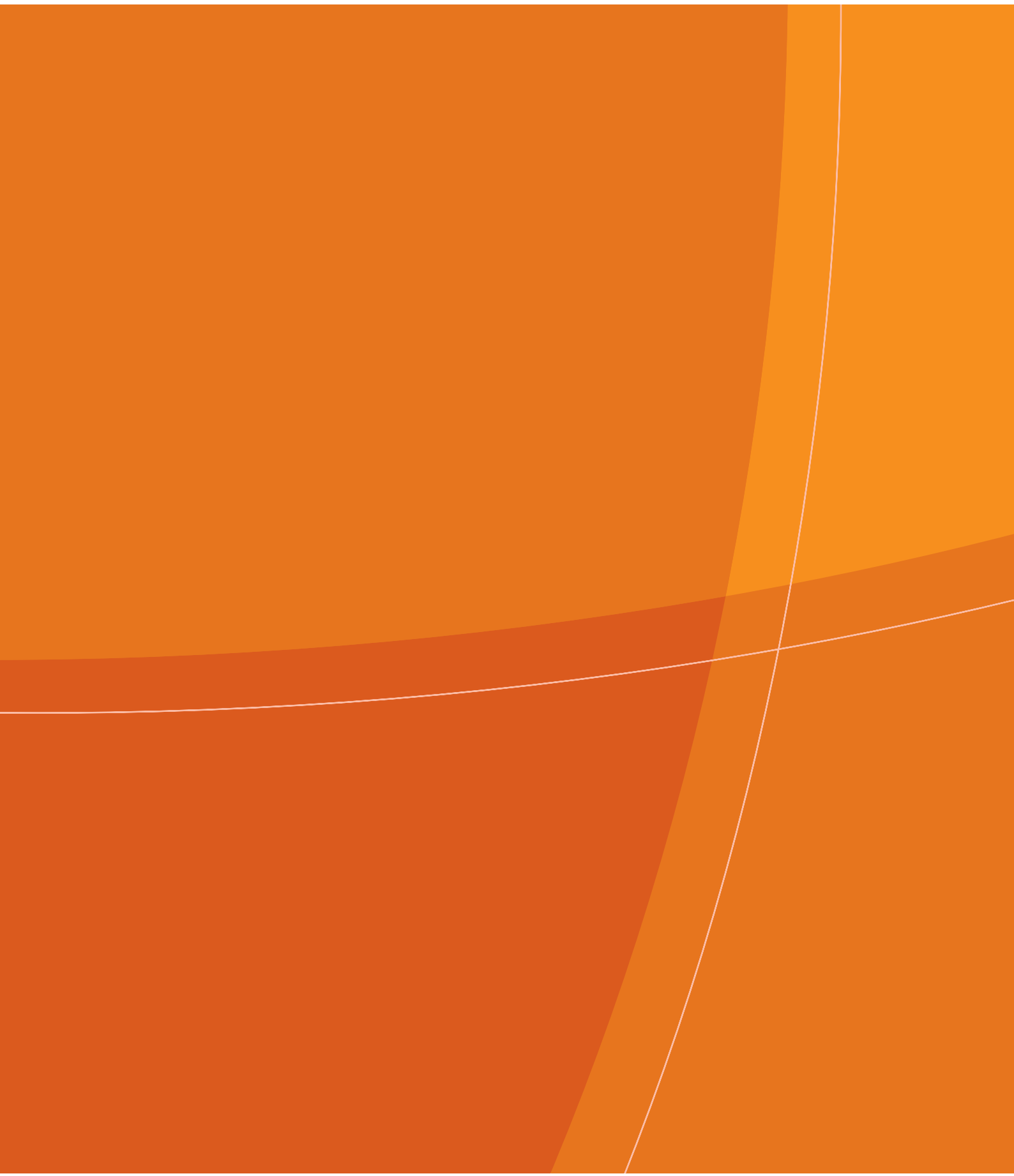


# The Bank of East Asia, Limited

Interim Report 2007

(Stock Code: 23)



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# The Bank of East Asia, Limited

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

## Interim Report 2007

### INTERIM RESULTS

The Directors of The Bank of East Asia, Limited ("BEA") are pleased to announce the unaudited results<sup>a</sup> of the Bank and its subsidiaries (the "Group") for the six months ended 30th June, 2007. The interim financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2006 audited accounts. The interim financial report is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors is included on page 35.

#### 1. Consolidated Profit and Loss Account

	6 months ended 30/6/2007	6 months ended 30/6/2006 Restated	6 months ended 31/12/2006 Restated
	HK\$'000	HK\$'000	HK\$'000
Interest income	8,210,401	6,471,704	7,576,840
Interest expense	(5,448,142)	(4,103,482)	(4,946,262)
Net interest income	2,762,259	2,368,222	2,630,578
Fee and commission income	1,168,372	902,888	995,995
Fee and commission expense	(211,242)	(127,335)	(160,810)
Net fee and commission	957,130	775,553	835,185
Net trading profits	395,708	71,583	519,063
Net result from financial instruments designated at fair value through profit or loss	161,034	175,378	(64,852)
Other operating income	201,634	153,772	99,830
Non-interest Income	1,715,506	1,176,286	1,389,226
Operating income	4,477,765	3,544,508	4,019,804
Operating expenses	(2,178,836)	(1,636,734)	(1,828,626)
Operating profit before impairment losses	2,298,929	1,907,774	2,191,178
Impairment losses on loans and advances	(136,780)	(154,668)	(89,180)
Write back of impairment losses on held-to-maturity investments	—	12,828	144
Write back of impairment losses on associates	—	3,779	20,781
Impairment losses on goodwill	—	(23,698)	—
Write back of impairment losses on bank premises	116,451	10,915	16,766
Impairment losses	(20,329)	(150,844)	(51,489)
Operating profit after impairment losses	2,278,600	1,756,930	2,139,689
Net (loss)/profit on sale of held-to-maturity investments	—	(444)	427
Net profit on sale of available-for-sale financial assets	77,764	3,390	46,608
Net profit on sale of subsidiaries/associates	319	1,330	186
Net loss on sale of fixed assets	(1,526)	(3,964)	(4,309)
Valuation gains on investment properties	20,913	40,478	97,299
Share of profits less losses of associates	51,670	47,754	134,820
Profit for the period before taxation	2,427,740	1,845,474	2,414,720
Income tax			
Current tax <sup>c</sup>			
— Hong Kong	(259,084)	(175,971)	(310,884)
— Overseas	(149,340)	(99,603)	(129,688)
Deferred tax	(108,488)	21,552	(79,982)
Profit for the period after taxation	1,910,828	1,591,452	1,894,166
Attributable to:			
Equity holders of the Group	1,877,166	1,565,334	1,869,177
Minority interests	33,662	26,118	24,989
Profit after taxation	1,910,828	1,591,452	1,894,166
Profit for the Bank	1,285,299	1,317,809	1,700,808
Proposed dividends	752,826	661,067	1,596,646

	6 months ended 30/6/2007	6 months ended 30/6/2006 Restated	6 months ended 31/12/2006 Restated
	HK\$	HK\$	HK\$
Per share			
— Basic earnings <sup>d</sup>	1.20	1.03	1.21
— Diluted earnings <sup>d</sup>	1.20	1.02	1.20
— Dividends	0.48	0.43	1.03

## 2. Consolidated Balance Sheet

	30/6/2007	30/6/2006	31/12/2006
	HK\$'000	HK\$'000	HK\$'000
<b>ASSETS</b>			
Cash and balances with banks and other financial institutions	8,268,226	4,656,612	8,317,746
Placements with banks and other financial institutions	72,346,977	60,104,309	66,864,045
Trade bills	679,038	515,862	620,463
Trading assets	4,936,517	2,780,100	2,937,534
Financial assets designated at fair value through profit or loss	9,606,042	8,393,781	8,643,479
Advances to customers and other accounts	214,279,316	155,363,188	175,096,666
Available-for-sale financial assets	12,520,142	9,722,885	12,002,197
Held-to-maturity investments	10,619,474	12,733,752	10,249,359
Investments in associates	1,128,361	921,424	1,076,738
Fixed assets	6,154,794	5,515,085	5,749,605
— Investment properties	1,387,676	949,146	1,288,541
— Other property and equipment	4,767,118	4,565,939	4,461,064
Goodwill and intangible assets	2,649,658	2,583,500	2,605,316
Deferred tax assets	25,482	47,034	39,169
Total Assets	343,214,027	263,337,532	294,202,317
<b>EQUITY AND LIABILITIES</b>			
Deposits and balances of banks and other financial institutions	43,493,660	19,490,905	31,959,182
Deposits from customers	230,798,646	192,727,638	209,524,220
— Demand deposits and current accounts	17,560,765	12,328,246	15,130,231
— Savings deposit	45,162,119	38,526,992	43,644,321
— Time, call and notice deposits	168,075,762	141,872,400	150,749,668
Trading liabilities	1,707,331	1,567,047	942,595
Certificates of deposit issued	10,050,099	9,043,977	6,998,407
— At fair value through profit or loss	7,026,991	2,707,710	1,943,951
— At amortised cost	3,023,108	6,336,267	5,054,456
Current taxation	495,452	388,413	334,097
Deferred tax liabilities	677,620	466,015	598,118
Other accounts and provisions	14,088,565	6,111,510	8,046,654
Loan capital	13,548,240	8,026,326	8,154,315
— At fair value through profit or loss	8,864,443	4,149,058	4,288,824
— At amortised cost	4,683,797	3,877,268	3,865,491
Total Liabilities	314,859,613	237,821,831	266,557,588
Share capital	3,920,971	3,843,413	3,875,355
Reserves	24,180,675	21,372,893	23,387,599
Total equity attributable to equity holders of the Group	28,101,646	25,216,306	27,262,954
Minority interests	252,768	299,395	381,775
Total Equity	28,354,414	25,515,701	27,644,729
Total Equity and Liabilities	343,214,027	263,337,532	294,202,317

### 3. Consolidated Summary Statement of Changes in Equity

	6 months ended 30/6/2007	6 months ended 30/6/2006
	HK\$'000	HK\$'000
Total equity as at 1st January	27,644,729	24,404,528
Net (loss)/income recognised directly in equity (Recognition)/release of net deferred tax liabilities on		
— Revaluation reserve on bank premises	(3,363)	(1,148)
— Investment revaluation reserve on available-for-sale financial assets	17,843	(52,457)
Revaluation surplus on bank premises transferred to investment properties	18,365	10,102
Capital reserve on share-based transactions	12,009	11,703
Reversal upon disposal of available-for-sale financial assets	(30,239)	2,076
Changes in fair value of available-for-sale financial assets	(222,128)	184,153
Exchange and other adjustments	107,471	57,279
	(100,042)	211,708
Net profit for the period		
Attributable to:		
Equity holders of the Group	1,877,166	1,565,334
Minority interests	33,662	26,118
	1,910,828	1,591,452
Total recognised income and expenses for the period (of which HK\$33,662,000 (six months ended 30th June 2006: HK\$26,118,000) is attributable to minority interests)	1,810,786	1,803,160
Dividends paid during the period	(1,599,510)	(1,410,856)
Movements in shareholders' equity arising from capital transactions with equity holders of the Group:		
Shares issued under Staff Share Option Schemes	113,770	281,350
Shares issued in lieu of dividends	548,567	371,906
Capital fee	(99)	(132)
	662,238	653,124
Movements in minority interests		
Acquisition of subsidiaries	1	2,698
Decrease in shareholding	(14,634)	—
Share of revaluation surplus of available-for-sale financial assets	(149,196)	63,047
	(163,829)	65,745
Balance as at 30th June	28,354,414	25,515,701

#### 4. Condensed Consolidated Cash Flow Statement

	6 months ended 30/6/2007	6 months ended 30/6/2006
	HK\$'000	HK\$'000
Cash (used in)/generated from operations	(5,714,023)	13,785,812
Tax paid	(248,255)	(154,741)
Net cash (used in)/generated from operating activities	(5,962,278)	13,631,071
Net cash used in investing activities	(622,441)	(1,796,063)
Net cash generated from financing activities	7,069,345	999,295
Net increase in cash and cash equivalents	484,626	12,834,303
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	76,708,949	52,283,962
CASH AND CASH EQUIVALENTS AT 30TH JUNE	77,193,575	65,118,265
Cash flows from operating activities included:		
Interest received	7,988,696	6,473,155
Interest paid	5,177,910	4,098,870
Dividend received	36,850	19,220

*Notes:*

- (a) The financial information set out in this interim report does not constitute the Group's statutory accounts for the year ended 31st December, 2006 but, except as disclosed in (b) below, there is no material change as compared to those accounts, nor for the six months ended 30th June, 2007. The statutory accounts for the year ended 31st December, 2006 are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 8th February, 2007.
- (b) Change in presentation — Hong Kong Accounting Standard 1 "Presentation of Financial Statements"

With effect from 2007 reporting, interest income and expense from trading financial assets and liabilities and financial instruments designated at fair value are reported under "Interest income" and "Interest expense" instead of "Net trading profits" and "Net result from financial instruments designated at fair value through profit or loss" respectively as in previous year. The change has been made principally to match the interest expense arising from non-trading liabilities that fund the trading book with the interest income from trading assets. This also facilitates the comparison of the Bank's net interest income and net interest margin with many peer banks in Hong Kong.

Comparative figures have been reclassified to conform with the current year's presentation as follows:

	Six months ended 30/6/2006		
	As previously reported	Increase/(decrease) in the profit for the period	As restated
	HK\$'000	HK\$'000	HK\$'000
Interest income	5,900,286	571,418	6,471,704
Interest expense	(3,591,983)	(511,499)	(4,103,482)
Net interest income	2,308,303	59,919	2,368,222
Net trading profits	73,987	(2,404)	71,583
Net result from financial instruments designated at fair value through profit or loss	232,893	(57,515)	175,378
	Six months ended 31/12/2006		
	As previously reported	Increase/(decrease) in the profit for the period	As restated
	HK\$'000	HK\$'000	HK\$'000
Interest income	6,965,307	611,533	7,576,840
Interest expense	(4,407,975)	(538,287)	(4,946,262)
Net interest income	2,557,332	73,246	2,630,578
Net trading profits	512,173	6,890	519,063
Net result from financial instruments designated at fair value through profit or loss	15,284	(80,136)	(64,852)

- (c) The provision for Hong Kong profits tax is calculated at 17.5% of the estimated assessable profits for the six months ended 30th June, 2007. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.
- (d) (i) The calculation of basic earnings per share is based on earnings of HK\$1,877,166,000 (six months ended 30th June, 2006: HK\$1,565,334,000) and on the weighted average of 1,558,501,265 (six months ended 30th June, 2006: 1,523,266,272) ordinary shares outstanding during the six months ended 30th June, 2007.
- (ii) The calculation of diluted earnings per share is based on earnings of HK\$1,877,166,000 (six months ended 30th June, 2006: HK\$1,565,334,000) and on 1,568,898,743 (six months ended 30th June, 2006: 1,531,440,619) ordinary shares, being the weighted average number of ordinary shares outstanding during the six months ended 30th June, 2007, adjusted for the effects of all dilutive potential shares.

## 5. Interest Income

	6 months ended 30/6/2007	6 months ended 30/6/2006 Restated	6 months ended 31/12/2006 Restated
	HK\$'000	HK\$'000	HK\$'000
Listed securities classified as held-to-maturity and available-for-sale	74,278	57,949	62,211
Trading assets			
— listed	1,484	834	778
— unlisted	20,605	24,598	8,400
Interest rate swaps	268,146	293,135	363,836
Financial assets designated at fair value through profit or loss			
— listed	68,369	72,943	52,480
— unlisted	187,203	179,908	186,039
Loans, deposits with banks and financial institutions, trade bills, and other unlisted securities that are not at fair value through profit or loss	7,590,316	5,842,337	6,903,096
Total interest income	<u>8,210,401</u>	<u>6,471,704</u>	<u>7,576,840</u>

Included above is interest income accrued on impaired financial assets of HK\$3,965,000 (six months ended 30th June, 2006: HK\$6,270,000, and six months ended 31st December, 2006: HK\$10,087,000).

## 6. Interest Expense

	6 months ended 30/6/2007	6 months ended 30/6/2006 Restated	6 months ended 31/12/2006 Restated
	HK\$'000	HK\$'000	HK\$'000
Customer deposits, deposits of banks and other financial institutions and certificates of deposit issued which are stated at amortised cost	4,700,872	3,588,357	4,283,149
Subordinated notes carried at amortised cost	126,047	2,819	123,862
Interest rate swaps	340,619	316,163	379,904
Financial instruments designated at fair value through profit or loss	279,349	195,336	158,383
Other borrowings	1,255	807	964
Total interest expense	<u>5,448,142</u>	<u>4,103,482</u>	<u>4,946,262</u>

## 7. Fee and Commission Income

Fee and commission income arises from the following services:

	6 months ended 30/6/2007	6 months ended 30/6/2006 Restated	6 months ended 31/12/2006 Restated
	HK\$'000	HK\$'000	HK\$'000
Corporate services	360,871	292,760	305,077
Loans, overdrafts and guarantees	170,396	132,766	167,809
Credit cards	179,406	139,518	167,957
Other retail banking services	87,826	71,765	68,918
Trade finance	55,461	54,220	56,493
Securities and brokerage	177,398	99,534	106,060
Trust and other fiduciary activities	26,545	22,765	23,742
Others	110,469	89,560	99,939
Total fee and commission income	<u>1,168,372</u>	<u>902,888</u>	<u>995,995</u>

## 8. Net Trading Profits

	6 months ended 30/6/2007	6 months ended 30/6/2006 Restated	6 months ended 31/12/2006 Restated
	HK\$'000	HK\$'000	HK\$'000
Profit on dealing in foreign currencies	84,500	77,702	68,520
Profit on trading securities	193,833	125,842	353,703
Profit/(loss) on other dealing activities	105,868	(138,382)	86,739
Dividend income from listed trading securities	11,507	6,421	10,101
Total net trading profits	<u>395,708</u>	<u>71,583</u>	<u>519,063</u>

## 9. Net Result from Financial Instruments Designated at Fair Value through Profit or Loss

	6 months ended 30/6/2007	6 months ended 30/6/2006 Restated	6 months ended 31/12/2006 Restated
	HK\$'000	HK\$'000	HK\$'000
Net gains/(losses)	161,034	175,275	(64,953)
Dividend income from listed securities	—	103	101
	<u>161,034</u>	<u>175,378</u>	<u>(64,852)</u>



## 10. Other Operating Income

	6 months ended 30/6/2007	6 months ended 30/6/2006	6 months ended 31/12/2006
	HK\$'000	HK\$'000	HK\$'000
Dividend income from available-for-sale financial assets			
— listed	15,157	6,970	5,886
— unlisted	10,186	5,726	8,919
Rental from safe deposit boxes	43,819	42,983	43,310
Net revenue from insurance activities	55,091	61,634	(9,825)
Rental income on properties	33,644	26,049	27,504
Others	43,737	10,410	24,036
	<u>201,634</u>	<u>153,772</u>	<u>99,830</u>

## 11. Operating Expenses

	6 months ended 30/6/2007	6 months ended 30/6/2006	6 months ended 31/12/2006
	HK\$'000	HK\$'000	HK\$'000
Contributions to defined contribution plan	78,730	60,556	66,904
Equity-settled share-based payment expenses	12,009	11,703	10,364
Salary and other staff costs	1,042,391	799,776	913,945
	<u>1,133,130</u>	<u>872,035</u>	<u>991,213</u>
Premises and equipment expenses excluding depreciation			
— Rental of premises	134,272	95,644	110,781
— Maintenance, repairs and others	145,807	139,105	136,384
	<u>280,079</u>	<u>234,749</u>	<u>247,165</u>
Total premises and equipment expenses excluding depreciation	<u>280,079</u>	<u>234,749</u>	<u>247,165</u>
Depreciation on fixed assets	162,778	143,752	155,322
Amortisation of intangible assets	1,105	—	2,231
Other operating expenses			
— Communications, stationery and printing	107,394	90,442	93,474
— Legal and professional fees	71,136	62,491	59,634
— Advertising expenses	130,437	61,994	96,017
— Business promotions and business travel	38,100	30,070	29,095
— Card related expenses	31,823	24,676	23,273
— Stamp duty, overseas and PRC* business taxes, and value added taxes	86,727	40,974	59,168
— Insurance expenses	23,240	5,456	7,886
— Bank charges	2,278	1,560	2,073
— Administration expenses of secretarial business	10,940	8,379	5,988
— Membership fees	3,111	2,895	2,391
— Bank licence	2,645	2,532	2,442
— Donations	1,387	14,968	947
— Others	92,526	39,761	50,307
	<u>601,744</u>	<u>386,198</u>	<u>432,695</u>
Total other operating expenses	<u>601,744</u>	<u>386,198</u>	<u>432,695</u>
Total operating expenses	<u>2,178,836</u>	<u>1,636,734</u>	<u>1,828,626</u>

\* PRC denotes the People's Republic of China.

## 12. Net Profit on Sale of Available-For-Sale Financial Assets

	6 months ended 30/6/2007	6 months ended 30/6/2006	6 months ended 31/12/2006
	HK\$'000	HK\$'000	HK\$'000
Net revaluation gain/(loss) transferred from reserves	30,239	(2,076)	43,842
Profit arising in the period	47,525	5,466	2,766
	<u>77,764</u>	<u>3,390</u>	<u>46,608</u>

## 13. Trading Assets

	30/6/2007	30/6/2006	31/12/2006
	HK\$'000	HK\$'000	HK\$'000
Treasury bills (including Exchange Fund Bills)	996,703	793,407	497,915
Debt securities	195,930	161,326	161,153
Equity securities	2,562,530	765,582	1,350,059
Investment funds	265,499	256,394	265,990
	<u>4,020,662</u>	<u>1,976,709</u>	<u>2,275,117</u>
Trading securities	915,855	803,391	662,417
Positive fair value of derivatives	<u>4,936,517</u>	<u>2,780,100</u>	<u>2,937,534</u>
Issued by:			
Central governments and central banks	996,703	793,407	497,915
Public sector entities	189,391	162,233	161,153
Banks and other financial institutions	1,067,558	363,654	700,158
Corporate entities	1,752,938	643,809	901,673
Other entities	14,072	13,606	14,218
	<u>4,020,662</u>	<u>1,976,709</u>	<u>2,275,117</u>
Analysed by place of listing:			
Listed in Hong Kong	2,356,794	620,397	1,177,448
Listed outside Hong Kong	281,015	191,886	201,555
	<u>2,637,809</u>	<u>812,283</u>	<u>1,379,003</u>
Unlisted	1,382,853	1,164,426	896,114
	<u>4,020,662</u>	<u>1,976,709</u>	<u>2,275,117</u>

#### 14. Financial Assets Designated at Fair Value through Profit or Loss

	30/6/2007	30/6/2006	31/12/2006
	HK\$'000	HK\$'000	HK\$'000
Certificates of deposit held	48,705	94,795	95,685
Debt securities	9,556,431	8,286,599	8,546,958
Equity securities	906	12,387	836
	<u>9,606,042</u>	<u>8,393,781</u>	<u>8,643,479</u>
Issued by:			
Central governments and central banks	—	—	39,123
Public sector entities	131,109	168,526	134,845
Banks and other financial institutions	1,559,997	1,027,038	1,149,969
Corporate entities	7,914,936	7,190,375	7,319,542
Other entities	—	7,842	—
	<u>9,606,042</u>	<u>8,393,781</u>	<u>8,643,479</u>
Analysed by place of listing:			
Listed in Hong Kong	1,697,248	1,045,040	1,364,389
Listed outside Hong Kong	1,249,537	1,427,865	1,408,981
	<u>2,946,785</u>	<u>2,472,905</u>	<u>2,773,370</u>
Unlisted	6,659,257	5,920,876	5,870,109
	<u>9,606,042</u>	<u>8,393,781</u>	<u>8,643,479</u>

#### 15. Advances to Customers and Other Accounts

##### (a) Advances to Customers and Other Accounts

	30/6/2007	30/6/2006	31/12/2006
	HK\$'000	HK\$'000	HK\$'000
(i) Advances to customers	202,871,415	149,083,749	166,178,102
Less: Impairment allowances			
— Individual	(295,567)	(217,838)	(254,014)
— Collective	(467,550)	(431,926)	(443,874)
	<u>202,108,298</u>	<u>148,433,985</u>	<u>165,480,214</u>
(ii) Other Accounts			
Advances to banks and other financial institutions	2,108,676	2,682,616	2,454,109
Notes and bonds	330,767	359,209	344,076
Certificates of deposit held	39,090	38,834	38,890
Accrued interest	1,394,283	984,115	1,172,578
Other accounts	8,331,102	2,900,536	5,641,146
	<u>12,203,918</u>	<u>6,965,310</u>	<u>9,650,799</u>
Less: Impairment allowances			
— Individual	(24,186)	(26,660)	(26,118)
— Collective	(8,714)	(9,447)	(8,229)
	<u>12,171,018</u>	<u>6,929,203</u>	<u>9,616,452</u>
	<u>214,279,316</u>	<u>155,363,188</u>	<u>175,096,666</u>

**(b) Advances to customers — by industry sectors**

The analysis of gross advances to customers and the percentage of secured advances by industry sector are based on the categories and definitions used by the Hong Kong Monetary Authority.

	30/6/2007		30/6/2006		31/12/2006	
	Gross advances	% of secured advances	Gross advances	% of secured advances	Gross advances	% of secured advances
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loans for use in Hong Kong						
Industrial, commercial and financial						
— Property development	8,079,400	63.33	5,796,535	44.80	6,422,770	45.69
— Property investment	22,627,126	96.61	20,423,067	96.03	20,464,978	96.48
— Financial concerns	468,559	61.09	2,190,722	84.81	1,865,472	82.54
— Stockbrokers	998,444	87.32	294,588	97.67	258,562	77.62
— Wholesale and retail trade	1,360,071	52.64	1,366,526	47.19	1,322,504	47.75
— Manufacturing	2,243,514	49.10	1,813,602	44.62	1,884,745	51.30
— Transport and transport equipment	4,189,617	73.68	3,875,311	77.05	4,118,384	73.72
— Recreational activities	289,826	92.81	304,463	91.64	316,426	88.17
— Information technology	4,413	44.03	4,236	0.00	3,321	0.00
— Others	20,433,568	86.53	6,107,112	53.62	6,711,510	64.02
— Sub-total	<u>60,694,538</u>	84.01	<u>42,176,162</u>	76.70	<u>43,368,672</u>	77.54
Individuals						
— Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,070,025	100.00	1,218,014	100.00	1,117,688	100.00
— Loans for the purchase of other residential properties	38,029,902	99.59	36,409,009	99.45	36,956,206	99.52
— Credit card advances	2,275,779	0.00	1,763,962	0.00	2,409,027	0.00
— Others	5,321,832	71.75	3,946,951	67.34	4,728,035	70.37
— Sub-total	<u>46,697,538</u>	91.58	<u>43,337,936</u>	92.50	<u>45,210,956</u>	91.18
Total loans for use in Hong Kong	107,392,076	87.30	85,514,098	84.71	88,579,628	84.50
Trade finance	3,664,200	56.74	3,639,770	59.36	3,464,619	58.44
Loans for use outside Hong Kong	<u>91,815,139</u>	69.72	<u>59,929,881</u>	68.72	<u>74,133,855</u>	66.08
Total advances to customers	<u>202,871,415</u>	78.79	<u>149,083,749</u>	77.66	<u>166,178,102</u>	75.74

Individually impaired loans and individual and collective impairment allowances in respect of industry sectors which constitute 10% or more of total advances to customers are as follows:

	30/6/2007	30/6/2006	31/12/2006
	HK\$'000	HK\$'000	HK\$'000
(i) Property development			
a. Individually impaired loans	182,227	289,012	232,655
b. Individual impairment allowance	91,198	93,289	92,249
c. Collective impairment allowance	35,354	31,165	29,180
(ii) Property investment			
a. Individually impaired loans	35,617	45,843	55,307
b. Individual impairment allowance	139	357	170
c. Collective impairment allowance	93,038	99,658	94,971
(iii) Loans for purchase of residential properties			
a. Individually impaired loans	226,230	268,369	254,380
b. Individual impairment allowance	8,984	11,053	14,267
c. Collective impairment allowance	30,021	42,737	33,121

**(c) Advances to customers — by geographical areas**

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

	30/6/2007				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	126,988,140	284,702	656,839	167,177	267,672
People's Republic of China	46,404,199	73,285	368,758	49,692	107,443
Other Asian Countries	10,116,879	66,231	154,879	78,563	65,186
Others	19,362,197	17,364	29,900	135	27,249
Total	<u>202,871,415</u>	<u>441,582</u>	<u>1,210,376</u>	<u>295,567</u>	<u>467,550</u>
% of total advances to customers			<u>0.60%</u>		
Market value of security held against impaired advances to customers			<u>2,332,339</u>		

30/6/2006

	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	100,394,600	421,702	798,447	146,077	246,694
People's Republic of China	26,006,723	102,310	335,883	18,890	84,146
Other Asian Countries	7,646,199	109,023	166,276	52,871	61,079
Others	15,036,227	11,040	36,644	—	40,007
Total	<u>149,083,749</u>	<u>644,075</u>	<u>1,337,250</u>	<u>217,838</u>	<u>431,926</u>

% of total advances to customers

0.90%

Market value of security held  
against impaired advances to  
customers

2,411,815

31/12/2006

	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	105,270,368	361,260	786,086	171,264	272,508
People's Republic of China	35,322,858	57,202	275,942	10,749	81,187
Other Asian Countries	9,090,413	103,149	198,818	70,278	59,639
Others	16,494,463	1,690	33,342	1,723	30,540
Total	<u>166,178,102</u>	<u>523,301</u>	<u>1,294,188</u>	<u>254,014</u>	<u>443,874</u>

% of total advances to customers

0.78%

Market value of security held  
against impaired advances  
to customers

2,340,517

Impaired loans and advances are individually assessed loans with objective evidence of impairment on an individual basis. The impaired loans and advances to customers by countries or geographical areas is derived according to the location of the counterparties after taking into account any transfer of risk.

There were no impaired advances to banks and other financial institutions as at 30th June, 2007, 30th June, 2006 and 31st December, 2006; nor were there any individual impairment allowances made for them on these three respective dates.

## 16. Available-For-Sale Financial Assets

	30/6/2007	30/6/2006	31/12/2006
	HK\$'000	HK\$'000	HK\$'000
Treasury bills (including Exchange Fund Bills)	4,325,731	2,783,033	4,221,416
Certificates of deposit held	867,781	1,159,918	943,306
Debt securities	4,564,851	2,832,129	3,274,524
Equity securities	2,669,813	2,691,756	3,398,552
Investment funds	91,966	256,049	164,399
	<u>12,520,142</u>	<u>9,722,885</u>	<u>12,002,197</u>
Issued by:			
Central governments and central banks	4,436,863	3,722,100	4,344,171
Public sector entities	207,298	388,716	220,749
Banks and other financial institutions	4,898,557	3,768,049	5,058,286
Corporate entities	2,731,931	1,587,953	2,214,163
Other entities	245,493	256,067	164,828
	<u>12,520,142</u>	<u>9,722,885</u>	<u>12,002,197</u>
Analysed by place of listing:			
Listed in Hong Kong	1,794,120	1,330,268	2,771,512
Listed outside Hong Kong	2,886,830	1,641,859	1,949,661
	<u>4,680,950</u>	<u>2,972,127</u>	<u>4,721,173</u>
Unlisted	7,839,192	6,750,758	7,281,024
	<u>12,520,142</u>	<u>9,722,885</u>	<u>12,002,197</u>

## 17. Held-to-maturity Investments

	30/6/2007	30/6/2006	31/12/2006
	HK\$'000	HK\$'000	HK\$'000
Treasury bills (including Exchange Fund Bills)	117,793	45,412	84,044
Certificates of deposit held	1,857,161	1,409,223	1,614,028
Debt securities	8,644,520	11,279,117	8,551,287
	<u>10,619,474</u>	<u>12,733,752</u>	<u>10,249,359</u>
Issued by:			
Central governments and central banks	5,466,470	7,687,075	5,417,161
Public sector entities	721,333	799,699	746,137
Banks and other financial institutions	3,203,014	3,193,700	2,881,767
Corporate entities	1,228,657	1,053,278	1,204,294
	<u>10,619,474</u>	<u>12,733,752</u>	<u>10,249,359</u>
Analysed by place of listing:			
Listed in Hong Kong	191,916	58,087	80,663
Listed outside Hong Kong	1,777,146	1,968,347	1,773,409
	<u>1,969,062</u>	<u>2,026,434</u>	<u>1,854,072</u>
Unlisted	8,650,412	10,707,318	8,395,287
	<u>10,619,474</u>	<u>12,733,752</u>	<u>10,249,359</u>
Market value:			
Listed securities	1,954,830	1,984,421	1,847,348
Unlisted securities	8,519,130	10,441,192	8,269,760
	<u>10,473,960</u>	<u>12,425,613</u>	<u>10,117,108</u>



## 18. Fixed Assets

30/6/2007

	Investment Properties	Bank Premises	Furniture Fixtures and Equipment	Sub-total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation					
At 1st January, 2007	1,288,541	4,230,569	2,255,097	6,485,666	7,774,207
Additions	152	222,067	188,749	410,816	410,968
Additions through acquisition	—	—	1,053	1,053	1,053
Revaluation surplus	20,913	—	—	—	20,913
Revaluation of bank premises transferred to investment properties	—	8,283	—	8,283	8,283
Transfer from bank premises to investment properties	75,500	(75,500)	—	(75,500)	—
Disposals	—	(1,676)	(18,289)	(19,965)	(19,965)
Exchange adjustments	2,570	1,196	9,130	10,326	12,896
At 30th June, 2007	1,387,676	4,384,939	2,435,740	6,820,679	8,208,355
Accumulated depreciation and amortisation					
At 1st January, 2007	—	683,568	1,341,034	2,024,602	2,024,602
Additions through acquisition	—	—	635	635	635
Charge for the period	—	41,449	121,329	162,778	162,778
Revaluation of bank premises transferred to investment properties	—	(10,082)	—	(10,082)	(10,082)
Impairment loss	—	(116,451)	—	(116,451)	(116,451)
Written back on disposals	—	(785)	(14,131)	(14,916)	(14,916)
Exchange adjustments	—	333	6,662	6,995	6,995
At 30th June, 2007	—	598,032	1,455,529	2,053,561	2,053,561
Net book value at 30th June, 2007	1,387,676	3,786,907	980,211	4,767,118	6,154,794
The gross amounts of the above assets are stated:					
At cost	—	3,543,850	2,435,740	5,979,590	5,979,590
At Directors' valuation					
— 1989	—	841,089	—	841,089	841,089
At professional valuation					
— 2007	1,387,676	—	—	—	1,387,676
	1,387,676	4,384,939	2,435,740	6,820,679	8,208,355

30/6/2006

	Investment Properties	Bank Premises	Furniture Fixtures and Equipment	Sub-total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation					
At 1st January, 2006	950,586	4,304,481	1,999,250	6,303,731	7,254,317
Additions	—	74,051	216,417	290,468	290,468
Additions through acquisition	—	—	6,065	6,065	6,065
Revaluation surplus	40,478	—	—	—	40,478
Revaluation of bank premises transferred to investment properties	—	5,671	—	5,671	5,671
Transfer from investment properties to bank premises	(6,235)	6,235	—	6,235	—
Disposals	(39,400)	(7,097)	(89,972)	(97,069)	(136,469)
Exchange adjustments	3,717	1,600	7,556	9,156	12,873
At 30th June, 2006	949,146	4,384,941	2,139,316	6,524,257	7,473,403
Accumulated depreciation and amortisation					
At 1st January, 2006	—	671,201	1,227,217	1,898,418	1,898,418
Additions through acquisition	—	—	3,694	3,694	3,694
Charge for the period	—	38,290	105,462	143,752	143,752
Revaluation of bank premises transferred to investment properties	—	(4,431)	—	(4,431)	(4,431)
Impairment loss	—	(10,915)	—	(10,915)	(10,915)
Written back on disposals	—	(1,171)	(77,554)	(78,725)	(78,725)
Exchange adjustments	—	618	5,907	6,525	6,525
At 30th June, 2006	—	693,592	1,264,726	1,958,318	1,958,318
Net book value at 30th June, 2006	949,146	3,691,349	874,590	4,565,939	5,515,085
The gross amounts of the above assets are stated:					
At cost	—	3,534,445	2,139,316	5,673,761	5,673,761
At Directors' valuation					
— 1989	—	850,496	—	850,496	850,496
At professional valuation					
— 2006	949,146	—	—	—	949,146
	949,146	4,384,941	2,139,316	6,524,257	7,473,403

## 19. Other Liabilities

	30/6/2007	30/6/2006	31/12/2006
	HK\$'000	HK\$'000	HK\$'000
(a) Trading liabilities			
Exchange fund bills sold	697,964	697,009	199,800
Exchange fund notes sold	32,340	33,075	33,459
Short positions in securities	—	—	8,060
	<u>730,304</u>	<u>730,084</u>	<u>241,319</u>
Negative fair value of derivatives	977,027	836,963	701,276
	<u>1,707,331</u>	<u>1,567,047</u>	<u>942,595</u>
(b) Other accounts and provisions			
Accrued interest payable	1,125,093	726,786	854,862
Other accounts	12,963,472	5,384,724	7,191,792
	<u>14,088,565</u>	<u>6,111,510</u>	<u>8,046,654</u>

## 20. Loan Capital

	30/6/2007	30/6/2006	31/12/2006
	HK\$'000	HK\$'000	HK\$'000
USD550 million 5.625% subordinated notes, measured at fair value through profit or loss	4,290,694	4,149,058	4,288,824
USD500 million floating rate subordinated notes, measured at amortised cost	—	3,877,268	3,865,491
GBP300 million 6.125% step-up perpetual subordinated notes, measured at fair value through profit or loss	4,573,749	—	—
USD600 million floating rate step-up subordinated notes, measured at amortised cost	4,683,797	—	—
	<u>13,548,240</u>	<u>8,026,326</u>	<u>8,154,315</u>

Loan capital of face value of HK\$4,299,900,000 (US\$550,000,000) and carrying amount of HK\$4,290,694,000 represents 5.625% subordinated notes qualifying as tier 2 capital which were issued on 13th December, 2005 by the Bank. The notes are listed on The Stock Exchange of Hong Kong Limited and will mature on 13th December, 2015.

On 20th March, 2007, the Bank issued 6.125% step-up perpetual subordinated notes qualifying as tier 2 capital with face value of HK\$4,710,150,000 (GBP300,000,000). The carrying amount of the notes as at 30th June, 2007 was HK\$4,573,749,000. The notes are listed on the Singapore Exchange Securities Trading Limited.

On 21st June, 2007, the Bank issued floating rate step-up subordinated notes qualifying as tier 2 capital with face value of HK\$4,690,800,000 (US\$600,000,000). The carrying amount of the notes as at 30th June, 2007 was HK\$4,683,797,000. The notes are listed on the Singapore Exchange Securities Trading Limited and will mature on 21st June, 2017.

On 27th June, 2007, the Bank redeemed the floating rate subordinated notes with face value of HK\$3,909,000,000 (US\$500,000,000) which was issued on 27th June, 2006 by the Bank.

## 21. Segment Reporting

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Personal financial services includes branch operations, personal Internet banking, consumer finance, property loans, credit card business and private banking to personal customers.

Corporate banking business includes corporate lending and loan syndication, asset based lending, commercial lending, enterprise lending, securities lending, trust services, mandatory provident fund business and corporate Internet banking.

Investment banking business includes treasury operations, securities broking and dealing, and provision of internet security trading services.

Corporate services include company secretarial services, share registration and business services, and offshore corporate and trust services.

Other businesses include bancassurance, insurance business and property-related business.

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

## 6 months ended 30/6/2007

	Personal Financial Services	Corporate Banking	Investment Banking	Corporate Services	Others	Unallocated	Inter- segment elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income	1,051,924	1,175,511	523,373	455	11,391	(395)	—	2,762,259
Other operating income from external customers	460,967	247,679	540,187	367,149	81,162	18,362	—	1,715,506
Inter-segment income	—	—	—	—	—	78,102	(78,102)	—
Operating income	1,512,891	1,423,190	1,063,560	367,604	92,553	96,069	(78,102)	4,477,765
Operating expenses	(907,750)	(564,614)	(281,574)	(211,030)	(92,606)	(121,262)	—	(2,178,836)
Inter-segment expenses	(62,551)	(8,153)	(3,715)	—	(646)	(3,037)	78,102	—
Operating profit before impairment losses	542,590	850,423	778,271	156,574	(699)	(28,230)	—	2,298,929
Impairment losses on loans and advances	(24,592)	(111,816)	327	(2,684)	1,985	—	—	(136,780)
Write back of impairment losses on bank premises	—	—	—	—	—	116,451	—	116,451
Operating profit after impairment losses	517,998	738,607	778,598	153,890	1,286	88,221	—	2,278,600
Profit on sale of fixed assets, available-for-sale financial assets, held-to-maturity investments and subsidiaries/associates	—	164	77,763	—	156	(1,526)	—	76,557
Valuation gains on investment properties	—	—	—	—	20,913	—	—	20,913
Share of profits less losses of associates	1,508	8,674	24,961	—	16,600	(73)	—	51,670
Profit before taxation	519,506	747,445	881,322	153,890	38,955	86,622	—	2,427,740
Income tax	(120,084)	(171,265)	(198,490)	(21,925)	(5,148)	—	—	(516,912)
Profit for the period after taxation	<u>399,422</u>	<u>576,180</u>	<u>682,832</u>	<u>131,965</u>	<u>33,807</u>	<u>86,622</u>	<u>—</u>	<u>1,910,828</u>
Attributable to:								
Equity holders of the Group	399,422	576,180	682,834	97,590	34,518	86,622	—	1,877,166
Minority interests	—	—	(2)	34,375	(711)	—	—	33,662
Profit for the period after taxation	<u>399,422</u>	<u>576,180</u>	<u>682,832</u>	<u>131,965</u>	<u>33,807</u>	<u>86,622</u>	<u>—</u>	<u>1,910,828</u>
Depreciation for the period	<u>(60,788)</u>	<u>(33,228)</u>	<u>(12,907)</u>	<u>(6,709)</u>	<u>(4,031)</u>	<u>(45,115)</u>	<u>—</u>	<u>(162,778)</u>

## 6 months ended 30/6/2006 (Restated)

	Personal Financial Services	Corporate Banking	Investment Banking	Corporate Services	Others	Unallocated	Inter- segment elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income	1,037,761	880,333	446,514	121	4,061	(568)	—	2,368,222
Other operating income from external customers	319,749	156,656	318,884	292,861	80,227	7,909	—	1,176,286
Inter-segment income	—	—	—	—	—	71,752	(71,752)	—
Operating income	1,357,510	1,036,989	765,398	292,982	84,288	79,093	(71,752)	3,544,508
Operating expenses	(734,253)	(385,641)	(164,872)	(171,147)	(74,449)	(106,372)	—	(1,636,734)
Inter-segment expenses	(58,429)	(7,583)	(2,893)	—	(391)	(2,456)	71,752	—
Operating profit before impairment losses	564,828	643,765	597,633	121,835	9,448	(29,735)	—	1,907,774
Impairment losses on loans and advances	10,004	(164,923)	1,238	(232)	(755)	—	—	(154,668)
Write back of impairment losses on bank premises	—	—	—	—	—	10,915	—	10,915
Write back of Impairment losses on available-for-sale financial assets, held-to-maturity investments and associates	—	3,779	12,828	—	—	—	—	16,607
Impairment losses on goodwill	—	—	—	—	(23,698)	—	—	(23,698)
Operating profit after impairment losses	574,832	482,621	611,699	121,603	(15,005)	(18,820)	—	1,756,930
Profit on sale of fixed assets, available-for-sale financial assets, held-to-maturity investments and subsidiaries/associates	—	—	2,945	—	1,308	(3,941)	—	312
Valuation gains on investment properties	—	—	—	—	40,478	—	—	40,478
Share of profits less losses of associates	1,068	10,221	3,311	—	34,098	(944)	—	47,754
Profit before taxation	575,900	492,842	617,955	121,603	60,879	(23,705)	—	1,845,474
Income tax	(80,803)	(67,856)	(86,415)	(15,174)	(3,774)	—	—	(254,022)
Profit for the period after taxation	495,097	424,986	531,540	106,429	57,105	(23,705)	—	1,591,452
Attributable to:								
Equity holders of the Group	495,097	424,986	531,537	79,590	57,829	(23,705)	—	1,565,334
Minority interests	—	—	3	26,839	(724)	—	—	26,118
Profit for the period after taxation	495,097	424,986	531,540	106,429	57,105	(23,705)	—	1,591,452
Depreciation for the period	(54,737)	(26,920)	(10,697)	(6,327)	(3,517)	(41,554)	—	(143,752)

The Group revised its internal transfer pricing process during 2006. The comparative figures of segment reporting have been restated to reflect the new methodology.

## 22. Analysis of Assets and Liabilities by Remaining Maturity

	30/6/2007						
	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Assets</b>							
Cash and balances with banks and other financial institutions	7,518,240	40,789	—	—	—	709,197	8,268,226
Placements with banks and other financial institutions	2,600	68,917,278	3,270,739	156,360	—	—	72,346,977
Trade bills	29,340	484,489	92,231	—	—	72,978	679,038
Trading assets	—	1,019,887	134,723	—	38,023	3,743,884	4,936,517
Financial assets designated at fair value through profit or loss	—	5,889,424	900,036	2,815,676	—	906	9,606,042
Advances to customers and other accounts	5,634,401	42,976,080	22,955,737	71,140,882	60,382,492	11,189,724	214,279,316
Available-for-sale financial assets	—	7,751,034	563,831	772,653	677,257	2,755,367	12,520,142
Held-to-maturity investments	—	1,155,246	1,266,265	7,085,756	1,112,207	—	10,619,474
Undated assets	—	—	—	—	—	9,958,295	9,958,295
<b>Total assets</b>	<b>13,184,581</b>	<b>128,234,227</b>	<b>29,183,562</b>	<b>81,971,327</b>	<b>62,209,979</b>	<b>28,430,351</b>	<b>343,214,027</b>
<b>Liabilities</b>							
Deposits and balances of banks and other financial institutions	936,701	21,711,923	18,628,294	2,033,066	9,968	173,708	43,493,660
Deposits from customers	63,347,076	147,936,057	12,828,927	6,165,485	513,430	7,671	230,798,646
— Demand deposits and current accounts	17,560,765	—	—	—	—	—	17,560,765
— Savings deposit	45,162,119	—	—	—	—	—	45,162,119
— Time, call and notice deposits	624,192	147,936,057	12,828,927	6,165,485	513,430	7,671	168,075,762
Trading liabilities	—	697,964	—	32,247	93	977,027	1,707,331
Certificates of deposit issued	—	219,696	7,989,123	1,310,743	530,537	—	10,050,099
Current taxation	—	—	495,452	—	—	—	495,452
Loan capital	—	—	—	—	13,548,240	—	13,548,240
Undated liabilities	—	—	—	—	—	14,766,185	14,766,185
<b>Total liabilities</b>	<b>64,283,777</b>	<b>170,565,640</b>	<b>39,941,796</b>	<b>9,541,541</b>	<b>14,602,268</b>	<b>15,924,591</b>	<b>314,859,613</b>
<b>Net liability gap</b>	<b>(51,099,196)</b>	<b>(42,331,413)</b>	<b>(10,758,234)</b>	<b>72,429,786</b>	<b>47,607,711</b>		

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	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Assets</b>							
Cash and balances with banks and other financial institutions	8,317,746	—	—	—	—	—	8,317,746
Placements with banks and other financial institutions	—	64,315,952	1,717,526	830,567	—	—	66,864,045
Trade bills	31,258	439,366	104,631	—	—	45,208	620,463
Trading assets	387	516,124	134,770	13,043	31,485	2,241,725	2,937,534
Financial assets designated at fair value through profit or loss	—	197,519	375,619	7,928,462	141,043	836	8,643,479
Advances to customers and other accounts	4,099,733	30,736,093	23,224,513	54,944,952	52,686,001	9,405,374	175,096,666
Available-for-sale financial assets	—	4,371,077	1,370,320	2,096,336	608,292	3,556,172	12,002,197
Held-to-maturity investments	—	848,234	842,936	7,268,993	1,260,134	29,062	10,249,359
Undated assets	—	—	—	—	—	9,470,828	9,470,828
<b>Total assets</b>	<b>12,449,124</b>	<b>101,424,365</b>	<b>27,770,315</b>	<b>73,082,353</b>	<b>54,726,955</b>	<b>24,749,205</b>	<b>294,202,317</b>
<b>Liabilities</b>							
Deposits and balances of banks and other financial institutions	4,512,307	11,312,398	14,202,290	821,476	1,039,047	71,664	31,959,182
Deposits from customers	59,423,997	134,799,884	10,812,037	4,463,928	—	24,374	209,524,220
— Demand deposits and current accounts	15,130,231	—	—	—	—	—	15,130,231
— Savings deposit	43,644,321	—	—	—	—	—	43,644,321
— Time, call and notice deposits	649,445	134,799,884	10,812,037	4,463,928	—	24,374	150,749,668
Trading liabilities	386	216,675	9,033	63,430	3,004	650,067	942,595
Certificates of deposit issued	—	3,033,404	964,439	3,000,564	—	—	6,998,407
Current taxation	—	—	334,097	—	—	—	334,097
Loan capital	—	—	—	3,865,491	4,288,824	—	8,154,315
Undated liabilities	—	—	—	—	—	8,644,772	8,644,772
<b>Total liabilities</b>	<b>63,936,690</b>	<b>149,362,361</b>	<b>26,321,896</b>	<b>12,214,889</b>	<b>5,330,875</b>	<b>9,390,877</b>	<b>266,557,588</b>
<b>Net liability gap</b>	<b>(51,487,566)</b>	<b>(47,937,996)</b>	<b>1,448,419</b>	<b>60,867,464</b>	<b>49,396,080</b>		



## 23. Deferred Tax Assets and Liabilities Recognised

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the period are as follows:

Deferred tax arising from:	Depreciation allowances in excess of related depreciation	Leasing partnership transactions	Revaluation of properties	Impairment losses on financial assets	Revaluation of available-for-sale securities	Tax losses	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2007	277,331	—	210,910	(17,813)	109,777	(23,503)	2,247	558,949
Charged/(credited) to consolidated profit and loss account	14,175	—	—	20,994	—	10,887	62,432	108,488
Charged/(credited) to reserves	—	—	3,363	—	(17,843)	—	—	(14,480)
Additions through acquisition of subsidiary	50	—	—	—	—	—	—	50
Exchange and other adjustments	(232)	—	—	(212)	—	(438)	13	(869)
At 30th June, 2007	<u>291,324</u>	<u>—</u>	<u>214,273</u>	<u>2,969</u>	<u>91,934</u>	<u>(13,054)</u>	<u>64,692</u>	<u>652,138</u>
At 1st January, 2006	296,226	211,553	154,399	(49,124)	—	(25,512)	1,474	589,016
Write off against investment	—	(206,875)	—	—	—	—	—	(206,875)
Other movements	—	—	—	—	—	7,726	63	7,789
Charged/(credited) to consolidated profit and loss account	(14,887)	(4,678)	—	(6,215)	—	2,508	1,720	(21,552)
Charged to reserves	—	—	1,148	—	52,457	—	—	53,605
Additions through acquisition of subsidiary	44	—	—	—	—	—	(1,540)	(1,496)
Exchange and other adjustments	(93)	—	—	(183)	—	(1,223)	(7)	(1,506)
At 30th June, 2006	<u>281,290</u>	<u>—</u>	<u>155,547</u>	<u>(55,522)</u>	<u>52,457</u>	<u>(16,501)</u>	<u>1,710</u>	<u>418,981</u>

## 24. Reserves

	30/6/2007	30/6/2006	31/12/2006
	HK\$'000	HK\$'000	HK\$'000
Share premium	1,087,502	896,985	1,012,138
General reserve	13,805,550	13,016,472	13,256,982
Revaluation reserve on bank premises	850,831	786,534	835,829
Investment revaluation reserve	627,014	491,827	861,188
Exchange revaluation reserve	267,678	113,253	184,293
Other reserves	164,953	163,255	137,678
Retained profits*	7,377,147	5,904,567	7,099,491
	<u>24,180,675</u>	<u>21,372,893</u>	<u>23,387,599</u>
Proposed dividends, not provided for	<u>752,826</u>	<u>661,067</u>	<u>1,596,646</u>

\* A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Bank will or may incur on loans and advances in addition to impairment losses recognised. Movements in the reserve are earmarked directly through retained earnings and in consultation with the Hong Kong Monetary Authority. As at 30th June, 2007, HK\$944,000,000 (30th June, 2006: HK\$506,000,000) was included in the retained profits in this respect which was distributable to equity holders of the Group subject to consultation with the Hong Kong Monetary Authority.

## 25. Consolidated Cash Flow Statement

### (a) Purchase of subsidiaries

	30/6/2007	30/6/2006
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	164	131,375
Advances and other accounts less provisions	3,716	583,552
Deferred tax assets	—	1,540
Fixed assets	418	2,370
Goodwill	—	25
Deposits and bank balances	—	(777)
Deposits of customers	—	(495,443)
Provision for taxation	(134)	—
Deferred tax liabilities	(50)	(44)
Other accounts and provisions	(1,892)	(125,523)
Minority interests	(1)	(2,698)
	<u>2,221</u>	<u>94,377</u>
Goodwill arising on consolidation	<u>34,675</u>	<u>98,694</u>
Total purchase price	36,896	193,071
Less: Cash and cash equivalents acquired	(164)	(131,375)
	<u>36,732</u>	<u>61,696</u>
Cash flow on acquisition net of cash acquired	<u>36,732</u>	<u>61,696</u>

**(b) Cash and cash equivalents**

	30/6/2007	30/6/2006
	HK\$'000	HK\$'000
(i) Components of cash and cash equivalents in the consolidated cash flow statement		
Cash and balances with banks and other financial institutions	8,268,226	4,656,612
Placements with banks and other financial institutions with original maturity within three months	64,452,575	56,877,831
Treasury bills with original maturity within three months	4,015,659	3,260,380
Certificates of deposit held with original maturity within three months	457,115	323,442
	<u>77,193,575</u>	<u>65,118,265</u>
(ii) Reconciliation with the consolidated balance sheet		
Cash and balances with banks and other financial institutions	8,268,226	4,656,612
Placements with banks and other financial institutions	72,346,977	60,104,309
Treasury bills and certificates of deposit held		
— trading assets	996,703	793,407
— designated at fair value through profit or loss	48,705	94,795
— advances and other accounts	39,090	38,834
— available-for-sale	5,193,512	3,942,951
— held-to-maturity	1,974,954	1,454,635
	<u>8,252,964</u>	<u>6,324,622</u>
Amount shown in the consolidated balance sheet	88,868,167	71,085,543
Less: Amounts with an original maturity of beyond three months	<u>(11,674,592)</u>	<u>(5,967,278)</u>
Cash and cash equivalents in the consolidated cash flow statement	<u>77,193,575</u>	<u>65,118,265</u>

## 26. Off-balance Sheet Exposures

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

	<u>30/6/2007</u>	<u>30/6/2006</u>	<u>31/12/2006</u>
	HK\$'000	HK\$'000	HK\$'000
Contractual amounts of contingent liabilities and commitments			
— Direct credit substitutes	6,364,648	4,441,509	5,214,804
— Transaction-related contingencies	1,295,780	953,248	740,121
— Trade-related contingencies	1,546,611	1,927,615	1,835,733
— Other commitments with an original maturity of: Which are unconditionally cancellable by the Bank or automatically cancellable due to deterioration in the creditworthiness of the borrowers	40,938,866	23,939,375	36,724,889
Not more than 1 year	4,331,086	10,428,833	3,022,549
More than 1 year	15,574,200	10,713,533	14,686,624
Total	<u>70,051,191</u>	<u>52,404,113</u>	<u>62,224,720</u>
— Aggregate credit risk weighted amount	<u>13,737,834</u>	<u>9,438,732</u>	<u>12,018,280</u>
Notional amounts of derivatives			
— Exchange rate contracts	22,884,998	17,044,916	18,266,638
— Interest rate contracts	29,736,732	30,477,470	21,255,579
— Equity contracts	9,941,071	383,319	2,576,242
— Others	200,000	—	—
Total	<u>62,762,801</u>	<u>47,905,705</u>	<u>42,098,459</u>
— Aggregate credit risk weighted amount	<u>919,825</u>	<u>427,248</u>	<u>337,962</u>
— Aggregate replacement costs	<u>915,855</u>	<u>803,391</u>	<u>662,417</u>

The replacement costs and credit risk weighted amounts of the off-balance sheet exposures do not take into account the effects of bilateral netting arrangements.

## 27. Material Related Party Transactions

The Group maintains certain retirement benefit schemes for its staff. In the six month ended 30th June, 2007, the total amount of contributions the Group made to the schemes was HK\$44,668,000 (six months ended 30th June, 2006: HK\$37,051,000).

The Group enters into a number of transactions with the Group's related parties, including its associates, and key management personnel and their close family members and companies controlled or significantly influenced by them. The transactions include accepting deposits from and extending credit facilities to them. Except that there is interest free shareholder's advance extended to one (30th June, 2006: one) associate amounting to HK\$6,500,000 at 30th June, 2007 (30th June, 2006: HK\$6,500,000), all interest rates in connection with the deposits taken and credit facilities extended are under terms and conditions normally applicable to customers of comparable standing.

The interest received from and interest paid to the Group's related parties for the six months ended 30th June, 2007, outstanding balances of amounts due from and due to at 30th June, 2007 and maximum outstanding balance of amounts due from and due to them for the six months ended 30th June, 2007 are aggregated as follows:

	Key management personnel		Subsidiaries		Associates	
	30/6/2007	30/6/2006	30/6/2007	30/6/2006	30/6/2007	30/6/2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	129,993	66,918	348,110	15,837	5,556	4,491
Interest expense	61,846	50,035	80,595	115,748	33	1
Amounts due from	7,989,093	2,809,527	21,192,515	1,869,711	235,011	149,682
Amounts due to	4,814,369	3,016,941	1,471,296	3,989,310	13,700	969
Maximum amounts due from	10,982,382	3,864,734	23,699,257	2,122,624	424,449	302,603
Maximum amounts due to	7,630,656	5,990,874	1,894,320	9,848,368	47,243	8,596

## 28. Basis of Consolidation

Unless otherwise stated, all financial information contained in such financial accounts are prepared according to the consolidation basis for accounting purposes.

In preparing the capital adequacy ratio and liquidity ratio of the Group, they are prepared according to the basis of consolidation for regulatory purposes. The main difference between the consolidation basis for accounting and regulatory purposes is that the former includes the Bank and all its subsidiaries whereas the latter includes the Bank and only some of the Group's subsidiaries which mainly conduct banking business or other businesses incidental to banking business.

## 29. Non-adjusting post balance sheet events

On 3rd July, 2007, the Bank entered into an agreement to sell the Group's 49% interests in a wholly-owned subsidiary, East Asia Asset Management Company Limited ("EAAM"), to an independent third party. It is anticipated that this transaction will give rise to a profit of approximately HK\$407 million in the second half of 2007. The total assets and profit before tax of EAAM constitute approximately 0.03% and 0.31% of the consolidated total assets and the consolidated profit before tax respectively of the Group as at and for the six months ended 30th June, 2007.

## 30. Statement of Compliance

The Interim Report together with the Supplementary Financial Information on pages 28 to 34 has fully complied with the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority, the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and HKAS 34 "Interim Financial Reporting" issued by the HKICPA in October, 2004.

## SUPPLEMENTARY FINANCIAL INFORMATION

### A. Capital Adequacy Ratio and Capital Base

#### (a) Capital adequacy ratio

	30/6/2007	30/6/2006	31/12/2006
	%	%	%
Capital adequacy ratio	13.1	16.5	14.2
Core capital adequacy ratio	7.7	11.4	10.5

The capital adequacy ratio is computed on the consolidated basis which comprises the positions of the Bank and its subsidiaries as required by the Hong Kong Monetary Authority for its regulatory purposes, and is in accordance with the Banking (Capital) Rules.

#### (b) Group capital base after deductions

	30/6/2007	30/6/2006	31/12/2006
	HK\$'000	HK\$'000	HK\$'000
Core capital			
Paid up ordinary share capital	3,920,971	3,843,413	3,875,355
Share premium	1,087,502	896,985	1,012,138
Reserves	17,235,480	16,679,411	16,898,603
Profit and loss account	700,355	692,203	917,254
Minority interests	—	299,395	232,579
Deduct: Goodwill	(1,616,239)	(2,583,500)	(2,592,330)
Other intangible assets	(11,947)	—	—
	21,316,122	19,827,907	20,343,599
Less: Core capital items deductions	(2,570,159)	(560,974)	(1,738,473)
Total core capital	18,745,963	19,266,933	18,605,126
Eligible supplementary capital			
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	627,688	845,370	948,382
Revaluation reserves for fair value gains on revaluation of holdings of available-for-sale equities and debt securities	80,664	—	206,381
Unrealised fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss	1,960	122,277	84,101
Regulatory reserve for general banking risks	944,000	506,000	606,000
Collectively assessed impairment allowances	467,550	440,942	451,883
Perpetual subordinated debt	4,693,349	—	—
Term subordinated debt	8,973,345	8,026,326	8,154,315
	15,788,556	9,940,915	10,451,062
Less: Supplementary capital items deductions	(2,570,159)	(560,974)	(1,738,474)
Total supplementary capital	13,218,397	9,379,941	8,712,588
Total capital base	31,964,360	28,646,874	27,317,714

Deductions from total capital base include investments in subsidiaries of which their risk weighted assets have not been consolidated into the total risk weighted assets of the Group, which mainly conduct non-banking related businesses.

## B. Liquidity Ratio

	6 months ended 30/6/2007	6 months ended 30/6/2006	The year ended 31/12/2006
	%	%	%
Average liquidity ratio for the period	43.2	43.4	44.0

The average liquidity ratio for the period is the simple average of each calendar month's average liquidity ratio, which is computed on the consolidated basis as required by the Hong Kong Monetary Authority for its regulatory purposes, and is in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

## C. Cross-border Claims

The information on cross-border claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country. Only regions constituting 10% or more of the aggregate cross-border claims are disclosed.

	30/6/2007			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
People's Republic of China	20,546,891	2,964,531	26,125,049	49,636,471
Asian countries, excluding People's Republic of China	12,075,328	1,598,255	11,260,242	24,933,825
North America	10,055,412	5,332,695	8,670,337	24,058,444
Western Europe	40,684,231	—	2,708,229	43,392,460
	30/6/2006			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
People's Republic of China	16,940,523	1,598,676	16,396,434	34,935,633
Asian countries, excluding People's Republic of China	10,232,626	1,140,937	8,901,050	20,274,613
North America	6,168,351	7,601,858	6,433,631	20,203,840
Western Europe	36,616,996	—	2,325,362	38,942,358
	31/12/2006			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
People's Republic of China	18,545,033	2,791,328	19,987,278	41,323,639
Asian countries, excluding People's Republic of China	12,428,469	1,493,595	10,251,920	24,173,984
North America	8,276,028	5,306,564	7,144,615	20,727,207
Western Europe	41,157,247	—	2,789,971	43,947,218

#### D. Non-bank Mainland exposures

The total direct non-bank Mainland exposures and the individual impairment allowances were as follows:

Type of counterparties	30/6/2007			
	On-balance sheet exposure	Off- balance sheet exposure	Total	Individual impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland entities	54,326,640	11,685,788	66,012,428	145,598
Companies and individuals outside Mainland where the credit is granted for use in Mainland	12,147,021	3,593,344	15,740,365	3,988
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	294,810	298	295,108	7
Total	<u>66,768,471</u>	<u>15,279,430</u>	<u>82,047,901</u>	<u>149,593</u>
Type of counterparties	31/12/2006			
	On-balance sheet exposure	Off- balance sheet exposure	Total	Individual impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland entities	41,812,989	10,447,307	52,260,296	108,869
Companies and individuals outside Mainland where the credit is granted for use in Mainland	11,440,768	2,352,619	13,793,387	3,430
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	90,047	320	90,367	—
Total	<u>53,343,804</u>	<u>12,800,246</u>	<u>66,144,050</u>	<u>112,299</u>



## E. Overdue, Rescheduled and Repossessed Assets

### (a) Overdue and rescheduled advances

	30/6/2007		30/6/2006		31/12/2006	
	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers
Advances to customers overdue for						
— 6 months or less but over 3 months	147,616	0.1	226,044	0.1	158,741	0.1
— 1 year or less but over 6 months	95,778	0.0	120,955	0.1	142,127	0.1
— Over 1 year	198,188	0.1	297,076	0.2	222,433	0.1
	441,582	0.2	644,075	0.4	523,301	0.3
Rescheduled advances to customers	305,530	0.2	314,347	0.2	291,246	0.2
Total overdue and rescheduled advances	747,112	0.4	958,422	0.6	814,547	0.5
Secured overdue advances	285,630	0.1	461,840	0.3	358,674	0.2
Unsecured overdue advances	155,952	0.1	182,235	0.1	164,627	0.1
Market value of security held against secured overdue advances	491,055		790,863		633,804	
Individual impairment allowance made on loans overdue for more than 3 months	102,149		94,344		105,878	

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the period-end. Loans repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid at period-end. Loans repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the loans have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

An asset considered as an eligible collateral should generally satisfy the following:

- (a) The market value of the asset is readily determinable or can be reasonably established and verified;
- (b) The asset is marketable and there exists a readily available secondary market for disposing of the asset;
- (c) The Bank's right to repossess the asset is legally enforceable and without impediment; and
- (d) The Bank is able to secure control over the asset if necessary.

The two main types of "Eligible Collateral" are as follows:

- (i) "Eligible Financial Collateral" mainly comprises cash deposits and shares.
- (ii) "Eligible Physical Collateral" mainly comprises land and buildings, vehicles and equipment.

When the Bank's clients face financial difficulties and fail to settle their loans, depending on different situations, the Bank usually takes the following actions to recover the debt:

- (a) Debt Rescheduling/Restructuring
- (b) Enforcement of security
- (c) Legal Action
- (d) Recovery via Debt Collector

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 30th June, 2007, 30th June, 2006 and 31st December, 2006; nor were there any rescheduled advances to banks and other financial institutions on these three dates.

**(b) Other overdue and rescheduled assets**

	30/06/2007	
	Accrued interest	Other assets*
	HK\$'000	HK\$'000
Other assets overdue for		
— 6 months or less but over 3 months	604	3,948
— 1 year or less but over 6 months	754	422
— Over 1 year	1,435	13,110
	<u>2,793</u>	<u>17,480</u>
Rescheduled assets	—	—
Total other overdue and rescheduled assets	<u><u>2,793</u></u>	<u><u>17,480</u></u>
	30/06/2006	
	Accrued interest	Other assets*
	HK\$'000	HK\$'000
Other assets overdue for		
— 6 months or less but over 3 months	1,506	1,889
— 1 year or less but over 6 months	1,109	15
— Over 1 year	1,635	18,630
	<u>4,250</u>	<u>20,534</u>
Rescheduled assets	—	—
Total other overdue and rescheduled assets	<u><u>4,250</u></u>	<u><u>20,534</u></u>

	31/12/2006	
	Accrued interest	Other assets*
	HK\$'000	HK\$'000
Other assets overdue for		
— 6 months or less but over 3 months	841	—
— 1 year or less but over 6 months	1,863	2,065
— Over 1 year	2,228	17,507
	<u>4,932</u>	<u>19,572</u>
Rescheduled assets	—	—
Total other overdue and rescheduled assets	<u>4,932</u>	<u>19,572</u>

\* Other assets refer to trade bills and receivables.

**(c) Repossessed assets**

	30/6/2007	30/6/2006	31/12/2006
	HK\$'000	HK\$'000	HK\$'000
Reposessed land and buildings	37,970	90,650	97,096
Reposessed vehicles and equipment	5,160	2,636	290
Total reposessed assets	<u>43,130</u>	<u>93,286</u>	<u>97,386</u>

The amount represents the estimated market value of the reposessed assets as at 30th June, 2007, 30th June, 2006 and 31st December, 2006.

**F. Currency Concentrations**

The net positions or net structural positions in foreign currencies are disclosed when each currency constitutes 10% or more of the respective total net position or total net structural position in all foreign currencies.

	30/6/2007 HK\$ Million			
	USD	CNY	Others	Total
Spot assets	88,361	39,559	38,862	166,782
Spot liabilities	(81,774)	(37,286)	(43,394)	(162,454)
Forward purchases	22,838	576	13,521	36,935
Forward sales	(27,862)	(631)	(8,100)	(36,593)
Net options position	(45)	—	26	(19)
Net long position	<u>1,518</u>	<u>2,218</u>	<u>915</u>	<u>4,651</u>
	30/6/2006 HK\$ Million			
	USD	CNY	Others	Total
Spot assets	70,046	18,325	36,090	124,461
Spot liabilities	(67,099)	(16,861)	(36,103)	(120,063)
Forward purchases	28,673	—	7,508	36,181
Forward sales	(30,220)	—	(6,979)	(37,199)
Net options position	27	—	(40)	(13)
Net long position	<u>1,427</u>	<u>1,464</u>	<u>476</u>	<u>3,367</u>

	31/12/2006 HK\$ Million			Total
	USD	CNY	Others	
Spot assets	76,800	28,643	36,587	142,030
Spot liabilities	(72,677)	(27,002)	(36,367)	(136,046)
Forward purchases	20,345	19	5,762	26,126
Forward sales	(23,720)	(24)	(5,431)	(29,175)
Net options position	(9)	—	33	24
Net long position	<u>739</u>	<u>1,636</u>	<u>584</u>	<u>2,959</u>

The net options position is calculated using the delta equivalent approach.

	30/6/2007 HK\$ Million			Total
	USD	CNY	Others	
Net structural position	<u>1,788</u>	<u>2,002</u>	<u>702</u>	<u>4,492</u>

	30/6/2006 HK\$ Million			Total
	USD	CNY	Others	
Net structural position	<u>1,606</u>	<u>1,312</u>	<u>661</u>	<u>3,579</u>

	31/12/2006 HK\$ Million			Total
	USD	CNY	Others	
Net structural position	<u>1,779</u>	<u>1,345</u>	<u>659</u>	<u>3,783</u>

## INDEPENDENT REVIEW REPORT



### TO THE BOARD OF DIRECTORS OF THE BANK OF EAST ASIA, LIMITED

#### INTRODUCTION

We have reviewed the interim financial report set out on pages 1 to 27 which comprises the consolidated balance sheet of The Bank of East Asia, Limited as at 30th June, 2007 and the consolidated profit and loss account, the consolidated summary statement of changes in equity and the condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The Directors are responsible for the preparation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", issued by the Hong Kong Institute of Certified Public Accountants. A review of an interim financial report consists of making enquires, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30th June, 2007 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, "Interim financial reporting".

#### KPMG

*Certified Public Accountants*  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

Hong Kong, 2nd August, 2007

## **INTERIM DIVIDEND**

The Directors are pleased to declare an interim dividend of HK\$0.48 (2006: HK\$0.43) per share for the six months ended 30th June, 2007. The interim dividend will be paid in cash with an option to receive new, fully paid shares in lieu of cash, to shareholders whose names appear on the Register of Members at the close of business on Wednesday, 22nd August, 2007. Details of the scrip dividend and the election form will be sent to shareholders on or about Wednesday, 22nd August, 2007. The scrip dividend scheme is conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued under the scrip dividend scheme. The dividend warrants and the share certificates for the scrip dividend will be sent to shareholders by ordinary mail on or about Thursday, 13th September, 2007.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members will be closed from Monday, 20th August, 2007 to Wednesday, 22nd August, 2007. In order to qualify for the above interim dividend, all transfer documents should be lodged for registration with Tricor Standard Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, by 4:00 p.m on Friday, 17th August, 2007.

## **FINANCIAL REVIEW**

### Financial Performance

In the first six months of 2007, the Group achieved a profit after tax of HK\$1,911 million, an increase of HK\$319 million, or 20.1%, over the corresponding period in 2006. Basic earnings per share were HK\$1.20. Return on average equity was 13.8%, while return on average assets was 1.2%.

Total operating income rose by HK\$933 million, or 26.3%, to HK\$4,478 million. The growth in total operating income was supported by a rise in net interest income, which grew by HK\$394 million, or 16.6%, to HK\$2,762 million. It was further supported by higher net fees and commission income, and trading profits.

Total operating expenses increased by 33.1% over the corresponding period in 2006 to HK\$2,179 million, due to continuing expansion of the Group's activities. The cost to income ratio rose from 46.2% in the first half of 2006 to 48.7% in the corresponding period in 2007.

Operating profit before impairment losses for the first six months was HK\$2,299 million, an increase of HK\$391 million, or 20.5%, compared to the corresponding period in 2006.

Charge of impairment losses on loans and advances decreased by HK\$18 million, or 11.6%, to HK\$136 million, reflecting an improvement in asset quality.

The operating profit after impairment losses increased by 29.7% to HK\$2,279 million. In the first six months of 2007, BEA shared after-tax profits from associates of HK\$52 million.

Profit after taxation was HK\$1,911 million, an increase of 20.1%, over the HK\$1,591 million recorded in the corresponding period in 2006. Profit attributable to equity holders of the Group was HK\$1,877 million, an increase of 19.9%.

### Financial Position

Total consolidated assets of the Group grew by HK\$49,012 million, or 16.7%, during the first half of 2007 to HK\$343,214 million. Gross advances to customers grew by 22.1% to HK\$202,871 million.

Total deposits rose by 11.2% to HK\$240,849 million, while total deposits from customers rose by 10.2% to HK\$230,799 million. Demand deposits and current account balances increased by a combined HK\$2,431 million, or 16.1%, to HK\$17,561 million when compared with the balance at year-end 2006. Savings deposits increased to HK\$45,162 million, a rise of 3.5%, while time deposits increased to HK\$168,076 million, a rise of 11.5%, when compared with the previous year-end.

In June 2007, the Group redeemed a subordinated loan of US\$500 million. The Group issued a new perpetual subordinated loan of GBP300 million in March 2007 and a new subordinated loan of US\$600 million in June 2007. As at 30th June, 2007, loan capital stood at HK\$13,548 million, an increase of 66.1% when compared with the balance at year-end 2006. Total equity increased by 2.6%, from HK\$27,645 million at the end of 2006 to HK\$28,354 million at the end of June 2007.

During the first half of 2007, BEA issued HKD fixed rate certificates of deposit with a face value of HK\$5,100 million and USD zero coupon certificates of deposit with a face value of US\$100 million. The Bank redeemed a quantity of certificates of deposit amounting to HK\$2,649 million equivalent upon maturity, and repurchased its own certificates of deposit amounting to HK\$25 million equivalent. The Bank also issued and redeemed a number of short term TWD fixed rate certificates of deposit.

After taking into account all debt instruments issued, the loan-to-deposit ratio was 84.2% at the end of June 2007, being 7.5% higher than the 76.7% reported at the end of 2006.

At the end of June 2007, the face value of the outstanding debt portfolio was HK\$10,412 million, with the carrying amount equal to HK\$10,050 million.

Maturity Profile of Debts Issued  
As at 30th June, 2007  
(All expressed in millions of dollars)

	Currency	Total Face Value	Year of Maturity					
			2007	2008	2009	2011	2013	2015
<b>Floating Rate</b>								
<b>Certificates of Deposit</b>								
Issued in 2005	HKD	1,500		1,500				
Issued in 2006	HKD	500			500			
<b>Fixed Rate</b>								
<b>Certificates of Deposit</b>								
Issued in 2005	HKD	500		500				
Issued in 2006	HKD	500			500			
Issued in 2007	HKD	5,100		5,100				
Issued in 2007	TWD	3,520	3,520					
<b>Zero Coupon</b>								
<b>Certificates of Deposit</b>								
Issued in 2006	USD	50			50			
Issued in 2007	USD	100				50	50	
<b>Step Up</b>								
<b>Certificates of Deposit</b>								
Issued in 2003	USD	38		38				
<b>Total Debts issued in HKD equivalent</b>		10,412	840	7,399	1,000	391	391	391

#### Risk Management

The Group has a risk management system in place to identify, measure, monitor and control the various types of risk that the Group faces and, where appropriate, to allocate capital against those risks. The risk management policies of the Group, which cover credit risk, market risk, interest rate risk, liquidity risk, operational risk, legal risk, reputation risk and strategic risk, are reviewed regularly by the Management and related recognised committees, and recommendations are made by the Risk Management Committee for the approval of the Board of Directors. The internal auditors also perform regular audits on business units to check compliance with policies and procedures.

**(a) Credit Risk Management**

Credit risk arises from the possibility that a customer or counterparty in a transaction may default. Such risk may arise from counterparty risks from loans and advances, issuer risks from the securities business and counterparty risks from trading activities.

The Board of Directors has delegated authority to the Credit Committee to oversee management of the Group's credit risk, independent of the business units. The Credit Committee reports to the Board of Directors via the Risk Management Committee, which deals with all risk management related issues of the Group.

The Credit Committee is responsible for all credit risk related issues of the Group. The Group identifies and manages credit risk through defining target markets, formulating credit policies, subjecting new loans to a credit approval process and monitoring asset quality.

In evaluating the credit risk associated with an individual customer or counterparty, financial strength and repayment ability are always the prime considerations. Credit risk may be mitigated by obtaining collateral from the customer or counterparty.

The Group has established policies and procedures to identify, measure, monitor and control credit risk. In this connection, guidelines for management of credit risk have been laid down in the Group's Credit Manual. These guidelines govern delegated lending authorities, credit extension criteria, the credit monitoring process, a 20-grade loan classification system, the credit recovery procedure and provisioning policy. They are reviewed and enhanced on an on-going basis to reflect changes in the market, statutory requirements and/or best practice risk management processes.

**(b) Market risk management**

Market risk arises from all market risk sensitive financial instruments, including debt securities, foreign exchange contracts, equity and derivative instruments, as well as from balance sheet or structural positions. The objective of market risk management is to reduce the Group's exposure to the volatility inherent in financial instruments.

The Board of Directors reviews and approves policies for the management of market risks. The Board has delegated the responsibility for ongoing general market risk management to the Asset and Liability Management Committee. The Asset and Liability Management Committee reports to the Board of Directors via the Risk Management Committee.

The Asset and Liability Management Committee deals with all market risk and liquidity risk related issues of the Group. It is also responsible for deciding the future business strategy with respect to interest rate trends.

The use of derivatives for proprietary trading and their sale to customers as risk management products is an integral part of the Group's business activities. These instruments are also used to manage the Group's own exposures to market risk, as part of its asset and liability management process. The principal derivatives instruments used by the Group are interest, foreign exchange rate and equity related contracts, in the form of both over-the-counter derivatives and exchange traded derivatives. Most of the Group's derivatives positions have been entered into to meet customer demand and to manage the risk of these and other trading positions.

The Group has various position and sensitivity limit structures in place. Additionally, the Group applies sensitivity analysis and scenario analysis, both on individual portfolios and on the Group's consolidated positions, to assess the potential impact of extreme movements in market prices on the Group's earnings.

*(i) Currency risk*

The Group's foreign currency positions arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures. All foreign currency positions are managed within limits approved by the Board.

Structural foreign currency positions, which arise mainly from foreign currency investments in the Group's branches, subsidiaries and associated companies, are excluded from value-at-risk ("VaR") measurements, as related gains or losses are taken to reserves. Such foreign currency positions are managed with the principal objective of ensuring that the Group's reserves are protected from exchange rate fluctuations. The Group seeks to match closely its foreign currency denominated assets with corresponding liabilities in the same currencies.



(ii) *Interest rate risk*

The Group's interest rate positions arise from treasury and commercial banking activities. Interest rate risk arises in both trading portfolios and non-trading portfolios. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments. It also relates to positions from non-interest bearing liabilities including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. Interest rate risk is managed daily by the Treasury Department within the limits approved by the Board of Directors. The instruments used to manage interest rate risk include interest rate swaps and other derivatives.

The Group quantifies the market risk of the underlying trading portfolio by means of VaR. VaR is a statistical estimate that measures the potential losses in market value of a portfolio as a result of unfavourable movements in market rates and prices, if positions are held unchanged over a certain horizon time period. The Group's VaR is calculated using historical movements in market rates and prices, a 99% confidence level and a one-day holding period, and takes into account correlations between different markets and rates.

*Value-at-risk statistics*

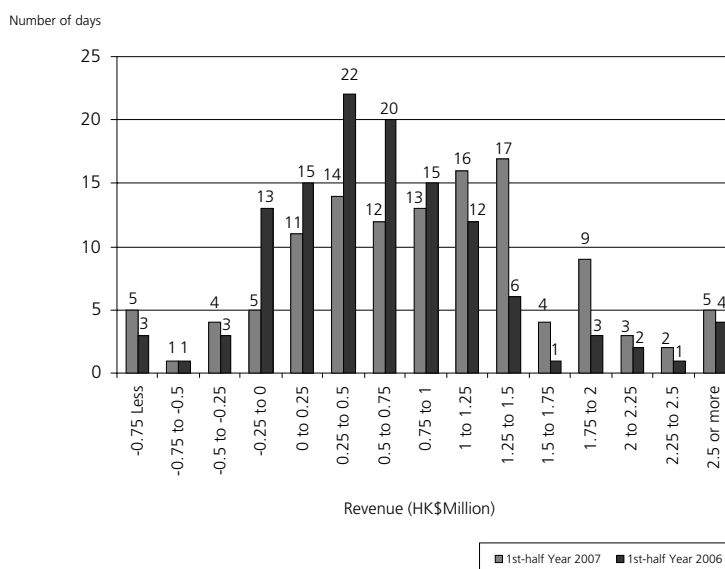
The Group has measured VaR for all trading portfolios throughout the year.

HK\$'000	Year 2007 1st-half				Year 2006 1st-half			
	As at 30 June	Maximum	Minimum	Mean	As at 30 June	Maximum	Minimum	Mean
VaR for total trading activities	38,614	50,214	21,639	35,776	25,255	25,255	11,663	16,341
VaR for foreign exchange trading positions	1,212	2,299	590	1,172	1,315	2,167	528	992
VaR for interest rate trading positions	363	885	83	255	1,311	3,366	1,024	1,439
VaR for equity trading positions	37,577	49,288	21,481	34,917	23,565	23,565	10,527	14,853

*Foreign exchange and Interest rate risks related revenue statistics*

The average daily revenue earned foreign exchange dealing and interest rate activities in the first half of 2007 was HK\$0.93 million (HK\$0.70 million in the first half of 2006). The standard deviation of the daily revenues was HK\$1.14 million (HK\$1.11 million in the first half of 2006). The frequency distribution of daily revenue is shown below.

**DAILY DISTRIBUTION OF FOREIGN EXCHANGE AND INTEREST RATE RISKS RELATED REVENUES  
- 1st-half Year 2007 vs 1st-half Year 2006**



**(c) *Liquidity risk management***

The purpose of liquidity management is to ensure sufficient cash flows to meet all financial commitments and to capitalize on opportunities for business expansion. This includes the Group's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, to comply with the statutory liquidity ratio, and to make new loans and investments as opportunities arise.

Liquidity is managed on a daily basis by the Treasury Department under the direction of the Asset and Liability Management Committee. The Treasury Department is responsible for monitoring funding and liquidity trends in local and international markets, and ensuring that the Group has adequate liquidity for all operations.

The Group manages liquidity risk by holding sufficient liquid assets (e.g. cash and short term funds and securities) of appropriate quality to ensure that short-term funding requirements are covered within prudent limits. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflows in the ordinary course of business. The Group regularly stress tests its liquidity position.

**(d) *Strategic risk management***

The objective of strategic risk management is to monitor the risk to earnings or capital arising from bad business decisions or from improper implementation of good business decisions.

The Board of Directors reviews and approves policy for the management of strategic risk. The Board has delegated the responsibility for ongoing strategic risk management to the Asset and Liability Management Committee. As stated previously, the Asset and Liability Management Committee reports to the Board of Directors via the Risk Management Committee.

**(e) *Operational risk, legal risk and reputation risk management***

Operational risk is the risk arising from the potential loss due to inadequate or failed internal processes, people and systems or from external events.

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgements may disrupt or otherwise negatively affect the operations or financial condition of the Bank Group.

Reputation risk is the risk arising from the potential that negative publicity regarding the Bank Group's business practices, whether true or not, will cause a decline in the customer base or lead to costly litigation or revenue reductions.

The objective of managing the aforesaid risks is to identify, assess and monitor these risks and, in particular, to comply with the relevant regulatory requirements.

The Board of Directors reviews and approves policies for these risks, and it has delegated the responsibility for ongoing risk management to the Operational and Other Risks Management Committee. The Operational and Other Risks Management Committee reports to the Board of Directors via the Risk Management Committee.

**OPERATIONS REVIEW**

***RECENT AWARDS***

BEA's award-winning services continue to garner international recognition. In May 2007, BEA received the "Hong Kong MPF Master Trust Achievement Award" from *AsianInvestor* magazine and Global Refund's "Platinum Award" for its Value Added Tax (VAT) refund service. In June, BEA was named "Best Foreign Retail Bank in China" by *The Asian Banker*.

***IMPROVEMENTS TO OPERATIONS***

**Relocation of Back-Office Operations to the Mainland**

The Bank's back-office operating centre in Guangzhou, incorporated under the name East Asia Electronic Data Processing (Guangzhou) Limited, has been gradually taking on additional responsibility. Plans are being developed to further expand the Centre in the forthcoming year.

## Information Technology

### *New Accounting System*

The Bank successfully introduced a new computer system for general ledger operations in the first half of 2007.

## **PERSONAL BANKING**

### Branch Distribution

As part of an on-going effort to strengthen the branch network, BEA continues to implement the Branch Rationalisation Programme. In the first half of 2007, Tiu Keng Leng Branch was opened to serve customers in the district. At the end of June 2007, BEA operated a total of 88 branches in Hong Kong.

Two new SupremeGold centres, one at Sheung Shui and a second at Revenue Tower, were opened during the first half of the year. To provide greater convenience to customers, the BEA Harbour View Centre, Mongkok and Causeway Bay SupremeGold centres were expanded to provide a more spacious and pleasant environment. At the end of June 2007, the total number of SupremeGold centres stood at 37.

BEA keeps in step with the changing regulatory environment to offer a growing range of Renminbi services to meet the needs of individual and corporate customers. In June 2007, Renminbi bonds were made available for subscription in Hong Kong for the first time, and BEA served as a placing bank for the bonds.

A marketing programme for Kid Master Services was conducted from February to March 2007 to acquire new Kid Master members and to promote the Bank's Education Savings Insurance and 3-Year Accumulator Savings Insurance III plans.

Following the success of the Payroll Account Promotion conducted in 2006, the Promotion has been re-launched this year and will run from March to December 2007. In addition, an acquisition programme for SupremeGold was launched in June. It will run to September 2007.

The business hours at most BEA branches and SupremeGold centres have been extended to 5:30 p.m. Monday to Friday, to cater for customer demand. The arrangement enables the Bank to serve customers more effectively while maximising cost efficiency.

### Cyberbanking

Cyberbanking services were further enhanced during the period, with the addition of facilities that allow subscription and redemption of unit trusts, and buying and selling of passbook gold. At the end of June, the Bank had more than 360,000 registered Cyberbanking users. The average daily usage volume exceeded 255,000 transactions, representing growth of 40% compared to the same period last year.

Corporate Cyberbanking further expanded its customer base in the first half of 2007. At the end of June 2007, over 19,700 corporate customers had registered for BEA Corporate Cyberbanking, representing a 10% increase compared to the same period last year.

### Property Loans

Although the number of property transactions rose during the first half of the year, the average property loan tended to be lower. As a result, only a slight increase in loan demand was noted, and competition in the market remained fierce.

To achieve the target loan growth, BEA launched a series of residential mortgage promotion campaigns during the period.

From April, the Bank relaxed mortgage terms and repayment period for older properties, allowing buyers of well-maintained older residential properties to enjoy more flexibility in their mortgage planning.

The Bank also actively coordinated with business partners, including property developers, solicitors and mortgage brokers, to provide preferential mortgage plans for homebuyers.

## Consumer Loans

### *Consumer Finance Department*

Capitalising on the upturn in the economy in 2007, BEA introduced the “Right for You” instalment and revolving loan programme during the first half of the year. This customisable and highly-innovative promotion received an encouraging response from the market, and resulted in double digit growth in the overall portfolio compared with the corresponding period last year.

### *Credit Gain Finance*

Credit Gain Finance Company Limited (“Credit Gain Finance”) was established in November 2006 as a wholly-owned subsidiary of BEA registered under the Money Lenders Ordinance to compete in the local sub-prime personal loan market. Credit Gain Finance has expanded aggressively during the past six months. The company currently operates seven branches, located in Wanchai, Causeway Bay, Tsimshatsui, Mongkok, Kwun Tong, Shatin and Tuen Mun, and plans to open more branches through the end of the year.

## Credit Cards

The Bank’s card business continues to focus on product innovation, service excellence and investment for the future. Acquisition of new customers remains a key strategic goal. During the past six months, the Bank targeted a younger audience, with the potential to develop a long-term relationship with the Bank.

On the back of continuing improvement in consumer sentiment, card spending grew steadily during the period. The Bank took advantage of the favourable market climate to launch new spending campaigns and joint promotions with well-known merchants.

A number of new products were launched during the period. The “BEA Visa Traveller’s Card”, aimed at outbound travellers, is the first prepaid foreign currency card to be introduced to the Hong Kong market. The Bank also launched the “JCB Platinum Card”, targeting younger customers.

The Card unit’s strong performance resulted in BEA being recognised by MasterCard as the “2006 Highest Growth Rate in Merchant Purchase Volume – MasterCard Card”. In addition, BEA was second runner-up in the category “2006 Highest Growth Rate in Number of Open Cards – MasterCard Card”. BEA was also named first runner-up for “2006 Highest Number of Merchant Terminals - China Unionpay” in March 2007.

Going forward, the Bank will maintain its strategy of enlarging the card base and encouraging card usage.

## **CORPORATE BANKING**

### Corporate Lending

The local corporate loan market exhibited stable growth in the first half of 2007, and was dominated by the financing activities of Mainland enterprises and property-related lending. Mainland enterprises showed strong interest in offshore US dollar financing to take advantage of the steady appreciation in the Renminbi, while property lending was fuelled by the growing interest at land auctions. Given the abundant liquidity in the loan market and the resulting intense competition, interest margin for both syndicated and bilateral deals remains at historically low levels. Nevertheless, BEA continued to maintain an active presence in the syndicated loan market in the first half of 2007, both as coordinating arranger and as a participant.

Strong demand for loans has emerged in the small to medium-sized business segment. Companies continue to report good growth in business turnover, although the rate of profit growth has lagged behind. This is mainly due to high overhead costs, such as rents, labour, and raw materials. Rising oil prices have also affected a number of industries. Equipment loans continued to grow as a result of manufacturers’ willingness to invest in machinery in order to offset growing labour shortages and rising wage demands. One area of particular interest to customers has been the expanding Mainland consumer market. To cater to customer needs, cross border financing and other related financial services were jointly provided by Hong Kong and China branches.

BEA will continue to meet the ever-changing needs of the corporate market and maintain a dynamic asset mix including property lending, trade finance, leveraged buyout finance, pre-IPO finance, equipment finance and infrastructure project finance.

## Securities Lending

The local stock market was very active in the first half of 2007, and the Bank was able to capitalise on strong investor sentiment to achieve an increase of over 500% in IPO staging loan business, when compared with same period last year. Furthermore, BEA provided IPO Receiving Bank services for ten IPO projects during the period, up from four in the same period last year.

## Bank of East Asia (Trustees) Limited

### *Mandatory Provident Fund*

BEA's MPF operations continued to deliver strong results during the first half of 2007, with most BEA MPF constituent funds outperforming the market average. MPF membership grew by more than 8% during the period, while assets grew by 28%. This excellent result was achieved despite the highly competitive operating environment and the growing maturity of the MPF market.

### *Trust Services*

Although Estate Duty was abolished in Hong Kong in 2006, the Bank was able to develop new sources of income and recorded a 65% rise in revenue from its private trust business during the first six months of this year, as compared with the same period last year.

## **WEALTH MANAGEMENT**

### Structured Products

Riding on the buoyant equity market in the first half of 2007, BEA registered a three-fold increase in the number of equity linked structured products it issued locally, as compared to the same period last year. A number of the new issues matured early, delivering high returns for customers and for the Bank.

On the Mainland, the growth in demand for on-shore and QDII (Qualified Domestic Institutional Investor) products has been exceptional. Forty products were launched during the first six months of this year, six times as many as the same period last year and a new record for the Bank. These issues, all structured as principal protected products, provided a sound alternative for Mainland investors wishing to balance their portfolio against the volatile A-share market.

### Mutual Fund Business/Asset Management

The Bank launched two BEA branded mutual funds in first half of 2007, the BEA Global Themes Fund and the BEA Hong Kong Growth Fund. The latter fund was launched to provide an attractive channel for participation in the Hong Kong equity market and to capitalise on the influx of liquidity generated by the recent regulatory changes on the Mainland. Market response to both funds was highly encouraging, with the two funds attracting a combined total of more than HKD550 million by end of June 2007. Overall, the Bank's investment fund business performed exceptionally well, with growth of more than 50% in terms of gross sales.

To assist customers in keeping abreast of the latest market and product information on investment funds, the Bank launched an on-line product database, named Cyberfund Centre, in 2005. In May this year, Cyberfund Centre was upgraded with improved analytical tools and a more intuitive interface.

The asset management subsidiary of the Bank, East Asia Asset Management Co. Ltd. ("EAAM"), continued to deliver solid growth in client assets during the first half of 2007. Total assets under management grew by 14.7% for the first half of 2007, supported by strong growth in assets held in discretionary accounts and in the MPF business.

On 19th April, 2007, the Bank entered into a joint venture agreement with Germany's Union Asset Management Holding AG to form a joint venture asset management company in Hong Kong using EAAM as the platform. This entity will be renamed BEA Union Investment Management Limited and will become the sole Asian asset management vehicle for both groups. With this new firm in place, BEA is well positioned to expand its presence in the fund management business in the region, including the Mainland.

## Bancassurance

The Bank recorded a 20% rise in its life insurance business in the first half of 2007, as represented by the new business index. This rise was supported by a range of new insurance plans, including Flexible Retirement Income Insurance, Lifetime Medical Savings Insurance and Lifetime Protection Insurance. These were introduced to better serve the market for retirement, medical and life insurance coverage.

Through seasonal promotional offers and cross-selling programmes, the Bank's general insurance business experienced healthy growth.

The Bancassurance Department took the initiative to improve premium income by diversifying product distribution channels. Premium income from the e-channel doubled in the first half of this year, while the telemarketing unit contributed over 4% of the overall life business.

## Blue Cross (Asia-Pacific) Insurance Limited

Blue Cross registered a 26% gain in its general insurance income during the first six months of 2007. Its core business lines, medical insurance and travel insurance, recorded an increase of 37% and 14% in premium income, respectively. A recognised leader in travel insurance, Blue Cross has been named "The Most Popular Travel Insurance Company" for three consecutive years (2005 — 2007).

Blue Cross took further steps during the first half of 2007 to expand its Internet business, undertaking web advertising and direct marketing campaigns. Targeting peak travel seasons, special incentives were offered to clients who applied for travel insurance online. As a result, web premium income increased by more than 150% compared to the same period last year.

Blue Cross also developed a number of co-branded insurance plans with its strategic partners to explore new market opportunities. These products included family medical insurance, decoration insurance and pet insurance.

## Private Banking

The Bank re-launched BEA Private Banking in late 2005, providing a full range of services for managing personal wealth. The business has now been in operation for 20 months, and has achieved a critical mass in terms of clients and business size. During the start-up period, the Bank focused on recruiting the best talent, and the effort has been rewarded with the establishment of a strong reputation and excellent clientele.

The first half of 2007 continued to provide many investment opportunities for BEA Private Banking clients. A range of strategies was offered, including some with principal guarantees suitable for conservative clients and others with high potential returns through participation in equity products. In general, the buoyant equity markets rewarded clients handsomely, in line with individual clients' preferred risk exposure.

## ***INVESTMENT BANKING AND SERVICES***

### East Asia Securities Company Limited — Securities Cybertrading

For the first six month of 2007, East Asia Securities continued to benefit from better local market sentiment and improved investor confidence.

East Asia Securities is committed to using technology to improve and expand its brokerage service network. When compared with the corresponding period last year, the Company registered a rise of 19% in the number of Cybertrading accounts. As of 30th June, 2007, more than 66% of the Company's securities clients had subscribed to Cybertrading.

East Asia Securities has stepped up efforts to encourage customers to make increased use of electronic trading. Currently, the volume of transactions executed via Cybertrading, expressed as a percentage of total turnover, accounts for some 51% of the number of trades and 24% of the gross transaction value.

In view of the dramatic increase in market turnover and the trading volume conducted through Cybertrading, East Asia Securities has plans to further upgrade the hardware of its online trading system in the third quarter of 2007.

For the first six months of 2007, East Asia Futures, the wholly-owned futures and option broking arm of the Bank, continued to benefit from the improved local market sentiment and steady growth in demand for derivative products.

The Company experienced strong response to the introduction of Futures Cybertrading. As compared with the corresponding period last year, the Company registered a rise of 39% in the number of Futures Cybertrading accounts. As of 30th June, 2007, more than 67% of the Company's clients have subscribed to the Futures Cybertrading service.

East Asia Futures has instituted various incentive schemes to encourage clients to execute trades via its electronic trading platform. Currently, the volume of transactions executed via the Futures Cybertrading system, expressed as a percentage of total turnover, represents some 54% of total trades and 47% of transaction value.

In addition, East Asia Futures will implement a system upgrade before the third quarter of 2007 in order to boost the speed of order placement and execution via the Futures Cybertrading system.

### **CHINA OPERATIONS**

BEA reached a milestone in its China business during the first half of the year, successfully transferring its operations on the Mainland to a locally-incorporated bank - The Bank of East Asia (China) Limited ("BEA-China"). The establishment of BEA-China, which commenced business on 2nd April, 2007, will speed up the Bank's expansion on the Mainland. Furthermore, BEA-China will be able to provide a wider range of banking services including, but not limited to, deposits, wealth management, derivative products, agency services for both life and general insurance products, consumer loans, end-user mortgage loans, foreign exchange, Renminbi forward services, project finance and commercial loans, construction loans, property investment loans, trade finance facilities, account receivable finance and working capital finance.

The Bank has taken advantage of the opportunities provided by the establishment of BEA-China to significantly expand its presence on the Mainland. In February 2007, a new branch was added in Shenyang, Liaoning Province. In addition, ten sub-branches were opened over the past seven months. Wuhan Branch, upgraded from the existing Wuhan Representative Office, is scheduled to commence business in August this year. BEA-China has also recently obtained preliminary approval from the China Banking Regulatory Commission to prepare for the establishment of Nanjing Branch. It is expected that Nanjing Branch will open by the end of this year.

At present, BEA operates 44 outlets, one of the most extensive networks of any foreign bank operating on the Mainland. Headquartered in Shanghai, BEA-China's network comprises 13 branches and 24 sub-branches. The parent company, BEA, operates a branch in Shanghai for foreign exchange wholesale business, and five representative offices. BEA also has branches in Macau, Taipei and Kaohsiung.

### **OVERSEAS OPERATIONS**

Two new branches were added to the branch network of The Bank of East Asia (U.S.A.) N.A. ("BEA-USA") during the period, both in the New York region, one in Brooklyn and the second in Flushing. Including these two new branches, BEA-USA currently has a total of 10 outlets – three in New York, four in Los Angeles and three in San Francisco. Plans are under way to open seven additional branches in New York and in California in the next 18 months.

To complement the expansion of BEA's overseas network, greater emphasis is being placed on automating the systems and processes in the overseas operations. In April 2007, BEA-USA implemented a new system for its trade finance and treasury operations, which enables BEA-USA to process a larger volume of transactions more efficiently.

In the United Kingdom, BEA replaced its core banking system in its two branches in London and Birmingham, introducing advanced features that cater for today's demanding banking environment.

Construction work for the new BEA Singapore Branch Building at 60 Robinson Road has commenced, and the new building will be ready for occupancy by the fourth quarter of 2008.

## **CORPORATE SERVICES**

The BEA Group, through Group member Tricor Holdings Limited (“Tricor”), is a leading provider of business, corporate and investor services in the region. These services include accounting, company formation, corporate compliance and company secretarial, executive search and selection, initial public offerings (“IPO”) and share registration, payroll outsourcing and fund and trust administration.

Tricor recorded substantial growth in gross revenue for the first half of the year, and is the key contributor to the BEA Group’s fee and commission income earnings. Tricor’s investor services practice, which services over 50% of the companies listed in Hong Kong, has benefited from the increasing number of companies from both Hong Kong and Mainland China launching IPOs in Hong Kong. With the vibrant economy in the region, Hong Kong and some of the overseas offices have continued to experience strong demand for their accounting and payroll services, as well as their company secretarial and corporate compliance work.

In early 2007, Tricor Malaysia acquired two reputable corporate services practices, one located in Kuala Lumpur and the other in Johor Bahru. In April, Tricor acquired the corporate services practice of Ernst & Young in Barbados, further strengthening Tricor’s capability to provide offshore corporate services.

Tricor now operates in 12 cities and employs some 1,080 professional and support staff in the region, compared with a staff complement of 1,000 six months ago.

## **HUMAN RESOURCES**

The Bank of East Asia Group employees at the end of June 2007:

Hong Kong	4,941
Other Greater China	2,850
Overseas	862
Total	<u>8,653</u>

The Bank has further enhanced its in-house training programmes, offering a more comprehensive, systematic and responsive learning platform with a view to better strengthening the professionalism and productivity of staff members. In addition, the Bank supported the Staff Sports Recreation Club to organise various staff activities, promoting physical fitness and social gatherings.

## **FUTURE PROSPECTS**

BEA continued to pursue a growth strategy during the first half of 2007. The Bank was able to capture business opportunities deriving from the improvement in the domestic lending environment, and the solid growth in loan demand on the Mainland. Looking forward, it is expected that loan growth and new business opportunities will remain buoyant in the second half of this year, due to the positive economic outlook for both Hong Kong and China.

BEA’s wealth management business, especially private banking, structured products and bancassurance, will continue to be the focal nexus of the Bank. BEA will continue to maximise its cross-selling initiatives by leveraging the leading corporate services and share registration services of Tricor and the insurance businesses of Blue Cross. Apart from organic growth, BEA will also continue to look for return on equity accretive expansion opportunities through potential acquisitions and strategic alliances in Hong Kong, the rest of China and overseas.

BEA has attained significant growth in overseas territories, particularly in the United States and Southeast Asia. BEA will continue to expand its business scope on the Mainland to meet growing market opportunities. To maintain its leading position in the market, the Bank will maintain a proactive approach to introduce new products and aggressively strengthen its branch network coverage.

On the operation side, BEA will continue to focus on improving and enhancing operating efficiency, including streamlining operating systems, branch rationalisation, and relocating suitable operating functions to the Mainland. In addition, BEA will strive to further raise its service quality, continually striving to exceed customer expectations. The Bank will maintain its commitment to a high level of investment in information technology, risk management and corporate governance to enhance its services and products.



## **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS**

As at 30th June, 2007, the interests and short positions of the Directors and Chief Executive of the Bank in the shares, underlying shares and debentures of the Bank and its associated corporations as recorded in the Register required to be kept under section 352 of the Securities and Futures Ordinance (the "SFO") were as follows:

### **I. Long positions in shares of the Bank**

Name	Capacity and nature	No. of shares	Total	% of issued share capital
David LI Kwok-po	Beneficial owner Interest of spouse	30,339,985 <u>1,277,242</u>	31,617,227 <sup>1</sup>	2.02
LI Fook-wo	Beneficial owner Founder of discretionary trust	1,235,804 <u>30,655,378</u>	31,891,182 <sup>2</sup>	2.03
WONG Chung-hin	Beneficial owner Interest of spouse	46,810 <u>344,131</u>	390,941 <sup>3</sup>	0.02
LEE Shau-kee	Beneficial owner Interest of corporation	647,985 <u>1,000,000</u>	1,647,985 <sup>4</sup>	0.11
Allan WONG Chi-yun	Interest of spouse Founder of discretionary trust	124 <u>10,729,192</u>	10,729,316 <sup>5</sup>	0.68
Aubrey LI Kwok-sing	Beneficial owner Interest of spouse Beneficiary of discretionary trust	23,391 16,107 <u>30,655,378</u>	30,694,876 <sup>6</sup>	1.96
Joseph PANG Yuk-wing	Beneficial owner	1,000,000	1,000,000	0.06
William MONG Man-wai	Beneficial owner Interest of corporation	908,467 <u>5,242,661</u>	6,151,128 <sup>7</sup>	0.39
Winston LO Yau-lai	—	—	Nil	Nil
KHOO Kay-peng	Interest of corporation	1,023,494	1,023,494 <sup>8</sup>	0.07
Thomas KWOK Ping-kwong	—	—	Nil	Nil
Richard LI Tzar-kai	—	—	Nil	Nil
TAN Man-kou	—	—	Nil	Nil
Kenneth LO Chin-ming	—	—	Nil	Nil
Eric LI Fook-chuen	Beneficial owner Founder and beneficiary of discretionary trust Interest of corporation	1,040,201  18,769,731 <u>14,039,595</u>	  33,849,527 <sup>9</sup>	  2.16
Stephen Charles LI Kwok-sze	Beneficial owner Interest of children Beneficiary of discretionary trusts	11,432,260 456,545 <u>1,875,800</u>	13,764,605 <sup>10</sup>	0.88

Notes:

1. David LI Kwok-po was the beneficial owner of 30,339,985 shares and he was deemed to be interested in 1,277,242 shares through the interests of his spouse, Penny POON Kam-chui.
2. LI Fook-wo was the beneficial owner of 1,235,804 shares. The remaining 30,655,378 shares were held by The Fook Wo Trust, of which LI Fook-wo was the founder, but he had no influence on how the trustee exercises his discretion. The disclosure of these 30,655,378 shares was made on a voluntary basis. Aubrey LI Kwok-sing was also interested in this same block of 30,655,378 shares as one of the discretionary beneficiaries of the trust (please refer to note 6 below).
3. WONG Chung-hin was the beneficial owner of 46,810 shares and he was deemed to be interested in 344,131 shares through the interests of his spouse, LAM Mei-lin.
4. LEE Shau-kee was the beneficial owner of 647,985 shares.

LEE Shau-kee was deemed to be interested in 1,000,000 shares held through Superfun Enterprises Limited ("Superfun"). Superfun was wholly owned by The Hong Kong and China Gas Company Limited which was 38.55% held by Henderson Investment Limited which in turn was 67.94% held by Kingslee S.A., a wholly-owned subsidiary of Henderson Land Development Company Limited ("Henderson Land").

Henderson Land was 57.80% held by Henderson Development Limited ("Henderson Development"). Hopkins (Cayman) Limited ("Hopkins") as trustee of a unit trust (the "Unit Trust") owned all the issued ordinary shares of Henderson Development. Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"), as trustees of respective discretionary trusts, held units in the Unit Trust. The entire issued share capital of Hopkins, Rimmer and Riddick were owned by LEE Shau-kee.

5. Allan WONG Chi-yun was deemed to be interested in 124 shares through the interests of his spouse, Margaret KWOK Chi-wai. He was also deemed to be interested in 10,729,192 shares held by a discretionary trust, The Wong Chung Man 1984 Trust, of which Allan WONG Chi-yun was a founder.
6. Aubrey LI Kwok-sing was the beneficial owner of 23,391 shares and he was deemed to be interested in 16,107 shares through the interests of his spouse, Elizabeth WOO. The remaining 30,655,378 shares were held by The Fook Wo Trust, a discretionary trust in which Aubrey LI Kwok-sing was one of the discretionary beneficiaries. LI Fook-wo had also made disclosure in respect of the same block of 30,655,378 shares as founder of the discretionary trust (please refer to note 2 above).
7. William MONG Man-wai was the beneficial owner of 908,467 shares. Of the remaining 5,242,661 shares, (i) 4,502,798 shares were held through Shun Hing Electronic Trading Co. Ltd., (ii) 668,323 shares were held through Shun Hing Technology Co. Ltd., and (iii) 71,540 shares were held through Shun Hing Advertising Co. Ltd. Such corporations are accustomed to act in accordance with the directions or instructions of William MONG Man-wai who is the Chairman of these corporations.
8. KHOO Kay-peng was deemed to be interested in 1,023,494 shares which were held through Bonham Industries Limited, a company in which he held 99.9% of the issued capital.
9. Eric LI Fook-chuen was the beneficial owner of 1,040,201 shares, and 18,769,731 shares were held by New Jerico Limited in the capacity of trustee of The Jerico Unit Trust. Eric LI Fook-chuen is the sole director of New Jerico Limited. All the units in The Jerico Unit Trust are held by The New Elico Trust, of which Eric LI Fook-chuen is the founder and a discretionary beneficiary. Eric LI Fook-chuen was also deemed to be interested in 14,039,595 shares held by The Kowloon Dairy Limited of which he is the Chairman and Chief Executive Officer.
10. Stephen Charles LI Kwok-sze was the beneficial owner of 11,432,260 shares, and he was deemed to be interested in 456,545 shares through the interests of his children under the age of 18. Of the remaining 1,875,800 shares, (i) 1,720,800 shares were held by a discretionary trust of which Stephen Charles LI Kwok-sze, his spouse and his children under the age of 18 are beneficiaries; and (ii) 155,000 shares were held by a discretionary trust of which his children under the age of 18 are beneficiaries.

## II. Long positions in (in respect of equity derivatives) underlying shares of the Bank

Shares options, being unlisted physically settled equity derivatives, to subscribe for the ordinary shares of the Bank were granted to David LI Kwok-po and Joseph PANG Yuk-wing pursuant to the approved Staff Share Option Schemes. Information in relation to these shares options during the six months ended 30th June, 2007 was shown in the following section under the heading "Information on Share Options".

Save as disclosed above, no other interest or short position in the shares, underlying shares or debentures of the Bank or any of its associated corporations were recorded in the Register.

## INFORMATION ON SHARE OPTIONS

Information in relation to share options disclosed in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") was as follows:

(1) Movement of share options during the six months ended 30th June, 2007:

Name	Date of Grant <sup>a</sup>	Number of Share Options				Outstanding at 30/6/2007
		Outstanding at 1/1/2007	Granted	Exercised	Lapsed	
David LI Kwok-po	18/4/2002	850,000	—	850,000 <sup>c</sup>	—	Nil
	02/5/2003	1,000,000	—	—	—	1,000,000
	22/4/2004	1,000,000	—	—	—	1,000,000
	03/5/2005	1,000,000	—	—	—	1,000,000
	03/5/2006	1,000,000	—	—	—	1,000,000
	10/5/2007	—	1,000,000 <sup>b</sup>	—	—	1,000,000
Joseph PANG Yuk-wing	18/4/2002	400,000	—	400,000 <sup>c</sup>	—	Nil
	02/5/2003	500,000	—	—	—	500,000
	22/4/2004	500,000	—	—	—	500,000
	03/5/2005	500,000	—	—	—	500,000
	03/5/2006	500,000	—	—	—	500,000
	10/5/2007	—	500,000 <sup>b</sup>	—	—	500,000
Aggregate of other Employees <sup>1</sup>	18/4/2002	205,000	—	205,000 <sup>c</sup>	—	Nil
	02/5/2003	895,000	—	605,000 <sup>c</sup>	—	290,000
	22/4/2004	3,750,000	—	1,020,000 <sup>c</sup>	—	2,730,000
	03/5/2005	8,310,000	—	2,255,000 <sup>c</sup>	—	6,055,000
	03/5/2006	1,250,000	—	—	—	1,250,000
	10/5/2007	—	1,250,000 <sup>b</sup>	—	—	1,250,000
Other Participant <sup>2</sup>	18/4/2002	400,000	—	400,000 <sup>c</sup>	—	Nil
	02/5/2003	500,000	—	—	—	500,000
	22/4/2004	500,000	—	—	—	500,000
	03/5/2005	500,000	—	—	—	500,000
	03/5/2006	500,000	—	—	—	500,000

<sup>1</sup> Employees working under employment contracts that were regarded as "Continuous Contracts" for the purpose of the Hong Kong Employment Ordinance.

<sup>2</sup> The Other Participant refers to the former Executive Director, who retired and resigned as a Director of the Bank with effect from 1st May, 2007. The options were granted to him prior to his retirement and resignation and remained exercisable as at 30th June, 2007.

Notes:

a Particulars of share options:

Date of Grant	Vesting Period	Exercise Period	Exercise Price Per Share HK\$
18/4/2002	18/4/2002 — 17/4/2003	18/4/2003 — 18/4/2007	15.80
02/5/2003	02/5/2003 — 01/5/2004	02/5/2004 — 02/5/2008	14.90
22/4/2004	22/4/2004 — 21/4/2005	22/4/2005 — 22/4/2009	23.23
03/5/2005	03/5/2005 — 02/5/2006	03/5/2006 — 03/5/2010	22.95
03/5/2006	03/5/2006 — 02/5/2007	03/5/2007 — 03/5/2011	33.05
10/5/2007	10/5/2007 — 09/5/2008	10/5/2008 — 10/5/2012	47.13

b (i) The closing price of the shares of the Bank immediately before 10th May, 2007 on which the options were granted was HK\$47.55.

(ii) Fair value of share options granted during the six months ended 30th June, 2007 and assumptions:

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on a trinomial lattice model. The contractual life of the option is used as an input into this model.

Fair value at measurement date	HK\$11.13
Share price	HK\$47.00
Exercise price	HK\$47.13
Expected volatility (expressed as weighted average volatility used in the modelling under trinomial lattice model)	30.92%
Option life	5 years
Expected dividends	4.82%
Risk-free interest rate (based on Exchange Fund Notes)	4.10%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

- c The half-year weighted average ("HWA") closing price of the shares of the Bank immediately before the date on which the Options were exercised during the six months ended 30th June, 2007:

Date of Grant	No. of Options Exercised	Exercise Price	HWA Closing Price
		Per Share	
		HK\$	HK\$
18/4/2002	1,855,000	15.80	44.99
02/5/2003	605,000	14.90	45.61
22/4/2004	1,020,000	23.23	45.72
03/5/2005	2,255,000	22.95	45.83

- (2) No share options were cancelled during the six months ended 30th June, 2007.
- (3) The accounting policy adopted for share options:

The option exercise price equals the fair value of the underlying shares at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received. The fair value of share options granted to employees is recognised as an expense in the profit and loss account with a corresponding increase in a capital reserve within equity. The fair value is measured at the grant date using the trinomial model, taking into account terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to those share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged or credited to the profit and loss account for the year of the review unless the original expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Bank's shares.

The amount recognised in capital reserve is retained until either the option is exercised (when it is transferred to share premium) or the option expires (when it is released directly to retained profits).

Save as disclosed above, as at 30th June, 2007, none of the Directors or Chief Executive of the Bank or their spouses or children under 18 years of age were granted or exercised any right to subscribe for any equity or debt securities of the Bank or any of its associated corporations.

## **INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS**

As at 30th June, 2007, the interests and short positions of Substantial Shareholders and Other Persons of the Bank in the shares and underlying shares of the Bank as recorded in the Register required to be kept under section 336 of the SFO were as follows:

<u>Name</u>	<u>Capacity and nature</u>	<u>No. of shares</u>	<u>% on issued share capital</u>
Silchester International Investors Limited	Investment Manager	92,445,800 <sup>1</sup> (L)	5.89
Deutsche Bank Aktiengesellschaft	Beneficial owner, investment manager and person having a security interest in shares	142,126,917 <sup>2</sup> (L)	9.06
		83,130,826 <sup>2</sup> (S)	5.30

<sup>1</sup> *Silchester International Investors Limited has informally notified the Bank that as at 30th June, 2007, it held 83,291,600 shares (representing approximately 5.31% of the Bank's issued share capital) and this decrease in shareholding was not required to be disclosed under Part XV of the SFO.*

<sup>2</sup> *Of these interests, long position of 129,031,405 shares and short position of 81,992,438 shares were unlisted cash settled derivative interests. On 4th July, 2007, the Bank received notification from Deutsche Bank Aktiengesellschaft that as at 28th June, 2007, it held a long position of 142,253,462 shares (of which 129,031,405 shares were unlisted cash settled derivative interests) and a short position of 20,422,253 shares (of which 19,419,265 shares were unlisted cash settled derivative interests), representing approximately 9.07% and 1.30% respectively of the Bank's issued share capital. This notification was recorded in the Register on 4th July, 2007.*

(L) = Long Position

(S) = Short Position

Save as disclosed above, no other interest or short position in the shares or underlying shares of the Bank were recorded in the Register.

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

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of listed securities of the Bank during the six months ended 30th June, 2007.

## **COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES**

Being the largest independent local bank in Hong Kong, the Bank is committed to maintaining the highest corporate governance standards. The Board considers such commitment essential in balancing the interests of shareholders, customers and employees; and in upholding accountability and transparency.

BEA has complied with all the Code Provisions set out in Appendix 14, Code on Corporate Governance Practices of the Listing Rules, throughout the accounting period for the six months ended 30th June, 2007, except for Code Provision A.2.1 as explained below.

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Dr. The Hon. Sir David Li Kwok-po is the Chairman and Chief Executive of the Bank. The Board considers that this structure will not impair the balance of power and authority between the Board and the Management of the Bank. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and highly qualified individuals. The Board meets regularly every two months to discuss issues affecting operations of the Bank. There is a strong independent element in the composition of the Board. Of the 16 Board members, seven are Independent Non-executive Directors. The Board believes that the current structure is conducive to strong and consistent leadership, enabling the Bank to make and implement decisions promptly and efficiently. The Board believes that Sir David's appointment to the posts of Chairman and Chief Executive is beneficial to the business prospects and management of the Bank.

## COMPLIANCE WITH MODEL CODE

The Bank has established its own code of securities transactions by the Directors and Chief Executive, i.e. *Policy on Insider Trading — Directors and Chief Executive* (“Bank’s Policy”) on terms no less exacting than the required standard set out in Appendix 10 — Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) of the Listing Rules.

The Bank has also established a *Policy on Insider Trading – Group Personnel* to be observed by the employees of the Bank or directors or employees of the Bank’s subsidiaries, in respect of their dealings in the securities of the Bank.

Having made specific enquiry of all Directors of the Bank during the six months ended 30th June, 2007, Directors of the Bank have complied with the required standard set out in the Model Code and the Bank’s Policy.

By order of the Board

**David LI Kwok-po**

*Chairman & Chief Executive*

Hong Kong, 2nd August, 2007.

*As at the date of this report, the Executive Directors of the Bank are: Dr. The Hon. Sir David LI Kwok-po (Chairman and Chief Executive) and Mr. Joseph PANG Yuk-wing (Deputy Chief Executive); Non-executive Directors of the Bank are: Dr. LI Fook-wo; Mr. Aubrey LI Kwok-sing, Dr. William MONG Man-wai, Tan Sri Dr. KHOO Kay-peng, Mr. Richard LI Tzar-kai, Mr. Eric LI Fook-chuen and Mr. Stephen Charles LI Kwok-sze; and Independent Non-executive Directors are: Mr. WONG Chung-hin, Dr. LEE Shau-kee, Dr. Allan WONG Chi-yun, Mr. Winston LO Yau-lai, Mr. Thomas KWOK Ping-kwong, Mr. TAN Man-kou and Mr. Kenneth LO Chin-ming.*