BEA 東亞銀行

THE BANK OF EAST ASIA, LIMITED

(Incorporated in Hong Kong with limited liability in 1918)
(Stock Code: 23)

ANNOUNCEMENT OF 2005 FINAL RESULTS

SUMMARY OF RESULTS

The Directors of The Bank of East Asia, Limited ("BEA") are pleased to announce the audited results[1] of the Bank and its subsidiaries (the "Group") for the year ended 31st December, 2005. This financial report, which has been reviewed by the Bank's Audit Committee, is prepared on a basis consistent with the accounting policies and methods adopted in the 2004 annual accounts except for the changes in accounting policies made thereafter in adopting certain new and revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA")[2].

A. Consolidated Profit and Loss Account

	2005	2004 Restated		Variance
	HK$'000	HK$'000		%
Interest income	7,806,534	5,668,495	+	37.7
Interest expense	(4,046,276)	(2,054,505)	+	96.9
Net interest income	3,760,258	3,613,990	+	4.0
Fee and commission income	1,598,000	1,506,604	+	6.1
Fee and commission expense	(229,896)	(298,363)	-	22.9
Net trading profits	576,024	373,956	+	54.0
Net result from financial instruments designated at fair value through profit or loss	(42,546)	-		-
Other operating income	290,698	299,678	-	3.0
Operating income	5,952,538	5,495,865	+	8.3
Operating expenses	(2,988,047)	(2,762,180)	+	8.2
Operating profit before impairment losses	2,964,491	2,733,685	+	8.4
Impairment losses on loans and advances	(141,485)	-		-
Net charge for bad and doubtful debts	-	(272,807)	-	100.0
Impairment losses on held-to-maturity investments	(33,230)	-		-
Impairment losses on available-for-sale financial assets	(325)	-		-
Impairment losses on associates	(6,838)	-		-
Provision on held-to-maturity debt securities, investment securities & associates	-	(18,582)	-	100.0
(Charge)/Write back of impairment loss on bank premises	(210,140)	18,538	-	1233.6
Impairment losses	(392,018)	(272,851)	+	43.7
	2,572,473	2,460,834	+	4.5
Net loss on sale of held-to-maturity investments	(630)	-		-
Net profit on sale of available-for-sale financial assets	6,983	-		-
Net profit on sale of investments securities	-	13,763	-	100.0
Net profit/(loss) on sale of subsidiaries/associates	624	(5)	+	12580.0
Net profit on sale of fixed assets	365,441	15,239	+	2298.1
Valuation gains on investment properties	234,221	227,941	+	2.8
Share of profits less losses on associates	33,731	68,995	-	51.1
Profit for the year before taxation	3,212,843	2,786,767	+	15.3
Income tax[4]				
- Hong Kong	(259,840)	(297,372)	-	12.6
- Overseas	(111,035)	(29,185)	+	280.5
- Deferred tax	(55,987)	(87,734)	-	36.2
Profit for the year after taxation	2,785,981	2,372,476	+	17.4
Attributable to:				
Equity holders of the Group	2,748,725	2,347,709	+	17.1
Minority interests	37,256	24,767	+	50.4
Profit after taxation	2,785,981	2,372,476	+	17.4
Proposed final dividend per share	HK$0.93	HK$0.80	+	16.3
Earnings per share				
- Basic[5]	HK$1.83	HK$1.59	+	15.1
- Diluted[5]	HK$1.82	HK$1.58	+	15.2
Dividends per share	HK$1.26	HK$1.08	+	16.7

B. Consolidated Balance Sheet

	2005	2004 Restated	Variance	
	HK$'000	HK$'000	%	
ASSETS				
Cash and balances with banks and other financial institutions	4,525,587	3,655,593	+	23.8
Placements with banks and other financial institutions	45,347,255	42,083,406	+	7.8
Trade bills	612,587	1,400,138	-	56.2
Trading assets	3,245,579	2,283,425	+	42.1
Financial assets designated at fair value through profit or loss	10,157,707	-		-
Advances to customers and other accounts	144,836,789	122,601,430	+	18.1
Other investments in securities	-	11,820,621	-	100.0
Available-for-sale financial assets	8,399,121	-		-
Held-to-maturity investments	13,016,959	17,557,945	-	25.9
Investments in associates	768,580	725,963	+	5.9
Fixed assets	5,355,899	5,697,750	-	6.0
- Investment properties	950,586	802,934	+	18.4
- Other property and equipment	4,405,313	4,894,816	-	10.0
Goodwill	2,494,950	2,448,156	+	1.9
Deferred tax assets	38,469	95,119	-	59.6
Total Assets	238,799,482	210,369,546	+	13.5
EQUITY AND LIABILITIES				
Deposits and balances of banks and other financial institutions	13,785,419	9,571,657	+	44.0
Deposits from customers	175,894,925	163,737,665	+	7.4
Trading liabilities	1,936,999	1,191,858	+	62.5
Certificates of deposit issued	6,431,391	4,178,623	+	53.9
- At fair value through profit or loss	3,047,652	-		-
- At amortised cost	3,383,739	4,178,623	-	19.0
Current taxation	261,695	179,369	+	45.9
Deferred tax liabilities	627,485	729,266	-	14.0
Other accounts and provisions	6,908,260	4,651,190	+	48.5
Loan capital measured at fair value through profit or loss	8,548,780	4,271,124	+	100.2
Total Liabilities	214,394,954	188,510,752	+	13.7
Share capital	3,775,575	3,729,996	+	1.2
Reserves	20,421,790	17,963,143	+	13.7
Total equity attributable to equity holders of the Group	24,197,365	21,693,139	+	11.5
Minority interests	207,163	165,655	+	25.1
Total Equity	24,404,528	21,858,794	+	11.6
Total Equity and Liabilities	238,799,482	210,369,546	+	13.5

C. Consolidated Summary Statement of Changes in Equity

	2005	2004 Restated
	HK$'000	HK$'000
Total equity at 1st January		
As previously reported:		
- attributable to equity holders of the Group	21,727,481	20,111,256
- minority interests	165,655	24,418
	21,893,136	20,135,674
Prior period adjustments arising from changes in accounting policies	(34,342)	-
As restated, before opening balance adjustments	21,858,794	20,135,674
Opening balance adjustments arising from changes in accounting policies	595,788	-
As 1st January, after prior period and opening balance adjustments	22,454,582	20,135,674
Net income recognised directly in equity		
Release/(recognition) of net deferred tax liabilities in revaluation reserve on bank premises	37,818	(1,874)
Revaluation surplus on bank premises transferred to investment properties	12,429	13,788
Write back of impairment loss on bank premises	-	12,839
Capital reserve on share-based transactions	29,796	41,749
Changes in fair value of available-for-sale financial assets	359,477	-
Exchange and other adjustments	27,875	24,874
	467,395	91,376
Net profit for the year		
Attributable to:		
Equity holders of the Group	2,748,725	2,347,709
- Attributable to equity holders of the Group (as previously reported)		2,423,800
- Prior period adjustments arising from change in accounting policies		(76,091)
Minority interests	37,256	24,767
	2,785,981	2,372,476
Dividends declared or approved during the year	(1,691,428)	(1,325,241)
Movements in shareholders' equity arising from capital transactions with equity holders of the Group:		
Shares issued under Staff Share Option Schemes	70,638	172,389
Shares issued in lieu of dividends	313,034	295,794
Capital fee	(58)	(144)
	383,614	468,039
Movements in minority interests		
Acquisition of subsidiaries	975	-
Decrease/(increase) in shareholding	3,409	(2,092)
Contribution from minority shareholders	-	118,562
	4,384	116,470
Balance as at 31st December	24,404,528	21,858,794

D. Consolidated Cash Flow Statement

	2005	2004
		Restated
	HK$'000	HK$'000
OPERATING ACTIVITIES		
Profit for the year before taxation	3,212,843	2,786,767
Adjustments for non-cash items:		
Net charge for bad and doubtful debts	-	272,807
Impairment losses on loans and advances	141,485	-
Impairment allowances on held-to-maturity investments, available-for-sale financial assets and associates	40,393	-
Provisions on held-to-maturity debt securities, investment securities and associates	-	18,582
Share of profits less losses of associates	(33,731)	(68,995)
Net loss on sale of held-to-maturity investments	630	-
Net profit on sale of other investments in securities	-	(13,763)
Net (profit)/loss on sale of subsidiaries/associates	(624)	5
Net profit on sale of available-for-sale financial assets	(6,983)	-
Net profit on sale of fixed assets	(365,441)	(15,239)
Interest expenses on loan capital, certificates of deposit and bonds issued	655,018	232,224
Depreciation on fixed assets	258,563	243,961
Amortisation of goodwill	-	143,875
Charge/(Write back) of impairment loss on bank premises	210,140	(18,538)
Dividend income from listed trading securities	(10,968)	-
Dividend income from available-for-sale financial assets	(34,153)	-
Dividend income from other investments in securities	-	(42,960)
Dividend income from listed securities designated at fair value through profit or loss	(345)	-
Amortisation of discount on certificates of deposit and loan capital issued	-	81,614
Revaluation gain on certificates of deposit and loan capital issued	(180,954)	-
Valuation gains on investment properties	(234,221)	(227,941)
Transfer to capital reserve for staff share options	29,796	41,749
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL	3,681,448	3,434,148
(Increase)/decrease in operating assets:		
Placements with banks and other financial institutions with original maturity beyond three months	6,506,833	14,063,140
Trade bills	788,603	(777,231)
Certificates of deposit held with original maturity beyond three months	1,773,884	506,051
Other investments in securities	8,725,900	1,641,359
Trading assets	(1,750,929)	-
Financial assets designated at fair value through profit or loss	(10,157,707)	-
Advances to customers	(20,995,660)	(14,593,453)
Advances to banks and other financial institutions	(141,144)	(550,674)
Treasury bills with original maturity beyond three months	486,269	713,250
Held-to-maturity debt securities and investment securities	(898,529)	(4,381,838)
Investment securities	-	(2,976)
Available-for-sale financial assets	(1,149,412)	-
Other accounts and accrued interest	638,214	407,031
Deferred tax assets	48,993	(15,902)
Increase/(decrease) in operating liabilities:		
Deposits and balances of banks and other financial institutions	4,213,762	2,055,092
Deposits from customers	12,157,260	8,317,053
Trading liabilities	1,936,999	-
Other accounts and provisions	709,983	1,340,329
Deferred tax liabilities	(216,269)	(227,405)
Exchange adjustments	(25,019)	93,403
NET CASH INFLOW FROM OPERATIONS	6,333,479	12,021,377
Income tax		
Hong Kong profits tax paid	(208,534)	(243,233)
Overseas profits tax paid	(84,248)	(56,794)
NET CASH FLOWS GENERATED FROM OPERATING ACTIVITIES	6,040,697	11,721,350

D. Consolidated Cash Flow Statement *(Continued)*

	2005	2004
		Restated
	HK$'000	HK$'000
INVESTING ACTIVITIES		
Dividends received from associates	19,149	17,660
Dividends received from equity securities	45,466	42,960
Purchase of equity securities	(207,815)	(144,269)
Proceeds from sale of equity securities	87,235	115,709
Purchase of fixed assets	(603,150)	(1,661,419)
Proceeds from disposal of fixed assets	1,083,698	115,183
Increase in shareholding of an associate	(23,714)	(8,400)
Proceeds from disposal of associates	5,083	33,675
Purchase of subsidiaries	(13,881)	(321,399)
Decrease/(Increase) in shareholding of a subsidiary	4,000	(26,820)
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES	396,071	(1,837,120)
FINANCING ACTIVITIES		
Ordinary dividends paid	(1,378,394)	(1,029,447)
Issue of ordinary share capital	70,638	172,389
Issue of loan capital	4,264,728	-
Capital fee paid on increase in issued share capital	(58)	(144)
Issue of certificates of deposit	8,560,806	2,633,196
Redemption of certificates of deposit issued	(6,324,514)	(4,111,483)
Interest paid on loan capital	(324,833)	(109,839)
Interest paid on certificates of deposit issued	(225,514)	(125,105)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	4,642,859	(2,570,433)
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,079,627	7,313,797
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	41,204,335	33,890,538
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	52,283,962	41,204,335

Cash flows from operating activities included:		
Interest received	8,818,125	5,589,866
Interest paid	4,634,300	1,865,025

Notes:

(1) The financial information set out in this report does not constitute the Group's statutory accounts for the year ended 31st December, 2005 but there is no material change as compared to those accounts. The statutory accounts for the year ended 31st December, 2005 will be available from the website of The Stock Exchange of Hong Kong Limited.

(2) The financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2004 annual accounts except for the changes in accounting policies made thereafter in adopting certain new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations issued by the HKICPA which have first been implemented in the 2005 annual accounts. Details of these changes in accounting policies are set out in Note 3.

(3) Change in accounting policies

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1st January, 2005.

The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these accounts.

(a) Restatement of prior periods and opening balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated profit and loss account and consolidated balance sheet and other significant related disclosure items as previously reported for the year ended 31st December, 2004. The changes in certain accounting policies were adopted by way of opening balance adjustments on the balances as at 1st January, 2005. Details of these changes are set out in Note 3(e).

Effect on the consolidated accounts

Consolidated Profit and Loss Account for the year ended 31st December, 2004

		2004 Previously reported	Effect of new policy (increase/(decrease) in profit for the year) HKFRS2 (Note 3(c))	HK(SIC) Interpretation 21 (Note 3(d))	HKAS1 & 30 (Note 3(g))	Sub-total	2004 As restated
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Interest income		5,682,080	-	-	(13,585)	(13,585)	5,668,495
Interest expense		(2,054,505)	-	-	-	-	(2,054,505)
Net interest income		3,627,575	-	-	(13,585)	(13,585)	3,613,990
Fee and commission income		1,506,604	-	-	-	-	1,506,604
Fee and commission expense		(298,363)	-	-	-	-	(298,363)
Net trading profits		360,371	-	-	13,585	13,585	373,956
Other operating income		299,678	-	-	-	-	299,678
Operating income		5,495,865	-	-	-	-	5,495,865
Operating expenses		(2,720,431)	(41,749)	-	-	(41,749)	(2,762,180)
Operating profit before impairment allowances/provisions		2,775,434	(41,749)	-	-	(41,749)	2,733,685
Net charge for bad and doubtful debts		(272,807)	-	-	-	-	(272,807)
Provision on held-to-maturity debt securities, investment securities and associates		(18,582)	-	-	-	-	(18,582)
Write back of impairment loss on bank premises		18,538	-	-	-	-	18,538
		2,502,583	(41,749)	-	-	(41,749)	2,460,834
Net profit on sale of investment securities and associates		13,758	-	-	(13,758)	(13,758)	-
Net profit on sale of investment securities		-	-	-	13,763	13,763	13,763
Net loss on sale of subsidiaries/associates		-	-	-	(5)	(5)	(5)
Net profit on disposal of fixed assets		15,239	-	-	-	-	15,239
Revaluation surplus on investment properties		227,941	-	-	-	-	227,941
Share of profits less losses of associates		64,376	-	-	4,619	4,619	68,995
Profit for the year before taxation		2,823,897	(41,749)	-	4,619	(37,130)	2,786,767
Income tax		(375,330)	-	(34,342)	(4,619)	(38,961)	(414,291)
Profit for the year after taxation		2,448,567	(41,749)	(34,342)	-	(76,091)	2,372,476
Minority interests		(24,767)	-	-	24,767	24,767	-
Profit attributable to shareholders		2,423,800	(41,749)	(34,342)	24,767	(51,324)	2,372,476
Attributable to:							
Equity holders of the Group		2,423,800	(41,749)	(34,342)	-	(76,091)	2,347,709
Minority interests		-	-	-	24,767	24,767	24,767
Profit after taxation		2,423,800	(41,749)	(34,342)	24,767	(51,324)	2,372,476
Earnings per share							
- Basic	HK$	1.64	(0.03)	(0.02)	-	(0.05)	1.59
- Diluted	HK$	1.63	(0.03)	(0.02)	-	(0.05)	1.58

Consolidated Balance Sheet as at 31st December, 2004

	2004 Previously reported	HKFRS2 (Note 3(c))	HK(SIC) Interpretation 21 (Note 3(d))	HKAS1 & 30 (Note 3(g))	Sub-total	2004 As restated
		Effect of new policy (increase/(decrease) in net assets)				
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS						
Cash and balances with banks and other financial institutions	39,877,738	-	-	(36,222,145)	(36,222,145)	3,655,593
Placements with banks and other financial institutions	9,832,258	-	-	32,251,148	32,251,148	42,083,406
Trade bills	1,400,138	-	-	-	-	1,400,138
Certificates of deposit held	2,446,947	-	-	(2,446,947)	(2,446,947)	-
Trading assets	-	-	-	2,283,425	2,283,425	2,283,425
Other investments in securities	8,563,367	-	-	3,257,254	3,257,254	11,820,621
Advances to customers and other accounts	122,949,653	-	-	(348,223)	(348,223)	122,601,430
Investment securities	236,373	-	-	(236,373)	(236,373)	-
Held-to-maturity investments	16,096,084	-	-	1,461,861	1,461,861	17,557,945
Investments in associates	725,963	-	-	-	-	725,963
Fixed assets	5,697,750	-	-	-	-	5,697,750
Goodwill	2,448,156	-	-	-	-	2,448,156
Deferred tax assets	95,119	-	-	-	-	95,119
Total Assets	210,369,546	-	-	-	-	210,369,546
EQUITY AND LIABILITIES						
Deposits and balances of banks and other financial institutions	9,571,657	-	-	-	-	9,571,657
Deposits from customers	163,737,665	-	-	-	-	163,737,665
Trading liabilities	-	-	-	1,191,858	1,191,858	1,191,858
Certificates of deposit issued	4,178,623	-	-	-	-	4,178,623
Current taxation	179,369	-	-	-	-	179,369
Deferred tax liabilities	694,924	-	34,342	-	34,342	729,266
Other accounts and provisions	5,843,048	-	-	(1,191,858)	(1,191,858)	4,651,190
Loan capital	4,271,124	-	-	-	-	4,271,124
Total Liabilities	188,476,410	-	34,342	-	34,342	188,510,752
Share capital	3,729,996	-	-	-	-	3,729,996
Capital reserve – staff option issued	-	41,749	-	-	41,749	41,749
Other reserves	13,821,618	-	-	-	-	13,821,618
Retained profits	4,175,867	(41,749)	(34,342)	-	(76,091)	4,099,776
Total equity attributable to equity holders of the Group	21,727,481	-	(34,342)	-	(34,342)	21,693,139
Minority interests	165,655	-	-	-	-	165,655
Total Equity	21,893,136	-	(34,342)	-	(34,342)	21,858,794
Total Equity and Liabilities	210,369,546	-	-	-	-	210,369,546

(b) Estimated effect of changes in accounting policies on the current period

The following tables provide estimates of the extent to which each of the line items in the consolidated profit and loss account and consolidated balance sheet and other significant related disclosure items for the year ended 31st December, 2005 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

Effect on the consolidated accounts

Estimated effect on the Consolidated Profit and Loss Account for the year ended 31st December, 2005

		Effect of new policy (increase/(decrease) in profit for the year)					
		HKFRS2	HKFRS3	HK(SIC) Interpretation 21	HKAS1 & 30	HKAS 32 & 39	
		(Note 3(c))	(Note 3(f))	(Note 3(d))	(Note 3(g))	(Note 3(e))	Total
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Interest income		-	-	-	-	(459,320)	(459,320)
Interest expense		-	-	-	-	389,255	389,255
Net interest income		-	-	-	-	(70,065)	(70,065)
Fee and commission income		-	-	-	-	(1,735)	(1,735)
Fee and commission expense		-	-	-	-	-	-
Net trading profits		-	-	-	-	(200,837)	(200,837)
Net result from financial instruments designated at fair value through profit or loss		-	-	-	-	100,127	100,127
Other operating income		-	-	-	-	-	-
Operating income		-	-	-	-	(172,510)	(172,510)
Operating expenses		(29,796)	146,551	-	-	-	116,755
Operating profit before impairment losses		(29,796)	146,551	-	-	(172,510)	(55,755)
Impairment losses on loans and advances		-	-	-	-	261,278	261,278
Impairment losses on held-to-maturity investments		-	-	-	-	-	-
Impairment losses on available-for-sale financial assets		-	-	-	-	-	-
Impairment losses on associates		-	-	-	-	-	-
(Charge) / Write back of impairment loss on bank premises		-	-	-	-	-	-
Operating profit after impairment losses		(29,796)	146,551	-	-	88,768	205,523
Net (loss)/profit on sale of held-to-maturity investments		-	-	-	-	62	62
Net profit on sale of available-for-sale financial assets		-	-	-	-	-	-
Net profit/(loss) on sale of subsidiaries/associates		-	-	-	-	-	-
Net profit on sale of fixed assets		-	-	-	-	-	-
Valuation gains on investment properties		-	-	-	-	-	-
Share of profits less losses on associates		-	-	-	(11,726)	-	(11,726)
Profit for the year before taxation		(29,796)	146,551	-	(11,726)	88,830	193,859
Income tax		-	-	(20,115)	11,726	(9,242)	(17,631)
Profit for the year after taxation		(29,796)	146,551	(20,115)	-	79,588	176,228
Attributable to:							
Equity holders of the Group		(29,796)	146,551	(20,115)	-	79,588	176,228
Minority interests		-	-	-	-	-	-
Profit after taxation		(29,796)	146,551	(20,115)	-	79,588	176,228
Earnings per share							
Basic	HK$	(0.02)	0.10	(0.01)	-	0.05	0.12
Diluted	HK$	(0.02)	0.10	(0.01)	-	0.05	0.12

Estimated effect on the Consolidated balance sheet as at 31st December, 2005

	Effect of new policy (increase/(decrease) in total assets and total liabilities)				
	HKFRS2	HKFRS3	HK(SIC) Interpretation 21	HKAS 32 & 39	Total
	(Note 3(c))	(Note 3(f))	(Note 3(d))	(Note 3(e))	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS					
Cash and balances with banks and other financial institutions	-	-	-	-	-
Placements with banks and other financial institutions	-	-	-	-	-
Trade bills	-	-	-	-	-
Trading assets	-	-	-	41,162	41,162
Financial assets designated at fair value through profit or loss	-	-	-	(80,827)	(80,827)
Advances to customers and other accounts	-	-	-	306,208	306,208
Available-for-sale financial assets	-	-	-	-	-
Held-to-maturity investments	-	-	-	62	62
Investments in associates	-	-	-	-	-
Fixed assets	-	-	-	-	-
Goodwill	-	146,551	-	-	146,551
Deferred tax assets	-	-	-	-	-
Total Assets	-	146,551	-	266,605	413,156
EQUITY AND LIABILITIES					
Deposits and balances of banks and other financial institutions	-	-	-	-	-
Deposits from customers	-	-	-	-	-
Trading liabilities	-	-	-	-	-
Certificates of deposit issued	-	-	-	(31,215)	(31,215)
Current taxation	-	-	-	(3,021)	(3,021)
Deferred tax liabilities	-	-	54,457	12,263	66,720
Other accounts and provisions	-	-	-	-	-
Loan capital	-	-	-	(149,739)	(149,739)
Total Liabilities	-	-	54,457	(171,712)	(117,255)
Share capital	-	-	-	-	-
Share premium	240	-	-	-	240
Capital reserve – staff share options issued	71,305	-	-	-	71,305
Investment revaluation reserve	-	-	-	358,729	358,729
Other reserves	-	-	-	-	-
Retained profits	(71,545)	146,551	(54,457)	79,588	100,137
Total equity attributable to equity holders of the Group	-	146,551	(54,457)	438,317	530,411
Minority interests	-	-	-	-	-
Total Equity	-	146,551	(54,457)	438,317	530,411
Total Equity and Liabilities	-	146,551	-	266,605	413,156

Estimated effect on net income recognised directly in consolidated equity for the year ended 31st December, 2005:

	Effect of new policy (increase/(decrease) in equity)
	HKAS39 (Note 3(e)) HK$'000
Attributable to equity holders of the Bank	358,729

Estimated effect on amounts recognised as capital transactions with owners of the Group for the year ended 31st December, 2005:

	Effect of new policy (increase/(decrease) in equity)
	HKFRS2 (Note 3(c)) HK$'000
Attributable to equity holders of the Bank	29,796

(c) Staff share option scheme

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Bank. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1^{st} January, 2005, in order to comply with HKFRS 2 "Share-based Payment", the Group recognises the fair value of such share options as an expense in the profit and loss account. A corresponding increase is recognised in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the related capital reserve is transferred directly to retained earnings.

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKFRS 2, except that the Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

(i) all options granted to employees on or before 7^{th} November, 2002; and

(ii) all options granted to employees after 7^{th} November, 2002 but which had vested before 1^{st} January, 2005.

No adjustments to the opening balances as at 1^{st} January, 2004 are required as no options existed at that time which were unvested at 1^{st} January, 2005.
The amount charged to the profit and loss account as a result of the change of policy increased staff costs for HK$29,796,000 (2004 : HK$41,749,000), with the corresponding amounts credited to the capital reserve.

Details of the staff share option scheme can be found in the Group's annual report for the year ended 31^{st} December, 2005.

(d) Investment properties

In prior years the Group was required to apply the tax rate that would be applicable to the sale of investment properties to determine whether any amounts of deferred tax should be recognised on the revaluation of investment properties. As there would have been no tax payable on the disposal of the Group's investment properties, no deferred tax was provided in prior years.

As from 1^{st} January, 2005, in accordance with HK(SIC) Interpretation 21 "Income Taxes – Recovery of Revalued Non-depreciable Assets", the Group recognises deferred tax on movements in the value of investment properties using tax rates that are applicable to the properties' use, if the Group has no intention to sell them and the properties would have been depreciable had the Group not adopted the fair value model.

HK(SIC) Interpretation 21 has been adopted retrospectively by reducing the opening balance of retained earnings as of 1^{st} January, 2005 by $34,342,000 ($1^{st}$ January, 2004 : Nil) and increasing deferred tax liabilities by the same amount.

(e) Financial instruments

- Financial instruments

  In prior years, the accounting policies for certain financial instruments were as follows:

  - securities which were intended to be held on a continuing basis, and which were held for an identified long-term purpose were classified as investment securities and stated at cost less provisions for diminution in value;

- other investments in securities were securities which were not classified as held-to-maturity debt securities nor as investment securities, and were stated at fair value with changes in fair value recognised in the profit and loss account; and

- derivative financial instruments entered into by management to hedge risks arising from an underlying asset, liability (or a net position) or a committed future transaction were recognised on equivalent basis to the position or transaction being hedged.

(i) Classification

From 1st January, 2005, the Group has adopted HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" and classified financial instruments under the following categories:

Financial assets measured at fair value through profit or loss

This category comprises financial assets held for trading and those that are designated as fair value through profit and loss at inception. A financial asset is classified as held for trading if it is either acquired principally for the purpose of selling it in the short term or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking or is a derivative that is not a designated and effective hedging instrument.

This category includes equity investments, derivative instruments with a positive fair value, debt securities and investments in investment funds but excludes those financial assets that do not have a quoted market price and whose fair value cannot be reliably measured.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (1) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading, (2) those that the Group, upon initial recognition, designates as fair value through profit and loss or available for sale, or (3) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available for sale.

This category includes assets which are shown on the balance sheet within placements with banks and other financial institutions, trade bills and advances to customers and other accounts.

Securities classified as loans and receivables

Securities classified as loans and receivables typically comprise securities issued by the same customers with whom the Group has a lending relationship in its wholesale banking business. Investment decisions for credit substitute securities are subject to the same credit approval processes as loans, and the Group bears the same customer risk as it does for loans extended to those customers. Additionally the yield and maturity terms are generally directly negotiated by the Group with the issuer.

These securities include commercial papers and short term debentures issued by the borrower.

Available-for-sale financial assets

This category comprises non-derivative financial assets that are designated as available-for-sale financial assets or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

This category includes equity investments, debt securities and investment fund units.

Held-to-maturity investments

This category comprises of non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than (1) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available for sale, and (2) those that meet the definition of loans and receivables.

Financial liabilities measured at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading or those designated at fair value through profit or loss at inception. A financial liability is classified in this category if it is incurred principally for the purpose of being repurchased or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-making, or is a derivative that is not a designated and effective hedging instrument.

This category includes derivative liabilities with negative fair values not accounted for as hedging instruments, obligations to deliver financial assets borrowed by a short seller, and financial liabilities that are incurred with an intention to repurchase them in the near term.

Other financial liabilities

This category comprises all financial liabilities other than those classified as financial liabilities measured at fair value through profit or loss.

This category includes liabilities presented on the balance sheet within deposits and balances of banks and other financial institutions, deposits from customers and certificate of deposits issued.

(ii) Initial recognition and measurement

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

A regular way purchase of financial assets is recognised using trade date accounting. From this date, any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

Financial liabilities are not recognised unless one of the parties has performed or the contract is a derivative contract not exempted from the scope of HKAS 39.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price, plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities measured at fair value through profit or loss are expensed immediately.

(iii) Subsequent measurement

The subsequent measurement of financial instruments depends upon their classification.

Financial assets measured at fair value through profit or loss

Financial assets under this category are carried at fair value. Unrealised gains and losses arising from changes in the fair value are included in the profit and loss account in the period in which they arise. Upon disposal, the difference between the net sale proceeds and the carrying value is included in the profit and loss account.

Loans and receivables

Loans and receivables and securities classified as loans and receivables are carried at amortised cost using the effective interest method, less provision for impairment, if any and are accounted for in the profit and loss account.

Available-for-sale financial assets

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in the investment revaluation reserve. For monetary securities, exchange differences resulting from changes in amortised cost are recognised in profit and loss account. When the securities are sold, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments in the investment revaluation reserve are treated as gains or losses on disposal and are accounted for in the profit and loss account.

Held-to-maturity investments

Held-to-maturity investments are carried at amortised cost using the effective interest method less provision for impairment, if any.

Financial liabilities measured at fair value through profit or loss

Financial liabilities under this category are carried at fair value. Unrealised gains and losses arising from changes in the fair value are included in profit and loss account in the period in which they arise. Upon repurchase, the difference between the net payments and the carrying value is included in the profit and loss account.

Other financial liabilities

Financial liabilities, other than those measured at fair value through profit or loss, are measured at amortised cost using the effective interest rate.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If a quoted market price is not available on a recognised stock exchange or from a broker / dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques that provides a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

Specifically, the fair value of a forward contract is determined as the present value of estimated future cash flows, discounted at appropriate market rates on the valuation date; and the fair value of an option contract is determined by applying the Black-Scholes option valuation model.

Investments in other unlisted open-ended investment funds are recorded at the net asset value per share as reported by the managers of such funds.

(v) Impairment and allowances for credit losses

In prior years, provisions were made against specific loans and advances as and when the Credit Committee had doubts on the ultimate recoverability of principal and interest in full.

Specific provisions represented the quantification of actual and expected losses from identified accounts.

Other than where provisions on smaller balance homogeneous advances were assessed on a portfolio basis, the amount of specific provision raised was assessed on a case by case basis. Specific provisions were made against the carrying amount of advances that were identified as being in doubt based on regular reviews of outstanding balances to reduce these advances, net of any collateral, to their recoverable amounts.
Where specific provisions were raised on a portfolio basis, the level of provisioning took into account management's assessment of the portfolio's structure, past and expected credit losses, business and economic conditions, and any other relevant factors.

General provisions augmented specific provisions and provided cover for loans which were impaired at the balance sheet date but which would not be identified as such until some time in future. The Group maintained a general provision which was determined taking into account the structure and risk characteristics of the Group's loan portfolio and the expected loss of the individual components of the loan portfolio based primarily on the historical loss experience.

With effect from 1st January, 2005, in order to comply with HKAS 39, the Group has changed its accounting policies relating to impairment on loans and advances to customers.

Financial assets that are stated at cost or amortised cost and financial assets that are classified as available-for-sale are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the profit and loss account as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at cost or amortised cost or a debt instrument classified as available-for-sale decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the profit and loss account.

The total allowance and provision for credit losses consists of two components: individual impairment allowances, and collective impairment allowances. The individual impairment allowance component applies to loans and receivables evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows which are expected to be received. In estimating these cash flows, management makes judgments about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed based on its merits. Collective impairment allowances cover credit losses inherent in portfolios of loans and receivables with similar economic characteristics where there is objective evidence to suggest that they contain impaired loans and receivables but the individual impaired items cannot yet be identified. In assessing the need for collective impairment allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, the Group makes assumptions both to define the way the Group models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the allowances and provisions the Group makes depends on how well the Group can estimate future cash flows for individually assessed counterparty allowances and the model assumptions and parameters used in determining collective allowances. While this necessarily involves judgment, the Group believes that the loan loss allowances are reasonable and supportable.

All impaired financial assets are reviewed and analysed periodically. Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the allowance for impairment losses and will be charged or credited to the profit and loss account.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with HKAS 39.

The Group uses the weighted average method to determine realised gains and losses on derecognition.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

(vii) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

Interest income is recognised using the effective interest method.

Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Group making a loan, the fee is recognised as revenue on expiry.

- Derivatives and hedge accounting

In prior years, the accounting for derivatives is dependent upon whether the transactions were undertaken for trading purposes or as part of the management of asset and liability portfolios.

Derivatives used for trading purposes

Transactions undertaken for trading purposes were marked to market and the net present value of the gain and loss arising was recognised in the profit and loss account as dealing gains and losses, after appropriate deferrals for the unearned credit margin and future servicing costs.

The fair value of derivatives that were not exchange-traded was estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

Derivatives used for asset and liability management purposes

Derivatives used for this purpose were accounted for as hedge and were valued on an equivalent basis to the underlying assets, liabilities or net positions which they were hedging. Any profit and loss was recognised on the same basis as that arising from the related assets, liabilities or net positions.

Any gain or loss on termination of hedging derivatives was deferred and amortised to the profit and loss account over the original life of the terminated contract. Where the underlying asset, liability or position was sold or terminated, the hedging derivative was immediately marked to market through the profit and loss account.

With effect from 1st January, 2005, in order to comply with HKAS 39, the Group has changed its accounting policies relating to derivatives and hedge accounting respectively.

Derivative

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit and loss account.

Hedging

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction and the hedge is effective, the gain or loss on the derivate financial instrument in relation to the hedged risk is recognised directly in equity.

(ii) Fair value hedge

A fair value hedge seeks to offset risks of changes in the fair value of an existing asset or liability that will give rise to a gain or loss being recognised in the profit and loss account or reserves.

The hedging instrument is measured at fair value, with fair value changes recognised in the profit and loss account or reserves. The carrying amount of the hedged item is adjusted by the amount of the changes in fair value of hedging instrument attributable to the risk being hedged. This adjustment is recognised in the profit and loss account or reserves to offset the effect of the gain or loss on the hedging instrument.

- Interest recognition on impaired loans

In prior years, loans were not reclassified as accruing until interest and principal payments were up-to-date and future payments were reasonably assured. Where the probability of receiving interest payments was remote, interest was no longer accrued. Where the loan had no reasonable prospect of recovery, the loan and related suspended interests were written off.

With effect from 1st January, 2005, in order to comply with HKAS 39, the Group has changed its accounting policies relating to interest income recognition. For impaired loans, the accrual of interest income based on the original terms of the loan is discontinued, but any increase of the present value of impaired loans due to the passage of time is reported as interest income.

- Description of transitional provisions and effect of adjustments

The change in accounting policies of the above items were adopted by way of opening balance adjustments to certain reserves and redesignation of financial instruments as at 1st January, 2005. As a result of these opening balance adjustments, the retained profits of the Group as at 1st January, 2005 has been increased by HK$595,788,000. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

(f) Amortisation of goodwill

In prior periods, positive goodwill which arose on or after 1st January, 2001 was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment.

With effect from 1st January, 2005, in accordance with HKFRS 3 “Business Combinations” and HKAS 36 “Impairment of Assets”, the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

Also with effect from 1st January, 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the profit and loss account as it arises.

The new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3.

(g) Changes in presentation

(i) Presentation of profit and loss account and balance sheets

In prior years, there were no specific accounting standards governing the presentation of the accounts of banks. Management, having regard to the overall clarity and the disclosure requirements of the Hong Kong Monetary Authority, exercised its judgement in deciding on the relative prominence given to each item presented on the face of the profit and loss account and balance sheets. As a result, certificates of deposits held were separately presented on the face of the balance sheets. Treasury bills (including Exchange Fund Bills) and money at call and short notice (representing placements with banks and other financial institutions maturing within one month) were included in cash and short-term funds with treasury bills being presented separately as held-to-maturity and other investments in securities according to the previous SSAP 24. Other assets were included in advances to customers and other accounts less provisions.

With effect from 1st January, 2005, in order to comply with HKAS 30 “Disclosures in financial statements of banks and similar financial institutions” and take into account the measurement basis that has been applied, the Group has changed its presentation of certain items on the face of the profit and loss account and balance sheets. Treasury bills (including Exchange Fund Bills) and certificates of deposit held are included in the four categories of financial instruments under HKAS 39. Placements with banks and other financial institutions maturing within one month are included in placements with banks and other financial institutions. These changes in presentation have been applied retrospectively with comparatives reclassified.

With effect from 1st January, 2005, in order to comply with HKAS 30 and to assist in an understanding of the performance of trading in financial instruments, the Group has grouped income and expenses arising from trading in financial instruments together in the profit and loss account. Interest income, interest expense and, dividend income arising from trading assets and trading liabilities are reclassified from “Interest income”, “Interest expense”, ‘Other operating income” and “Fee and commission expense” respectively to “Net trading profits”. Similar income and expenses arising from financial instruments designated at fair value through profit or loss are reclassified from the relevant captions to “Net result from financial instruments designated at fair value through profit or loss”.

(ii) Presentation of shares of associates’ taxation

In prior years, the Group’s share of taxation of associates accounted for using the equity method was included as part of the Group’s income tax in the consolidated profit and loss account. With effect from 1st January, 2005, in accordance with the implementation guidance in HKAS 1 “Presentation of financial statements”, the Group has changed the presentation and includes the share of taxation of associates accounted for using the equity method in the respective shares of profit or loss reported in the consolidated profit and loss account before arriving at the Group’s profit before tax. These changes in presentation have been applied retrospectively with comparatives restated.

(iii) Minority interests

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the profit and loss account as a deduction before arriving at the profit attributable to shareholders.

With effect from 1st January, 2005, in order to comply with HKAS 1 and HKAS 27 “Consolidated and Separate Financial Statements”, minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Group, and minority interests in the results of the Group for the period are presented on the face of the consolidated profit and loss account as an allocation of the total profit for the period between the minority interests and the equity holders of the Group.

The presentation of minority interests in the consolidated balance sheet, profit and loss account and summary statement of changes in equity for the comparative period has been restated accordingly.

(h) Definition of related parties

As a result of the adoption of HKAS 24 “Related Party Disclosures”, the definition of related parties has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosure made in the current year, as compared to those that would have been reported had SSAP20 still been in effect.

(4) The provision for Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the year. Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries. Share of associates’ taxation for the year amounted to HK$11,726,000 (2004: write-back of HK$4,619,000).

(5) (a) The calculation of basic earnings per share is based on earnings of HK$2,748,725,000 (2004 restated: HK$2,347,709,000) and on the weighted average of 1,502,313,852 (2004: 1,479,171,460) ordinary shares outstanding during the year.

(b) The calculation of diluted earnings per share is based on earnings of HK$2,748,725,000 (2004 restated: HK$2,347,709,000) and on 1,506,328,927 (2004: 1,486,243,795) ordinary shares, being the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

E. Fee and Commission Income

Fee and commission income arises from the following services:

	2005	2004	Variance
	HK$'000	HK$'000	%
Corporate services	477,421	391,262	+ 22.0
Loans, overdrafts and guarantees	295,346	358,838	- 17.7
Credit cards	236,030	204,668	+ 15.3
Other retail banking services	134,710	111,614	+ 20.7
Trade finance	102,458	116,965	- 12.4
Securities and asset management	192,285	192,974	- 0.4
Others	159,750	130,283	+ 22.6
Total fee and commission income	1,598,000	1,506,604	+ 6.1

F. Operating Expenses

	2005	2004 Restated	Variance
	HK$'000	HK$'000	%
Contributions to defined contribution plan *	107,372	103,478	+ 3.8
Equity-settled share-based payment expenses	29,796	41,749	- 28.6
Salaries and other staff costs	1,461,300	1,329,711	+ 9.9
Total staff costs	1,598,468	1,474,938	+ 8.4
Premises and equipment expenses excluding depreciation			
- Rental of premises	164,558	142,542	+ 15.4
- Maintenance, repairs and others	243,649	205,168	+ 18.8
Total premises and equipment expenses excluding depreciation	408,207	347,710	+ 17.4
Depreciation on fixed assets	258,563	243,961	+ 6.0
Amortisation of goodwill	-	143,875	- 100.0
Other operating expenses			
- Communications, stationery and printing	175,134	159,047	+ 10.1
- Legal and professional fees	112,116	89,127	+ 25.8
- Advertising expenses	124,962	87,820	+ 42.3
- Business promotions and business travel	48,726	50,119	- 2.8
- Card related expenses	57,352	41,104	+ 39.5
- Stamp duty, overseas and PRC** business taxes, and value added taxes	52,882	21,440	+ 146.7
- Insurance expenses	13,469	14,035	- 4.0
- Debt securities issue expenses	14,824	7,800	+ 90.1
- Bank charges	3,937	7,296	- 46.0
- Administration expenses of secretarial business	12,330	7,159	+ 72.2
- Membership fees	5,299	5,126	+ 3.4
- Bank licence	3,082	4,655	- 33.8
- Audit fee	5,198	4,123	+ 26.1
- Donations	8,436	2,043	+ 312.9
- Others	85,062	50,802	+ 67.4
Total other operating expenses	722,809	551,696	+ 31.0
Total operating expenses***	2,988,047	2,762,180	+ 8.2

* Forfeited contributions totalling HK$5,751,000 (2004: HK$3,810,000) were utilised to reduce the Group's contribution during the year. There were no forfeited contributions available for reducing future contributions at the year end (2004: Nil).

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

*** Included in operating expenses are direct operating expenses of HK$10,381,000 (2004: HK$13,374,000) in respect of investment properties which generated rental income during the year.

G. Advances and Other Assets

1. Advances to Customers and Other Accounts

	2005	2004 Restated	Variance
	HK$'000	HK$'000	%
(i) Advances to customers	138,743,747	117,258,753	+ 18.3
Less: Impairment allowances			
- Individual	(295,575)	-	-
- Collective	(478,995)	-	-
Less: Provisions for bad and doubtful debts			
- Specific	-	(310,309)	- 100.0
- General	-	(1,320,850)	- 100.0
	137,969,177	115,627,594	+ 19.3
(ii) Other accounts			
Advances to banks and other financial institutions	2,424,120	2,114,655	+ 14.6
Notes and bonds	387,934	-	-
Certificates of deposits	38,775	-	-
Accrued interest	985,567	1,054,632	- 6.5
Less: Suspended interest	-	(319,779)	- 100.0
Other accounts	3,069,729	4,175,485	- 26.5
	6,906,125	7,024,993	- 1.7
Less: Impairment allowances			
- Individual	(28,570)	-	-
- Collective	(9,943)	-	-
Less: Provisions for bad and doubtful debts			
- Specific	-	(32,011)	- 100.0
- General	-	(19,146)	- 100.0
	6,867,612	6,973,836	- 1.5
	144,836,789	122,601,430	+ 18.1

2. Advances to Customers – by Industry Sectors

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

	2005 HK$'000	2004 HK$'000	Variance %
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property development	5,870,869	4,398,093	+ 33.5
- Property investment	19,316,009	14,536,729	+ 32.9
- Financial concerns	1,867,677	1,507,153	+ 23.9
- Stockbrokers	204,725	277,903	- 26.3
- Wholesale and retail trade	1,399,776	1,569,771	- 10.8
- Manufacturing	1,744,187	1,822,971	- 4.3
- Transport and transport equipment	4,132,657	4,507,233	- 8.3
- Others	6,294,634	6,032,368	+ 4.3
- Sub-total	40,830,534	34,652,221	+ 17.8
Individuals			
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,320,946	1,522,173	- 13.2
- Loans for the purchase of other residential properties	37,188,222	34,928,247	+ 6.5
- Credit card advances	1,769,653	1,649,200	+ 7.3
- Others	3,571,901	3,230,750	+ 10.6
- Sub-total	43,850,722	41,330,370	+ 6.1
Total loans for use in Hong Kong	84,681,256	75,982,591	+ 11.4
Trade finance	3,753,789	4,092,162	- 8.3
Loans for use outside Hong Kong	50,308,702	37,184,000	+ 35.3
Total advances to customers	138,743,747	117,258,753	+ 18.3

3. 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.

	Total advances to customers		Advances overdue for over three months	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Hong Kong	98,234,592	88,598,608	483,095	575,894
People's Republic of China	19,939,335	10,911,094	76,108	77,426
Other Asian countries	7,798,982	6,354,111	84,322	103,688
Others	12,770,838	11,394,940	74,147	83,377
Total	138,743,747	117,258,753	717,672	840,385

4. 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.

	2005			
	Banks and other financial institutions HK$'000	Public sector entities HK$'000	Others HK$'000	Total HK$'000
People's Republic of China	12,805,155	1,250,504	13,667,134	27,722,793
Asian countries, excluding People's Republic of China	9,950,396	1,200,368	8,991,756	20,142,520
North America	5,345,158	7,725,687	5,872,380	18,943,225
Western Europe	27,877,005	-	2,507,425	30,384,430

	2004			
	Banks and other financial institutions HK$'000	Public sector entities HK$'000	Others HK$'000	Total HK$'000
People's Republic of China	9,413,577	1,458,707	7,962,500	18,834,784
Asian countries, excluding People's Republic of China	10,764,517	1,413,490	7,519,486	19,697,493
North America	5,129,033	7,886,401	5,182,553	18,197,987
Western Europe	26,577,806	255	2,016,679	28,594,740

5. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and Rescheduled Advances

	2005		2004	
	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	326,130	0.2	242,893	0.2
- 1 year or less but over 6 months	184,365	0.1	194,645	0.2
- Over 1 year	207,177	0.2	402,847	0.3
	717,672	0.5	840,385	0.7
Rescheduled advances to customers	351,057	0.3	472,335	0.4
Total overdue and rescheduled advances	1,068,729	0.8	1,312,720	1.1
Secured overdue advances	515,356	0.4	660,700	0.6
Unsecured overdue advances	202,316	0.1	179,685	0.1
Market value of security held against secured overdue advances	1,035,275		1,122,161	

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 31st December, 2005 and 31st December, 2004, nor were there any rescheduled advances to banks and other financial institutions on these two dates.

(b) Impaired / Non-performing advances to customers

	31/12/2005		31/12/2004 Restated	
	HK$'000	% of total advances to customers	HK$'000	% of total advances to customers
Gross impaired advances to customers *	1,434,979	1.03	-	-
Gross non-performing advances to customers	-	-	1,549,032	1.32
Individual impairment allowances	295,575		-	
Specific provisions	-		299,790	
Suspended interest **	-		380,129	

* Included in gross impaired advances to customers is HK$167,350,000 (2004: HK$183,600,000) in relation to loans to property development projects. Excluding these items, gross impaired advances to customers would be 0.91% (2004: 1.35%) of total advances to customers.

** Inclusive of interest capitalised

Impaired loans and advances are individually assessed loans with objective evidence of impairment on an individual basis.

Non-performing advances to customers were advances on which interest was being placed in suspense or on which interest accrual had ceased.

There were no impaired advances to banks and other financial institutions as at 31st December, 2005 nor advances on which interest was being placed in suspense or on which interest accrual had ceased as at 31st December, 2004, nor were there any individual impairment allowances / specific provisions made for them on these two dates.

(c) Other Overdue and Rescheduled Assets

	2005		2004	
	Accrued interest HK$'000	Other assets* HK$'000	Accrued interest HK$'000	Other assets* HK$'000
Other assets overdue for				
- 6 months or less but over 3 months	1,551	-	1,653	305
- 1 year or less but over 6 months	853	-	1,065	614
- Over 1 year	844	19,294	407	19,462
	3,248	19,294	3,125	20,381
Rescheduled assets	-	-	-	-
Total other overdue and rescheduled assets	3,248	19,294	3,125	20,381

* Other assets refer to trade bills and receivables.

(d) Repossessed Assets

	2005	2004
	HK$'000	HK$'000
Repossessed properties *	80,551	107,745
Repossessed vehicles and machines	1,142	340
Total repossessed assets	81,693	108,085

The amount represents the estimated market value of the repossessed assets as at 31st December.

* The balance included HK$30,036,000 (2004 : HK$26,293,000) relating to properties that were contracted for sale but not yet completed.

H. 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 banking business includes branch operations, personal internet banking, consumer finance, property loans and credit card business.

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

Investment banking business includes treasury operations, securities broking and dealing, 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, property-related business and wealth management business.

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

	2005							
	Personal Banking HK$'000	Corporate Banking HK$'000	Investment Banking HK$'000	Corporate Services HK$'000	Others HK$'000	Unallocated HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
The Group								
Net interest income	1,619,382	1,969,027	165,149	173	7,677	(1,150)	-	3,760,258
Other operating income from external customers	430,755	204,770	923,121	479,230	133,113	21,291	-	2,192,280
Inter-segment income	-	-	-	-	-	125,431	(125,431)	-
Total operating income	2,050,137	2,173,797	1,088,270	479,403	140,790	145,572	(125,431)	5,952,538
Operating expenses	(1,337,155)	(668,203)	(298,419)	(282,637)	(194,173)	(207,460)	-	(2,988,047)
Inter-segment expenses	(105,237)	(12,968)	(5,193)	-	(2,033)	-	125,431	-
Operating profit before impairment allowances	607,745	1,492,626	784,658	196,766	(55,416)	(61,888)	-	2,964,491
Impairment losses on loans and advances	24,460	(168,519)	3,021	(5,449)	5,002	-	-	(141,485)
Impairment losses on bank premises	-	-	-	-	-	(210,140)	-	(210,140)
Impairment losses on available-for-sale financial assets, held-to-maturity investments and associates	-	(7,358)	(33,230)	-	(194)	389	-	(40,393)
	632,205	1,316,749	754,449	191,317	(50,608)	(271,639)	-	2,572,473
Profit on sale of fixed assets, available-for-sale financial assets, held-to-maturity investments and subsidiaries/associates	-	-	6,354	-	591	365,473	-	372,418
Revaluation surplus on investment property	-	-	-	-	234,221	-	-	234,221
Share of profits less losses of associates	769	33,588	3,125	-	(5,259)	1,508	-	33,731
Profit before taxation	632,974	1,350,337	763,928	191,317	178,945	95,342	-	3,212,843
Income tax	(87,464)	(182,185)	(105,264)	(26,465)	(25,484)	-	-	(426,862)
Profit after taxation	545,510	1,168,152	658,664	164,852	153,461	95,342	-	2,785,981
Attributable to:								
Equity holders of the Group	545,510	1,168,152	658,664	126,866	154,191	95,342	-	2,748,725
Minority interests	-	-	-	37,986	(730)	-	-	37,256
Profit after taxation	545,510	1,168,152	658,664	164,852	153,461	95,342	-	2,785,981
Depreciation for the year	(89,521)	(47,388)	(19,953)	(20,029)	(7,119)	(74,553)	-	(258,563)
Segment assets	52,593,807	89,583,033	83,765,287	743,249	2,237,015	710,657	-	229,633,048
Investments in associates	38,313	346,355	75,266	-	306,794	1,852	-	768,580
Unallocated assets	-	-	-	-	-	8,397,854	-	8,397,854
Total assets	52,632,120	89,929,388	83,840,553	743,249	2,543,809	9,110,363	-	238,799,482
Segment liabilities	117,038,288	58,864,730	20,425,447	53,831	1,686,814	-	-	198,069,110
Unallocated liabilities	-	-	-	-	-	7,777,064	-	7,777,064
Loan capital	-	-	-	-	-	8,548,780	-	8,548,780
Total liabilities	117,038,288	58,864,730	20,425,447	53,831	1,686,814	16,325,844	-	214,394,954
Capital expenditure incurred during the year	101,932	119,187	161,709	63,846	12,681	195,388	-	654,743

	2004 (Restated)							
	Personal Banking HK$'000	Corporate Banking HK$'000	Investment Banking HK$'000	Corporate Services HK$'000	Others HK$'000	Unallocated HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
The Group								
Net interest income	1,787,802	1,321,426	484,410	(2,959)	23,201	110	-	3,613,990
Other operating income from external customers	463,579	285,081	520,786	387,894	204,070	20,465	-	1,881,875
Inter-segment income	-	-	-	-	-	104,651	(104,651)	-
Total operating income	2,251,381	1,606,507	1,005,196	384,935	227,271	125,226	(104,651)	5,495,865
Operating expenses	(1,232,130)	(636,103)	(267,060)	(247,913)	(157,377)	(221,597)	-	(2,762,180)
Inter-segment expenses	(92,223)	(8,271)	(3,847)	-	(310)	-	104,651	-
Operating profit before provisions	927,028	962,133	734,289	137,022	69,584	(96,371)	-	2,733,685
Charge for bad & doubtful debts	(84,263)	(205,935)	(168)	(9,033)	26,592	-	-	(272,807)
Write back on impairment loss on bank premises	-	-	-	-	-	18,538	-	18,538
Provision on held-to-maturity debt securities, investment securities & associates	-	(15,768)	6,067	-	-	(8,881)	-	(18,582)
	842,765	740,430	740,188	127,989	96,176	(86,714)	-	2,460,834
Profit on sale of fixed assets and investment securities	-	(5)	13,763	-	-	15,239	-	28,997
Revaluation surplus on investment property	-	-	-	-	227,941	-	-	227,941
Share of profits less losses of associates	1,424	13,955	30,271	-	23,590	(245)	-	68,995
Profit / (loss) before taxation	844,189	754,380	784,222	127,989	347,707	(71,720)	-	2,786,767
Income tax	(125,157)	(109,994)	(111,983)	(19,016)	(48,141)	-	-	(414,291)
Profit after taxation	719,032	644,386	672,239	108,973	299,566	(71,720)	-	2,372,476
Attributable to:								
Equity holders of the Group	719,032	644,386	672,239	84,206	299,566	(71,720)	-	2,347,709
Minority interests	-	-	-	24,767	-	-	-	24,767
Profit after taxation	719,032	644,386	672,239	108,973	299,566	(71,720)	-	2,372,476
Depreciation for the year	(98,968)	(53,995)	(20,018)	(7,405)	(7,184)	(56,391)	-	(243,961)
Amortisation of goodwill	(30,538)	(31,701)	(40,040)	(39,626)	(1,970)	-	-	(143,875)
Segment assets	48,448,340	71,741,124	77,018,778	1,645,556	1,507,253	704,842	-	201,065,893
Investments in associates	36,601	290,495	77,399	-	319,574	1,894	-	725,963
Unallocated assets	-	-	-	-	-	8,577,690	-	8,577,690
Total assets	48,484,941	72,031,619	77,096,177	1,645,556	1,826,827	9,284,426	-	210,369,546
Segment liabilities	106,071,387	57,671,069	14,045,540	52,344	1,129,967	-	-	178,970,307
Unallocated liabilities	-	-	-	-	-	5,269,321	-	5,269,321
Loan capital	-	-	-	-	-	4,271,124		4,271,124
Total liabilities	106,071,387	57,671,069	14,045,540	52,344	1,129,967	9,540,445	-	188,510,752
Write back of impairment loss credited to equity	-	-	-	-	-	12,839	-	12,839
Capital expenditure incurred during the year	53,613	74,870	88,472	228,523	28,576	1,432,127	-	1,906,181

I. Off-balance Sheet Exposures

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

	2005	2004	Variance
	HK$'000	HK$'000	%
Contractual amounts of contingent liabilities and commitments			
- Direct credit substitutes	4,839,458	5,375,979	- 10.0
- Transaction-related contingencies	805,458	486,028	+ 65.7
- Trade-related contingencies	1,908,453	2,501,087	- 23.7
- Other commitments with an original maturity of:			
Under 1 year or which are unconditionally cancellable	32,104,801	27,786,426	+ 15.5
1 year and over	9,547,330	8,136,611	+ 17.3
- Others	-	-	-
Total	49,205,500	44,286,131	+ 11.1
- Aggregate credit risk weighted amount	9,271,093	8,822,965	+ 5.1
Notional amounts of derivatives			
- Exchange rate contracts	24,853,979	16,381,808	+ 51.7
- Interest rate contracts	31,133,238	16,327,689	+ 90.7
- Equity contracts	284,970	933,975	- 69.5
Total	56,272,187	33,643,472	+ 67.3
- Aggregate credit risk weighted amount	447,634	399,317	+ 12.1
- Aggregate replacement costs	738,425	1,264,313	- 41.6

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.

J. 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.

	2005 HK$Million					
	USD	CAD*	GBP*	CNY	Others	Total
Spot assets	66,562	4,122	4,312	11,738	21,986	108,720
Spot liabilities	(62,331)	(4,604)	(6,620)	(10,510)	(23,375)	(107,440)
Forward purchases	35,406	882	2,864	-	5,930	45,082
Forward sales	(37,795)	(357)	(502)	-	(4,246)	(42,900)
Net options position	(167)	(1)	(2)	-	43	(127)
Net long/(short) position	1,675	42	52	1,228	338	3,335

	2004 HK$Million					
	USD	CAD	GBP	CNY	Others	Total
Spot assets	49,928	4,375	4,270	7,581	21,586	87,740
Spot liabilities	(52,103)	(4,458)	(6,690)	(7,364)	(22,592)	(93,207)
Forward purchases	18,257	484	2,727	-	5,802	27,270
Forward sales	(15,863)	(289)	(370)	-	(4,812)	(21,334)
Net options position	16	(1)	(1)	-	3	17
Net long/(short) position	235	111	(64)	217	(13)	486

	2005 HK$Million			
	USD	CNY	Others	Total
Net structural position	1,604	1,297	635	3,536

	2004 HK$Million			
	USD	CNY	Others	Total
Net structural position	1,452	564	639	2,655

* The currency constitutes less than 10% of the total net structural position in all foreign currencies and is presented for comparative purpose only.

K. Capital, Capital Adequacy and Liquidity Information

1. Capital Adequacy Ratio

	2005	2004
	%	%
Unadjusted capital adequacy ratio as at 31st December	17.4	16.2
Adjusted capital adequacy ratio as at 31st December	17.2	16.1

The unadjusted 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 Third Schedule to the Hong Kong Banking Ordinance.

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

2. Group Capital Base after Deductions

	2005	2004 Restated
	HK$'000	HK$'000
Core capital		
Paid up ordinary share capital	3,775,575	3,729,996
Share premium	656,429	631,188
Reserves	16,086,805	14,963,036
Minority interests	207,163	165,655
Deduct: Goodwill	(2,494,950)	(2,448,156)
Total core capital	18,231,022	17,041,719
Eligible supplementary capital		
Reserves on revaluation of land and interests in land (at 70%)	826,679	822,725
Revaluation reserves for available-for-sale financial assets and securities designated at fair value through profit or loss (at 70%)	305,672	-
Collectively assessed impairment allowances and regulatory reserve	878,569	-
General provisions for doubtful debts	-	1,336,044
Term subordinated debt	8,548,780	4,271,124
Total eligible supplementary capital	10,559,700	6,429,893
Total capital base before deductions	28,790,722	23,471,612
Deductions from total capital base	(901,973)	(969,261)
Total capital base after deductions	27,888,749	22,502,351

3. Reserves

	2005	2004 Restated	Variance	
	HK$'000	HK$'000	%	
Share premium	656,429	631,188	+	4.0
General reserve	12,643,214	12,045,266	+	5.0
Revaluation reserve on bank premises	778,933	1,007,505	-	22.7
Investment revaluation reserve	358,729	-		-
Exchange revaluation reserve	78,568	49,813	+	57.7
Other reserves	156,228	129,595	+	20.6
Retained profits*	5,749,689	4,099,776	+	40.2
Total	20,421,790	17,963,143	+	13.7
Proposed dividends, not provided for	1,404,514	1,193,599	+	17.7

*The Group complies with Hong Kong Monetary Authority's requirement to maintain minimum impairment allowances in excess of those required under Hong Kong Accounting Standards. As at 31st December, 2005, HK$391,000,000 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.

4. Liquidity Ratio

	2005 %	2004 %
Average liquidity ratio for the year	39.3	44.4

The average liquidity ratio for the year 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.

L. Statement of Compliance

(1) In preparing the accounts for 2005, the Bank has fully complied with the guideline set out in the Supervisory Policy Manual "Financial Disclosure by Locally Incorporated Authorized Institutions" issued by the Hong Kong Monetary Authority.

(2) The Bank has complied with all the code provisions set out in Appendix 14 Code on Corporate Governance Practices (the "Code") of the Listing Rules throughout the accounting year ended 31st December, 2005, except for the deviations from Code Provisions A.2.1, A.4.1 and A.4.2 which are explained as follows:

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 high calibre individuals and meets regularly every two months to discuss issues affecting the operations of the Bank. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Bank to make and implement decisions promptly and efficiently. The Board has full confidence in Sir David, and believes that his appointment to the posts of Chairman and Chief Executive is beneficial to the business prospects of the Bank.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Non-executive Directors of the Bank do not have a specific term of appointment. At every annual general meeting, one-third of the Directors for the time being or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third shall retire from office.

A Director appointed by the Board to fill a casual vacancy or as an addition shall hold office until the next annual general meeting.

In order to ensure full compliance with Code Provisions A.4.1 and A.4.2, a special resolution will be proposed to amend the relevant Articles of Association of the Bank at the Annual General Meeting to be held on 7th April, 2006, so that every Director appointed by the Board during the year shall retire at the next general meeting. Every Director shall be subject to retirement at least once every three years.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 13th March, 2006 to Wednesday, 15th March, 2006. In order to qualify for the final dividend declared for the year ended 31st December, 2005, all transfer documents should be lodged for registration with Standard Registrars Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, by 4:00 p.m. on Friday, 10th March, 2006.

CHAIRMAN'S STATEMENT

I am pleased to inform shareholders that Mr. Kenneth LO Chin-ming was appointed an Independent Non-executive Director and a member of the Audit Committee of The Bank of East Asia ("BEA" or the "Bank") on 1st May, 2005, and Mr. Eric LI Fook-chuen was appointed a Non-executive Director of the Bank on 25th January, 2006. Mr. Lo is the Chairman and Chief Executive Officer of the Industrial Bank of Taiwan, and Mr. Li the Chairman and Chief Executive Officer of The Kowloon Dairy Limited. I am confident that the valuable contribution of Mr. Lo and Mr. Li will lead to the further success of BEA.

At the forthcoming Annual General Meeting to be held on Friday, 7th April, 2006, Dr. Simon LI Fook-sean will retire in accordance with the Articles of Association and will not seek re-election. Dr. Simon Li was appointed a Director of the Bank in 1987 and has served BEA for 19 years. On behalf of the Board, I take this opportunity to extend our gratitude to Dr. Li for his wise counsel and invaluable contribution to BEA during his tenure of service on the Board and wish him every happiness, good health and success for the future.

In 2005, BEA Group achieved a profit attributable to equity holders of the Group of HK$ 2,749 million, representing an increase of HK$401 million, or 17.1%, over that of HK$2,348 million in 2004. Basic earnings per share were HK$1.83. Return on average assets and return of average equity were 1.3% and 12.2%, respectively.

As at 31st December, 2005, total consolidated assets were HK$238,799 million, an increase of HK$28,429 million over the position at the end of 2004. Advances to customers stood at HK$138,744 million, representing 58.1% of total consolidated assets. Customer deposits were HK$175,895 million, while certificates of deposit and subordinated debt issued stood at HK$6,431 million and HK$8,549 million, respectively. The loan to deposit ratio was 76.1%, compared with 69.8% at the end of 2004. Total equity increased by 11.6% to HK$24,405 million.

At the Annual General Meeting, the Directors will propose a final dividend of HK$0.93 per share, which, together with the interim dividend of HK$0.33 per share paid in September 2005, will constitute a total dividend of HK$1.26 per share for the full year. This represents an increase of 16.7% over the total dividend of HK$1.08 per share for the year 2004. Shareholders whose names are on the Register of Members at the close of business on Wednesday, 15th March, 2006 will be entitled to the proposed final dividend. The final dividend will be paid in cash, with an option to receive new, fully paid shares in lieu of cash. This scrip dividend scheme is conditional upon the passing of the relevant resolution at the Annual General Meeting, and the Listing Committee of The Stock Exchange of Hong Kong Limited granting approval to the listing of and permission to deal in the new shares. The dividend warrants and the share certificates for the scrip dividend will be sent to shareholders by ordinary mail on or about Saturday, 8th April, 2006. Details of the scrip dividend and the election form will be sent to shareholders on or about Wednesday, 15th March, 2006.

In 2005, the operating environment in Hong Kong improved, and loan demand increased in tandem with the strong growth of the local economy. However, economic growth moderated in the final quarter, as the spike in interest rates in the last half of the year dampened consumer sentiment toward property investment and consumption. Despite the weakness at the end of the year, the overall asset quality of the Banks' portfolio improved and the Bank was able to make significant progress in recovery of bad debt.

The outlook for 2006 is favourable, although global and local economies are likely to expand at a more moderate pace than in 2005. Loan demand and business opportunities are expected to remain buoyant as a result of strong business sentiment and the relocation of some economic activity, particularly in the textiles and clothing sector, from the Mainland back to Hong Kong. To improve income growth, banks will continue to diversify into fee-generating businesses such as wealth management and structured products. Furthermore, banks will continue to invest in improving their risk management infrastructure in order to meet the regulatory requirements of the new Basel Capital Accord.

In 2005, BEA maintained its strategic focus on growth and efficiency enhancement, and continued to develop new revenue streams. The Bank launched a number of distinctive products in both Hong Kong and China to meet market needs. The Bank will continue to actively develop its wealth management business, including private banking and structured products. Furthermore, BEA will continue to exploit cross-selling opportunities by promoting Tricor's leading corporate services and share registration service and Blue Cross' insurance products. Last, but not least, the Bank will also continue to look for ROE accretive expansion opportunities via acquisitions and strategic alliances in Hong Kong, the Mainland and elsewhere.

With further expansion of its extensive branch network in the Mainland, the Bank will continue to enhance its strong franchise in China through capturing business opportunities arising from the introduction of CEPA and China's accession to the World Trade Organization ("WTO"). One area that offers great potential is personal Renminbi ("RMB") business in Hong Kong. BEA will also continue to strengthen its position in overseas markets, including the United States, Canada and South East Asia.

BEA will maintain its focus on improving operating efficiencies. The Office Centralisation Project to relocate back-office departments and operations to the new office tower in Millennium City 5 ("MC5") in Kwun Tong was completed in May 2005. BEA also plans to relocate additional back-office operations to the operating centre in Guangzhou. Leveraging the centralised Hong Kong operations at MC5 and the operating centre in Guangzhou will be the focal nexus for the year 2006. Furthermore, BEA will continue to enhance its systems and risk management platform to support its growth.

With its unique market position in Hong Kong, the Mainland and elsewhere, BEA is well prepared to further strengthen its franchise in the domestic, Mainland and overseas markets.

David LI Kwok-po
Chairman and Chief Executive

Hong Kong, 10th February, 2006

EXECUTIVE DIRECTORS' REPORT

FINANCIAL REVIEW

Financial Performance

The year 2005 saw confidence return to the local economy, as business and consumers stepped up spending. Neither high oil prices nor rising interest rates could dampen the mood through most of the year.

It was only in the latter part of the year that higher interest rates finally succeeded in cooling what had become an effervescent residential property market. Transactions in both the primary and secondary markets fell in reaction to the jump in mortgage interest rates in the latter half of the year. While the property market slowed to catch its breath, the economy continued to perform well. The unemployment rate continued to fall. Domestic consumption held firm, although the pace of retail sales growth slowed in the last quarter.

The Hong Kong banking industry remained highly competitive during the year, offering good value and helping to sustain the growth momentum.

The BEA Group's reported earnings for 2005 reflect certain accounting standard changes that have been implemented in 2005. The Hong Kong Institute of Certified Public Accountants ("HKICPA") announced several new or revised Hong Kong Accounting Standards ("HKAS") and Hong Kong Financial Reporting Standards ("HKFRS") in 2004. In preparing the financial statements for 2005, all applicable HKAS and HKFRS have been adopted. Prior period adjustments have been made to the financial statements for 2004, depending on the individual requirements of the concerned HKAS and HKFRS. The effects of adopting these HKAS and HKFRS on the preparation and presentation of financial statements are summarised in Note 3.

The BEA Group achieved a profit attributable to equity holders of the Group of HK$2,749 million for the year ended 31st December, 2005, a growth of 17.1% as compared with 2004.

The adoption of HKAS 39 had a mild impact on the recognition of interest income and expense. Net interest income increased by HK$146 million, or 4.0%, from HK$3,614 million, due to healthy growth in loans to customers. The improvement came despite a fall in net interest margin, from 1.95% to 1.85%. Non-interest income increased by HK$310 million, or 16.5%, when compared with 2004, due partly to the adoption of HKAS 39, which reclassified net interest income related to funding swap transactions as non-interest income, as well as to the increase in trading profits on investments in securities. As a result, total operating income increased by 8.3% to HK$5,953 million.

Despite that total operating expenses increased by 8.2% over the corresponding figure in 2004 to HK$2,988 million due to continuing expansion of the Group activities, the cost to income ratio declined marginally from 50.3% in 2004 to 50.2% in 2005.

Operating profit before impairment allowances (previously referred to as the charge for bad and doubtful debt) increased by HK$231 million, or 8.4%, over the HK$2,734 million attained in 2004.

As a result of the continuous improvement in asset quality and the new approaches to assessing the loan impairment due to the adoption of HKAS 39, the impairment loss on loans and advances decreased by HK$131 million, or 48.1%, compared to 2004, to HK$141 million.

Following the relocation of the Group's operations departments to Millennium City 5 in Kwun Tong in the first half year, two vacant office premises were sold. As a result, the Group recorded a profit on disposal of fixed assets of HK$365 million, an increase of HK$350 million as compared with 2004.

The considerable rise in property prices in 2005 allowed BEA to record a revaluation surplus for investment properties of HK$234 million. However, an impairment loss of HK$210 million was recorded on vacant bank premises.

Share of profit less losses from associates decreased by HK$35 million to HK$34 million.

After taking into account income taxes, profit after taxation was HK$2,786 million, an increase of 17.4 % over the HK$2,372 million recorded the previous year.

Minority interests increased by HK$12 million to HK$37 million.

Profit attributable to equity holders of the Group increased to HK$2,749 million, a rise of 17.1% compared to 2004.

Financial Position

Total consolidated assets of the BEA Group were HK$238,799 million at the end of 2005, representing a rise of 13.5% from HK$210,370 million at the end of 2004. Advances to customers increased by 18.3% to HK$138,744 million.

Total deposits increased by 8.6% to HK$182,326 million, while customer deposits rose by 7.4% to HK$175,895 million. Demand deposits and current accounts decreased by a combined HK$1,054 million to HK$10,865 million. Savings accounts decreased by HK$13,232 million to HK$35,498 million. Time deposits at the year-end 2005 stood at HK$129,533 million, an increase of HK$26,444 million, or 25.7%, when compared with the balance at year-end 2004.

In December 2005, the Group issued US$550 million subordinated loan capital. As at 31st December, 2005, loan capital stood at HK$8,549 million, an increase of 100.2% when compared with the balance at year-end 2004. Total equity stood at HK$24,405 million, an increase of HK$2,546 million, or 11.6%, when compared with the balance at the end of 2004.

During the year, BEA issued HKD floating rate certificates of deposit with a face value of HK$2,700 million, and HKD fixed rate certificates of deposit with a face value of HK$1,300 million. The Bank redeemed HKD certificates of deposit amounting to HK$2,000 million upon maturity, and repurchased a quantity of its own certificates of deposit amounting to HK$117 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 76.1%, being 6.3% higher than the 69.8% reported at the end of 2004.

At the end of December 2005, the face value of the outstanding debt portfolio was HK$ 6,497 million, with the carrying amount equal to HK$6,431 million.

Maturity Profile of Debts Issued
As at 31st December, 2005
(All expressed in millions of dollars)

	Currency	Total Face Value	Year of Maturity 2006	2007	2008
Floating Rate Certificates of Deposit					
Issued in 2005	HKD	2,700	1,200		1,500
Fixed Rate Certificates of Deposit					
Issued in 2005	HKD	1,300	800		500
Issued in 2005	TWD	2,900	2,900		
Discounted Certificates of Deposit					
Issued in 2002	HKD	288	288		
Issued in 2002	USD	86		86	
Issued in 2003	AUD	50	50		
Issued in 2003	NZD	44	44		
Step Up Certificates of Deposit					
Issued in 2003	USD	44			44
Total Debts issued in HKD equivalent		6,497	3,489	669	2,339

Risk Management

BEA has established comprehensive risk management procedures that enable it to identify, measure, monitor and control the various types of risk it faces, and, where appropriate, to allocate capital against those risks. All risk management policies have been approved by the Board of Directors. Risk management mechanisms have been established at different levels throughout the Group. This is supplemented by active management involvement, effective internal controls and comprehensive audits in the best interests of BEA.

With effect from 1st January, 2006, the Group has established an enterprise-wide risk structure and set up a centralised risk management department to handle and monitor all major risks, including credit risk, market risk, liquidity risk and operational risk. The Group also appointed a Chief Risk Officer to oversee this function. It is expected that the overall risk management capability of the Bank Group would be further enhanced as a result.

OPERATIONS REVIEW

RECOGNITION

In recognition of BEA's excellent reputation as a local brand that stands for the very best in quality and service to customers and the public at large, the Bank Group was awarded the "2005 Hong Kong Top Service Brand Award" in January 2006.

The award programme was jointly organised by the Hong Kong Brand Development Council and the Chinese Manufacturers' Association of Hong Kong. The objective of the award programme is to give recognition to outstanding brand names established by Hong Kong companies and to promote Hong Kong products and services.

In May 2005, Cyberbanking was awarded the "Excellence in Internet Banking Award" in "The Asian Banker's Excellence in Retail Financial Services Awards 2004". In October 2005, Cyberbanking also won the "Award of Merit" in the Enterprise Solution Category 2005 in the "First Hong Kong Wireless Technology Excellence Awards" for its innovative mobile phone and PDA services.

IMPROVEMENT TO OPERATIONS

Office Centralisation

The relocation of departments to BEA Tower at Millennium City 5 in Kwun Tong was completed in May 2005, and a grand opening ceremony held on 12th September, 2005. This centralisation exercise will enable the Bank to enhance its operational efficiency and manage the utilisation of office space more effectively.

The Bank is in the process of disposing of surplus office properties created as a result of the relocation exercise.

Relocating Back-Office Operations to the Mainland China

The back-office operating centre in Guangzhou, incorporated under the name of East Asia Electronic Data Processing (Guangzhou) Limited, has been running smoothly and is being capable of in-sourcing functions from the Bank as planned. With the centre's track record in processing the relocated functions satisfactorily, the Bank has mapped plans to outsource more of its operating functions thereto in the years ahead.

Information Technology

New Accounting System

The Bank is to launch a new computer system for general ledger operations in 2006. The new accounting system will not only improve operating efficiency and strengthen control, but also meet the evolving regulatory reporting requirements and improve information management by facilitating information sharing and consolidation.

Core Banking System

In January 2005, the first phase of the Core Banking System Implementation project, covering Customer Information File and System Architecture, was completed. The first phase strengthened BEA's sales and marketing infrastructure by providing support to campaign execution and customer sales contact activities. It also empowered BEA to capture more customer data for storage in the Customer Relationship Management System. The Bank is now in a better position to analyse customer behaviour and preferences.

In May 2005, the Bank moved forward to implement the functional and technical design for the second phase of the project, which covers Deposit and Payment modules. Detailed design and development work is under way, and the second phase will be ready for roll out in the second half of 2006.

PERSONAL BANKING

Branch Distribution

BEA continues to implement the Branch Rationalisation Programme to further strengthen the local branch network. During 2005, two new branches were opened, five branches were relocated to more prominent sites, and seven branches were closed and merged with nearby branches. At the end of January 2006, the total number of branches in Hong Kong stood at 87.

To further enhance the Bank's service in wealth management, four SupremeGold Centres were opened during the year, bringing the number of SupremeGold Centres to 26 by the end of January 2006. The Bank plans to open four SupremeGold Centres in 2006.

The Branch Renewal Programme is also ongoing. The new branch design concept, which provides a bright and spacious atmosphere, was first introduced three years ago and has been well received by customers. More branches will be renovated to the new standard in the years to come.

With the expansion of the permissible scope of personal RMB business, the Bank began to offer RMB deposit account services to business customers in the designated industries starting from December 2005.

A new marketing aid, named Insurance Needs Analysis Tool, was installed at all BEA branches and SupremeGold Centres during the year to further enhance the professionalism of insurance sales staff in delivering quality financial analysis and solutions.

To enhance its insurance services, BEA has introduced two new programmes, one providing express services and another offering tailor-made quotations for specified customers. The express service speeds up the application process for non-Hong Kong residents, so that the whole process including medical examination can be completed within five days. Tailor-made quotations provide flexibility for applications that deviate from normal underwriting requirements.

Cyberbanking

During the year, Cyberbanking was further upgraded to serve customers better. In January 2005, e-Statement and CyberDonation services were introduced over the Internet. To further enhance security when processing online banking transactions, Cyberbanking implemented two-factor authentication in June 2005. At the end of 2005, the Bank had over 310,000 registered Cyberbanking users. The average daily usage volume exceeded 143,000 transactions.

Corporate Cyberbanking recorded steady growth in its customer base in 2005. By the end of 2005, over 16,600 corporate customers had registered with BEA's Corporate Cyberbanking, representing a 21% increase compared to the end of 2004.

Property Loans

The property market consolidated in the second half of 2005 after a sharp rise at the beginning of the year. The rise in mortgage interest rates took its toll, depressing the number of new transactions and therefore reducing mortgage loan demand.

To moderate the impact of rising mortgage interest rates, in early September BEA launched the “BEA Fixed Rate Mortgage Plan” and pioneered the 40-year Fixed Amount Mortgage Plan to provide more flexible mortgage solutions.

In addition, BEA actively coordinated with various property developers to provide preferential mortgage plans to homebuyers, which sustained BEA’s business growth in the face of a contraction in property transaction volume in the second half of 2005.

Consumer Loans

With the steady growth of the economy and improvement in private consumption, BEA launched a new overdraft facilities package and initiated various promotional programmes in the second half of 2005. The promotional programmes incorporated a wide range of attractive offers, such as low interest rate lock-in period and highly personalised pricing, and were successful in capturing customers of good quality including professionals, executives and middle-income earners. Double-digit growth in the portfolio of this target customer segment was recorded, as compared with the corresponding period the previous year.

In addition, in August 2005 BEA introduced an innovative personal loan product, named CyberCash, to Cyberbanking customers. CyberCash is a highly convenient and quick loan service that allows customers to apply for loans online via the Internet and mobile phones. The approved loan will be deposited directly to a BEA account designated by the customer within two hours. This product was well received by younger income earners, who are frequent users of the Internet.

Credit Cards

BEA continued to build its credit card brand during the year. Services were enhanced through the revamp of key products, and appealing cardholder privileges were employed to encourage regular card usage. Moreover, the Bank exploited cross-selling opportunities to deepen business penetration and enlarge the customer base. For example, BEA partnered with Sun Hung Kai Properties to launch the SHKP Club Visa Card co-branded card in April 2005.

In 2005, the Bank introduced sophisticated segmentation tools and a robust credit platform, including behavioural scoring engines. The ability to conduct credit evaluation was also updated, with the introduction of an improved scoring programme. New marketing strategies were devised based on these innovations, so as to provide rewards specific to different target customers.

The Bank’s risk management efforts during the year were successful in stabilising the credit card charge-off ratio. In addition, a new initiative was launched to fine-tune credit line management.

Seizing the business potential brought by the expansion of RMB business, credit card business will align its overall strategy to make the most of macroeconomic developments.

Blue Cross (Asia-Pacific) Insurance Limited

Blue Cross Insurance recorded steady growth in all business lines through the year. The Company’s well-established distribution network enabled it to offer a wide range of insurance products to target customers. The BEA Life Insurance Series and selected general insurance products were distributed through over 110 BEA branches and SupremeGold Centres. Other distribution channels included insurance agents, brokers, allied partners, and both the BEA and Blue Cross on-line websites.

In 2005, Blue Cross gross premium income increased by 24%, while life insurance and general insurance premium income grew by 51% and 4% respectively.

Being a trustworthy brand in the market, Blue Cross received a number of awards in recognition of its achievements, including “The Most Popular Travel Insurance Company Award”, “MIS Asia IT Excellence Award”, and “High Flyers Achievement Award – Health Insurance”.

Blue Cross continued to expand its market share through the offering of innovative products. Pet Care Insurance was launched in July 2005 to provide pet lovers with desired medical cover for their cats and dogs. Another new product, DecorationSafe, was promoted to the public in the last quarter of 2005, offering protection for property damage and liability loss due to decoration works at home or in the office.

CORPORATE BANKING

Corporate Lending

BEA remained an active player in the corporate lending market during 2005. In the first half of the year, demand for loans was strong from all business sectors due to the low interest rate environment, higher property values and strong domestic demand. However, as interest rates and oil prices surged in the second half of the year, local companies began to slow their pace of business expansion. Overall, companies reported good business turnover but only moderate profit growth for the year.

Competition among banks remained keen for all business segments and loan types. To improve yield return and to broaden the client base, BEA pro-actively solicited business by participating in high quality and return-justified deals. BEA was quick to take advantage of the booming economy in Macau, capturing emerging lending opportunities as local and international investors sought financing in Hong Kong for new investments in Macau.

BEA actively participated in new financing exercises involving large conglomerates, including property development and investment projects in Hong Kong and Macau, working capital financing and IPO pre-financing. The Bank also secured deals to finance overseas acquisitions made by large PRC corporations via their Hong Kong subsidiaries. The Bank has underwritten and participated in numerous syndicated deals, including a HK$5,200 million syndicated loan facility to CITIC Pacific Limited, a HK$3,600 million syndicated loan facility to Hopewell Highway Infrastructure Limited and a US$729 Million syndicated loan facility to Wynn Resorts (Macau), S.A.

In the small to medium-sized enterprise market, BEA continues to focus on companies with promising business prospects, offering tailor-made banking facilities and a comprehensive range of value-added services. The Bank launched several loan schemes targeted at this segment, including the “SME Loan Programme”, the “Trade Finance Programme” and the “Corporate Tax Loan Programme”.

Commercial advances were in strong demand in the first 6 months of the year, but flattened in the second half in front of the backdrop of surging interest rates and oil prices. Equipment and vehicle financing maintained satisfactory growth throughout the year as a result of the Bank’s focus on enhancing its business relationships with equipment and vehicle dealers. On the other hand, the taxi and public light bus loan business recorded a mild drop as BEA continued to adopt a prudent lending policy. A zero-write off record was maintained for the taxi and public light bus portfolio during the period.

The Bank organised a number of information seminars for corporate customers in 2005, aiming to further enhance the relationship with these customers. For example, in January, BEA organised a seminar under the theme “Global Economic Outlook and Foreign Exchange Market for 2005”. The seminar provided useful macro economic and market information to assist customers in developing their business plans for the year ahead.

In October, BEA organised a seminar on "Capturing Business Opportunities in China: New Directions and Developments in the Expanding Mainland Market". Three experts on China were invited to share their insights and experience with the Bank's customers.

In mid-January 2006, BEA held a seminar entitled "Charting Course for 2006: The Outlook Opportunities". The seminar brought together distinguished leaders in the fields of economics, real estate, foreign exchange, and investment with BEA's corporate and personal-banking customers.

Securities Lending

BEA maintained its market share in stagging loans for IPOs in 2005, achieving a 38% increase in loan activity in line with the rise in IPO fundraising. The Bank was also active in providing IPO Receiving Bank services, successfully completing seven projects, including The Link REIT, the largest real estate investment trust issued to date, and China Construction Bank, the first of China's Big Four banks to list in Hong Kong. BEA recorded a 24% increase in traditional share financing loans during 2005, and will strive to establish an even stronger foothold in local stock market financing in 2006.

Bank of East Asia (Trustees) Limited

Mandatory Provident Fund

To provide greater flexibility in the management of voluntary contributions, BEA launched a new service, the MPF Personal Contribution Account ("PCA"), in April 2005. A PCA can be opened by anyone interested in saving for retirement; it is not necessary to have an MPF account with BEA to qualify. BEA is the first MPF trustee in Hong Kong to offer this service.

In addition, BEA launched three new constituent funds under its Master Trust Scheme in September 2005, namely BEA (MPF) Asian Growth Fund, BEA (MPF) Hong Kong Growth Fund and BEA (MPF) Global Bond Fund. With the new funds, scheme members now have more investment options.

The strength of BEA's MPF investment team was underscored at the end of the year, when it was reported that BEA ranked the second in the MPF Index compiled by Mercer Human Resource Consulting for the one-year period ended September 2005.

Trust Services

In addition to the provision of MPF services, Bank of East Asia (Trustees) Limited also offers a wide range of trustee services to both individual and corporate customers. Four sub-funds were successfully launched under the BEA Signature Portfolio Fund in January 2005, namely BEA Aggressive Fund, BEA Growth Fund, BEA Balanced Fund and BEA Stable Fund.

WEALTH MANAGEMENT

Structured Products

The Bank launched over 30 different Linked Deposit products in 2005. A major milestone was achieved during the year, with distribution of principal protected structured products having been extended to all branches on the Mainland and in Macau, significantly increasing the base of potential customers.

The Bank also introduced the mass market to a number of innovative investment products with exotic options that were previously only available to affluent individuals. Furthermore, products with shorter tenors and early redemption features were offered to give customers a higher degree of flexibility to take advantage of the buoyant market.

During the year, the transaction volume of structured deposits increased by 7.7%, while the total outstanding structured products portfolio increased by 60%.

Mutual Fund Business / Asset Management

Timely market information is the key to smart investing. In order to make it easier for the Bank's customers to access such intelligence, the Bank revamped its on-line Cyberfund Centre and joined forces with ET-Wealth (a subsidiary of the listed Hong Kong Economic Times Group). With the revamp, the Bank has significantly enhanced the content of its financial news and information on investment funds.

In 2005, the investment fund business of the Bank grew by more than 15% in terms of net assets under custody.

Due to the strong performance of several BEA investment funds and a 23% increase in assets under management from the MPF business, the Bank's investment management subsidiary, East Asia Asset Management Company Limited, recorded a significant increase in profit of over 39% in 2005.

Bancassurance

Bancassurance business continued to achieve double-digit growth in 2005, with a 30% increase in insurance premium income. The Bank further enhanced its insurance product range by developing market-responsive insurance products, particularly single premium, refundable term life, and annuity plans. Customers can now access BEA's insurance products at the branches, or via the Internet and by telephone.

With the aim of increasing the penetration rate of insurance products within the Bank's customer base, various cross-selling campaigns to targeted customers from credit card, mortgage loans and children's savings accounts were introduced in 2005. Sophisticated marketing segmentation and sales promotion strategies were employed to achieve budgeted growth. In particular, a series of road shows were organised at various shopping centres to strengthen brand awareness.

Private Banking

The Bank re-launched BEA Private Banking in September 2005, aiming to be a leading provider of premier wealth management services to key clients in the region. Established as a separate unit under the Wealth Management Division of the Bank, this new unit enhances the Bank's offering of value-added wealth management services for the high net worth customer segment.

Through BEA Private Banking, select customers have access to dedicated, relationship oriented, trusted and professionally trained bankers on a one-to-one basis. BEA Private Banking encompasses an extensive range of services for managing personal wealth, including advisory and discretionary portfolio management, treasury and structured products, dealing in securities and funds, family trust and estate planning, in addition to the full range of banking services.

INVESTMENT BANKING AND SERVICES

East Asia Securities Company Limited – Securities Cybertrading

East Asia Securities continued to benefit from the improving local market sentiment and investor confidence during the past year.

The Company has dedicated itself to continually raising its standard of services in order to meet the increasingly sophisticated demands of its customers and the marketplace. As a measure of its success, the Company registered a 16% rise in the number of Cybertrading accounts during 2005. As of 31st December, 2005, more than 49% of the Company's securities clients were subscribers to the Cybertrading Service.

East Asia Securities has instituted various incentive schemes to encourage clients to execute trades via its user-friendly electronic trading platform. The schemes have generated strong positive response from clients. Currently, the volume of transactions executed via the Cybertrading System, expressed as a percentage of total turnover, accounts for some 50% of the number of trades and 36% of transaction value.

With a view to further enhancing the Cybertrading Service, East Asia Securities has plans to introduce an eIPO Service and further enhance its IVRS Trading System and Mobile Phone Trading in the first half of 2006.

East Asia Futures Limited – Futures Cybertrading

For the year 2005, East Asia Futures, the wholly-owned futures and options broking arm of the Bank, benefited greatly from the improved local market conditions. The Company has recorded significant growth in its client base since the launch of its on-line real time trading platform in August 2004 – the Futures Cybertrading System.

Year to year, the Company registered growth of 34% in the number of Futures Cybertrading accounts. As of 31st December, 2005, more than 67% of the Company's clients had subscribed to the Futures Cybertrading Service.

East Asia Futures has instituted various incentive schemes to encourage clients to execute trades via its user-friendly electronic trading platform. Currently, the volume of transactions executed via the Futures Cybertrading System, expressed as a percentage of total turnover, accounts for some 40% of trades and 35% of transaction value.

CHINA OPERATIONS

In 2005, BEA opened two branches in Hangzhou and Chongqing, two sub-branches in Shanghai Xintiandi and Shenzhen Nanshan as well as two representative offices in Suzhou and Dongguan. At present, BEA has a total of 23 outlets in China, including 11 branches, 6 representative offices and 6 sub-branches. Further expansion is planned for 2006, including but not limited to upgrading the existing representative offices into full branches and establishing more sub-branches on the Mainland and in Macau.

To explore the bancassurance business opportunities in China, BEA entered into cooperation agreements with China Pacific Insurance Company Limited and China Life Insurance Company Limited during the year. Nine out of the eleven branches in China have already obtained agency licences for marketing both life and general insurance products.

BEA launched five derivative products in China and one derivative product in Macau during the year, with encouraging sales results. BEA will continue to develop innovative personal banking products to suit the needs of the local market.

Furthermore, BEA obtained approval from the State Administration of Foreign Exchange to provide RMB forward services to its customers.

In 2005, BEA has achieved a significant growth of 50% in the loan portfolio and 74% in the net profit in the China, Taiwan and Macau markets. BEA is confident that the business units in these three markets would be able to maintain this growth momentum in 2006.

OVERSEAS OPERATIONS

In 2005, BEA continued the implementation of its international expansion strategy. In March, The Bank of East Asia (Canada) opened a branch in the city of Vancouver. In April, BEA exercised the option to increase its shareholding in P.T. Bank Resona Perdania, its joint venture bank in Indonesia, raising its stake from 24.89% to 30%.

In June, The Bank of East Asia (U.S.A) N.A. ("BEA-USA") opened its fourth California branch in Torrance. To further strengthen BEA's presence in the United States, in December, East Asia Holding Company, Inc., a wholly-owned subsidiary of BEA, signed a definitive agreement to acquire National American Bankcorp ("NABancorp"). NABancorp is the holding company for National American Bank ("NAB"), a commercial bank with three branches in the San Francisco Bay Area. NAB will be merged into BEA-USA following the completion of the acquisition in the second quarter of 2006. The acquisition will enable BEA Group to expand its network into the dynamic San Francisco market, and it will provide a platform for further growth in northern California.

BEA-USA is also preparing to open two additional branches in New York City in the first half 2006. Cyberbanking Services will be extended to customers beginning in the second quarter of 2006. By mid 2006, BEA-USA will have a total of 10 branches in the U.S.

In 2005, BEA overseas business units recorded a growth of 15% in the loan portfolio. Despite heavy loan prepayments and lesser-than-expected growth due to strong liquidity and high interest rate environment, overseas business units achieved an increase of 40% in net profit for the year ended 31st December, 2005. The overseas business units will continue to carry out the mission of improving profitability and providing high quality niche banking services to its target customers.

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 significant growth in revenue for the year and is the key contributor to the BEA Group's fees and commission income. The continued improvement in the business environment in Hong Kong has benefited Tricor's operations. The company has experienced strong demand for its corporate compliance services from both private and publicly listed companies in Hong Kong, its IPO and share registration services as well as its executive search work. Furthermore, its overseas operations have made a respectable contribution to Tricor's total revenue.

In May 2005, Tricor acquired the company secretarial business of Ernst & Young in the British Virgin Islands, adding strength to Tricor's already successful corporate services practice there. Continuing with its regional expansion strategy, in July 2005, Tricor acquired a substantial interest in the client accounting, payroll outsourcing and executive recruitment businesses of PricewaterhouseCoopers in Thailand, the leading accounting firm in that country. Pursuant to a sale and purchase agreement signed in December 2005, Tricor completed the acquisition of a reputable corporate services practice in Malaysia on 12th January, 2006. Tricor also set up operations in Shenzhen, its third office on the Mainland, in October 2005.

As of January 2006, Tricor operates in 10 cities in the region. As market leader in business, corporate and investor services, Tricor will continue to look for business opportunities in Greater China and elsewhere.

On 16th January, 2006, Tricor consolidated its Hong Kong offices into a single location at Three Pacific Place on Hong Kong Island. The consolidation will facilitate the further integration of the company's various business lines, systems and resources.

HUMAN RESOURCES

The Bank of East Asia Group employees at 31st December, 2005:

Hong Kong	4,518
Other Greater China	1,507
Overseas	418
Total	6,443

The year 2005 was a challenging year for human resources professionals, especially for those serving in the field of recruitment and retention. To meet these challenges, the Bank has continuously reviewed its human resources programmes to attract high calibre candidates and to retain outstanding performers. These programmes include enhancement of staff benefits, rewards to top performers, enrichment programmes for staff development, and best practice benchmarking conducted by external human resources consultants.

The Bank is committed to enhancing the capability and developing the potential of its staff in order to assist them to face the changing needs of their work. Besides regular in-house training programmes, the Bank has collaborated with university professors and external training consultants to design and organise customised training courses.

DEALINGS 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 year ended 31st December, 2005.

David LI Kwok-po	**Joseph PANG Yuk-wing**	**CHAN Kay-cheung**
Chairman & Chief Executive	*Executive Director*	*Executive Director*

Hong Kong, 10th February, 2006

As at the date of this announcement, the Executive Directors of the Bank are: Dr. The Hon. Sir David LI Kwok-po (Chairman and Chief Executive), Mr. Joseph PANG Yuk-wing (Deputy Chief Executive) and Mr. CHAN Kay-cheung (Deputy Chief Executive); Non-executive Directors of the Bank are: Dr. LI Fook-wo; Dr. The Hon. Simon LI Fook-sean, Mr. Aubrey LI Kwok-sing, Dr. William MONG Man-wai, Tan Sri Dr. KHOO Kay-peng, Mr. Richard LI Tzar-kai and Mr. Eric LI Fook-chuen; 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.