



# THE BANK OF EAST ASIA, LIMITED

(Incorporated in Hong Kong with limited liability in 1918)

## INTERIM REPORT 2001

### INTERIM RESULTS

The Directors of The Bank of East Asia, Limited (the "Bank") are pleased to announce the unaudited results<sup>1</sup> of the Group for the six months ended 30th June, 2001. This interim financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2000 annual financial statements except for accounting policy changes<sup>2</sup> made thereafter in adopting new Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants.

#### A. Consolidated Profit and Loss Account

	6 months ended 30/6/2001	6 months ended 30/6/2000 Restated	Variance
	HK\$'000	HK\$'000	%
Interest income	5,570,633	5,163,297	+ 7.9
Interest expense	(3,504,436)	(3,315,842)	+ 5.7
Net interest income	2,066,197	1,847,455	+ 11.8
Non-interest income	674,610	547,556	+ 23.2
Total operating income <sup>3</sup>	2,740,807	2,395,011	+ 14.4
Operating expenses	(1,381,108)	(1,018,720)	+ 35.6
Operating profit before provisions	1,359,699	1,376,291	- 1.2
Charge for bad and doubtful debts	(49,406)	(220,403)	- 77.6
Operating profit after provisions	1,310,293	1,155,888	+ 13.4
Net loss on disposal of fixed assets	(1,414)	(2,068)	- 31.6
Net profit on disposal of held-to-maturity debt securities and investment securities	408	15,245	- 97.3
Provision on held-to-maturity debt securities, investment securities and associates	(83,909)	(68,053)	+ 23.3
Profit for the period before taxation <sup>3</sup>	1,225,378	1,101,012	+ 11.3
Taxation <sup>4</sup>			
— Hong Kong	(194,474)	(152,914)	+ 27.2
— Overseas	(6,174)	(28,212)	- 78.1
— Deferred	(1,906)	15,613	+112.2
Profit for the period after taxation	1,022,824	935,499	+ 9.3
Minority interests	(7,746)	—	
Profit attributable to shareholders	1,015,078	935,499	+ 8.5
Profit for the Bank	900,078	768,372	+ 17.1
Proposed interim dividends	300,383	281,251	+ 6.8
Earnings per share <sup>5</sup>			
— basic	HK\$0.71	HK\$0.67	+ 6.0
— diluted	HK\$0.71	HK\$0.67	+ 6.0
Proposed interim dividend per share	HK\$0.21	HK\$0.20	+ 5.0

## B. Consolidated Statement of Recognised Gains and Losses

	6 months ended 30/6/2001	6 months ended 30/6/2000 Restated	Variance
	HK\$'000	HK\$'000	%
Net losses not recognised in the profit and loss account			
Exchange differences arising on translation of foreign operations	(12,630)	(5,063)	+149.5
Net profit for the period			
As previously reported		939,934	
Prior period adjustment arising from change in accounting policy		(4,435)	
Net profit for the period (2000: as restated)	1,015,078	935,499	+ 8.5
Total recognised gains and losses	1,002,448	930,436	+ 7.7

## C. Consolidated Balance Sheet

	30/6/2001	31/12/2000 Restated	Variance
	HK\$'000	HK\$'000	%
<b>ASSETS</b>			
Cash and short-term funds	42,070,577	46,040,764	– 8.6
Placements with banks and other financial institutions maturing between one and twelve months	15,145,815	11,969,489	+ 26.5
Trade bills less provisions	596,497	563,321	+ 5.9
Certificates of deposit held	1,999,303	2,127,126	– 6.0
Other investments in securities	3,172,183	2,790,091	+ 13.7
Advances and other accounts less provisions <sup>6</sup>	109,107,905	105,621,128	+ 3.3
Held-to-maturity debt securities	2,712,975	2,802,104	– 3.2
Investment securities	194,048	182,893	+ 6.1
Investments in associates	433,374	507,036	– 14.5
Goodwill	1,792,688	1,594,072	+ 12.5
Fixed assets	4,705,007	4,743,734	– 0.8
Total Assets	181,930,372	178,941,758	+ 1.7
<b>LIABILITIES</b>			
Deposits and balances of banks and other financial institutions	6,008,456	4,899,329	+ 22.6
Deposits of customers	137,194,923	138,747,250	– 1.1
Certificates of deposit issued	9,737,808	8,544,198	+ 14.0
Convertible bonds issued <sup>7</sup>	1,952,329	1,952,254	
Tax and deferred taxation	447,630	332,880	+ 34.5
Other accounts and provisions	4,597,599	4,604,219	– 0.1
Total Liabilities	159,938,745	159,080,130	+ 0.5
<b>CAPITAL RESOURCES</b>			
Loan capital <sup>8</sup>	4,270,224	2,339,850	+ 82.5
Minority interests	15,630	441,174	– 96.5
Share capital	3,575,990	3,536,945	+ 1.1
Reserves <sup>9</sup>	14,129,783	13,543,659	+ 4.3
Shareholders' Funds	17,705,773	17,080,604	+ 3.7
Total Capital Resources	21,991,627	19,861,628	+ 10.7
Total Capital Resources and Liabilities	181,930,372	178,941,758	+ 1.7

## D. Consolidated Cash Flow Statement

	6 months ended 30/6/2001	6 months ended 30/6/2000
	HK\$'000	HK\$'000
Net cash (outflow)/inflow from operating activities	(4,642,966)	2,008,166
Returns on investments and servicing of finance		
Dividends received from associates	33,407	12,126
Dividends received on equity securities	13,360	2,866
Interest paid on loan capital, certificates of deposit and bonds issued	(277,351)	(407,449)
Ordinary dividends paid	(454,223)	(444,092)
Net cash outflow from returns on investments and servicing of finance	(684,807)	(836,549)
Taxation		
Hong Kong profits tax refund/(paid)	47,027	(15,025)
Overseas tax paid	(25,187)	(42,033)
Total tax refund/(paid)	21,840	(57,058)
Investing activities		
Purchase of equity securities	(34,273)	(59,715)
Proceeds from sale of equity securities	18,064	25,336
Purchase of fixed assets	(73,186)	(41,660)
Proceeds from disposal of fixed assets	1,268	285
Purchase of interest in associates	(4,002)	(115,779)
Capital refund from associates	20,370	—
Purchase of minority interests in subsidiary	(1,051,214)	—
Net cash outflow from investing activities	(1,122,973)	(191,533)
Net cash (outflow)/inflow before financing	(6,428,906)	923,026
Financing		
Issue of loan capital	4,270,334	—
Issue of ordinary share capital	76,944	43,229
Issue of certificates of deposit	5,069,750	3,894,950
Redemption of certificates of deposit and convertible bonds	(3,876,322)	(2,837,172)
Redemption of loan capital	(2,339,790)	—
Net cash inflow from financing	3,200,916	1,101,007
(Decrease)/Increase in cash and cash equivalents	(3,227,990)	2,024,033
Cash and cash equivalents at 1st January	46,564,625	31,238,987
Cash and cash equivalents at 30th June	43,336,635	33,263,020

### Notes:

- (1) The financial information set out included in this interim report does not constitute the Bank's statutory financial statements for the year ended 31st December, 2000 but is derived from those financial statements. Statutory financial statements for the year ended 31st December, 2000 are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 8th February, 2001.
- (2) *Change in Accounting Policy*

With effect from 1st January, 2001, the Bank adopted SSAP 9 (revised) "Events after the balance sheet date", SSAP 28 "Provisions, contingent liabilities and contingent assets", SSAP 29 "Intangible assets", SSAP 30 "Business combinations", SSAP 31 "Impairment of assets" and SSAP 32 "Consolidated financial statements and accounting for investments in subsidiaries" issued by the Hong Kong Society of Accountants in the first six months of 2001. The effects of adopting the Statements to the extent that they result in a change in the Bank's accounting policy are summarised as follows.

Proposed dividends which were still subject to shareholders' approval were previously treated as post balance sheet adjusting events, thus being accrued as a liability in the Group's balance sheet at the balance sheet date for dividends declared by the Bank, and as income in the Bank's profit and loss account for dividends declared by subsidiaries. On adoption of SSAP 9 (revised), a proposed dividend is not so accrued until approval is obtained. This change in accounting policy has been applied retrospectively. As a result, the Bank's profit for the six months ended 30th June, 2000 and 2001

increased by HK\$56 million and HK\$98 million respectively, and the proposed final dividend of HK\$637 million appearing in the Group's balance sheet as at 31st December, 2000 was reclassified as an item in shareholders' funds. Prior period adjustments on the opening balances of retained earnings of the Bank and of the Group were put through accordingly.

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

The requirements of SSAP 30 are applied retrospectively. Goodwill previously eliminated against general reserves is restated, resulting in additional amortisation of goodwill of HK\$4 million and HK\$41 million for the six months ended 30th June, 2000 and 2001 respectively. The opening balances of retained earnings brought forward as at 1st January, 2000 and 2001 are reduced by HK\$36 million and HK\$52 million respectively, representing amortisation of goodwill which should have been made if the goodwill previously eliminated against general reserves were instead capitalized on the date of acquisition and amortised on a straight line basis over its useful life.

(3) *Segmental Information — by Class of Business*

	Total operating income		Profit before taxation	
	30/6/2001	30/6/2000	30/6/2001	30/6/2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Commercial banking	2,583,541	2,223,119	1,180,410	1,002,709
Securities business	49,495	128,413	25,373	108,872
Insurance business	35,037	42,290	(12,072)	(13,285)
Other business	72,734	1,189	31,667	2,716
<b>Total</b>	<b>2,740,807</b>	<b>2,395,011</b>	<b>1,225,378</b>	<b>1,101,012</b>

Commercial banking activities during the year included acceptance of deposits, advance of commercial and industrial loans, supply of trust services, foreign exchange, trade financing and international banking.

Securities business activities during the year included dealing in equities and debt securities, and stockbroking.

Insurance business activities during the year included insurance broking, and the direct underwriting of long term and general insurance business.

Other business activities during the year included property holding, letting, agency and management, and investment holding.

- (4) (a) The charge for Hong Kong profits tax is based on an estimate of the assessable profit for the year taxed at 16% (2000: 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.
- (5) (a) The calculation of basic earnings per share is based on earnings of HK\$1,015,078,000 (2000: HK\$935,499,000) and on the weighted average of 1,423,941,649 (2000: 1,398,192,894) shares outstanding during the year.
- (b) The calculation of diluted earnings per share is based on earnings of HK\$1,015,078,000 (2000: HK\$935,499,000) and on the weighted average of 1,428,910,148 (2000: 1,403,737,416) shares in issue, being weighted average number of ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

(6) *Advances and Other Accounts*

	30/6/2001	31/12/2000	Variance
	HK\$'000	HK\$'000	%
Advances to customers	107,604,677	103,993,959	+ 3.5
Advances to banks and other financial institutions	448,728	510,625	-12.1
Accrued interest and other accounts	2,918,460	3,058,343	- 4.6
Less: Provision for bad and doubtful debts			
— Specific	(555,304)	(671,226)	-17.3
— General	(1,308,656)	(1,270,573)	+ 3.0
<b>Total</b>	<b>109,107,905</b>	<b>105,621,128</b>	<b>+ 3.3</b>

(7) Convertible bonds amounting to US\$209,665,000 were redeemed on 19th July, 2001 at the option of the bond holders.

(8) Loan capital outstanding at 30th June, 2001 represents US\$550,000,000 7.5% subordinated notes qualifying as tier 2 capital which were issued on 30th January, 2001 by East Asia Financial Holding (BVI) Limited, a single purpose wholly owned finance subsidiary of the Bank. The Bank unconditionally and irrevocably guarantees all amounts payable under the notes which are listed on the Luxemburg Stock Exchange.

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

## (9) Reserves

	30/6/2001	31/12/2000	Variance
	HK\$'000	Restated HK\$'000	%
Share premium	375,970	338,071	+ 11.2
General reserve <sup>a</sup>	10,870,874	10,686,625	+ 1.7
Property revaluation reserve	1,385,463	1,385,463	
Capital reserve	86,436	86,436	
Exchange revaluation reserve	(9,638)	2,992	-422.1
Retained profits <sup>b</sup>	407,422	1,044,072	- 61.0
Current year profit	1,013,256	—	
<b>Total</b>	<b>14,129,783</b>	<b>13,543,659</b>	<b>+ 4.3</b>
Proposed dividends, not provided for	300,383	636,650	- 52.8
<b>a. General reserve</b>			
As previously reported		9,041,002	
Restatement of goodwill		1,645,623	
As restated		<b>10,686,625</b>	
<b>b. Retained profits</b>			
As previously reported		458,973	
Proposed final dividends restated		636,650	
Amortisation of restated goodwill		(51,551)	
As restated		<b>1,044,072</b>	

**E. Advances to Customers and Banks and other Financial Institutions of the Group**1. *Advances to customers — by industry sectors*

	30/6/2001	31/12/2000	Variance
	HK\$'000	HK\$'000	%
Loans for use in Hong Kong			
— Industrial, commercial and financial			
— Property development	6,094,126	5,220,885	+16.7
— Property investment	11,363,675	10,590,097	+ 7.3
— Financial concerns	2,088,560	2,679,540	-22.1
— Stockbrokers	51,704	135,947	-62.0
— Wholesale and retail trade	2,913,673	2,865,242	+ 1.7
— Manufacturing	1,518,134	1,332,082	+14.0
— Transport and transport equipment	3,512,129	3,387,521	+ 3.7
— Others	8,759,987	7,564,898	+15.8
— Sub-total	<b>36,301,988</b>	<b>33,776,212</b>	<b>+ 7.5</b>
— Individuals			
— Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme total and Tenants Purchase Scheme	2,708,702	2,647,378	+ 2.3
— Loans for the purchase of other residential properties	41,439,218	41,120,118	+ 0.8
— Credit card advances	1,711,044	1,601,340	+ 6.9
— Others	3,860,563	3,742,416	+ 3.2
— Sub-total	<b>49,719,527</b>	<b>49,111,252</b>	<b>+ 1.2</b>
Total loans for use in Hong Kong	<b>86,021,515</b>	<b>82,887,464</b>	<b>+ 3.8</b>
Trade finance	3,350,424	3,110,720	+ 7.7
Loans for use outside Hong Kong	18,232,738	17,995,775	+ 1.3
<b>Total advances to customers</b>	<b>107,604,677</b>	<b>103,993,959</b>	<b>+ 3.5</b>

2. *Advances to customers — by geographical areas*

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

	Total advances to customers		Non-performing loans		Advances overdue for over three months	
	30/6/2001	31/12/2000	30/6/2001	31/12/2000	30/6/2001	31/12/2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	92,957,886	90,016,930	2,669,782	2,459,904	2,445,021	2,931,325
People's Republic of China	3,359,005	3,188,183	693,800	855,006	790,738	894,893
Other Asian countries	3,078,156	3,261,599	211,062	226,110	186,731	132,690
Others	8,209,630	7,527,247	176,463	204,188	140,936	156,797
<b>Total</b>	<b>107,604,677</b>	<b>103,993,959</b>	<b>3,751,107</b>	<b>3,745,208</b>	<b>3,563,426</b>	<b>4,115,705</b>

3. *Non-performing loans*

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

	30/6/2001	31/12/2000	Variance
	HK\$'000	HK\$'000	%
Non-performing loans to customers	3,751,107	3,745,208	+ 0.2
As percentage of total advances to customers	3.5%	3.6%	
Specific provisions	460,250	550,197	-16.3
Suspended interest	549,729	741,039	-25.8

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

4. *Overdue and rescheduled advances*

	30/6/2001		31/12/2000	
	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers
Advances to customers overdue for				
— 6 months or less but over 3 months	503,123	0.5	887,241	0.9
— 1 year or less but over 6 months	675,693	0.6	840,726	0.8
— Over 1 year	2,384,610	2.2	2,387,738	2.3
	3,563,426	3.3	4,115,705	4.0
Rescheduled advances to customers	412,296	0.4	770,123	0.7
<b>Total overdue and rescheduled advances</b>	<b>3,975,722</b>	<b>3.7</b>	<b>4,885,828</b>	<b>4.7</b>
Market value of securities held against the secured overdue advances	4,480,656		4,389,458	
Secured overdue advances	2,860,617		2,953,053	
Unsecured overdue advances	702,809		1,162,652	

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 30th June, 2001 and 31st December, 2000, nor were there any rescheduled advances to banks and other financial institutions on these two days.

5. *Reconciliation*

	30/6/2001	31/12/2000
	HK\$'000	HK\$'000
Overdue advances ( <i>Note 1</i> )	3,563,426	4,115,705
Rescheduled advances ( <i>Note 2</i> )	412,296	770,123
Total overdue and rescheduled advances	3,975,722	4,885,828
Less: Overdue advances on which interest is still being accrued	(384,105)	(1,079,466)
Less: Rescheduled advances on which interest is still being accrued	(164,120)	(355,157)
Add: Non-performing loans which are not overdue or rescheduled	323,610	294,003
Total non-performing loans	<u>3,751,107</u>	<u>3,745,208</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.

**F. Off-Balance Sheet Exposures**

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

	30/6/2001	31/12/2000	Variance	
	HK\$'000	HK\$'000		%
Contingent liabilities and commitments				
— Direct credit substitutes	2,991,162	2,250,206	+	32.9
— Transaction-related contingencies	441,013	260,214	+	69.5
— Trade-related contingencies	2,848,666	2,705,737	+	5.3
— Note issuance and revolving underwriting facilities	28,000	31,368	–	10.7
— Other commitments	29,845,680	27,576,787	+	8.2
— Others	286,107	1,993	+	14,255.6
Total	<u>36,440,628</u>	<u>32,826,305</u>	+	11.0
— Aggregate credit risk weighted amount	<u>6,767,854</u>	<u>5,194,552</u>	+	30.3
Derivatives				
— Exchange rate contracts	26,356,560	22,496,789	+	17.2
— Interest rate contracts	2,379,253	1,845,645	+	28.9
— Equity contracts	70,352	—		
Total	<u>28,806,165</u>	<u>24,342,434</u>	+	18.3
— Aggregate credit risk weighted amount	<u>145,167</u>	<u>155,731</u>	–	6.8
— Aggregate replacement costs	<u>147,215</u>	<u>358,712</u>	–	59.0

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.

## G. 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.

	30/6/2001 HK\$ Million				31/12/2000 HK\$ Million		
	USD	CAD	Others	Total	USD	Others	Total
Spot assets	50,108	3,674	16,902	70,684	49,274	16,275	65,549
Spot liabilities	(50,990)	(3,753)	(17,449)	(72,192)	(48,191)	(20,223)	(68,414)
Forward purchases	16,525	172	2,957	19,654	13,571	6,336	19,907
Forward sales	(15,271)	(181)	(2,369)	(17,821)	(15,219)	(2,316)	(17,535)
Net long/(short) position	<u>372</u>	<u>(88)</u>	<u>41</u>	<u>325</u>	<u>(565)</u>	<u>72</u>	<u>(493)</u>

	30/6/2001 HK\$ Million					31/12/2000 HK\$ Million				
	USD	CAD	SGD	Others	Total	USD	CAD	SGD	Others	Total
Net structural position	<u>649</u>	<u>170</u>	<u>175</u>	<u>153</u>	<u>1,147</u>	<u>657</u>	<u>172</u>	<u>184</u>	<u>108</u>	<u>1,121</u>

## H. Capital, Capital Adequacy and Liquidity Information

The prior year adjustments on adoption of new SSAPs have not been taken into account in calculation of Capital Adequacy Ratio and Capital Base as at 31st December, 2000, as it is considered that the impacts are not material.

	30/6/2001	31/12/2000
1. Capital adequacy ratio		
— Unadjusted	17.7%	16.2%
— Adjusted	17.6%	16.1%

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 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 Return

	<u>30/6/2001</u>	<u>31/12/2000</u>	<u>Variance</u>
	HK\$'000	HK\$'000	%
Core capital			
— Paid up ordinary share capital	3,575,990	3,536,945	+ 1.1
— Reserves	12,425,474	9,905,520	+25.4
— Minority interests	15,630	441,174	-96.5
— Deduct: Goodwill	<u>(1,792,688)</u>	<u>—</u>	
Total core capital	<u>14,224,406</u>	<u>13,883,639</u>	+ 2.5
Eligible supplementary capital			
— Reserves on revaluation of land and interests in land (at 70%)	969,824	969,824	
— General provisions for doubtful debts	1,321,390	1,277,672	+ 3.4
— Term subordinated debt	<u>4,270,224</u>	<u>2,339,850</u>	+82.5
Total eligible supplementary capital	<u>6,561,438</u>	<u>4,587,346</u>	+43.0
Total capital base before deductions	20,785,844	18,470,985	+12.5
Deductions from total capital base	<u>(739,690)</u>	<u>(834,391)</u>	-11.3
Total capital base after deductions	<u>20,046,154</u>	<u>17,636,594</u>	+13.7
	<u>2001</u>	<u>2000</u>	
3. Average liquidity ratio for the first six months	47.0%	47.4%	

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.

**I. Statement of Compliance**

The Interim Report has fully complied with the "Recommendations on Interim Financial Disclosure by Authorised Institutions incorporated in Hong Kong" issued by the Hong Kong Monetary Authority on 13th June, 2001.

**INTERIM DIVIDEND**

The Directors are pleased to declare an interim dividend of HK\$0.21 (2000: HK\$0.20) per share for the year ending 31st December, 2001. 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, 30th August, 2001. Details of the scrip dividend and the election form will be sent to shareholders on or about Thursday, 30th August, 2001. 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, 21st September, 2001.

**CLOSURE OF REGISTER OF MEMBERS**

The Register of Members will be closed from Monday, 27th August, 2001 to Thursday, 30th August, 2001. In order to qualify for the above interim dividend, all transfer documents should be lodged for registration with Standard Registrars Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, by 4:00 p.m. on Friday, 24th August, 2001.

## **FINANCIAL REVIEW**

### **Financial Performance**

In the first six months of 2001, The Bank of East Asia Group achieved profit attributable to shareholders of HK\$1,015 million, representing an increase of HK\$80 million, or 8.5%, over that of HK\$935 million for the corresponding period of 2000. Operating profit after provisions grew notably from HK\$1,156 million in 2000 to HK\$1,311 million in 2001. Basic earnings per share were HK\$0.71. Return on average assets and return on average equity were 1.2% and 13.3% respectively.

For the year 2000, the results of FPB Bank Holding Company Limited (“FPB”) were not included in the Group financial statements, as they were considered by the Directors to be immaterial to the Group. The financial position, however, was included. Commencing 2001, both the results and financial position of FPB were consolidated.

The Hong Kong mortgage price war continued to exert downward pressure on the Bank’s net interest margin, and the issuance of loan capital increased the Bank’s interest costs. However, net interest income grew by HK\$219 million or 11.8% from HK\$1,847 million in the first half of 2000 to HK\$2,066 million in 2001, due primarily to the inclusion of FPB’s results and 26.1% growth in customer loans since 30th June, 2000. As a result, the net interest margin was maintained at 2.47%.

Non-interest income exhibited significant growth of 23.2%, mainly attributable to the consolidation of FPB’s results and an increase in net fees and commission due to expansion of the Bank’s loan business. Total operating income grew 14.4% to HK\$2,741 million from HK\$2,395 million in the first six months of 2000. The proportion of non-interest income to total operating income increased by 175 basis points to 24.6%.

In the first half year of 2001, the Bank undertook a project to integrate the operations of the Bank, FPB and United Chinese Bank (“UCB”), with non-recurrent consultancy expenses incurred to achieve this end. Although operating expenses increased in the short term, with integration, long-term synergetic benefits will be realized as operating expenses are reduced through economies of scale and as opportunities to cross-sell fee-based products increase. Consolidation of FPB’s expenses and amortisation of goodwill following adoption of SSAP 30 also contributed to the increase in operating expenses, which grew by 35.6% to HK\$1,381 million, thus raising the cost-to-income ratio from 42.5% in 2000 to 50.4% in 2001. If the integration expenses, FPB’s operating expenses and amortisation of goodwill were excluded, there would only be mild growth in expenses, reflecting the Bank’s keen determination to control costs.

Operating profit before provisions recorded a slight decrease of 1.2% from HK\$1,376 million in the first six months of 2000 to HK\$1,360 million in 2001.

Overall asset quality in the Hong Kong banking industry continued to improve during 2001. This Bank’s charge for bad and doubtful debts decreased substantially by HK\$171 million, or 77.6% to HK\$49 million. At The Bank of East Asia, non-performing loans dropped from 7.0% of total loans at the end of June 2000 to 3.5% at the end of June 2001. Accordingly, operating profit after provisions recorded healthy growth of 13.4% to HK\$1,311 million.

As the Bank has acquired some non-wholly owned subsidiaries, the interim results show HK\$8 million in minority interests. Net profit attributable to shareholders for the first half of 2001 was HK\$1,015 million.

### **Financial Position**

As at 30th June, 2001, total consolidated assets were HK\$181,930 million, of which 59.1%, or HK\$107,605 million, were advances to customers. Customer deposits were HK\$137,195 million, while debt instruments issued stood at HK\$11,690 million. With HK\$4,270 million loan capital, total capital resources increased by 10.7% from HK\$19,862 million at the end of 2000 to HK\$21,992 million.

In the first half year of 2001, the Bank issued certificates of deposit totalling US\$650 million and redeemed certificates of deposit with a total value of US\$497 million upon maturity. At the end of June 2001, the face value of the outstanding debt portfolio was HK\$11,690 million, including floating rate certificates of deposit of US\$13 million issued by the Bank’s subsidiary, First Pacific Bank Limited.

After taking into account all debt instruments issued, the ratio of loans to deposits was 72.3%, being 1.5% higher than the 70.8% reported at the end of June 2000.

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

	Currency	Total Face Value	Year of Maturity		
			2001	2002	2004
<b>Issued by Bank of East Asia</b>					
<b>Floating Rate</b>					
<b>Certificates of Deposit</b>					
issued in 1999	HKD	1,950	1,950		
issued in 1999	USD	297		297	
issued in 2001	USD	650		650	
Total	HKD	1,950	1,950	0	0
Total	USD	947	0	947	0
<b>Fixed Rate</b>					
<b>Certificates of Deposit</b>					
issued in 1999	HKD	300	200		100
<b>Convertible Bonds</b>					
issued in 1996	USD	250	250		
<b>Issued by First Pacific Bank</b>					
<b>Floating Rate</b>					
<b>Certificates of Deposit</b>					
issued in 1997	USD	5		5	
issued in 2000	USD	8		8	
Total	USD	13	0	13	0
<b>Total Debts issued in HKD equivalent</b>		<b>11,690</b>	<b>4,102</b>	<b>7,488</b>	<b>100</b>

**Risk Management**

The Group has established policies and procedures for the control and monitoring of credit risk, liquidity risk, capital management and market risk. These are reviewed regularly by the Management, the Credit Committee and the Asset and Liability Management Committee. The internal auditors also perform regular audits on business units to check compliance with policies and procedures.

(a) **Credit Risk Management**

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from the lending, trade finance, treasury, derivatives and other activities undertaken by the Group.

The Group's credit policy defines the credit extension criteria, the credit approval and monitoring processes, the loan classification system and provisioning policy. It will take into account the Group's predetermined lending strategies, and in particular, the prevailing statutory rules as governed by regulatory bodies such as the Hong Kong Monetary Authority ("HKMA").

The Group manages its credit risk within a conservative framework by formulating/revising credit policies and guidelines; performing credit assessment on counterparties; conducting loan portfolio management (such as ensuring compliance with the predetermined lending portfolio mix); and through credit control and debt recovery. The Credit Committee will oversee the credit risk management of the Group.

(b) ***Liquidity Risk Management***

Liquidity risk is the risk that the Group cannot meet its current obligations. To manage liquidity risk, the Group has established a liquidity risk management policy, which is reviewed by the Asset and Liability Management Committee and approved by the Board of Directors. The Group measures the liquidity of the Group through the statutory liquidity ratio, 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 is always in compliance with the statutory liquidity ratio. The Group's average liquidity ratio was 47.0% for the first half of 2001, which is well above the statutory minimum ratio of 25%.

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

(c) ***Capital Management***

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to meet the statutory capital adequacy ratio. Both the Group's adjusted capital adequacy ratio incorporating market risk of 17.6% and the unadjusted ratio of 17.7% as at 30th June, 2001, were well above the statutory minimum ratio.

Capital is allocated to the various activities of the Group depending on the risk profile of each business division. Where the subsidiaries or branches are directly regulated by appropriate regulators, they are required to maintain a minimum capital according to the rules of those regulatory authorities. Certain financial subsidiaries are subject to the HKMA's capital requirement.

(d) ***Market Risk Management***

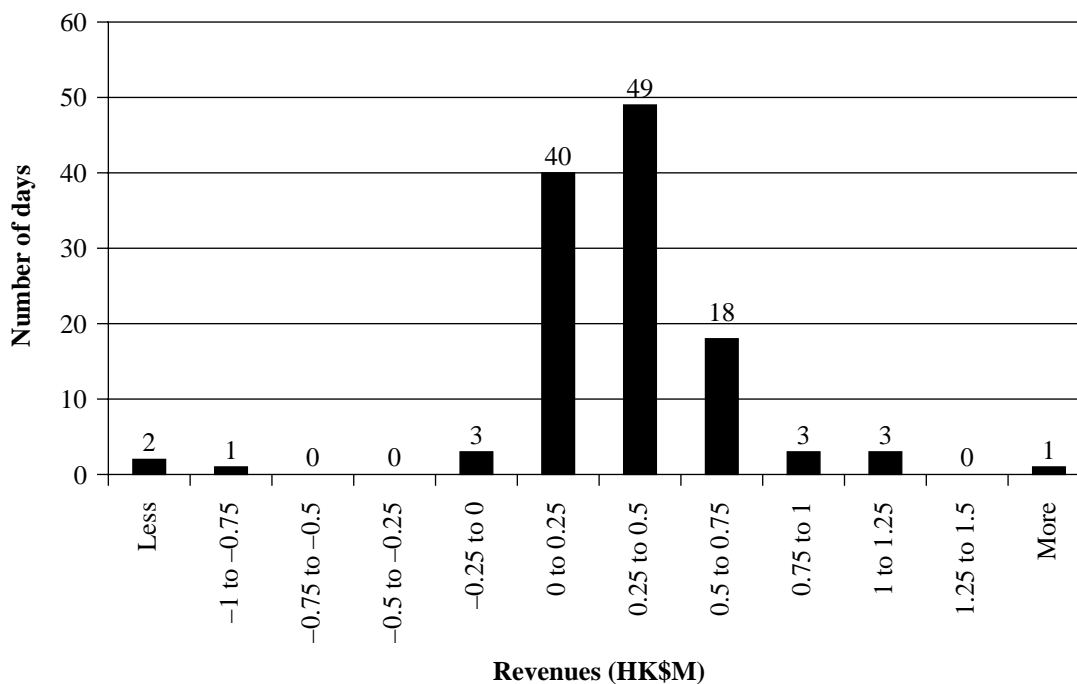
Market risk is the risk arising from the net effect of changes in market rates and prices, such as interest rates, foreign exchange rates, equity and commodity prices, on the Group's assets, liabilities and commitments. Changes in these rates and prices have a direct bearing on the Group's profits or losses.

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

The Group's maximum market risk exposures in different activities are set by the Management. Exposures are measured and monitored on the basis of principal (or notional) amount, outstanding position and stop-loss limits, and are controlled within the established limits approved by the Management 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. Periodic market risk exposure reports are provided for Management's perusal, while exceptions to limits are reported as and 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 movement in market rates and prices, if positions are held unchanged over a certain horizon time period. The Group's VaR is calculated using historical one-day movement in market rates and prices and a 95% confidence level, and takes into account correlation between different markets and rates.

The VaR for the Group's market risk-related treasury trading portfolio as at 30th June, 2001, was HK\$0.35 million (2000: HK\$0.22 million). The average daily revenue earned from the Group's market risk-related treasury trading activities in the first half of 2001 was HK\$0.32 million (2000: HK\$0.29 million). The standard deviation of these daily revenues was HK\$0.53 million (2000: HK\$0.20 million).



An analysis of the daily distribution of the Group's market risk-related treasury trading revenues for the first six months of 2001 is provided above. This shows that 6 out of 120 days are in a loss position. The most frequent result was a daily revenue of between HK\$0.25 million and HK\$0.50 million, with 49 occurrences. The maximum daily loss was HK\$2.66 million and the next maximum daily loss was HK\$1.3 million. The highest daily revenue was HK\$4.17 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 Management.

The VaR related to foreign exchange dealing positions at 30th June, 2001, was HK\$0.30 million (2000: HK\$0.11 million). The average daily foreign exchange dealing profit for the first six months of 2001 was HK\$0.29 million (2000: HK\$0.28 million).

Foreign exchange positions which arise mainly from foreign currency investments in the Group's branches, subsidiaries and associated companies 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 Management. 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 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, as at 30th June, 2001, was HK\$0.23 million (2000: HK\$0.12 million). The average daily profit due to these activities for the first six months of 2001 was HK\$0.03 million (2000: HK\$0.01million).

(iii) *Equities exposure*

The Group's equities exposure comprises trading equities and long-term equities investments. The Group's Investment Committee regularly reviews and monitors the equities dealing activities. The VaR on equities trading positions as at 30th June, 2001, was HK\$3.57 million (2000: HK\$5.69 million).

## OPERATIONS REVIEW

### **Recognition**

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

### **Integration and Merger Exercise**

In March 2001, the Bank completed the compulsory acquisition of FPB Bank Holding Company Limited, making it a wholly-owned subsidiary. FPB Bank Holding Company Limited was delisted at the same time. The Group is now undertaking the integration of United Chinese Bank and First Pacific Bank with its own operations.

A Bill for the merger of the Bank and United Chinese Bank was read and passed by the Legislative Council on 11th July. Accordingly, the effective date for the merger is set for 27th August, 2001. The integration of the Bank and First Pacific Bank is in full swing, and the legal merger is expected to be executed in the second quarter of 2002. A new organisation structure for the merged bank has been designed.

### **Organisation Restructuring**

#### *Domestic Branches*

In January 2001, the Bank engaged A.T. Kearney as its management consultant to assist the Bank in transforming its branch network into a sales-oriented network. This project is tentatively scheduled to be completed by October 2001. The following has been achieved to date:

- Designed a model branch to act as a blueprint for the future;
- Developed a plan to move processing operations to centralised back-office operations centres, to release more resources for selling at branches;
- Rolled out a pilot exercise to test the workability of the new models at a number of branches.

#### *Corporate Identity*

We engaged AC Nielsen, a leading market research firm, to conduct a study on customer perceptions of the image of the Bank. Based on the study findings, Landor Associates, a leading branding and image consultant, is now assisting in redesigning the Bank's corporate image and developing the new branch layout.

#### *Other Restructuring Activities*

The Bank has revamped the focus and composition of its specialised committees, formed under the Board, to achieve the following goals:

- Align with the current organisation structure;
- Meet the business needs and promote future development after the merger with United Chinese Bank and First Pacific Bank;
- Strengthen the corporate governance regime;
- Optimise the communication effectiveness of the committees.

In the second half of 2001, the Bank plans to achieve the following:

- Conduct on-going re-engineering exercises on operational processes;
- Further strengthen the performance management system of the Bank.

## Personal Banking

### *Branch Operations*

We see our extensive branch network as a valuable asset in providing convenient and comprehensive service to our customers. During the most recent period, we have made the following improvements to our network:

- As a part of our programme to transform branches into sales centres, we launched a pilot scheme in May covering eight branches to test the new arrangement. Results to date have met expectations, and it is projected that branch revenue will be increased through the full implementation of the project.
- Metro City Plaza Branch at Tseung Kwan O opened in March, to provide convenient and effective service to the local community.
- China Resources Building Branch was relocated and renamed Harbour Road Branch in May, and now occupies a more prominent site in the same district.
- Tai Kok Tsui Branch was relocated and renamed Hoi Fu Shopping Centre Branch in early July.

Our Group branch network now stands at 134 outlets.

### *East Asia Cyberbanking Service*

We continued to expand our trendsetting Internet banking products, rolling out an integrated group of account, investment and bill payment services:

- Introduced *MyCyberWorld*, a new customer-centric concept that offers personalised banking and financial services;
- Introduced *MyPortfolio*, a personal online banking service that combines *MyAccounts*, *MyStocks* and *MyBills*, providing unprecedented convenience to assist customers in managing their financial affairs;
- Launched Asia's first *Personal Digital Assistant (PDA) Transactional Banking* in May 2001, with multiple functions including account enquiry, fund transfer and bill payment;
- Launched Hong Kong's first *Bill Presentment Service*, a unique one stop presentation and payment service that allows customers to view and pay their bills over the Internet anytime, anywhere;
- Received international recognition for our Web services, as the winner of “**2000 JP Morgan/FIA Best Asian Corporate Website Award**”.

### *Property Loans*

Mortgage interest rates have reached a record low, as a result of five interest rate reductions totalling 2.5% in the first half of this year. However, the overall property market is still weak and transactions are mainly driven by the primary market.

In the face of shrinking mortgage demand and keen competition for mortgage business, the Bank has actively exploited available business opportunities. We participated in the Mortgage Insurance Programme for uncompleted flats launched by Hong Kong Mortgage Corporation. We have also co-ordinated with many property developers, providing comprehensive mortgage services and offering privileged mortgage packages jointly to home purchasers at large housing projects. These actions have allowed the Bank to maintain its market share in residential mortgage loans, despite the intense competition.

### *Consumer Loans*

In the first half of 2001, a series of promotional programmes were launched to grow the consumer loan business aggressively. In view of the intense competition in the personal lending sector, innovative loan packages were developed to offer maximum flexibility and convenience to fulfil the financial needs of our customers. As at 30th June, 2001, the Bank had achieved an increase of over 40% in consumer loans as compared with the same period of last year.

### *Credit Cards*

The Group's credit card business exhibited remarkable expansion in the first half of 2001, during which double-digit growth in the number of cards, credit card receivables, cardholder spending and merchant sales were recorded. Regarding new product development, during the first six months, The Bank of East Asia launched the *Pacific Century Insurance Credit Card* and *Corporate EasyNet Card*, while First Pacific Bank rolled out the *UNiSOFT VISA Card* and the *Dragon Centre MasterCard*.

Aiming to increase card acquisition and utilisation, from the beginning of this year we have strengthened our marketing programmes in terms of both quality and quantity. The response to these marketing programmes has met our goals. Looking ahead, we will continue to enhance the value of holding and using our cards, and develop various new products to capture customers from different market segments.

### *Unit Trusts*

To increase our competitive edge and the range of funds we sell, we have increased our fund management company partnerships from 9 to 14 in the first six months of this year. More than 600 funds from leading fund management companies are now offered to our customers, and for the overwhelming majority of these funds, fund information and performance can be obtained through our on-line CyberFund Centre. Furthermore, we extended our sales to 19 branches of United Chinese Bank, in advance of the formal merger of United Chinese Bank with the Bank on 27th August. We will continue to enhance our service by adding major fund management companies to our distribution list in the coming months.

## **Corporate Banking**

### *Business Development Department*

Following the establishment of the Business Development Department last year to serve as the first point of contact within the Corporate Banking Division for business referrals from other divisions of the Bank, we are now able to identify customer needs and promote all relevant Bank products and services more effectively and efficiently.

In April 2001, we launched a new product, *Premium Package for SMEs*, to assist small and medium size enterprises ("SMEs") in Hong Kong. We backed up the promotion with an appealing advertising campaign. We also actively participated in SME seminars organised by the Productivity Council and the Trade Development Council, promoting our banking products and advising SMEs how to obtain financing from our Bank. After two months of marketing effort, the response is very encouraging. A considerable number of enquiries and applications have been received, and the business results are in line with expectations.

As a pioneer in online banking, we have actively promoted our innovative corporate electronic banking services, including *Payment Gateway Service*, *CyberPayment Service* and *East Asia Interlink Service*.

With the introduction of the Mandatory Provident Fund ("MPF") regime in December 2000, the Business Development Department has introduced enhanced administration and payment services, including a *Magnetic Autopay Service*, to our MPF corporate customers. The Department has also begun to offer onsite support for our MPF services. During the first six months of this year, we conducted 30 training sessions and attracted over 370 attendees.

In order to expand the range of banking services we offer to — and through — our corporate customers, we have adopted a two-pronged approach. We have developed tailor-made lending packages to suit company business development goals. We have also promoted a privileged personal banking staff package, the *East Asia Relationship Employee Benefits Scheme*, appealing to the desire of our corporate customers to offer exclusive benefits to staff. The plan has received a warm reception in the marketplace, and has enabled us to expand both our corporate and our consumer business.

### *Corporate Lending & Syndication*

To maintain our position as one of the key lenders in the community, we have taken, and will continue to take, a more pro-active role in arranging and underwriting syndicated deals. In addition, we strive to foster closer relationships with large local and international corporations by providing them with structured facilities on a bilateral basis.



Encouragingly, the asset size of corporate and syndicated loans recorded a 49% growth compared with that as of 30th June, 2000. In particular, the Bank assumed the role of Co-ordinating Arranger for the US\$4,700 Million syndicated loan facility to PCCW-HKT Telephone Limited, the HK\$7,800 Million syndicated loan facility guaranteed by Sun Hung Kai Properties Limited and the HK\$6,000 Million syndicated loan facility to Kerry Properties Limited. The Bank will continue to engage in high quality and return-justified deals and will maintain its active role as the lending market recovers.

#### *Trade Finance*

The Bank strives to provide a full range of quality trade finance services for our customers in a highly professional manner. We will continue to target small and medium size enterprises. The following highlights some of our new initiatives:

- We have collaborated with TradeCard, an Internet-based trading system that enables importers and exporters to initiate, conduct and settle their transactions online through a secure network. This service will assist our SME customers to conduct their business quickly and cost-effectively.
- We have broadened our business scope to offer commercial mortgages and working capital finance to our target customers.

#### *Share Finance*

In the most recent period, the Share Finance Department has concentrated on forging new business partnerships and developing opportunities to cross-sell other Bank products. We have successfully granted new share financing credit facilities to several large securities/broking houses in Hong Kong, and will continue to pursue this strategy in order to generate new business opportunities for the Bank.

#### *Mandatory Provident Fund*

The Bank is the leading service provider for the Industry Scheme under the MPF regime, and has a substantial share of the market for the Master Trust Scheme products. During the January-June period, the Bank expanded its MPF Administration Centre in line with operational requirements, and now has a team of more than 200 experienced and professional staff, backed by a state-of-the-art computer system.

In order to grow our Bank's relationship with our MPF customers, we have developed an aggressive strategy to cross-sell other bank products. During the first half of the year, we initiated campaigns that featured our credit card, home mortgage loan and consumer finance products.

#### *Trust Services*

Bank of East Asia (Trustees) Limited, a wholly-owned trust company of the Bank, offers wide ranging trustee services. These include acting as executor or trustee of wills, as well as trustee of family trusts, investment funds, unit trusts, charities and public funds, etc. We also provide escrow agent services to facilitate various commercial transactions, such as mergers, sales and acquisitions.

### **Investment Banking**

#### *Cybertrading Service*

Following the successful implementation of AMS/3 System by The Stock Exchange of Hong Kong in November 2000, the demand for online trading services has increased significantly in the first half of 2001. For the six months ended 30th June, 2001, the percentage of Cybertrading accounts and transactions executed via electronic channels increased from 18% and 24% to 30% and 34%, respectively, compared with the same period last year.

East Asia Securities Company Limited successfully launched an *Interactive Voice Recognition Phone Trading Service* in April 2001, allowing clients to perform on-line stock trading via tone telephone, as well as to obtain real-time stock price quotes using simple verbal instructions. To further expand the electronic trading channels available to clients, we plan to launch an on-line trading service via Personal Digital Assistant ("PDA") in the second half of 2001. The addition of the PDA channel to our Cybertrading Service is in line with our vision of empowering our clients, improving convenience and enabling them to manage their financial affairs anytime, anywhere.

## **Bancassurance**

We launched the *Valuable Saving Insurance* scheme in June 2001. This is the second East Asia Bancassurance product with both a saving element and life insurance protection, and allows us to build on the success of the first such product — *Bancassurance Education Insurance*. With effective promotion, the Bank has successfully aroused public interest in the product.

Three Education Funds, each valued at HK\$100,000, were given out at a presentation ceremony held in April 2001 to herald the Children Education Sponsorship Programme. The funds were granted in the form of a *Bancassurance Education Insurance* policy.

Facilities for instant policy issuance were extended to all local branches of the Bank and United Chinese Bank by early June 2001. Customers are now able to instantly receive their life insurance proposals for review.

### *Blue Cross Insurance*

Blue Cross continues to strengthen its leading position in the medical insurance market, and has achieved remarkable growth in both membership and premium revenue. Looking to the future, development of innovative products will be emphasised in order to enhance our status as the market leader.

Leveraged on the customer base of the Bank, Blue Cross has taken advantage of the cross-selling opportunities to enlarge its portfolio in the general insurance business.

Customers can now buy Blue Cross insurance packages online, with the launch of our insurance service on the Blue Cross Hong Kong website in March 2001. Blue Cross is the first insurer in Hong Kong to sell insurance via the Internet.

## **Corporate Services**

### *Secretaries Limited*

In June 2001, Secretaries Limited, a subsidiary of the Bank and a market leader in the provision of value-added corporate services including company secretarial services, share registration and other business services, acquired 100% share interest in Abacus Share Registrars Limited, a major provider of share registration services. The acquisition has allowed Secretaries Limited to continue to expand its business, and to further consolidate its position in the market of corporate services.

### *Offshore Corporate and Trust Services*

The Group offers a full range of offshore corporate and trust services through its wholly-owned subsidiary, East Asia Corporate Services (BVI) Limited and its associate, East Asia International Trustees Limited, both of which are located in the British Virgin Islands. These companies have engaged legally qualified and experienced staff in the BVI who can offer immediate and efficient services, which are greatly enhanced by the assistance offered by Group staff in Hong Kong to customers of the companies who wish to contact or liaise with our BVI offices.

## **China Operations**

In December 2000, The People's Bank of China approved this Bank's application to establish a branch in Xian. Our Xian Branch will commence business on 10th August, 2001, making the Bank the first foreign bank to have a presence in northwestern China. Meanwhile, we will strive to obtain approval to upgrade our Beijing Representative Office to a full branch in 2001.

With approval from the Monetary Authority of Macau, our Macau Branch commenced business in March 2001. The Branch offers a comprehensive range of personal and corporate banking services, including agency services for securities and unit trusts trading. Moreover, it also serves as a "letter of credit super-highway", linking customers in the Mainland and Taiwan.

At present, our Shanghai and Shenzhen Branches are authorised to conduct Renminbi business, and this business has been growing quickly. Following China's accession to the World Trade Organization, the Bank expects to provide banking services to local enterprises and local residents two years and five years after accession, respectively. Our experience, together with our extensive branch network, make us well placed to support our customers' business expansion in Greater China.

The Bank will launch its *Cyberbanking* in China upon receiving approval from the People's Bank of China. Following the success of *Cyberbanking* in Hong Kong, the Bank aims to be the first foreign bank in China to offer this comprehensive and innovative service. *Cyberbanking Service (China)* will allow customers to make fund transfers, placements, withdrawals and renewal of time deposits, send remittance instructions and make inquiries about account and interest rate information.

## Human Resources

The number of employees of The Bank of East Asia Group at the end of June 2001 was as follows:

Hong Kong	4,131 persons
Other Greater China	658 persons
Overseas	319 persons
Total	<u>5,108 persons</u>

As a part of the merger of United Chinese Bank, First Pacific Bank and The Bank of East Asia, our human resources consultants are conducting a harmonisation exercise to align the grading and titling structure, compensation and benefits of the three banks. The exercise is targeted to be completed in the third quarter of 2001.

Our Training Department has launched a number of courses to enhance the skills and upgrade the knowledge of our staff, with programmes covering such topics as orientation, branch transformation, product knowledge and others to facilitate the integration process and to ensure that staff will be able to contribute to the achievement of the goals of the merged bank.

In the first half of 2001, the Bank has offered an amount of about HK\$1.4 million in donations to charities and public service groups.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30th June, 2001, the beneficial interests of the Directors and Chief Executive in the share capital of the Bank disclosed in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited were as follows:

Name	Number of Ordinary Shares Held				
	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total Interests
David LI Kwok-po	16,874,831	639,336	—	—	17,514,167 <sup>4</sup>
LI Fook-wo	1,235,804	—	—	—	1,235,804
George HO	850,110	—	7,819,880 <sup>1</sup>	—	8,669,990
WONG Chung-hin	46,810	344,131	—	—	390,941
Alan LI Fook-sum	6,994,329	—	30,217,428 <sup>1</sup>	—	37,211,757
LEE Shau-kee	647,985	—	1,000,000 <sup>1</sup>	—	1,647,985
Simon LI Fook-sean	458,000	3,069,000	—	—	3,527,000
Arthur LI Kwok-cheung	7,594,363	—	—	—	7,594,363
Allan WONG Chi-yun	—	124	—	10,122,659 <sup>2</sup>	10,122,783
Aubrey LI Kwok-sing	21,249	30,210	—	30,352,214 <sup>3</sup>	30,403,673
Joseph PANG Yuk-wing	204,318	—	—	—	204,318 <sup>4</sup>
William MONG Man-wai	714,337	—	—	—	714,337
CHAN Kay-cheung	215,584	—	—	—	215,584 <sup>4</sup>
Winston LO Yau-lai	—	—	—	—	Nil

Notes:

- (1) Such shares were held through corporations in which the respective Directors control one-third or more of the voting power.
- (2) Such shares were held through discretionary trusts in which family members of Allan WONG Chi-yun are beneficiaries.
- (3) Such shares were held through a discretionary trust in which Aubrey LI Kwok-sing is one of the beneficiaries.

- (4) Apart from the shares as disclosed herein, share options to subscribe for ordinary shares of the Bank have been granted to David LI Kwok-po, Joseph PANG Yuk-wing and CHAN Kay-cheung pursuant to the approved Staff Share Option Scheme adopted on 31st March, 1994 and Staff Share Option Scheme 1999 effective 1st April, 1999 respectively. Particulars of the outstanding share options as at 30th June, 2001 were as follows:

Name	Number of Shares in the Options	Exercise Period	Option Price Per Share  HK\$
David LI Kwok-po	136,800	29/04/1998–29/04/2002	24.59
David LI Kwok-po	133,800	20/04/1999–20/04/2003	15.30
David LI Kwok-po	145,000	21/04/2000–21/04/2004	12.09
David LI Kwok-po	145,000	20/04/2001–20/04/2005	16.46
David LI Kwok-po	850,000	19/04/2002–19/04/2006	16.96
Joseph PANG Yuk-wing	122,400	29/04/1998–29/04/2002	24.59
Joseph PANG Yuk-wing	119,400	20/04/1999–20/04/2003	15.30
Joseph PANG Yuk-wing	130,000	21/04/2000–21/04/2004	12.09
Joseph PANG Yuk-wing	130,000	20/04/2001–20/04/2005	16.46
Joseph PANG Yuk-wing	400,000	19/04/2002–19/04/2006	16.96
CHAN Kay-cheung	122,400	29/04/1998–29/04/2002	24.59
CHAN Kay-cheung	119,400	20/04/1999–20/04/2003	15.30
CHAN Kay-cheung	130,000	21/04/2000–21/04/2004	12.09
CHAN Kay-cheung	130,000	20/04/2001–20/04/2005	16.46
CHAN Kay-cheung	400,000	19/04/2002–19/04/2006	16.96

David LI Kwok-po, Joseph PANG Yuk-wing and CHAN Kay-cheung did not exercise any share options during the six months ended 30th June, 2001.

Save as disclosed above, as at 30th June, 2001, none of the Directors or Chief Executive of the Bank or their spouses or children under 18 years of age were granted or exercised any right to subscribe for any equity or debt securities of the Bank or any of its associated corporations.

#### **SUBSTANTIAL SHAREHOLDERS' INTERESTS**

So far as is known to the Directors, none of the shareholders of the Bank was interested in 10% or more of the issued share capital of the Bank which was required to be recorded in the Register of Interests pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance as at 30th June, 2001.

#### **DEALING IN LISTED SECURITIES OF THE BANK**

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of listed securities of the Bank during the six months ended 30th June, 2001.

#### **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, 2001, 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, 31st July, 2001