

THE BANK OF EAST ASIA, LIMITED

(Incorporated in Hong Kong in 1918)

ANNOUNCEMENT OF 2000 INTERIM RESULTS

INTERIM RESULTS

The Directors of The Bank of East Asia, Limited (the "Bank") are pleased to announce the unaudited results of the Group for the six months ended 30th June, 2000. This interim financial report is prepared on a basis consistent with the accounting policies adopted in the 1999 annual financial statements.

A. Consolidated Profit and Loss Account

	6 months ended <u>30/06/2000</u> HK\$'000	6 months ended <u>30/06/1999</u> HK\$'000	<u>Variance</u> %
Interest income	5,163,297	4,907,035	+ 5.2
Interest expense	<u>(3,315,842)</u>	<u>(3,159,678)</u>	+ 4.9
Net interest income	1,847,455	1,747,357	+ 5.7
Non-interest income	<u>547,556</u>	<u>554,275</u>	- 1.2
Total operating income	2,395,011	2,301,632	+ 4.1
Operating expenses	<u>(1,014,285)</u>	<u>(864,551)</u>	+ 17.3
Operating profit before provisions	1,380,726	1,437,081	- 3.9
Charge for bad and doubtful debts	<u>(220,403)</u>	<u>(659,967)</u>	- 66.6
Operating profit after provisions	1,160,323	777,114	+ 49.3
Loss on disposal of fixed assets	(2,068)	(3,868)	- 46.5
Profit on disposal of held-to-maturity debt securities and investment securities	15,245	554	+2651.8
Provision on held-to-maturity debt securities and investment securities	<u>(68,053)</u>	<u>-</u>	
Profit for the period before taxation	1,105,447	773,800	+ 42.9
Taxation ¹			
- Hong Kong	(152,914)	(59,170)	+ 158.4
- Overseas	(28,212)	(24,889)	+ 13.4
- Deferred	<u>15,613</u>	<u>(12,851)</u>	- 221.5
Profit for the period after taxation	<u>939,934</u>	<u>676,890</u>	+ 38.9
Profit for the Bank	<u>712,403</u>	<u>504,161</u>	+ 41.3
Interim dividends	280,658	207,749	
Earnings per share ²			
- basic	HK\$0.67	HK\$0.49	+ 36.7
- diluted	HK\$0.67	N/A	
Interim dividend per share	HK\$0.20	HK\$0.15	+ 33.3

B. Consolidated Balance Sheet

	<u>30/06/2000</u>	<u>31/12/1999</u>	<u>Variance</u>
	HK\$'000	HK\$'000	%
ASSETS			
Cash and short-term funds	33,138,085	38,404,159	- 13.7
Placements with banks and other financial institutions			
maturing between one and twelve months	16,354,272	11,693,067	+ 39.9
Trade bills less provisions	545,823	624,600	- 12.6
Certificates of deposit held	1,318,499	869,426	+ 51.7
Other investments in securities	2,333,146	2,456,340	- 5.0
Advances and other accounts less provisions ³	85,257,528	84,997,710	+ 0.3
Held-to-maturity debt securities	1,832,641	1,583,079	+ 15.8
Investment securities	192,667	184,396	+ 4.5
Investments in associates	518,906	443,563	+ 17.0
Fixed assets			
- Bank premises and other fixed assets	3,752,659	3,811,018	- 1.5
- Investment properties	<u>284,368</u>	<u>273,523</u>	+ 4.0
Total Assets	<u>145,528,594</u>	<u>145,340,881</u>	+ 0.1
LIABILITIES			
Deposits and balances of banks and other			
financial institutions	4,474,461	2,320,764	+ 92.8
Deposits of customers	108,760,108	112,259,212	- 3.1
Certificates of deposit issued	9,693,235	8,387,743	+ 15.6
Convertible bonds issued	2,061,887	2,292,056	- 10.0
Provisions and other accounts	4,082,078	4,209,105	- 3.0
Tax and deferred taxation	325,964	311,791	+ 4.5
Interim dividend payable	280,658	-	
Proposed final dividend	<u>-</u>	<u>529,388</u>	- 100.0
Total Liabilities	<u>129,678,391</u>	<u>130,310,059</u>	- 0.5
SHAREHOLDERS' FUNDS			
Share capital	3,508,227	3,482,814	+ 0.7
Reserves ⁴	<u>12,341,976</u>	<u>11,548,008</u>	+ 6.9
Total Shareholders' Funds	<u>15,850,203</u>	<u>15,030,822</u>	+ 5.5
Total Shareholders' Funds and Liabilities	<u>145,528,594</u>	<u>145,340,881</u>	+ 0.1

Notes:

(1) (a) *The charge for Hong Kong profits tax is based on an estimate of the assessable profit for the year taxed at 16%. Taxation for branches and subsidiaries outside Hong Kong is similarly charged at appropriate current rates of taxation in the countries in which they operate.*

(b) *There is no significant deferred taxation liability for which no provision has been made.*

(2) (a) *The calculation of basic earnings per share is based on earnings of HK\$939,934,000 (1999 - HK\$676,890,000) and on the weighted average of 1,398,192,894 (1999 - 1,378,946,608) shares in issue.*

(b) *The calculation of diluted earnings per share is based on earnings of HK\$939,934,000 and on 1,403,737,416 ordinary shares, being weighted number of ordinary shares outstanding during the first half year, adjusted for the effects of all dilutive potential shares. There were no dilutive potential ordinary shares during the first half year of 1999.*

(3) *Advances and other accounts less provision*

	<u>30/06/2000</u>	<u>31/12/1999</u>	<u>Variance</u>
	HK\$'000	HK\$'000	%
Advances to customers	85,363,921	84,073,858	+ 1.5
Advances to banks and other financial institutions	595,767	830,485	- 28.3
Accrued interest and other accounts	2,326,799	3,691,745	- 37.0
Less: Provision for bad and doubtful debts			
- Specific	(1,791,365)	(2,398,805)	- 25.3
- General	<u>(1,237,594)</u>	<u>(1,199,573)</u>	+ 3.2
Total	<u>85,257,528</u>	<u>84,997,710</u>	+ 0.3

(4) *Reserves*

	<u>30/06/2000</u>	<u>31/12/1999</u>	<u>Variance</u>
	HK\$'000	HK\$'000	%
Share premium	299,681	281,865	+ 6.3
General reserves	9,633,489	9,511,129	+ 1.3
Property revaluation reserve	1,386,466	1,386,466	-
Capital reserve	68,436	68,436	-
Exchange revaluation reserve	8,775	13,838	- 36.6
Profit and loss account	<u>945,129</u>	<u>286,274</u>	+ 230.1
Total	<u>12,341,976</u>	<u>11,548,008</u>	+ 6.9

C. Advances to Customers and Banks and other Financial Institutions of the Group

1. Advances to customers - by industry sectors

	<u>30/06/2000</u>	<u>31/12/1999</u>	<u>Variance</u>
	HK\$'000	HK\$'000	%
Loans for use in Hong Kong			
- Industrial, commercial and financial			
- Property development	4,724,484	4,771,000	- 1.0
- Property investment	8,233,168	7,387,357	+ 11.4
- Financial concerns	2,504,139	2,622,981	- 4.5
- Stockbrokers	122,285	220,715	- 44.6
- Wholesale and retail trade	2,650,240	2,619,031	+ 1.2
- Manufacturing	1,053,681	1,025,013	+ 2.8
- Transport and transport equipment	1,171,891	878,148	+ 33.5
- Others	3,954,261	3,906,414	+ 1.2
- Individuals			
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	2,624,156	2,491,979	+ 5.3
- Loans for the purchase of other residential properties	34,574,504	34,946,331	- 1.1
- Credit card advances	916,156	820,799	+ 11.6
- Others	2,159,055	1,837,231	+ 17.5
Trade finance	2,167,690	2,487,454	- 12.9
Loans for use outside Hong Kong	<u>18,508,211</u>	<u>18,059,405</u>	+ 2.5
Total advances to customers	<u>85,363,921</u>	<u>84,073,858</u>	+ 1.5

2. Advances on which interest is being placed in suspense or on which interest accrual has ceased

	<u>30/06/2000</u> HK\$'000	<u>31/12/1999</u> HK\$'000
Gross advances to customers	6,000,807	6,700,782
As percentage of total advances to customers	7.03%	7.97%
Specific provisions	1,705,794	2,298,040
Suspended interest	687,478	539,060

There were no advances to banks and other financial institutions on which interest is being placed in suspense or on which interest accrual has ceased as at 30th June, 2000 and 31st December, 1999, nor were there any specific provisions made for them on these two days.

3. Overdue and rescheduled advances

	<u>30/06/2000</u>		<u>31/12/1999</u>	
	HK\$'000	% to total advances to customers	HK\$'000	% to total advances to customers
Advances to customers overdue for				
- 6 months or less but over 3 months	764,334	0.9	910,803	1.1
- 1 year or less but over 6 months	1,260,918	1.5	2,040,373	2.4
- Over 1 year	<u>3,670,601</u>	<u>4.3</u>	<u>2,678,382</u>	<u>3.2</u>
	5,695,853	6.7	5,629,558	6.7
Rescheduled advances to customers	<u>761,669</u>	<u>0.9</u>	<u>2,180,072</u>	<u>2.6</u>
Total overdue and rescheduled advances	<u>6,457,522</u>	<u>7.6</u>	<u>7,809,630</u>	<u>9.3</u>

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 30th June, 2000 and 31st December, 1999, nor were there any rescheduled advances to banks and other financial institutions on these two days.

4. Reconciliation:

	<u>30/06/2000</u> HK\$'000	<u>31/12/1999</u> HK\$'000
Total advances to customers overdue for more than 3 months	5,695,853	5,629,558
Less: overdue for more than 3 months and on which interest is still being accrued	(592,697)	(698,500)
Add: overdue for 3 months or less and on which interest is being placed in suspense or on which interest accrual has ceased	<u>897,651</u>	<u>1,769,724</u>
Total advances to customers on which interest is being placed in suspense or on which interest accrual has ceased	<u>6,000,807</u>	<u>6,700,782</u>

D. Off-Balance Sheet Exposures

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

	<u>30/06/2000</u>	<u>31/12/1999</u>	<u>Variance</u>
	HK\$'000	HK\$'000	%
Contractual amounts of contingent liabilities and commitments			
- Direct credit substitutes	1,558,821	955,694	+ 63.1
- Transaction-related contingencies	333,890	159,658	+ 109.1
- Trade-related contingencies	3,405,799	2,447,624	+ 39.1
- Note issuance and revolving underwriting facilities	37,263	37,684	- 1.1
- Other commitments	<u>17,167,330</u>	<u>12,929,619</u>	+ 32.8
	<u>22,503,103</u>	<u>16,530,279</u>	+ 36.1
- Aggregate credit risk weighted amount	<u>4,312,499</u>	<u>2,737,766</u>	+ 57.5
Notional amounts of derivatives			
- Exchange rate contracts	50,061,638	19,836,372	+ 152.4
- Interest rate contracts	<u>1,836,749</u>	<u>1,811,707</u>	+ 1.4
	<u>51,898,387</u>	<u>21,648,079</u>	+ 139.7
- Aggregate credit risk weighted amount	<u>177,004</u>	<u>135,230</u>	+ 30.9
- Aggregate replacement costs	<u>162,593</u>	<u>267,875</u>	- 39.3

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

E. Capital, Capital Adequacy and Liquidity Information

	<u>30/06/2000</u>	<u>31/12/1999</u>
1. Capital adequacy ratio		
- Unadjusted	18.1%	18.1%
- Adjusted	17.9%	17.9%

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

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

2. Group capital base after deductions for calculation of Capital Adequacy Ratio

	<u>30/06/2000</u> HK\$'000	<u>31/12/1999</u> HK\$'000	<u>Variance</u> %
Core capital			
- Paid up ordinary share capital	3,508,227	3,482,814	+ 0.7
- Reserves	<u>10,955,509</u>	<u>10,163,201</u>	+ 7.8
Total core capital	<u>14,463,736</u>	<u>13,646,015</u>	+ 6.0
Eligible supplementary capital			
- Reserves on revaluation of land and interests in land (at 70%)	970,526	970,526	-
- General provisions for doubtful debts	<u>1,100,696</u>	<u>1,045,683</u>	+ 5.3
Total eligible supplementary capital	<u>2,071,222</u>	<u>2,016,209</u>	+ 2.7
Total capital base before deductions	16,534,958	15,662,224	+ 5.6
Deductions from total capital base	<u>(648,998)</u>	<u>(562,505)</u>	+ 15.4
Total capital base after deductions	<u>15,885,960</u>	<u>15,099,719</u>	+ 5.2
	<u>30/06/2000</u>	<u>30/06/1999</u>	

3. Average liquidity ratio for the period ended 47.4% 50.4%

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 Banking Ordinance.

F. Statement of Compliance

In preparing the disclosure for the first half of 2000, the Bank has fully complied with the recommendations made by the Hong Kong Monetary Authority on 30th June, 2000.

INTERIM DIVIDEND

The Directors are pleased to declare an interim dividend of HK\$0.20 (1999 - HK\$0.15) per share for the year ending 31st December, 2000. The interim dividend will be paid in cash with an option to receive new, fully paid shares in lieu of cash, to shareholders whose names are on the Register of Members at the close of business on Thursday, 24th August, 2000. Details of the scrip dividend and the election form will be sent to shareholders on or about Thursday, 24th August, 2000. 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 Friday, 15th September, 2000.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 21st August, 2000 to Thursday, 24th August, 2000. In order to qualify for the above interim dividend, all transfer documents should be lodged for registration with HKSCC Registrars Limited, 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong, by 4:00 p.m. on Friday, 18th August, 2000.

REVIEW AND PROSPECTS

FINANCIAL REVIEW

In the first six months of 2000, the Bank of East Asia Group recorded significant growth of 49.3% in operating profit after provisions, from HK\$777,114,000 in 1999 to HK\$1,160,323,000 in 2000. Profit after tax grew by 38.9% to HK\$939,934,000. Earnings per share were HK\$0.67.

Demand for mortgage loans remained low in Hong Kong but supply was plentiful. In this sluggish mortgage market, banks were launching various campaigns, such as lowering interest rates plus providing cash rebates, with a view to enlarging their market share. Despite the fierce mortgage loan competition, which exerted severe pressure on interest spreads, the Bank maintained net interest margins at 2.67%. This was achieved by tightly controlling funding costs as well as proactive assets and liabilities management. As a result, net interest income grew 5.7%, from HK\$1,747,357,000 in the first half of 1999 to HK\$1,847,455,000 in 2000.

As the markets experienced volatility in the first half of 2000, the Bank recorded a profit of HK\$55,103,000 on investments in securities. This was a decrease of HK\$14,885,000 when compared to 1999 when the Bank enjoyed sizeable net gains of HK\$69,988,000 attributable to the significant improvement of prices of debt and equity securities. The active equity market enhanced commission income from security trading. However, the inactive loan market decreased the volume of loan business and thus hindered the growth of commission income. Non-interest income therefore recorded a slight decrease of 1.2% to HK\$547,556,000.

Total operating income for the first six months of 2000 rose 4.1% to HK\$2,395,011,000 from HK\$2,301,632,000 in 1999. The proportion of non-interest income to total operating income dropped from 24.1% in 1999 to 22.9% in 2000.

In the first half of 2000, operating expenses during the period increased 17.3%, from HK\$864,551,000 to HK\$1,014,285,000. This increase was attributable to efforts made in respect of business and promotional activities, and to the acquisition of a wholly owned subsidiary. As a result, the cost-to-income ratio rose from 37.6% in 1999 to 42.3% in 2000. Operating profit before provisions recorded a decrease of 3.9% from HK\$1,437,081,000 in the first six months in 1999 to HK\$1,380,726,000 in 2000.

Bad and doubtful debts have stabilised since the latter part of 1999, and the need for the Bank to make bad debt charges was greatly reduced. In the first six months of 2000, the Bank's charge for bad and doubtful debts decreased significantly from HK\$659,967,000 to HK\$220,403,000. At The Bank of East Asia, non-performing loans (advances on which interest payments are suspended or on which interest accrual has ceased) dropped from 7.97% at the end of 1999 to 7.03% at the end of June 2000. Operating profit after provisions increased appreciably by 49.3% to HK\$1,160,323,000.

Net profit after taxation was HK\$939,934,000 for the first half of 2000, a 38.9% increase over the previous year's HK\$676,890,000.

Total consolidated assets were HK\$145,528,594,000 on 30th June, 2000, 5.1% up from HK\$138,500,439,000 a year before, while consolidated shareholders' funds reached HK\$15,850,203,000, representing year-on-year growth of 8.4%.

At the end of June 2000, advances to customers grew 1.1% to HK\$85,363,921,000 when compared with HK\$84,406,103,000 of last year. In the first half of 2000, the Bank issued US\$500,000,000 1-year floating rate certificates of deposit and redeemed HK\$2,600,000,000 certificates of deposit upon maturity, and repurchased in the open market its own convertible bonds amounting to US\$30,486,000. With customer deposits up 3.7% to HK\$108,760,108,000, total deposits increased 4.0% to HK\$120,515,230,000 which totalled HK\$115,914,619,000 at the end of June last year. The ratio of loans to deposits was 70.8%, 2 percentage points lower than 72.8% at 30th June, 1999.

OPERATIONS REVIEW

ORGANISATION RESTRUCTURING

The Bank has been refocusing and restructuring for future growth. A performance improvement diagnostic review, conducted by A.T. Kearney (an international consulting firm) in the first quarter of 1999, has proposed a series of initiatives to improve internal operations. The Bank has been actively implementing the initiatives.

Progress of key initiatives:

- Successful introduction of a new organisation structure on 1st January, 2000. Business units are grouped in line with major market segments.
- Expanding the function of domestic branches to give them a more direct revenue-raising role. Support work for branch offices has been centralised, allowing branch staff to concentrate on selling activities. There will be other initiatives to complement the change, such as a new incentive program that rewards outstanding performance.
- Setting up of new departments to focus on strategic planning and risk management functions.
- Introduction of a new Staff Grading System on 1st July, 2000, for effective human resources management.

Full implementation of these measures is scheduled to be completed during the year 2000. There are ongoing implementation of specific measures to improve efficiency and the allocation of resources.

MAJOR PRODUCT AND SERVICE ENHANCEMENTS

The East Asia Cyberbanking Service:

- This service is the leading and most comprehensive electronic banking service in Hong Kong, enabling customers to manage up to 12 bank accounts via one account number through convenient electronic channels including the Internet, mobile phones, telephones, PowerPhonesTM and kiosks.
- **Winner of the Asian Banking Awards 2000**, “New Business Venture” category. The Bank of East Asia was the only bank in Hong Kong to win a prize in the competition. There were 209 projects from 16 countries vying for awards in 15 categories.
- First bank in Hong Kong to offer a full-range of online banking services, including consumer loans, mortgage loans, insurance, foreign exchange margin trading, fund transfer to other local banks and credit card services in March.
- First bank in Hong Kong to offer instant online approval for mortgage, consumer loans and *TravelSafe* insurance.
- Recently launched co-branded website in collaboration with “Yahoo! Hong Kong”, providing a one-stop site for customers to manage personal and financial matters. The website, *BEA My Yahoo!* gives customers access to all *East Asia Cyberbanking Services* with added capabilities such as email and personalised webpages etc. (Website <http://hkbea.my.yahoo.com>)

Mandatory Provident Fund:

- Launched *BEA (MPF) Master Trust Scheme* in February 2000, serving employers, employees and the self-employed.
- Successful bid to operate an industry scheme - the *BEA (MPF) Industry Scheme* in April. This scheme is designed to meet the special needs of the 500,000 workforce employed in the catering and construction industries of Hong Kong.
- The two MPF Schemes, approved and registered under the Mandatory Provident Fund Schemes Ordinance, marks an important milestone for the Bank in providing comprehensive MPF services.

Blue Cross Insurance:

- Wholly owned by the Bank, it serves as the insurance arm of the Group’s diversified range of financial services. It is a leading provider of health and travel insurance.
- Recently relocated to a new 20,000 sq.ft. office in Cosco Tower, Central. The new office is equipped with state-of-the-art facilities in order to cope with rapid business expansion and to offer better services to customers.
- Launched new products such as *TravelSafe* and *GolferSafe*, both of which have been well received.
- Joint promotion with *East Asia Cyberbanking Service* and *Towngas Card* in the distribution of selected Blue Cross products. It has generated very favourable results.
- Own website (Website <http://www.bluecross.com.hk>) will be launched for web-based distribution of insurance products and services, paving the way for future development in e-commerce.
- Bancassurance, a new line of insurance products, will be launched through the branch networks of the Bank and United Chinese Bank.

USD Clearing System:

The USD Clearing System will be launched by the Hong Kong Monetary Authority in the second half of year 2000. With the System, US dollar transactions can be settled locally by the real time electronic payment system or cheque clearing similar to that for the Hong Kong dollar. The Bank is fully prepared for the launch of this system and will introduce a number of new USD products to cope with market demand.

PERSONAL BANKING

Branch Operations

The Bank has continued to make improvements in branch network and services.

- A new branch opened in Chung Fu Shopping Centre in Tin Shui Wai, in May.
- The Jordan Road Branch was relocated in May, and was renamed the Jordan Branch.
- After-office-hours services have been introduced at 40 branches.

Personal Banking Centres at selected branches have proven to be successful. Five more centres were established in March, making a total of 20 Personal Banking Centres. These Centres provide one-stop comprehensive services for customers.

Property Loans

With a subdued property market and the reduction of mortgage loan demand, competition between market players intensified. Most banks were offering very low interest rates and attractive cash bonuses to attract potential customers. Mortgage transfer activities dominated the mortgage loan market in the first half of year 2000, as a result of developers reducing the number of flats released in the market.

Cyberbanking launched its property loans services in March, providing additional platforms for customers to access a variety of mortgage loan services, including property valuation, application pre-approval, account information enquiry, prepayment instruction and confirmation requisition, etc. The Bank hopes these comprehensive electronic services will generate more business.

Credit Cards

Credit card business continued to experience encouraging growth. Cardholder base and accounts receivable have both recorded double digit increments.

To develop along the emerging trend of e-commerce, the *Bank of East Asia CyberCard*, was launched in April, 2000. A virtual credit card designated for Internet purchases, *CyberCard* offers customers the convenience of shopping through the Internet with added security.

A new MasterCard, the *Shine Card*, was introduced in June to expand our product range to suit the needs of various market segments. This new card product offers cardholders with the benefit of earning cash rebate automatically when purchasing with the Card.

CORPORATE BANKING

Trade Finance

The Bank strives to provide a full range of quality trade finance services for our customers in a highly professional manner. The Bank will target the key market of small to medium sized enterprises (“SMEs”).

The Bank has joined forces with the Hong Kong Export Credit Insurance Corporation to provide export financing for SMEs. It has also sponsored the SME Centre of the Hong Kong Productivity Council. The primary work of the centre is to assist SMEs with their business needs. A team of dedicated and experienced managers will continue to provide personalised and professional services for customers.

Corporate Lending and Syndication

Dynamics returned to the corporate lending and syndication markets in the first half of 2000 with an overwhelming response received from a number of major syndications. At a generally lower interest spread, some prominent companies grasped the opportunity to refinance their existing loans. The Bank will continue to engage in high quality and return-justified deals and will maintain its active role in this fast recovering lending market.

CHINA OPERATIONS

China is a key developing market for the Bank. In order to expand customer base, the Bank will launch the *Cyberbanking Service (China)* (Website <http://www.hkbea-cyberbanking.com.cn>) in the second half of this year. As the first foreign bank in China to offer such a comprehensive and innovative service, *Cyberbanking (China)* allows customers to manage up to 12 accounts via one “i-Account” number through the Internet. Customers can make fund transfers, placement, withdrawal and renewal of time deposits, send remittance instructions and make inquiries about account and interest rates information.

The Bank is also authorized to conduct RMB business in Shanghai, Shenzhen and five adjoining provinces: Guangdong, Guangxi, Hunan, Jiangsu and Zhejiang. This business has been growing satisfactorily. Current projections indicate strong growth in the coming years.

In anticipation of China’s accession to the World Trade Organisation, the Bank will extend a full range of RMB products that will cater to foreigners and local residents. The major source of income for China branches is to be derived from RMB operations.

PROSPECTS

The Bank has become one of the most respected financial institutions in Hong Kong with a significant regional and international presence. We have received the *Euromoney Awards for Excellence 2000* as the **Best Domestic Bank in Hong Kong**. Our *East Asia Cyberbanking and Cybertrading Services* have also been awarded **Winner of Asian Banking Awards 2000** in the “New Business Venture” category. The Bank is focused on the future and through our superior and personalised services, we expect to continue expanding our market share in Hong Kong and Mainland China.

We will take advantage of our leadership positions in Cyberbanking, the Mainland market and other areas. We will continue to focus on domestic consumer and retail banking business and we seek to diversify revenue sources and expand fee income by placing great emphasis on cross-selling. Technology plays a vital role in the strategy of the Bank and it is our goal to build a platform to support future growth. We recognize that understanding customers and meeting their needs are key components of a winning strategy in today’s financial market. To that end, we will make substantial investments in technology. Using customer relationship management tools, we will collect, organise and analyse customer information to identify possible marketing opportunities and create value-added products and services for customers.

Apart from growing through the expansion of our core business, we are also examining opportunities to grow through acquisitions in those countries where we can leverage our brand, services and operations.

DEALINGS IN LISTED SECURITIES OF THE BANK

During the period, the Bank had repurchased and cancelled an amount of US\$30,486,000 of Convertible Bonds due 2003, which were listed on the Luxembourg Stock Exchange. Save for this repurchase, there was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of listed securities of the Bank during the six months ended 30th June, 2000.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Bank is not, or was not for any part of the six months ended 30th June, 2000, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

By Order of the Board
David LI Kwok-po
Chairman & Chief Executive

Hong Kong, 26th July, 2000.