

**ANNOUNCEMENT OF 2004 INTERIM RESULTS**

The Directors of Asia Commercial Bank Limited (the “Bank”) are pleased to announce the unaudited results of the Bank and its subsidiaries (the “Group”) for the six months ended 30 June 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 six months ended 30 June

	Notes	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000	<u>Variance</u> %
Interest income		<b>171,293</b>	183,297	-6.5
Interest expense		<b>(45,128)</b>	(72,109)	-37.4
Net interest income		<b>126,165</b>	111,188	13.5
Other operating income	2	<b>33,498</b>	26,529	26.3
Operating income		<b>159,663</b>	137,717	15.9
Operating expenses	3	<b>(86,411)</b>	(96,735)	-10.7
Operating profit before provisions		<b>73,252</b>	40,982	78.7
Charge for bad and doubtful debts	4	<b>(17,748)</b>	(7,689)	130.8
Operating profit		<b>55,504</b>	33,293	66.7
Write-back / (provision) against advances to jointly-controlled entities		<b>1,933</b>	(2,020)	-195.7
Gain on disposal of a jointly-controlled entity		<b>2,990</b>	-	-
Gains less losses from disposal of tangible fixed assets		<b>2</b>	-	-
Profit before taxation		<b>60,429</b>	31,273	93.2
Taxation	5	<b>(9,316)</b>	(4,419)	110.8
Profit attributable to shareholders		<b>51,113</b>	26,854	90.3

**ANNOUNCEMENT OF 2004 INTERIM RESULTS****Consolidated Balance Sheet**

	Note	As at 30-Jun-2004 HK\$'000	As at 31-Dec-2003 HK\$'000
<b>ASSETS</b>			
Cash and short-term funds		1,712,925	2,405,282
Placements with banks and other financial institutions maturing between one and twelve months		1,068,906	816,929
Certificates of deposit held		703,870	718,372
Held-to-maturity securities		1,707,511	1,376,694
Advances and other accounts		7,610,015	7,345,256
Investment securities		8,879	8,879
Other investments		44,702	21,287
Interests in jointly-controlled entities		43,930	42,997
Intangible assets		815	887
Fixed assets		305,315	307,191
Total assets		<u>13,206,868</u>	<u>13,043,774</u>
<b>LIABILITIES</b>			
Deposits and balances of banks and other financial institutions		541,226	307,077
Deposits from customers	6	9,563,720	9,670,954
Certificates of deposit issued		1,195,000	1,193,000
Deferred taxation		15,518	15,897
Other accounts and provisions		214,698	197,233
Total liabilities		<u>11,530,162</u>	<u>11,384,161</u>
<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		124,659	124,659
Retained profits		420,447	393,634
Proposed dividends		24,300	34,020
Total capital resources		<u>1,676,706</u>	<u>1,659,613</u>
Total capital resources and liabilities		<u>13,206,868</u>	<u>13,043,774</u>



**ANNOUNCEMENT OF 2004 INTERIM RESULTS**

**Notes:**

1. The financial information relating to the financial periods included in this interim results announcement does not constitute the Group's statutory accounts. The financial information relating to the financial year ended 31 December 2003 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 23 March 2004.

**2. Other Operating Income**

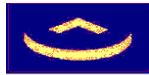
For the six months ended 30 June

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
Net fees and commission income	24,323	20,305
Gains less losses arising from dealing in foreign currencies	4,513	3,388
Others	4,662	2,836
	<u>33,498</u>	<u>26,529</u>

**3. Operating Expenses**

For the six months ended 30 June

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
Staff Costs	43,296	48,834
Premises and equipment expenses	11,883	13,679
Deficit on revaluation of premises	-	2,500
Depreciation charge	9,663	10,031
Others	21,569	21,691
	<u>86,411</u>	<u>96,735</u>

**ANNOUNCEMENT OF 2004 INTERIM RESULTS****Notes (cont'd):****4. Charge for Bad and Doubtful Debts**

For the six months ended 30 June

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
Specific provision charge	20,085	22,671
Loan recoveries & releases	(4,647)	(11,586)
General provision charge/(write-back)	2,310	(3,396)
	<u>17,748</u>	<u>7,689</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 period. 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 six months ended 30 June comprises:

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
Hong Kong	9,064	3,976
Elsewhere	631	211
Deferred tax (credit)/charge	(379)	232
	<u>9,316</u>	<u>4,419</u>

**6. Deposits from customers**

	<u>As at</u> <u>30-Jun-2004</u> HK\$'000	<u>As at</u> <u>31-Dec-2003</u> HK\$'000
Demand deposits and current accounts	801,261	894,103
Savings deposits	2,265,718	2,032,612
Time, call and notice deposits	6,496,741	6,744,239
	<u>9,563,720</u>	<u>9,670,954</u>

**ANNOUNCEMENT OF 2004 INTERIM RESULTS****Supplementary Information****1. Advances and other accounts:**

	As at <b>30-Jun-2004</b>	As at 31-Dec-2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Advances to customers	<b>7,503,010</b>	7,342,182
Provisions for bad and doubtful debts		
- Specific	<b>(36,146)</b>	(102,211)
- General	<b>(75,511)</b>	(73,201)
	<b>7,391,353</b>	7,166,770
Advances to banks and other financial institutions	-	-
Accrued interest and other accounts	<b>218,662</b>	178,486
	<b>7,610,015</b>	<b>7,345,256</b>
Included in advances to customers are :		
Trade Bills	<b>22,200</b>	83,115

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

	As at <b>30-Jun-2004</b>	As at 31-Dec-2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Loans for use in Hong Kong		
Industrial, commercial and financial :		
Property development	<b>80,233</b>	76,755
Property investment	<b>1,067,711</b>	854,666
Financial concerns	<b>29,816</b>	201,792
Stockbrokers	<b>6,057</b>	32,145
Wholesale and retail trade	<b>19,245</b>	10,605
Manufacturing	<b>366,557</b>	295,590
Transport and transport equipment	<b>550,331</b>	466,818
Others	<b>995,480</b>	945,218
Individuals :		
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	<b>392,569</b>	430,486
Loans for the purchase of other residential properties	<b>2,263,698</b>	2,408,263
Credit card advances	<b>17,078</b>	20,918
Others	<b>326,477</b>	333,068
Trade finance	<b>1,004,252</b>	979,581
Loans for use outside Hong Kong	<b>383,506</b>	286,277
	<b>7,503,010</b>	<b>7,342,182</b>



**ANNOUNCEMENT OF 2004 INTERIM RESULTS**

**Supplementary Information (cont'd)**

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

	As at <u>30-Jun-2004</u> HK\$'000	As % of <u>Total</u> <u>Advances</u>	As at <u>31-Dec-2003</u> HK\$'000	As % of <u>Total</u> <u>Advances</u>
Gross advances	170,593	2.27%	248,952	3.39%
Specific provisions	<u>(35,546)</u>		<u>(101,344)</u>	
	<u>135,047</u>		<u>147,608</u>	
Collateral held	119,346		127,758	
Suspended interest	18,926		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 30 June 2004 and 31 December 2003.

**4. Overdue and rescheduled advances :**

	As at <u>30-Jun-2004</u> HK\$'000	As % of <u>Total</u> <u>Advances</u>	As at <u>31-Dec-2003</u> HK\$'000	As % of <u>Total</u> <u>Advances</u>
Gross advances to customer which have been overdue for:				
Six months or less but over three months	7,036	0.10%	18,826	0.26%
One year or less but over six months	45,355	0.60%	51,891	0.70%
Over one year	<u>81,921</u>	<u>1.09%</u>	<u>128,468</u>	<u>1.75%</u>
	<u>134,312</u>	<u>1.79%</u>	<u>199,185</u>	<u>2.71%</u>
Specific provisions	31,332		94,205	
Collateral held	117,138		113,744	
Secured overdue advances	94,435		91,301	
Unsecured overdue advances	39,877		107,884	
Rescheduled advances	<u>11,691</u>	<u>0.16%</u>	<u>6,560</u>	<u>0.09%</u>

There were no overdue advances for over three months and rescheduled advances to banks and other financial institutions on 30 June 2004 and 31 December 2003.



**ANNOUNCEMENT OF 2004 INTERIM RESULTS**

**Supplementary Information (cont'd)**

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

	<u>As at 30-Jun-2004</u> HK\$'000	<u>As at 31-Dec-2003</u> HK\$'000
Gross advances overdue for more than three months	<b>134,312</b>	199,185
Rescheduled advances	<b>11,691</b>	6,560
Less : Overdue advances on which interest is still being accrued	<b>(3,334)</b>	(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><b>27,924</b></u>	<u>55,888</u>
Total non-performing loans	<u><b>170,593</b></u>	<u>248,952</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 30 June 2004, the total value of repossessed assets of the Group amounted to HK\$122 million (31 December 2003: HK\$118 million)



## ASIA COMMERCIAL BANK LIMITED

### ANNOUNCEMENT OF 2004 INTERIM 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:

	<u>As at 30-Jun-2004</u> HK\$'000	<u>As at 31-Dec-2003</u> HK\$'000
Direct credit substitutes	77,854	110,699
Transaction-related contingencies	1,273	533
Trade-related contingencies	197,388	242,958
Forward asset purchases	254,806	89,373
Forward forward deposits placed	211,302	43,190
Other commitments with an original maturity of :		
- under one year or which are unconditionally cancellable	3,386,319	3,284,135
- one year and over	235,141	284,690
	<u>4,364,083</u>	<u>4,055,578</u>

##### (b) Derivatives:

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

	<u>As at 30-Jun-2004</u> HK\$'000	<u>As at 31-Dec-2003</u> HK\$'000
Exchange rate contracts	4,052,546	2,795,539



**ANNOUNCEMENT OF 2004 INTERIM 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:

	<u>As at 30-Jun-2004</u>		<u>As at 31-Dec-2003</u>	
	<u>Replacement Cost</u>	<u>Credit risk weighted amount</u>	<u>Replacement Cost</u>	<u>Credit risk weighted amount</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
Contingent liabilities and commitments	-	252,607	-	239,822
Exchange rate contracts	6,357	8,335	8,026	5,738
	<u>6,357</u>	<u>260,942</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.

**8. Capital Adequacy Ratio**

	<u>As at 30-Jun-2004</u>	<u>As at 31-Dec-2003</u>
Adjusted capital adequacy ratio	<b>19.09%</b>	19.81%
Unadjusted capital adequacy ratio	<b>19.39%</b>	20.08%

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 2004 INTERIM 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 30-Jun-2004 <u>HK\$'000</u>	As at 31-Dec-2003 <u>HK\$'000</u>
Core capital		
Paid up ordinary share capital	810,000	810,000
Share premium	43,935	43,935
Reserves (eligible for inclusion in core capital)	<u>639,979</u>	<u>614,066</u>
	<u>1,493,914</u>	<u>1,468,001</u>
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	87,261	87,261
General provisions for doubtful debts	<u>75,511</u>	<u>73,201</u>
	<u>162,772</u>	<u>160,462</u>
Total capital base before deductions	1,656,686	1,628,463
Deductions from total capital base	(111,770)	(110,837)
Total capital base after deductions	<u>1,544,916</u>	<u>1,517,626</u>

**10. Average liquidity ratio**

	<u>2004</u>	<u>2003</u>
Average for the first six months	44.7%	46.9%

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 2004 INTERIM RESULTS**

**Supplementary Information (cont'd)**

**11. Other Ratios**

	<u>2004</u>	<u>2003</u>
Net Interest Margin for the first six months	<b>2.09%</b>	1.84%
Loan to Deposit Ratio (respectively at 30 June & 31 December)	<b>69.74%</b>	67.58%

**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 30-Jun-2004</u> (Equivalents in millions of HK\$)	<u>US Dollars</u>	<u>Others</u>	<u>Total</u>
Spot assets	3,073	863	3,936
Spot liabilities	(3,318)	(1,149)	(4,467)
Forward purchases	2,148	1,569	3,717
Forward sales	(1,834)	(1,277)	(3,111)
Net long position	<u>69</u>	<u>6</u>	<u>75</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>



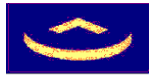
**ANNOUNCEMENT OF 2004 INTERIM RESULTS**

**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:

	Banks & other financial institutions	Public sector entities	Others	Total
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
<b><u>As at 30-Jun-2004</u></b>				
<b>Asia Pacific excluding Hong Kong</b>	<b>1,986</b>	<b>2</b>	<b>217</b>	<b>2,205</b>
of which :				
Australia	529	-	45	574
South Korea	606	-	-	606
<b>North America</b>	<b>349</b>	<b>23</b>	<b>127</b>	<b>499</b>
<b>Western Europe</b>	<b>1,694</b>	<b>-</b>	<b>214</b>	<b>1,908</b>
of which :				
United Kingdom	559	-	48	607
<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>
of which :				
Australia	480	-	23	503
China	508	2	45	555
<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>
of which :				
Germany	499	-	4	503
United Kingdom	496	-	67	563



**ANNOUNCEMENT OF 2004 INTERIM 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 first half of years 2004 and 2003, 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 30 June 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, 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.



**ANNOUNCEMENT OF 2004 INTERIM RESULTS**

**Supplementary Information (cont'd)**

**14. Segmental information (cont'd)**

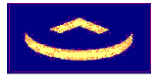
**c. By classes of business (cont'd)**

Six months ended 30 June 2004

	<b>Retail and Commercial Banking</b>	<b>Treasury and Other Activities</b>	<b>Unallocated</b>	<b>Group</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Interest income from</b>				
- external customers	116,116	55,177	-	171,293
- other segments	42,333	2,893	50,530	95,756
<b>Interest expense to</b>				
- external customers	(39,646)	(1,759)	(3,723)	(45,128)
- other segments	(17,448)	(33,082)	(45,226)	(95,756)
<b>Net interest income</b>	<u>101,355</u>	<u>23,229</u>	<u>1,581</u>	<u>126,165</u>
<b>Other operating income</b>	22,938	6,771	3,789	33,498
<b>Operating income</b>	<u>124,293</u>	<u>30,000</u>	<u>5,370</u>	<u>159,663</u>
<b>Operating expenses</b>	(41,420)	(4,926)	(40,065)	(86,411)
<b>Operating profit/(loss) before provisions</b>	<u>82,873</u>	<u>25,074</u>	<u>(34,695)</u>	<u>73,252</u>
<b>(Charge)/Credit for bad and doubtful debts</b>	(15,642)	204	(2,310)	(17,748)
<b>Operating profit/(loss)</b>	<u>67,231</u>	<u>25,278</u>	<u>(37,005)</u>	<u>55,504</u>
<b>Write-back of provision against advances to jointly-controlled entities</b>	-	-	1,933	1,933
<b>Gain on disposal of a jointly-controlled entity</b>	-	-	2,990	2,990
<b>Gains less losses from disposal of tangible fixed assets</b>	-	-	2	2
<b>Profit/(loss) before taxation</b>	<u><u>67,231</u></u>	<u><u>25,278</u></u>	<u><u>(32,080)</u></u>	<u><u>60,429</u></u>

Six months ended 30 June 2003

	<b>Retail and Commercial Banking</b>	<b>Treasury and Other Activities</b>	<b>Unallocated</b>	<b>Group</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Interest income from</b>				
- external customers	129,845	53,452	-	183,297
- other segments	58,094	2,503	78,040	138,637
<b>Interest expense to</b>				
- external customers	(56,386)	(2,723)	(13,000)	(72,109)
- other segments	(49,927)	(30,526)	(58,184)	(138,637)
<b>Net interest income</b>	<u>81,626</u>	<u>22,706</u>	<u>6,856</u>	<u>111,188</u>
<b>Other operating income</b>	19,945	4,803	1,781	26,529
<b>Operating income</b>	<u>101,571</u>	<u>27,509</u>	<u>8,637</u>	<u>137,717</u>
<b>Operating expenses</b>	(44,967)	(5,225)	(46,543)	(96,735)
<b>Operating profit/(loss) before provisions</b>	<u>56,604</u>	<u>22,284</u>	<u>(37,906)</u>	<u>40,982</u>
<b>(Charge)/Credit for bad and doubtful debts</b>	(15,765)	4,680	3,396	(7,689)
<b>Operating profit/(loss)</b>	<u>40,839</u>	<u>26,964</u>	<u>(34,510)</u>	<u>33,293</u>
<b>Provision against advance to a jointly-controlled entity</b>	-	-	(2,020)	(2,020)
<b>Profit/(loss) before taxation</b>	<u><u>40,839</u></u>	<u><u>26,964</u></u>	<u><u>(36,530)</u></u>	<u><u>31,273</u></u>



**ANNOUNCEMENT OF 2004 INTERIM RESULTS**

**Supplementary Information (cont'd)**

**15. Business Review and prospects**

Asia Commercial Bank performed strongly in the first half of 2004. Net interest income improved, reflecting improved margins and better management of deposit levels. Fee income grew, assisted by branch restructuring which facilitated the growth of fee-based business and in addition our treasury operations and share trading benefited from the improved economic environment. The need for specific debt provisioning declined and operating expenses were further reduced. Total loans grew by 2.2% percent in the first half of 2004.

In the period ahead, we will strengthen our effort to build our loan business to take advantage of the growing economy. However, we will need to guard against prospects of rising interest rates, narrowing interest spreads and increasing competition. This would suggest the need to further develop our fee income. Fortunately, rising business profitability in Hong Kong should lead to a reduced need for specific provisioning in the period ahead. All in all, we are confident that the Bank will deliver satisfactory results for 2004 as a whole.

**16. Statement of compliance**

In preparing the disclosure statement for the six months ended 30 June 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.