



**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 INTERIM RESULTS**

**INTERIM RESULTS**

The Directors of The Bank of East Asia, Limited (“BEA”) are pleased to announce the unaudited results<sup>1</sup> of the Bank and its subsidiaries (the “Group”) for the six months ended 30<sup>th</sup> June, 2004. This interim financial report, which has been reviewed by the Bank’s Audit Committee, is prepared on a basis consistent with the accounting policies and methods adopted in the 2003 annual accounts.

**A. Consolidated Profit and Loss Account**

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

## B. Consolidated Balance Sheet

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

### C. Consolidated Summary Statement of Changes in Equity

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

## D. Consolidated Cash Flow Statement

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

## D. Consolidated Cash Flow Statement (Continued)

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

Notes:

- (1) The financial information set out in this interim report does not constitute the Group's statutory accounts for the year ended 31<sup>st</sup> December, 2003 but there is no material change as compared to those accounts, nor for the six months ended 30<sup>th</sup> June, 2004. The statutory accounts for the year ended 31<sup>st</sup> December, 2003 are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 10<sup>th</sup> February, 2004.
- (2) The provision for Hong Kong profits tax is calculated at 17.5% of the estimated assessable profits for the six months ended 30<sup>th</sup> June, 2004. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.
- (3)
  - (a) The calculation of basic earnings per share is based on earnings of HK\$1,000,331,000 (six months ended 30<sup>th</sup> June, 2003 : HK\$792,502,000) and on the weighted average of 1,472,942,693 (six months ended 30<sup>th</sup> June, 2003 : 1,448,907,082) ordinary shares outstanding during the six months ended 30<sup>th</sup> June, 2004.
  - (b) The calculation of diluted earnings per share is based on earnings of HK\$1,000,331,000 (six months ended 30<sup>th</sup> June, 2003 : HK\$793,473,000) and on 1,481,210,800 (six months ended 30<sup>th</sup> June, 2003 : 1,454,161,148) ordinary shares, being weighted average number of ordinary shares outstanding during the six months ended 30<sup>th</sup> June, 2004, adjusted for the effects of all dilutive potential shares.
  - (c) The calculation of cash earnings per share is based on earnings of HK\$1,070,809,000 (six months ended 30<sup>th</sup> June, 2003 : HK\$860,837,000) adjusted for goodwill amortised of HK\$70,478,000 (six months ended 30<sup>th</sup> June, 2003 : HK\$68,335,000) and on the weighted average of 1,472,942,693 (six months ended 30<sup>th</sup> June, 2003 : 1,448,907,082) ordinary shares outstanding during the six months ended 30<sup>th</sup> June, 2004. This supplementary information is considered a useful additional indication of performance.
- (4) Effective 31<sup>st</sup> December, 2003, commission related expenses, which were previously classified under operating expenses, are shown as fees and commission expenses in line with the market practice. Such expenses amounting to HK\$85,193,000 for the six months ended 30<sup>th</sup> June, 2003 are restated to conform with this presentation. The corresponding figure for the six months ended 30<sup>th</sup> June, 2004 is HK\$192,425,000.

## E. Fees and Commission Income

Fees and commission income arises from the following services:

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

## F. Operating Expenses

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

\* PRC denotes the People's Republic of China.

## G. Advances and Other Assets

### 1. Advances and Other Accounts less Provisions

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

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

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

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



### 3. Advances to Customers - by Geographical Areas

The information concerning the breakdown of the gross amount of advances to customers by countries or geographical areas is derived according to the location of the counterparties after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

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

	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
<b>Total</b>	<b>104,942,980</b>	<b>2,882,278</b>	<b>2,170,209</b>

	31/12/2003		
	Total advances to customers HK\$'000	Non-performing loans HK\$'000	Advances overdue for over three months HK\$'000
Hong Kong	81,092,324	1,587,928	872,215
People's Republic of China	5,588,249	747,602	470,946
Other Asian Countries	5,150,091	108,408	83,713
Others	11,078,172	82,451	71,799
<b>Total</b>	<b>102,908,836</b>	<b>2,526,389</b>	<b>1,498,673</b>

#### 4. Cross-border Claims

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

	30/6/2004			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
People's Republic of China	7,852,881	1,222,989	5,695,548	14,771,418
Asian countries, excluding People's Republic of China	11,153,832	1,269,974	6,827,439	19,251,245
North America	3,842,104	7,945,136	5,196,675	16,983,915
Western Europe	27,346,735	255	1,962,213	29,309,203

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

	31/12/2003			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
People's Republic of China	5,942,870	1,117,031	4,763,759	11,823,660
Asian countries, excluding People's Republic of China	13,068,878	1,156,111	6,184,322	20,409,311
North America	5,526,584	8,245,582	4,920,474	18,692,640
Western Europe	33,240,941	-	1,088,757	34,329,698

## 5. Overdue, Rescheduled and Repossessed Assets

### (a) Overdue and Rescheduled Advances

	30/6/2004		30/6/2003		31/12/2003	
	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers
Advances to customers overdue for						
- 6 months or less but over 3 months	350,991	0.4	489,949	0.5	276,799	0.3
- 1 year or less but over 6 months	236,118	0.2	550,957	0.5	339,092	0.3
- Over 1 year	641,165	0.6	1,129,303	1.1	882,782	0.9
	<u>1,228,274</u>	<u>1.2</u>	<u>2,170,209</u>	<u>2.1</u>	<u>1,498,673</u>	<u>1.5</u>
Rescheduled advances to customers	<u>897,890</u>	<u>0.8</u>	<u>655,882</u>	<u>0.6</u>	<u>1,123,114</u>	<u>1.1</u>
Total overdue and rescheduled advances	<u>2,126,164</u>	<u>2.0</u>	<u>2,826,091</u>	<u>2.7</u>	<u>2,621,787</u>	<u>2.6</u>
Secured overdue advances	<u>1,077,170</u>	<u>1.0</u>	<u>2,037,119</u>	<u>2.0</u>	<u>1,323,712</u>	<u>1.3</u>
Unsecured overdue advances	<u>151,104</u>	<u>0.1</u>	<u>133,090</u>	<u>0.1</u>	<u>174,961</u>	<u>0.2</u>
Market value of securities held against secured overdue advances	<u>1,650,331</u>		<u>3,058,217</u>		<u>1,736,962</u>	

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

### (b) Non-performing Advances to Customers

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

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

\* Inclusive of interest capitalised

There were no advances to banks and other financial institutions on which interest is being placed in suspense or on which interest accrual has ceased as at 30<sup>th</sup> June, 2004, 30<sup>th</sup> June, 2003 and 31<sup>st</sup> December, 2003, nor were there any specific provisions made for them on these three dates.

(c) Reconciliation

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

	30/06/2004	
	Accrued interest HK\$'000	Other assets* HK\$'000
Other assets overdue for		
- 6 months or less but over 3 months	1,469	41
- 1 year or less but over 6 months	979	408
- Over 1 year	254	17,626
	<u>2,702</u>	<u>18,075</u>
Rescheduled assets	-	-
Total other overdue and rescheduled assets	<u>2,702</u>	<u>18,075</u>

	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>

	31/12/2003	
	Accrued interest HK\$'000	Other assets* HK\$'000
Other assets overdue for		
- 6 months or less but over 3 months	1,699	2,592
- 1 year or less but over 6 months	1,442	1,096
- Over 1 year	904	13,406
	<u>4,045</u>	<u>17,094</u>
Rescheduled assets	-	827
Total other overdue and rescheduled assets	<u>4,045</u>	<u>17,921</u>

\* Other assets refer to trade bills and receivables.

(e) Repossessed Assets

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

The amount represents the estimated market value of the reposessed assets as at 30<sup>th</sup> June, 2004, 30<sup>th</sup> June, 2003 and 31<sup>st</sup> December, 2003.

## H. Segment Reporting

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

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

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

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

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

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

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

## 6 months ended 30/6/2004

	Personal Banking HK\$'000	Corporate Banking HK\$'000	Investment Banking HK\$'000	Corporate Services HK\$'000	Others HK\$'000	Unallocated HK\$'000	Inter- segment elimination HK\$'000	Consolidated HK\$'000
Net interest income	915,921	615,169	269,194	(70)	25,747	(23,199)	-	1,802,762
Other operating income from external customers	228,462	133,102	172,776	183,298	56,237	47,063	-	820,938
Inter-segment income	-	-	-	-	-	54,678	(54,678)	-
<b>Total operating income</b>	<b>1,144,383</b>	<b>748,271</b>	<b>441,970</b>	<b>183,228</b>	<b>81,984</b>	<b>78,542</b>	<b>(54,678)</b>	<b>2,623,700</b>
Operating profit / (loss) before provisions	601,305	476,241	327,938	68,162	11,016	(160,949)	-	1,323,713
Inter-segment transactions (Charge for) / write back of bad and doubtful debts	46,303	4,080	1,995	-	-	(52,378)	-	-
	(72,655)	(70,466)	(612)	(2,683)	(131)	3,451	-	(143,096)
Contribution from operations	574,953	409,855	329,321	65,479	10,885	(209,876)	-	1,180,617
Provision for impairment loss for the period	-	(15,638)	-	-	-	(8,401)	-	(24,039)
Share of profits less losses of associates	415	1,914	11,765	-	(5,760)	(162)	-	8,172
Other income and expenses	-	(5)	11,652	-	-	6,575	-	18,222
<b>Profit / (loss) before taxation</b>	<b>575,368</b>	<b>396,126</b>	<b>352,738</b>	<b>65,479</b>	<b>5,125</b>	<b>(211,864)</b>	<b>-</b>	<b>1,182,972</b>
Income tax	-	-	-	-	-	(170,761)	-	(170,761)
Minority interests	-	-	-	(11,706)	-	(174)	-	(11,880)
<b>Profit / (loss) attributable to shareholders</b>	<b>575,368</b>	<b>396,126</b>	<b>352,738</b>	<b>53,773</b>	<b>5,125</b>	<b>(382,799)</b>	<b>-</b>	<b>1,000,331</b>
Depreciation for the period	(44,906)	(23,744)	(8,353)	(3,512)	(3,559)	(38,409)	-	(122,483)
Amortisation of goodwill	(15,439)	(14,469)	(21,232)	(18,456)	(882)	-	-	(70,478)

## 6 months ended 30/6/2003 (Restated)

	Personal Banking HK\$'000	Corporate Banking HK\$'000	Investment Banking HK\$'000	Corporate Services HK\$'000	Others HK\$'000	Unallocated HK\$'000	Inter- segment elimination HK\$'000	Consolidated HK\$'000
Net interest income	976,928	557,757	274,915	21	13,919	(46,527)	-	1,777,013
Other operating income from external customers	184,706	121,137	280,779	181,356	61,321	36,253	-	865,552
Inter-segment income	-	-	-	-	-	68,055	(68,055)	-
<b>Total operating income</b>	<b>1,161,634</b>	<b>678,894</b>	<b>555,694</b>	<b>181,377</b>	<b>75,240</b>	<b>57,781</b>	<b>(68,055)</b>	<b>2,642,565</b>
Operating profit / (loss) before provisions	665,973	426,866	431,800	52,408	4,595	(180,195)	-	1,401,447
Inter-segment transactions	56,380	4,746	4,091	-	-	(65,217)	-	-
Charge for of bad and doubtful debts	(124,651)	(75,741)	(69,667)	(4,924)	(5,515)	(10,713)	-	(291,211)
Contribution from operations	597,702	355,871	366,224	47,484	(920)	(256,125)	-	1,110,236
Write-back of / (increase in) impairment loss for the period	-	(2,223)	-	-	5,557	971	-	4,305
Impairment loss on bank premises	-	-	-	-	-	(80,041)	-	(80,041)
Share of profits less losses of associates	(2,537)	13,561	(10,701)	-	23,421	(1,049)	-	22,695
Other income and expenses	-	-	(2,207)	-	-	(25,802)	-	(28,009)
<b>Profit / (loss) before taxation</b>	<b>595,165</b>	<b>367,209</b>	<b>353,316</b>	<b>47,484</b>	<b>28,058</b>	<b>(362,046)</b>	<b>-</b>	<b>1,029,186</b>
Income tax	-	-	-	-	-	(224,992)	-	(224,992)
Minority interests	-	-	-	(11,827)	135	-	-	(11,692)
<b>Profit / (loss) attributable to shareholders</b>	<b>595,165</b>	<b>367,209</b>	<b>353,316</b>	<b>35,657</b>	<b>28,193</b>	<b>(587,038)</b>	<b>-</b>	<b>792,502</b>
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)

## I. Deferred Tax Assets and Liabilities Recognised

The components of deferred tax (assets) / liabilities recognised in the consolidated balance sheet and the movements during the period are as follows:

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



## J. Off-balance Sheet Exposures

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

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

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

## K. Currency Concentrations

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

	30/6/2004 HK\$ Million						Total
	USD	CAD	GBP*	CNY	JPY	Others	
Spot assets	55,938	2,751	4,241	4,834	1,158	13,188	82,110
Spot liabilities	(49,898)	(4,748)	(6,119)	(4,618)	(560)	(22,165)	(88,108)
Forward purchases	31,773	2,411	2,253	-	1,448	24,283	62,168
Forward sales	(38,409)	(314)	(364)	-	(2,001)	(15,287)	(56,375)
Net options position	5	11	(6)	-	1	(9)	2
<b>Net long / (short) position</b>	<b>(591)</b>	<b>111</b>	<b>5</b>	<b>216</b>	<b>46</b>	<b>10</b>	<b>(203)</b>

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

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

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

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

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

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

## L. Capital, Capital Adequacy and Liquidity Information

### 1. Capital Adequacy Ratio

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

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

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

### 2. Capital Base after Deductions

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

### 3. Reserves

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

### 4. Liquidity Ratio

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

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

## M. Statement of Compliance

The Interim Report has fully complied with the guideline set out in the Supervisory Policy Manual "Interim Financial Disclosure by Locally Incorporated Authorized Institutions" issued by the Hong Kong Monetary Authority on 8<sup>th</sup> November, 2002 and the revised Statement of Standard Accounting Practice 25 'Interim Financial Reporting' issued by the Hong Kong Society of Accountants in December, 2001.

## INTERIM DIVIDEND

The Directors are pleased to declare an interim dividend of HK\$0.28 (2003: HK\$0.23) per share for the six months ended 30<sup>th</sup> June, 2004. The interim dividend will be paid in cash with an option to receive new, fully paid shares in lieu of cash, to shareholders whose names appear on the Register of Members at the close of business on Wednesday, 25<sup>th</sup> August, 2004. Details of the scrip dividend and the election form will be sent to shareholders on or about Wednesday, 25<sup>th</sup> August, 2004. The scrip dividend scheme is conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued under the scrip dividend scheme. The dividend warrants and the share certificates for the scrip dividend will be sent to shareholders by ordinary mail on or about Wednesday, 15<sup>th</sup> September, 2004.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 23<sup>rd</sup> August, 2004 to Wednesday, 25<sup>th</sup> August, 2004. In order to qualify for the above interim dividend, all transfer documents should be lodged for registration with Standard Registrars Limited, G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, by 4:00 p.m. on Friday, 20<sup>th</sup> August, 2004.

## **FINANCIAL REVIEW**

### **Financial Performance**

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

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

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

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

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

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

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

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

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

### **Financial Position**

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

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

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

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

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

	<u>Currency</u>	<u>Total Face Value</u>	<u>Year of Maturity</u>			
			<u>2004</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<b>Fixed Rate</b>						
<b>Certificates of Deposit</b>						
Issued in 1999	HKD	100	100			
<b>Discounted</b>						
<b>Certificates of Deposit</b>						
Issued in 2002	HKD	423		423		
Issued in 2002	USD	88			88	
Issued in 2003	AUD	52		52		
Issued in 2003	NZD	47		47		
<b>Step Up</b>						
<b>Certificates of Deposit</b>						
Issued in 2003	USD	49				49
<b>Retail Callable</b>						
<b>Certificates of Deposit</b>						
Issued in 2002	HKD	392			392	
<b>Total Debts issued in HKD equivalent</b>		<b>2,497</b>	<b>100</b>	<b>934</b>	<b>1,080</b>	<b>383</b>

Risk Management

Risk management is an essential element of banking. The Group has in place a comprehensive risk management system to identify, measure, monitor and control the various types of risk which the Group faces and, where appropriate, to allocate capital against those risks. The risk management policies of the Group are reviewed regularly by the Management and related specialised committees, and recommendations are made by the Risk Management Committee for the approval of the Board of Directors. The internal auditors also perform regular audits on business units to check compliance with policies and procedures. The Group has also established an Investment Committee to plan the Group's investment strategies and to monitor the performance and compliance of investment activities.

(a) Credit Risk Management

Credit risk arises from the possibility that a customer or counterparty in a transaction may default. Such risk may arise from both lending and treasury activities. The Board of Directors has delegated authority to the Credit Committee to oversee management of the Group's credit risk, independent of the business units. The Credit Committee will report to the Board of Directors via the Risk Management Committee, which deals with all risk management related issues of the Bank Group.

The Credit Committee is to deal with all credit risk related issues for the Bank Group, including formulation of credit policies, credit approval and monitoring of asset quality.

In evaluating the credit risk associated with an individual customer or counterparty, financial strength and repayment ability are always the primary considerations. Credit risk may be mitigated by obtaining collateral from the customer or counterparty. Concentration risk is monitored by adopting appropriate risk control measures, such as setting limits on large exposures.

In this connection, comprehensive guidelines for management of credit risk have been laid down in the Group's Credit Manual. These guidelines stipulate delegated lending authorities, credit extension criteria, credit monitoring process, 10-grade loan classification system, credit recovery and provisioning policy.

The Group's Credit Manual is regularly reviewed by the Credit Committee to ensure the adequacy of credit risk management policies and systems.

## (b) Liquidity Risk and Market Risk Management

The Asset and Liability Management Committee is authorised by the Board of Directors to manage the assets and liabilities of the Bank Group. The function of the Asset and Liability Management Committee is to oversee the Group's operations relating to interest rate risk, liquidity risk and market risk.

### (1) Liquidity Risk Management

Liquidity risk is the risk that the Group cannot meet its current obligations. To manage liquidity risk, the Group has established the liquidity risk management policy, which is approved by the Board of Directors. The Group measures the liquidity of the Group through the statutory liquidity ratio, the loan-to-deposit ratio and the maturity mismatch portfolio.

The Asset and Liability Management Committee closely monitors the liquidity of the Group on a daily basis to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding needs, and that the Group remains in compliance with the statutory liquidity ratio. The Group's average liquidity ratio was 43.9% for the first half of 2004, which was well above the statutory minimum ratio of 25%.

Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected, material cash outflows in the ordinary course of business.

### (2) Market Risk Management

Market risk is the risk arising from the net effect of changes in market rates and prices on the Group's assets, liabilities and commitments, thus causing profits or losses. Interest rates, foreign exchange rates, equity and commodity prices, among others, are monitored for market risk.

The Group's market risk originates from its trading-book holdings of foreign exchange, debt securities, equities and derivatives, which are valued at current market prices (mark-to-market basis); from its investment and banking activities in financial assets and liabilities, which are valued at cost plus any accrued interest (accrual basis); and from its holdings of securities classified as other investments, which are measured at fair value in the balance sheet.

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

The Group's derivative instruments trading activities mainly arise from the execution of trade orders from customers and positions taken in order to hedge other elements of the trading books.

Financial derivatives are instruments that derive their value from the performance of underlying assets, interest or currency exchange rates, or indices. The Group principally uses financial derivative instruments as investment alternatives or to manage foreign exchange, interest rate or equity risk, and is a limited end-user of such instruments. Guidelines on participating in derivatives activities are included in the Group's market risk management policy. The Group's major trading activities in derivative instruments involve exchange-traded HIBOR Futures contracts and over-the-counter transacted currency options. Other over-the-counter transacted foreign exchange forwards, interest rate swaps and option contracts are mainly employed to hedge the interest rate risk and option risk of the banking book.

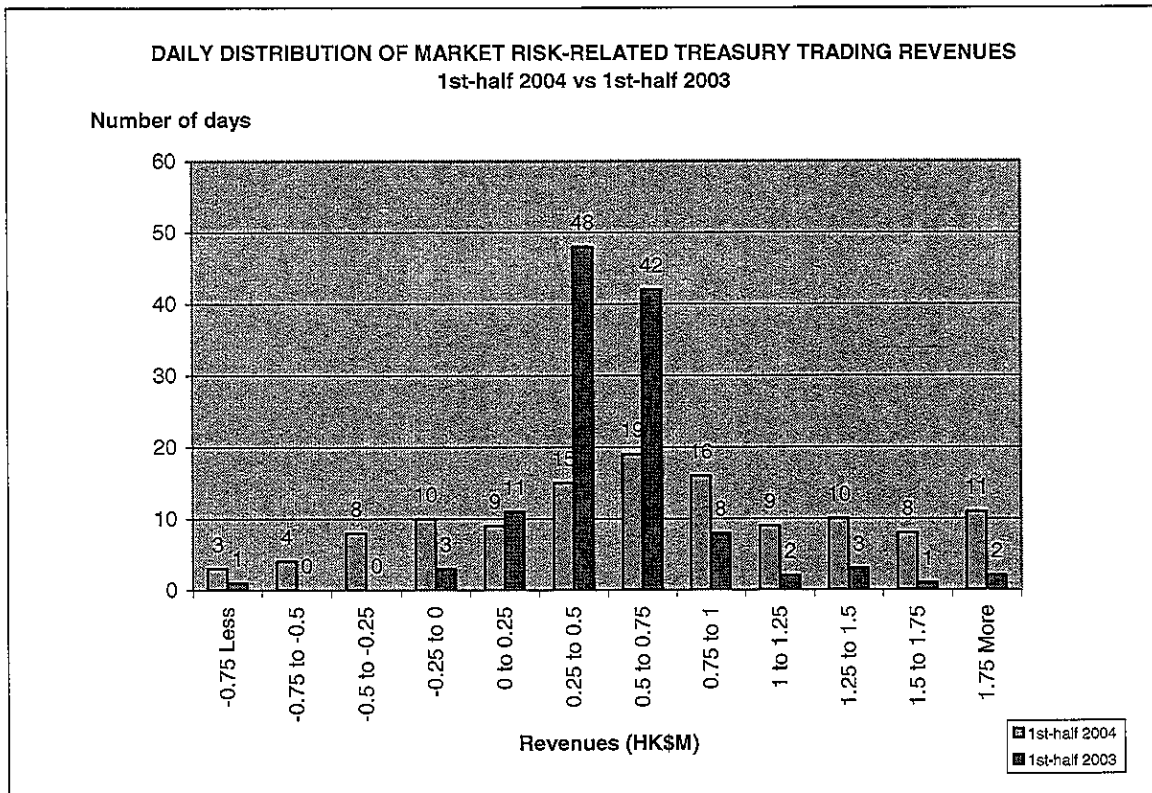
The Group's various market risk exposures are measured and monitored on the basis of principal (or notional) amount, outstanding position, stop-loss and options limits, and are controlled within established limits reviewed and approved by the Asset and Liability Management Committee where applicable for each business unit, business type and in aggregate. Independent middle and back offices monitor the risk exposure of trading activities against approved limits on a daily basis. The Group's market risk exposures are reviewed by the Asset and Liability Management Committee and reported to the Board of Directors on a regular basis. Exceptions to limits are reported when they occur.

The Group quantifies the market risk of the underlying trading portfolio by means of value-at-risk ("VaR"). VaR is a statistical estimate that measures the potential losses in market value of a portfolio as a result of unfavourable movements in market rates and prices, if positions are held unchanged over a certain horizon time period. The Group's VaR is calculated using historical movements in market rates and prices, a 99% confidence level and a one-day holding period, and takes into account correlations between different markets and rates.

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

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





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

(i) Foreign exchange exposure

The Group's foreign exchange risk exposure arises from foreign exchange dealing, commercial banking operations and structural foreign currency positions. All foreign exchange positions are managed by the Treasury units of the Group within limits approved by the Asset and Liability Management Committee.

The VaR related to foreign exchange dealing positions at 30<sup>th</sup> June, 2004 was HK\$1.24 million (HK\$0.72 million at 31<sup>st</sup> December, 2003). The average daily foreign exchange dealing profit for the first half of 2004 was HK\$0.74 million (HK\$0.47 million for the first half of 2003).

Foreign exchange positions which arise mainly from foreign currency investments in the Group's branches, subsidiaries and associates are excluded from VaR measurements, as related gains or losses are taken to reserves. Such foreign currency positions are managed with the principal objective of ensuring that the Group's reserves are protected from exchange rate fluctuation.

(ii) Interest rate exposure

The Group's interest rate exposure arises from treasury and commercial banking activities where interest rate risk is inherent in both trading and

non-trading portfolios. All trading positions are managed by the Treasury units of the Group within limits approved by the Asset and Liability Management Committee. For the non-trading portfolio, interest rate risk primarily arises from the timing differences in the repricing of interest-bearing assets, liabilities and commitments and the maturities of certain fixed rate assets and liabilities. The interest rate risk of the non-trading portfolio is also monitored by the Group's Asset and Liability Management Committee.

The VaR related to interest rate exposure due to debt securities and derivatives trading positions, excluding foreign exchange forwards and options, at 30<sup>th</sup> June, 2004 was HK\$1.96 million (HK\$2.11 million at 31<sup>st</sup> December, 2003). The average daily loss due to these activities for the first half of 2004 was HK\$0.16 million (daily profit HK\$0.05 million for the first half of 2003).

(iii) Equities exposure

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

(c) Operational Risk Management

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Board of Directors has designated the Operational and Other Risks Management Committee to oversee the management of operational risk of the Bank Group.

The Group has adopted a risk-based operational risk management approach so as to focus on areas that are more vulnerable to operational risk. The Group has a comprehensive Operational Risk Management Policy in place. Every year, the Group conducts a regular exercise to align its operational risk management framework with the industrial practice. This involves an annual operational risk self-assessment, collection of operational loss data, review of operating authorities, stress-testing and review of operation procedures.

The Group has also developed a Business Continuity Plan to provide a set of procedures for contingency operation and business recovery. In addition, the Bank maintains sufficient insurance coverage to minimise potential losses for the Group in respect of operational risk.

(d) Capital Management

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to meet the statutory capital adequacy ratio. Both the Group's adjusted capital adequacy ratio, incorporating market risk of 17.5%, and the unadjusted ratio of 17.7% as at 30<sup>th</sup> June, 2004, were well above the statutory minimum ratio.

Capital is allocated to the various activities of the Group depending on the risk taken on by each business division. Where the subsidiaries or branches are directly regulated by the appropriate regulators, they are required to maintain a minimum level of capital according to the rules of the appropriate regulatory authority.

## **OPERATIONS REVIEW**

### *IMPROVEMENT TO OPERATIONS*

#### Strategic Alliances

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

#### Customer Relationship Management

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

#### Core Banking System

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

#### Relocating Back-Office Operations to the Mainland

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

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

## *PERSONAL BANKING*

#### Branch Distribution

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

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

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

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

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

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

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

### Cyberbanking

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

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

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

### Property Loans

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

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

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

### Consumer Loans

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

## Credit Cards

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

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

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

## Bancassurance

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

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

## Blue Cross Insurance

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

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

## *CORPORATE BANKING*

### Corporate Lending

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

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

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

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

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

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

#### Asset Based Finance

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

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

#### Securities Lending

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

#### Bank of East Asia (Trustees) Limited

##### *Mandatory Provident Fund (“MPF”)*

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

##### *Trust Service*

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

#### Corporate Cyberbanking

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

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

### Business Development

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

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

### *INVESTMENT BANKING AND SERVICES*

#### East Asia Securities Company Limited - Cybertrading Service

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

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

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

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

#### Structured Investment Products

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

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

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

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

### *CHINA DIVISION*

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

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

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

### *OVERSEAS OPERATIONS*

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

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

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

### *CORPORATE SERVICES*

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

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

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



## *HUMAN RESOURCES*

The BEA Group employees at the end of June 2004:

Hong Kong	4,160
Other Greater China	994
Overseas	391
<b>Total</b>	<b>5,545</b>

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

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

## *STRATEGY AND FUTURE PROSPECTS*

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

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

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

## DEALING IN LISTED SECURITIES OF THE BANK

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of listed securities of the Bank during the six months ended 30<sup>th</sup> June, 2004.

## COMPLIANCE WITH CODE OF BEST PRACTICE

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

By order of the Board

**David LI Kwok-po**

*Chairman & Chief Executive*

Hong Kong, 30<sup>th</sup> July, 2004.

*As at the date of this announcement, the Executive Directors of the Bank are Dr. David LI Kwok-po (Chairman and Chief Executive), Mr. Joseph PANG Yuk-wing (Deputy Chief Executive) and Mr. CHAN Kay-cheung (Deputy Chief Executive); Non-executive Directors of the Bank are Dr. LI Fook-wo; Dr. Simon LI Fook-sean, Mr. Aubrey LI Kwok-sing, Dr. William MONG Man-wai, Tan Sri Dr. KHOO Kay-peng and Mr. Richard LI Tzar-kai; and Independent Non-executive Directors are Mr. WONG Chung-hin, Dr. LEE Shau-kee, Dr. Allan WONG Chi-yun, Mr. Winston LO Yau-lai and Mr. Thomas KWOK Ping-kwong.*