progress during 2001 on the merger of First Pacific Bank into the Bank has been smooth, and customer response has been positive. Integration of the computer and operations systems of the Bank and First Pacific Bank will take place toward the end of March this year, and the date of the legal merger of the two banks has been set for 1st April, 2002.

### *ORGANIZATION RESTRUCTURING*

#### Branch Transformation Project

In January 2001, the Bank engaged A.T. Kearney to serve as management consultant for the Branch Transformation Project. This project aims to free the hidden value of the Bank's branch network, by making sales promotion the primary focus of the network. The following have been achieved to date.

- Approved a complementary set of model branches, each matched to a target environment and designed to achieve clearly defined goals;
- Devised a new branch sales incentive system;
- Developed a new branch performance management system;
- Conducted a review of the efficiency of the branch network;
- Established methodologies for reengineering branch processes to release resources for selling;
- Devised a rollout plan for implementing the initiative.

The Bank is now in the process of executing the plan, with the aim of completing the project by October 2002.

#### Relocating Back Office Functions to the Mainland

The Bank is taking steps to relocate selected back office functions to the Mainland before the end of 2002. It is also anticipated that an operations centre will be set up on the Mainland during the year.

#### Corporate Identity

During 2000, the Bank conducted an internal review of its branding position. It was found that awareness among the Bank's customers of the Bank's corporate image and identity could be further strengthened.



Landor Associates was appointed to rebuild the Bank's corporate and retail brands. The overall programme covered analysis and brand strategy development, corporate identity development and retail identity development. To create a distinctive image for the Bank, an evolutionary approach was employed, bringing together elements of the past with a vision for the future.

The basic elements of the new corporate identity include a new logotype and the communicative name "BEA". The signatories have been overhauled to make the identity unique and contemporary in outlook.

The new retail identity, which will be applied across the entire branch network, ties in with the Bank's core values and projects a modern, dynamic, innovative and user-friendly image to customers – one that will truly differentiate the Bank from its competitors. The new outlook complements the effort to transform the branches from transaction-focused to sales-oriented outlets. A key component of the transformation exercise has been to enhance the appeal of the branch network to customers, both new and old.

## *PERSONAL BANKING*

### Branch Distribution

The Bank continually reviews operations, with the aim of optimising the efficiency of the local branch distribution network.

In January 2001, a new branch was opened at Hong Kong Baptist University, while, in March, a branch was opened at Metro City Plaza to provide convenient and comprehensive banking services to the new-town community of Tseung Kwan O. In mid May, the China Resources Building Branch was relocated from ground level to a more prominent site at podium level, and renamed Harbour Road Branch.

In November, seven branches that duplicated services offered by larger branches nearby were closed and merged with the larger branches.

The Bank's Branch Rationalization Project is on-going. The Bank will continually review branch locations and explore new business opportunities, so as to enhance the efficiency of the branch network. During 2002, the Bank will aggressively pursue its strategy of opening new branches at strategic locations, while closing those with low potential.

### East Asia Cyberbanking

In the first quarter of 2001, the Bank launched *MyCyberWorld*, an innovative solution for total financial management over the Internet. *MyCyberWorld* offers customers complete access to their investment and finance portfolios, through *MyAccount*, *MyStock*, *MyBill*, *MyProperties*, *MyLoans*, and *MyCreditCards*.

During 2001, the Bank consolidated its reputation for innovation in online banking by becoming the first bank in Asia to launch Personal Digital Assistant Transactional Banking for Pocket PC users and the first Bank in Hong Kong to launch an Electronic Bill Presentment Service.

### Customer Relationship Management System

During 2001, the Bank implemented a Customer Relationship Management ("CRM") system, to assist in analysis of customer preferences and behaviour. Such knowledge will generate significant business value to the Bank by facilitating marketing campaigns that are more targeted and event-driven.

### Property Loans

Despite 11 cuts in the prime lending rate, the overall property market in 2001 remained quiet due to weak consumer sentiment. To counter the limited loan demand and keen competition, the Bank introduced new mortgage products and services during the year. The Bank reached a number of agreements with property developers to offer fixed rate mortgages for new development projects. These have proven an attractive new addition to the product group, as the market generally believes that interest rates have neared the bottom of the rate cycle. Furthermore, following the Hong Kong Monetary Authority's relaxation of the loan cap on mortgages in 'negative equity', the Bank launched a special scheme with a view to capturing new business from credit-worthy customers.

## Consumer Loans

In the face of vigorous competition in the consumer loan market, the Bank launched a series of promotional programmes to boost its consumer loan business. The initiative allowed the Bank to achieve double-digit growth in this business, despite the overall flat performance of the consumer loan market in Hong Kong during 2001.

## Credit Cards

The Bank's credit card business recorded notable expansion in 2001. The Bank launched a comprehensive marketing programme to promote its card products, and achieved an overwhelming response. Growth rates, in terms of number of cards, cardholder sales volume and card receivables, well exceeded the market average.

During 2001, the Bank introduced six new co-branded card programmes to tap niche markets with high business potential. These included *PCI Credit Card*, *PCCW-No. 1 Club VISA Card*, *CASH VISA Card* and *SPACE Credit Card*. First Pacific Bank rolled out *UNiSOFT VISA Card* and *Dragon Centre MasterCard*.

Responding to the challenge of bad debt control within the industry, the Bank has instituted a proactive portfolio management and credit management policy. Following integration with First Pacific Bank by the end of the first quarter of 2002, the Bank's credit card business will benefit from greater economies of scale. The marketing success achieved during 2001 will be built upon during 2002, in order to further enhance the value of the Bank's card business. Furthermore, the new CRM system will assist in analysing consumer spending behaviour and provide the basis for future marketing campaigns.

## *CORPORATE BANKING*

### Corporate Lending and Syndication

Given that the sluggish domestic economy has depressed investment sentiment and hence demand for loans to finance new projects, the corporate lending market in 2001 was mainly driven by refinancing activities undertaken by prominent corporations seeking to refinance existing loan facilities at a lower interest spread. Several major syndicated deals received overwhelming response.

To enhance the Bank's position as one of the key lenders in the community and to further enhance asset quality, the Bank has adopted a more proactive role in arranging and underwriting syndicated deals. The Bank has also fostered closer relationships with large local and international corporations by offering structured facilities on a bilateral basis.

Whilst the asset size of corporate and syndicated loans, compared with that as of 31<sup>st</sup> December, 2000, recorded some growth, the size of participation in each new syndicated loan increased substantially, enabling the Bank to further lower the average administration cost for maintaining the loan portfolio.

Following assumption of the role of Co-ordinating Arranger for a number of prominent syndicated deals in 2001, the Bank will continue to engage in high quality and return-justified deals and will maintain its active presence in the lending market to generate new business opportunities.

### Commercial Lending

Taking into consideration the adverse impact of the global recession and, in particular, the events of 11<sup>th</sup> September on the manufacturing and export sectors, the performance of the Commercial Lending Department has been satisfactory.

With China's entry to the World Trade Organization ("WTO"), Hong Kong will benefit from increased trade flows between China and overseas markets.

Given the market environment, an aggressive plan has been formulated to promote trade finance services proactively. This initiative aims at promoting higher utilization of previously granted facilities by existing customers, and developing new customer relationships.

## Community Lending

The Community Lending Department was established in September 2001 to bring together the Bank's expertise in lending to Small and Medium Enterprises ("SMEs"). The department provides comprehensive financial services to SMEs, including overdrafts, short-term loans and instalment loans.

The Department has initiated a marketing effort directed at SMEs, bolstered by close cooperation with the Trade and Industry Department and the Trade Development Council. Participation in the SME Business Installations and Equipment Loan Guarantee Scheme, sponsored by the HKSAR Government, has also been an effective means to bring new business to the Bank.

## Securities Lending

Affected by the sluggish local stock market in 2001, the business of the Department was fair. Performance during 2002 will continue to be influenced by the movement of the stock market. Anticipating that the market will be less volatile during 2002, the Bank intends to take a more proactive marketing stance to increase market share in this line of business.

To fully take advantage of the opportunities, additional resources are being deployed to strengthen the marketing force.

## Bank of East Asia (Trustees) Limited

### Mandatory Provident Fund

With more than 20 years' experience in retirement scheme management, Bank of East Asia (Trustees) Limited is an approved trustee under the Mandatory Provident Fund Schemes Ordinance for both the Master Trust Scheme and the Industry Scheme. By providing professional one-stop MPF services, covering trustee, scheme administration, investment management and custody services, the Bank has successfully expanded its MPF business in 2001. Growth in membership in the Industry Scheme has been particularly strong.

### Trust Service

In addition to being an approved trustee under the MPF Schemes Ordinance, Bank of East Asia (Trustees) Limited also offers a wide range of trustee services. These include acting as executor or trustee of wills, and trustee of family trusts, investment funds, unit trusts, charities and public funds, etc. In 2001, the Company was appointed Custodian for the maintenance funds of a number of housing estates under the Tenants Purchase Scheme. For 2002, the Company will continue to increase its market share in the trust business.

## East Asia Corporate Cyberbanking

In August 2001, the Bank launched Corporate Cyberbanking, equipped with sophisticated security features to ensure complete control over account access. The service improves management's ability to manage company cash flow. Now that the Bank's corporate Internet banking platform is in place, the focus for the coming year will be on offering a complete set of B2B payment and settlement tools for e-commerce.

## Business Development

In 2001, the Business Development Department assumed a significantly higher profile. The results of its stepped-up marketing effort include:

- Sponsored the SME Finance Net Programme, organized by the Hong Kong Productivity Council. Under this sponsorship, two seminars were conducted to promote Bank services, under the topics: *Financing Your Business in China* and *International Trade Finance Services*.
- Signed a memorandum of understanding with the Hong Kong Trade Development Council to launch the SME Finance Support Programme.

- Promoted corporate electronic banking services, including *Corporate Cyberbanking Service*, *Payment Gateway Services*, *CyberPayment Service*, *Magnetic Autopay Service* and *East Asia Interlink Service*.
- Established a collaboration with TradeCard, Inc in April 2001 to provide secure and efficient online access to trade finance services.
- Introduced a privileged retail banking services package for the employees of corporate clients, named East Asia Relationship Employee Benefits Scheme.

In 2002, the Bank will continue to co-operate with Government bodies and trade associations / unions. Following China's successful accession to WTO, the Bank will closely monitor the market situation and design more sophisticated banking products to assist local SMEs to expand their business in Hong Kong and the Mainland.

## *INVESTMENT BANKING*

### East Asia Securities Company Limited - Cybertrading Service

The growth in Cybertrading accounts throughout 2001 has been very encouraging, recording an increase of 80% over last year. On average, two out of five new accounts opened have subscribed to the Internet trading service. Currently, more than 30% of securities clients have subscribed to Internet trading.

In April, 2001, East Asia Securities Company Limited successfully launched an enhanced Interactive Voice Recognition Phone Trading System ("IVRS"). IVRS is a fully automated online electronic trading channel, complementing the Bank's existing electronic dealing channels such as the Internet and mobile phones.

East Asia Securities Company Limited has implemented various incentive schemes, including a significantly lower commission rate and minimum commission rate per trade, to encourage clients to execute trades via its user-friendly electronic trading platform. The schemes have generated strong response from clients and delivered satisfactory results. Currently, the volume of transactions executed via the Cybertrading System, expressed as a percentage of total turnover, accounts for some 50% of trading volume and 37% of transaction turnover.

As part of a continuing effort to upgrade the Cybertrading Service, East Asia Securities Company Limited has plans to implement online trading via Personal Digital Assistants in the second quarter of 2002.

## *BANCASSURANCE*

The Bank's bancassurance products were extended to all branches of First Pacific Bank following acquisition of First Pacific Bank by the Bank.

The Bancassurance Valuable Saving Insurance Plan was introduced in June 2001, a life insurance product that has attracted overwhelming feedback from the market.

The East Asia Bancassurance Service Centre was opened in Causeway Bay in October 2001, offering 365-day-a-year insurance service to the public.

### Blue Cross Insurance

Blue Cross recorded a 15.2% rise in general insurance premiums written in 2001, compared with the previous year. New product growth has been spectacular. Blue Cross entered the life insurance business in 2000. In 2001, it grew its base by 963% in terms of annualised premiums.

An innovative online tool has been provided to all Blue Cross distributors to enhance operating efficiency. Distributors may now access Blue Cross product details and application forms via the Internet, and have policies issued online.

## *CORPORATE SERVICES*

### Company Secretarial, Share Registration and Business Services

To consolidate the Bank Group's position as the pre-eminent provider in Hong Kong of company secretarial, share registration and business services, Secretaries Limited, the Group's subsidiary, acquired from PricewaterhouseCoopers 100% share interest in Abacus Share Registrars Limited, a major provider of share registration service, in June 2001. Additionally, effective from 15<sup>th</sup> January, 2002, Tricor Holdings Limited, a joint venture of the Bank (71.31%), New World Group (23%) and Deloitte Touche Tohmatsu (5.69%), acquired from Ernst & Young 100% shareholding in Tengis Limited. Tengis Limited has enjoyed an excellent reputation as a major provider of corporate services in Hong Kong for almost 30 years.

Secretaries Limited, a major professional corporate services provider acquired by the Group from Deloitte Touche Tohmatsu in September 2000, Abacus Share Registrars Limited and Tengis Limited undoubtedly enhance our Group's position as Hong Kong's foremost provider of professional corporate services. These acquisitions have therefore been important elements of Bank of East Asia's commitment to providing a full range of financial, investment and related services to both businesses and individuals.

### Offshore Corporate and Trust Services

The Group offers a full range of offshore corporate and trust services through its wholly-owned subsidiary, East Asia Corporate Services (BVI) Limited and its associate, East Asia International Trustees Limited, both of which are located in the British Virgin Islands. These companies have engaged legally qualified and experienced staff in the BVI who, assisted by Group staff in Hong Kong, offer convenient, immediate and efficient services to corporate and individual clients.

## *CHINA OPERATIONS*

China joined the WTO in December 2001, opening a new page for the Bank. Once the relevant rules and regulations are in place, the Bank's China branches will be able to conduct foreign-currency business with local enterprises and residents throughout China. Moreover, according to the timeline set out in China's WTO accord, the Bank will be able to expand its RMB business with local enterprises and residents in China in the coming years.

At present, RMB services are offered through the Shanghai and Shenzhen branches. The two branches witnessed rapid growth in this business in 2001.

The Bank opened new branches in Macau and Xi'an in March and August, 2001, respectively. It is anticipated that the Beijing Representative Office will be upgraded to a full branch in 2002.

The Taipei Branch operated satisfactorily during 2001. The Bank expects to establish a new branch in Kaohsiung in 2002.

A number of initiatives are being pursued to take advantage of opportunities in China:

- Planning to list the Bank's shares on China's stock exchanges, preferably by way of Chinese Depositary Receipts, pending the formal announcement of relevant rules and regulations by the relevant government authorities in China.
- Exploring opportunities for forging strategic alliances with local banks in China.
- Preparing to launch Internet banking in China, subject to approval from the People's Bank of China. A China Cyberbanking service would create a virtual branch network throughout the country, broadening business horizons.

## *OVERSEAS OPERATIONS*

### Events of 11<sup>th</sup> September

The 11<sup>th</sup> September terrorist attack on the World Trade Centre in New York has had no major impact on the operations of the Bank's branches in the US, apart from the forced closure of the New York Chinatown Branch for two days for security reasons. No staff members were harmed, nor did the bank

building on 202 Canal Street suffer any damage.

All New York branches were fully operational by 14<sup>th</sup> September, 2001. Despite the difficult situation, the New York Chinatown Branch launched Sunday banking services as scheduled on 4<sup>th</sup> November, 2001.

Acquisition of Grand National Bank, California

The acquisition of 100% interest in Grand National Bank in California was successfully consummated on 14<sup>th</sup> August, 2001. Grand National Bank, which focuses on the Asian community, is a full service commercial bank specialising in import and export trade financing to individuals and SMEs. This acquisition will strengthen the Bank's competitive advantage in the US by offering a comprehensive range of retail and wholesale banking services to individual and corporate customers.

*HUMAN RESOURCES*

Human Resources Division actively participated in the Integration Project, with the objective of better positioning the Bank's staff grading system, compensation and benefits against the market. To assist staff in responding to the fast-moving business environment, the Division continuously reviews and customizes its training programmes, keeping employees abreast of the Bank Group's financial services and business strategies. Among the latest initiatives are the introduction of e-Learning and Continuing Professional Training Programmes. These measures are part of the Bank Group's continuing efforts to enhance productivity.

Following a review that took into account changes in the Bank's organizational structure and market focus, the employment contracts of 200 local employees were terminated in mid-January 2002.

Bank of East Asia Group employees as at the end of January 2002:

Hong Kong	3,886 persons
Other Greater China	666 persons
<u>Overseas</u>	<u>368 persons</u>
Total	4,920 persons

**DEALING IN LISTED SECURITIES OF THE BANK**

During the year, Convertible Bonds due 2003 totalling US\$209,665,000, listed on the Luxembourg Stock Exchange, were redeemed at the option of the bondholders. Save for this redemption by the bondholders, 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 31<sup>st</sup> December, 2001.

**CHAN Kay-cheung**  
*Executive Director*

**Joseph PANG Yuk-wing**  
*Executive Director*

**David LI Kwok-po**  
*Chairman & Chief Executive*

Hong Kong  
5<sup>th</sup> February, 2002

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