



BEA 東亞銀行

THE BANK OF EAST ASIA, LIMITED

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

ANNOUNCEMENT OF 2004 FINAL RESULTS

SUMMARY OF RESULTS

The Directors of The Bank of East Asia, Limited ("BEA") are pleased to announce the audited results¹ of the Bank and its subsidiaries (the "Group") for the year ended 31st December, 2004. This financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2003 annual accounts except for the changes in accounting policies made thereafter in adopting a new Hong Kong Accounting Standard ("HKAS") issued by the Hong Kong Institute of Certified Public Accountants².

A. Consolidated Profit and Loss Account

	2004 HK\$'000	2003 HK\$'000	Variance %
Interest income	5,682,080	5,763,729	- 1.4
Interest expense	(2,054,505)	(2,167,649)	- 5.2
Net interest income	3,627,575	3,596,080	+ 0.9
Fee and commission income	1,506,604	1,266,294	+ 19.0
Fee and commission expense	(298,363)	(210,818)	+ 41.5
Net trading profits	360,371	473,079	- 23.8
Other operating income	299,678	271,612	+ 10.3
Operating income	5,495,865	5,396,247	+ 1.8
Operating expenses	(2,720,431)	(2,525,540)	+ 7.7
Operating profit before provisions	2,775,434	2,870,707	- 3.3
Charge for bad and doubtful debts	(272,807)	(498,670)	- 45.3
Operating profit after provisions	2,502,627	2,372,037	+ 5.5
Net profit / (loss) on disposal of fixed assets	15,239	(11,195)	+ 236.1
Revaluation surplus on investment properties	227,941	12,816	+ 1678.6
Write back / (charge) for impairment loss on bank premises	18,538	(113,782)	+ 116.3
Net loss on disposal of held-to-maturity debt securities	-	(12,048)	- 100.0
Net profit / (loss) on disposal of investment securities and associates	13,758	(1,992)	+ 790.7
(Provision) / write back on held-to-maturity debt securities, investment securities and associates	(18,582)	15,874	+ 217.1
Share of profits less losses of associates	64,376	112,598	- 42.8
Profit for the year before taxation	2,823,897	2,374,308	+ 18.9
Income tax			
Current tax ³			
- Hong Kong	(297,372)	(63,036)	+ 371.7
- Overseas	(29,185)	(47,475)	- 38.5
Deferred tax	(53,392)	(301,687)	- 82.3
Associates	4,619	(21,203)	- 121.8
Profit for the year after taxation	2,448,567	1,940,907	+ 26.2
Minority interests	(24,767)	(19,193)	+ 29.0
Profit attributable to shareholders	2,423,800	1,921,714	+ 26.1
Proposed final dividend per share	HK\$0.80	HK\$0.62	+ 29.0
Per share			
- Basic earnings ⁴	HK\$1.64	HK\$1.32	+ 24.2
- Diluted earnings ⁴	HK\$1.63	HK\$1.32	+ 23.5
- Cash earnings ⁴	HK\$1.74	HK\$1.42	+ 22.5
- Dividends	HK\$1.08	HK\$0.85	+ 27.1

B. Consolidated Balance Sheet

	2004	2003	Variance
	HK\$'000	HK\$'000	%
ASSETS			
Cash and short-term funds	39,877,738	36,033,510	+ 10.7
Placements with banks and other financial institutions maturing between one and twelve months	9,832,258	21,075,521	- 53.3
Trade bills less provisions	1,400,138	623,273	+ 124.6
Certificates of deposit held	2,446,947	3,016,556	- 18.9
Other investments in securities	8,563,367	10,151,335	- 15.6
Advances and other accounts less provisions	122,949,653	108,379,794	+ 13.4
Held-to-maturity debt securities	16,096,084	11,709,225	+ 37.5
Investment securities	236,373	243,097	- 2.8
Investments in associates	725,963	736,484	- 1.4
Goodwill	2,448,156	2,343,408	+ 4.5
Deferred tax assets	95,119	79,217	+ 20.1
Fixed assets	5,697,750	4,084,698	+ 39.5
Total Assets	210,369,546	198,476,118	+ 6.0
LIABILITIES			
Deposits and balances of banks and other financial institutions	9,571,657	7,516,565	+ 27.3
Deposits from customers	163,737,665	155,420,612	+ 5.4
Certificates of deposit issued	4,178,623	5,527,339	- 24.4
Current taxation	179,369	144,644	+ 24.0
Other accounts and provisions	5,843,048	4,616,361	+ 26.6
Deferred tax liabilities	694,924	863,928	- 19.6
Total Liabilities	184,205,286	174,089,449	+ 5.8
CAPITAL RESOURCES			
Loan capital	4,271,124	4,260,751	+ 0.2
Share capital	3,729,996	3,668,634	+ 1.7
Reserves	17,997,485	16,432,866	+ 9.5
Shareholders' Funds	21,727,481	20,101,500	+ 8.1
Minority interests	165,655	24,418	+ 578.4
Total Capital Resources	26,164,260	24,386,669	+ 7.3
Total Capital Resources and Liabilities	210,369,546	198,476,118	+ 6.0

C. Consolidated Statement of Changes in Equity

	2004 HK\$'000	2003 HK\$'000
Balance as at 1 st January		18,786,519
- As previously reported	20,101,500	
- Adjustments arising from change in accounting policies	9,756	
- As restated	20,111,256	
Recognition of net deferred tax liabilities on revaluation of bank premises	(1,874)	(15,302)
Revaluation surplus on bank premises transferred to investment properties	13,788	-
Write back / (charge) of impairment loss on bank premises	12,839	(122,013)
Exchange adjustments	24,874	42,844
Net gains/(losses) not recognised in the profit and loss account	49,627	(94,471)
Net profit for the year	2,423,800	1,921,714
Dividends declared or approved during the year	(1,325,241)	(840,289)
Movements in shareholders' funds arising from capital transactions with shareholders:		
Shares issued under Staff Share Option Schemes	172,389	217,003
Shares issued in lieu of dividends	295,794	111,161
Capital fee	(144)	(137)
	468,039	328,027
Balance as at 31 st December	21,727,481	20,101,500

D. Consolidated Cash Flow Statement

	2004 HK\$'000	2003 HK\$'000
OPERATING ACTIVITIES		
Profit for the year before taxation	2,823,897	2,374,308
Adjustments for non-cash items:		
Charge for bad and doubtful debts	272,807	498,670
Provision / (write back) on held-to-maturity debt securities, investment securities and associates	18,582	(15,874)
Share of profits less losses of associates	(64,376)	(112,598)
Net (profit) / loss on disposal of held-to-maturity debt securities, investment securities and associates	(13,758)	14,040
Net (profit) / loss on disposal of fixed assets	(15,239)	11,195
Interest expense on certificates of deposit and bonds issued	232,224	396,750
Depreciation on fixed assets	243,961	228,842
Amortisation of goodwill	143,875	140,087
(Write back) / charge for impairment loss on bank premises	(18,538)	113,782
Dividend income from equity securities	(42,960)	(26,271)
Amortisation of premium/discount on certificates of deposit and loan capital issued	81,614	84,782
Revaluation surplus on investment properties	(227,941)	(12,816)
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL	3,434,148	3,694,897
(Increase)/decrease in operating assets:		
Placements with banks and other financial institutions with original maturity beyond three months	14,063,140	(12,354,207)
Trade bills	(777,231)	48,434
Certificates of deposit held with original maturity beyond three months	506,051	(135,799)
Other investments in securities	1,641,359	3,141,065
Advances to customers	(14,593,453)	4,870,312
Advances to banks and other financial institutions	(550,674)	(475,419)
Treasury bills with original maturity beyond three months	713,250	(1,091,022)
Held-to-maturity debt securities and investment securities	(4,384,814)	(8,629,332)
Other accounts and accrued interest	407,031	(1,459,241)
Deferred tax assets	(15,902)	(2,188)
Increase/(decrease) in operating liabilities:		
Deposits and balances of banks and other financial institutions	2,055,092	1,761,728
Deposits from customers	8,317,053	13,758,723
Other accounts and provisions	1,340,329	844,638
Deferred tax liabilities	(227,405)	(163,423)
Exchange adjustments	93,403	58,442
NET CASH INFLOW FROM OPERATIONS	12,021,377	3,867,608
Hong Kong profits tax paid	(243,233)	(45,154)
Overseas profits tax paid	(56,794)	(45,176)
NET CASH FLOWS GENERATED FROM OPERATING ACTIVITIES	11,721,350	3,777,278

D. Consolidated Cash Flow Statement (Continued)

	2004 HK\$'000	2003 HK\$'000
INVESTING ACTIVITIES		
Dividends received from associates	17,660	17,669
Dividends received from equity securities	42,960	26,271
Purchase of equity securities	(144,269)	(85,692)
Proceeds from sale of equity securities	115,709	95,173
Purchase of fixed assets	(1,661,419)	(223,673)
Proceeds from disposal of fixed assets	115,183	88,092
Increase in shareholding of an associate	(8,400)	-
Proceeds from disposal of associates	33,675	-
Purchase of subsidiaries	(321,399)	(300,509)
Increase in shareholding of a subsidiary	(26,820)	(39,139)
NET CASH USED IN INVESTING ACTIVITIES	(1,837,120)	(421,808)
FINANCING ACTIVITIES		
Ordinary dividends paid	(1,029,447)	(729,128)
Issue of ordinary share capital	172,389	217,003
Capital fee paid on increase in issued share capital	(144)	(137)
Issue of certificates of deposit	2,633,196	2,991,300
Redemption of certificates of deposit	(4,111,483)	(7,735,365)
Redemption of convertible bonds	-	(119,621)
Interest paid on loan capital	(109,839)	(196,343)
Interest paid on certificates of deposit	(125,105)	(215,668)
Interest paid on bonds issued	-	(1,995)
NET CASH USED IN FINANCING ACTIVITIES	(2,570,433)	(5,789,954)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	7,313,797	(2,434,484)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	33,890,538	36,325,022
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	41,204,335	33,890,538
Cash flows from operating activities included:		
Interest received	5,589,866	5,691,064
Interest paid	1,865,025	2,179,925

Notes:

- (1) The financial information set out in this report does not constitute the Group's statutory accounts for the year ended 31st December, 2004 but there is no material change as compared to those accounts. The statutory accounts for the year ended 31st December, 2004 will be available from the website of The Stock Exchange of Hong Kong Limited. The auditors have expressed an unqualified opinion on those accounts in their report dated 3rd February, 2005.
- (2) The Bank has adopted HKAS 40 "Investment Property" issued by the Hong Kong Institute of Certified Public Accountants ("HKAS40") in the consolidated accounts retrospectively from 1st January, 2004 in accounting for its investment properties.

In prior years, investment properties were stated in the balance sheet at open market value, less any accumulated depreciation. Buildings with either the remaining useful life or the remaining lease period of the land on which they are situated being 20 years or less were depreciated on a straight line basis at rates calculated to write off the cost or valuation of the building over the shorter of the remaining estimated useful life of the building or the remaining lease period of the land. Surpluses and deficits arising on revaluation of investment properties were recognised on a portfolio basis. The net surplus was credited to the investment property revaluation reserve. The net deficit was first set off against any investment property revaluation reserve and any resulting debit balance was thereafter charged to the profit and loss account. Where a deficit had previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus was credited to the profit and loss account to the extent of the deficit previously charged.

In order to comply with HKAS40, the Group has adopted new accounting policies for investment properties. As a result of the adoption of these accounting policies, the Group's profit for the year has been increased by HK\$174,797,000 and the net assets of the Group at the year end have been increased by HK\$97,054,000.

The effect of adopting the new accounting policies was adjusted to the opening balance of 1st January, 2004 in accordance with the transitional provisions of HKAS40. As a result, the comparative information has not been restated.

- (3) The provision for Hong Kong profits tax is calculated at 17.5% of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.
- (4)
 - (a) The calculation of basic earnings per share is based on earnings of HK\$2,423,800,000 (2003: HK\$1,921,714,000) and on the weighted average of 1,479,171,460 (2003 : 1,453,702,043) ordinary shares outstanding during the year.
 - (b) The calculation of diluted earnings per share is based on earnings of HK\$2,423,800,000 (2003: HK\$1,922,793,000) and on 1,486,243,795 (2003 : 1,459,024,994) ordinary shares, being the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.
 - (c) The calculation of cash earnings per share is based on earnings of HK\$2,567,675,000 (2003: HK\$2,061,801,000) which has been adjusted for goodwill amortisation of HK\$143,875,000 (2003: HK\$140,087,000) and on the weighted average of 1,479,171,460 (2003 : 1,453,702,043) ordinary shares outstanding during the year. This supplementary information is considered a useful additional indication of performance.

E. Fee and Commission Income

Fee and commission income arises from the following services:

	2004 HK\$'000	2003 HK\$'000	Variance %
Corporate services	391,262	359,370	+ 8.9
Loans, overdrafts and guarantees	358,838	240,330	+ 49.3
Credit cards	204,668	188,164	+ 8.8
Other retail banking services	111,614	129,911	- 14.1
Trade finance	116,965	101,375	+ 15.4
Securities and asset management	192,974	135,816	+ 42.1
Others	130,283	111,328	+ 17.0
Total fee and commission income	<u>1,506,604</u>	<u>1,266,294</u>	+ 19.0

F. Operating Expenses

	2004 HK\$'000	2003 HK\$'000	Variance %
Contributions to defined contribution plan	103,478	94,191	+ 9.9
Salaries and other staff costs	<u>1,329,711</u>	<u>1,251,150</u>	+ 6.3
Total staff costs	<u>1,433,189</u>	<u>1,345,341</u>	+ 6.5
Premises and equipment expenses excluding depreciation			
- Rental of premises	142,542	132,703	+ 7.4
- Maintenance, repairs and others	<u>205,168</u>	<u>186,639</u>	+ 9.9
Total premises and equipment expenses excluding depreciation	<u>347,710</u>	<u>319,342</u>	+ 8.9
Depreciation on fixed assets	243,961	228,842	+ 6.6
Amortisation of goodwill	143,875	140,087	+ 2.7
Other operating expenses			
- Communications, stationery and printing	159,047	143,858	+ 10.6
- Legal and professional fees	89,127	78,421	+ 13.7
- Advertising expenses	87,820	64,306	+ 36.6
- Business promotions and business travel	50,119	43,292	+ 15.8
- Card related expenses	41,104	31,112	+ 32.1
- Stamp duty, overseas and PRC* business taxes, and value added taxes	21,440	24,858	- 13.8
- Insurance expenses	14,035	5,550	+ 152.9
- Debt securities issue expenses	7,800	10,598	- 26.4
- Bank charges	7,296	5,844	+ 24.8
- Administration expenses of secretarial business	7,159	7,237	- 1.1
- Membership fees	5,126	4,943	+ 3.7
- Bank licence	4,655	4,770	- 2.4
- Audit fee	4,123	3,803	+ 8.4
- Donations	2,043	3,881	- 47.4
- Others	<u>50,802</u>	<u>59,455</u>	- 14.6
Total other operating expenses	<u>551,696</u>	<u>491,928</u>	+ 12.1
Total operating expenses	<u>2,720,431</u>	<u>2,525,540</u>	+ 7.7

* PRC denotes the People's Republic of China.

** Included in operating expenses are direct operating expenses of HK\$13,374,000 (2003: HK\$13,365,000) in respect of investment properties which generated rental income during the year.

G. Advances and Other Assets

1. Advances and Other Accounts less Provisions

	2004 HK\$'000	2003 HK\$'000	Variance %
Advances to customers	117,258,753	102,908,836	+ 13.9
Advances to banks and other financial institutions	2,114,655	1,563,981	+ 35.2
Accrued interest	1,054,632	1,137,979	- 7.3
Less: Suspended interest	(319,779)	(439,982)	- 27.3
Other accounts	4,523,708	4,380,696	+ 3.3
Construction in progress	-	468,235	- 100.0
	<u>124,631,969</u>	<u>110,019,745</u>	+ 13.3
Less: Provisions for bad and doubtful debts			
- Specific	342,320	380,400	- 10.0
- General	1,339,996	1,259,551	+ 6.4
	<u>122,949,653</u>	<u>108,379,794</u>	+ 13.4

2. Advances to Customers – by Industry Sectors

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

	2004 HK\$'000	2003 HK\$'000	Variance %
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property development	4,398,093	4,969,798	- 11.5
- Property investment	14,536,729	11,883,891	+ 22.3
- Financial concerns	1,507,153	2,045,115	- 26.3
- Stockbrokers	277,903	322,112	- 13.7
- Wholesale and retail trade	1,569,771	1,790,164	- 12.3
- Manufacturing	1,822,971	1,250,396	+ 45.8
- Transport and transport equipment	4,507,233	4,564,759	- 1.3
- Others	6,032,368	4,500,757	+ 34.0
- Sub-total	<u>34,652,221</u>	<u>31,326,992</u>	+ 10.6
Individuals			
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,522,173	1,848,337	- 17.6
- Loans for the purchase of other residential properties	34,928,247	34,595,575	+ 1.0
- Credit card advances	1,649,200	1,432,687	+ 15.1
- Others	3,230,750	2,950,460	+ 9.5
- Sub-total	<u>41,330,370</u>	<u>40,827,059</u>	+ 1.2
Total loans for use in Hong Kong	75,982,591	72,154,051	+ 5.3
Trade finance	4,092,162	3,314,514	+ 23.5
Loans for use outside Hong Kong	37,184,000	27,440,271	+ 35.5
Total advances to customers	<u>117,258,753</u>	<u>102,908,836</u>	+ 13.9

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.

	2004		
	Total advances to customers HK\$'000	Non-performing loans HK\$'000	Advances overdue for over three months HK\$'000
Hong Kong	88,598,608	765,035	575,894
People's Republic of China	10,911,094	317,005	77,426
Other Asian Countries	6,354,111	107,771	103,688
Others	11,394,940	175,621	83,377
Total	<u>117,258,753</u>	<u>1,365,432</u>	<u>840,385</u>

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

4. Cross-border Claims

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

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

	2003			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
People's Republic of China	5,942,870	1,117,031	4,763,759	11,823,660
Asian countries, excluding People's Republic of China	13,068,878	1,156,111	6,184,322	20,409,311
North America	5,526,584	8,245,582	4,920,474	18,692,640
Western Europe	33,240,941	-	1,088,757	34,329,698

5. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and Rescheduled Advances

	2004		2003	
	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	242,893	0.2	276,799	0.3
- 1 year or less but over 6 months	194,645	0.2	339,092	0.3
- Over 1 year	402,847	0.3	882,782	0.9
	<u>840,385</u>	<u>0.7</u>	<u>1,498,673</u>	<u>1.5</u>
Rescheduled advances to customers	<u>472,335</u>	<u>0.4</u>	<u>1,123,114</u>	<u>1.1</u>
Total overdue and rescheduled advances	<u>1,312,720</u>	<u>1.1</u>	<u>2,621,787</u>	<u>2.6</u>
Secured overdue advances	<u>660,700</u>	<u>0.6</u>	<u>1,323,712</u>	<u>1.3</u>
Unsecured overdue advances	<u>179,685</u>	<u>0.1</u>	<u>174,961</u>	<u>0.2</u>
Market value of security held against secured overdue advances	<u>1,122,161</u>		<u>1,736,962</u>	

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

(b) Non-performing Advances to Customers

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

	2004		2003	
	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers
Gross non-performing advances to customers	1,365,432	1.16	2,526,389	2.45
Specific provisions	206,624		219,528	
Suspended interest*	380,129		508,890	

* Inclusive of interest capitalised

There were no advances to banks and other financial institutions on which interest is being placed in suspense or on which interest accrual has ceased as at 31st December, 2004 and 31st December, 2003, nor were there any specific provisions made for them on these two dates.

(c) Reconciliation

	2004 HK\$'000	2003 HK\$'000
Overdue advances (Note 1)	840,385	1,498,673
Rescheduled advances (Note 2)	472,335	1,123,114
Total overdue and rescheduled advances	1,312,720	2,621,787
Less: Overdue advances on which interest is still being accrued	(157,696)	(150,286)
Less: Rescheduled advances on which interest is still being accrued	(63,283)	(173,813)
Add: Non-performing loans which are not overdue or rescheduled	273,691	228,701
Total non-performing loans	1,365,432	2,526,389

Notes:

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

(d) Other Overdue and Rescheduled Assets

	2004	
	Accrued interest HK\$'000	Other assets* HK\$'000
Other assets overdue for		
- 6 months or less but over 3 months	1,653	305
- 1 year or less but over 6 months	1,065	614
- Over 1 year	407	19,462
	3,125	20,381
Rescheduled assets	-	-
Total other overdue and rescheduled assets	3,125	20,381

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

* Other assets refer to trade bills and receivables.

(e) Repossessed Assets

	2004 HK\$'000	2003 HK\$'000
Reposessed properties *	107,745	176,265
Reposessed vehicles and machines	340	671
Total reposessed assets	<u>108,085</u>	<u>176,936</u>

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

* The balance included HK\$26,293,000 (2003 : HK\$47,656,000) relating to properties that were contracted for sale but not yet completed.

H. Segment Reporting

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

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

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

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

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

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

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

2004

	Personal Banking HK\$'000	Corporate Banking HK\$'000	Investment Banking HK\$'000	Corporate Services HK\$'000	Others HK\$'000	Unallocated HK\$'000	Inter- segment elimination HK\$'000	Consolidated HK\$'000
The Group								
Net interest income	1,738,465	1,336,813	579,621	(50)	24,248	(51,522)	-	3,627,575
Other operating income from external customers	436,784	268,027	496,950	387,894	193,442	85,193	-	1,868,290
Inter-segment income	-	-	-	-	-	108,778	(108,778)	-
Total operating income	<u>2,175,249</u>	<u>1,604,840</u>	<u>1,076,571</u>	<u>387,844</u>	<u>217,690</u>	<u>142,449</u>	<u>(108,778)</u>	<u>5,495,865</u>
Operating profit / (loss) before provisions	1,013,239	1,025,569	836,336	139,944	64,084	(303,738)	-	2,775,434
Inter-segment transactions	91,956	8,172	3,745	-	306	(104,179)	-	-
(Charge for) / write back of bad and doubtful debts	(84,842)	(206,148)	(389)	(9,033)	1,528	26,077	-	(272,807)
Contribution from operations	1,020,353	827,593	839,692	130,911	65,918	(381,840)	-	2,502,627
Revaluation surplus on investment properties	-	-	-	-	-	227,941	-	227,941
Write back on impairment loss on bank premises	-	-	-	-	-	18,538	-	18,538
Share of profits less losses of associates	(1,723)	18,624	19,255	-	28,481	(261)	-	64,376
Other income and expenses *	-	(15,773)	19,830	-	-	6,358	-	10,415
Profit / (loss) before taxation	1,018,630	830,444	878,777	130,911	94,399	(129,264)	-	2,823,897
Income tax	-	-	-	-	-	(375,330)	-	(375,330)
Minority interests	-	-	-	(24,767)	-	-	-	(24,767)
Profit / (loss) attributable to shareholders	<u>1,018,630</u>	<u>830,444</u>	<u>878,777</u>	<u>106,144</u>	<u>94,399</u>	<u>(504,594)</u>	<u>-</u>	<u>2,423,800</u>
Profit / (loss) attributable to shareholders is after charging :								
Depreciation for the year	(91,616)	(48,490)	(17,205)	(7,405)	(6,909)	(72,336)	-	(243,961)
Amortisation of goodwill	<u>(30,538)</u>	<u>(31,701)</u>	<u>(40,040)</u>	<u>(39,626)</u>	<u>(1,970)</u>	<u>-</u>	<u>-</u>	<u>(143,875)</u>
Segment assets	48,448,340	71,741,124	77,018,778	1,645,556	1,507,253	704,842	-	201,065,893
Investments in associates	36,601	290,495	77,399	-	319,574	1,894	-	725,963
Unallocated assets	-	-	-	-	-	8,577,690	-	8,577,690
Total assets	<u>48,484,941</u>	<u>72,031,619</u>	<u>77,096,177</u>	<u>1,645,556</u>	<u>1,826,827</u>	<u>9,284,426</u>	<u>-</u>	<u>210,369,546</u>
Segment liabilities	106,071,387	57,671,069	14,045,540	52,344	1,129,967	-	-	178,970,307
Unallocated liabilities	-	-	-	-	-	5,234,979	-	5,234,979
Total liabilities	<u>106,071,387</u>	<u>57,671,069</u>	<u>14,045,540</u>	<u>52,344</u>	<u>1,129,967</u>	<u>5,234,979</u>	<u>-</u>	<u>184,205,286</u>
Write back of impairment loss credited to equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,839</u>	<u>-</u>	<u>12,839</u>
Capital expenditure incurred during the year	<u>53,613</u>	<u>74,870</u>	<u>88,472</u>	<u>228,523</u>	<u>28,576</u>	<u>1,432,127</u>	<u>-</u>	<u>1,906,181</u>

* Other income and expenses included net profit or loss on disposal of fixed assets, held-to-maturity debt securities, investment securities and associates, provision or write back on held-to-maturity debt securities, investment securities and associates.

2003

	Personal Banking HK\$'000	Corporate Banking HK\$'000	Investment Banking HK\$'000	Corporate Services HK\$'000	Others HK\$'000	Unallocated HK\$'000	Inter- segment elimination HK\$'000	Consolidated HK\$'000
The Group								
Net interest income	1,932,393	1,170,885	526,811	24	34,481	(68,514)	-	3,596,080
Other operating income from external customers	393,717	254,897	566,819	358,375	147,970	78,389	-	1,800,167
Inter-segment income	-	-	-	-	-	136,566	(136,566)	-
Total operating income	2,326,110	1,425,782	1,093,630	358,399	182,451	146,441	(136,566)	5,396,247
Operating profit / (loss) before provisions	1,286,224	880,649	858,429	112,477	36,722	(303,794)	-	2,870,707
Inter-segment transactions	112,394	11,256	6,779	-	-	(130,429)	-	-
Charge for bad and doubtful debts	(343,519)	(112,574)	(16,138)	(9,995)	(15,944)	(500)	-	(498,670)
Contribution from operations	1,055,099	779,331	849,070	102,482	20,778	(434,723)	-	2,372,037
Revaluation surplus on investment properties	-	-	-	-	-	12,816	-	12,816
Impairment loss on bank premises	-	-	-	-	-	(113,782)	-	(113,782)
Share of profits less losses of associates	(3,994)	26,007	1,314	-	97,932	(8,661)	-	112,598
Other income and expenses *	-	3,250	(16,252)	-	5,941	(2,300)	-	(9,361)
Profit / (loss) before taxation	1,051,105	808,588	834,132	102,482	124,651	(546,650)	-	2,374,308
Income tax	-	-	-	-	-	(433,401)	-	(433,401)
Minority interests	-	-	-	(18,992)	(150)	(51)	-	(19,193)
Profit / (loss) attributable to shareholders	1,051,105	808,588	834,132	83,490	124,501	(980,102)	-	1,921,714
Profit / (loss) attributable to shareholders is after charging :								
Depreciation for the year	(84,255)	(40,938)	(16,340)	(6,468)	(7,593)	(73,248)	-	(228,842)
Amortisation of goodwill	(31,425)	(25,214)	(45,638)	(36,870)	(940)	-	-	(140,087)
Segment assets	48,173,407	56,294,715	82,861,682	1,169,400	1,103,878	90,214	-	189,693,296
Investments in associates	31,926	342,601	53,840	-	304,705	3,412	-	736,484
Unallocated assets	-	-	-	-	-	8,046,338	-	8,046,338
Total assets	48,205,333	56,637,316	82,915,522	1,169,400	1,408,583	8,139,964	-	198,476,118
Segment liabilities	110,392,305	45,031,831	13,440,069	62,760	737,779	-	-	169,664,744
Unallocated liabilities	-	-	-	-	-	4,424,705	-	4,424,705
Total liabilities	110,392,305	45,031,831	13,440,069	62,760	737,779	4,424,705	-	174,089,449
Impairment loss charged to equity	-	-	-	-	-	(122,013)	-	(122,013)
Capital expenditure incurred during the year	44,118	53,071	79,940	328,010	5,329	15,732	-	526,200

* Other income and expenses included net profit or loss on disposal of fixed assets, held-to-maturity debt securities, investment securities and associates, provision or write back on held-to-maturity debt securities, investment securities and associates.

I. Off-balance Sheet Exposures

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

	2004 HK\$'000	2003 HK\$'000	Variance %
Contractual amounts of contingent liabilities and commitments			
- Direct credit substitutes	5,375,979	4,381,620	+ 22.7
- Transaction-related contingencies	486,028	496,632	- 2.1
- Trade-related contingencies	2,501,087	2,596,662	- 3.7
- Other commitments with an original maturity of:			
Under 1 year or which are unconditionally cancellable	27,786,426	20,395,121	+ 36.2
1 year and over	8,136,611	6,775,946	+ 20.1
- Others	-	50,117	- 100.0
Total	<u>44,286,131</u>	<u>34,696,098</u>	+ 27.6
- Aggregate credit risk weighted amount	<u>8,822,965</u>	<u>8,087,367</u>	+ 9.1
Notional amounts of derivatives			
- Exchange rate contracts	16,381,808	35,334,684	- 53.6
- Interest rate contracts	16,327,689	13,541,671	+ 20.6
- Equity contracts	933,975	840,638	+ 11.1
Total	<u>33,643,472</u>	<u>49,716,993</u>	- 32.3
- Aggregate credit risk weighted amount	<u>399,317</u>	<u>471,430</u>	- 15.3
- Aggregate replacement costs	<u>1,264,313</u>	<u>1,458,276</u>	- 13.3

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

J. Currency Concentrations

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.

	2004 HK\$ Million					Total
	USD	CAD	GBP	CNY	Others	
Spot assets	49,928	4,375	4,270	7,581	21,586	87,740
Spot liabilities	(52,103)	(4,458)	(6,690)	(7,364)	(22,592)	(93,207)
Forward purchases	18,257	484	2,727	-	5,802	27,270
Forward sales	(15,863)	(289)	(370)	-	(4,812)	(21,334)
Net options position	16	(1)	(1)	-	3	17
Net long / (short) position	<u>235</u>	<u>111</u>	<u>(64)</u>	<u>217</u>	<u>(13)</u>	<u>486</u>

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

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

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

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

K. Capital, Capital Adequacy and Liquidity Information

1. Capital Adequacy Ratio

	2004	2003
	%	%
Unadjusted capital adequacy ratio as at 31 st December	16.2	17.2
Adjusted capital adequacy ratio as at 31 st December	16.1	17.1

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

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

2. Capital Base after Deductions

	2004	2003	Variance
	HK\$'000	HK\$'000	%
Core capital			
Paid up ordinary share capital	3,729,996	3,668,634	+ 1.7
Share premium	631,188	520,305	+ 21.3
Reserves	14,997,378	14,059,945	+ 6.7
Minority interests	165,655	24,418	+ 578.4
Deduct: Goodwill	(2,448,156)	(2,343,408)	+ 4.5
Total core capital	<u>17,076,061</u>	<u>15,929,894</u>	+ 7.2
Eligible supplementary capital			
Reserves on revaluation of land and interests in land (at 70%)	822,725	659,956	+ 24.7
General provisions for doubtful debts	1,336,044	1,266,365	+ 5.5
Term subordinated debt	4,271,124	4,260,751	+ 0.2
Total eligible supplementary capital	<u>6,429,893</u>	<u>6,187,072</u>	+ 3.9
Total capital base before deductions	23,505,954	22,116,966	+ 6.3
Deductions from total capital base	<u>(969,261)</u>	<u>(1,049,318)</u>	- 7.6
Total capital base after deductions	<u><u>22,536,693</u></u>	<u><u>21,067,648</u></u>	+ 7.0

3. Reserves

	2004 HK\$'000	2003 HK\$'000	Variance %
Share premium	631,188	520,305	+ 21.3
General reserve	12,045,266	11,747,096	+ 2.5
Revaluation reserve on bank premises	1,007,505	942,794	+ 6.9
Exchange revaluation reserve	49,813	24,939	+ 99.7
Other reserves	87,846	91,968	- 4.5
Retained profits	4,175,867	3,105,764	+ 34.5
Total	<u>17,997,485</u>	<u>16,432,866</u>	+ 9.5
Proposed dividends, not provided for	<u>1,193,599</u>	<u>909,821</u>	+ 31.2

4. Liquidity Ratio

	2004 %	2003 %
Average liquidity ratio for the year	44.4	44.8

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

L. Statement of Compliance

- (1) In preparing the accounts for 2004, the Bank has fully complied with the guideline set out in the Supervisory Policy Manual "Financial Disclosure by Locally Incorporated Authorized Institutions" issued by the Hong Kong Monetary Authority.
- (2) The Bank has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 31st December, 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 14th March, 2005 to Wednesday, 16th March, 2005. In order to qualify for the final dividend declared for the year ended 31st December, 2004, 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, 11th March, 2005.

CHAIRMAN'S STATEMENT

I am pleased to inform shareholders that Mr. Tan Man-kou was appointed an Independent Non-executive Director and a member of the Audit Committee of The Bank of East Asia ("BEA" or the "Bank") on 1st December, 2004. Mr. Tan concurrently serves as a consultant to Deloitte Touche Tohmatsu. I am confident that the valuable contribution of Mr. Tan will lead to the further success of BEA.

In 2004, BEA Group achieved a profit attributable to shareholders of HK\$2,424 million, representing an increase of HK\$502 million, or 26.1%, over that of HK\$1,922 million for 2003. Basic earnings per share were HK\$1.64. Return on average assets and return on average equity were 1.2% and 11.9%, respectively.

As at 31st December, 2004, total consolidated assets were HK\$210,370 million, an increase of HK\$11,894 million over the position at the end of 2003. Advances to customers were HK\$117,259 million, representing 55.7% of total consolidated assets. Customer deposits were HK\$163,738 million, while debt instruments issued stood at HK\$4,179 million. The loan-to-deposit ratio was 69.8%, compared with 63.9% at the end of 2003. Total capital resources increased by 7.3% to HK\$26,164 million.

At the Annual General Meeting to be held on Friday, 8th April, 2005, the Directors will propose a final dividend of HK\$0.80 per share, which, together with the interim dividend of HK\$0.28 per share paid in September 2004, will constitute a total dividend of HK\$1.08 per share for the full year. This represents an increase of 27.1% over the total dividend of HK\$0.85 per share for the year 2003. Shareholders whose names are on the Register of Members at the close of business on Wednesday, 16th March, 2005 will be entitled to the proposed final dividend. The final dividend will be paid in cash, with an option to receive new, fully paid shares in lieu of cash. This scrip dividend scheme is conditional upon the passing of the relevant resolution at the Annual General Meeting, and the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares. The dividend warrants and the share certificates for the scrip dividend will be sent to shareholders by ordinary mail on or about Saturday, 9th April, 2005. Details of the scrip dividend and the election form will be sent to shareholders on or about Wednesday, 16th March, 2005.

The year 2004 continued to be a challenging year for the Hong Kong banking industry, as banks grappled with high liquidity in the banking system and soft loan demand. Nevertheless, the overall asset quality of retail banks improved in 2004, as the property market gradually recovered and the bad debt overhang cleared in tandem with improving economic conditions. As a result, there is a general feeling of cautious optimism as we enter 2005. Banks in Hong Kong will continue to seek new revenue sources in view of the keen competition. In addition, due to the forthcoming implementation of new Basel Capital Accord requirements, banks will continue to devote more resources to their overall risk management framework and approaches.

BEA continued to grow and expand in 2004. The Bank's proven growth strategy enabled it to enhance its franchise and strengthen its competitive position in the market, despite the weak loan demand. The Bank will continue to explore new market opportunities and develop alternate income sources. A range of innovative products has been developed to serve customers needs. In particular, aggressive expansion of the Bank's wealth management business through the SupremeGold brand will be maintained. In addition, the Bank will further leverage its leading position in business, corporate and investor services through Tricor Holdings Limited, and similar opportunities in insurance business through Blue Cross (Asia-Pacific) Insurance Limited. Furthermore, the Bank will continue to seek potential acquisition and alliance opportunities.

The Bank will further enhance operating efficiencies. The Bank has conducted a number of initiatives to date, including branch rationalisation, shifting of certain back-office operations to

Mainland China and the much anticipated office centralisation project. This project, which will consolidate Hong Kong back office operations at “Millennium City 5” in Kwun Tong, has been progressing smoothly. The office tower was ready for occupation in the fourth quarter of 2004, and the Bank intends to complete relocation of its support operations to the tower within the first half of 2005.

The China market remains a key focus of the Bank’s strategy. Following further expansion of its branch and office network on the Mainland in 2004, the Bank is well equipped to capture the opportunities arising from the liberalisation of the banking sector and continued growth of Renminbi business.

With the Bank’s well-developed market presence and good business prospects in China, the growing contribution to profits from corporate services and insurance businesses, as well as on-going efforts to improve operating efficiencies, BEA will continue to build for the future and strengthen its franchise in Hong Kong, the Mainland and international markets.

David LI Kwok-po
Chairman and Chief Executive

Hong Kong
3rd February, 2005

EXECUTIVE DIRECTORS' REPORT

Financial Review

Financial Performance

The Hong Kong economy continued to improve in 2004.

The property market became much more active during the year, and property prices increased at a moderate and healthy pace. The rise in property prices greatly reduced the number of home owners in negative equity, and this contributed to a general pick-up in consumer confidence. Coupled with the influx of Mainland tourists, the demand for consumer goods in Hong Kong increased. The long deflationary period came to an end in mid-year, while the unemployment rate eased.

Despite the improving economy, competition within the banking industry remained fierce. In this challenging operating environment, the BEA Group achieved a profit attributable to shareholders of HK\$2,424 million for the year ended 31st December, 2004, a growth of 26.1% as compared with 2003. Total operating income increased by 1.8% to HK\$5,496 million. A decrease in the net charge for bad and doubtful debts resulted in an increase in operating profit after provisions of 5.5% to HK\$2,503 million.

Net interest income increased by HK\$32 million, or 0.9%, from HK\$3,596 million, largely due to careful management of assets and liabilities. Non-interest income increased by HK\$68 million, or 3.8%, when compared with 2003, mainly due to the diversification of fee based income sources and improvement in the securities market. As a result, total operating income increased by HK\$100 million, or 1.8%, from HK\$5,396 million in 2003 to HK\$5,496 million in 2004.

Total operating expenses increased by 7.7% over the corresponding figure in 2003 to HK\$2,720 million. The increase was mainly due to increases in staff costs and advertising and promotion expenses. Thus, the cost-to-income ratio increased from 46.8% in 2003 to 49.5% in 2004.

Operating profit before provisions was HK\$2,775 million for the year ended 31st December, 2004, a decrease of HK\$96 million, or 3.3%, over the HK\$2,871 million attained in 2003.

The combined effect of the economic upturn and the precautionary measures undertaken by the Group to minimise potential losses on loans and advances contributed to an improvement in asset quality. The charge for bad and doubtful debts decreased by HK\$226 million, or 45.3%, compared to 2003, to HK\$273 million. Non-performing loans ratio dropped to 1.2%, from 2.5% at the end of the prior year.

As a result of the decrease in the net charge for bad and doubtful debt, operating profit after provisions recorded an increase of 5.5% to HK\$2,503 million.

The considerable rise in property prices in 2004 allowed BEA to record a revaluation surplus for investment properties of HK\$228 million and a write-back of impairment losses on bank premises of HK\$19 million.

Share of profits less losses from associates decreased by HK\$49 million to HK\$64 million.

Minority interests increased by HK\$6 million to HK\$25 million. After taking into account taxation and minority interests, profit attributable to shareholders was HK\$2,424 million, an 26.1% increase over the HK\$1,922 million recorded in the previous year.

Financial Position

Total consolidated assets of the BEA Group were HK\$210,370 million at the end of 2004, representing a rise of 6.0% from HK\$198,476 million at the end of 2003. Advances to customers increased by 13.9% to HK\$117,259 million.

Total deposits increased by 4.3% to HK\$167,916 million, while customer deposits rose by HK\$8,317 million, or 5.4%, to HK\$163,738 million. Demand deposits and current accounts grew by a combined HK\$2,306 million, or 24.0%, to HK\$11,919 million at year-end 2004, as compared with HK\$9,613 million at the previous year-end. Savings accounts increased by HK\$11,176 million to HK\$48,730 million. Time deposits at year-end 2004 stood at HK\$103,089 million, a decrease of HK\$5,165 million, or 4.8%, when compared with the balance at year-end 2003.

During the year, BEA issued floating rate certificates of deposit with a face value of HK\$1,500 million, and fixed rate certificates of deposits with a face value totalling HK\$500 million and TW\$2,585 million. The Bank redeemed certificates of deposit amounting to HK\$3,161 million and TW\$1,265 million upon maturity, repurchased a quantity of its own certificates of deposit amounting to HK\$256 million equivalent, and called back retail callable certificates of deposit totalling HK\$392 million.

At the end of December 2004, the face value of the outstanding debt portfolio was HK\$4,288 million, with the carrying amount equal to HK\$4,179 million.

After taking into account all debt instruments issued, the loan-to-deposit ratio was 69.8%, being 5.9% higher than the 63.9% reported at the end of 2003.

As at 31st December, 2004, the shareholders' fund stood at HK\$21,727 million, an increase of HK\$1,625 million, or 8.1%, when compared with HK\$20,102 million at the end of 2003.

Maturity Profile of Debts Issued

As at 31st December, 2004

(All expressed in millions of dollars)

(All expressed in millions of dollars)						
	<u>Currency</u>	<u>Total Face Value</u>	<u>Year of Maturity</u>			
			<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Floating Rate						
Certificates of Deposit						
Issued in 2004	HKD	1,500	1,500			
Fixed Rate						
Certificates of Deposit						
Issued in 2004	TWD	1,320	1,320			
Issued in 2004	HKD	500	500			
Discounted						
Certificates of Deposit						
Issued in 2002	HKD	341		341		
Issued in 2002	USD	88			88	
Issued in 2003	AUD	51		51		
Issued in 2003	NZD	45		45		
Step Up						
Certificates of Deposit						
Issued in 2003	USD	49				49
Total Debts issued in HKD equivalent						
		4,288	2,323	903	681	381

Risk Management

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

Operations Review

IMPROVEMENT TO OPERATIONS

Office Centralisation

Fit-out of the Bank's new office space in "Millennium City 5" in Kwun Tong was completed in early 2005. With the relocation of most departments to the new premises by mid 2005, the Bank will be able to introduce operational improvement initiatives to tap the full benefits of the centralised operation centre.

Core Banking System

In early 2004, the Project Definition and Planning phase of the core banking system project was completed. Development work commenced shortly thereafter, and the first phase, which covered Customer Information File and System Architecture, was completed in December 2004. This phase was rolled out in January 2005. Meanwhile, the functional and technical design work for the second and the third phases, which cover Deposits and Loans Business, respectively, are under way. These are expected to be finalised in the first quarter of 2005.

Information Technology

In the second half of 2004, the Bank launched the new Treasury and Trade Finance systems, to improve efficiency in the treasury and trade finance operations.

PERSONAL BANKING

Cyberbanking

During the year, BEA consolidated the Bank's online banking services and became the first bank in Hong Kong to provide a totally telecom-independent mobile phone and Personal Digital Assistant ("PDA") banking service.

In May 2004, the Bank won The Asian Banker's "Excellence in Retail Financial Services Award 2003" in the "Product/Service Excellence in Retail Financial Services" category for Cyberbanking's CyberWealth Internet wealth management service. BEA has also received Hongkong Post's "Distinguished Partnership Award", in recognition of the Bank's dedication to promoting e-Business and e-Cert to the community at large.

The Cyberbanking Renminbi Card was launched in August 2004. Customers may use the card to withdraw Renminbi cash at over 50,000 ATMs and make payments at more than 400,000 merchant outlets displaying "China UnionPay" logo within China.

Corporate Cyberbanking recorded steady growth in customer numbers in 2004. By the end of 2004, over 13,600 corporate customers had registered with BEA's Corporate Cyberbanking, representing a 46% increase as compared to the end of 2003.

Branch Distribution

BEA made further progress on the Branch Rationalisation Programme during the year. A total of five new branches were opened, 12 branches closed and merged with nearby branches and three branches relocated to more prominent sites. At the end of January 2005, the total number of branches in Hong Kong stood at 92.

Meanwhile, the Bank opened an additional nine SupremeGold Centres during 2004, and a further Centre in the first month of 2005, bringing the total number to 23 by the end of January 2005. The Bank plans to open five more SupremeGold Centres in 2005.

Management continues to enhance the Bank's image through the Branch Renewal Programme. The bright and spacious design standard introduces a comfortable environment that allows sales staff to serve customers more effectively. The new image has been well received by the public and more branches will be renovated in the years to come.

The Bank endeavours to meet the banking needs of its diversified clientele through a wide spectrum of financial and investment services. In February 2004, BEA launched Personal Renminbi Services for Hong Kong residents.

In June 2004, BEA became the first bank in Hong Kong, and the sole agent of Global Refund Holdings in Hong Kong, to provide a Value Added Tax ("VAT") cash refund service. This offers travellers and Hong Kong residents a convenient means to receive VAT refunds on items purchased overseas.

WealthPlus, a sophisticated wealth management tool, was implemented in branches in October 2004. WealthPlus supports branch staff with a powerful interactive on-line system, helping them to perform investment and financial analysis and to identify bank products that match customers' investment strategies.

A series of Kid Master open days were organised at selected branches to promote Education Insurance. On-site promotions at schools and companies were also held to market insurance products. In addition, two Travel Insurance Summer Promotions and a New Year Promotion were conducted to stimulate the sales of general insurance. To further strengthen the relationship between BEA and customers and to explore more business opportunities, the Bank offered various insurance privileges to SupremeGold, Employee Benefit Scheme for Corporate Customers, and Exclusive Privilege Scheme customers.

Property Loans

Improved economic fundamentals provided a favourable environment for a rebound in the property market in 2004. Despite the revival, competition for mortgage business remains intense.

In response to the stern competition, BEA developed a variety of loan products to better meet the needs of customers. For instance, in anticipation of a rise in interest rates, BEA pioneered in teaming up with The Hong Kong Mortgage Corporation Limited to launch the "90% Fixed Rate Mortgage Scheme" in January 2004.

In August 2004, BEA joined the Urban Renewal Authority in the "Building Rehabilitation Trial Scheme".

BEA has also actively participated in a number of major primary market projects, providing a comprehensive mortgage loan service.

Consumer Loans

Capitalising on the revival of the economy in 2004, BEA launched a series of loan programmes with innovative product features. These included personalised interest rate based on a customer's credit standing; payment holidays; and attractive tax loan packages. These received an encouraging market response, and successfully attracted numerous new customers to the Bank.

Credit Cards

During the past year, particular emphasis was put on strengthening the Bank's credit card business. New co-branded card programmes, namely St. James Settlement MasterCard and Henderson Club Credit Card, were introduced in 2004. Moreover, BEA was among the pioneers in the Renminbi Credit Card business, targeting frequent Hong Kong travellers to China. Launched with the cooperation of China UnionPay, the Bank is optimistic about both the acquiring business and Renminbi card issuance.

As a brand-building strategy, cardholder privileges were expanded to encourage card usage. At the same time, cross-selling opportunities were enhanced to enlarge the customer base. BEA commenced merchant acquiring service with JCB International Company Limited in December 2004 to further extend business coverage.

Careful risk management proved effective in managing the credit card charge-off ratio. Looking ahead, continual improvement in loan quality is expected, laying the base for aggressive business development.

Blue Cross Insurance

Blue Cross continued to develop general insurance and life insurance businesses through its well-established distribution network. Blue Cross offered a wide array of products, ranging from life, medical, and hospitalisation to general insurance coverage, via over 100 BEA branches and SupremeGold Centres. Other distribution channels included insurance agents, brokers, allied partners, and both the BEA and Blue Cross on-line websites.

In 2004, Blue Cross's gross premium income grew by 15%. Life insurance business increased by 65%, while general insurance and travel insurance premium income rose by 5%.

In September 2004, the Company launched a new series of medical insurance plans, Super Series, offering specific healthcare and preventive care services for individual medical customers.

Another initiative, Super Care, was developed to make it easier to access personal claims records and information on the medical provider network. Super Care is accessible by both group and individual members over the Internet.

CORPORATE BANKING

Corporate Lending

BEA has always maintained a strong position in the local syndication and corporate lending market, by actively arranging and underwriting syndicated and/or club deals for quality corporate customers.

During the year, BEA upheld its strong presence in the syndicated loan market by co-arranging numerous deals, including a HK\$5,500 Million facility to Sun Hung Kai Properties, a HK\$10,000 Million facility to Henderson Land Development Company Limited/Henderson

Investment Limited as well as a US\$360 Million facility to Huawei Technologies Company Limited.

In the future, BEA will continue to improve its bottom line by providing high quality tailor-made products to customers in Hong Kong and the Asia-Pacific region. 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.

As China continues to dismantle trade barriers in line with the WTO Accession Agreement timetable, overseas investors are expected to further step up their activity. This Bank intends to place particular attention on niche markets and the launch of new products, in order to enhance returns.

The strong recovery of the economy during the year helped to improve the equity position of many SMEs. The Bank stepped up the marketing of specialised financial packages to SMEs, in line with the changing business environment. For example, the "Corporate Tax Loan" package offered greater flexibility on the loan amount, as well as other offers.

Asset Based Finance

The loan balance in the asset based lending portfolio recorded overall growth of 21% in 2004. The growth came mainly from the segments machinery loans and private car and commercial vehicle loans. The machinery loan portfolio grew a strong 150%, as a result of increased marketing efforts and the acquisition of the loan portfolio of Trilease International Limited, an associated company of BEA. The private car and commercial vehicle loan portfolio saw an encouraging 22% rise.

The taxi and public light bus lending market remains highly competitive, amid sharp increases in refinancing activity and renewed appreciation in the value of taxi and public light bus licences. BEA continued to maintain a strong presence in the market, while adopting a more prudent lending and pricing approach.

Securities Lending

Benefiting from an aggressive posture in the active Initial Public Offering ("IPO") market in 2004, BEA raised its market share in Receiving Bank services, successfully completing eight Receiving Bank projects. The Bank has also participated actively in stagging loan business for subscription of new shares at IPO, successfully expanding its portfolio. Establishing a stronger foothold in this business is a priority of this bank.

Bank of East Asia (Trustees) Limited

Mandatory Provident Fund

Bank of East Asia (Trustees) Limited is one of two approved trustees under the Mandatory Provident Fund ("MPF") Schemes Ordinance licensed to offer both the Master Trust Scheme and Industry Scheme in Hong Kong. BEA expanded its MPF membership and assets in 2004 by 13% and 35% respectively, despite a relatively mature market. With the employment of a dedicated team of professional investment managers, all constituent funds of BEA MPF schemes recorded above-market investment returns in 2004.

Trust Service

In addition to MPF services, Bank of East Asia (Trustees) Limited also offers a wide range of trustee services, including acting as executor or trustee of wills, trustee of family trusts, investment funds, unit trusts, charities and public funds. In 2004, two sub-funds of BEA Capital Growth Fund, which is under the trusteeship of the Company, namely BEA Global Bond Fund and BEA Hong Kong Growth Fund, were successfully launched in March and December, respectively.

Business Development

As part of an ongoing effort to foster stronger customer relationships, BEA organised its annual forum in June under the theme: "BEA Forum 2004: Helping You Stay Ahead". Five distinguished business leaders were invited to share their personal insights and real-life experience with forum participants.

In October 2004, the Bank organised a seminar on the topic: "A Comprehensive Approach to E-Commerce Business". Representatives from Hong Kong Internet Registration Corporation Ltd., Hong Kong Productivity Council, VISA International, and a market leader in e-commerce spoke on the key concerns when building up an online business.

WEALTH MANAGEMENT

Established with the mission of providing customers with superior financial planning services in an ever-changing investment environment, the new Wealth Management Division commenced operation in July 2004. The Division made an immediate impact by streamlining and diversifying the Bank's offerings in structured deposit based investment products and in unit trusts. These measures contributed to an above 70% increase in investment product related commission income in 2004, compared to the previous year.

The Wealth Management Division caters in particular for clients who are searching for secure investments that offer better rewards than bank deposits within the current low-interest rate environment. As such, BEA was among the front runners in developing principal guaranteed structured deposits. These feature strong upside potential with low risk, as they are linked to a variety of asset classes and security instruments. The Division also pioneered several multi-manager retail unit trusts, and an absolute return focused hedge fund of funds.

Structured Products

Continuing from the success of Currency and Equity Linked Deposit products, the Bank further promoted three distinct series of non-principal protected Basket Equity Linked Deposits to cater for different investors' needs, namely the Fixed Coupon Series, the Target Coupon Potential Bonus Series and the Potential Booster Coupon Series. These were all well-received and broadened the product offerings of the Bank. Furthermore, a total of seven principal protected linked deposits were launched in 2004 and generated an aggregate subscription amount that was 4.8 times that in 2003. Overall, the income derived from dealing in linked deposits grew by 1.5 times in 2004.

Asset Management

Joining hands with one of the world's premier asset consultant companies, the Russell Investment Group, BEA was proud to introduce the BEA Signature Portfolio Funds in November 2004. These feature a multi-manager institutional investment approach, spreading risk and offering a sound investment strategy for those seeking to accumulate wealth over the long term. Market response to the Funds has been encouraging, with over HK\$800 million raised during the initial launch period. This not only demonstrated the capability of BEA in conveying sophisticated investment ideas to retail customers, but also reflected the innovative spirit of the Bank. Responding to the needs of the market, the Bank intends to continue to offer a greater range of funds for different risk appetites, as well as to capitalise on asset management business opportunities within China.

Asset under management of MPF and unit trust businesses grew by 35% and 89% respectively during 2004. These increases led to a more than 35% rise in profits at the Bank's investment management subsidiary, East Asia Asset Management Company, Limited.

Bancassurance

To strengthen the life insurance business, BEA life insurance products were re-branded in the first quarter of 2004. The new brand, “BEA Life Insurance Series”, has successfully captured the attention of both customers and the general public alike.

The Bank also extended the spectrum of insurance products offered, to good response. Happy Target Savings Insurance and Valuable Saving Insurance provide wealth accumulation options. Elder Plus Insurance offers extra care for senior customers.

Together with the launch of new products, various on-site and off-site marketing programmes were carried out. These not only helped customers build their assets, but also contributed to a significant rise in Bancassurance business in 2004. In particular, life insurance business grew by 65%.

INVESTMENT BANKING AND SERVICES

East Asia Securities Company Limited – Securities Cybertrading

For the year 2004, East Asia Securities benefited from improving local market sentiment and growing investor confidence.

The Company continues to raise its standard of service, in order to meet and exceed the growing sophistication of its customers and the marketplace. The Company registered a 26% rise in the number of Cybertrading accounts during the year. As of 31st December, 2004, more than 43% of the Company’s securities clients had subscribed to the Internet Trading Service.

East Asia Securities has instituted various incentive schemes to encourage clients to execute trades via its user-friendly electronic trading platform. The schemes have generated strong positive response from clients. Currently, the volume of transactions executed via the Cybertrading System, expressed as a percentage of total turnover, accounts for some 49% of trades and 36% of transaction value.

With a view to further enhancing the Cybertrading Service, East Asia Securities introduced the “Snapshot” real-time Internet stock price quote service in August 2004. The snapshot price quote system offers a similar level of service as the existing “streaming” real-time stock price quote service, but at a much lower cost. East Asia Securities plans to expand its online electronic trading channels to include PDA and to further enhance its Interactive Voice Recognition Trading System in the first half of 2005.

CORPORATE SERVICES

The BEA Group, through Group member Tricor Holdings Limited (“Tricor”), is a leading provider of business, corporate and investor services in Hong Kong and South East Asia. These services include accounting, company formation, corporate compliance & company secretarial, executive search & selection, initial public offerings & share registration, payroll outsourcing and fund & trust administration.

Tricor’s performance for the year has shown significant progress, mainly as a result of continual business expansion, successful cost control measures and the synergies obtained from successful integration of the units that had been acquired from third parties over the past few years.

The Company’s new businesses – Tricor Executive Resources Limited (the former Executive Search and Selection practice of PricewaterhouseCoopers, Hong Kong) and East Asia

Corporate Services (BVI) Limited in the British Virgin Islands, both of which Tricor acquired in late 2003 – have also performed well during the year.

In September 2004, Tricor opened its second China office in Shanghai in response to the growing demand for corporate services on the Mainland. Furthermore, in October 2004, Tricor acquired the company secretarial, client accounting, payroll outsourcing and share registration businesses of PricewaterhouseCoopers in Singapore, in line with Tricor's ambition to become the leading regional player. The acquisition will help Tricor to propel its businesses into South East Asia.

As market leader in business, corporate and investor services, Tricor will continue to look for business opportunities in Hong Kong, China and other countries within the region.

CHINA OPERATIONS

BEA Chengdu Branch and Shenzhen Luohu Sub-branch commenced business in the second half of 2004. At present, BEA has a total of 18 outlets in China, providing a wide range of quality banking services to its growing customer base. Further expansion is planned for 2005, with the opening of Hangzhou Branch and Suzhou Representative Office.

BEA Xian Branch and Xiamen Branch were granted a Renminbi business licence in December 2004 and January 2005 respectively, joining BEA branches in Shanghai, Shenzhen, Dalian, Guangzhou and Zhuhai to provide Renminbi banking services. In addition, BEA has submitted an application for Renminbi business licence for its Beijing branch. It is expected that related approval will soon be granted.

In December 2004, BEA obtained approval from the China Banking Regulatory Commission to market derivative products in China. To maintain its leading position in China, BEA will introduce a series of innovative personal banking and investment products to the market in 2005.

BEA's branches in China, Macau and Taiwan achieved combined growth of 50% in the loan portfolio and 43% in net profit in 2004.

OVERSEAS OPERATIONS

In 2004, BEA continued to expand and enhance the quality of its overseas banking services. A new Information Technology Platform was launched for U.S. operations in June to improve operational efficiency. In July, the West Coast Regional Office was relocated to a new building in Alhambra, California.

To strengthen BEA's presence in the U.S., The Bank of East Asia (USA) NA is now preparing to open new branches in Brooklyn, New York and Torrance, California.

In April, The Bank of East Asia (Canada) launched Cyberbanking Service for customers in Canada. The Bank is also preparing to open a new branch in Vancouver, British Columbia.

In 2004, BEA overseas business units saw net profits increase by 21%, while the loan portfolio grew by 20%. The overseas business units will continue to work toward improving profitability and providing quality niche banking services to Asian customers in their locations.

HUMAN RESOURCES

Bank of East Asia Group employees at the end of December 2004:

Hong Kong	4,301
Other Greater China	1,074
Overseas	396
Total	5,771

The Bank treasures its human capital, and a series of initiatives were implemented during the year to promote professional competence, commitment and effectiveness within the workforce.

As part of this strategy, the Bank revitalised its training programmes in 2004, and identified core subjects for all staff. The Bank also expanded its employee care and recreation programmes, to enhance staff morale and team building.

After a multi-year salary freeze necessitated by the deflationary environment in Hong Kong, a salary increment was awarded to top performers in April 2004, followed by a market catch up exercise for selected positions in August. A new Senior Executive Bonus Plan was also implemented in 2004.

Dealings 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 year ended 31st December, 2004.

David LI Kwok-po
Chairman & Chief Executive

Joseph PANG Yuk-wing
Executive Director

CHAN Kay-cheung
Executive Director

Hong Kong
3rd February, 2005

Remark: A detailed results announcement containing all information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules (before amendments effective 31st March, 2004) will be published on the website of The Stock Exchange of Hong Kong Limited in due course.