

**ANNOUNCEMENT OF 2004 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 2004. The accounting policies and basis of preparation are the same as those adopted in the 2003 annual accounts.

**Consolidated Profit and Loss Account**

For the year ended 31 December

	Notes	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000	<u>Variance</u> %
Interest income		<b>371,013</b>	359,964	3.1
Interest expense		<b>(125,080)</b>	(133,524)	-6.3
Net interest income		<b>245,933</b>	226,440	8.6
Other operating income	2	<b>67,607</b>	57,838	16.9
Operating income		<b>313,540</b>	284,278	10.3
Operating expenses	3	<b>(171,871)</b>	(186,289)	-7.7
Operating profit before provisions		<b>141,669</b>	97,989	44.6
Charge for bad and doubtful debts	4	<b>(26,221)</b>	(21,500)	22.0
Operating profit after provisions		<b>115,448</b>	76,489	50.9
Provision against loans to jointly-controlled entities		<b>(2,500)</b>	(8,340)	
Write-back of provision against loans to a jointly-controlled entity		<b>4,433</b>	-	
Gain on disposal of a jointly-controlled entity		<b>2,990</b>	-	
Gains less losses from disposal of tangible fixed assets		<b>2,980</b>	-	
Share of results of a jointly-controlled entity		<b>2,695</b>	-	
Profit before tax		<b>126,046</b>	68,149	85.0
Tax	5	<b>(21,182)</b>	(12,149)	74.4
Net profit attributable to shareholders		<b>104,864</b>	56,000	87.3



# ASIA COMMERCIAL BANK LIMITED

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### Consolidated Balance Sheet

	Note	As at 31-Dec-2004 HK\$'000	As at 31-Dec-2003 HK\$'000	Variance %
<b>ASSETS</b>				
Cash and short-term funds		2,104,039	2,405,282	-12.5%
Placements with banks and other financial institutions maturing between one and twelve months		830,333	816,929	1.6%
Other investment in securities		56,523	21,287	165.5%
Certificates of deposit held		989,974	718,372	37.8%
Held-to-maturity securities		1,940,318	1,376,694	40.9%
Advances and other accounts		8,002,618	7,345,256	8.9%
Investment securities		8,879	8,879	-
Interests in jointly-controlled entities		19,200	17,800	7.9%
Loans to jointly-controlled entities		26,500	25,197	5.2%
Intangible assets		743	887	-16.2%
Fixed assets		368,655	307,191	20.0%
Total assets		<u>14,347,782</u>	<u>13,043,774</u>	10.0%
<b>LIABILITIES</b>				
Deposits and balances of banks and other financial institutions		592,678	307,077	93.0%
Deposits from customers	6	10,776,743	9,670,954	11.4%
Certificates of deposit issued		1,025,000	1,193,000	-14.1%
Other accounts and provisions		152,020	192,827	-21.2%
Tax payable		11,306	4,406	156.6%
Deferred tax liabilities		25,833	15,897	62.5%
Total liabilities		<u>12,583,580</u>	<u>11,384,161</u>	10.5%
<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		175,739	124,659	41.0%
Retained profits		443,093	393,634	12.6%
Proposed final dividend		38,070	34,020	11.9%
Total capital resources		<u>1,764,202</u>	<u>1,659,613</u>	6.3%
Total capital resources and liabilities		<u>14,347,782</u>	<u>13,043,774</u>	10.0%



**ANNOUNCEMENT OF 2004 FINAL RESULTS**

**Notes:**

1. 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 2004 is derived from the statutory accounts for that financial year which are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 21 March 2005.

**2. Other Operating Income**

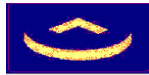
For the year ended 31 December

	<u>2004</u> <u>HK\$'000</u>	<u>2003</u> <u>HK\$'000</u>
Net fees and commission income	47,946	43,494
Gains less losses arising from dealing in foreign currencies	8,877	7,190
Others	<u>10,784</u>	<u>7,154</u>
	<u><u>67,607</u></u>	<u><u>57,838</u></u>

**3. Operating Expenses**

For the year ended 31 December

	<u>2004</u> <u>HK\$'000</u>	<u>2003</u> <u>HK\$'000</u>
Staff Costs	92,084	95,697
Premises and equipment expenses	21,876	26,017
Write-back of premises revaluation deficit	(6,234)	-
Depreciation charges	17,867	19,940
Others	<u>46,278</u>	<u>44,635</u>
	<u><u>171,871</u></u>	<u><u>186,289</u></u>



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**Notes (cont'd):**

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

For the year ended 31 December

	<u>2004</u>	<u>2003</u>
	HK\$'000	HK\$'000
Specific provision charge	35,388	45,934
Loan recoveries and releases	(14,830)	(20,504)
General provision charge/(write-back)	<u>5,663</u>	<u>(3,930)</u>
	<u>26,221</u>	<u>21,500</u>

**5. Taxation**

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Tax charge for the year ended 31 December comprises:

	<u>2004</u>	<u>2003</u>
	HK\$'000	HK\$'000
Hong Kong	20,815	13,588
Elsewhere	876	633
Deferred tax (credit)/charge	(804)	288
Overprovision of current tax in respect of prior years	<u>-</u>	<u>(2,360)</u>
	20,887	12,149
Share of tax charge attributable to a jointly-controlled entity	<u>295</u>	<u>-</u>
Total tax charge for the year	<u>21,182</u>	<u>12,149</u>

**ANNOUNCEMENT OF 2004 FINAL RESULTS****Notes (cont'd):****6. Deposits From Customers**

	<b>As at 31-Dec-2004</b>	<b>As at 31-Dec-2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Demand deposits and current accounts	<b>883,523</b>	894,103
Savings deposits	<b>2,446,080</b>	2,032,612
Time, call and notice deposits	<b>7,447,140</b>	6,744,239
	<b><u>10,776,743</u></b>	<b><u>9,670,954</u></b>

**Supplementary Information****1. Advances and other accounts**

	<b>As at 31-Dec-2004</b>	<b>As at 31-Dec-2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Advances to customers	<b>7,925,911</b>	7,342,182
Provisions for bad and doubtful debts		
- Specific	<b>(44,530)</b>	(102,211)
- General	<b>(78,864)</b>	(73,201)
	<b><u>7,802,517</u></b>	<b><u>7,166,770</u></b>
Advances to banks and other financial institutions	-	-
Accrued interest and other accounts	<b>200,101</b>	178,486
	<b><u>8,002,618</u></b>	<b><u>7,345,256</u></b>
Included in advances to customers are :		
Trade Bills	<b>54,202</b>	83,115



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**Supplementary Information (cont'd)**

**2. Gross advances to customers by industry sectors**

	<b>As at 31-Dec-2004 HK\$'000</b>	<b>As at 31-Dec-2003 HK\$'000</b>
Loans for use in Hong Kong		
Industrial, commercial and financial :		
Property development	149,293	76,755
Property investment	1,133,008	854,666
Financial concerns	138,788	201,792
Stockbrokers	13,238	32,145
Wholesale and retail trade	19,574	10,605
Manufacturing	513,814	295,590
Transport and transport equipment	499,675	466,818
Others	1,167,192	945,218
Individuals :		
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	342,564	430,486
Loans for the purchase of other residential properties	2,049,628	2,408,263
Credit card advances	16,172	20,918
Others	343,176	333,068
Trade finance	1,073,728	979,581
Loans for use outside Hong Kong	<u>466,061</u>	<u>286,277</u>
	<u><b>7,925,911</b></u>	<u><b>7,342,182</b></u>

**3. Non-performing loans (advances on which interest is being placed in suspense or on which interest accrual has been ceased)**

	<b>As at 31-Dec-2004 HK\$'000</b>	<b>As % of Total Advances</b>	<b>As at 31-Dec-2003 HK\$'000</b>	<b>As % of Total Advances</b>
Gross advances	152,578	1.93%	248,952	3.39%
Specific provisions	<u>(43,981)</u>		<u>(101,344)</u>	
	<b>108,597</b>		147,608	
Collateral held	<b>100,607</b>		127,758	
Suspended interest	<b>21,914</b>		51,079	

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 2004 and 31 December 2003.



**ANNOUNCEMENT OF 2004 FINAL RESULTS**

**Supplementary Information (cont'd)**

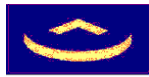
**4. Overdue and rescheduled advances**

	<u>As at 31-Dec-2004 HK\$'000</u>	<u>As % of Total Advances</u>	<u>As at 31-Dec-2003 HK\$'000</u>	<u>As % of Total Advances</u>
Gross advances to customer which have been overdue for:				
Six months or less but over three months	2,227	0.03%	18,826	0.26%
One year or less but over six months	13,619	0.17%	51,891	0.70%
Over one year	94,026	1.19%	128,468	1.75%
	<u>109,872</u>	1.39%	<u>199,185</u>	2.71%
Specific provisions	38,629		94,205	
Collateral held	92,618		113,744	
Secured overdue advances	68,646		91,301	
Unsecured overdue advances	41,226		107,884	
Rescheduled advances	<u>10,422</u>	0.13%	<u>6,560</u>	0.09%

There were no overdue advances for over three months and rescheduled advances to banks and other financial institutions on 31 December 2004 and 31 December 2003.

**5. Reconciliation between overdue and rescheduled advances and non-performing loans**

	<u>As at 31-Dec-2004 HK\$'000</u>	<u>As at 31-Dec-2003 HK\$'000</u>
Gross advances overdue for more than three months	109,872	199,185
Rescheduled advances	10,422	6,560
Less : Overdue advances on which interest is still being accrued	(193)	(12,681)
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>32,477</u>	<u>55,888</u>
Total non-performing loans	<u>152,578</u>	<u>248,952</u>



**ANNOUNCEMENT OF 2004 FINAL RESULTS**

**Supplementary Information (cont'd)**

**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 2004, the total value of repossessed assets of the Group amounted to HK\$79 million (31 December 2003: HK\$118 million).

**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:

	<b>As at 31-Dec-2004 HK\$'000</b>	<b>As at 31-Dec-2003 HK\$'000</b>
Direct credit substitutes	<b>91,523</b>	110,699
Transaction-related contingencies	<b>3,094</b>	533
Trade-related contingencies	<b>167,587</b>	242,958
Forward asset purchases	<b>37,839</b>	89,373
Forward forward deposits placed	<b>70,893</b>	43,190
Other commitments with an original maturity of :		
- under one year or which are unconditionally cancellable	<b>3,620,359</b>	3,284,135
- one year and over	<b>201,277</b>	284,690
	<b><u>4,192,572</u></b>	<b><u>4,055,578</u></b>



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**Supplementary Information (cont'd)**

**7. Off-balance sheet exposures (cont'd)**

**(b) Derivatives**

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

	<u>As at 31-Dec-2004</u> HK\$'000	<u>As at 31-Dec-2003</u> HK\$'000
Exchange rate contracts	<u>4,352,316</u>	<u>2,795,539</u>

**(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:

	<u>As at 31-Dec- 2004</u>		<u>As at 31-Dec-2003</u>	
	<u>Replacement Cost</u> HK\$'000	<u>Credit risk weighted amount</u> HK\$'000	<u>Replacement Cost</u> HK\$'000	<u>Credit risk weighted amount</u> HK\$'000
Contingent liabilities and commitments	-	241,528	-	239,822
Exchange rate contracts	<u>9,622</u>	<u>8,976</u>	<u>8,026</u>	<u>5,738</u>
	<u>9,622</u>	<u>250,504</u>	<u>8,026</u>	<u>245,560</u>

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.

**ANNOUNCEMENT OF 2004 FINAL RESULTS****Supplementary Information (cont'd)****8. Capital adequacy ratio**

	<u>As at 31-Dec-2004</u>	<u>As at 31-Dec-2003</u>
Adjusted capital adequacy ratio	<b>17.92%</b>	19.81%
Unadjusted capital adequacy ratio	<b>18.11%</b>	20.08%

The unadjusted capital adequacy ratio represents the consolidated ratio of the Group which comprises the positions of the Bank and those 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.

**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:**

	<u>As at 31-Dec-2004</u>	<u>As at 31-Dec-2003</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Core capital		
Paid up ordinary share capital	<b>810,000</b>	810,000
Share premium	<b>43,935</b>	43,935
Reserves (eligible for inclusion in core capital)	<b>609,064</b>	614,066
	<u><b>1,462,999</b></u>	<u>1,468,001</u>
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	<b>123,016</b>	87,261
General provisions for doubtful debts	<b>78,864</b>	73,201
	<u><b>201,880</b></u>	<u>160,462</u>
Total capital base before deductions	<b>1,664,879</b>	1,628,463
Deductions from total capital base	<b>(114,540)</b>	(110,837)
Total capital base after deductions	<u><b>1,550,339</b></u>	<u>1,517,626</u>



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**Supplementary Information (cont'd)**

**10. Average liquidity ratio**

	<u>2004</u>	<u>2003</u>
Average for the year	<b>45.42%</b>	47.09%

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.

**11. Other ratios**

	<u>2004</u>	<u>2003</u>
Net Interest Margin for the year	<b>1.98%</b>	1.88%
Cost to Income Ratio for the year	<b>54.82%</b>	65.53%
Loan to Deposit Ratio (as at 31 December)	<b>67.16%</b>	67.58%

**ASIA COMMERCIAL BANK LIMITED****ANNOUNCEMENT OF 2004 FINAL RESULTS****Supplementary Information (cont'd)****12. Currency risks**

The information concerning the foreign currency exposures of the Group are prepared in accordance with the completion instructions of “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-Dec-2004</u> (Equivalents in millions of HK\$)	<u>US Dollars</u>	<u>Others</u>	<u>Total</u>
Spot assets	3,409	1,143	4,552
Spot liabilities	(3,521)	(1,394)	(4,915)
Forward purchases	2,173	1,578	3,751
Forward sales	(1,990)	(1,230)	(3,220)
Net long position	<u>71</u>	<u>97</u>	<u>168</u>

		<u>Renminbi</u>	
Net structural long position (equivalent in millions of HK\$)			<u>94</u>

<u>As at 31-Dec-2003</u> (Equivalents in millions of HK\$)	<u>US Dollars</u>	<u>Others</u>	<u>Total</u>
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)
Net long position	<u>99</u>	<u>-</u>	<u>99</u>

		<u>Renminbi</u>	
Net structural long position (equivalent in millions of HK\$)			<u>94</u>



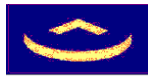
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**ANNOUNCEMENT OF 2004 FINAL RESULTS**

**Supplementary Information (cont'd)**

**13. Cross-border claims**

Cross-border claims are classified according to the location of foreign counterparts 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 External Positions” (MA(BS)9B) 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:

	<u>Banks and other financial institutions</u> HK\$ million	<u>Public sector entities</u> HK\$ million	<u>Others</u> HK\$ million	<u>Total</u> HK\$ million
<b><u>As at 31-Dec-2004</u></b>				
<b>Asia Pacific excluding Hong Kong</b>	<b>2,190</b>	<b>2</b>	<b>197</b>	<b>2,389</b>
<b>of which :</b>				
<b>Australia</b>	<b>727</b>	<b>-</b>	<b>47</b>	<b>774</b>
<b>Western Europe</b>	<b>2,363</b>	<b>-</b>	<b>176</b>	<b>2,539</b>
<b>of which :</b>				
<b>Germany</b>	<b>539</b>	<b>-</b>	<b>1</b>	<b>540</b>
<b>United Kingdom</b>	<b>522</b>		<b>53</b>	<b>575</b>
<b><u>As at 31-Dec-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>



**ANNOUNCEMENT OF 2004 FINAL RESULTS**

**Supplementary Information (cont'd)**

**14. Segmental information**

**a. By geographic area**

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 2004 and 2003, over 90% of the Group's total operating income (net of interest expense), profit before tax, 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 2004 and 31 December 2003 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, wealth management 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, 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 management 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.



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Supplementary Information (cont'd)

14. Segmental information (cont'd)

c. By classes of business (cont'd)

Year 2004	Retail and Commercial Banking HK\$'000	Treasury and Other Activities HK\$'000	Unallocated HK\$'000	Group HK\$'000
Interest income from				
- external customers	240,355	130,658	-	371,013
- other segments	103,094	8,083	135,349	246,526
Interest expense to				
- external customers	(98,994)	(16,281)	(9,805)	(125,080)
- other segments	(54,123)	(81,226)	(111,177)	(246,526)
Net interest income	190,332	41,234	14,367	245,933
Other operating income	34,464	30,132	3,011	67,607
Operating income	224,796	71,366	17,378	313,540
Operating expenses	(81,988)	(9,932)	(79,951)	(171,871)
Operating profit/(loss) before provisions	142,808	61,434	(62,573)	141,669
(Charge)/credit for bad and doubtful debts	(20,700)	142	(5,663)	(26,221)
Operating profit/(loss) after provisions	122,108	61,576	(68,236)	115,448
Provision against loan to a jointly-controlled entity	-	-	(2,500)	(2,500)
Write-back of provision against loans to a jointly-controlled entity	-	-	4,433	4,433
Gain on disposal of a jointly-controlled entity	-	-	2,990	2,990
Gains less losses from disposal of tangible fixed assets	-	-	2,980	2,980
Share of results of a jointly-controlled entity	-	-	2,695	2,695
Profit/(loss) before tax	122,108	61,576	(57,638)	126,046
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	254,139	105,825	-	359,964
- other segments	106,161	7,383	170,496	284,040
Interest expense to				
- external customers	(105,053)	(6,135)	(22,336)	(133,524)
- other segments	(81,646)	(88,850)	(113,544)	(284,040)
Net interest income	173,601	18,223	34,616	226,440
Other operating income	31,445	23,401	2,992	57,838
Operating income	205,046	41,624	37,608	284,278
Operating expenses	(90,117)	(11,086)	(85,086)	(186,289)
Operating profit/(loss) before provisions	114,929	30,538	(47,478)	97,989
(Charge)/credit for bad and doubtful debts	(32,577)	7,147	3,930	(21,500)
Operating profit/(loss) after provisions	82,352	37,685	(43,548)	76,489
Provision against loans to jointly-controlled entities	-	-	(8,340)	(8,340)
Profit/(loss) before tax	82,352	37,685	(51,888)	68,149



## ASIA COMMERCIAL BANK LIMITED

### ANNOUNCEMENT OF 2004 FINAL RESULTS

#### Supplementary Information (cont'd)

#### 15. Business review and prospects

Asia Commercial Bank saw consolidated net profit increase strongly by 87.3% to HK\$104.9 million in 2004. Although competition in the Hong Kong banking industry was extremely fierce, with interest rates at below prime being the norm for consumer loans, low local interest rates helped to keep funding costs down, enabling the Bank to take advantage of a healthy interest rate spread. Net interest income also benefited from some balance sheet restructuring when some funds were moved into portfolio investment. The Bank also enjoyed some non-recurrent income from several areas, including a property revaluation and reorganization of its credit card business.

Loan growth was largely driven by the continued improvement in Hong Kong's economic conditions. The recovery in the property market boosted property development and investment loans. We continued to move away from the fiercely competitive mortgage market and expanded into other consumer lending, such as tax loans. Loans to small and medium enterprises, especially for the manufacturing sector and trade finance, increased.

Our efforts to strengthen commercial business showed good results. The relocation of some branches, contributed to a 7.7% fall in operating costs. The Bank's cost-to-income ratio fell from 65.5% in 2003 to 54.8%. Mainland business, treasury operations and fee-based income all made satisfactory contributions to the year's result.

The level of provisions, which rose 22.0% or HK\$ 4.7 million year-on-year, reflects our prudent approach to provisioning and is in line with the growing loan book.



**ASIA COMMERCIAL BANK LIMITED**

**ANNOUNCEMENT OF 2004 FINAL RESULTS**

**Supplementary Information (cont'd)**

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

Looking forward, the Hong Kong banking industry is likely to experience some tightening in the interest rates and therefore in margins. However, prospects for loan growth look good, and management hopes to concentrate on expanding its portfolio of higher-yield loans.

We expect to further develop our commercial clientele base by strengthening our marketing and providing customers with more tailor-made services. We also plan to expand our retail clientele base through improved sales of fee-based products. We also see continuing opportunities to serve our local clients with operations in the Mainland and to expand our Renminbi business.

**16. Statement of compliance**

In preparing the statutory accounts for the year ended 31 December 2004, 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.