

## The Bank of East Asia, Limited

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

### ANNOUNCEMENT OF 2006 INTERIM RESULTS

#### INTERIM RESULTS

The Directors of The Bank of East Asia, Limited (“BEA”) are pleased to announce the unaudited results<sup>1</sup> of the Bank and its subsidiaries (the “Group”) for the six months ended 30<sup>th</sup> June, 2006. The interim financial report is unaudited, but has been reviewed by KPMG, in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), whose unmodified review report is included in the interim report to be sent to shareholders.

#### A. Consolidated Profit and Loss Account

	6 months ended 30/6/2006	6 months ended 30/6/2005 Restated	6 months ended 31/12/2005
	HK\$'000	HK\$'000	HK\$'000
Interest income	5,900,286	3,047,295	4,759,239
Interest expense	(3,591,983)	(1,378,704)	(2,667,572)
Net interest income	2,308,303	1,668,591	2,091,667
Fee and commission income	902,888	770,975	827,025
Fee and commission expense	(127,335)	(107,948)	(121,948)
Net fee and commission	775,553	663,027	705,077
Net trading profits	73,987	250,379	325,645
Net result from financial instruments designated at fair value through profit or loss	232,893	12,768	(55,314)
Other operating income	153,772	158,670	132,028
Operating income	3,544,508	2,753,435	3,199,103
Operating expenses	(1,636,734)	(1,410,489)	(1,577,558)
Operating profit before impairment losses	1,907,774	1,342,946	1,621,545
(Charge) / Write back of impairment losses on loans and advances	(154,668)	24,314	(165,799)
Write back / (Charge) of impairment losses on held-to-maturity investments	12,828	(11,902)	(21,328)
(Charge) / Write back of impairment losses on available-for-sale financial assets	-	(326)	1
Impairment losses on goodwill	(23,698)	-	-
Write back / (Charge) of impairment losses on associates	3,779	3,903	(10,741)
Write back / (Charge) of impairment loss on bank premises	10,915	(953)	(209,187)
Impairment losses	(150,844)	15,036	(407,054)
	1,756,930	1,357,982	1,214,491
Net loss on sale of held-to-maturity investments	(444)	(630)	-
Net profit on sale of available-for-sale financial assets	3,390	6,604	379
Net profit on sale of subsidiaries/associates	1,330	607	17
Net (loss) / profit on sale of fixed assets	(3,964)	35,260	330,181
Valuation gains on investment properties	40,478	-	234,221
Share of profits less losses of associates	47,754	(2,762)	36,493
Profit for the period before taxation	1,845,474	1,397,061	1,815,782
Income tax			
Current tax <sup>2</sup>			
- Hong Kong	(175,971)	(169,393)	(90,447)
- Overseas	(99,603)	(59,377)	(51,658)
Deferred tax	21,552	34,541	(90,528)
Profit for the period after taxation	1,591,452	1,202,832	1,583,149
Attributable to:			
Equity holders of the Group	1,565,334	1,182,965	1,565,760
Minority interests	26,118	19,867	17,389
Profit after taxation	1,591,452	1,202,832	1,583,149
Profit for the Bank	1,317,809	1,117,827	1,497,724
Proposed dividends	661,067	495,997	1,404,514
Per share			
- Basic earnings <sup>3</sup>	HK\$1.03	HK\$0.79	HK\$1.04
- Diluted earnings <sup>3</sup>	HK\$1.02	HK\$0.79	HK\$1.04
- Dividends	HK\$0.43	HK\$0.33	HK\$0.93

## B. Consolidated Balance Sheet

	30/6/2006	30/6/2005 Restated	31/12/2005
	HK\$'000	HK\$'000	HK\$'000
<b>ASSETS</b>			
Cash and balances with banks and other financial institutions	4,656,612	4,335,387	4,525,587
Placements with banks and other financial institutions	60,104,309	30,730,889	45,347,255
Trade bills	515,862	1,597,825	612,587
Trading assets	2,780,100	2,430,205	3,245,579
Financial assets designated at fair value through profit or loss	8,393,781	10,228,709	10,157,707
Advances to customers and other accounts	155,363,188	133,979,107	144,836,789
Available-for-sale financial assets	9,722,885	7,467,976	8,399,121
Held-to-maturity investments	12,733,752	12,962,924	13,016,959
Investments in associates	921,424	753,998	768,580
Fixed assets	5,515,085	5,275,474	5,355,899
- Investment properties	949,146	508,155	950,586
- Other property and equipment	4,565,939	4,767,319	4,405,313
Goodwill	2,583,500	2,455,056	2,494,950
Deferred tax assets	47,034	73,811	38,469
<b>Total Assets</b>	<b>263,337,532</b>	<b>212,291,361</b>	<b>238,799,482</b>
<b>EQUITY AND LIABILITIES</b>			
Deposits and balances of banks and other financial institutions	19,490,905	11,561,199	13,785,419
Deposits from customers	192,727,638	160,461,840	175,894,925
- Demand deposits and current accounts	12,328,246	11,883,561	10,864,801
- Savings deposit	38,526,992	39,043,427	35,497,574
- Time, call and notice deposits	141,872,400	109,534,852	129,532,550
Trading liabilities	1,567,047	1,511,171	1,936,999
Certificates of deposit issued	9,043,977	6,519,136	6,431,391
- At fair value through profit or loss	2,707,710	2,823,480	3,047,652
- At amortised cost	6,336,267	3,695,656	3,383,739
Current taxation	388,413	303,372	261,695
Deferred tax liabilities	466,015	678,241	627,485
Other accounts and provisions	6,111,510	4,189,855	6,908,260
Loan capital	8,026,326	4,360,609	8,548,780
- At fair value through profit or loss	4,149,058	4,360,609	8,548,780
- At amortised cost	3,877,268	-	-
<b>Total Liabilities</b>	<b>237,821,831</b>	<b>189,585,423</b>	<b>214,394,954</b>
Share capital	3,843,413	3,757,553	3,775,575
Reserves	21,372,893	18,759,472	20,421,790
<b>Total equity attributable to equity holders of the Group</b>	<b>25,216,306</b>	<b>22,517,025</b>	<b>24,197,365</b>
Minority interests	299,395	188,913	207,163
<b>Total Equity</b>	<b>25,515,701</b>	<b>22,705,938</b>	<b>24,404,528</b>
<b>Total Equity and Liabilities</b>	<b>263,337,532</b>	<b>212,291,361</b>	<b>238,799,482</b>

**C. Consolidated Summary Statement of Changes in Equity**

	6 months ended 30/6/2006 HK\$'000	6 months ended 30/6/2005 HK\$'000
Total equity as at 1 <sup>st</sup> January	24,404,528	22,454,582
Net income recognised directly in equity		
(Recognition) / release of net deferred tax liabilities in		
- Revaluation reserve on bank premises	(1,148)	2,530
- Investment revaluation reserve on available-for-sale financial assets	(52,457)	-
Revaluation surplus on bank premises transferred to investment properties	10,102	-
Capital reserve on share-based transactions	11,703	17,361
Reversal upon disposal of available-for-sale financial assets	2,076	-
Changes in fair value of available-for-sale financial assets	184,153	(9,548)
Exchange and other adjustments	57,279	895
	<u>211,708</u>	<u>11,238</u>
Net profit for the period		
Attributable to:		
Equity holders of the Group	1,565,334	1,182,965
Minority interests	26,118	19,867
	<u>1,591,452</u>	<u>1,202,832</u>
Total recognised income and expenses for the period (of which HK\$26,118,000 (six months ended 30 <sup>th</sup> June 2005:HK\$19,867,000) is attributable to minority interests)	<u>1,803,160</u>	<u>1,214,070</u>
Dividends paid during the period	<u>(1,410,856)</u>	<u>(1,195,300)</u>
Movements in shareholders' equity arising from capital transactions with equity holders of the Group:		
Shares issued under Staff Share Option Schemes	281,350	49,459
Shares issued in lieu of dividends	371,906	179,760
Capital fee	(132)	(42)
	<u>653,124</u>	<u>229,177</u>
Movements in minority interests		
Acquisition of subsidiaries	2,698	-
Decrease in shareholding	-	3,409
Share of revaluation surplus of available-for-sale financial assets	63,047	-
	<u>65,745</u>	<u>3,409</u>
Balance as at 30 <sup>th</sup> June	<u>25,515,701</u>	<u>22,705,938</u>

#### D. Condensed Consolidated Cash Flow Statement

	6 months ended 30/6/2006 <u>HK\$'000</u>	6 months ended 30/6/2005 <u>HK\$'000</u>
Cash generated from / (used in) operations	13,785,812	(8,739,522)
Tax paid	<u>(154,741)</u>	<u>(100,749)</u>
Net cash generated from / (used in) operating activities	13,631,071	(8,840,271)
Net cash (used in) / generated from investing activities	(1,796,063)	321,057
Net cash generated from financing activities	<u>999,295</u>	<u>1,114,381</u>
Net increase / (decrease) in cash and cash equivalents	12,834,303	(7,404,833)
CASH AND CASH EQUIVALENTS AT 1 <sup>ST</sup> JANUARY	<u>52,283,962</u>	<u>41,204,335</u>
CASH AND CASH EQUIVALENTS AT 30 <sup>TH</sup> JUNE	<u><u>65,118,265</u></u>	<u><u>33,799,502</u></u>
Cash flows from operating activities included:		
Interest received	6,473,155	3,784,245
Interest paid	4,098,870	1,425,819

Notes:

- (1) The financial information set out in this interim report does not constitute the Group's statutory accounts for the year ended 31<sup>st</sup> December, 2005 but there is no material change as compared to those accounts, nor for the six months ended 30<sup>th</sup> June, 2006. The statutory accounts for the year ended 31<sup>st</sup> December, 2005 are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 10<sup>th</sup> February, 2006.
- (2) The provision for Hong Kong profits tax is calculated at 17.5% of the estimated assessable profits for the six months ended 30<sup>th</sup> June, 2006. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.
- (3)
  - (a) The calculation of basic earnings per share is based on earnings of HK\$1,565,334,000 (six months ended 30<sup>th</sup> June, 2005 : HK\$1,182,965,000) and on the weighted average of 1,523,266,272 (six months ended 30<sup>th</sup> June, 2005 : 1,497,491,867) ordinary shares outstanding during the six months ended 30<sup>th</sup> June, 2006.
  - (b) The calculation of diluted earnings per share is based on earnings of HK\$1,565,334,000 (six months ended 30<sup>th</sup> June, 2005 : HK\$1,182,965,000) and on 1,531,440,619 (six months ended 30<sup>th</sup> June, 2005 : 1,501,798,518) ordinary shares, being weighted average number of ordinary shares outstanding during the six months ended 30<sup>th</sup> June, 2006, adjusted for the effects of all dilutive potential shares.
- (4) Certain comparative figures as at and for the six months ended 30<sup>th</sup> June, 2005 are restated to conform to the current period's presentation and that used for the year ended 31<sup>st</sup> December, 2005. In the profit and loss account, interest income, interest expense and dividend income arising from trading assets and trading liabilities, if applicable, has been reclassified from "Interest income", "Interest expense" and "Other operating income" respectively to "Net trading profits". Similar income and expenses arising from financial instruments designated at fair value through profit or loss has been reclassified from the relevant captions to "Net result from financial instruments designated at fair value through profit or loss". In the balance sheet, treasury bills (including Exchange Fund Bills) and certificates of deposit held have been included in the applicable categories of financial instruments under HKAS39. Placements with banks and other financial institutions maturing within one month have been included in placements with banks and other financial institutions.

## E. Fee and Commission Income

Fee and commission income arises from the following services:

	6 months ended 30/6/2006 HK\$'000	6 months ended 30/6/2005 HK\$'000	6 months ended 31/12/2005 HK\$'000
Corporate services	292,760	225,474	251,947
Loans, overdrafts and guarantees	132,766	150,579	144,767
Credit cards	139,518	107,246	128,784
Other retail banking services	71,765	78,051	56,659
Trade finance	54,220	51,414	51,044
Securities and asset management	127,067	88,900	103,385
Others	84,792	69,311	90,439
Total fee and commission income	<u>902,888</u>	<u>770,975</u>	<u>827,025</u>

## F. Net Trading Profits

	6 months ended 30/6/2006 HK\$'000	6 months ended 30/6/2005 HK\$'000	6 months ended 31/12/2005 HK\$'000
Profit on dealing in foreign currencies	77,702	152,553	141,289
Profit / (loss) on trading securities	125,842	(3,821)	110,028
(Loss) / profit on other dealing activities	(138,382)	14,343	7,779
Interest income on trading assets			
- listed	834	403	821
- unlisted	24,598	7,246	17,980
Interest income on interest rate swaps	293,135	214,560	291,130
Interest expense on interest rate swaps	(316,163)	(140,600)	(248,655)
Dividend income from listed trading securities	6,421	5,695	5,273
Total net trading profits	<u>73,987</u>	<u>250,379</u>	<u>325,645</u>

## G. Net Result From Financial Instruments Designated At Fair Value Through Profit or Loss

	6 months ended 30/6/2006 HK\$'000	6 months ended 30/6/2005 HK\$'000	6 months ended 31/12/2005 HK\$'000
Net gains	175,275	47,173	79,307
Interest income			
- listed	72,943	71,278	97,485
- unlisted	179,908	99,535	142,088
Interest expense	(195,336)	(205,369)	(374,388)
Dividend income from listed securities	103	151	194
	<u>232,893</u>	<u>12,768</u>	<u>(55,314)</u>

## H. Other Operating Income

	6 months ended 30/6/2006 <u>HK\$'000</u>	6 months ended 30/6/2005 <u>HK\$'000</u>	6 months ended 31/12/2005 <u>HK\$'000</u>
Dividend income from available-for-sale financial assets			
- listed	6,970	4,531	3,851
- unlisted	5,726	15,178	10,593
Rental from safe deposit boxes	42,983	42,830	42,439
Net revenue from insurance activities	61,634	47,598	41,161
Rental income on properties	26,049	23,096	20,098
Others	10,410	25,437	13,886
Total other operating income	<u>153,772</u>	<u>158,670</u>	<u>132,028</u>

## I. Operating Expenses

	6 months ended 30/6/2006 <u>HK\$'000</u>	6 months ended 30/6/2005 <u>HK\$'000</u>	6 months ended 31/12/2005 <u>HK\$'000</u>
Contributions to defined contribution plan	60,556	52,808	54,564
Equity-settled share-based payment expenses	11,703	17,361	12,435
Salary and other staff costs	<u>799,776</u>	<u>705,118</u>	<u>756,182</u>
Total staff costs	<u>872,035</u>	<u>775,287</u>	<u>823,181</u>
Premises and equipment expenses excluding depreciation			
- Rental of premises	95,644	78,912	85,646
- Maintenance, repairs and others	<u>139,105</u>	<u>119,255</u>	<u>124,394</u>
Total premises and equipment expenses excluding depreciation	<u>234,749</u>	<u>198,167</u>	<u>210,040</u>
Depreciation on fixed assets	143,752	119,795	138,768
Other operating expenses			
- Communications, stationery and printing	90,442	85,784	89,350
- Legal and professional fees	62,491	57,405	54,711
- Advertising expenses	61,994	37,461	87,501
- Business promotions and business travel	30,070	23,313	25,413
- Card related expenses	24,676	35,556	21,796
- Stamp duty, overseas and PRC* business taxes, and value added taxes	40,974	22,493	30,389
- Insurance expenses	5,456	6,597	6,872
- Debt securities issue expenses	2,995	3,680	11,144
- Bank charges	1,560	2,135	1,802
- Administration expenses of secretarial business	8,379	5,396	6,934
- Membership fees	2,895	2,805	2,494
- Bank licence	2,532	776	2,306
- Donations	14,968	2,471	5,965
- Others	<u>36,766</u>	<u>31,368</u>	<u>58,892</u>
Total other operating expenses	<u>386,198</u>	<u>317,240</u>	<u>405,569</u>
Total operating expenses	<u>1,636,734</u>	<u>1,410,489</u>	<u>1,577,558</u>

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

## J. Trading Assets

	30/6/2006	30/6/2005	31/12/2005
	HK\$'000	HK\$'000	HK\$'000
Treasury bills (including Exchange Fund Bills)	793,407	995,764	1,494,650
Debt securities	161,326	182,016	165,683
Equity shares	765,582	356,199	601,139
Trust fund	256,394	245,736	245,682
Trading securities	1,976,709	1,779,715	2,507,154
Positive fair value of derivatives	803,391	650,490	738,425
	<u>2,780,100</u>	<u>2,430,205</u>	<u>3,245,579</u>
Issued by:			
Central governments and central banks	793,407	1,003,367	1,494,650
Public sector entities	162,233	174,412	165,684
Banks and other financial institutions	363,654	275,452	435,494
Corporate entities	643,809	326,484	411,326
Other entities	13,606	-	-
	<u>1,976,709</u>	<u>1,779,715</u>	<u>2,507,154</u>
By place of listing:			
Listed in Hong Kong	620,397	290,796	494,508
Listed outside Hong Kong	191,886	107,019	144,233
	<u>812,283</u>	<u>397,815</u>	<u>638,741</u>
Unlisted	1,164,426	1,381,900	1,868,413
	<u>1,976,709</u>	<u>1,779,715</u>	<u>2,507,154</u>

## K. Financial Assets Designated At Fair Value Through Profit or Loss

	30/6/2006	30/6/2005	31/12/2005
	HK\$'000	HK\$'000	HK\$'000
Certificates of deposit held	94,795	48,725	94,290
Debt securities	8,286,599	10,170,325	10,053,081
Equity shares	12,387	9,659	10,336
	<u>8,393,781</u>	<u>10,228,709</u>	<u>10,157,707</u>
Issued by:			
Central governments and central banks	-	48,251	46,409
Public sector entities	168,526	176,966	172,022
Banks and other financial institutions	1,027,038	1,677,403	1,264,079
Corporate entities	7,190,375	8,319,190	8,668,041
Other entities	7,842	6,899	7,156
	<u>8,393,781</u>	<u>10,228,709</u>	<u>10,157,707</u>
By place of listing:			
Listed in Hong Kong	1,045,040	2,419,277	1,773,428
Listed outside Hong Kong	1,427,865	2,712,928	1,931,168
	<u>2,472,905</u>	<u>5,132,205</u>	<u>3,704,596</u>
Unlisted	5,920,876	5,096,504	6,453,111
	<u>8,393,781</u>	<u>10,228,709</u>	<u>10,157,707</u>

## L. Advances to Customers and Other Accounts

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

	<u>30/6/2006</u> HK\$'000	<u>30/6/2005</u> HK\$'000	<u>31/12/2005</u> HK\$'000
(i) Advances to customers	149,083,749	128,418,266	138,743,747
Less: Impairment allowances			
- Individual	(217,838)	(328,920)	(295,575)
- Collective	(431,926)	(455,474)	(478,995)
	<u>148,433,985</u>	<u>127,633,872</u>	<u>137,969,177</u>
(ii) Other Accounts			
Advances to banks and other financial institutions	2,682,616	2,319,294	2,424,120
Notes and bonds	359,209	284,429	387,934
Certificates of deposit held	38,834	38,858	38,775
Accrued interest	984,115	710,704	985,567
Other accounts	<u>2,900,536</u>	<u>3,037,971</u>	<u>3,069,729</u>
	6,965,310	6,391,256	6,906,125
Less: Impairment allowances			
- Individual	(26,660)	(33,858)	(28,570)
- Collective	(9,447)	(12,163)	(9,943)
	<u>6,929,203</u>	<u>6,345,235</u>	<u>6,867,612</u>
	<u>155,363,188</u>	<u>133,979,107</u>	<u>144,836,789</u>

### (b) 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.

	<u>30/6/2006</u> HK\$'000	<u>30/6/2005</u> HK\$'000	<u>31/12/2005</u> HK\$'000
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property development	5,796,535	4,779,394	5,870,869
- Property investment	20,423,067	16,433,678	19,316,009
- Financial concerns	2,190,722	1,485,892	1,867,677
- Stockbrokers	294,588	176,836	204,725
- Wholesale and retail trade	1,366,526	1,683,867	1,399,776
- Manufacturing	1,813,602	1,859,708	1,744,187
- Transport and transport equipment	3,875,311	4,198,215	4,132,657
- Others	6,415,811	5,742,204	6,294,634
- Sub-total	<u>42,176,162</u>	<u>36,359,794</u>	<u>40,830,534</u>
Individuals			
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,218,014	1,422,812	1,320,946
- Loans for the purchase of other residential properties	36,409,009	37,991,408	37,188,222
- Credit card advances	1,763,962	1,371,012	1,769,653
- Others	3,946,951	3,600,915	3,571,901
- Sub-total	<u>43,337,936</u>	<u>44,386,147</u>	<u>43,850,722</u>
Total loans for use in Hong Kong	85,514,098	80,745,941	84,681,256
Trade finance	3,639,770	4,175,030	3,753,789
Loans for use outside Hong Kong	<u>59,929,881</u>	<u>43,497,295</u>	<u>50,308,702</u>
Total advances to customers	<u>149,083,749</u>	<u>128,418,266</u>	<u>138,743,747</u>

(c) Impaired advances to customers

	30/6/2006		30/6/2005		31/12/2005	
	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers
Gross impaired advances to customers	1,337,250	0.90	1,689,007	1.32	1,434,979	1.03
Individual impairment loss allowances	217,838		328,920		295,575	

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

There were no impaired advances to banks and other financial institutions as at 30<sup>th</sup> June, 2006, 30<sup>th</sup> June, 2005 and 31<sup>st</sup> December, 2005; nor were there any individual impairment allowances made for them on these three respective dates.

**M. Available-For-Sale Financial Assets**

	30/6/2006	30/6/2005	31/12/2005
	HK\$'000	HK\$'000	HK\$'000
Treasury bills (including Exchange Fund Bills)	2,783,033	2,681,454	3,083,677
Certificates of deposit held	1,159,918	1,142,974	1,114,810
Debt securities	2,832,129	2,887,326	2,956,664
Equity shares	2,691,756	583,301	1,028,231
Trust fund	256,049	172,921	215,739
	<u>9,722,885</u>	<u>7,467,976</u>	<u>8,399,121</u>
Issued by:			
Central governments and central banks	3,722,100	4,056,327	4,407,841
Public sector entities	388,716	463,469	472,573
Banks and other financial institutions	3,768,049	1,594,859	1,911,991
Corporate entities	1,587,953	1,180,381	1,390,960
Other entities	256,067	172,940	215,756
	<u>9,722,885</u>	<u>7,467,976</u>	<u>8,399,121</u>
By place of listing:			
Listed in Hong Kong	1,330,268	263,647	379,450
Listed outside Hong Kong	1,641,859	1,307,879	1,592,390
	<u>2,972,127</u>	<u>1,571,526</u>	<u>1,971,840</u>
Unlisted	6,750,758	5,896,450	6,427,281
	<u>9,722,885</u>	<u>7,467,976</u>	<u>8,399,121</u>

## N. Held-to-maturity Investments

	30/6/2006	30/6/2005	31/12/2005
	HK\$'000	HK\$'000	HK\$'000
Treasury bills (including Exchange Fund Bills)	45,412	45,110	45,193
Certificates of deposit held	1,409,223	1,384,499	1,324,571
Debt securities	11,279,117	11,545,355	11,678,082
	<u>12,733,752</u>	<u>12,974,964</u>	<u>13,047,846</u>
Less: Impairment allowance – individually assessed	-	(12,040)	(30,887)
	<u>12,733,752</u>	<u>12,962,924</u>	<u>13,016,959</u>
Issued by:			
Central governments and central banks	7,687,075	7,790,363	7,728,378
Public sector entities	799,699	871,459	720,820
Banks and other financial institutions	3,193,700	3,190,014	3,329,907
Corporate entities	1,053,278	1,111,088	1,215,681
Other entities	-	-	22,173
	<u>12,733,752</u>	<u>12,962,924</u>	<u>13,016,959</u>
By place of listing:			
Listed in Hong Kong	58,087	45,187	55,487
Listed outside Hong Kong	1,968,347	1,633,133	1,957,404
	<u>2,026,434</u>	<u>1,678,320</u>	<u>2,012,891</u>
Unlisted	10,707,318	11,284,604	11,004,068
	<u>12,733,752</u>	<u>12,962,924</u>	<u>13,016,959</u>
Market value:			
Listed securities	1,984,421	1,704,541	2,003,701
Unlisted securities	10,441,192	11,215,986	10,828,860
	<u>12,425,613</u>	<u>12,920,527</u>	<u>12,832,561</u>

## O. Segment Reporting

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

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

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

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

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

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

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

## 6 months ended 30/6/2006

	Personal Financial Services	Corporate Banking	Investment Banking	Corporate Services	Others	Unallocated	Inter- segment elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income	1,176,277	1,269,941	(141,111)	208	3,556	(568)	-	2,308,303
Other operating income from external customers	240,980	207,672	406,138	292,774	80,732	7,909	-	1,236,205
Inter-segment income	-	-	-	-	-	71,752	(71,752)	-
Total operating income	1,417,257	1,477,613	265,027	292,982	84,288	79,093	(71,752)	3,544,508
Operating expenses	(734,253)	(385,641)	(164,872)	(171,147)	(74,449)	(106,372)	-	(1,636,734)
Inter-segment expenses	(58,429)	(7,583)	(2,893)	-	(391)	(2,456)	71,752	-
Operating profit / (loss) before impairment losses	624,575	1,084,389	97,262	121,835	9,448	(29,735)	-	1,907,774
Impairment losses on loans and advances	10,004	(164,923)	1,238	(232)	(755)	-	-	(154,668)
Impairment losses on goodwill	-	-	-	-	(23,698)	-	-	(23,698)
Impairment loss on bank premises	-	-	-	-	-	10,915	-	10,915
Impairment losses on available -for-sale financial assets, held-to-maturity investments and associates	-	3,779	12,828	-	-	-	-	16,607
	634,579	923,245	111,328	121,603	(15,005)	(18,820)	-	1,756,930
Profit on sale of fixed assets, available-for-sale financial assets, held-to-maturity investments and subsidiaries / associates	-	-	2,945	-	1,308	(3,941)	-	312
Revaluation surplus on investment properties	-	-	-	-	40,478	-	-	40,478
Share of profits less losses of associates	1,068	10,221	3,311	-	34,098	(944)	-	47,754
Profit / (loss) before taxation	635,647	933,466	117,584	121,603	60,879	(23,705)	-	1,845,474
Income tax	(88,527)	(128,814)	(15,953)	(16,969)	(3,759)	-	-	(254,022)
Profit / (loss) for the period after taxation	547,120	804,652	101,631	104,634	57,120	(23,705)	-	1,591,452
Attributable to :								
Equity holders of the Group	547,120	804,652	101,628	77,795	57,844	(23,705)	-	1,565,334
Minority interests	-	-	3	26,839	(724)	-	-	26,118
Profit / (loss) for the period after taxation	547,120	804,652	101,631	104,634	57,120	(23,705)	-	1,591,452
Depreciation for the period	(54,737)	(26,920)	(10,697)	(6,327)	(3,517)	(41,554)	-	(143,752)

## 6 months ended 30/6/2005 (restated)

	Personal Financial Services	Corporate Banking	Investment Banking	Corporate Services	Others	Unallocated	Inter- segment elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income	719,904	827,873	124,284	49	(3,848)	329	-	1,668,591
Other operating income from external customers	243,100	100,683	431,020	227,221	73,054	9,766	-	1,084,844
Inter-segment income	-	-	-	-	-	61,329	(61,329)	-
Total operating income	963,004	928,556	555,304	227,270	69,206	71,424	(61,329)	2,753,435
Operating expenses	(650,896)	(324,465)	(147,273)	(122,896)	(73,961)	(90,998)	-	(1,410,489)
Inter-segment expenses	(50,745)	(5,970)	(2,471)	-	(124)	(2,019)	61,329	-
Operating profit / (loss) before impairment losses	261,363	598,121	405,560	104,374	(4,879)	(21,593)	-	1,342,946
Impairment losses on loans and advances	39,761	(19,953)	2,154	(2,791)	5,143	-	-	24,314
Impairment loss on bank premises	-	-	-	-	-	(953)	-	(953)
Impairment losses on available -for-sale financial assets, held-to-maturity investments and associates	-	3,934	(12,228)	-	-	(31)	-	(8,325)
	301,124	582,102	395,486	101,583	264	(22,577)	-	1,357,982
Profit on sale of fixed assets, available-for-sale financial assets, held-to-maturity investments and subsidiaries / associates	-	-	5,974	-	592	35,275	-	41,841
Share of profits less losses of associates	313	12,839	(8,922)	-	(8,575)	1,583	-	(2,762)
Profit / (loss) before taxation	301,437	594,941	392,538	101,583	(7,719)	14,281	-	1,397,061
Income tax	(42,167)	(81,518)	(56,210)	(14,217)	(117)	-	-	(194,229)
Profit / (loss) for the period after taxation	259,270	513,423	336,328	87,366	(7,836)	14,281	-	1,202,832
Attributable to :								
Equity holders of the Group	259,270	513,423	336,328	67,405	(7,742)	14,281	-	1,182,965
Minority interests	-	-	-	19,961	(94)	-	-	19,867
Profit / (loss) for the period after taxation	259,270	513,423	336,328	87,366	(7,836)	14,281	-	1,202,832
Depreciation for the period	(45,731)	(23,990)	(10,712)	(3,767)	(1,660)	(33,935)	-	(119,795)

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

30/6/2006							
	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Assets</b>							
Cash and balances with banks and other financial institutions	4,656,612	-	-	-	-	-	4,656,612
Placements with banks and other financial institutions	235,334	58,457,304	1,411,671	-	-	-	60,104,309
Trade bills	35,093	444,218	26,396	-	-	10,155	515,862
Trading assets	-	597,084	196,322	128,232	33,094	1,825,368	2,780,100
Financial assets designated at fair value through profit or loss	-	359,538	700,548	7,258,926	63,313	11,456	8,393,781
Advances to customers and other accounts	4,192,480	23,122,980	18,442,725	51,591,669	51,832,450	6,180,884	155,363,188
Available-for-sale financial assets	-	3,060,624	923,732	2,912,358	718,256	2,107,915	9,722,885
Held-to-maturity investments	-	1,427,209	2,847,936	7,070,395	1,388,212	-	12,733,752
Undated assets	-	-	-	-	-	9,067,043	9,067,043
<b>Total assets</b>	<b>9,119,519</b>	<b>87,468,957</b>	<b>24,549,330</b>	<b>68,961,580</b>	<b>54,035,325</b>	<b>19,202,821</b>	<b>263,337,532</b>
<b>Liabilities</b>							
Deposits and balances of banks and other financial institutions	725,792	7,617,716	8,900,893	2,143,331	103,173	-	19,490,905
Deposits from customers	51,298,352	127,848,616	8,951,257	4,629,413	-	-	192,727,638
- Demand deposits and current accounts	12,328,246	-	-	-	-	-	12,328,246
- Savings deposit	38,526,992	-	-	-	-	-	38,526,992
- Time, call and notice deposits	443,114	127,848,616	8,951,257	4,629,413	-	-	141,872,400
Trading liabilities	-	697,009	-	32,789	286	836,963	1,567,047
Certificates of deposit issued	-	1,125,366	4,633,077	3,285,534	-	-	9,043,977
Current taxation	-	-	388,413	-	-	-	388,413
Loan capital	-	-	-	3,877,268	4,149,058	-	8,026,326
Undated liabilities	-	-	-	-	-	6,577,525	6,577,525
<b>Total liabilities</b>	<b>52,024,144</b>	<b>137,288,707</b>	<b>22,873,640</b>	<b>13,968,335</b>	<b>4,252,517</b>	<b>7,414,488</b>	<b>237,821,831</b>
<b>Net liability gap</b>	<b>(42,904,625)</b>	<b>(49,819,750)</b>	<b>1,675,690</b>	<b>54,993,245</b>	<b>49,782,808</b>		

31/12/2005							
	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Assets</b>							
Cash and balances with banks and other financial institutions	4,525,587	-	-	-	-	-	4,525,587
Placements with banks and other financial institutions	-	43,654,951	1,692,304	-	-	-	45,347,255
Trade bills	6,766	552,530	53,291	-	-	-	612,587
Trading assets	-	1,494,650	-	128,082	37,602	1,585,245	3,245,579
Financial assets designated at fair value through profit or loss	-	316,897	1,790,375	7,723,154	316,945	10,336	10,157,707
Advances to customers and other accounts	4,410,325	20,171,366	18,902,982	47,009,838	48,038,008	6,304,270	144,836,789
Available-for-sale financial assets	-	3,349,857	922,242	2,035,688	838,085	1,253,249	8,399,121
Held-to-maturity investments	-	1,367,038	3,303,891	6,827,973	1,488,166	29,891	13,016,959
Undated assets	-	-	-	-	-	8,657,898	8,657,898
<b>Total assets</b>	<b>8,942,678</b>	<b>70,907,289</b>	<b>26,665,085</b>	<b>63,724,735</b>	<b>50,718,806</b>	<b>17,840,889</b>	<b>238,799,482</b>
<b>Liabilities</b>							
Deposits and balances of banks and other financial institutions	1,368,095	6,787,961	5,258,857	274,411	96,095	-	13,785,419
Deposits from customers	47,711,252	115,613,139	8,065,248	4,505,286	-	-	175,894,925
- Demand deposits and current accounts	10,864,801	-	-	-	-	-	10,864,801
- Savings deposit	35,497,574	-	-	-	-	-	35,497,574
- Time, call and notice deposits	1,348,877	115,613,139	8,065,248	4,505,286	-	-	129,532,550
Trading liabilities	1,229,881	-	-	-	-	707,118	1,936,999
Certificates of deposit issued	-	1,497,709	1,999,760	2,933,922	-	-	6,431,391
Current taxation	-	-	261,695	-	-	-	261,695
Loan capital	-	-	-	-	8,548,780	-	8,548,780
Undated liabilities	-	-	-	-	-	7,535,745	7,535,745
<b>Total liabilities</b>	<b>50,309,228</b>	<b>123,898,809</b>	<b>15,585,560</b>	<b>7,713,619</b>	<b>8,644,875</b>	<b>8,242,863</b>	<b>214,394,954</b>
<b>Net liability gap</b>	<b>(41,366,550)</b>	<b>(52,991,520)</b>	<b>11,079,525</b>	<b>56,011,116</b>	<b>42,073,931</b>		

## Q. Deferred Tax Assets and Liabilities Recognised

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

Deferred tax arising from :	Depreciation allowances in excess of related depreciation	Leasing partnership transactions	Revaluation of properties	Impairment losses on financial assets	Revaluation of AFS securities	Tax losses	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 <sup>st</sup> January, 2006	296,226	211,553	154,399	(49,124)	-	(25,512)	1,474	589,016
Write off against investment	-	(206,875)	-	-	-	-	-	(206,875)
Other movements	-	-	-	-	-	7,726	63	7,789
Charged / (credited) to consolidated profit and loss account	(14,887)	(4,678)	-	(6,215)	-	2,508	1,720	(21,552)
Debited to reserves	-	-	1,148	-	52,457	-	-	53,605
Additions through acquisition of subsidiary	44	-	-	-	-	-	(1,540)	(1,496)
Exchange and other adjustments	(93)	-	-	(183)	-	(1,223)	(7)	(1,506)
At 30 <sup>th</sup> June, 2006	<u>281,290</u>	<u>-</u>	<u>155,547</u>	<u>(55,522)</u>	<u>52,457</u>	<u>(16,501)</u>	<u>1,710</u>	<u>418,981</u>
At 1 <sup>st</sup> January, 2005	315,211	382,210	192,217	(78,394)	-	(73,277)	1,653	739,620
Write off against investment	-	(167,276)	-	-	-	-	-	(167,276)
Charged / (credited) to consolidated profit and loss account	(18,884)	(3,381)	-	29,109	-	44,510	4,633	55,987
Credited to reserves	-	-	(37,818)	-	-	-	-	(37,818)
Exchange and other adjustments	(101)	-	-	161	-	3,255	(4,812)	(1,497)
At 31 <sup>st</sup> December, 2005	<u>296,226</u>	<u>211,553</u>	<u>154,399</u>	<u>(49,124)</u>	<u>-</u>	<u>(25,512)</u>	<u>1,474</u>	<u>589,016</u>

## R. Reserves

	30/6/2006	30/6/2005	31/12/2005
	HK\$'000	HK\$'000	HK\$'000
Share premium	896,985	653,049	656,429
General reserve	13,016,472	12,286,962	12,643,214
Revaluation reserve on bank premises	786,534	948,099	778,933
Investment revaluation reserve	491,827	255,914	358,729
Exchange revaluation reserve	113,253	29,852	78,568
Other reserves	163,255	167,282	156,228
Retained profits*	<u>5,904,567</u>	<u>4,418,314</u>	<u>5,749,689</u>
Total	<u>21,372,893</u>	<u>18,759,472</u>	<u>20,421,790</u>
Proposed dividends, not provided for	<u>661,067</u>	<u>495,997</u>	<u>1,404,514</u>

\*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 30<sup>th</sup> June, 2006, HK\$506,000,000 (30/6/2005: HK\$362,000,000) 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.

## S. Consolidated Cash Flow Statement

### (a) Purchase of subsidiaries

	30/6/2006	30/6/2005
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	131,375	-
Advances and other accounts less provisions	583,552	1,196
Deferred tax assets	1,540	-
Fixed assets	2,370	1,626
Goodwill	25	-
Deposit and bank balances	(777)	-
Deposit of customers	(495,443)	-
Deferred tax liabilities	(44)	-
Other accounts and provisions	(125,523)	(879)
Minority interest	(2,698)	-
	<u>94,377</u>	<u>1,943</u>
Goodwill arising on consolidation	98,694	13,600
Total purchase price	193,071	15,543
Less: Cash and cash equivalents acquired	(131,375)	-
Cash flow on acquisition net of cash acquired	<u>61,696</u>	<u>15,543</u>

### (b) Cash and cash equivalents

	30/6/2006	30/6/2005
	HK\$'000	HK\$'000
(i) Components of cash and cash equivalents in the consolidated cash flow statement		
Cash and balances with banks and other financial institutions	4,656,612	4,335,387
Placements with banks and other financial institutions with original maturity within three months	56,877,831	25,215,788
Treasury bills with original maturity within three months	3,260,380	3,664,690
Certificates of deposit held with original maturity within three months	323,442	583,637
	<u>65,118,265</u>	<u>33,799,502</u>
(ii) Reconciliation with the consolidated balance sheet		
Cash and balances with banks and other financial institutions	4,656,612	4,335,387
Placements with banks and other financial institutions	60,104,309	30,730,889
Treasury bills and certificates of deposit held		
- trading assets	793,407	995,764
- designated at fair value through profit or loss	94,795	48,725
- advances and other accounts	38,834	38,858
- available-for sale	3,942,951	3,824,428
- held-to-maturity	1,454,635	1,429,609
	<u>6,324,622</u>	<u>6,337,384</u>
Amount shown in the consolidated balance sheet	71,085,543	41,403,660
Less : Amounts with an original maturity of beyond three months	(5,967,278)	(7,604,158)
Cash and cash equivalents in the consolidated cash flow statement	<u>65,118,265</u>	<u>33,799,502</u>

## T. Off-balance Sheet Exposures

Contingent liabilities and commitments

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

	<u>30/6/2006</u> HK\$'000	<u>30/6/2005</u> HK\$'000	<u>31/12/2005</u> HK\$'000
Contractual amounts of contingent liabilities and commitments			
- Direct credit substitutes	4,441,509	5,104,542	4,839,458
- Transaction-related contingencies	953,248	621,610	805,458
- Trade-related contingencies	1,927,615	2,207,948	1,908,453
- Other commitments with an original maturity of:			
Under 1 year or which are unconditionally cancellable	34,368,208	28,340,478	32,104,801
1 year and over	10,713,533	9,842,342	9,547,330
- Others	-	-	-
Total	<u>52,404,113</u>	<u>46,116,920</u>	<u>49,205,500</u>
- Aggregate credit risk weighted amount	<u>9,438,732</u>	<u>9,388,216</u>	<u>9,271,093</u>
Notional amounts of derivatives			
- Exchange rate contracts	17,044,916	26,602,854	24,853,979
- Interest rate contracts	30,477,470	26,428,854	31,133,238
- Equity contracts	383,319	243,139	284,970
Total	<u>47,905,705</u>	<u>53,274,847</u>	<u>56,272,187</u>
- Aggregate replacement costs	<u>803,391</u>	<u>595,099</u>	<u>738,425</u>
- Aggregate credit risk weighted amount	<u>427,248</u>	<u>257,749</u>	<u>447,634</u>

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

## U. Material Related Party Transactions

The Group maintains certain retirement benefit schemes for its staff. In the six month ended 30<sup>th</sup> June, 2006, the total amount of contributions the Group made to the schemes was HK\$37,051,000 (six months ended 30/6/2005: HK\$33,948,000).

The Group enters into a number of transactions with the Group's related parties, including its associates, and key management personnel and their close family members and companies controlled or significantly influenced by them. The transactions include accepting deposits from and extending credit facilities to them. Except that there is interest free shareholder's advance extended to one (30/6/2005: one) associate amounting to HK\$6,500,000 at 30<sup>th</sup> June, 2006 (30/6/2005: HK\$9,200,000), all interest rates in connection with the deposits taken and credit facilities extended are under terms and conditions normally applicable to customers of comparable standing.

The interest received from and interest paid to the Group's related parties for the six months ended 30<sup>th</sup> June, 2006, outstanding balances of amounts due from and due to at 30<sup>th</sup> June, and maximum outstanding balance of amounts due from and due to them for the six months ended 30<sup>th</sup> June, 2006 are aggregated as follows:

	<u>Key management personnel</u>		<u>Subsidiaries</u>		<u>Associates</u>	
	<u>30/6/2006</u>	<u>30/6/2005</u>	<u>30/6/2006</u>	<u>30/6/2005</u>	<u>30/6/2006</u>	<u>30/6/2005</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	66,918	30,659	15,837	13,330	4,491	3,019
Interest expense	50,035	12,290	115,748	277,180	1	3
Amounts due from	2,809,527	2,061,906	1,869,711	2,172,027	149,682	103,683
Amounts due to	3,016,941	1,387,313	3,989,310	10,244,212	969	1,545
Maximum amounts due from	3,864,734	3,035,948	2,122,624	2,248,714	302,603	265,875
Maximum amounts due to	5,990,874	2,317,681	9,848,368	10,244,212	8,596	4,766

## V. Statement of Compliance

The Interim Report has fully complied with the guideline set out in the Supervisory Policy Manual "Interim Financial Disclosure by Locally Incorporated Authorized Institutions" issued by the Hong Kong Monetary Authority, the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the revised HKAS 34 "Interim Financial Reporting" issued by the HKICPA in October, 2004.

## SUPPLEMENTARY FINANCIAL INFORMATION

### 1. Capital Adequacy Ratio and Capital Base

#### (a) Capital adequacy ratio

	30/6/2006	30/6/2005	31/12/2005
	%	%	%
Unadjusted capital adequacy ratio	16.5	15.6	17.4
Adjusted capital adequacy ratio	16.3	15.5	17.2

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.

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

	30/6/2006	30/6/2005	31/12/2005
	HK\$'000	Restated HK\$'000	HK\$'000
<b>Core capital</b>			
Paid up ordinary share capital	3,843,413	3,757,553	3,775,575
Share premium	896,985	653,049	656,429
Reserves	17,371,614	15,773,789	16,086,805
Minority interests	299,395	188,913	207,163
Deduct: Goodwill	(2,583,500)	(2,455,056)	(2,494,950)
<b>Total core capital</b>	<u>19,827,907</u>	<u>17,918,248</u>	<u>18,231,022</u>
<b>Eligible supplementary capital</b>			
Reserves on revaluation of land and interests in land (at 70%)	845,370	782,615	826,679
Revaluation reserves for available-for-sale financial assets and securities designated at fair value through profit or loss (at 70%)	122,277	70,639	305,672
Collectively assessed impairment allowances and regulatory reserve	946,942	828,250	878,569
Term subordinated debt	8,026,326	4,360,609	8,548,780
<b>Total eligible supplementary capital</b>	<u>9,940,915</u>	<u>6,042,113</u>	<u>10,559,700</u>
<b>Total capital base before deductions</b>	29,768,822	23,960,361	28,790,722
<b>Deductions from total capital base</b>	<u>(1,121,948)</u>	<u>(874,050)</u>	<u>(901,973)</u>
<b>Total capital base after deductions</b>	<u>28,646,874</u>	<u>23,086,311</u>	<u>27,888,749</u>

## 2. Liquidity Ratio

	6 months ended 30/6/2006	6 months ended 30/6/2005	The year ended 31/12/2005
	%	%	%
Average liquidity ratio for the period	43.4	39.5	39.3

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

## 3. Segmental information

### (a) Advances to customers - by geographical areas

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

	30/6/2006	
	Total advances to customers HK\$'000	Advances overdue for over three months HK\$'000
Hong Kong	100,394,600	421,702
People's Republic of China	26,006,723	102,310
Other Asian Countries	7,646,199	109,023
Others	15,036,227	11,040
Total	<u>149,083,749</u>	<u>644,075</u>

	30/6/2005	
	Total advances to customers HK\$'000	Advances overdue for over three months HK\$'000
Hong Kong	93,820,480	466,632
People's Republic of China	15,253,965	120,557
Other Asian Countries	7,129,398	115,168
Others	12,214,423	40,141
Total	<u>128,418,266</u>	<u>742,498</u>

	31/12/2005	
	Total advances to customers HK\$'000	Advances overdue for over three months HK\$'000
Hong Kong	98,234,592	483,095
People's Republic of China	19,939,335	76,108
Other Asian Countries	7,798,982	84,322
Others	12,770,838	74,147
Total	<u>138,743,747</u>	<u>717,672</u>

(b) Cross-border claims

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

	30/6/2006			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
People's Republic of China	16,940,523	1,598,676	16,396,434	34,935,633
Asian countries, excluding People's Republic of China	10,232,626	1,140,937	8,901,050	20,274,613
North America	6,168,351	7,601,858	6,433,631	20,203,840
Western Europe	36,616,996	-	2,325,362	38,942,358

	30/6/2005			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
People's Republic of China	11,073,787	1,048,312	11,425,950	23,548,049
Asian countries, excluding People's Republic of China	9,213,301	1,282,925	8,010,298	18,506,524
North America	4,450,453	7,796,515	5,346,038	17,593,006
Western Europe	15,632,976	-	2,618,197	18,251,173

	31/12/2005			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	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

#### 4. Overdue, Rescheduled and Repossessed Assets

##### (a) Overdue and rescheduled advances

	30/6/2006		30/6/2005		31/12/2005	
	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers
Advances to customers overdue for						
- 6 months or less but over 3 months	226,044	0.1	293,895	0.2	326,130	0.2
- 1 year or less but over 6 months	120,955	0.1	124,510	0.1	184,365	0.1
- Over 1 year	297,076	0.2	324,093	0.3	207,177	0.2
	<u>644,075</u>	<u>0.4</u>	<u>742,498</u>	<u>0.6</u>	<u>717,672</u>	<u>0.5</u>
Rescheduled advances to customers	<u>314,347</u>	<u>0.2</u>	<u>426,652</u>	<u>0.3</u>	<u>351,057</u>	<u>0.3</u>
Total overdue and rescheduled advances	<u>958,422</u>	<u>0.6</u>	<u>1,169,150</u>	<u>0.9</u>	<u>1,068,729</u>	<u>0.8</u>
Secured overdue advances	<u>461,840</u>	<u>0.3</u>	<u>496,880</u>	<u>0.4</u>	<u>515,356</u>	<u>0.4</u>
Unsecured overdue advances	<u>182,235</u>	<u>0.1</u>	<u>245,618</u>	<u>0.2</u>	<u>202,316</u>	<u>0.1</u>
Market value of securities held against secured overdue advances	<u>790,863</u>		<u>695,523</u>		<u>1,035,275</u>	

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

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 30<sup>th</sup> June, 2006, 30<sup>th</sup> June, 2005 and 31<sup>st</sup> December, 2005; nor were there any rescheduled advances to banks and other financial institutions on these three dates.

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

	30/06/2006	
	Accrued interest HK\$'000	Other assets* HK\$'000
Other assets overdue for		
- 6 months or less but over 3 months	1,506	1,889
- 1 year or less but over 6 months	1,109	15
- Over 1 year	1,635	18,630
	<u>4,250</u>	<u>20,534</u>
Rescheduled assets	-	-
Total other overdue and rescheduled assets	<u>4,250</u>	<u>20,534</u>
	30/06/2005	
	Accrued interest HK\$'000	Other assets* HK\$'000
Other assets overdue for		
- 6 months or less but over 3 months	1,582	-
- 1 year or less but over 6 months	1,220	477
- Over 1 year	154	19,292
	<u>2,956</u>	<u>19,769</u>
Rescheduled assets	-	-
Total other overdue and rescheduled assets	<u>2,956</u>	<u>19,769</u>

	31/12/2005	
	Accrued interest HK\$'000	Other assets* HK\$'000
Other assets overdue for		
- 6 months or less but over 3 months	1,551	-
- 1 year or less but over 6 months	853	-
- Over 1 year	844	19,294
	3,248	19,294
Rescheduled assets	-	-
Total other overdue and rescheduled assets	3,248	19,294

\* Other assets refer to trade bills and receivables.

(c) Repossessed assets

	30/6/2006 HK\$'000	30/6/2005 HK\$'000	31/12/2005 HK\$'000
Reposessed properties	90,650	81,279	80,551
Reposessed vehicles & machines	2,636	935	1,142
Total reposessed assets	93,286	82,214	81,693

The amount represents the estimated market value of the reposessed assets as at 30<sup>th</sup> June, 2006, 30<sup>th</sup> June, 2005 and 31<sup>st</sup> December, 2005.

## 5. Currency Concentrations

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

	30/6/2006 HK\$ Million						Total
	USD	CAD*	GBP*	CNY	SGD*	Others	
Spot assets	70,046	5,073	5,590	18,325	5,622	19,805	124,461
Spot liabilities	(67,099)	(4,841)	(6,859)	(16,861)	(4,940)	(19,463)	(120,063)
Forward purchases	28,673	293	1,864	-	750	4,601	36,181
Forward sales	(30,220)	(541)	(548)	-	(1,257)	(4,633)	(37,199)
Net options position	27	(2)	1	-	-	(39)	(13)
Net long / (short) position	1,427	(18)	48	1,464	175	271	3,367

	30/6/2005 HK\$ Million						Total
	USD	CAD	GBP	CNY	SGD	Others	
Spot assets	56,256	4,333	4,646	10,305	5,184	13,180	93,904
Spot liabilities	(55,290)	(4,433)	(6,527)	(9,427)	(4,510)	(18,201)	(98,388)
Forward purchases	31,644	623	2,757	-	473	9,889	45,386
Forward sales	(33,446)	(436)	(817)	-	(899)	(4,740)	(40,338)
Net options position	83	(23)	5	-	-	(125)	(60)
Net long / (short) position	(753)	64	64	878	248	3	504

	31/12/2005 HK\$ Million						Total
	USD	CAD*	GBP*	CNY	SGD*	Others	
Spot assets	66,562	4,122	4,312	11,738	5,270	16,716	108,720
Spot liabilities	(62,331)	(4,604)	(6,620)	(10,510)	(4,749)	(18,626)	(107,440)
Forward purchases	35,406	882	2,864	-	534	5,396	45,082
Forward sales	(37,795)	(357)	(502)	-	(914)	(3,332)	(42,900)
Net options position	<u>(167)</u>	<u>(1)</u>	<u>(2)</u>	<u>-</u>	<u>-</u>	<u>43</u>	<u>(127)</u>
Net long / (short) position	<u>1,675</u>	<u>42</u>	<u>52</u>	<u>1,228</u>	<u>141</u>	<u>197</u>	<u>3,335</u>

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

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

	30/6/2005 HK\$ Million			Total
	USD	CNY	Others	
Net structural position	<u>1,607</u>	<u>751</u>	<u>627</u>	<u>2,985</u>

	31/12/2005 HK\$ Million			Total
	USD	CNY	Others	
Net structural position	<u>1,604</u>	<u>1,297</u>	<u>635</u>	<u>3,536</u>

## **INTERIM DIVIDEND**

The Directors are pleased to declare an interim dividend of HK\$0.43 (2005: HK\$0.33) per share for the six months ended 30<sup>th</sup> June, 2006. The interim dividend will be paid in cash with an option to receive new, fully paid shares in lieu of cash, to shareholders whose names appear on the Register of Members at the close of business on Wednesday, 23<sup>rd</sup> August, 2006. Details of the scrip dividend and the election form will be sent to shareholders on or about Wednesday, 23<sup>rd</sup> August, 2006. The scrip dividend scheme is conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued under the scrip dividend scheme. The dividend warrants and the share certificates for the scrip dividend will be sent to shareholders by ordinary mail on or about Thursday, 14<sup>th</sup> September, 2006.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members will be closed from Monday, 21<sup>st</sup> August, 2006 to Wednesday, 23<sup>rd</sup> August, 2006. In order to qualify for the above interim dividend, all transfer documents should be lodged for registration with Standard Registrars Limited, 26<sup>th</sup> Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, by 4:00 p.m. on Friday, 18<sup>th</sup> August, 2006.

## **FINANCIAL REVIEW**

### **Financial Performance**

The Hong Kong economy continued to perform well in the first half of 2006, although the pace of growth eased toward the end of the reporting period as the prospect of higher interest rates dampened investor enthusiasm in the property and stock markets. Competition within the local banking industry remained strong. Nevertheless, with the unique liquidity pressures that affected the local market one year ago having eased, the net interest margin widened as compared with last year.

In the first six months of 2006, the BEA Group achieved a profit after tax of HK\$1,591 million, representing an increase of HK\$388 million, or 32.3%, over earnings of HK\$1,203 million for the corresponding period in 2005. Basic earnings per share were HK\$1.03. Return on average equity reached 12.8%, while return on average assets was 1.3%.

Total operating income increased by 28.7% to HK\$3,545 million, primarily due to a significant improvement in net interest margin in the first half of 2006. Net interest income rose by 38.3% to HK\$2,308 million.

Total operating expenses increased by 16.0% over the corresponding figure in 2005 to HK\$1,637 million, due to continuing expansion of the Group's activities. As a result of the significant rise in total operating income, the cost to income ratio fell from 51.2% in 2005 to 46.2% in 2006.

Operating profit before impairment losses for the first six months was HK\$1,908 million, an increase of HK\$565 million, or 42.1%, compared to the corresponding period in 2005.

Impairment losses on loans and advances required a charge of HK\$155 million. In the year earlier period, there was a write-back of HK\$24 million.

The operating profit after impairment losses increased by 29.4% to HK\$1,757 million. In the first six months of 2006, BEA shared after-tax profits from associates of HK\$48 million.

Profit after taxation was HK\$1,591 million, an increase of 32.3% over the HK\$1,203 million recorded in the corresponding period in 2005, while profit attributable to equity holders of the Group was HK\$1,565 million, an increase of 32.3%.

### **Financial Position**

As at 30<sup>th</sup> June, 2006, total consolidated assets of the BEA Group were HK\$263,338 million, representing an increase of 10.3% from HK\$238,799 million at the end of 2005. Advances to customers increased by 7.5% to HK\$149,084 million.

Total deposits increased by 10.7% to HK\$201,772 million, while deposits from customers increased by 9.6% to HK\$192,728 million. Demand deposits and current account balances increased by a combined HK\$1,463 million, or 13.5%, to HK\$12,328 million when compared with the balance at year-end 2005. Savings deposits increased to HK\$38,527 million as at 30<sup>th</sup> June, 2006, an increase of 8.5%. Time deposits as at 30<sup>th</sup> June, 2006 stood at HK\$141,872 million, an increase of 9.5%, when compared with the balance at year-end 2005.

In February 2006, the Group redeemed a subordinated loan amounting to US\$550 million. The Group issued a new subordinated loan of US\$500 million in June 2006. As at 30<sup>th</sup> June, 2006, loan capital stood at HK\$8,026 million, a decrease of 6.1% when compared with the balance at year-end 2005. Total equity increased by 4.6% from HK\$24,405 million at the end of 2005, to HK\$25,516 million at the end of June 2006.

During the first half of 2006, BEA issued HKD floating rate certificates of deposit with a face value of HK\$2,500 million, and HKD fixed rate certificates of deposit with a face value of HK\$500 million. The Bank redeemed a quantity of certificates of deposit amounting to HK\$785 million equivalent upon maturity, and repurchased its own USD certificates of deposit amounting to HK\$30 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 73.9% at the end of June 2006, being 2.2% lower than the 76.1% reported at the end of 2005.

At the end of June 2006, the face value of the outstanding debt portfolio was HK\$9,117 million, with the carrying amount equal to HK\$9,044 million.

#### Maturity Profile of Debts Issued

As at 30<sup>th</sup> June, 2006

(All expressed in millions of dollars)

	<u>Currency</u>	<u>Total Face Value</u>	<u>Year of Maturity</u>				
			<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	
<b>Floating Rate</b>							
<b>Certificates of Deposit</b>							
Issued in 2005	HKD	2,700	1,200		1,500		
Issued in 2006	HKD	2,500		2,000		500	
<b>Fixed Rate</b>							
<b>Certificates of Deposit</b>							
Issued in 2005	HKD	1,300	800		500		
Issued in 2006	HKD	500				500	
Issued in 2006	TWD	4,740	4,690	50			
<b>Discounted</b>							
<b>Certificates of Deposit</b>							
Issued in 2002	USD	83		83			
<b>Step Up</b>							
<b>Certificates of Deposit</b>							
Issued in 2003	USD	43			43		
<b>Total Debts issued in HKD equivalent</b>			9,117	3,125	2,659	2,333	1,000

#### 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 the Group.

On 1<sup>st</sup> January, 2006, the Group instituted an enterprise-wide risk management structure to monitor all major risks, including credit risk, market risk, liquidity risk and operational risk. This is under the control of a centralised risk management department, headed by the Group Chief Risk Officer. It is expected that the overall risk management capability of the Bank Group will be further enhanced as a result.

## (a) Credit Risk Management

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

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

The Credit Committee is responsible for all credit risk related issues for the Group. The Group identifies and manages credit risk through target market definitions, formulation of credit policies, credit approval process and monitoring of asset quality.

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

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

## (b) Liquidity Risk and Market Risk Management

The Asset and Liability Management Committee is authorised by the Board of Directors to manage the assets and liabilities of the Bank Group. The function of the Asset and Liability Management Committee is to oversee the Group's operations relating to interest rate risk, liquidity risk and market risk.

### (1) Liquidity Risk Management

Liquidity risk is the risk that the Group cannot meet its current obligations. To manage liquidity risk, the Group has established the liquidity risk management policy, which is approved by the Board of Directors. The Group measures the liquidity of the Group through the statutory liquidity ratio, the loan-to-deposit ratio and the maturity mismatch portfolio.

The Asset and Liability Management Committee closely monitors the liquidity of the Group on a daily basis to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding needs, and that the Group remains in compliance with the statutory liquidity ratio. The Group's average liquidity ratio was 43.4% for the first half of 2006, which was well above the statutory minimum ratio of 25%.

Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected, material cash outflows in the ordinary course of business.

### (2) Market Risk Management

Market risk is the risk arising from the net effect of changes in market rates and prices on the Group's assets, liabilities and commitments, thus causing profits or losses. Interest rates, foreign exchange rates, equity and commodity prices, among others, are monitored for market risk.

The Group's market risk originates from its trading-book holdings of foreign exchange, debt securities, equities and derivatives, which are measured at fair value; and from its investment and banking activities in financial assets and liabilities, which are valued at amortised cost in the balance sheet.

The Group has established a market risk management policy that incorporates guidelines, procedures and control measures to monitor its market risk exposures.

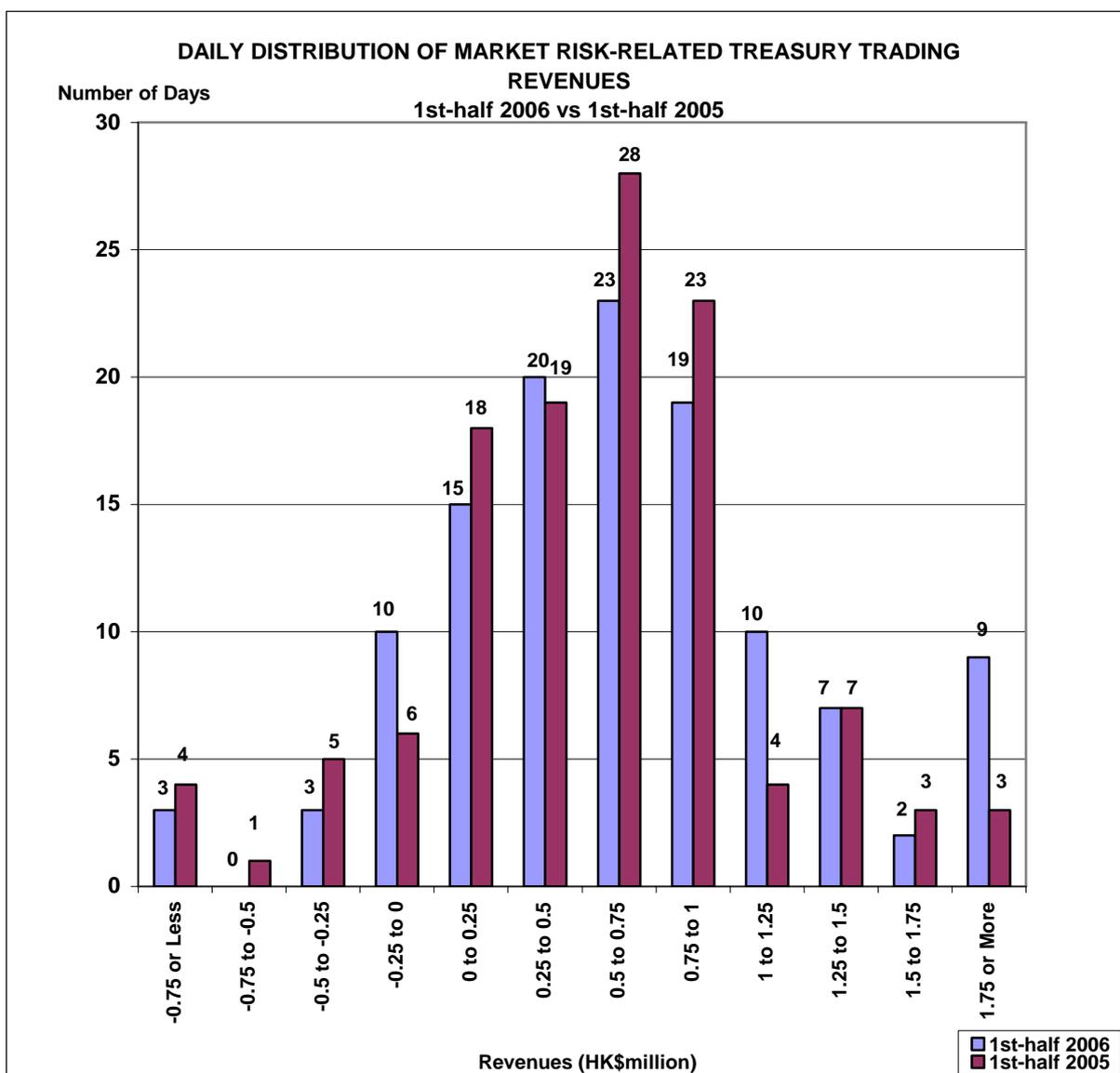
The Group's derivative instruments trading activities mainly arise from the execution of trade orders from customers and positions taken in order to hedge other elements of the trading books.

Financial derivatives are instruments that derive their value from the performance of underlying assets, interest or currency exchange rates or indices. The Group principally uses financial derivative instruments as investment alternatives or to manage foreign exchange, interest rate or equity risk, and is a limited end-user of such instruments. Guidelines on participating in derivatives activities are included in the Group's market risk management policy. The Group's major trading activities in derivative instruments involve exchange-traded HIBOR Futures contracts, over-the-counter transacted currency options and equity options. Other over-the-counter transacted foreign exchange forwards, interest rate swaps and option contracts are mainly employed to hedge the interest rate risk and option risk of the banking book.

The Group's various market risk exposures are measured and monitored on the basis of principal (or notional) amount, outstanding position, stop-loss and options limits, and are controlled within established limits reviewed and approved by the Asset and Liability Management Committee where applicable for each business unit, business type and in aggregate. Independent middle and back offices monitor the risk exposure of trading activities against approved limits on a daily basis. The Group's market risk exposures are reviewed by the Asset and Liability Management Committee and reported to the Board of Directors on a regular basis. Exceptions to limits are reported when they occur.

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

The VaR for the Group's market risk-related treasury trading portfolio as at 30<sup>th</sup> June, 2006 was HK\$2.58 million (HK\$2.04 million at 30<sup>th</sup> June, 2005). The average daily revenue earned from the Group's market risk-related treasury trading activities for the first half of 2006 was HK\$0.73 million (HK\$0.53 million for the first half of 2005). The standard deviation of these daily revenues was HK\$1.10 million (HK\$0.77 million for the first half of 2005).



An analysis of daily distribution of the Group's market risk-related treasury trading revenues for the first half of 2006 (comparing with the first half of 2005) is provided above. This shows that 16 out of 121 days (2005: 16 out of 121 days) are in loss positions. The most frequent results were daily revenue of between HK\$0.5 million and HK\$0.75 million, with 23 occurrences (2005: HK\$0.50 million to HK\$0.75 million with 28 occurrences). The maximum daily loss was HK\$1.16 million (2005: HK\$2.70 million) and the next maximum daily loss was HK\$1.13 million (2005: HK\$2.49 million). The highest daily revenue was HK\$9.51 million (2005: HK\$3.57 million).

(i) Foreign exchange exposure

The Group's foreign exchange risk exposure arises from foreign exchange dealing, commercial banking operations and structural foreign currency positions. All foreign exchange positions are managed by the Treasury units of the Group within limits approved by the Asset and Liability Management Committee.

The VaR related to foreign exchange dealing positions at 30<sup>th</sup> June, 2006 was HK\$1.32 million (HK\$0.84 million at 30<sup>th</sup> June, 2005). The average daily foreign exchange dealing profit for the first half of 2006 was HK\$0.69 million (HK\$0.55 million for the first half of 2005).

Foreign exchange positions which arise mainly from foreign currency investments in the Group's branches, subsidiaries and associates are excluded from VaR measurements, as related gains or losses are taken to reserves. Such foreign currency positions are managed with the principal objective of ensuring that the Group's reserves are protected from exchange rate fluctuation.

(ii) Interest rate exposure

The Group's interest rate exposure arises from treasury and commercial banking activities, where interest rate risk is inherent in both trading and non-trading portfolios. All trading positions are managed by the Treasury units of the Group within limits approved by the Asset and Liability Management Committee. For the non-trading portfolio, interest rate risk primarily arises from the timing differences in the re-pricing of interest-bearing assets, liabilities and commitments and the maturities of certain fixed rate assets and liabilities. The interest rate risk of the non-trading portfolio is also monitored by the Group's Asset and Liability Management Committee.

The VaR related to interest rate exposure due to debt securities and derivatives trading positions, excluding foreign exchange forwards and options, at 30<sup>th</sup> June, 2006 was HK\$1.31 million (HK\$1.57 million at 30<sup>th</sup> June, 2005). The average daily loss due to these activities for the first half of 2006 was HK\$900 (daily loss HK\$20,000 for the first half of 2005).

(iii) Equities exposure

The Group's equities exposure mainly comprises trading equities and long-term equities investments. The Group's Investment Committee regularly reviews and monitors equities dealing activities. The VaR on equities trading positions at 30<sup>th</sup> June, 2006 was HK\$23.57 million (HK\$3.72 million at 30<sup>th</sup> June, 2005).

(c) Operational risk, legal risk, reputation risk, and strategic risk management

Operational risk, legal risk, reputation risk and strategic risk arise from the Group's daily operation and fiduciary activities. The primary focus is to identify, assess and monitor these risks and to fulfill regulatory requirements.

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

## **OPERATIONS REVIEW**

### ***FINANCIAL RATINGS***

Standard & Poor's ("S&P") has raised its long-term counterparty credit rating for the Bank to A- from BBB+. BEA's Bank Fundamental Strength rating has also been upgraded to B from C+. The upgrade reflects BEA's solid franchise in Hong Kong and its strong but careful expansion in China, as well as BEA's improved asset quality, satisfactory liquidity, and above-average capitalisation.

### ***IMPROVEMENTS TO OPERATIONS***

#### **Relocating Back-Office Operations to China**

The Bank's back-office operating centre in Guangzhou, incorporated under the name of East Asia Electronic Data Processing (Guangzhou) Limited, has been running smoothly. The Bank is continuing to relocate additional operating functions as planned.

#### **Information Technology**

##### ***New Accounting System***

The Bank is implementing a new computer system for general ledger operations. The system is under testing and will be ready for roll out in the second half of 2006.

##### ***Core Banking System***

The second phase of the Core Banking System Implementation Project was in the final stage of development as of June 2006. Once development is complete, the testing stage will be implemented. A command group has been formed to manage all rollout tasks, and a comprehensive training programme has been established for users.

## ***PERSONAL BANKING***

#### **Branch Distribution**

As part of its on-going exercise to strengthen its branch network, BEA continues to implement the Branch Rationalisation Programme. In the first half of 2006, International Finance Centre Branch was merged with Queen's Road Central Branch. An additional three branches were relocated to more prominent sites in their respective districts. To further enhance banking service to customers, BEA Harbour View Centre Branch was expanded to provide retail banking services on the ground floor level. At the end of June 2006, BEA operated a total of 87 branches in Hong Kong.

Four SupremeGold Centres were opened during the first half of 2006, bringing the total number of Centres to 30 by the end of June. These offer an exclusive banking experience for the Bank's most important customers.

BEA is dedicated to widening the range of Renminbi services it offers, as permitted by the changing regulatory environment, to meet the needs of individual and corporate customers. In March 2006, BEA launched a personal Renminbi Current Account service for individual customers. From April 2006, designated business customers have been able to open Renminbi time deposit accounts with the Bank.

A Marketing Programme for Kid Master Services was conducted from February to March 2006 to acquire new Kid Master members and to promote Education Insurance and Target Savings Insurance.

Promotion programmes were run from mid-March to June to promote the Bank's integrated account services, including SupremeGold, Supreme Account and i-Account.

Following the implementation of the five-day clearing week in September, the Bank will extend the Saturday closing hour of most branches with active traffic on Saturdays from 1:00 p.m. at present, to 5:00 p.m. Wealth management services and many counter services will be available at the affected branches. Six selected branches in exceptionally high traffic areas will open from 1:00 p.m. to 4:30 p.m. on Sundays, primarily to market the Bank's wealth management and other value-added services. Counter service will not be available on Sundays.

BEA will continue to evaluate the response to these initiatives, in its effort to go beyond customer expectations in meeting their needs and further extend the range of services it sells to each individual customer.

### Cyberbanking

Cyberbanking services were further enhanced during the period, and Bank customers were able to apply for new shares in Initial Public Offering (IPO) over the Internet using the enhanced Electronic IPO service in May 2006. At the end of June, the Bank had over 320,000 registered Cyberbanking users. The average daily usage volume exceeded 182,000 transactions.

Corporate Cyberbanking recorded steady growth in its customer base in the first half of 2006. At the end of June 2006, over 17,900 corporate customers had registered for BEA Corporate Cyberbanking, representing a 16% increase compared to the same period last year.

### Property Loans

With the property market subdued during the reporting period, mortgage loan demand was weak and competition in the mortgage market intensified.

BEA pioneered the "Fixed Rate SupremeGold Mortgage Plan" in February 2006, a new mortgage product that combines the advantages of both fixed rate and deposit-linked mortgage plans in one product.

In March, BEA joined with the Hong Kong Mortgage Corporation (HKMC) to launch the Composite Rate Mortgage Scheme, which further expanded the range of financing choices available.

To reduce the impact of rising interest rates on buying sentiment, BEA actively coordinated with various property developers to develop flexible tailored mortgage plans for prospective homebuyers.

### Consumer Loans

BEA inaugurated a series of attractive promotional campaigns during the first half of the year to expand its loan portfolio and diversify its customer base. These programmes generated a good response from different segments, including professionals, executives and stable income earners. Double-digit growth in the Personal Loan portfolio was recorded, compared with the corresponding period the previous year.

### Credit Cards

BEA continued to invest in its card business during the reporting period, implementing targeted brand development strategies. Additional cross-selling opportunities were exploited to recruit cardholders from among BEA's established personal banking customers.

In addition, with a sophisticated credit scoring platform now in place, the Bank has become more aggressive in rolling out acquisition and usage programmes directed toward the most profitable customer segments.

The Bank also focussed on brand reinforcement in its Visa Platinum Card segment.

In recognition of the Bank's success in increasing card sales volume, the Bank was awarded first runner-up for "2005 Highest Average Card Spending – Visa Platinum Card" in March 2006. In April, BEA launched the "FLY&DINE CLUB" to introduce the "Fly and Dine" platform of Visa Platinum Card to its card membership.

In April, the Bank extended its credit card acquiring business to Macau, with the aim of capturing the opportunities presented by the current robust economic growth in the Macau SAR.

Looking forward, the Bank is confident that the breadth and depth of its card capabilities and expertise, backed by the attractiveness of its product, give the Bank an excellent platform to succeed in this competitive market.

## ***CORPORATE BANKING***

### Corporate Lending

The local corporate loan market exhibited stable growth in the first half of 2006, on the back of active corporate refinancing and property lending. The growth of property lending was also fuelled by the financing of various notable real estate investment trusts. Despite the persistently high interest rate base in the first half of 2006, the interest margin for syndicated deals continued to come under pressure due to intense competition. BEA maintained an active presence in the syndicated loan market in the first half of 2006, both as an underwriter and as a participant.

To improve yield return and to broaden its clientele base, BEA has focussed on high quality and return-justified deals for both large and medium to small-sized local enterprises and local subsidiaries of large PRC corporations. The transactions in which BEA has participated include property development and investment projects in Hong Kong and Macau, as well as working capital financing.

Demand for loans was relatively flat in the small to medium-sized business segment. Companies continued to report growth in business turnover, but marginal growth in profitability. This was mainly due to high overhead costs, such as rents (in particular for retail entities), labour, and raw materials. Rising oil prices were also a factor affecting many industries.

BEA has adopted a pro-active approach in expanding its business network with equipment and vehicle dealers. Equipment finance business continued to exhibit stable growth and BEA remained a key player in the taxi lending industry. The overall asset quality of the asset based finance portfolio was maintained at a satisfactory level.

In an effort to cross sell our various loan products, BEA launched the Business Ready Cash loan scheme, which provides unsecured working capital loans to existing small to medium-sized enterprise customers of the Bank.

### Securities Lending

The local stock market was very active in the first half of 2006, and the Bank was able to capitalise on strong investor sentiment to achieve an increase of 260% in IPO staggings loan business, when compared with same period last year. Furthermore, BEA provided IPO Receiving Bank services for four IPO projects during the period, including one of the largest IPO issues launched in Hong Kong to date.

## Bank of East Asia (Trustees) Limited

### *Mandatory Provident Fund*

BEA was ranked second by Mercer Human Resource Consulting in its MPF Index for the year ended 31<sup>st</sup> March, 2006. In addition, six BEA MPF constituent funds were ranked among the top 25% in their respective categories, according to the Hong Kong Investment Funds Association survey for the year ended 31<sup>st</sup> March, 2006.

### *Trust Services*

In the first half of 2006, Bank of East Asia (Trustees) Limited was appointed as trustee to the BEA Japan Growth Fund, which is a sub-fund under the BEA Investment Series Unit Trust.

## **WEALTH MANAGEMENT**

### Structured Products

Interest rates continued to rise during the reporting period. As the yield curve flattened, investors opted for shorter tenors across all asset types, continuing the trend that was established in the second half of last year. With short-term interest rates relatively high, investors' appetites have generally switched from principal protection to capital appreciation. There was an upsurge in interest in structured products linked to equity performance, as investors hoped to reap the benefits of a buoyant equity market.

Retail investors from the Mainland are becoming increasingly sophisticated. The Bank has tapped this market by developing investment products tailor-made for the Mainland market. These have been popular with investors, and such products are expected to become a good and stable source of revenue for the Wealth Management Division in the years ahead.

In the first half of 2006, the Bank radically improved its online equity linked deposit services. Customers are able to subscribe to structured products online while enjoying value-added features such as live dealing at market prices, scenario analysis and online calculator. This service has now been extended to all Cyberbanking customers.

The Bank's dedicated effort in the Linked Deposit business has not gone unnoticed, and the Bank was given the award for Best Deposit-Linked Product in The Asian Banker Excellence in Retail Financial Services Awards 2006.

### Mutual Fund Business / Asset Management

The Bank launched the BEA Japan Growth Fund ("the Fund") in February this year. The Fund adopts a feeder fund approach, with the underlying fund managed by AXA Rosenberg Investment Management Asia Pacific Limited. Market response to the Fund has been encouraging, with about HK\$450 million raised by the end of June 2006. Responding to the needs of the market, the Bank intends to continue to offer a greater range of funds for different risk appetites and investment preferences, as well as to capitalise on asset management opportunities within China.

East Asia Asset Management Company Ltd (a wholly owned subsidiary of the Bank) recorded steady asset inflows from both retail and institutional sources. Mandatory Provident Fund account assets, which are under the management of the Company, grew by 10% during the first half of 2006. Net profit of the unit rose by 40%, when compared to the first half of 2005.

### Bancassurance

To further enhance product variety and to target customers who aim for high savings and a short payment term, the Bank launched two new life insurance products in the first half of 2006, namely the 3-Year Accumulator Savings Insurance and QuickPay Whole Life

Insurance. A single premium payment option was also introduced for applicants for QuickPay Whole Life, to allow greater flexibility.

In response to the increasing demand for protection against unforeseen illness, a new hospital income plan has been developed. This was well received by the market. Sales of travel insurance picked up, with an increase of 27% in total premium received during the seasonal holidays when compared to the same period last year.

#### Blue Cross (Asia-Pacific) Insurance Limited

For the first half of 2006, Blue Cross enjoyed healthy growth in two of its core business lines, medical insurance and travel insurance, with an increase in premium income of 24% and 16%, respectively, over the same period of last year.

Early in the year Blue Cross rolled out a revamped travel insurance plan, TravelSafe Plus, with enhanced benefits. This helped define a new market segment for Blue Cross, targeting travellers who are not satisfied with a basic travel insurance plan.

Growth was aided by the adoption of an adjusted pricing strategy for medical insurance, to cope with the rising healthcare costs in the market.

In early 2006, Blue Cross received the High Flyer Achievement Award – Health Insurer from Hong Kong Business magazine in recognition of its leading position in the medical insurance market. Blue Cross was also recognised as a Caring Company by The Hong Kong Council of Social Service for its commitment in community caring. Blue Cross has also been named The Most Popular Travel Insurance Company two years in a row in a poll of readers of Weekend Weekly, a popular local travel magazine.

#### Private Banking

The Bank re-launched BEA Private Banking in September 2005, providing a full range of services for managing personal wealth, including active advisory and discretionary portfolio management, treasury and structured products, dealing in global securities and funds, insurance, family trust and estate planning, and a full range of banking services. BEA Private Banking offers an open architecture, sourcing the best ideas and pricing available in the market across a range of investment vehicles. The platform covers both corporate and commercial banking services, enabling clients to manage their company and personal investment requirements under the same roof.

The initial months of 2006 provided customers good opportunities to benefit from the strong equity and commodity markets. Private banking clients also actively participated in new IPO offerings, both through subscription and through placement. Hedging and yield enhancement instruments were actively traded, and proved to be rewarding for many customers.

### **INVESTMENT BANKING AND SERVICES**

#### East Asia Securities Company Limited – Securities Cybertrading

During the first half of 2006, East Asia Securities benefited from improved local market sentiment and stronger investor confidence.

East Asia Securities is committed to using technology to improve and expand its brokerage service network, and has stepped up efforts to encourage its customers to make increased use of its electronic trading platform. During the period, East Asia Securities successfully launched the eIPO Service and enhanced its Mobile Phone Trading Service.

The Company registered 27% growth in the number of Cybertrading accounts, compared with the corresponding period last year. As of 30<sup>th</sup> June, 2006, more than 55% of the Company's securities clients had subscribed to Cybertrading. Currently, 53% of trades and

35% of transaction value (expressed as a percentage of total turnover) are executed via the Cybertrading System.

With a view to further enhancing Cybertrading, East Asia Securities plans to launch a new real-time stock quotes service via mobile phones in the third quarter of 2006.

#### East Asia Futures Limited – Futures Cybertrading

During the first six months of year 2006, East Asia Futures witnessed encouraging growth in its clientele base after implementing the Futures Cybertrading Service, with the number of accounts up 35% compared to the corresponding period last year. As of 30<sup>th</sup> June, 2006, more than 59% of the Company's clients have subscribed to Futures Cybertrading.

Currently, the volume of transactions executed via the Futures Cybertrading System (expressed as a percentage of total turnover) accounts for some 45% of trades and 40% of transaction value.

### **CHINA OPERATIONS**

The Bank is in the midst of a concerted effort to expand its branch network on the Mainland. Dalian Huafu Sub-branch, Guangzhou Panyu Sub-branch, Xi'an South-gate Sub-branch, and Shanghai Xujiahui Sub-branch were added over the past seven months. At present, BEA has a total of 27 outlets in China, including 11 branches, 10 sub-branches and 6 representative offices. BEA also has branches in Macau, Taipei and Kaohsiung.

BEA has obtained preliminary approval from the China Banking Regulatory Commission ("CBRC") to upgrade its representative office in Qingdao to a full branch. It is expected that Qingdao Branch will open by the end of this year.

BEA was recently granted Qualified Domestic Institutional Investor (QDII) status by CBRC. This allows BEA to offer overseas wealth management services to local residents and enterprises at its branches in China. The Bank anticipates significant growth in its wealth management business as a result.

### **OVERSEAS OPERATIONS**

BEA continues to expand its overseas network, which comprises operations in the United States, Canada, the United Kingdom, the British Virgin Islands, and Southeast Asia. The Bank's overseas units are focused on enhancing service quality and expanding product offerings.

On 19<sup>th</sup> May, 2006, BEA acquired National American Bank ("NAB"), a commercial bank with three full-service branches serving the Greater San Francisco area. NAB has now been fully integrated into The Bank of East Asia (U.S.A.) N.A ("BEA-USA"). BEA-USA currently operates in three regional markets in the United States, namely the New York region, the Southern California region, and the Northern California region, and has a total of eight retail branches. Two additional branches will open in New York in the second half of 2006.

BEA-USA will continue to identify locations for new branches in the United States to increase its geographical coverage and enlarge its customer base, in particular among the growing population of Chinese immigrants. To complement its expanding branch network, BEA-USA plans to launch Internet Banking in the second half of 2006.

In Canada, The Bank of East Asia (Canada) is expanding its Internet Banking capability with the launch of bill payment services in the third quarter of 2006. The Bank's United Kingdom branches are currently replacing the existing core banking system, with target completion by the end of 2006. The new platform will enable more efficient delivery of new products and services.

## **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, IPO and share registration, payroll outsourcing and fund and trust administration.

Tricor posted impressive growth in profit for the first half of the year, mainly as a result of continued business expansion and the synergies obtained from the successful consolidation of its Hong Kong offices into a single location at Three Pacific Place on Hong Kong Island.

Tricor’s investor services practice, which already serves the majority of all listed companies in Hong Kong, has benefited from the vibrant IPO activity in the capital markets in Hong Kong during the first half of the year. The Hong Kong office has continued to experience strong demand for its accounting and payroll outsourcing services, and its company secretarial and corporate compliance work, from both private and public companies.

January 2006 saw the welcome addition of the Kuala Lumpur and Penang offices to Tricor’s regional operation, underlining Tricor’s leading position in the business and increasing the number of its practices in the region to 10. Further, in April 2006, Tricor acquired the business services practices of Ernst & Young in Beijing, Guangzhou, Shanghai and Shenzhen, adding strength to its growing operations on the Mainland.

As the market leader in integrated business, corporate and investor services, Tricor will continue to look for new business opportunities in the region.

## **MEDICAL SERVICES**

Blue Care Medical Centre is a new collaborative effort between BEA and The University of Hong Kong (“HKU”). HKU’s Faculty of Medicine provides quality assurance services for Blue Care Medical Centre. Acting in a consultancy role, the Faculty also sets standards for medical practice in the field of family medicine. The Centre provides a wide array of clinical services.

The flagship clinic, located in the heart of Central District, was opened in March 2005. The second clinic, at BEA Tower, Millennium City 5, Kwun Tong, has been in operation since January 2006.

## **HUMAN RESOURCES**

The Bank of East Asia Group employees at 30<sup>th</sup> June, 2006:

Hong Kong	4,739
Other Greater China	1,682
Overseas	451
<hr/> Total	<hr/> 6,872

The Bank has further enhanced its Human Resource policies during the first half of the year, focussing on recruitment and selection, compensation and benefits, promotion and upgrading; and last but not least, training and development.

The Bank has established a new staff grading system with the assistance of an external consultant. Pay adjustments granted in this year’s salary review exercise were performance-related, aimed at rewarding those staff members who contribute most to the Bank’s growth and development. To meet the demands of the business environment and create more rewarding career opportunities for Bank employees, new training programmes have instituted. In particular, significantly greater focus is being placed on developing managerial talent and expertise.

The Bank has expended its support to the Staff Sports Recreation Club, which organizes a range of staff activities related to physical fitness and social gatherings.

## ***FUTURE PROSPECTS***

In the first half of 2006, BEA continued its growth strategy. The Bank was able to weather the challenges arising from the rising interest rate trend and at the same time to leverage on business opportunities arising from the pick up in local lending and the strong growth in loan demand in Mainland China. In the second half of the year, loan demand and business opportunities are expected to remain buoyant as a result of strong business sentiment.

In the years ahead, BEA will continue to enhance its products and services and develop alternative revenue streams. Wealth management business, including private banking and structured products, will remain a core business development focus in the near future. Furthermore, BEA will continue to enhance the market leading corporate services and share registration services of Tricor and the insurance businesses of Blue Cross. The Bank will also continue to identify potential opportunities for acquisitions and strategic alliances, both locally and in overseas markets.

BEA has enjoyed satisfactory growth in its overseas markets, particularly in the United States, Canada, and Southeast Asia. BEA will continue to broaden and enhance its businesses in China to capture the opportunities arising from the changing regulatory and operating environment on the Mainland. BEA aims to provide high quality, innovative products and further extend its retail network to maintain its leading position in China.

Enhancing operational efficiency will continue to be a primary focus of the Bank. Following the centralisation of back office functions to Millennium City 5 in Kwun Tong, BEA will continue to realise the associated synergies in the coming years. The identification and relocation of appropriate operating functions to the Mainland will remain a core focus over the next year. In addition, BEA will continue to enhance its systems, risk management and corporate governance to ensure that the Group's products and services meet the highest standards and are offered to customers in a professional, timely and reliable manner.

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

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of listed securities of the Bank during the six months ended 30<sup>th</sup> June, 2006.

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

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

BEA has complied with all the Code Provisions set out in Appendix 14 Code on Corporate Governance Practices of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting period for the six months ended 30<sup>th</sup> June, 2006, except for the following deviations:

### **Code Provision A.2.1**

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 operations of the Bank. There is a strong independence element in the composition of the Board. Out of the 17 Board members, seven are Independent Non-executive Directors. 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 and management of the Bank.

#### Code Provision A.4.1 and A.4.2

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.

At the Annual General Meeting of the Bank held on 7<sup>th</sup> April, 2006, a special resolution was passed to amend the relevant Articles of Association of the Bank which provide 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.

Code Provisions A.4.1 and A.4.2 have been fully complied with since 7<sup>th</sup> April, 2006.

#### **COMPLIANCE WITH MODEL CODE**

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

Having made specific enquiry of all Directors of the Bank, during the six months ended 30<sup>th</sup> June, 2006, Directors of the Bank have complied with the required standard set out in the Own Code and in the Model Code.

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

By order of the Board  
**David LI Kwok-po**  
*Chairman & Chief Executive*

Hong Kong, 4<sup>th</sup> August, 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; Mr. Aubrey LI Kwok-sing, Dr. William MONG Man-wai, Tan Sri Dr. KHOO Kay-peng, Mr. Richard LI Tzar-kai, Mr. Eric LI Fook-chuen and Mr. Stephen Charles LI Kwok-sze; and Independent Non-executive Directors are: Mr. WONG Chung-hin, Dr. LEE Shau-kee, Dr. Allan WONG Chi-yun, Mr. Winston LO Yau-lai, Mr. Thomas KWOK Ping-kwong, Mr. TAN Man-kou and Mr. Kenneth LO Chin-ming.*