



THE BANK OF EAST ASIA, LIMITED

(Incorporated in Hong Kong with limited liability in 1918)

ANNOUNCEMENT OF 2003 INTERIM RESULTS

INTERIM RESULTS

The Directors of The Bank of East Asia, Limited ("BEA") are pleased to announce the unaudited results¹ of the Group for the six months ended 30th June, 2003. 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 2002 annual accounts except for the accounting policy change made thereafter in adopting a revised Statement of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants².

A. Consolidated Profit and Loss Account

	6 months ended 30/6/2003	6 months ended 30/6/2002 Restated	6 months ended 31/12/2002 Restated
	HK\$'000	HK\$'000	HK\$'000
Interest income	2,946,979	3,189,693	3,189,860
Interest expense	(1,169,966)	(1,370,885)	(1,356,392)
Net interest income	1,777,013	1,818,808	1,833,468
Non-interest income	950,745	823,445	758,843
Operating income	2,727,758	2,642,253	2,592,311
Operating expenses	(1,326,311)	(1,374,082)	(1,346,779)
Operating profit before provisions	1,401,447	1,268,171	1,245,532
Charge for bad and doubtful debts	(291,211)	(321,224)	(489,715)
Operating profit after provisions	1,110,236	946,947	755,817
Net (loss)/profit on disposal of fixed assets	(6,287)	3,097	(34,264)
Revaluation deficit on investment properties	(19,515)	-	(92,257)
Impairment loss on bank premises	(80,041)	-	-
Net profit/(loss) on disposal of held-to-maturity debt securities, investment securities and associates	-	1,482	(1,026)
Written back/(Provision) on held-to-maturity debt securities, investment securities and associates	2,098	(2,592)	(36,989)
Share of profits less losses of associates	22,695	7,525	25,131
Profit for the period before taxation	1,029,186	956,459	616,412
Taxation ³			
- Hong Kong	(165,722)	(137,408)	77,009
- Overseas	(18,532)	(19,308)	(28,594)
- Deferred	(40,571)	(29,387)	(129,966)
- Associates	(167)	2,141	(11,501)
Profit for the period after taxation	804,194	772,497	523,360
Minority interests	(11,692)	(18,566)	(7,505)
Profit attributable to shareholders	792,502	753,931	515,855
Profit for the Bank	772,964	649,604	358,370
Proposed dividends	333,930	302,343	506,221
Per share			
- basic earnings ⁴	HK\$0.55	HK\$0.52	HK\$0.36
- diluted earnings ⁴	HK\$0.55	HK\$0.52	HK\$0.36
- cash earnings ⁴	HK\$0.59	HK\$0.57	HK\$0.41
- dividend	HK\$0.23	HK\$0.21	HK\$0.35

B. Consolidated Balance Sheet

	30/6/2003	30/6/2002	31/12/2002
	<u>HK\$'000</u>	<u>Restated HK\$'000</u>	<u>Restated HK\$'000</u>
ASSETS			
Cash and short-term funds	36,616,791	36,117,022	34,937,640
Placements with banks and other financial institutions maturing between one and twelve months	17,779,931	11,445,285	11,670,652
Trade bills less provisions	677,583	555,903	671,763
Certificates of deposit held	3,036,466	2,349,716	2,370,751
Other investments in securities	11,338,395	6,367,691	13,255,164
Advances and other accounts less provisions	108,241,489	113,055,804	111,901,237
Held-to-maturity debt securities	4,054,475	2,612,129	3,125,686
Investment securities	291,229	265,895	253,428
Investments in associates	661,516	614,773	639,500
Goodwill	2,347,937	2,242,135	2,181,433
Fixed assets	<u>4,277,260</u>	<u>4,786,954</u>	<u>4,407,057</u>
Total Assets	<u>189,323,072</u>	<u>180,413,307</u>	<u>185,414,311</u>
LIABILITIES			
Deposits and balances of banks and other financial institutions	7,192,423	6,141,593	5,754,837
Deposits from customers	147,145,610	137,780,248	141,661,889
- Demand deposits and current accounts	8,258,225	7,253,611	7,044,517
- Saving deposits	31,808,299	25,966,657	27,769,116
- Time, call and notice deposits	107,079,086	104,559,980	106,848,256
Certificates of deposit issued	6,411,922	9,061,744	10,157,757
Convertible bonds issued	119,621	316,992	119,637
Tax and deferred tax liabilities	870,723	800,818	833,893
Other accounts and provisions	<u>4,210,852</u>	<u>3,412,229</u>	<u>3,778,844</u>
Total Liabilities	<u>165,951,151</u>	<u>157,513,624</u>	<u>162,306,857</u>
CAPITAL RESOURCES			
Loan capital	<u>4,277,803</u>	<u>4,274,617</u>	<u>4,276,227</u>
Minority interests	<u>(76,759)</u>	<u>35,094</u>	<u>44,708</u>
Share capital	3,629,676	3,599,326	3,615,863
Reserves	<u>15,541,201</u>	<u>14,990,646</u>	<u>15,170,656</u>
Shareholders' Funds	<u>19,170,877</u>	<u>18,589,972</u>	<u>18,786,519</u>
Total Capital Resources	<u>23,371,921</u>	<u>22,899,683</u>	<u>23,107,454</u>
Total Capital Resources and Liabilities	<u>189,323,072</u>	<u>180,413,307</u>	<u>185,414,311</u>

C. Consolidated Summary Statement of Changes in Equity

	6 months ended 30/6/2003	6 months ended 30/6/2002 Restated
	HK\$'000	HK\$'000
Balance as at 1 st January		
- As previously reported	18,875,039	18,247,501
- Arising from adoption of SSAP 12		
- Amortisation of restated goodwill	(51,449)	(44,174)
- Recognition of net deferred tax liabilities	(37,071)	(32,346)
- As restated	18,786,519	18,170,981
Recognition of net deferred tax liabilities	(15,575)	-
Release of net deferred tax liabilities	-	2,149
Net profit for the period	792,502	
- As previously reported		786,597
- Arising from adoption of SSAP 12		
- Amortisation of restated goodwill		(3,637)
- Recognition of net deferred tax liabilities		(29,029)
- As restated		753,931
Issue of share capital	76,785	95,086
Capital fee	-	(10)
Dividends	(506,232)	(473,198)
Exchange and other adjustments	36,878	41,033
Balance as at 30 th June	<u>19,170,877</u>	<u>18,589,972</u>

D. Consolidated Cash Flow Statement

	6 months ended 30/6/2003 <u>HK\$'000</u>	6 months ended 30/6/2002 <u>HK\$'000</u>
OPERATING ACTIVITIES		
Cash generated from / (used in) operations	6,173,072	(2,964,074)
Hong Kong profits tax paid	(5,217)	(10,480)
Overseas profits tax paid	(24,413)	(13,661)
Interest paid on loan capital, certificates of deposit and bonds issued	<u>(250,539)</u>	<u>(340,113)</u>
NET CASH GENERATED FROM / (USED IN) OPERATING ACTIVITIES	<u>5,892,903</u>	<u>(3,328,328)</u>
INVESTING ACTIVITIES		
Dividends received from associates	17,288	29,227
Dividends received from equity securities	17,009	11,868
Purchase of equity securities	(67,996)	(1,918)
Proceeds from sale of equity securities	11,374	1,006
Purchase of fixed assets	(108,048)	(82,184)
Proceeds from disposal of fixed assets	44,115	17,611
Proceeds from disposal of associates	-	130
Purchase of subsidiary	<u>(365,648)</u>	<u>(319,823)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(451,906)</u>	<u>(344,083)</u>
FINANCING ACTIVITIES		
Ordinary dividends paid	(434,990)	(390,079)
Issue of ordinary share capital	5,543	11,957
Issue of certificates of deposit	2,670,441	7,961,693
Redemption of certificates of deposit and convertible bonds	<u>(6,371,760)</u>	<u>(7,487,596)</u>
NET CASH (USED IN) / GENERATED FROM FINANCING ACTIVITIES	<u>(4,130,766)</u>	<u>95,975</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	1,310,231	(3,576,436)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	<u>36,325,022</u>	<u>42,841,676</u>
CASH AND CASH EQUIVALENTS AT 30TH JUNE	<u>37,635,253</u>	<u>39,265,240</u>

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, 2002 but is derived from those accounts, nor for the period ended 30th June, 2003. The statutory accounts for the year ended 31st December, 2002 are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 11th February, 2003.
- (2)
 - (a) In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1st January, 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) issued by the Hong Kong Society of Accountants, the Group adopted a new policy for deferred tax.
 - (b) As a result of the adoption of the revised SSAP12, the opening balance of retained earnings brought forward as at 1st January, 2002 and 2003 have been increased by HK\$98,620,000 and HK\$80,523,000 respectively. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31st December, 2002 by HK\$77,029,000 and HK\$259,600,000 respectively. The profit and amount charged to equity for the year ended 31st December, 2002 have been reduced by HK\$18,592,000 and HK\$69,928,000 respectively.
- (3)
 - (a) The provision for Hong Kong profits tax is calculated at 17.5% (2002 : 16%) of the estimated assessable profits for the six months ended 30th June, 2003. 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) Deferred taxation is calculated in full on temporary differences under the liability method using the appropriate current rates of taxation ruling in countries in which they operate.
- (4)
 - (a) The calculation of basic earnings per share is based on earnings of HK\$792,502,000 (six months ended 30th June, 2002 restated : HK\$753,931,000) and on the weighted average of 1,448,907,082 (six months ended 30th June, 2002 : 1,436,817,178) shares outstanding during the six months ended 30th June, 2003.
 - (b) The calculation of diluted earnings per share is based on earnings of HK\$793,473,000 (six months ended 30th June, 2002 restated : HK\$756,567,000) and on 1,454,161,148 (six months ended 30th June, 2002 : 1,450,294,299) ordinary shares, being weighted average number of ordinary shares outstanding during the six months ended 30th June, 2003, adjusted for the effects of all dilutive potential shares.
 - (c) The calculation of cash earnings per share is based on earnings of HK\$860,837,000 (six months ended 30th June, 2002 restated : HK\$816,390,000) adjusted for goodwill amortised of HK\$68,335,000 (six months ended 30th June, 2002 restated : HK\$62,459,000) and on the weighted average of 1,448,907,082 (six months ended 30th June, 2002 : 1,436,817,178) ordinary shares outstanding during the six months ended 30th June, 2003. This supplementary information is considered a useful additional indication of performance.
- (5) Comparative figures for 2002 are restated to conform with the current year's presentation. The restatements for the consolidated profit and loss account, consolidated balance sheet, capital adequacy ratio and capital base are due to the accounting policy change made in 2003 following the revision of SSAP 12.
- (6) The cash rebates for mortgage loans, which were previously classified under operating expenses, were netted off against interest income from 2003. Prior period figures are restated to conform with the current year's presentation.

E. Fees and Commission Income

Included in non-interest income is net fees and commission income with separate disclosure of gross income and expenses as follows:

	6 months ended 30/6/2003 <u>HK\$'000</u>	6 months ended 30/6/2002 <u>HK\$'000</u>	6 months ended 31/12/2002 <u>HK\$'000</u>
Fees and commission income	580,473	581,698	551,597
Less: Fees and commission expenses	<u>(2,759)</u>	<u>(2,349)</u>	<u>(3,079)</u>
Total net fees and commission income	<u><u>577,714</u></u>	<u><u>579,349</u></u>	<u><u>548,518</u></u>

F. Operating Expenses

	6 months ended 30/6/2003 <u>HK\$'000</u>	6 months ended 30/6/2002 <u>HK\$'000</u>	6 months ended 31/12/2002 <u>HK\$'000</u>
Pension contributions	47,009	43,372	45,159
Salary and other staff costs	<u>618,649</u>	<u>615,635</u>	<u>587,129</u>
Total staff costs	<u>665,658</u>	<u>659,007</u>	<u>632,288</u>
Premises and equipment expenses excluding depreciation:			
- Rental of premises	72,639	71,539	70,978
- Maintenance, repairs and others	<u>87,936</u>	<u>111,854</u>	<u>93,435</u>
Total premises and equipment expenses excluding depreciation	<u>160,575</u>	<u>183,393</u>	<u>164,413</u>
Depreciation on fixed assets	112,307	113,059	113,164
Amortisation of goodwill	68,335	62,459	62,552
Impairment of goodwill	-	-	13,350
Other operating expenses			
- Rebates	28,409	32,799	27,855
- Card related expenses	65,490	71,426	75,948
- Communications, stationery and printing	67,586	71,255	73,464
- Advertisement, business promotions and business trips	42,341	43,599	64,909
- Legal and professional fee	37,550	41,866	39,529
- Stamp duty and PRC business taxes	12,438	15,902	14,723
- Administration expenses of secretarial business	2,895	13,630	14,209
- Debt securities issue expenses	6,146	9,827	6,452
- Brokerage and search fees	6,741	7,228	7,239
- Donation	1,347	1,467	541
- Others	<u>48,493</u>	<u>47,165</u>	<u>36,143</u>
Total other operating expenses	<u>319,436</u>	<u>356,164</u>	<u>361,012</u>
Total operating expenses	<u><u>1,326,311</u></u>	<u><u>1,374,082</u></u>	<u><u>1,346,779</u></u>

G. Advances and Other Assets

1. Advances and Other Accounts less Provisions

	30/6/2003	30/6/2002	31/12/2002
	HK\$'000	Restated HK\$'000	Restated HK\$'000
Advances to customers	104,942,980	111,300,894	108,408,574
Advances to banks and other financial institutions	1,189,877	870,498	1,088,562
Accrued interest and other accounts	3,777,880	2,840,808	4,164,071
	<u>109,910,737</u>	<u>115,012,200</u>	<u>113,661,207</u>
Less: Provisions for bad and doubtful debts			
- Specific	407,495	541,730	426,713
- General	1,261,753	1,414,666	1,333,257
	<u>108,241,489</u>	<u>113,055,804</u>	<u>111,901,237</u>

2. 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.

	30/6/2003	30/6/2002	31/12/2002
	HK\$'000	HK\$'000	HK\$'000
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property development	4,952,113	4,811,884	4,847,778
- Property investment	11,923,707	11,694,120	11,744,929
- Financial concerns	1,908,668	2,251,498	2,223,813
- Stockbrokers	130,572	96,659	104,602
- Wholesale and retail trade	1,955,738	2,115,181	2,107,598
- Manufacturing	1,363,476	1,393,245	1,459,648
- Transport and transport equipment	4,330,293	4,509,199	4,511,617
- Others	6,296,263	7,825,680	6,907,826
- Sub-total	<u>32,860,830</u>	<u>34,697,466</u>	<u>33,907,811</u>
Individuals			
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	2,047,159	2,386,447	2,207,192
- Loans for the purchase of other residential properties	36,716,304	43,263,844	39,930,918
- Credit card advances	1,384,054	1,945,047	1,692,322
- Others	3,204,082	3,686,556	3,333,374
- Sub-total	<u>43,351,599</u>	<u>51,281,894</u>	<u>47,163,806</u>
Total loans for use in Hong Kong	76,212,429	85,979,360	81,071,617
Trade finance	3,166,708	3,145,345	3,272,588
Loans for use outside Hong Kong	25,563,843	22,176,189	24,064,369
Total advances to customers	<u>104,942,980</u>	<u>111,300,894</u>	<u>108,408,574</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.

	30/6/2003		
	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

	30/6/2002		
	Total advances to customers HK\$'000	Non-performing loans HK\$'000	Advances overdue for over three months HK\$'000
Hong Kong	93,029,972	2,340,156	2,485,244
People's Republic of China	3,638,106	531,707	644,173
Other Asian Countries	4,366,586	128,218	121,248
Others	10,266,230	206,982	1,869
Total	111,300,894	3,207,063	3,252,534

	31/12/2002		
	Total advances to customers HK\$'000	Non-performing loans HK\$'000	Advances overdue for over three months HK\$'000
Hong Kong	89,449,624	2,041,748	1,234,390
People's Republic of China	4,132,169	769,605	859,330
Other Asian Countries	5,024,629	171,560	145,336
Others	9,802,152	125,088	38,807
Total	108,408,574	3,108,001	2,277,863

4. Cross-border Claims

The information 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.

	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
	30/6/2002			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
People's Republic of China	3,350,950	445,369	3,339,957	7,136,276
Asian countries, excluding People's Republic of China	13,485,849	1,004,322	5,050,055	19,540,226
North America	4,811,261	82,129	3,876,815	8,770,205
Western Europe	23,755,103	10,176	598,242	24,363,521
	31/12/2002			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
People's Republic of China	6,022,429	560,217	3,051,859	9,634,505
Asian countries, excluding People's Republic of China	10,942,142	1,107,992	5,933,867	17,984,001
North America	4,375,369	3,597,083	4,234,618	12,207,070
Western Europe	25,357,970	167,455	858,420	26,383,845

5. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and Rescheduled Advances

	30/6/2003		30/6/2002		31/12/2002	
	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	489,949	0.5	662,286	0.6	642,305	0.6
- 1 year or less but over 6 months	550,957	0.5	690,284	0.6	391,029	0.4
- Over 1 year	1,129,303	1.1	1,899,964	1.7	1,244,529	1.1
	<u>2,170,209</u>	<u>2.1</u>	<u>3,252,534</u>	<u>2.9</u>	<u>2,277,863</u>	<u>2.1</u>
Rescheduled advances to customers	<u>655,882</u>	<u>0.6</u>	<u>181,766</u>	<u>0.2</u>	<u>624,138</u>	<u>0.6</u>
Total overdue and rescheduled advances	<u>2,826,091</u>	<u>2.7</u>	<u>3,434,300</u>	<u>3.1</u>	<u>2,902,001</u>	<u>2.7</u>
Secured overdue advances	<u>2,037,119</u>	<u>2.0</u>	<u>2,710,028</u>	<u>2.4</u>	<u>2,189,786</u>	<u>2.0</u>
Unsecured overdue advances	<u>133,090</u>	<u>0.1</u>	<u>542,506</u>	<u>0.5</u>	<u>88,077</u>	<u>0.1</u>
Market value of securities held against the secured overdue advances	<u>3,058,217</u>		<u>4,080,946</u>		<u>3,462,986</u>	

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 30th June, 2003, 30th June, 2002 and 31st December, 2002, 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.

	30/6/2003		30/6/2002		31/12/2002	
	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers
Gross advances to customers	2,882,278	2.75	3,207,063	2.88	3,108,001	2.87
Specific provisions	260,401		416,901		279,713	
Suspended interest	560,325		598,978		559,576	

There were no advances to banks and other financial institutions on which interest is being placed in suspense or on which interest accrual has ceased as at 30th June, 2003, 30th June, 2002 and 31st December, 2002, nor were there any specific provisions made for them on these three dates.

(c) Reconciliation

	30/6/2003	30/6/2002	31/12/2002
	HK\$'000	HK\$'000	HK\$'000
Overdue advances (Note 1)	2,170,209	3,252,534	2,277,863
Rescheduled advances (Note 2)	<u>655,882</u>	<u>181,766</u>	<u>624,138</u>
Total overdue and rescheduled advances	2,826,091	3,434,300	2,902,001
Less: Overdue advances on which interest is still being accrued	(280,964)	(387,336)	(242,684)
Less: Rescheduled advances on which interest is still being accrued	(23,740)	(83,074)	(57,247)
Add: Non-performing loans which are not overdue or rescheduled	<u>360,891</u>	<u>243,173</u>	<u>505,931</u>
Total non-performing loans	<u>2,882,278</u>	<u>3,207,063</u>	<u>3,108,001</u>

Notes:

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

(d) Other Overdue and Rescheduled Assets

	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
	<u>7,048</u>	<u>37,865</u>
Rescheduled assets	-	-
Total other overdue and rescheduled assets	<u>7,048</u>	<u>37,865</u>

	30/06/2002	
	Accrued interest HK\$'000	Other assets* HK\$'000
Other assets overdue for		
- 6 months or less but over 3 months	8,523	5,068
- 1 year or less but over 6 months	2,362	1,772
- Over 1 year	1,978	6,449
	<u>12,863</u>	<u>13,289</u>
Rescheduled assets	-	-
Total other overdue and rescheduled assets	<u>12,863</u>	<u>13,289</u>

	31/12/2002	
	Accrued interest HK\$'000	Other assets* HK\$'000
Other assets overdue for		
- 6 months or less but over 3 months	4,029	1,275
- 1 year or less but over 6 months	1,096	9,850
- Over 1 year	1,202	6,486
	<u>6,327</u>	<u>17,611</u>
Rescheduled assets	-	-
Total other overdue and rescheduled assets	<u>6,327</u>	<u>17,611</u>

* Other assets refer to trade bills and receivables.

(e) Repossessed Assets

	30/6/2003 HK\$'000	30/6/2002 HK\$'000	31/12/2002 HK\$'000
Reposessed properties	226,748	481,156	390,499
Reposessed vehicles	6,645	6,090	4,990
Total reposessed assets	<u>233,393</u>	<u>487,246</u>	<u>395,489</u>

The amount represents the estimated market value of the reposessed assets as at 30th June, 2003, 30th June, 2002 and 31st December, 2002.

H. Segment Reporting

Segment information is presented in respect of the Group's business segments.

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 30/6/2003							Consolidated HK\$'000
	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	
Net interest income	976,928	557,757	274,915	21	13,919	(46,527)	-	1,777,013
Other operating income from external customers	237,940	125,062	308,707	181,356	61,321	36,359	-	950,745
Inter-segment income	-	-	-	-	-	68,055	(68,055)	-
Total operating income	1,214,868	682,819	583,622	181,377	75,240	57,887	(68,055)	2,727,758
Operating profit / (loss) before provisions	680,684	437,776	450,894	52,408	4,595	(224,910)	-	1,401,447
Charge for bad and doubtful debts	(124,651)	(75,741)	(69,667)	(4,924)	(5,515)	(10,713)	-	(291,211)
Operating profit / (loss) after provisions	556,033	362,035	381,227	47,484	(920)	(235,623)	-	1,110,236
Inter-segment transactions	56,380	4,746	4,091	-	-	(65,217)	-	-
Contribution from operations	612,413	366,781	385,318	47,484	(920)	(300,840)	-	1,110,236
Write-back of / (increase in) impairment loss for the period	-	(2,223)	-	-	5,557	971	-	4,305
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)	-	-	(105,843)	-	(108,050)
Profit / (loss) before taxation	609,876	378,119	372,410	47,484	28,058	(406,761)	-	1,029,186
Taxation	-	-	-	-	-	(224,992)	-	(224,992)
Minority interests	-	-	-	(11,827)	135	-	-	(11,692)
Profit / (loss) attributable to shareholders	609,876	378,119	372,410	35,657	28,193	(631,753)	-	792,502
Depreciation for the period	(42,038)	(18,685)	(8,174)	(3,540)	(4,327)	(35,543)	-	(112,307)
Amortisation of goodwill	(16,887)	(13,216)	(21,040)	(16,722)	(470)	-	-	(68,335)

6 months ended 30/6/2002 Restated

	Personal Banking HK\$'000	Corporate Banking HK\$'000	Investment Banking HK\$'000	Corporate Services HK\$'000	Others HK\$'000	Unallocated HK\$'000	Inter-segment elimination HK\$'000	Consolidated HK\$'000
Net interest income	1,215,125	361,565	253,171	16	10,949	(22,018)	-	1,818,808
Other operating income from external customers	303,122	101,967	152,557	154,921	114,353	(3,475)	-	823,445
Inter-segment income	8,311	30,672	97	-	-	74,267	(113,347)	-
Total operating income	1,526,558	494,204	405,825	154,937	125,302	48,774	(113,347)	2,642,253
Operating profit / (loss) before provisions	807,179	279,889	236,131	63,363	34,899	(153,290)	-	1,268,171
Charge for bad and doubtful debts	(305,630)	(2,622)	(143)	(1,061)	(1,594)	(10,174)	-	(321,224)
Operating profit / (loss) after provisions	501,549	277,267	235,988	62,302	33,305	(163,464)	-	946,947
Inter-segment transactions	95,198	(26,455)	3,434	-	-	(72,177)	-	-
Contribution from operations	596,747	250,812	239,422	62,302	33,305	(235,641)	-	946,947
Write-back of / (increase in) impairment loss for the period	-	7,161	451	-	1,416	(3,985)	-	5,043
Share of profits less losses of associates	206	15,199	(6,522)	-	(1,063)	(295)	-	7,525
Other income and expenses	-	-	(6,154)	-	-	3,098	-	(3,056)
Profit / (loss) before taxation	596,953	273,172	227,197	62,302	33,658	(236,823)	-	956,459
Taxation	-	-	-	-	-	(183,962)	-	(183,962)
Minority interests	-	-	-	(18,566)	-	-	-	(18,566)
Profit / (loss) attributable to shareholders	596,953	273,172	227,197	43,736	33,658	(420,785)	-	753,931
Depreciation for the period	(49,421)	(14,271)	(5,585)	(1,895)	(6,463)	(35,424)	-	(113,059)
Amortisation of goodwill	(19,059)	(14,349)	(17,735)	(10,846)	(470)	-	-	(62,459)

I. Deferred Tax Assets and Liabilities Recognised

The components of deferred tax assets and 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 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, 2003	256,709	436,636	169,043	(164,620)	23,973	(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
Charged 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>184,618</u>	<u>(164,997)</u>	<u>32,142</u>	<u>(89,969)</u>	<u>4,889</u>	<u>522,920</u>
At 1 st January, 2002	266,213	329,106	175,141	(168,452)	18,267	(83,684)	3,090	539,681
Additions through acquisition of subsidiaries	400	-	-	-	-	-	-	400
Write off against investment	-	(51,313)	-	-	-	-	-	(51,313)
Charged / (credited) to consolidated profit and loss account	26,680	1,263	-	4,744	(8,392)	4,457	635	29,387
Credited to reserves	-	-	(1,655)	-	-	-	-	(1,655)
Exchange and other adjustments	-	-	-	-	-	(7,536)	-	(7,536)
At 30 th June, 2002	<u>293,293</u>	<u>279,056</u>	<u>173,486</u>	<u>(163,708)</u>	<u>9,875</u>	<u>(86,763)</u>	<u>3,725</u>	<u>508,964</u>
						<u>30/6/2003</u>	<u>30/6/2002</u>	
						HK\$'000	HK\$'000	
Net deferred tax assets recognised on the consolidated balance sheet						(67,809)	(80,837)	
Net deferred tax liabilities recognised on the consolidated balance sheet						590,729	589,801	
						<u>522,920</u>	<u>508,964</u>	

J. Off-balance Sheet Exposures

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

	30/6/2003 HK\$'000	30/6/2002 HK\$'000	31/12/2002 HK\$'000
Contractual amounts of contingent liabilities and commitments			
- Direct credit substitutes	4,159,808	4,019,560	4,125,735
- Transaction-related contingencies	514,149	619,353	519,227
- Trade-related contingencies	2,358,338	2,735,211	2,152,000
- Other commitments with an original maturity of:			
Under 1 year or which are unconditionally cancellable	20,682,040	21,317,430	20,615,082
1 year and over	7,633,186	7,269,070	8,416,217
- Others	57,594	-	-
Total	<u>35,405,115</u>	<u>35,960,624</u>	<u>35,828,261</u>
- Aggregate credit risk weighted amount	<u>8,171,875</u>	<u>8,084,833</u>	<u>8,559,065</u>
Notional amounts of derivatives			
- Exchange rate contracts	23,714,955	26,760,833	21,062,568
- Interest rate contracts	12,926,891	8,361,158	11,347,330
- Equity contracts	586,888	231,648	372,262
Total	<u>37,228,734</u>	<u>35,353,639</u>	<u>32,782,160</u>
- Aggregate credit risk weighted amount	<u>326,358</u>	<u>182,712</u>	<u>218,951</u>
- Aggregate replacement costs	<u>932,254</u>	<u>216,380</u>	<u>425,196</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 in foreign currencies are disclosed when each currency constitutes 10% or more of the total net position in all foreign currencies.

	30/6/2003 HK\$ Million				
	USD	CAD	GBP	Others	Total
Spot assets	43,998	5,112	3,714	18,238	71,062
Spot liabilities	(42,663)	(5,146)	(6,199)	(20,755)	(74,763)
Forward purchases	12,703	657	2,953	7,493	23,806
Forward sales	(13,109)	(524)	(589)	(4,958)	(19,180)
Net long / (short) position	<u>929</u>	<u>99</u>	<u>(121)</u>	<u>18</u>	<u>925</u>

	30/6/2002 HK\$ Million				Total
	USD	CAD	GBP*	Others	
Spot assets	45,173	3,339	5,649	16,601	70,762
Spot liabilities	(47,853)	(4,024)	(5,850)	(16,932)	(74,659)
Forward purchases	16,406	973	903	6,039	24,321
Forward sales	(13,014)	(162)	(699)	(5,701)	(19,576)
Net long position	<u>712</u>	<u>126</u>	<u>3</u>	<u>7</u>	<u>848</u>

	31/12/2002 HK\$ Million				Total
	USD	CAD	GBP	Others	
Spot assets	50,001	4,049	4,838	17,278	76,166
Spot liabilities	(48,381)	(4,425)	(6,161)	(19,821)	(78,788)
Forward purchases	11,731	805	1,434	6,466	20,436
Forward sales	(12,830)	(311)	(236)	(3,858)	(17,235)
Net long / (short) position	<u>521</u>	<u>118</u>	<u>(125)</u>	<u>65</u>	<u>579</u>

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

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

	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>

	30/6/2002 HK\$ Million			Total
	USD	CAD	Others	
Net structural position	<u>1,390</u>	<u>195</u>	<u>338</u>	<u>1,923</u>

	31/12/2002 HK\$ Million			Total
	USD	CAD*	Others	
Net structural position	<u>1,416</u>	<u>188</u>	<u>367</u>	<u>1,971</u>

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

L. Capital, Capital Adequacy and Liquidity Information

Prior year adjustments resulting from change in accounting policy have been taken into account in the calculation of Capital Adequacy Ratio and Capital Base as at 30th June, 2002 and 31st December, 2002.

1. Capital Adequacy Ratio

	30/6/2003	30/6/2002 Restated	31/12/2002 Restated
	%	%	%
Unadjusted capital adequacy ratio	17.1	16.9	16.9
Adjusted capital adequacy ratio	17.0	16.9	16.8

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

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

2. Capital base after deductions

	30/6/2003	30/6/2002 Restated	31/12/2002 Restated
	HK\$'000	HK\$'000	HK\$'000
Core capital			
Paid up ordinary share capital	3,629,676	3,599,326	3,615,863
Share premium	355,427	372,036	356,210
Reserves	13,787,298	13,122,684	13,228,115
Minority interests	(76,759)	35,094	44,708
Deduct: Goodwill	(2,347,937)	(2,242,135)	(2,181,433)
Total core capital	<u>15,347,705</u>	<u>14,887,005</u>	<u>15,063,463</u>
Eligible supplementary capital			
Reserves on revaluation of land and interests in land (at 70%)	745,173	835,507	756,077
General provisions for doubtful debts	1,256,804	1,410,234	1,339,533
Term subordinated debt	4,277,803	4,274,617	4,276,227
Total eligible supplementary capital	<u>6,279,780</u>	<u>6,520,358</u>	<u>6,371,837</u>
Total capital base before deductions	21,627,485	21,407,363	21,435,300
Deductions from total capital base	<u>(971,491)</u>	<u>(934,389)</u>	<u>(953,797)</u>
Total capital base after deductions	<u><u>20,655,994</u></u>	<u><u>20,472,974</u></u>	<u><u>20,481,503</u></u>

3. Reserves

	30/6/2003	30/6/2002 Restated	31/12/2002 Restated
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
Share premium	355,427	372,036	356,210
General reserve	11,725,166	11,515,206	11,623,411
Revaluation reserve on bank premises	1,064,534	1,079,221	1,080,109
Revaluation reserve on investment properties	-	114,362	-
Exchange revaluation reserve	18,971	(13,506)	(17,905)
Other reserves	53,969	91,187	91,968
Retained profits	<u>2,323,134</u>	<u>1,832,140</u>	<u>2,036,863</u>
Total	<u>15,541,201</u>	<u>14,990,646</u>	<u>15,170,656</u>
Proposed dividends, not provided for	<u>333,930</u>	<u>302,343</u>	<u>506,221</u>

4. Liquidity ratio

	6 months ended 30/6/2003	6 months ended 30/6/2002	The year ended 31/12/2002
	<u>%</u>	<u>%</u>	<u>%</u>
Average liquidity ratio for the period	46.0	46.4	46.1

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 module 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\$0.23 (2002 : HK\$0.21) per share for the period ended 30th June, 2003. 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 are on the Register of Members at the close of business on Wednesday, 27th August, 2003. Details of the scrip dividend and the election form will be sent to shareholders on or about Wednesday, 27th August, 2003. 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 Thursday, 18th September, 2003.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 25th August, 2003 to Wednesday, 27th August, 2003. 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, 22nd August, 2003.

FINANCIAL REVIEW

Financial Performance

In this announcement of the 2003 interim financial results, prior period adjustments have been made in respect of the accounting policy changes this year, following the adoption of the revised accounting standard, HKSSAP 12 - Income Taxes.

The outbreak of Severe Acute Respiratory Syndrome (SARS) in March 2003 in Hong Kong seriously affected the economy, especially retail sales, tourism and catering. As a result, the unemployment situation worsened and the consumer credit market further weakened. With continued downward pressure on interest rates, competition within the banking sector remained fierce. Despite this difficult operating environment, in the first six months of 2003 BEA Group achieved a profit attributable to shareholders of HK\$793 million, representing an increase of HK\$39 million, or 5.1%, over that of HK\$754 million for the corresponding period in 2002. The result was also HK\$277 million, or 53.6%, above the HK\$516 million recorded in the second half of 2002. Basic earnings per share were HK\$0.55. Return on average assets and return on average equity were 0.9% and 8.4 % respectively.

BEA's net interest income decreased by HK\$42 million or 2.3% from HK\$1,819 million in the first half of 2002 to HK\$1,777 million in the first half of 2003. Net interest margin declined to 2.01%.

Non-interest income continued to perform well, increasing by 15.5% from HK\$823 million in the first half of 2002 to HK\$951 million over the corresponding period in 2003. The upsurge was mainly attributable to an increase in profits on investments in securities. Total operating income grew by 3.2% to HK\$2,728 million.

Total operating expenses decreased slightly by 3.5% over the corresponding figure for 2002 to HK\$1,327 million, a result of BEA's determination to reducing operating costs. Hence, the cost to income ratio dropped from 52.0% in 2002 to 48.6% in 2003. It is expected that the cost to income ratio will continue to drop, reflecting the rationalisation measures put in place following the merger of a number of units in recent years.

Operating profit before provisions recorded an increase of 10.5% from HK\$1,268 million in the first six months of 2002 to HK\$1,401 million in the corresponding period for 2003. The figure also represents an increase of 12.5% over the HK\$1,246 million recorded in the second half of 2002, demonstrating strong performance in BEA's core banking business.

BEA's asset quality continued to improve, in line with precautionary measures undertaken by the Bank to minimise the potential for loss in the current economic situation. As a result, the charge for bad and doubtful debts decreased by 9.3% from HK\$321 million in the first six months of 2002 to HK\$291 million in the corresponding period for 2003. The result also reflects a decrease of 40.5% from the charge of HK\$490 million in the second half of 2002. Non-performing loans dropped from 2.9% of total loans at the end of June and December 2002, to 2.8% at the end of June 2003.

As a result of the increase in operating profit before provisions and the decrease in the charge for bad and doubtful debts, BEA's operating profit after provisions recorded double digit growth, rising 17.2% to HK\$1,110 million.

In line with the downward trend in property prices, the value of BEA's investment properties and bank premises recorded a decline amounting to HK\$20 million and HK\$80 million respectively.

In the first six months of 2003, BEA shared a pre-tax profit less losses from associates of HK\$23 million, as compared with HK\$7 million in the same period in 2002.

Minority interests decreased by HK\$7 million to HK\$11 million. With the increase in pretax profits and in the profits tax rate, and the adoption of revised SSAP 12, taxation increased by 22.3% to HK\$225 million. Net profit attributable to shareholders for the first half of 2003 was HK\$793 million.

Financial Position

As at 30th June, 2003, total consolidated assets were HK\$189,323 million, of which 55.4%, or HK\$104,943 million, were advances to customers. Customer deposits were HK\$147,146 million. With HK\$4,278 million loan capital, total capital resources increased by 1.1% from HK\$23,107 million at the end of 2002 to HK\$23,372 million.

In the first half of 2003, BEA issued certificates of deposit with a value of HK\$2,000 million and discounted certificates of deposit totalling AUD68 million and NZD74 million, respectively. The Bank redeemed certificates of deposit amounting to US\$535 million and HK\$2,135 million upon maturity, and repurchased a quantity of its own certificates of deposit amounting to HK\$65 million equivalent.

At the end of June 2003, the face value of the outstanding debt portfolio was HK\$6,755 million, with the carrying amount equal to HK\$6,532 million.

After taking into account all debt instruments issued, the loan-to-deposit ratio was 68.3%, being 7.3% lower than the 75.6% reported at the end of June 2002.

Maturity Profile of Debts Issued
(All expressed in millions of dollars)

	<u>Currency</u>	<u>Total Face Value</u>	<u>Year of Maturity</u>			
			<u>2003</u>	<u>2004</u>	<u>2006</u>	<u>2007</u>
Floating Rate						
Certificates of Deposit						
Issued in 2001	HKD	1,000	1,000			
Issued in 2002	HKD	1,061		1,061		
Issued in 2002	USD	25	25			
Issued in 2003	HKD	2,000		2,000		
Total	HKD	4,061	1,000	3,061		
Total	USD	25	25			
Fixed Rate						
Certificates of Deposit						
Issued in 1999	HKD	100		100		
Discounted						
Certificates of Deposit						
Issued in 2002	HKD	510		510		
Issued in 2002	USD	90				90
Issued in 2003	AUD	66		66		
Issued in 2003	NZD	73		73		
Convertible Bonds						
Issued in 1996	USD	15	15			
Retail Callable						
Certificates of Deposit						
Issued in 2002	HKD	397				397
Total Debts issued in HKD equivalent		6,755	1,314	3,161	1,184	1,096

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, related specialised committees and/or the Risk Management Committee, and have been approved by 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. It arises from the lending and treasury activities. To oversee the Group's credit risk management independently of the business units, the Board of Directors has delegated authority to a Credit Committee.

The Credit Committee deals with all credit risk related issues of the Bank Group, including: formulation of credit policies, credit approval, assurance of compliance with regulatory requirements and monitoring of asset quality.

In evaluating the credit risk of customers or counterparties, financial strength and repayment ability are the primary considerations. Credit risk may, however, be mitigated by obtaining collaterals from the customers or counterparties. In addition, the potential for concentration of risks is monitored by adopting proper control measures, such as setting limits on large exposures in relation to the Bank's capital base.

In this connection, comprehensive guidelines to manage credit risk have been laid down in the Group's Credit Manual, stipulating the 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 and approved by the Credit Committee to ensure the robustness 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 a liquidity risk management policy, which is reviewed by the Risk Management Committee and 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 are sufficient for its funding needs and that the Group is always in compliance with the statutory liquidity ratio. The Group's average liquidity ratio was 46.0% for the first half of 2003, 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. These may include interest rates, foreign exchange rates, equity and commodity prices.

The Group's market risk originates from its holdings in the trading books of foreign exchange, debt securities, equities and derivatives, which are valued at current market prices (mark-to-market basis), and from its investment and banking activities in financial assets and liabilities, which are valued at cost plus any accrued interest (accrual basis), together with securities classified as other investments, which are measured at fair value in the balance sheet. The Group's trading activities on derivative instruments mainly arise from the execution of trade orders from customers and positions taken in order to hedge other elements of the trading books.

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

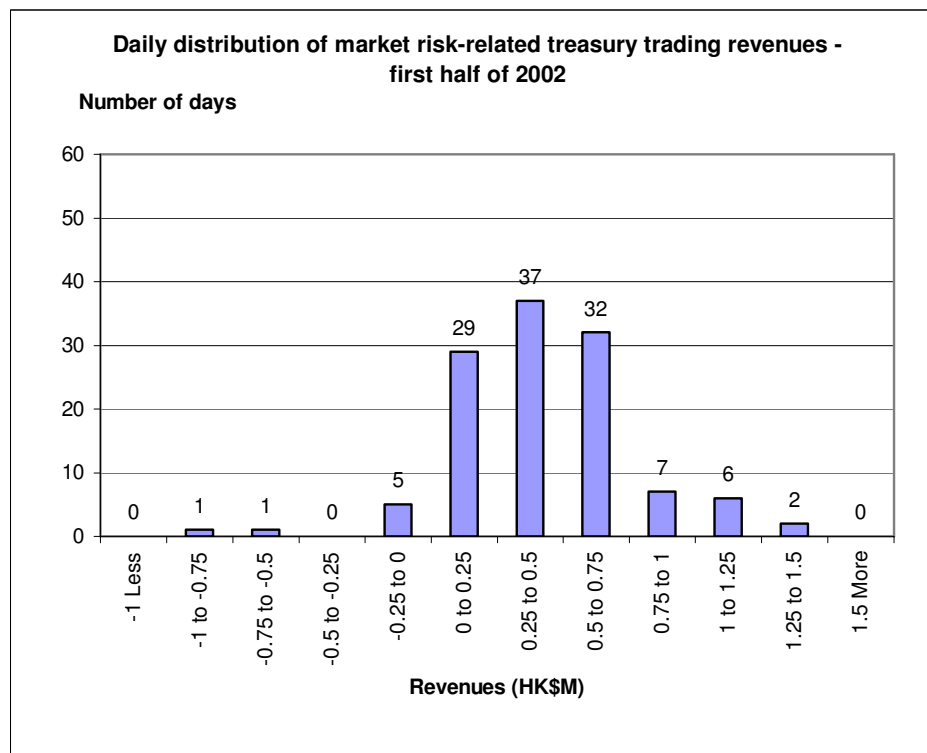
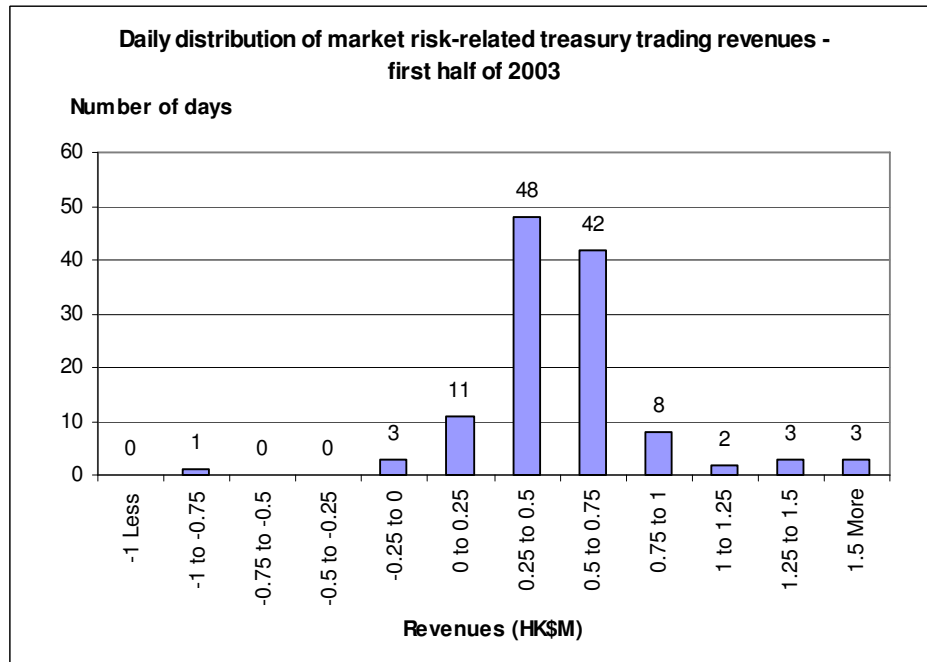
Financial derivatives are instruments that derive their value from the performance of underlying assets, interest or currency exchange rates, or indices. The Group principally uses financial derivative instruments as investment alternatives or to manage foreign exchange, interest rate or equity risk, and is a limited end-user of such instruments. Guidelines on participating in derivatives activities are stated 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 market risk exposures in different activities are measured and monitored on the basis of principal (or notional) amount, outstanding position and stop-loss limits, and are controlled within established limits reviewed and approved by the Asset and Liability Management Committee 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, while 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 which 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 in 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 has been 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, 2003 was HK\$2.89 million (HK\$2.99 million at 31st December, 2002). The average daily revenue earned from the Group's market risk-related treasury trading activities for the first half of 2003 was HK\$0.53 million (HK\$0.42 million for the first half of 2002). The standard deviation of these daily revenues was HK\$0.42 million (HK\$0.34 million for the first half of 2002).



An analysis of daily distribution of the Group's market risk-related treasury trading revenues for the first half of 2003 (comparing with the first half of 2002) is provided above. This shows that 4 out of 121 days (2002: 7 out of 120 days) are in loss positions. The most frequent result was daily revenue of between HK\$0.25 million and HK\$0.5 million, with 48 occurrences (2002: same band with 37 occurrences). The maximum daily loss was HK\$0.89 million (2002: HK\$0.91 million) and the next maximum daily loss was HK\$0.22 million (2002: HK\$0.64 million). The highest daily revenue was HK\$3.17 million (2002: HK\$1.44 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, 2003 was HK\$0.29 million (HK\$0.20 million at 31st December, 2002). The average daily foreign exchange dealing profit for the first half of 2003 was HK\$0.47 million (HK\$0.40 million for the first half of 2002).

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, 2003 was HK\$2.73 million (HK\$2.88 million at 31st December, 2002). The average daily profit due to these activities for the first half of 2003 was HK\$0.05 million (HK\$0.02 million for the first half of 2002).

(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 as at 30th June, 2003 was HK\$3.76 million (HK\$3.57 million at 31st December, 2002).

(c) 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 17.0% and the unadjusted ratio of 17.1% as at 30th June, 2003 were well above the statutory minimum ratio.

Capital is allocated to the various activities of BEA 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 capital according to rules of those regulatory authorities.

OPERATIONS REVIEW

IMPROVEMENT TO OPERATIONS

Integration and Merger Exercise

The Bank completed the merger of its two subsidiaries East Asia Finance Company, Limited (“EAF”) and East Asia Credit Company Limited (“EAC”) on 26th May 2003.

EAF and EAC were founded in 1969 and 1985, respectively. Both companies extended credit facilities to customers, primarily in consumer lending and equipment finance.

The merger of the two companies will give the customers of EAF and EAC access to the wider range of banking and financial services offered by the BEA Group in Hong Kong, China and overseas. The merger also allows BEA to enjoy greater economies of scale and to operate more efficiently. Earlier this year, all EAF and EAC customers were duly notified of the arrangements BEA had put in place to ensure smooth transfer of all business to the parent company.

PERSONAL BANKING

Branch Distribution

To assist ongoing efforts to increase the sale of bank products through the branch network, management has embarked on a programme of branch renewal. The new design concept projects a modern image for the Bank, and enlarges the sales area in the banking hall so as to enable sales staff to serve customers more efficiently. More branches will be renovated to the new standard by phases in the coming years.

Rationalisation of the branch network, with the aim of building up an effective branch network, is an ongoing process.

- In June 2003, Parkes Street Branch was relocated to Peking Road and renamed One Peking Branch.
- In the second half of the year, Tai Hang Sai Branch, Sheung Wan Branch, Causeway Road Branch and Tsuen Wan Market Street Branch will be closed and merged with nearby branches with better locations.
- The High Net Worth Centre, renovated to the new design standard and incorporating a SupremeGold Centre, will be moved to 21/F of the same building in July and renamed BEA Harbour View Centre Branch.

Following the successful launch of the first SupremeGold Centre at Tsim Sha Tsui Branch in December last year, additional SupremeGold Centres have since opened at:

- Mongkok Branch in January
- One Peking Branch and Kwun Tong Branch in June.

With 11 more centres to be opened in the third and the fourth quarters, a total of 15 SupremeGold Centres will be in operation by the end of 2003.

To further enhance branch service, a new branch service quality programme was implemented from July. A customer satisfaction survey will be conducted to measure progress by the end of the year.

Cyberbanking

With the disruption to normal activities caused by SARS, the Bank recorded strong growth in demand for its Internet banking service. There are now more than 230,000 Cyberbanking

users, and average daily transactions reached a record high of more than 90,000 in the first half of 2003. During the period, BEA launched a series of value added on-line services: CyberShopping; Retail Bonds & Initial Public Offer services; “Cybertrading - Stock” service for SupremeGold members; and Direct Fund Transfer to BEA China Account for both individual and corporate Cyberbanking customers. Moreover, Cyberbanking was extended to cover Automatic Teller Machine card service with the issuance of the “Cyberbanking Card”, offering a total “all-in-one” experience to BEA customers.

Customer Relationship Management System

With the successful implementation of Phase 2 of the Customer Relative Value model, the Bank is now able to carry out detailed segmentation analysis, and can make use of the analytical results to carry out effective marketing campaigns and new product development.

The Bank has now embarked on Phase 3, enabling more products to be included into the “relative value” measurement of profitability analysis.

Property Loans

The outbreak of SARS pushed the already sluggish property market into further decline, impacting the local mortgage loan market. Responding to the difficult business environment and intensified market competition, BEA employed a segment marketing strategy and tailored new products to target niche markets with potential for higher returns. For example, the SupremeGold Mortgage Plan was launched in April to appeal to high net worth mortgage customers, to whom a range of bank products such as insurance and investment products could be cross-sold. In addition, BEA stepped up its efforts to form business alliances with various business partners, such as land developers, solicitors and real estate agents, to provide a comprehensive, one-stop mortgage service to customers.

Regarding management of loan quality, BEA has strengthened collection and taken preventive measures to reduce the occurrence of bad debt and provisioning amid the continuous fall in property prices.

Consumer Loans

Despite the continued rise in both jobless rates and personal bankruptcies, BEA is maintaining good asset quality through a prudent credit underwriting policy. In addition, the Bank has successfully initiated interest-free instalment programmes with a number of reputable merchants in order to build relationships with quality customers with genuine financial needs.

Credit Cards

The Bank’s risk management efforts have been effective in reigning in the credit card charge-off ratio. With positive customer data sharing now being implemented in phases, an improvement in the bad debt situation of the Bank and the industry as a whole is expected.

As an integral part of the Bank’s customer relationship management strategy, Platinum/Gold Cards are offered to the Bank’s SupremeGold members. A number of new marketing programmes, including lucky draws, spending rewards and priority booking schemes, were launched during the period to increase card usage. Despite the drop in consumer spending during the SARS outbreak, the marketing programmes were well received.

In order to better utilise resources and reduce expenses, selected back office functions of the Card Centre have been relocated to the Guangzhou Operating Centre.

Bancassurance

The Children Education Fund Sponsorship Programme was held for a third year in May 2003. The theme this year was "BB Competition", and three winning families each was awarded an Education Insurance policy valued at HK\$50,000.

The EnsurPro Lucky Draw campaign was concluded with a Grand Lucky Draw Presentation on 29th May, 2003. The campaign kicked off last September with the aim of reinforcing brand awareness, enhancing customer relations and boosting sales.

A new promotion for the complete range of Blue Cross medical insurance products has been made available at all BEA branches in Hong Kong since the beginning of the year.

BLUE CROSS

APCSC Award for IIM

In recognition of the breakthrough represented by the Company's newly launched Intelligent Insurance Machine ("IIM"), the Asia Pacific Customer Service Consortium awarded Blue Cross its Innovative Technology Award for the Year 2002. The state-of-the-art IIM is an electronic kiosk that allows travelers to purchase Blue Cross China Travel Accident Insurance instantly at most KCRC East Rail stations.

Superbrand

In January, Blue Cross was selected as one of the 134 Superbrands in Hong Kong.

These awards recognise the Company's ongoing commitment to be the preferred insurer in Hong Kong, and in particular its leading role in travel insurance.

Shanghai Representative Office

The Company obtained approval from the China Insurance Regulatory Commission to establish a Shanghai Representative Office, which was subsequently set up in March.

Business Results

Blue Cross outperformed plan by 5% over the period, with a growth of 20% in premium income for the first half year.

CORPORATE BANKING

Corporate Lending and Syndication

BEA has always maintained a strong position in the local syndication and corporate lending market by actively arranging and underwriting syndicated deals for large corporate customers. In the midst of the prevailing shrinking interest margins, BEA has also been taking pro-active approach in soliciting businesses from high quality medium-sized companies, so as to broaden its clientele and income base.

Notwithstanding the stagnant syndicated loan market, which was exacerbated by the SARS outbreak, BEA maintained an active market presence in the first half of 2003. The Bank assumed the roles of Co-Arrangers and Lead Managers for numerous deals, including a HK\$8,000 million syndicated loan facility to Sun Hung Kai Properties and a HK\$850 million syndicated loan facility to Kingboard Chemical Holdings Limited. Furthermore, BEA took up the role of facility agent, security agent or account bank for several additional syndicated loans, reflecting the Bank's renewed emphasis on non-interest income.

In future, BEA will continue to improve its bottom line by providing high quality tailor-made products for customers. In particular, the Bank will seek to expand its exposure to well-managed medium-sized companies by arranging corporate loans and/or syndicated facilities to meet their specific funding needs.

Commercial Lending

The gloomy economic conditions and the outbreak of SARS during the first half of 2003 had a severe negative impact on trade finance business in Hong Kong. To cope with the critical business environment brought about by the SARS, BEA has adopted more flexible credit policies for affected corporate customers. To meet changing financing needs and provide working capital finance, a new product, Export Loan Financing, was launched. To attract more business, the Bank will continue to launch and promote other new products to corporate customers and to seek niche markets with potential for better returns.

Community Lending

BEA has further extended its support to small and medium size enterprises (“SMEs”) through active participation in the enhanced SME Loan Guarantee Scheme launched by the Trade & Industry Department of the Hong Kong Government. The revised Scheme offers enhanced flexibility, adding working capital loans and account receivable finance to the categories eligible for assistance under the scheme. Following the outbreak of SARS, BEA acted swiftly to support the SARS Relief Fund Loan Guarantee Scheme. The Bank took an active role in the working group formed to formulate immediate relief measures for SARS affected industries.

To assist SMEs to better understand and assess their business performance, BEA is involved in the expert panel for the development of the Enterprise Performance Alert interactive tool, currently undertaken by the Hong Kong Productivity Council.

Asset Based Finance

The equipment finance portfolio recorded double-digit growth as a result of increased marketing efforts targeted at SMEs. The achievement was attributed to successful partnerships with machine dealers and active participation in the Government's SME Loan Guarantee Scheme. Despite the adverse changes in the taxi industry, BEA remained one of the major lenders in the field. BEA is well positioned for further growth in the asset based finance market.

Securities Lending

BEA has continued its efforts to promote its lending products and services to customers in the local securities market, and an improvement in loans outstanding to this sector has been achieved. Furthermore, BEA successfully completed one Receiving Bank project in June 2003 and is likely to participate in several additional Receiving Bank projects in the second half of the year. Staggering loans, for subscription to new shares at Initial Public Offerings, will continue to be one of the target products to be promoted throughout the year.

Bank of East Asia (Trustees) Limited

Trust Service

In the first half of the year, the Company successfully provided its custodian service to the maintenance funds of 11 Incorporated Owners of Estates under the Tenant Purchase Schemes of the Hong Kong Housing Authority, with a total asset size of HK\$560 million.

The Company was also appointed as trustee to BEA Capital Growth Fund, an Approved Pooled Investment Fund under the MPF Schemes Ordinance. In April 2003, BEA Asia

Strategic Growth Fund, a sub-fund of BEA Capital Growth Fund, was launched to provide more diversified investment options for the MPF Schemes.

Mandatory Provident Fund

Although the local job market suffered from the sluggish economy and SARS in the first half of 2003, BEA still recorded growth in membership of its MPF Master Trust Scheme and Industry Scheme 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.

Corporate Cyberbanking

Over 6,700 corporate customers have registered with BEA's Corporate Cyberbanking service since its launch in July 2001. An innovative real-time Funds Transfer to China service was introduced in May 2003. This new service enables customers to conduct real-time funds transfer from a local BEA account to any BEA account in China, a significant enhancement for corporate customers who have business operations in Hong Kong and the Mainland.

Business Development

BEA has deepened its strategic alliances with The Chinese Manufacturers Association of Hong Kong and Hong Kong Trade Development Council, assisting local enterprises to expand their business in Hong Kong and the Mainland. The Bank also sponsored the SME Ambassador Programme organised by The Hong Kong Article Numbering Association, with the aim of enhancing the overall competitiveness of SMEs in the consumer goods, retail and wholesale sectors.

To bring up-to-date market information to corporate customers, BEA organised a forum under the banner "Sharing of Success in China" in June 2003. Three renowned business leaders shared their success stories in China with BEA customers. The Bank also participated in the SME Market Day organised by the Hong Kong Trade Development Council.

INVESTMENT SERVICES

East Asia Securities Company Limited - Cybertrading Service

Strong growth in the number of Cybertrading accounts continued throughout the first half of 2003, rising 32% over the same period last year. All new and existing clients enjoy online stock trading through a number of electronic trading channels, including the Internet, and telephone or mobile phone through the Bank's Interactive Voice Recognition System ("IVRS"). As of 30th June, 2003, more than 38% of securities clients had subscribed to the Internet Trading Service.

In response to the abolition of the minimum brokerage commission rate effective April 2003 and in line with the market, East Asia Securities Company Limited has lowered its standard brokerage commission rate for telephone call-in orders as well as orders placed over the counter.

East Asia Securities Company Limited has instituted various incentive schemes, including a significantly lower commission rate and minimum commission rate per trade, to encourage its clients to execute trades via its user-friendly electronic trading platform. The schemes have generated strong positive response from clients and reaped satisfactory results. Currently, the volume of transactions executed via the Cybertrading System, expressed as a percentage of total turnover, accounts for some 57% and 35% in terms of number of trades and transactions volume, respectively.

As part of continuing efforts to upgrade the Cybertrading service, in the second half of 2003 East Asia Securities Company Limited will introduce the "Snapshot" real-time stock price quotation service over the Internet. This offers a similar level of service to the existing "Streaming" real-time stock price quotes service, but at a much lower cost. In addition, East Asia Securities will also further enhance its IVRS Trading System in the second half of 2003.

Currency/Indices/Equity Linked Deposit Services

As part of the Bank's strategy to further expand its wealth management services, the Bank has been offering selected customers equity linked deposits and currency linked deposits as an alternative investment products. Subject to each customer's investment objective and market view, linked deposits aim to offer customers a potentially higher return than traditional time deposits under the current low interest rate environment.

For the first six months of 2003, the linked deposit portfolio and related fee income have both registered more than a two-fold increase when compared with the corresponding period last year. With a view to catering for the increased demand from the mass affluent market, the Bank plans to lower the minimum investment amount for linked deposit products, and to offer linked deposit products through its Cyberbanking platform in the third quarter of 2003.

Guaranteed Funds

With volatile global stock markets and the low interest rate environment, in the first half of 2003 the Bank continued to offer its customers 100% capital guaranteed investment products. In February 2003, the Bank successfully launched two guaranteed funds, namely the BEA AUD Capital Guaranteed Coupon Fund and the BEA NZD Capital Guaranteed Coupon Fund. More than HK\$600 million equivalent was received in subscriptions for the two funds combined. The successful launch of the two funds has helped further improve the fee-based income of the Bank.

In mid June 2003, the Bank launched a further 100% capital guaranteed fund - BEA Equity & FX Markets Capital Guaranteed Coupon Fund. This closed for subscription on 15th July, 2003, following an encouraging response from customers. This 100% capital guaranteed fund aims to achieve capital appreciation by participating in the performance of the S&P 500 Index and strength of the Australian dollar against the United States Dollar.

CORPORATE SERVICES

Business, Corporate and Investor Services

Group member Tricor Holdings Limited ("Tricor") is the market leader in terms of both scope and scale of business in corporate and investor services. During the first six months of the year, Tricor and its domestic and international clientele have faced the challenges arising from the war in Iraq, the SARS outbreak and the unfavourable economic climate. This has led to a decline in Tricor's business servicing inward investment into Hong Kong / Greater China. Furthermore, some clients have postponed their initial public offerings in Hong Kong. There has also been pressure on fees from clients suffering as a result of local economic malaise. With these incidents now in the past, Tricor service lines will pick up gradually in the second half of the year.

In January 2003, Tricor acquired the business and corporate services practice of PricewaterhouseCoopers in Hong Kong, thus further strengthening its leading position in these specialised businesses.

Offshore Corporate and Trust Services

BEA 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 are assisted by Group staff in Hong Kong.

CHINA DIVISION

BEA Beijing Branch commenced business on 28th February, 2003. At present, BEA has a total of 16 outlets in China, providing a wide range of quality banking services to its growing customer base on the Mainland.

To further expand its branch network, BEA has obtained preliminary approval from the People's Bank of China ("PBOC") to establish a sub-branch in Gubei, Shanghai. It is expected that the Sub-branch will be in operation by the end of this year.

In 2002, all BEA branches in China obtained licences to provide full foreign currency services to all categories of customers. From May 2003, BEA branches in China have begun to receive approval from PBOC to offer Renminbi/foreign currency exchange to local Chinese residents. In line with the WTO timeline for market liberalisation, BEA has submitted applications for Renminbi business licences for its Guangzhou and Zhuhai Branches. BEA's Guangzhou Branch has already obtained approval from PBOC in this regard.

The outbreak of SARS on the Mainland inevitably affected BEA's operations. The branches took the opportunity to review their operations and customer portfolio, with the objective of improving operational efficiency and the allocation of resources for future business development.

OVERSEAS OPERATIONS

The Bank constantly monitors and reviews the global economy, and adjusts its international business strategy accordingly. During this reporting period, the Bank closed its Representative Offices in Ho Chi Minh City, Vietnam, and Manila, the Philippines.

On the other hand, expansion in the USA is continuing, through the Bank's wholly-owned banking subsidiary, The Bank of East Asia (USA) NA. A Regional Administrative Office has been established in New York to manage BEA's growing presence in New York and California.

HUMAN RESOURCES

The BEA Group employees at the end of June 2003:

Hong Kong	4,090
Other Greater China	891
Overseas	374
Total	5,355

During the first half of 2003, the Human Resources Division monitored and further modified the standardised personnel policies implemented last year. The outbreak of SARS in late March tested the Bank's employee care and support policy, and proved it to be robust and capable. To meet the changing needs of staff training and development at different levels, the quality of in-house training programmes was enhanced so as to equip staff members with the necessary skills for meeting the new business challenges ahead.

STRATEGY AND FUTURE PROSPECTS

The Bank continued to pursue its growth strategy in the first half of 2003. With the successful implementation of the new corporate identity last year, and the launch of a broad promotion programme at the branch level for retail financial products and services, the Bank attracted market attention to its strategy of offering effective one-stop financial services.

The Bank has maintained its franchise and competitive position in the industry, through careful planning of products and services in line with customer expectations. These have become more sophisticated in recent years, with the poor performance of traditional investment vehicles. The Bank has successfully developed new income streams and developed market opportunities.

Following its acquisition of a majority stake in Tengis Limited in 2002, the Bank acquired PricewaterhouseCoopers' company secretarial and client accounting businesses in Hong Kong in early 2003. This has further strengthened the Bank's position as the largest provider of business and corporate services and corporate secretarial services in Hong Kong. This line of business has now been consolidated under a subsidiary arm named Tricor Holdings Limited.

The Bank will also continue to develop its wealth management business, under the banner of SupremeGold, targeting middle and upper-middle income families.

In face of the current difficult economic and operating environment, the Bank will strive to streamline and improve its operating efficiencies, in order to optimise the value of its resources and to control costs. To achieve this objective, the Bank has taken a number of initiatives including branch rationalisation, shifting of back-office operations to Mainland China, and the proposed centralisation of support operations at "Millennium City 5" in Kwun Tong in early 2005.

The Bank will continue to leverage its strong position and presence in China, and capture the business opportunities arising in the China market. In January 2003, the Bank opened a new sub-branch in Guangzhou, and, in February 2003, the Bank successfully upgraded its Beijing Representative Office into a full branch. With a more extensive branch network, the Bank's premier position and role in the China market is further enhanced.

Outside Hong Kong and China, the Bank will also continue to look for potential business and alliance opportunities to expand and create value for its franchise.

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, 2003.

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, 2003, 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, 1st August, 2003