

**ANNOUNCEMENT OF 2005 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 2005.

Consolidated Profit and Loss Account

For the six months ended 30 June

	Notes	2005 HK\$'000	2004 HK\$'000	Variance %
Interest income		231,327	171,293	35.0
Interest expense		(112,849)	(45,128)	150.1
Net interest income		118,478	126,165	-6.1
Other operating income	4	38,851	33,498	16.0
Operating income		157,329	159,663	-1.5
Operating expenses	5	(75,580)	(86,411)	-12.5
Operating profit before impairment allowances / provisions		81,749	73,252	11.6
Charge for bad and doubtful debts		-	(17,748)	
Impairment allowances		(39,581)	-	
Operating profit after impairment allowances / provisions		42,168	55,504	-24.0
Write-back of impairment allowance against loan to a jointly-controlled entity		1,500	4,433	-66.2
Impairment allowance on loan to a jointly-controlled entity		-	(2,500)	
Gain on disposal of a jointly-controlled entity		-	2,990	
Gains less losses from disposal of tangible fixed assets		-	2	
Profit before tax		43,668	60,429	-27.7
Tax	6	(7,321)	(9,316)	-21.4
Profit attributable to shareholders		36,347	51,113	-28.9

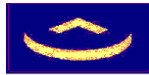


ASIA COMMERCIAL BANK LIMITED

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Consolidated Balance Sheet

	Notes	As at 30-Jun-2005 HK\$'000	As at 31-Dec-2004 HK\$'000
ASSETS			
Cash and short-term funds		1,400,513	2,104,039
Placements with banks and other financial institutions maturing between one and twelve months		663,867	830,333
Securities measured at fair value through profit or loss		115,244	56,523
Certificates of deposit held		597,615	989,974
Held-to-maturity securities		2,729,493	1,940,318
Advances and other accounts	7	8,779,660	8,002,618
Available-for-sale securities		8,879	8,879
Interests in jointly-controlled entities		19,200	19,200
Loans to jointly-controlled entities		28,000	26,500
Intangible assets		715	743
Fixed assets		365,244	368,655
Total assets		<u>14,708,430</u>	<u>14,347,782</u>
LIABILITIES			
Deposits and balances of banks and other financial institutions		1,142,236	592,678
Deposits from customers	8	10,508,130	10,776,743
Certificates of deposit issued		919,323	1,025,000
Other accounts and provisions		284,639	152,020
Tax payable		17,232	11,306
Deferred tax liabilities		35,036	25,833
Total liabilities		<u>12,906,596</u>	<u>12,583,580</u>
EQUITY			
Share capital		810,000	810,000
Share premium		43,935	43,935
General reserve		253,365	253,365
Premises revaluation reserve		175,739	175,739
Retained earnings	9	503,405	443,093
Proposed dividend		15,390	38,070
Total equity		<u>1,801,834</u>	<u>1,764,202</u>
Total equity and liabilities		<u>14,708,430</u>	<u>14,347,782</u>



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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 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. Changes in Accounting Policies

The interim report has been prepared on a basis consistent with the accounting policies adopted in the 2004 financial statements except for the changes in accounting policies following the adoption on 1 January 2005 of the new and revised Hong Kong Financial Reporting Standards ("HKFRS") and the Hong Kong Accounting Standards ("HKAS").

HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement"

(a) In prior years, the accounting policies for certain financial instruments were as follows:-

- Dated debt securities that the Bank has the ability and intention to hold to maturity were classified as held-to-maturity securities; securities which are intended to be held on a continuing basis or for an identified long-term purpose were classified as investment securities; and other investments in securities are securities which are not classified as held-to-maturity securities nor as investment securities.
- General provisions on loans and advances were determined at a level deemed appropriate to absorb expected losses for loans in the future. Specific provisions on loans and advances were determined to absorb expected losses from individual borrower after taking into account of the value of the collateral held.
- Interest income on loans and advances and debt securities and interest expense on deposits and debt instruments were recognised on an accrual basis using the relative contract or coupon interest rates. The interest accrued on non-performing loans were not taken as income but credited to a suspense account, which was netted in the balance sheet against the appropriate balance sheet headings.



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Notes (continued)

2. Changes in Accounting Policies (continued)

- Fees on loan origination are recognised except when such fees are interest in nature. In such case, the fees are recognised on an appropriate basis over the relevant period. Costs associated with loan origination or acquisition are charged as operating expenses or netted off against interest income when incurred. Premiums or discounts of debt securities held, or debt securities in issue, are amortised over the period from the date of purchase or issue to the date of maturity, as part of interest income or interest expense.

- (b) From 1 January 2005, the Group has adopted HKAS 32 and HKAS 39 and classified financial instruments under the following categories:
 - *Financial Assets measured at fair value through profit or loss*

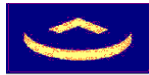
This category comprises financial assets held for trading and those that are designated as fair value through profit and loss at inception. Financial assets under this category are carried at fair value. Unrealised gains and losses arising from changes in the fair value are included in the profit and loss account in the period in which they arise.

 - *Held-to-maturity investments*

This category comprises of non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortised cost using the effective interest method less provision for impairment, if any.

 - *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at amortised cost using the effective interest method, less provision for impairment, if any and are accounted for in the profit and loss account.



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Notes (continued)

2. Changes in Accounting Policies (continued)

- Available-for-sale financial assets

This category comprises non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in the investment revaluation reserve.

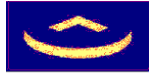
(c) Revenue recognition

Interest income and expense are recognised using the effective interest method. The effective interest method is a method to allocate the interest income over the expected life of the relevant financial assets and liabilities using the effective interest rate that exactly discounts estimated future cash payments and receipts through the expected life of the relevant financial assets and liabilities. The calculation of effective interest rates includes all fees, commissions and costs on loans and advances and premium and discounts on debt securities. Interest will continue to be recognised on impaired financial assets using the effective interest rate to discount the future cash flows for the purpose of measuring the impairment loss.

(d) Impairment allowances for advances

Impairment allowances can be made on an individual assessed basis and a collective portfolio basis.

- Individual impairment allowance applies to loans and receivables that are individually significant and have objective evidence of impairment. In assessing for impairment the management estimates the present value of future cash flows which are expected to be received, taking into account of the borrower's financial situation, the net realizable value of the underlying collateral or guarantees in favour of the Bank. Each impaired asset is assessed on its merits and impairment allowance is measured as the difference between the loan's carrying value and the present value of the estimated future cash flows discounted at the loan's original effective interest rate.



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Notes (continued)

2. Changes in Accounting Policies (continued)

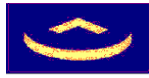
(d) Impairment allowances for advances (continued)

- Collective impairment allowances cover credit losses inherent in portfolios of loans and receivables with similar economic and risk characteristics where objective evidence for individual impaired items cannot yet be identified. In assessing the collective impairment allowance, management makes assumptions both to define the way the Bank models inherent losses and to determine the required input parameters, based on historical loss experience and current economic conditions.

HKAS 40 “Investment property”

Changes in valuation of the investment property were previously dealt with an investment property revaluation reserve. Following the adoption of HKAS 40, all changes in valuation of the investment property would be recognised in the profit and loss account.

Despite these changes in accounting policy have to be adopted retrospectively, no adjustment to the opening balances as at 1 January 2004 and 1 January 2005 are required as the carrying value of the Bank’s investment properties had been written down to the fair value at respective balance sheet dates.



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Notes (continued)

3. Summary of the effect of changes in the accounting policies

- (a) Summary of the effect of changes in the accounting policies on the opening balance of total equity at 1 January 2005 (as restated):

	HK\$'000
Effect of new policies (increase / (decrease))	
Total equity as at 31 December 2004	
- As previously reported	1,764,202
Opening balance adjustments on retained earnings arising from change in accounting policy	
- HKAS 39	
Held-to-maturity securities	1,036
Certificates of deposit held	611
Loans and receivables	21,918
Certificates of deposit issued	(28)
Collective impairment allowances	47,108
Individual impairment allowances	(23,046)
Deferred tax on collective impairment allowances	(8,244)
- HKAS 40	39,355
As restated at 1 January 2005	<u>1,803,557</u>
Profit for the period attributable to shareholders	36,347
Final 2004 dividend	(38,070)
Total equity as at 30 June 2005	<u><u>1,801,834</u></u>



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Notes (continued)

3. Summary of the effect of changes in the accounting policies (continued)

(b) Effect on profit after tax for the six months ended 30 June 2005 (estimated):

	HK\$'000
Effect of new policy (increase / (decrease))	
- HKAS 39	
Held-to-maturity securities	1,501
Certificates of deposit held	(20)
Loans and receivables	6,172
Certificates of deposit issued	59
Collective impairment allowances	11,396
Individual impairment allowances	(3,732)
Deferred tax on collective impairment allowances	(1,994)
	<u>13,382</u>



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Notes (continued)

4. Other Operating Income

For the six months ended 30 June

	<u>2005</u> <u>HK\$'000</u>	<u>2004</u> <u>HK\$'000</u>
Net fees and commission income	23,325	24,323
Gains less losses arising from dealing in foreign currencies	4,760	4,513
Gains less losses arising from securities measured at fair value through profit or loss	7,863	729
Others	<u>2,903</u>	<u>3,933</u>
	<u><u>38,851</u></u>	<u><u>33,498</u></u>

5. Operating Expenses

For the six months ended 30 June

	<u>2005</u> <u>HK\$'000</u>	<u>2004</u> <u>HK\$'000</u>
Staff Costs	45,482	43,296
Premises and equipment expenses	8,571	11,883
Surplus on revaluation of investment properties	(4,480)	-
Depreciation charge	8,377	9,663
Others	<u>17,630</u>	<u>21,569</u>
	<u><u>75,580</u></u>	<u><u>86,411</u></u>

**ANNOUNCEMENT OF 2005 INTERIM RESULTS****Notes (continued)****6. Taxation**

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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>2005</u>	<u>2004</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Current tax charge		
Hong Kong	5,779	9,064
Elsewhere	583	631
Deferred tax charge/ (credit)	<u>959</u>	<u>(379)</u>
	<u><u>7,321</u></u>	<u><u>9,316</u></u>

7. Advances and Other Accounts

	<u>As at</u>	<u>As at</u>
	<u>30-Jun-2005</u>	<u>31-Dec-2004</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Advances to customers	8,535,332	7,925,911
Less : Impairment allowances		
- Individual	(84,553)	-
- Collective	(26,389)	-
Less : Provisions for bad and doubtful debts		
- Specific	-	(44,530)
- General	-	(78,864)
	<u>8,424,390</u>	<u>7,802,517</u>
Advances to banks and other financial institutions	-	-
Accrued interest and other accounts	355,270	200,101
	<u><u>8,779,660</u></u>	<u><u>8,002,618</u></u>
Included in advances to customers are		
Trade bills	47,387	54,202



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Notes (continued)

8. Deposits from Customers

	As at 30-Jun-2005	As at 31-Dec-2004
	HK\$'000	HK\$'000
Demand deposits and current accounts	711,888	883,523
Savings deposits	1,873,820	2,446,080
Time, call and notice deposits	7,922,422	7,447,140
	<u>10,508,130</u>	<u>10,776,743</u>

9. Retained Earnings

In accordance with the Hong Kong Monetary Authority's guideline "Impact of the new Hong Kong Accounting Standards on Authorised Institutions' Capital Base and Regulatory Reserve", retained earnings for an amount of HK\$58,964,000 is earmarked as a regulatory reserve which together with the Bank's collective impairment allowances after the adoption of HKAS 39 is included as supplementary capital in the Group's Capital Base at 30 June 2005.

**ANNOUNCEMENT OF 2005 INTERIM RESULTS****Supplementary Information****1. Gross advances to customers by industry sectors**

	As at 30-Jun-2005	As at 31-Dec-2004
	HK\$'000	HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial :		
Property development	197,156	149,293
Property investment	1,251,826	1,133,008
Financial concerns	138,803	138,788
Stockbrokers	32,967	13,238
Wholesale and retail trade	17,036	19,574
Manufacturing	589,389	513,814
Transport and transport equipment	590,653	499,675
Others	1,367,954	1,167,192
Individuals :		
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	306,003	342,564
Loans for the purchase of other residential properties	2,080,521	2,049,628
Credit card advances	14,625	16,172
Others	337,383	343,176
Trade finance	1,133,574	1,073,728
Loans for use outside Hong Kong	477,442	466,061
	<u>8,535,332</u>	<u>7,925,911</u>



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Supplementary Information (continued)

2. Impaired advances / Non-performing advances

Upon adoption of HKAS 39, the concept of suspended interest and non-performing advances are no longer relevant as interest is recognised on the recoverable element of impaired advances. Impaired advances are advances which there are objective evidence of impairment resulting from loss event and the loss event has an impact on the estimated future cash flows of the advances that can be reliably estimated. Impaired advances to customers are advances which have been classified as “substandard”, “doubtful” and “loss” under the Bank’s classification of loan quality.

(a) Impaired advances

	<u>As at 30-Jun-2005</u> HK\$'000	<u>As % of Total Advances</u>
Gross impaired advances	223,376	2.62%
Individual impairment allowances	<u>(84,553)</u>	
	<u><u>138,823</u></u>	

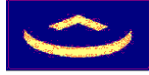
(b) Non-performing advances

The gross amount of non-performing advances, net of suspended interest, which represented advances on which interest was being placed in suspense or on which interest accrual had ceased, and specific provisions attributable to such advances were as follows:

	<u>As at 31-Dec-2004</u> HK\$'000	<u>As % of Total Advances</u>
Gross advances	152,578	1.93%
Specific provisions	<u>(43,981)</u>	
	<u><u>108,597</u></u>	
Suspended interest	<u><u>21,914</u></u>	

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

There were no impaired advances to banks and other financial institutions as at 30 June 2005, nor advances on which interest is being placed in suspense or on which interest accrual has ceased as at 31 December 2004.



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Supplementary Information (continued)

3. Overdue and rescheduled advances

	As at 30-Jun-2005 HK\$'000	As % of Total Advances	As at 31-Dec-2004 HK\$'000	As % of Total Advances
Gross advances to customer which have been overdue for:				
Six months or less but over three months	3,291	0.04%	2,227	0.03%
One year or less but over six months	2,990	0.03%	13,619	0.17%
Over one year	<u>101,562</u>	1.19%	<u>94,026</u>	1.19%
	<u><u>107,843</u></u>	1.26%	<u><u>109,872</u></u>	1.39%
 Rescheduled advances	 <u><u>8,685</u></u>	 0.10%	 <u><u>10,422</u></u>	 0.13%

There were no overdue advances for over three months and rescheduled advances to banks and other financial institutions as at 30 June 2005 and 31 December 2004.

4. 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 realised for the settlement of the outstanding debts. Advances with repossessed collateral assets will continue to be accounted for as customer advances and impairment allowance is measured as the difference between the carrying value of the outstanding advance and the net present value of estimated future cash flows including the sales proceeds from the realisation of the repossessed asset.

As at 30 June 2005, the total value of repossessed assets of the Group amounted to HK\$45 million (31 December 2004: HK\$79 million).



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Supplementary Information (continued)

5. 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-2005</u> HK\$'000	<u>As at 31-Dec-2004</u> HK\$'000
Direct credit substitutes	58,733	91,523
Transaction-related contingencies	1,461	3,094
Trade-related contingencies	205,262	167,587
Forward asset purchases	225,229	37,839
Forward forward deposits placed	119,555	70,893
Other commitments with an original maturity of :		
- under one year or which are unconditionally cancellable	3,995,399	3,620,359
- one year and over	202,339	201,277
	<u>4,807,978</u>	<u>4,192,572</u>

(b) Derivatives

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

	<u>As at 30-Jun-2005</u> HK\$'000	<u>As at 31-Dec-2004</u> HK\$'000
Exchange rate contracts	6,154,355	4,352,316
Interest rate contracts	150,000	-
	<u>6,304,355</u>	<u>4,352,316</u>

**ANNOUNCEMENT OF 2005 INTERIM RESULTS****Supplementary Information (continued)****5. Off-balance sheet exposures (continued)****(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-2005</u>		<u>As at 31-Dec-2004</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	-	249,815	-	241,528
Exchange rate contracts	6,566	12,514	9,622	8,976
Interest rate contracts	-	150	-	-
	<u>6,566</u>	<u>262,479</u>	<u>9,622</u>	<u>250,504</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 and interest rate contracts. Replacement cost represents the cost of replacing all contracts which have a positive value when marked to market.

6. Capital adequacy ratio

	<u>As at 30-Jun-2005</u>	<u>As at 31-Dec-2004</u>
Adjusted capital adequacy ratio	16.80%	17.92%
Unadjusted capital adequacy ratio	17.07%	18.11%

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.



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Supplementary Information (continued)

7. 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-2005 HK\$'000	As at 31-Dec-2004 HK\$'000
Core capital		
Paid up ordinary share capital	810,000	810,000
Share premium	43,935	43,935
Reserves (eligible for inclusion in core capital)	623,852	609,064
	<u>1,477,787</u>	<u>1,462,999</u>
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	123,016	123,016
Collective impairment allowances for impaired assets and regulatory reserve	85,353	-
General provision for doubtful debts	-	78,864
	<u>208,369</u>	<u>201,880</u>
Total capital base before deductions	1,686,156	1,664,879
Deductions from total capital base	(107,857)	(114,540)
Total capital base after deductions	<u><u>1,578,299</u></u>	<u><u>1,550,339</u></u>

8. Average liquidity ratio

	2005	2004
Average for the first six months	47.2%	44.7%

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.



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Supplementary Information (continued)

9. Other ratios

	<u>2005</u>	<u>2004</u>
Net Interest Margin for the first six months	1.76%	2.09%
Cost Income Ratio for the first six months	48.03%	54.12%
Loan to Deposit Ratio (respectively at 30 June & 31 December)	74.69%	67.16%

10. 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-2005</u> (Equivalents in millions of HK\$)	<u>US Dollars</u>	<u>Others</u>	<u>Total</u>
Spot assets	3,186	1,217	4,403
Spot liabilities	(3,696)	(1,836)	(5,532)
Forward purchases	3,146	2,170	5,316
Forward sales	(2,560)	(1,457)	(4,017)
Net long position	<u>76</u>	<u>94</u>	<u>170</u>

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

<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>



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Supplementary Information (continued)

11. 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
<u>As at 30-Jun-2005</u>				
Asia Pacific excluding Hong Kong	1,765	2	214	1,981
of which :				
Australia	848	-	75	923
Western Europe	2,525	-	362	2,887
of which :				
Germany	584	-	-	584
Netherlands	387	-	164	551
United Kingdom	616	-	41	657
<u>As at 31-Dec-2004</u>				
Asia Pacific excluding Hong Kong	2,190	2	197	2,389
of which :				
Australia	727	-	47	774
Western Europe	2,363	-	176	2,539
of which :				
Germany	539	-	1	540
United Kingdom	522	-	53	575



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Supplementary Information (continued)

12. 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 2005 and 2004, 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 impaired loans (non-performing loans at 31 December 2004) and other types of credit exposures, including those arising from off-balance sheet transactions, as at 30 June 2005 and 31 December 2004 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 2005 INTERIM RESULTS

Supplementary Information (continued)

12. Segmental information (continued)

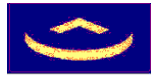
b. By classes of business (continued)

Six months ended 30 June 2005

	Retail and Commercial Banking HK\$'000	Treasury and Other Activities HK\$'000	Unallocated HK\$'000	Group HK\$'000
Interest income from				
- external customers	142,710	88,617	-	231,327
- other segments	97,433	8,270	171,960	277,663
Interest expense to				
- external customers	(95,813)	(7,311)	(9,725)	(112,849)
- other segments	(92,167)	(79,793)	(105,703)	(277,663)
Net interest income	52,163	9,783	56,532	118,478
Other operating income	15,672	21,601	1,578	38,851
Operating income	67,835	31,384	58,110	157,329
Operating expenses	(35,508)	(4,616)	(35,456)	(75,580)
Operating profit before impairment allowances	32,327	26,768	22,654	81,749
Impairment allowances	(45,217)	270	5,366	(39,581)
Operating profit/(loss) after impairment allowances	(12,890)	27,038	28,020	42,168
Write-back of impairment allowance against loan to a jointly-controlled entity	-	-	1,500	1,500
Profit/(loss) before tax	(12,890)	27,038	29,520	43,668

Six months ended 30 June 2004

	Retail and Commercial Banking HK\$'000	Treasury and Other Activities HK\$'000	Unallocated HK\$'000	Group HK\$'000
Interest income from				
- external customers	116,136	55,157	-	171,293
- other segments	42,333	2,860	51,145	96,338
Interest expense to				
- external customers	(39,646)	(1,759)	(3,723)	(45,128)
- other segments	(17,448)	(33,697)	(45,193)	(96,338)
Net interest income	101,375	22,561	2,229	126,165
Other operating income	17,271	14,838	1,389	33,498
Operating income	118,646	37,399	3,618	159,663
Operating expenses	(41,420)	(4,926)	(40,065)	(86,411)
Operating profit/(loss) before provisions	77,226	32,473	(36,447)	73,252
(Charge)/Credit for bad and doubtful debts	(15,642)	204	(2,310)	(17,748)
Operating profit/(loss) after provisions	61,584	32,677	(38,757)	55,504
Write-back of impairment allowance against loan to a jointly-controlled entity			4,433	4,433
Impairment allowance on loan to a jointly-controlled entity			(2,500)	(2,500)
Gain on disposal of a jointly-controlled entity			2,990	2,990
Gains less losses from disposal of tangible fixed assets	-	-	2	2
Profit/(loss) before tax	61,584	32,677	(33,832)	60,429



ANNOUNCEMENT OF 2005 INTERIM RESULTS

Supplementary Information (continued)

13. Business review and prospects

Asia Commercial Bank experienced double digits growth in total loans and operating profit before impairment allowances of 13.8% and 11.6% respectively in the first half of 2005 compared with the same period in 2004. However, the net result was down by 28.9% owing to a significant increase in impairment allowance chargeable for the period.

The Bank fine tuned its strategy in early 2005 to actively expand its non-interest income and to develop more quality SME customers with good business potential. This was in the correct expectation of narrowing interest margins and stiff competition for loans, especially in mortgage loans of residential and commercial properties. As a result, our fee income in relation to wealth management products and insurance commission recorded remarkable growth of 94% and 67% respectively. This very positive result achieved from these fee income products was partially off-set by the 33% reduction in securities brokerage fee due to stagnant performance of the stock markets during first half of 2005 compared with the same period last year.

Apart from the temporary setback of the impairment allowance chargeable in the first half of 2005, our efforts to improve the Bank's earnings capabilities were made on increasing fee income as well as higher yield interest income derived from the commercial loan accounts. As a result, our cost-to-income ratio in the first half of 2005 improved to 48% (previous year: 54%), although it was affected by the drop in net interest margin to 1.76% (previous year: 2.09%) resulted from narrowed Prime-HIBOR spread during the period.



ASIA COMMERCIAL BANK LIMITED

ANNOUNCEMENT OF 2005 INTERIM RESULTS

Supplementary Information (continued)

13. Business review and prospects (continued)

Prospects for the second half of 2005 remain good. The Bank should benefit not only from the wider interest margin but from increasing demand for loans stemming from the present economic recovery. Improved consumer confidence, buoyed up by the fall of the unemployment rate to less than 6% and reviving property and stock markets, has helped our Bank to sustain its participation in the mortgage and commercial loans markets. However, we should remain aware of economic uncertainties resulting from rising oil prices, labour costs in the PRC and the potential risk of protectionism and trade disputes between China and the USA and Europe, especially after the relaxation of the textile quota system in 2005.

14. Statement of compliance

In preparing the interim financial information disclosure statements for the first half of 2005, the Group has fully complied with the disclosure standards set out in the Supervisory Policy Manual “Interim Financial Disclosure by Locally Incorporated Authorized Institutions” issued by the Hong Kong Monetary Authority.