



# ASIA COMMERCIAL BANK LIMITED

## ANNOUNCEMENT OF 2003 FINAL RESULTS

The Directors of Asia Commercial Bank Limited (the “Bank”) are pleased to announce the audited results of the Bank and its subsidiaries (the “Group”) for the year ended 31 December 2003.

The financial report is prepared on a basis consistent with the accounting policies adopted in the 2002 annual accounts except that the Group has adopted the revised Statement of Standard Accounting Practice (“SSAP”) 12 on “Income Taxes” issued by the Hong Kong Society of Accountants which became effective for the current accounting year.

### **Consolidated Profit and Loss Account**

For the year ended 31 December

	Notes	<u>2003</u> HK\$'000	Restated <u>2002</u> HK\$'000	<u>Variance</u> %
Interest income		<b>359,964</b>	418,101	-13.9
Interest expense		<b>(133,524)</b>	(182,458)	-26.8
Net interest income		<b>226,440</b>	235,643	-3.9
Other operating income	2	<b>57,838</b>	62,995	-8.2
Operating income		<b>284,278</b>	298,638	-4.8
Operating expenses	3	<b>(186,289)</b>	(205,901)	-9.5
Operating profit before provisions		<b>97,989</b>	92,737	5.7
Charge for bad and doubtful debts	4	<b>(21,500)</b>	(46,015)	-53.3
Operating profit		<b>76,489</b>	46,722	63.7
Provision against advances to jointly-controlled entities		<b>(8,340)</b>	(5,593)	49.1
Gains less losses from disposal of held-to-maturity securities		-	4,439	-
Losses less gains from disposal of tangible fixed assets		-	(24)	-
Share of results of jointly-controlled entities		-	(2,107)	-
Profit before taxation		<b>68,149</b>	43,437	56.9
Taxation	5 & 6	<b>(12,149)</b>	(10,402)	16.8
Profit attributable to shareholders		<b>56,000</b>	33,035	69.5

**ANNOUNCEMENT OF 2003 FINAL RESULTS****Consolidated Balance Sheet**

As at 31 December

	Notes	2003 HK\$'000	Restated 2002 HK\$'000	Variance %
<b>ASSETS</b>				
Cash and short-term funds		2,405,282	3,166,270	-24.0
Placements with banks and other financial institutions maturing between one and twelve months		816,929	719,144	13.6
Certificates of deposit held		718,372	284,586	152.4
Held-to-maturity securities		1,376,694	887,897	55.1
Advances and other accounts		7,345,256	7,769,018	-5.5
Investment securities		8,879	8,879	-
Other investments		21,287	-	-
Interests in jointly-controlled entities		42,997	52,132	-17.5
Intangible assets		887	1,031	-14.0
Deferred taxation	5	-	655	-100.0
Fixed assets		307,191	317,448	-3.2
Total assets		<u>13,043,774</u>	<u>13,207,060</u>	-1.2
<b>LIABILITIES</b>				
Deposits and balances of banks and other financial institutions		307,077	415,828	-26.2
Deposits from customers	7	9,670,954	9,779,006	-1.1
Certificates of deposit issued		1,193,000	1,175,000	1.5
Deferred taxation	5	15,897	14,044	13.2
Other accounts and provisions		197,233	199,934	-1.4
Total liabilities		<u>11,384,161</u>	<u>11,583,812</u>	-1.7
<b>CAPITAL RESOURCES</b>				
Share capital		810,000	810,000	-
Share premium		43,935	43,935	-
General reserve		253,365	253,365	-
Premises revaluation reserve	5	124,659	126,879	-1.7
Retained profits	5	393,634	376,919	4.4
Proposed final dividend		34,020	12,150	180.0
Total capital resources		<u>1,659,613</u>	<u>1,623,248</u>	2.2
Total capital resources and liabilities		<u>13,043,774</u>	<u>13,207,060</u>	-1.2



**ANNOUNCEMENT OF 2003 FINAL RESULTS**

**Notes:**

**1. Accounting Policies**

The financial information relating to the financial periods included in this final results announcement does not constitute the Group's statutory accounts. The financial information relating to the financial year ended 31 December 2002 is derived from the statutory accounts for that financial year and adjusted to reflect the change in accounting policy for deferred taxation. Statutory accounts for the financial year ended 31 December 2003 are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 23 March 2004.

During the second half of 2002, the Group underwent a group reconstruction pursuant to which four wholly-owned subsidiaries (the "Transferred Subsidiaries") formerly held by a fellow subsidiary of the Bank were acquired by the Bank. The consolidated financial statements have been prepared using the merger basis of accounting in accordance with SSAP 27 "Accounting for group reconstructions" as a result of the group reconstruction. Under this basis, the Bank has been treated as the holding company of the Transferred Subsidiaries for that financial year regardless of their acquisition date by the Bank and accordingly the consolidated results of the Group for the year ended 31 December 2002 include the results of the Bank and its subsidiaries, including the Transferred Subsidiaries, with effect from 1 January 2002.

**2. Other Operating Income**

For the year ended 31 December

	<u>2003</u>	<u>2002</u>
	HK\$'000	HK\$'000
Net fees and commission income	43,494	49,429
Others	14,344	13,566
	<u>57,838</u>	<u>62,995</u>



**ANNOUNCEMENT OF 2003 FINAL RESULTS**

**Notes (cont'd):**

**3. Operating Expenses**

For the year ended 31 December

	<u>2003</u>	<u>2002</u>
	HK\$'000	HK\$'000
Staff Costs	95,697	103,480
Premises and equipment expenses	26,017	28,862
Deficit on revaluation of premises	-	3,659
Depreciation charge	19,940	23,282
Others	44,635	46,618
	<u>186,289</u>	<u>205,901</u>

**4. Charge for Bad and Doubtful Debts**

For the year ended 31 December

	<u>2003</u>	<u>2002</u>
	HK\$'000	HK\$'000
Specific provision charge	25,430	41,563
General provision (written-back)/charge	(3,930)	4,452
	<u>21,500</u>	<u>46,015</u>

**5. Deferred Taxation**

In prior years, deferred tax liabilities were provided for using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallize in the foreseeable future. Deferred tax assets are not recognized unless their realization was assured beyond reasonable doubt.



## ASIA COMMERCIAL BANK LIMITED

### ANNOUNCEMENT OF 2003 FINAL RESULTS

#### Notes (cont'd):

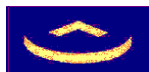
##### 5. Deferred Taxation (cont'd)

With effect from 1 January 2003, the Group has changed its accounting policy on deferred taxation in order to comply with the SSAP 12 (revised) on "Income Taxes" issued by the Hong Kong Society of Accountants. SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and the carrying amounts of assets and liabilities for financial reporting purpose. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

The adoption of SSAP 12 (revised) represents a change in accounting policy and applied retrospectively. Certain comparative figures for 2002 have been restated to conform to the current year's presentation. The opening balance of the retained profits as at 1 January 2002 and 1 January 2003 have been increased by HK\$11,432,000 and HK\$11,925,000 respectively which represent the unrecognized deferred tax assets. The opening balance of the premises revaluation reserve as at 1 January 2002 and 1 January 2003 have been decreased by HK\$26,749,000 and HK\$24,132,000 respectively which represent the deferred tax liability recognized in respect of the revaluation surplus on the Group's properties at that date. Tax charge against the profit and loss account for the year ended 31 December 2002 had been decreased by HK\$493,000 resulting from the change in accounting policy on deferred taxation and the Group's deferred tax assets and deferred tax liabilities as at 31 December 2002 have been restated at HK\$655,000 and HK\$14,044,000 respectively.

##### 6. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.



**ANNOUNCEMENT OF 2003 FINAL RESULTS**

**Notes (cont'd):**

**6. Taxation (cont'd)**

The Group has recognized deferred tax assets in respect of general provisions for bad and doubtful debts and deferred tax liabilities in respect of accelerated depreciation allowances on fixed assets. Deferred tax liabilities arising from assets revaluation have also been reflected in the Premises Revaluation Reserve. Deferred tax assets and liabilities were measured at the tax rates that are expected to apply to the period when the assets is realized or the liability is settled, based on tax rates (and tax laws) enacted or substantively enacted by the balance sheet date.

Tax charge for the year comprises:

	<u>2003</u>	Restated
	<u>HK\$'000</u>	2002
		<u>HK\$'000</u>
Hong Kong	11,228	11,153
Elsewhere	633	796
Deferred tax charge/(credit)	288	(1,547)
	<u>12,149</u>	<u>10,402</u>

**7. Deposits from customers**

As at 31 December

	<u>2003</u>	2002
	<u>HK\$'000</u>	HK\$'000
Demand deposits and current accounts	894,103	378,007
Savings deposits	2,032,612	1,227,309
Time, call and notice deposits	6,744,239	8,173,690
	<u>9,670,954</u>	<u>9,779,006</u>



# ASIA COMMERCIAL BANK LIMITED

## ANNOUNCEMENT OF 2003 FINAL RESULTS

### Supplementary Information

#### 1. Advances and other accounts:

As at 31 December

	<u>2003</u>	<u>2002</u>
	HK\$'000	HK\$'000
Advances to customers	7,342,182	7,733,922
Provisions for bad and doubtful debts		
- Specific	(102,211)	(99,983)
- General	(73,201)	(77,131)
	<u>7,166,770</u>	<u>7,556,808</u>
Advances to banks and other financial institutions	-	-
Accrued interest and other accounts	<u>178,486</u>	<u>212,210</u>
	<u>7,345,256</u>	<u>7,769,018</u>
Included in advances to customers are :		
Trade Bills	83,115	122,412

#### 2. Gross advances to customers by industry sectors:

As at 31 December

	<u>2003</u>	<u>2002</u>
	HK\$'000	HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial :		
Property development	76,755	164,865
Property investment	854,666	871,989
Financial concerns	201,792	211,320
Stockbrokers	32,145	26,344
Wholesale and retail trade	10,605	12,260
Manufacturing	295,590	246,059
Transport and transport equipment	466,818	428,727
Others	945,218	991,081
Individuals :		
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	430,486	561,532
Loans for the purchase of other residential properties	2,408,263	2,569,558
Credit card advances	20,918	33,186
Others	333,068	437,398
Trade finance	979,581	834,138
Loans for use outside Hong Kong	<u>286,277</u>	<u>345,465</u>
	<u>7,342,182</u>	<u>7,733,922</u>



**ANNOUNCEMENT OF 2003 FINAL RESULTS**

**Supplementary Information (cont'd)**

**3. Non-performing loans (advances on which interest is being placed in suspense or on which interest accrual has ceased) :**  
As at 31 December

	<u>2003</u> HK\$'000	<u>As % of Total</u> <u>Advances</u>	<u>2002</u> HK\$'000	<u>As % of Total</u> <u>Advances</u>
Gross advances	248,952	3.39%	256,899	3.32%
Specific provisions	<u>(101,344)</u>		<u>(98,876)</u>	
	<u>147,608</u>		158,023	
Collateral held	127,758		123,169	
Suspended interest	51,079		31,546	

Specific provisions were made after taking into account the value of collateral in respect of such advances.

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 on 31 December 2003 and 31 December 2002.

**4. Overdue and rescheduled advances :**  
As at 31 December

	<u>2003</u> HK\$'000	<u>As % of Total</u> <u>Advances</u>	<u>2002</u> HK\$'000	<u>As % of Total</u> <u>Advances</u>
Gross advances to customer which have been overdue for:				
Six months or less but over three months	18,826	0.26%	8,109	0.11%
One year or less but over six months	51,891	0.70%	18,892	0.24%
Over one year	<u>128,468</u>	1.75%	<u>175,880</u>	2.27%
	<u>199,185</u>	2.71%	<u>202,881</u>	2.62%
Specific provisions	94,205		94,881	
Collateral held	113,744		110,992	
Secured overdue advances	91,301		80,687	
Unsecured overdue advances	107,884		122,194	
Rescheduled advances	<u>6,560</u>	0.09%	<u>10,395</u>	0.14%

There were no overdue advances for over three months and rescheduled advances to banks and other financial institutions on 31 December 2003 and 31 December 2002.



ANNOUNCEMENT OF 2003 FINAL RESULTS

Supplementary Information (cont'd)

5. Reconciliation between overdue and rescheduled advances and non-performing loans :  
As at 31 December

	<u>2003</u> HK\$'000	<u>2002</u> HK\$'000
Gross advances overdue for more than three months	199,185	202,881
Rescheduled advances	6,560	10,395
Less : Overdue advances on which interest is still being accrued	(12,681)	(723)
Add : Gross advances overdue for three months or less and on which interest is being placed in suspense or on which interest accrual has ceased	<u>55,888</u>	<u>44,346</u>
Total non-performing loans	<u><u>248,952</u></u>	<u><u>256,899</u></u>

6. Repossessed Assets

Collateral assets for loans and advances are repossessed by the Group when the borrowers are unable to service their repayments, and would be realized for the settlement of the outstanding debts. Advances with repossessed collateral assets will continue to be accounted for as customer advances and specific provision is made on the shortfall between the expected net realizable value of repossessed assets and the outstanding advances.

As at 31 December 2003, the total value of repossessed assets of the Group amounted to HK\$118 million (31 December 2002: HK\$28 million)



**ANNOUNCEMENT OF 2003 FINAL RESULTS**

**Supplementary Information (cont'd)**

**7. Off-Balance Sheet Exposures**

**(a) Contingent liabilities and commitments:**

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

As at 31 December

	<u>2003</u>	<u>2002</u>
	HK\$'000	HK\$'000
Direct credit substitutes	110,699	50,414
Transaction-related contingencies	533	9,449
Trade-related contingencies	242,958	230,501
Forward forward deposits placed	43,190	134,356
Forward asset purchases	89,373	
Other commitments with an original maturity of :		
- under one year or which are unconditionally cancellable	3,284,135	3,306,643
- one year and over	284,690	408,942
	<u>4,055,578</u>	<u>4,140,305</u>

**(b) Derivatives:**

The following is a summary of the notional contractual amounts of each significant type of derivatives:

As at 31 December

	<u>2003</u>	<u>2002</u>
	HK\$'000	HK\$'000
Exchange rate contracts	2,795,539	1,826,686



**ASIA COMMERCIAL BANK LIMITED**  
**ANNOUNCEMENT OF 2003 FINAL RESULTS**

**Supplementary Information (cont'd)**

**7. Off-Balance Sheet Exposures (cont'd)**

**(c) Credit risk weighted amounts and replacement costs:**

The following is a summary of the credit risk weighted amounts and replacement costs of each significant type of off-balance sheet exposures:

As at 31 December

	2003		2002	
	Replacement Cost	Credit risk weighted amount	Replacement Cost	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments	-	239,822	-	309,348
Exchange rate contracts	8,026	5,738	1,992	3,704
	<b>8,026</b>	<b>245,560</b>	<b>1,992</b>	<b>313,052</b>

The Group had not entered into any bilateral netting arrangements and accordingly the above amounts are shown on a gross basis. The credit risk weighted amounts are calculated in accordance with the Third Schedule of the Banking Ordinance and guidelines issued by the Hong Kong Monetary Authority. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments and from 0% to 50% for exchange rate contracts. Replacement cost represents the cost of replacing all contracts which have a positive value when marked to market.

**8. Capital Adequacy Ratio**

As at 31 December

	<u>2003</u>	<u>Restated 2002</u>
Adjusted capital adequacy ratio	<b>19.81%</b>	19.52%
Unadjusted capital adequacy ratio	<b>20.08%</b>	19.52%

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

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

**ANNOUNCEMENT OF 2003 FINAL RESULTS****Supplementary Information (cont'd)**

9. The components of the total capital base after deductions as reported under Part I of the “Capital Adequacy Return” (MA(BS)3) calculated in accordance with the Third Schedule of the Banking Ordinance are as follows:

As at 31 December

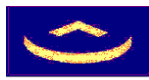
	<u>2003</u>	Restated
	HK\$'000	2002
		HK\$'000
Core capital		
Paid up ordinary share capital	810,000	810,000
Share premium	48,935	48,935
Reserves (eligible for inclusion in core capital)	609,066	593,516
	<u>1,468,001</u>	<u>1,452,451</u>
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	87,261	88,815
General provisions for doubtful debts	73,201	77,131
	<u>160,462</u>	<u>165,946</u>
Total capital base before deductions	1,628,463	1,618,397
Deductions from total capital base	(110,837)	(119,972)
Total capital base after deductions	<u>1,517,626</u>	<u>1,498,425</u>

**10. Average liquidity ratio**

	<u>2003</u>	2002
Average for the year	47.09%	52.19%

The average liquidity ratio is the simple average of each calendar month's average liquidity ratio and was computed in accordance with the Fourth Schedule of the Banking Ordinance.

The average liquidity ratio was computed on a non-consolidated basis and includes only the Head Office and branches of the Bank operating in Hong Kong.



**ANNOUNCEMENT OF 2003 FINAL RESULTS**

**Supplementary Information (cont'd)**

**11. Other Ratios**

	<u>2003</u>	<u>2002</u>
Net Interest Margin for the year	<b>1.88%</b>	1.92%
Loan to Deposit Ratio (as at 31 December)	<b>67.58%</b>	70.60%

**12. Currency Risks**

The information concerning the foreign currency exposures of the Group are prepared in accordance with the completion instructions on "Return of Foreign Currency Position" (MA(BS)6) issued by the Hong Kong Monetary Authority. Foreign currency exposures with net position (regardless of sign) which constitutes 10% or more of the total net position in all foreign currencies are disclosed.

<u>As at 31 December 2003</u>	<u>US Dollars</u>	<u>Others</u>	<u>Total</u>
<b>(Equivalents in millions of HK\$)</b>			
Spot assets	2,912	1,173	4,085
Spot liabilities	(3,347)	(1,169)	(4,516)
Forward purchases	1,613	616	2,229
Forward sales	(1,079)	(620)	(1,699)
	<u>99</u>	<u>-</u>	<u>99</u>
<b>Net long position</b>	<b><u>99</u></b>	<b><u>-</u></b>	<b><u>99</u></b>
			<b><u>Renminbi</u></b>
<b>Net structural long position (equivalent in millions of HK\$)</b>			<b><u>94</u></b>

<u>As at 31 December 2002</u>	<u>US Dollars</u>	<u>Others</u>	<u>Total</u>
<b>(Equivalents in millions of HK\$)</b>			
Spot assets	3,817	963	4,780
Spot liabilities	(3,937)	(977)	(4,914)
Forward purchases	1,055	404	1,459
Forward sales	(769)	(389)	(1,158)
	<u>166</u>	<u>1</u>	<u>167</u>
<b>Net long position</b>	<b><u>166</u></b>	<b><u>1</u></b>	<b><u>167</u></b>

The Group had no structural foreign currencies exposure as at 31 December 2002.



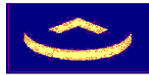
**ANNOUNCEMENT OF 2003 FINAL RESULTS**

**Supplementary Information (cont'd)**

**13. Cross-border Claims**

Cross-border claims are classified according to the location of foreign counterparties on which the ultimate risk lies after taking into account the transfer of risk. The following information is prepared in accordance with the completion instructions on “Return of Cross-border Claims” (MA(BS)9) issued by the Hong Kong Monetary Authority. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate cross border claims are shown as follows:

	Banks & other financial institutions <u>HK\$ million</u>	Public sector entities <u>HK\$ million</u>	Others <u>HK\$ million</u>	Total <u>HK\$ million</u>
<b><u>As at 31 December 2003</u></b>				
<b>Asia Pacific excluding Hong Kong</b>	<b>1,788</b>	<b>2</b>	<b>176</b>	<b>1,966</b>
<b>of which :</b>				
<b>Australia</b>	<b>480</b>	<b>-</b>	<b>23</b>	<b>503</b>
<b>China</b>	<b>508</b>	<b>2</b>	<b>45</b>	<b>555</b>
<b>North America</b>	<b>386</b>	<b>-</b>	<b>150</b>	<b>536</b>
<b>Western Europe</b>	<b>2,107</b>	<b>-</b>	<b>123</b>	<b>2,230</b>
<b>of which :</b>				
<b>Germany</b>	<b>499</b>	<b>-</b>	<b>4</b>	<b>503</b>
<b>United Kingdom</b>	<b>496</b>	<b>-</b>	<b>67</b>	<b>563</b>
<b><u>As at 31 December 2002</u></b>				
<b>Asia Pacific excluding Hong Kong</b>	<b>1,820</b>	<b>1</b>	<b>248</b>	<b>2,069</b>
<b>of which :</b>				
<b>Australia</b>	<b>450</b>	<b>-</b>	<b>44</b>	<b>494</b>
<b>China</b>	<b>542</b>	<b>1</b>	<b>82</b>	<b>625</b>
<b>Western Europe</b>	<b>2,078</b>	<b>-</b>	<b>21</b>	<b>2,099</b>
<b>of which :</b>				
<b>Germany</b>	<b>650</b>	<b>-</b>	<b>5</b>	<b>655</b>



**ANNOUNCEMENT OF 2003 FINAL RESULTS**

**Supplementary Information (cont'd)**

**14. Segmental information**

**a. By geographic areas**

The Group operates predominantly in Hong Kong. The geographical analysis is based on the location of the principal operations of the Bank, its subsidiaries and branches responsible for reporting the results or booking of assets.

For the years 2003 and 2002, over 90% of the Group's total operating income (net of interest expense), profit before taxation, total assets, total liabilities, contingent liabilities and commitments were derived from the operation of banking business in Hong Kong.

In addition, over 90% of the Group's gross advance to customers, overdue and non-performing loans and other types of credit exposures including those arising from off-balance sheet transactions as at 31 December 2003 and 31 December 2002 were located in Hong Kong after taking into account the transfer of risk in respect of such advances where appropriate.

**b. By classes of business**

The Group comprises the following main business segments:

Retail and commercial banking includes deposit account services, the extension of mortgages and consumer lending, hire purchase and leasing, provision of services and financing activities for customers in trading, manufacturing and various business sectors.

Treasury and other activities include treasury business, wealth management services, securities trading and stockbroking. Treasury business includes foreign exchange activities, centralized cash management for deposit taking and lending, interest rate risk management, management of investment in securities and the overall funding of the Group.

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

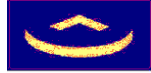
**ANNOUNCEMENT OF 2003 FINAL RESULTS**

## Supplementary Information (cont'd)

## 14. Segmental information (cont'd)

b. By classes of business (cont'd)

Year 2003	Retail and Commercial Banking HK\$'000	Treasury and Other Activities HK\$'000	Unallocated HK\$'000	Group HK\$'000
Interest income from				
- external customers	250,700	109,264	-	359,964
- other segments	87,069	19,203	160,789	267,061
Interest expense to				
- external customers	(88,212)	(22,976)	(22,336)	(133,524)
- other segments	(80,214)	(80,575)	(106,272)	(267,061)
Net interest income	169,343	24,916	32,181	226,440
Other operating income	31,445	23,401	2,992	57,838
Operating income	200,788	48,317	35,173	284,278
Operating expenses	(88,413)	(12,788)	(85,088)	(186,289)
Operating profit/(loss) before provisions	112,375	35,529	(49,915)	97,989
Charge for bad and doubtful debts	(32,577)	7,147	3,930	(21,500)
Operating profit/(loss) after provisions	79,798	42,676	(45,985)	76,489
Provision against advances to jointly-controlled entities	-	-	(8,340)	(8,340)
Profit/(loss) before taxation	79,798	42,676	(54,325)	68,149
Year 2002	Retail and Commercial Banking HK\$'000	Treasury and Other Activities HK\$'000	Unallocated HK\$'000	Group HK\$'000
Interest income from				
- external customers	295,010	123,091	-	418,101
- other segments	122,628	17,664	220,787	361,079
Interest expense to				
- external customers	(126,179)	(23,582)	(32,697)	(182,458)
- other segments	(133,713)	(87,074)	(140,292)	(361,079)
Net interest income	157,746	30,099	47,798	235,643
Other operating income	35,701	23,846	3,448	62,995
Operating income	193,447	53,945	51,246	298,638
Operating expenses	(99,605)	(18,778)	(87,518)	(205,901)
Operating profit/(loss) before provisions	93,842	35,167	(36,272)	92,737
Charge for bad and doubtful debts	(46,123)	4,560	(4,452)	(46,015)
Operating profit/(loss) after provisions	47,719	39,727	(40,724)	46,722
Provision against advance to a jointly-controlled entity	-	-	(5,593)	(5,593)
Gains less losses from disposal of held-to-maturity securities	-	4,439	-	4,439
Gains less losses from disposal of tangible fixed assets	-	-	(24)	(24)
Share of results of jointly-controlled entities	-	-	(2,107)	(2,107)
Profit/(loss) before taxation	47,719	44,166	(48,448)	43,437



**ANNOUNCEMENT OF 2003 FINAL RESULTS**

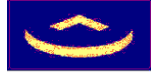
**Supplementary Information (cont'd)**

**15. Business Review and prospects**

The first half of 2003 was a difficult period for Hong Kong as the economy struggled with the aftermath of the war in Iraq and SARS. Fortunately, the economy recovered strongly in the second half, as Hong Kong began to enjoy some spillover from the buoyant economy in the Mainland. As economic conditions improved, business activities rebounded strongly, bringing confidence and buoyancy back to the stock and property markets. This economic turnaround in 2003 has enabled many businesses in Hong Kong to become profitable again.

The economic turnaround has also benefited Asia Commercial Bank. On consolidated basis, the Bank achieved a net profit of HK\$56 million for the year ended 31 December 2003 which is 69.5% higher than the HK\$33 million in 2002. This was despite a lower business turnover in 2003 in the face of fierce competition across many segments of our banking business. Relative to 2002, loans and advances declined 5.1% to HK\$7,342 million and customer deposits fell 1.1% to HK\$9,671 million. Net interest income fell 3.9% to HK\$226.4 million and other operating income fell 8.2% to HK\$57.8 million. However the substantial improvement in economic conditions in 2003 has also strengthened the financial position of many of the Bank's customers and this has resulted in the significant 53.3% decline in the charges made for bad and doubtful debts. Our non-performing loans ratio, which increased only marginally in 2003, was in line with industry average.

The Bank has achieved considerable success in improving cost and operational efficiencies. The staff structure has been streamlined and the banking operations have been rationalized to consolidate our consumer banking operations and give greater focus to commercial banking, notably small and medium enterprises, which have been a traditional area of strength for our Bank. These efforts have been well rewarded with the HK\$19.6 million saving made in total operating expenses in 2003, which is significant reduction from the HK\$205.9 million incurred in 2002.



**ANNOUNCEMENT OF 2003 FINAL RESULTS**

**Supplementary Information (cont'd)**

**15. Business Review and prospects (cont'd)**

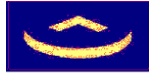
The Bank continues to be highly liquid and well capitalized. The average liquidity ratio during 2003 was 47.09%. At 31 December 2003, the Bank's capital adequacy ratio stood at 19.81%. There were no significant developments affecting the capital structure of the Bank in 2003.

With the Hong Kong economy firmly moving forward, we expect the business outlook for the Bank to improve in 2004. Lending opportunities should increase as the economy becomes more buoyant. The challenge for the Bank is to respond well to new lending opportunities and achieve good loan growth for 2004.

Although we expect banking opportunities to improve across the board, the Bank will be selective in its push to expand retail banking business, especially in relation to high volume products like mortgages and consumer loans which are better suited for banks with extensive branch networks. The Bank will instead focus on expanding its commercial banking business. In this regard, we will enable more branches to have a commercial lending capability in order to bring the Bank closer to our commercial customers, especially the small and medium enterprises.

The Bank will also be seeking to reduce its reliance on interest based income. We will be looking to expand our fee based business, both in commercial banking and retail banking. Apart from seeking to do more traditional fee based business linked to trade facilities and treasury transactions, we will put greater effort to generating more fee income from services provided to retail banking customers, for example in relation to securities transactions and sales of investment linked products.

Our growth strategy for 2004 is bold yet prudent. It shows a Bank ready to respond to expanded opportunities offered by the economic upturn. However the focus will be on growing banking businesses best suited to the Bank. We are hopeful for the success of our corporate strategy for 2004.



**ASIA COMMERCIAL BANK LIMITED**

**ANNOUNCEMENT OF 2003 FINAL RESULTS**

**Supplementary Information (cont'd)**

**16. Statement of compliance**

In preparing the disclosure statement for the year ended 31 December 2003, the Group has fully complied with the standards set out in the Supervisory Policy Manual “Financial Disclosure by Locally Incorporated Authorized Institutions” issued by the Hong Kong Monetary Authority.