



# The Bank of East Asia, Limited

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

## ANNOUNCEMENT OF 2007 FINAL RESULTS

### SUMMARY OF RESULTS

The Directors of The Bank of East Asia, Limited ("BEA") are pleased to announce the audited results<sup>a</sup> of the Bank and its subsidiaries (the "Group") for the year ended 31<sup>st</sup> December, 2007. This financial report, which has been reviewed by the Bank's Audit Committee, is prepared on a basis consistent with the accounting policies and methods adopted in the 2006 annual accounts.

#### 1. Consolidated Profit and Loss Account

	2007	2006	Variance	
	HK\$'000	Restated <sup>b</sup> HK\$'000		%
Interest income	18,309,312	14,048,544	+	30.3
Interest expense	(12,332,142)	(9,049,744)	+	36.3
Net interest income	5,977,170	4,998,800	+	19.6
Fee and commission income	2,608,047	1,898,883	+	37.3
Fee and commission expense	(471,426)	(288,145)	+	63.6
Net fee and commission	2,136,621	1,610,738	+	32.6
Net trading profits	1,416,837	590,646	+	139.9
Net result from financial instruments designated at fair value through profit or loss	(1,154,461)	110,526	-	1,144.5
Other operating income	437,346	253,602	+	72.5
Non-interest income	2,836,343	2,565,512	+	10.6
Operating income	8,813,513	7,564,312	+	16.5
Operating expenses	(4,691,040)	(3,465,360)	+	35.4
Operating profit before impairment losses	4,122,473	4,098,952	+	0.6
Impairment losses on loans and advances	(216,471)	(243,848)	-	11.2
(Charge for)/Write back of impairment losses on held-to-maturity investments	(41,967)	12,972	+	423.5
Impairment losses on available-for-sale financial assets	(227,701)	-	-	100.0
(Charge for)/Write back of impairment losses on associates	(41,240)	24,560	+	267.9
Impairment losses on goodwill	-	(23,698)	-	100.0
Write back of impairment losses on bank premises	132,530	27,681	+	378.8
Impairment losses	(394,849)	(202,333)	+	95.1
Operating profit after impairment losses	3,727,624	3,896,619	-	4.3
Net loss on sale of held-to-maturity investments	-	(17)	-	100.0
Net profit on sale of available-for-sale financial assets	667,008	49,998	+	1,234.1
Net profit on sale of subsidiaries/associates	406,279	1,516	+	26,699.4
Net loss on sale of fixed assets	(570)	(8,273)	-	93.1
Valuation gains on investment properties	292,998	137,777	+	112.7
Share of profits less losses on associates	91,653	182,574	-	49.8
Profit for the year before taxation	5,184,992	4,260,194	+	21.7
Income tax				
Current tax <sup>c</sup>				
- Hong Kong	(257,534)	(486,855)	-	47.1
- Overseas	(331,441)	(229,291)	+	44.6
Deferred tax	(374,868)	(58,430)	+	541.6
Profit for the year after taxation	4,221,149	3,485,618	+	21.1
Attributable to:				
Equity holders of the Group	4,143,604	3,434,511	+	20.6
Minority interests	77,545	51,107	+	51.7
Profit after taxation	4,221,149	3,485,618	+	21.1
Proposed final dividend per share	HK\$1.18	HK\$1.03	+	14.6
Per share				
- Basic earnings <sup>d</sup>	HK\$2.65	HK\$2.24	+	18.3
- Diluted earnings <sup>d</sup>	HK\$2.63	HK\$2.22	+	18.5
- Dividends	HK\$1.66	HK\$1.46	+	13.7

## 2. Consolidated Balance Sheet

	2007	2006	Variance	
	HK\$'000	HK\$'000		%
<b>ASSETS</b>				
Cash and balances with banks and other financial institutions	14,186,701	8,317,746	+	70.6
Placements with banks and other financial institutions	94,703,893	66,864,045	+	41.6
Trade bills	811,630	620,463	+	30.8
Trading assets	4,846,602	2,937,534	+	65.0
Financial assets designated at fair value through profit or loss	8,658,006	8,643,479	+	0.2
Advances to customers and other accounts	235,405,829	175,096,666	+	34.4
Available-for-sale financial assets	12,217,495	12,002,197	+	1.8
Held-to-maturity investments	10,761,049	10,249,359	+	5.0
Investments in associates	2,793,070	1,076,738	+	159.4
Fixed assets	6,856,413	5,749,605	+	19.3
- Investment properties	1,726,158	1,288,541	+	34.0
- Other property and equipment	5,130,255	4,461,064	+	15.0
Goodwill and intangible assets	2,668,102	2,605,316	+	2.4
Deferred tax assets	69,870	39,169	+	78.4
<b>Total Assets</b>	<b>393,978,660</b>	<b>294,202,317</b>	<b>+</b>	<b>33.9</b>
<b>EQUITY AND LIABILITIES</b>				
Deposits and balances of banks and other financial institutions	39,060,256	31,959,182	+	22.2
Deposits from customers	284,185,844	209,524,220	+	35.6
Trading liabilities	2,372,101	942,595	+	151.7
Certificates of deposit issued	12,164,901	6,998,407	+	73.8
- At fair value through profit or loss	7,659,690	1,943,951	+	294.0
- At amortised cost	4,505,211	5,054,456	-	10.9
Current taxation	228,850	334,097	-	31.5
Deferred tax liabilities	871,557	598,118	+	45.7
Other accounts and provisions	10,997,020	8,046,654	+	36.7
Loan capital	13,652,219	8,154,315	+	67.4
- At fair value through profit or loss	8,983,045	4,288,824	+	109.5
- At amortised cost	4,669,174	3,865,491	+	20.8
<b>Total Liabilities</b>	<b>363,532,748</b>	<b>266,557,588</b>	<b>+</b>	<b>36.4</b>
Share capital	3,935,918	3,875,355	+	1.6
Reserves	26,162,850	23,387,599	+	11.9
<b>Total equity attributable to equity holders of the Group</b>	<b>30,098,768</b>	<b>27,262,954</b>	<b>+</b>	<b>10.4</b>
Minority interests	347,144	381,775	-	9.1
<b>Total Equity</b>	<b>30,445,912</b>	<b>27,644,729</b>	<b>+</b>	<b>10.1</b>
<b>Total Equity and Liabilities</b>	<b>393,978,660</b>	<b>294,202,317</b>	<b>+</b>	<b>33.9</b>

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

	2007	2006
	HK\$'000	HK\$'000
Total equity as at 1 <sup>st</sup> January	27,644,729	24,404,528
Net income recognised directly in equity		
(Recognition)/release of net deferred tax liabilities in		
- Revaluation reserve on bank premises	(5,998)	(11,195)
- Investment revaluation reserve on available-for-sale financial assets	16,485	(109,777)
Revaluation surplus on bank premises transferred to investment properties	35,669	69,444
Capital reserve on share-based transactions	27,310	22,067
Reversal upon disposal of available-for-sale financial assets	27,037	(41,766)
Changes in fair value of available-for-sale financial assets	(421,425)	653,701
Exchange and other adjustments	482,720	107,042
	<u>161,798</u>	<u>689,516</u>
Net profit for the year		
Attributable to:		
Equity holders of the Group	4,143,604	3,434,511
Minority interests	77,545	51,107
	<u>4,221,149</u>	<u>3,485,618</u>
Total recognised income and expenses for the year		
(of which HK\$77,545,000 (2006: HK\$51,107,000) is attributable to minority interests)	4,382,947	4,175,134
	<u>(2,352,514)</u>	<u>(2,072,519)</u>
Dividends declared or approved during the year		
Movements in shareholders' equity arising from capital transactions with equity holders of the Group:		
Shares issued under Staff Share Option Schemes	154,555	415,523
Shares issued in lieu of dividends	730,463	599,825
Capital fee	(135)	(251)
	<u>884,883</u>	<u>1,015,097</u>
Movements in minority interests		
Sale of interests in businesses to minority interests investors	49,697	2,561
Purchase of interests in businesses from minority interests investors	(14,634)	(29,268)
Reversal upon disposal of available-for-sale financial assets	(149,196)	-
Share of revaluation surplus of available-for-sale financial assets	-	149,196
	<u>(114,133)</u>	<u>122,489</u>
Balance as at 31 <sup>st</sup> December	<u>30,445,912</u>	<u>27,644,729</u>

#### 4. Consolidated Cash Flow Statement

	2007 HK\$'000	2006 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit for the year before taxation	5,184,992	4,260,194
Adjustments for:		
Charge for impairment losses on loans and advances	216,471	243,848
Charge for/(Write back of) impairment allowances on held-to-maturity investments, available-for-sale financial assets and associates	310,907	(37,532)
Share of profits less losses of associates	(91,653)	(182,574)
Net loss on sale of held-to-maturity investments	-	17
Net profit on sale of available-for-sale financial assets, subsidiaries and associates	(1,073,287)	(51,514)
Net (profit)/loss on sale of fixed assets	(570)	8,273
Interest expense on loan capital, certificates of deposit and bonds issued	1,115,170	707,185
Depreciation on fixed assets	326,265	299,074
Amortisation of intangible assets	2,490	2,231
Impairment losses on goodwill	-	23,698
Write back of impairment loss on bank premises	(132,530)	(27,681)
Dividend income from available-for-sale financial assets	(62,909)	(27,501)
Amortisation of premium/discount on certificates of deposit and loan capital issued	64,610	-
Revaluation gain on certificates of deposit and loan capital issued	85,809	16,771
Valuation gains on investment properties	(292,998)	(137,777)
Equity-settled share-based payment expenses	27,310	22,067
<b>OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL</b>	<b>5,680,077</b>	<b>5,118,779</b>
(Increase)/decrease in operating assets:		
Placements with banks and other financial institutions with original maturity beyond three months	(4,255,878)	(867,011)
Trade bills	(191,167)	(7,833)
Trading assets	(2,007,592)	(688,690)
Financial assets designated at fair value through profit or loss	(14,527)	1,514,228
Advances to customers	(52,157,551)	(27,424,381)
Advances to banks and other financial institutions	(3,219,723)	(29,989)
Held-to-maturity debt securities	(278,864)	2,749,309
Available-for-sale financial assets	(4,809,035)	(256,245)
Intangible assets	-	(15,217)
Other accounts and accrued interest	(3,916,385)	(2,501,018)
Deferred tax assets	(30,701)	(700)
Increase/(decrease) in operating liabilities:		
Deposits and balances of banks and other financial institutions	7,101,074	18,172,986
Deposits from customers	74,661,624	33,133,134
Trading liabilities	1,429,506	(994,404)
Other accounts and provisions	2,712,332	1,132,006
Deferred tax liabilities	(90,185)	(206,175)
Exchange adjustments	496,926	(30,781)
<b>NET CASH INFLOW FROM OPERATIONS</b>	<b>21,109,931</b>	<b>28,797,998</b>
Income tax paid		
Hong Kong profits tax paid	(393,828)	(459,723)
Overseas profits tax paid	(305,775)	(204,171)
<b>NET CASH FLOWS GENERATED FROM OPERATING ACTIVITIES</b>	<b>20,410,328</b>	<b>28,134,104</b>

	2007	2006
	HK\$'000	HK\$'000
<b>INVESTING ACTIVITIES</b>		
Dividends received from associates	103,320	21,897
Dividends received from available-for-sale equity securities	62,909	27,501
Purchase of equity securities	(831,759)	(1,655,473)
Proceeds from sale of equity securities	1,455,603	140,925
Purchase of fixed assets	(924,359)	(511,367)
Proceeds from disposal of fixed assets	14,793	59,966
Purchase/increase in shareholding in associates	(1,735,210)	(96,479)
Proceeds from disposal of associates	579	1,842
Purchase of subsidiaries	(38,266)	(72,574)
Proceeds from sale of interests in a subsidiary	455,686	37
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(1,436,704)</b>	<b>(2,083,725)</b>
<b>FINANCING ACTIVITIES</b>		
Ordinary dividends paid	(1,622,051)	(1,472,694)
Issue of ordinary share capital	154,555	415,523
Issue of loan capital	9,255,365	3,878,825
Redemption of loan capital	(3,906,775)	(4,265,690)
Capital fee paid on increase in issued share capital	(135)	(251)
Issue of certificates of deposit	9,654,541	7,798,252
Redemption of certificates of deposit issued	(4,619,894)	(7,198,009)
Interest paid on loan capital	(655,597)	(399,797)
Interest paid on certificates of deposit issued	(224,252)	(381,551)
<b>NET CASH GENERATED/(USED IN) FROM FINANCING ACTIVITIES</b>	<b>8,035,757</b>	<b>(1,625,392)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>27,009,381</b>	<b>24,424,987</b>
<b>CASH AND CASH EQUIVALENTS AT 1<sup>ST</sup> JANUARY</b>	<b>76,708,949</b>	<b>52,283,962</b>
<b>CASH AND CASH EQUIVALENTS AT 31<sup>ST</sup> DECEMBER</b>	<b>103,718,330</b>	<b>76,708,949</b>
<b>Cash flows from operating activities included:</b>		
Interest received	17,569,798	13,861,533
Interest paid	11,600,649	8,917,057
Dividend received	100,800	44,227

Notes:

(a) The financial information set out in this report does not constitute the Group's statutory accounts for the year ended 31<sup>st</sup> December, 2007 but there is no material change as compared to those accounts. The statutory accounts for the year ended 31<sup>st</sup> December, 2007 will be available from the website of The Stock Exchange of Hong Kong Limited.

(b) Changes in presentation – Hong Kong Accounting Standard 1 “Presentation of Financial Statements”

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

Comparative figures for 2006 have been reclassified to conform with the current year's presentation as follows:

	As previously reported	Increase/ (decrease) in the profit for the year	As restated
	HK\$'000	HK\$'000	HK\$'000
Interest income	12,865,593	1,182,951	14,048,544
Interest expense	7,999,958	1,049,786	9,049,744
Net interest income	4,865,635	133,165	4,998,800
Net trading profits	586,160	4,486	590,646
Net result from financial instruments designated at fair value through profit or loss	248,177	<u>(137,651)</u>	110,526
		<u><u>-</u></u>	

(c) The provision for Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the year. Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

(d) (i) The calculation of basic earnings per share is based on earnings of HK\$4,143,604,000 (2006: HK\$3,434,511,000) and on the weighted average of 1,565,141,199 (2006: 1,533,741,133) ordinary shares outstanding during the year.

(ii) The calculation of diluted earnings per share is based on earnings of HK\$4,143,604,000 (2006: HK\$3,434,511,000) and on 1,574,625,151 (2006: 1,543,706,739) ordinary shares, being the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

## 5. Interest Income

	2007	2006	Variance	
	<u>HK\$'000</u>	<u>Restated</u>		<u>%</u>
		HK\$'000		
Listed securities classified as held-to-maturity or available-for-sale	154,401	120,160	+	28.5
Trading assets				
- listed	3,570	1,612	+	121.5
- unlisted	34,769	32,998	+	5.4
Interest rate swaps	769,635	656,971	+	17.1
Financial assets designated at fair value through profit or loss				
- listed	152,117	125,423	+	21.3
- unlisted	426,409	365,947	+	16.5
Loans, deposits with banks and financial institutions, trade bills, and other unlisted securities that are not at fair value through profit or loss	<u>16,768,411</u>	<u>12,745,433</u>	+	31.6
Total interest income	<u>18,309,312</u>	<u>14,048,544</u>	+	30.3

Included above is interest income accrued on impaired financial assets of HK\$29,473,000 (2006: HK\$37,490,000) for the year ended 31<sup>st</sup> December, 2007.

## 6. Interest Expense

	2007	2006	Variance	
	<u>HK\$'000</u>	<u>Restated</u>		<u>%</u>
		HK\$'000		
Customer deposits, deposits of banks and other financial institutions and certificates of deposit issued which are stated at amortised cost	10,432,634	7,871,506	+	32.5
Subordinated notes carried at amortised cost	264,679	126,681	+	108.9
Interest rate swaps	917,981	696,067	+	31.9
Financial instruments designated at fair value through profit or loss	712,333	353,719	+	101.4
Other borrowings	4,515	1,771	+	154.9
Total interest expense	<u>12,332,142</u>	<u>9,049,744</u>	+	36.3

## 7. Fee and Commission Income

Fee and commission income arises from the following services:

	2007	2006	Variance	
	<u>HK\$'000</u>	<u>Restated</u>		<u>%</u>
		HK\$'000		
Corporate services	753,098	597,837	+	26.0
Loans, overdrafts and guarantees	386,737	300,575	+	28.7
Credit cards	399,980	307,475	+	30.1
Other retail banking services	190,703	140,683	+	35.6
Trade finance	113,096	110,713	+	2.2
Securities and brokerage	443,710	205,594	+	115.8
Trust and other fiduciary activities	83,390	46,507	+	79.3
Others	237,333	189,499	+	25.2
Total fee and commission income	<u>2,608,047</u>	<u>1,898,883</u>	+	37.3

## 8. Net Trading Profits

	2007	2006	Variance	
	HK\$'000	Restated HK\$'000		%
Profit on dealing in foreign currencies	173,616	146,222	+	18.7
Profit on trading securities	851,966	479,545	+	77.7
Profit/(loss) on other dealing activities	353,364	(51,643)	+	784.2
Dividend income from listed trading securities	37,891	16,522	+	129.3
Total net trading profits	<u>1,416,837</u>	<u>590,646</u>	+	139.9

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

	2007	2006	Variance	
	HK\$'000	Restated HK\$'000		%
Net (losses) / gains	(1,154,461)	110,322	-	1,146.4
Dividend income from listed securities	-	204	-	100.0
	<u>(1,154,461)</u>	<u>110,526</u>	-	1,144.5

## 10. Other Operating Income

	2007	2006	Variance	
	HK\$'000	HK\$'000		%
Dividend income from available-for-sale financial assets				
- listed	42,055	12,856	+	227.1
- unlisted	20,854	14,645	+	42.4
Rental from safe deposit boxes	88,023	86,293	+	2.0
Net revenue from insurance activities	138,723	51,809	+	167.8
Rental income on properties	72,640	53,553	+	35.6
Others	75,051	34,446	+	117.9
Total other operating income	<u>437,346</u>	<u>253,602</u>	+	72.5



## 11. Operating Expenses

	2007 HK\$'000	2006 HK\$'000	Variance %
Contributions to defined contribution plan	163,807	127,460	+ 28.5
Equity-settled share-based payment expenses	27,310	22,067	+ 23.8
Salaries and other staff costs	2,276,673	1,713,721	+ 32.8
Total staff costs	<u>2,467,790</u>	<u>1,863,248</u>	+ 32.4
Premises and equipment expenses excluding Depreciation			
- Rental of premises	288,093	206,425	+ 39.6
- Maintenance, repairs and others	342,851	275,489	+ 24.5
Total premises and equipment expenses excluding depreciation	<u>630,944</u>	<u>481,914</u>	+ 30.9
Depreciation on fixed assets	<u>326,265</u>	<u>299,074</u>	+ 9.1
Amortisation of intangible assets	<u>2,490</u>	<u>2,231</u>	+ 11.6
Other operating expenses			
- Communications, stationery and printing	233,448	183,916	+ 26.9
- Legal and professional fees	165,135	122,125	+ 35.2
- Advertising expenses	269,785	158,011	+ 70.7
- Business promotions and business travel	81,808	59,165	+ 38.3
- Card related expenses	59,687	47,949	+ 24.5
- Stamp duty, overseas and PRC* business taxes, and value added taxes	217,044	100,142	+ 116.7
- Insurance expenses	33,471	13,342	+ 150.9
- Bank charges	4,690	3,633	+ 29.1
- Administration expenses of secretarial business	21,081	14,367	+ 46.7
- Membership fees	6,000	5,286	+ 13.5
- Bank licence	4,716	4,974	- 5.2
- Audit fee	6,214	5,160	+ 20.4
- Donations	8,129	15,915	- 48.9
- Others	152,343	84,908	+ 79.4
Total other operating expenses	<u>1,263,551</u>	<u>818,893</u>	+ 54.3
Total operating expenses	<u>4,691,040</u>	<u>3,465,360</u>	+ 35.4

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

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

	2007 HK\$'000	2006 HK\$'000	Variance %
Net revaluation (loss)/gain transferred from reserves	(27,037)	41,766	- 164.7
Profit arising in current year	694,045	8,232	+ 8,331.1
	<u>667,008</u>	<u>49,998</u>	+ 1,234.1

### 13. Trading Assets

	2007	2006	Variance
	HK\$'000	HK\$'000	%
Treasury bills (including Exchange Fund Bills)	1,194,530	497,915	+ 139.9
Debt securities	17,598	161,153	- 89.1
Equity securities	1,808,604	1,350,059	+ 34.0
Investment funds	274,137	265,990	+ 3.1
Trading securities	3,294,869	2,275,117	+ 44.8
Positive fair values of derivatives	1,551,733	662,417	+ 134.3
	<u>4,846,602</u>	<u>2,937,534</u>	+ 65.0
Issued by:			
Central government and central banks	1,194,530	497,915	+ 139.9
Public sector entities	18,746	161,153	- 88.4
Banks and other financial institutions	545,990	700,158	- 22.0
Corporate entities	1,524,270	901,673	+ 69.0
Other entities	11,333	14,218	- 20.3
	<u>3,294,869</u>	<u>2,275,117</u>	+ 44.8
Analysed by place of listing:			
Listed in Hong Kong	1,626,429	1,177,448	+ 38.1
Listed outside Hong Kong	211,106	201,555	+ 4.7
	<u>1,837,535</u>	<u>1,379,003</u>	+ 33.3
Unlisted	1,457,334	896,114	+ 62.6
	<u>3,294,869</u>	<u>2,275,117</u>	+ 44.8

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

	2007	2006	Variance
	HK\$'000	HK\$'000	%
Certificates of deposit held	49,600	95,685	- 48.2
Debt securities	8,608,406	8,546,958	+ 0.7
Equity securities	-	836	- 100.0
	<u>8,658,006</u>	<u>8,643,479</u>	+ 0.2
Issued by:			
Central government and central banks	-	39,123	- 100.0
Public sector entities	184,082	134,845	+ 36.5
Banks and other financial institutions	1,096,044	1,149,969	- 4.7
Corporate entities	7,377,880	7,319,542	+ 0.8
	<u>8,658,006</u>	<u>8,643,479</u>	+ 0.2
Analysed by place of listing:			
Listed in Hong Kong	1,754,988	1,364,389	+ 28.6
Listed outside Hong Kong	796,090	1,408,981	- 43.5
	<u>2,551,078</u>	<u>2,773,370</u>	- 8.0
Unlisted	6,106,928	5,870,109	+ 4.0
	<u>8,658,006</u>	<u>8,643,479</u>	+ 0.2

## 15. Advances to Customers and Other Accounts

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

	<u>2007</u>	<u>2006</u>	<u>Variance</u>
	HK\$'000	HK\$'000	%
(i) Advances to customers	218,183,900	166,178,102	+ 31.3
Less: Impairment allowances			
- Individual	(263,649)	(254,014)	+ 3.8
- Collective	(432,791)	(443,874)	- 2.5
	<u>217,487,460</u>	<u>165,480,214</u>	+ 31.4
(ii) Other accounts			
Advances to banks and other financial institutions	5,673,832	2,454,109	+ 131.2
Notes and bonds	262,351	344,076	- 23.8
Certificates of deposit held	39,003	38,890	+ 0.3
Accrued interest	1,912,092	1,172,578	+ 63.1
Bankers acceptances	1,425,323	422,022	+ 237.7
Other accounts	8,637,260	5,219,124	+ 65.5
	<u>17,949,861</u>	<u>9,650,799</u>	+ 86.0
Less: Impairment allowances			
- Individual	(24,969)	(26,118)	- 4.4
- Collective	(6,523)	(8,229)	- 20.7
	<u>17,918,369</u>	<u>9,616,452</u>	+ 86.3
	<u><u>235,405,829</u></u>	<u><u>175,096,666</u></u>	+ 34.4

(b) Advances to Customers – by Industry Sectors

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

	2007		2006		Variance	
	Gross advances	% of secured advances	Gross advances	% of secured advances	%	
	HK\$'000	%	HK\$'000	%		
<b>Loans for use in Hong Kong</b>						
<b>Industrial, commercial and financial</b>						
- Property development	9,079,949	66.41	6,422,770	45.69	+	41.4
- Property investment	26,023,323	87.04	20,464,978	96.48	+	27.2
- Financial concerns	1,931,675	76.71	1,865,472	82.54	+	3.5
- Stockbrokers	659,071	99.60	258,562	77.62	+	154.9
- Wholesale and retail trade	1,469,007	50.12	1,322,504	47.75	+	11.1
- Manufacturing	1,934,455	48.35	1,884,745	51.30	+	2.6
- Transport and transport equipment	4,344,681	70.36	4,118,384	73.72	+	5.5
- Recreational activities	285,273	90.81	316,426	88.17	-	9.8
- Information technology	4,608	38.89	3,321	0.00	+	38.8
- Others	9,672,652	72.40	6,711,510	64.02	+	44.1
- Sub-total	55,404,694	77.27	43,368,672	77.54	+	27.8
<b>Individuals</b>						
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,040,884	100.00	1,117,688	100.00	-	6.9
- Loans for the purchase of other residential properties	36,245,144	99.68	36,956,206	99.52	-	1.9
- Credit card advances	2,619,066	0.00	2,409,027	0.00	+	8.7
- Others	5,449,772	70.57	4,728,035	70.37	+	15.3
- Sub-total	45,354,866	90.43	45,210,956	91.18	+	0.3
Total loans for use in Hong Kong	100,759,560	83.20	88,579,628	84.50	+	13.8
Trade finance	3,713,849	57.09	3,464,619	58.44	+	7.2
Loans for use outside Hong Kong	113,710,491	72.67	74,133,855	66.08	+	53.4
Total advances to customers	218,183,900	77.27	166,178,102	75.74	+	31.3

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

	2007	2006	Variance	
	HK\$'000	HK\$'000	%	
<b>(i) Property development</b>				
a. Individually impaired loans	305,029	232,655	+	31.1
b. Individual impairment allowance	90,493	92,249	-	1.9
c. Collective impairment allowance	34,771	29,180	+	19.2
<b>(ii) Property investment</b>				
a. Individually impaired loans	23,173	55,307	-	58.1
b. Individual impairment allowance	173	170	+	1.8
c. Collective impairment allowance	88,967	94,971	-	6.3
<b>(iii) Loans for purchase of residential properties</b>				
a. Individually impaired loans	188,831	254,380	-	25.8
b. Individual impairment allowance	6,184	14,267	-	56.7
c. Collective impairment allowance	25,016	33,121	-	24.5

(c) Advances to Customers – by Geographical Areas

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

	2007				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	123,538,991	296,281	622,504	147,893	264,981
People's Republic of China	62,517,654	113,790	333,820	86,789	83,517
Other Asian Countries	10,339,650	56,330	89,668	27,893	60,438
Others	21,787,605	1,251	195,895	1,074	23,855
<b>Total</b>	<b>218,183,900</b>	<b>467,652</b>	<b>1,241,887</b>	<b>263,649</b>	<b>432,791</b>

% of total advances to customers

0.57%

Market value of security held against impaired advances to customers

3,647,073

	2006				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	105,270,368	361,260	786,086	171,264	272,508
People's Republic of China	35,322,858	57,202	275,942	10,749	81,187
Other Asian Countries	9,090,413	103,149	198,818	70,278	59,639
Others	16,494,463	1,690	33,342	1,723	30,540
<b>Total</b>	<b>166,178,102</b>	<b>523,301</b>	<b>1,294,188</b>	<b>254,014</b>	<b>443,874</b>

% of total advances to customers

0.78%

Market value of security held against impaired advances to customers

2,340,517

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

There were no impaired advances to banks and other financial institutions as at 31<sup>st</sup> December, 2007 and 31<sup>st</sup> December, 2006; nor were there any individual impairment allowances made for them on these two dates.

## 16. Available-For-Sale Financial Assets

	2007 HK\$'000	2006 HK\$'000	Variance %
Treasury bills (including Exchange Fund Bills)	2,868,626	4,221,416	- 32.0
Certificates of deposit held	807,061	943,306	- 14.4
Debt securities	7,025,450	3,274,524	+ 114.5
Equity securities	1,601,851	3,398,552	- 52.9
Investment funds	142,208	164,399	- 13.5
	<u>12,445,196</u>	<u>12,002,197</u>	+ 3.7
Less: Impairment loss	(227,701)	-	
	<u>12,217,495</u>	<u>12,002,197</u>	+ 1.8
Issued by:			
Central governments and central banks	2,914,152	4,344,171	- 32.9
Public sector entities	2,336,964	220,749	+ 958.7
Banks and other financial institutions	4,076,627	5,058,286	- 19.4
Corporate entities	2,586,100	2,214,163	+ 16.8
Other entities	303,652	164,828	+ 84.2
	<u>12,217,495</u>	<u>12,002,197</u>	+ 1.8
Analysed by place of listing:			
Listed in Hong Kong	1,024,760	2,771,512	- 63.0
Listed outside Hong Kong	2,548,630	1,949,661	+ 30.7
	<u>3,573,390</u>	<u>4,721,173</u>	- 24.3
Unlisted	8,644,105	7,281,024	+ 18.7
	<u>12,217,495</u>	<u>12,002,197</u>	+ 1.8

## 17. Held-To-Maturity Investments

	2007 HK\$'000	2006 HK\$'000	Variance %
Treasury bills (including Exchange Fund Bills)	66,793	84,044	- 20.5
Certificates of deposit held	1,625,065	1,614,028	+ 0.7
Debt securities	9,111,158	8,551,287	+ 6.5
	<u>10,803,016</u>	<u>10,249,359</u>	+ 5.4
Less: Impairment loss	(41,967)	-	
	<u>10,761,049</u>	<u>10,249,359</u>	+ 5.0
Issued by:			
Central governments and central banks	5,411,301	5,417,161	- 0.1
Public sector entities	664,054	746,137	- 11.0
Banks and other financial institutions	3,507,330	2,881,767	+ 21.7
Corporate entities	1,178,364	1,204,294	- 2.2
	<u>10,761,049</u>	<u>10,249,359</u>	+ 5.0
Analysed by place of listing:			
Listed in Hong Kong	193,792	80,663	+ 140.2
Listed outside Hong Kong	2,129,581	1,773,409	+ 20.1
	<u>2,323,373</u>	<u>1,854,072</u>	+ 25.3
Unlisted	8,437,676	8,395,287	+ 0.5
	<u>10,761,049</u>	<u>10,249,359</u>	+ 5.0
Market value:			
Listed securities	2,330,403	1,847,348	+ 26.1
Unlisted securities	8,462,504	8,269,760	+ 2.3
	<u>10,792,907</u>	<u>10,117,108</u>	+ 6.7

## 18. 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 include branch operations, personal Internet banking, consumer finance, property loans, credit card business and private banking to personal customers.

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

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

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

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

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

## 2007

	Personal Financial Services HK\$'000	Corporate Banking HK\$'000	Investment Banking HK\$'000	Corporate Services HK\$'000	Others HK\$'000	Unallocated HK\$'000	Inter- segment elimination HK\$'000	Consolidated HK\$'000
<b>The Group</b>								
Net interest income	1,995,869	2,970,132	980,371	1,099	30,655	(956)	-	5,977,170
Other operating income from external customers	1,055,931	445,808	308,100	758,393	238,623	29,488	-	2,836,343
Inter-segment income	-	-	-	-	-	157,540	(157,540)	-
Operating income	3,051,800	3,415,940	1,288,471	759,492	269,278	186,072	(157,540)	8,813,513
Operating expenses	(1,897,765)	(1,327,492)	(570,291)	(440,999)	(221,836)	(232,657)	-	(4,691,040)
Inter-segment expenses	(126,482)	(16,385)	(7,093)	-	(1,320)	(6,260)	157,540	-
Operating profit before impairment losses	1,027,553	2,072,063	711,087	318,493	46,122	(52,845)	-	4,122,473
(Charge for)/ Write back of impairment losses on loans and advances	(42,747)	(172,399)	309	(4,913)	3,279	-	-	(216,471)
Write back of impairment losses on bank premises	-	-	-	-	-	132,530	-	132,530
Impairment losses on available-for-sale financial assets, held-to-maturity investments and associates	-	-	(310,908)	-	-	-	-	(310,908)
Operating profit after impairment losses	984,806	1,899,664	400,488	313,580	49,401	79,685	-	3,727,624
Profit on sale of fixed assets, available-for-sale financial assets, held-to-maturity investments and subsidiaries/associates	-	-	1,073,162	-	125	(570)	-	1,072,717
Valuation gains on investment properties	-	-	-	-	292,998	-	-	292,998
Share of profits less losses of associates	3,058	34,419	51,606	-	2,716	(146)	-	91,653
Profit before taxation	987,864	1,934,083	1,525,256	313,580	345,240	78,969	-	5,184,992
Depreciation for the year	(128,488)	(73,555)	(26,290)	(14,108)	(8,191)	(75,633)	-	(326,265)
Segment assets	56,900,852	159,795,691	151,171,404	1,105,656	8,218,409	1,013,585	-	378,205,597
Investments in associates	54,810	2,261,030	133,111	-	343,429	689	-	2,793,069
Unallocated assets	-	-	-	-	-	12,979,994	-	12,979,994
Total assets	56,955,662	162,056,721	151,304,515	1,105,656	8,561,838	13,994,268	-	393,978,660
Segment liabilities	171,180,610	114,689,983	55,646,549	126,496	2,677,047	-	-	344,320,685
Unallocated liabilities	-	-	-	-	-	5,559,844	-	5,559,844
Loan capital	-	-	-	-	-	13,652,219	-	13,652,219
Total liabilities	171,180,610	114,689,983	55,646,549	126,496	2,677,047	19,212,063	-	363,532,748
Capital expenditure incurred during the year	48,263	172,403	225,783	55,421	16,963	445,311	-	964,144



2006 Restated<sup>b</sup>

	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
<b>The Group</b>								
Net interest income	2,124,203	1,940,619	920,208	459	15,000	(1,689)	-	4,998,800
Other operating income from external customers	686,041	347,143	814,793	598,820	101,011	17,704	-	2,565,512
Inter-segment income	-	-	-	-	-	149,168	(149,168)	-
Operating income	2,810,244	2,287,762	1,735,001	599,279	116,011	165,183	(149,168)	7,564,312
Operating expenses	(1,542,398)	(844,678)	(338,201)	(359,794)	(159,783)	(220,506)	-	(3,465,360)
Inter-segment expenses	(121,253)	(15,584)	(5,832)	-	(1,006)	(5,493)	149,168	-
Operating profit before impairment losses	1,146,593	1,427,500	1,390,968	239,485	(44,778)	(60,816)	-	4,098,952
(Charge for)/Write back of impairment losses on loans and advances	(31,052)	(212,784)	1,588	(1,789)	189	-	-	(243,848)
Write back of impairment losses on bank premises	-	-	-	-	-	27,681	-	27,681
Write back of impairment losses on available-for-sale financial assets, held-to- maturity investments and associates	-	24,560	12,972	-	-	-	-	37,532
Impairment losses on goodwill	-	-	-	-	(23,698)	-	-	(23,698)
Operating profit after impairment losses	1,115,541	1,239,276	1,405,528	237,696	(68,287)	(33,135)	-	3,896,619
Profit on sale of fixed assets, available-for-sale financial assets, held-to-maturity investments and subsidiaries/associates	-	-	49,981	-	1,493	(8,250)	-	43,224
Valuation gains on investment properties	-	-	-	-	137,777	-	-	137,777
Share of profits less losses of associates	1,822	31,061	98,744	-	51,964	(1,017)	-	182,574
Profit before taxation	1,117,363	1,270,337	1,554,253	237,696	122,947	(42,402)	-	4,260,194
Depreciation for the year	(112,438)	(57,630)	(22,259)	(14,019)	(7,297)	(85,431)	-	(299,074)
Segment assets	54,999,355	113,727,008	109,300,351	898,940	4,982,267	1,134,481	-	285,042,402
Investments in associates	42,885	513,925	168,044	-	351,049	835	-	1,076,738
Unallocated assets	-	-	-	-	-	8,083,177	-	8,083,177
Total assets	55,042,240	114,240,933	109,468,395	898,940	5,333,316	9,218,493	-	294,202,317
Segment liabilities	143,750,674	65,775,116	41,133,198	85,386	2,168,122	-	-	252,912,496
Unallocated liabilities	-	-	-	-	-	5,490,777	-	5,490,777
Loan capital	-	-	-	-	-	8,154,315	-	8,154,315
Total liabilities	143,750,674	65,775,116	41,133,198	85,386	2,168,122	13,645,092	-	266,557,588
Capital expenditure incurred during the year	76,343	167,049	151,904	84,430	5,326	136,785	-	621,837

## 19. Off-balance Sheet Exposures

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

	2007 HK\$'000	2006 HK\$'000	Variance %
Contractual amounts of contingent liabilities and commitments			
- Direct credit substitutes	8,496,462	5,214,804	+ 62.9
- Transaction-related contingencies	976,037	740,121	+ 31.9
- Trade-related contingencies	1,492,668	1,835,733	- 18.7
- Commitments that are unconditionally cancellable without prior notice	49,117,152	36,724,889	+ 33.7
- Other commitments			
- up to 1 year	4,510,116	3,022,549	+ 49.2
- over 1 year	14,143,865	14,686,624	- 3.7
Total	<u>78,736,300</u>	<u>62,224,720</u>	+ 26.5
- Aggregate credit risk weighted amount	<u>43,331,331</u>	<u>12,018,280</u>	+ 260.5
Notional amounts of derivatives			
- Exchange rate contracts	45,678,990	18,266,638	+ 150.1
- Interest rate contracts	28,340,464	21,255,579	+ 33.3
- Equity contracts	13,771,625	2,576,242	+ 434.6
Total	<u>87,791,079</u>	<u>42,098,459</u>	+ 108.5
- Aggregate credit risk weighted amount	<u>2,183,524</u>	<u>337,962</u>	+ 546.1
- Aggregate replacement costs	<u>1,551,732</u>	<u>662,417</u>	+ 134.3

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.

## 20. 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.

	2007			Total
	USD	CNY	Others	
Spot assets	94,859	75,601	44,405	214,865
Spot liabilities	(82,587)	(70,383)	(47,120)	(200,090)
Forward purchases	36,089	3,399	15,231	54,719
Forward sales	(45,224)	(4,418)	(11,369)	(61,011)
Net options position	(10)	-	22	12
Net long position	<u>3,127</u>	<u>4,199</u>	<u>1,169</u>	<u>8,495</u>

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

	2007			
	HK\$Million			
	USD	CNY	Others	Total
Net structural position	<u>1,792</u>	<u>4,771</u>	<u>891</u>	<u>7,454</u>

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

## 21. Reserves

	2007	2006	Variance	
	HK\$'000	HK\$'000		%
Share premium	1,117,932	1,012,138	+	10.5
General reserve	14,004,452	13,256,982	+	5.6
Revaluation reserve on bank premises	865,500	835,829	+	3.5
Investment revaluation reserve	476,262	861,188	-	44.7
Exchange revaluation reserve	672,079	184,293	+	264.7
Other reserves	153,051	137,678	+	11.2
Retained profits*	<u>8,873,574</u>	<u>7,099,491</u>	+	25.0
Total	<u>26,162,850</u>	<u>23,387,599</u>	+	11.9
Proposed dividends, not provided for	<u>1,857,753</u>	<u>1,596,646</u>	+	16.4

\* A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Bank will or may incur on loans and advances in addition to impairment losses recognised. Movements in the reserve are earmarked directly through retained earnings and in consultation with the Hong Kong Monetary Authority. As at 31<sup>st</sup> December, 2007, HK\$2,100,000,000 (2006: HK\$606,000,000) 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.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 1. Capital, Capital Adequacy and Liquidity Information

(a) Capital Adequacy Ratio	<u>2007</u>	<u>2006</u>
	%	%
Capital adequacy ratio as at 31 <sup>st</sup> December	12.6	14.2
Core capital adequacy ratio as at 31 <sup>st</sup> December	7.4	10.5

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

Capital ratios at 31<sup>st</sup> December, 2007 were compiled in accordance with the Banking (Capital) Rules ("the Capital Rules") issued by the Hong Kong Monetary Authority under Section 98A of the Hong Kong Banking Ordinance for the implementation of the "Basel II" capital accord, which became effective on 1<sup>st</sup> January, 2007. In accordance with the Capital Rules, the Bank has adopted the Foundation Internal Ratings-Based ("IRB") approach for the calculation of the risk-weighted assets for credit risk and the "internal models approach" for the calculation of market risk and "standardised approach" for operational risk. The basis of consolidation for calculation of capital ratios under the Capital Rules follows the basis of consolidation for financial reporting with the exclusion of subsidiaries which are "regulated financial entities" (e.g. insurance and securities companies) as defined by the Capital Rules. Accordingly, the investment costs of these unconsolidated regulated financial entities are deducted from the capital base.

The capital ratios at 31<sup>st</sup> December, 2006 were compiled in accordance with the then Third Schedule of Hong Kong Banking Ordinance ("the Third Schedule") under the "Basel I" capital accord. As there are significant differences between the Capital Rules and the Third Schedule on requirements in the scope of consolidation and the calculation of capital base and risk-weighted assets, the capital ratios are not directly comparable.

(b) Group Capital Base after Deductions

	2007	2006
	HK\$'000	HK\$'000
Core capital		
Paid up ordinary share capital	3,935,918	3,875,355
Share premium	1,117,932	1,012,138
Reserves	16,884,442	16,898,603
Profit and loss account	873,027	917,254
Minority interests	1	232,579
Deduct: Goodwill	(1,615,542)	(2,592,330)
Other intangible assets	(11,383)	-
	<u>21,184,395</u>	<u>20,343,599</u>
Less: Core capital items deductions	<u>(2,742,083)</u>	<u>(1,738,473)</u>
Total core capital	<u>18,442,312</u>	<u>18,605,126</u>
Eligible supplementary capital		
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	788,040	948,382
Revaluation reserves for fair value gains on revaluation of holdings of available-for-sale equities and debt securities	127,649	206,381
Unrealised fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss	2,206	84,101
Regulatory reserve for general banking risks	247,101	606,000
Collectively assessed impairment allowances	50,925	451,883
Surplus provisions	693,612	-
Perpetual subordinated debt	4,660,811	-
Term subordinated debt	8,952,322	8,154,315
	<u>15,522,666</u>	<u>10,451,062</u>
Less: Supplementary capital items deductions	<u>(2,742,084)</u>	<u>(1,738,474)</u>
Total supplementary capital	<u>12,780,582</u>	<u>8,712,588</u>
Total capital base	<u>31,222,894</u>	<u>27,317,714</u>

(c) Liquidity Ratio

	<u>2007</u>	<u>2006</u>
	%	%
Average liquidity ratio for the year	43.5	44.0

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

## 2. 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.

	2007			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
People's Republic of China	23,281,237	7,386,043	36,394,646	67,061,926
Asian countries, excluding People's Republic of China	14,695,430	1,470,692	11,468,100	27,634,222
North America	7,101,474	5,302,734	8,947,147	21,351,355
Western Europe	67,486,170	-	4,783,862	72,270,032
	2006			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
People's Republic of China	18,545,033	2,791,328	19,987,278	41,323,639
Asian countries, excluding People's Republic of China	12,428,469	1,493,595	10,251,920	24,173,984
North America	8,276,028	5,306,564	7,144,615	20,727,207
Western Europe	41,157,247	-	2,789,971	43,947,218

## 3. Non-bank Mainland Exposures

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

Type of counterparties	2007			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland entities	76,127,780	15,246,975	91,374,755	184,442
Companies and individuals outside Mainland where the credit is granted for use in Mainland	11,847,779	2,785,203	14,632,982	462
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	1,729,201	26,993	1,756,194	9
<b>Total</b>	<b>89,704,760</b>	<b>18,059,171</b>	<b>107,763,931</b>	<b>184,913</b>

Type of counterparties	2006			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual Impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland entities	41,812,989	10,447,307	52,260,296	108,869
Companies and individuals outside Mainland where the credit is granted for use in Mainland	11,440,768	2,352,619	13,793,387	3,430
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	90,047	320	90,367	-
<b>Total</b>	<b>53,343,804</b>	<b>12,800,246</b>	<b>66,144,050</b>	<b>112,299</b>

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

##### (i) Overdue and Rescheduled Advances

	2007		2006	
	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	151,003	0.1	158,741	0.1
- 1 year or less but over 6 months	167,654	0.1	142,127	0.1
- Over 1 year	148,995	0.0	222,433	0.1
	467,652	0.2	523,301	0.3
Rescheduled advances to customers	282,888	0.1	291,246	0.2
<b>Total overdue and rescheduled advances</b>	<b>750,540</b>	<b>0.3</b>	<b>814,547</b>	<b>0.5</b>
Secured overdue advances	260,878	0.1	358,674	0.2
Unsecured overdue advances	206,774	0.1	164,627	0.1
Market value of security held against secured overdue advances	1,553,361		633,804	
Individual impairment allowance made on loans overdue for more than 3 months	135,924		105,878	

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

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

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

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

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

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

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

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 31<sup>st</sup> December, 2007 and 31<sup>st</sup> December, 2006; nor were there any rescheduled advances to banks and other financial institutions on these two dates.

(ii) Other Overdue and Rescheduled Assets

	2007		2006	
	Accrued interest HK\$'000	Other assets* HK\$'000	Accrued interest HK\$'000	Other assets* HK\$'000
Other assets overdue for				
- 6 months or less but over 3 months	420	-	841	-
- 1 year or less but over 6 months	592	-	1,863	2,065
- Over 1 year	1,025	4,166	2,228	17,507
	<u>2,037</u>	<u>4,166</u>	<u>4,932</u>	<u>19,572</u>
Rescheduled assets	-	-	-	-
Total other overdue and rescheduled assets	<u>2,037</u>	<u>4,166</u>	<u>4,932</u>	<u>19,572</u>

\* Other assets refer to trade bills and receivables.

(iii) Repossessed Assets

	2007 HK\$'000	2006 HK\$'000
Reposessed land and buildings *	19,142	97,096
Reposessed vehicles and equipment	1,175	290
Total reposessed assets	<u>20,317</u>	<u>97,386</u>

The amount represents the estimated market value of the reposessed assets as at 31<sup>st</sup> December.

\* The balance included HK\$15,312,000 (2006: HK\$27,689,000) relating to properties that were contracted for sale but not yet completed.



## **STATEMENT OF COMPLIANCE**

- (1) In preparing the accounts for 2007, the Bank has fully complied with the Banking (Disclosure) Rule, which have superceded the supervisory policy manual on financial disclosure issued by the Hong Kong Monetary Authority (HKMA).
- (2) Being the largest independent local bank in Hong Kong, the Bank is committed to maintaining the highest corporate governance standards. The Board considers such commitment essential in balancing the interests of shareholders, customers and employees; and in upholding accountability and transparency.

The Bank has complied with all the Code Provisions set out in Appendix 14 Code on Corporate Governance Practices (the "Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting year ended 31<sup>st</sup> December, 2007, except for deviations from Code Provision A.2.1 and A.5.4 which are explained below.

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

Dr. The Hon. Sir David LI Kwok-po is the Chairman & 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 independent element in the composition of the Board. Out of the 19 Board members, 9 are Independent Non-executive Directors. The Board believes that the current structure is conducive to strong and consistent leadership, enabling the Bank to make and implement decisions promptly and efficiently. The Board believes that Sir David's appointment to the posts of Chairman and Chief Executive is beneficial to the business prospects and management of the Bank.

Code Provision A.5.4 stipulates that directors must comply with their obligations under the Model Code set out in Appendix 10 of the Listing Rules.

Having made specific enquiry on all Directors of the Bank, during the year ended 31<sup>st</sup> December, 2007, except for the incident reported hereinafter, other Directors of the Bank confirmed that they had complied with the required standard set out in the Model Code and the Bank's *Policy on Insider Trading - Directors and Chief Executive*.

In November 2007, Eric LI Fook Chuen ("Mr. Li") informed the Bank that The Kowloon Dairy Ltd. ("KDL"), a corporation controlled by Mr. Li, would transfer 6,300,000 shares of the Bank to the shareholders of KDL's parent company by way of distribution in specie. New Jerico Ltd. of which Mr. Li is the sole director, is a shareholder of KDL's parent company. New Jerico Ltd. as trustee of The Jerico Unit Trust, assigned its entitlement of the distribution of 1,272,000 shares of the Bank to Mr. Li. New Jerico Ltd. is held by The New Elico Trust of which Mr. Li is the founder and a discretionary beneficiary. The distribution was subsequently made and the shares were transferred on 3<sup>rd</sup> December, 2007. Disclosures in respect of the change in nature and the transfer of shares were made to the Stock Exchange and the Bank on 13<sup>th</sup> December, 2007, which was beyond the prescribed time frame under the Securities and Futures Ordinance.

## **FINAL DIVIDEND**

At the forthcoming Annual General Meeting to be held on Thursday, 17<sup>th</sup> April, 2008 ("2008 AGM"), the Directors will propose a final dividend of HK\$1.18 (2006: HK\$1.03) per share for the year ended 31<sup>st</sup> December, 2007, which, together with the interim dividend of HK\$0.48 per share paid in September 2007, will constitute a total dividend of HK\$1.66 (2006: HK\$1.46) per share for the full year. This represents an increase of 13.7% over the total dividend for the year 2006. The final 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, 26<sup>th</sup> March, 2008. This scrip dividend scheme is conditional upon the passing of the relevant resolution at the 2008 AGM, and 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. Details of the scrip dividend scheme and the election form will be sent to shareholders on or about Wednesday, 26<sup>th</sup> March, 2008. The dividend warrants and the share certificates for the scrip dividend will be sent to shareholders by ordinary mail on or about Friday, 18<sup>th</sup> April, 2008.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Bank will be closed for the following periods:

- (a) For the purpose of determining shareholders who qualify for final dividend, the Register of Members of the Bank will be closed from Tuesday, 25<sup>th</sup> March, 2008 to Wednesday, 26<sup>th</sup> March, 2008, both days inclusive. In order to qualify for the final dividend, all transfer documents should be lodged for registration with Tricor Standard Limited\* by 4:00 p.m. Thursday, 20<sup>th</sup> March, 2008.
- (b) For the purpose of determining shareholders who are entitled to attend and vote at the 2008 AGM, the Register of Members of the Bank will be closed from Wednesday, 16<sup>th</sup> April, 2008 to Thursday, 17<sup>th</sup> April, 2008, both days inclusive. In order to qualify for attending and voting at the 2008 AGM, all transfer documents should be lodged for registration with Tricor Standard Limited\* by 4:00 p.m. Tuesday, 15<sup>th</sup> April, 2008.

*\*Address: 26<sup>th</sup> Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong*

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

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of listed securities of the Bank during the year ended 31<sup>st</sup> December, 2007.

## **CHAIRMAN'S STATEMENT**

In 2007, the BEA Group recorded a profit after tax of HK\$4,221 million, representing an increase of HK\$735 million, or 21.1%, compared to the HK\$3,486 million earned in 2006. Basic earnings per share reached HK\$2.65. Return on average assets and return of average equity were 1.2% and 14.6%, respectively.

As at 31<sup>st</sup> December, 2007, total consolidated assets stood at HK\$393,979 million, an increase of HK\$99,777 million over the position at the end of 2006. Advances to customers stood at HK\$218,184 million, representing 55.4% of total consolidated assets. Customer deposits were HK\$284,186 million, while certificates of deposit and subordinated debt issued stood at HK\$25,817 million. The loan-to-deposit ratio was 73.6%, compared with 76.7% at the end of 2006. Total equity increased by 10.1% to HK\$30,446 million.

At the forthcoming Annual General Meeting to be held on Thursday, 17<sup>th</sup> April, 2008, the Directors will propose a final dividend of HK\$1.18 per share, which, together with the interim dividend of HK\$0.48 per share paid in September 2007, will constitute a total dividend of HK\$1.66 per share for the full year. This represents an increase of 13.7% over the total dividend of HK\$1.46 per share for the year 2006.

In 2007, the operating environment in Hong Kong further improved. The financial markets performed well, buoyed by strong performance from China-related shares. This performance was powered by the three engines of exports, investment and consumption, causing China's economic growth to accelerate sharply in 2007.

Overseas, the overall economic environment weakened in the latter part of the year, as concerns over the impact of the sub-prime crisis curtailed lending and dampened business investment.

The overall asset quality of BEA's portfolio continued to improve in 2007, as the Bank benefited from strong economic growth both locally and on the Mainland. Consumer lending remained strong, as private consumption grew. However, abundant liquidity and intense competition continued to exert pressure on local interest margins, especially in the mortgage market.

In December, 2007, the Bank received the Hong Kong Monetary Authority's approval to adopt the more sophisticated approaches under the Basel II framework, namely the Foundation Internal Ratings-based ("IRB") Approach for credit risk, the Internal Models Approach for market risk and the Standardised Approach for operational risk. With effect from 31<sup>st</sup> December, 2007, BEA was the first bank in Hong Kong to use the more sophisticated approaches to determine its risk weighted assets for various types of risk and to calculate the Capital Adequacy Ratio ("CAR"). The business benefits of adopting the more sophisticated approaches are significant, including enhanced risk management, more efficient use of capital and higher transparency in the disclosure of risk-related information.

Highlighting the Bank's success in implementing a robust risk management regime, in March 2007 the Bank won the award for "Excellence in Risk Management" in the "Financial Insights Innovation Award 2007", organised by Financial Insights of Singapore. This international recognition, for which BEA competed with over 60 international bank and non-bank institutions, was awarded on the basis of the Bank's initiative in implementing Basel II and its effective approach to risk management.

Management foresees that the business environment in 2008 will be fairly challenging, as the sub-prime crisis continues to affect the American economy and as the tighter monetary policies adopted on the Mainland during 2007 begin to take hold. However, China's economy is expected to continue to grow strongly, if at a slightly slower pace than last year. BEA is well positioned to exploit the emerging business opportunities on the Mainland, in particular those arising from the deregulation of the financial sector.

BEA's newly incorporated subsidiary bank in China, The Bank of East Asia (China) Limited ("BEA China"), commenced business in April 2007. BEA China is authorised to provide RMB and foreign currency banking services to local and overseas individuals and enterprises on the Mainland. In the coming years, the Bank will continue to expand its branch network aggressively and to enhance its product range so as to fully capture available business opportunities.

Further, BEA will continue to develop and leverage its niche position with overseas Chinese communities to gain international business growth, with special emphasis on the United States, Canada, United Kingdom and South East Asia.

BEA will build on past success to broaden its product and service portfolio. Wealth management, including private banking, structured products, bancassurance and asset management, will remain the primary focus of this effort. The Bank will step up cross-selling initiatives, and enhance efforts to promote Tricor's leading corporate services and share registration business, and Blue Cross insurance products. The Bank will also remain alert to opportunities offered by acquisitions and strategic alliances, both in and outside Hong Kong.

BEA will continue to devote resources to enhance productivity and operating efficiencies. The Bank will consider relocating additional back-office operations to the operating centre in Guangzhou. Operating efficiency gains will also be pursued through the ongoing process of branch rationalisation and transformation, as well as through workflow simplification. BEA will continue to invest in information technology infrastructure, in order to provide best-in-class products and services to customers in Hong Kong, the Mainland and worldwide.

I am pleased to inform Shareholders that Professor Arthur Li Kwok-cheung, who served as a Non-executive Director of the Bank from 1995 to 2002, has been re-appointed as a Non-executive Director. In addition, Mr. Kuok Khoon-ean and Mr. William Doo Wai-hoi have been appointed Independent Non-executive Directors of the Bank. All three appointments took effect on 10<sup>th</sup> January, 2008. With their wealth of experience, I am confident that their contribution to the Board will lead to the further success of the BEA Group.

At the forthcoming Annual General Meeting to be held on Thursday, 17<sup>th</sup> April, 2008, Dr. Li Fook-wo will retire in accordance with the Articles of Association and will not seek re-election. Dr. Li joined the Bank in 1940 and was appointed a Director of the Bank in 1958. He served as Chief Manager from 1972 to 1976, and Chairman from 1984 to 1997. He has played a significant role in the continuing development of the Bank for the past 68 years. Dr. Li has served the Bank with distinction, and has always been a respected source of wisdom and guidance for the Board. On behalf of the Board, I would like to express my heartfelt gratitude to Dr. Li for his invaluable contribution to the Bank.

**David LI Kwok-po**  
*Chairman & Chief Executive*

Hong Kong, 15<sup>th</sup> February, 2008

## **EXECUTIVE DIRECTORS' REPORT**

### **FINANCIAL REVIEW**

#### **Financial Performance**

The BEA Group recorded a profit after tax of HK\$4,221 million for the year ended 31st December, 2007, 21.1% higher than the previous year.

Due to strong growth in the loan portfolio in 2007, the Bank Group's net interest income increased by HK\$978 million, or 19.6%, to HK\$5,977 million. Non-interest income increased by HK\$271 million, or 10.6%, mainly due to an increase in net fee and commission income and net trading profits, despite the revaluation loss recorded on collateralised debt obligations. As a result, total operating income increased by 16.5% to HK\$8,814 million.

Operating expenses increased by 35.4% over 2006 to HK\$4,691 million, due to the continuing expansion of the Group's activities. The cost to income ratio rose from 45.8% in 2006 to 53.2% in 2007.

Operating profit before impairment losses was HK\$4,122 million, an increase of HK\$24 million, or 0.6%, as compared with 2006.

Impairment losses on loans and advances decreased by HK\$27 million, or 11.2%, when compared with 2006. There was a write back of impairment loss on bank premises of HK\$133 million in 2007, an increase of HK\$105 million, as compared with 2006. Impairment losses on notes issued by structured investment vehicles totalled HK\$270 million. As a result, total impairment losses increased by HK\$193 million, or 95.1%.

The net profit on disposal of available-for-sale investments increased to HK\$667 million. In addition, sale of a 49% interest in the Group's wholly-owned subsidiary, East Asia Asset Management Company Limited, to Union Asset Management Holding AG of Germany for HK\$406 million resulted in a profit that was recognised as a gain on disposal of subsidiaries/associates. The company has since been renamed BEA Union Investment Management Limited.

After taking into account income taxes, profit after taxation was HK\$4,221 million, an increase of 21.1% over the HK\$3,486 million recorded the previous year. Profit attributable to equity holders of the Group was HK\$4,144 million, an increase of 20.6%.

#### **Financial Position**

Total consolidated assets of the BEA Group were HK\$393,979 million at the end of 2007, representing a rise of 33.9% from HK\$294,202 million at the end of 2006. Advances to customers increased by 31.3% to HK\$218,184 million.

Total deposits increased by 36.9% to HK\$296,351 million, while customer deposits rose by 35.6% to HK\$284,186 million. The sum held in demand deposits and current accounts increased by a combined HK\$14,859 million to HK\$29,990 million. The amount in savings accounts increased by HK\$5,572 million to HK\$49,216 million. The value of time deposits at year-end 2007 stood at HK\$204,980 million, an increase of HK\$54,230 million, or 36.0%, when compared with the balance at year-end 2006.

During the year of 2007, BEA issued HKD fixed rate certificates of deposit with a face value of HK\$5,470 million, HKD floating rate certificates of deposit with a face value of HK\$1,630 million and USD zero coupon certificates of deposit with a face value of US\$150 million. The Bank redeemed a quantity of certificates of deposit amounting to HK\$2,647 million equivalent upon maturity, and repurchased its own certificates of deposit amounting to HK\$32 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 73.6% at the end of 2007, being 3.1% lower than the 76.7% reported at the end of 2006.

At the end of December 2007, the face value of the outstanding debt portfolio was HK\$12,504 million, with the carrying amount equal to HK\$ 12,165 million.

### Maturity Profile of Debts Issued

As at 31<sup>st</sup> December, 2007

(All expressed in millions of dollars)

	Currency	Total Face Value	Year of Maturity				
			2008	2009	2011	2013	2014
<b>Floating Rate</b>							
<b>Certificates of Deposit</b>							
Issued in 2005	HKD	1,500	1,500				
Issued in 2006	HKD	500		500			
Issued in 2007	HKD	1,630	1,630				
<b>Fixed Rate</b>							
<b>Certificates of Deposit</b>							
Issued in 2005	HKD	500	500				
Issued in 2006	HKD	500		500			
Issued in 2007	HKD	5,470	5,470				
Issued in 2007	TWD	2,300	2,300				
<b>Zero Coupon</b>							
<b>Certificates of Deposit</b>							
Issued in 2006	USD	50		50			
Issued in 2007	USD	150			50	50	50
<b>Step Up</b>							
<b>Certificates of Deposit</b>							
Issued in 2003	USD	37	37				
<b>Total Debts issued in HKD equivalent</b>		12,504	9,944	1,000	390	390	390

### Maturity Profile of Loan Capital

As at 31<sup>st</sup> December, 2007

(All expressed in millions of dollars)

	Currency	Total Face Value	Year of Maturity		
			2015	2017	Perpetual
Issued in 2005	Note 1 USD	550	550		
Issued in 2007	Note 2 USD	600		600	
Issued in 2007	Note 3 GBP	300			300
<b>Total Loan Capital issued in HKD equivalent</b>		13,646	4,290	4,680	4,676

#### Notes

1. Callable on 14<sup>th</sup> December, 2010
2. Callable on 22<sup>nd</sup> June, 2012
3. Callable on 21<sup>st</sup> March, 2012 and on each interest payment date thereafter

## **Risk Management**

The Bank has established comprehensive risk management procedures in line with the requirements set out by the Hong Kong Monetary Authority to identify, measure, monitor and control the various types of risk the Bank faces, including credit risk, market risk, liquidity risk and operational risk, and where appropriate, to allocate capital against those risks. All risk management policies have been approved by the Board of Directors, and 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 interest of the Group.

The risk management mechanisms are built around a centralised framework and incorporate specialised risk management committees, namely: Credit Committee; Asset & Liability Management Committee; and Operational & Other Risks Management Committee. These mechanisms capture the different risk-related management activities on a group basis, including formulation of policies, setting up of procedures and control limits, ongoing monitoring for observance, etc., before the same are reported via the Risk Management Committee to the Board of Directors so as to ensure compliance with the various bank policies, and legal and regulatory requirements in Hong Kong, the Mainland of China and overseas. The Chief Risk Officer ensures that appropriate measures are in place to enhance the overall risk management capability of the Bank Group.

## **OPERATIONS REVIEW**

### **Recognition**

During the past year, the Bank's achievements were recognised by a number of outside parties. The Bank received the "Excellence in Risk Management" award in the Financial Insights Innovation Awards for its Basel II initiative; Global Refund's "Platinum Award" for its Value Added Tax refund service; and an Award of Excellence in the Best Workplace Practices category of the Asian CSR Awards 2007 for its submission, "BEA Tower Office Centralisation Project – Caring Design and Implementation".

### **Improvements to Operations**

#### **Relocating Back-Office Operations to the Mainland**

The Bank's back office operating centre in Guangzhou, incorporated under the name East Asia Electronic Data Processing (Guangzhou) Limited, continues to take on additional responsibility. A second site is now being developed to house additional and more sophisticated functions.

### **Personal Banking**

#### **Branch Distribution**

The Branch Rationalisation Programme continued during the year, with the opening of four new branches, the expansion of two branches, and the relocation of three branches to more prominent sites. At the end of January 2008, the total number of BEA branches in Hong Kong stood at 91.

To further enhance BEA's wealth management services, 10 SupremeGold Centres were opened during the year, bringing the total number of SupremeGold Centres to 45 by the end of January 2008. The Bank plans to open another two SupremeGold Centres during 2008.

## **Cyberbanking**

Cyberbanking services were further enhanced during the past year. Passbook gold trading as well as subscription and redemption of unit trusts can now be conducted via the Internet. The enhancement also enabled Mandatory Provident Fund (MPF) scheme members to open Cyberbanking accounts, thereby providing direct access to information on their MPF accounts and fund performance.

The number of Cyberbanking customers continued to increase during the year. By the end of 2007, the Bank had more than 393,000 registered Cyberbanking users. The average daily usage volume exceeded 273,000 transactions.

Corporate Cyberbanking also recorded steady growth. By the end of 2007, over 20,500 corporate customers had registered with BEA's Corporate Cyberbanking, an increase of 8.7% year on year.

## **Consumer Loans**

### *Consumer Finance Department*

The Bank introduced a series of marketing programmes during the year targeted at different customer segments to expand its consumer loan business. A new Instalment Loan and Revolving Loan programme was introduced to capture the financial needs of general to middle income group. As a result, personal instalment loans surged over 50%, as compared with the previous year.

### *Credit Gain Finance*

During the past year, Credit Gain Finance opened four additional branches, bringing the total number of branches to eight. A series of marketing activities was conducted via multi-media channels and various products were developed to capture different customer niches. Significant growth in sales volume was achieved.

Credit Gain Finance will continue to expand its product range and enhance brand awareness to increase market share.

## **Credit Cards**

A series of promotional activities was launched during the year, leveraging on strong consumer market sentiment. Card business grew robustly and market share expanded. As a result, the card base exceeded one million by the end of 2007. Marketing programmes were introduced to encourage credit card usage, supporting strong growth in interest and fee income in 2007.

Differentiated card products and benefits were developed during the year to meet the needs of particular target segments.

The Bank also launched two pioneer card products, BEA JCB PLATINUM Card and BEA Traveller's Card. The former targets a young audience who are trendsetters and sensitive to overseas, especially Japanese, popular culture, while the latter allows frequent travellers to better manage currency exchange rates.

In the year ahead, BEA aims to further develop its card base and encourage card usage, credit card advances and revolving receivables to improve profitability. At the same time, the Bank will endeavour to further penetrate the youth segment.



## **Property Loans**

Fuelled by the surging economy, the local property market exhibited a strong revival that resulted in a significant increase in loan demand in 2007. However, competition for mortgage business also intensified.

In order to enhance its market share, BEA introduced a series of mortgage promotion campaigns, covering both the residential and non-residential mortgage markets.

In July, the Bank extended the Deferred Principal Repayment Method to mortgage loans secured by non-residential properties. This enhanced the flexibility available to commercial and retail property buyers.

## **Corporate Banking**

### **Corporate Lending**

The local corporate loan market exhibited strong growth in 2007, dominated by the financing activities of Mainland enterprises and property-related lending. The growth in property lending was fuelled by the very successful land auctions that were held during the year, while Mainland enterprises showed strong interest in offshore foreign-currency-based financing to take advantage of the steady appreciation in the RMB.

Given the abundant liquidity in the loan market and the intense competition, interest margins for both syndicated and bilateral deals continued to be squeezed to historically low levels. Nevertheless, BEA maintained an active presence in the syndicated loan market in 2007, both as coordinating arranger and as a participant.

BEA shall continue to structure its products to meet the ever-changing needs of the corporate market and to maintain a dynamic asset mix, including property lending, pre-IPO financing, share financing, infrastructure project financing, working capital and leveraged buyout financing, in order to capture the best market opportunities.

On the commercial loan side, the strong and stable Mainland market provided ample business opportunities for Hong Kong manufacturers and traders. Manufacturers took the initiative to upgrade and enhance their production equipment during the year. As a result, the Bank recorded double-digit growth in equipment financing.

Hong Kong continues to serve as a major financial support centre for China. Many overseas companies that establish operations in China prefer to arrange funding in Hong Kong, offering good business opportunities for this Bank.

For taxi and public light bus financing, competition intensified and some lenders have further lowered their pricing. BEA sustained its market share in the taxi loan business by maintaining its service quality and meeting the needs of the marketplace.

Unsecured business loans, marketed under the Business Ready Cash programme, showed good growth during the year, assisting small and medium sized enterprises ("SME") to enhance their competitiveness.

### **Securities Lending**

The stock market was extremely buoyant in the past year and the Bank was able to capitalise on strong investor sentiment by extending a total of HK\$237 billion in staggings loans, 30% more than the same period last year. The Bank also acted as a receiving bank for 22 Receiving Bank projects, nine more than in the previous year. One such project, China Railway Group set a new record for the largest number of share applications submitted.

## **Bank of East Asia (Trustees) Limited**

### *Mandatory Provident Fund*

The Mandatory Provident Fund (MPF) scheme has been in operation for seven years, and service providers are beginning to lower the management fees on selected constituent funds. BEA reduced the fees of the Capital Preservation Fund and Global Bond Fund under its Master Trust Scheme in November 2007, with the aim of further enhancing the competitiveness of its MPF business in the marketplace.

The excellence of BEA's MPF offering was recognised by *AsianInvestor* magazine, with BEA selected to receive the "Hong Kong MPF Master Trust of the Year" award.

### *Trust Services*

Although Estate Duty was abolished in 2005, Bank of East Asia (Trustees) Limited successfully expanded its business in private trusts and unit trusts in 2007. The company recorded a 67% growth in revenue from its private trust business during the year.

## **Wealth Management**

### **Structured Products**

Significant gains were achieved in both product innovation and profitability in 2007. The buoyant equity market sentiment generated strong demand for structured products. A total of 270 products were launched, almost 250% up on 2006. Exotic equity linked deposits became the main focus. Many matured early, delivering significant returns for customers and for the Bank.

The demand for structured products from China was also exceptional. Over 110 products were launched, covering all asset classes and catering for different needs. Qualified Domestic Institutional Investors ("QDII") demand surged, with a total of four new tranches launched in 2007.

### **Investment Fund Services**

The Bank launched two BEA branded mutual funds in 2007, namely the BEA Global Themes Fund and the BEA Hong Kong Growth Fund. While the former provides exposure to 150 of the world's most promising companies, the latter focuses on picking Hong Kong listed stocks that stand to benefit from the upsurge in the Hong Kong and Chinese economies. Overall, the Bank's investment fund business performed very well in 2007, with growth of more than 110% in terms of gross sales.

In April, the Cyberfund Centre was significantly enhanced with a greater scope of online investment services, such as self-completed risk assessment, fund transactions, and portfolio monitoring.

In July, BEA became one of the first licensed banks to offer off-shore fund investments to Mainland Chinese investors via the QDII channel.

### **BEA Union Investment Management Limited**

On 19<sup>th</sup> April, 2007, the Bank entered into a joint venture agreement with Germany's Union Asset Management Holding AG to form a joint venture asset management company in Hong Kong using East Asia Asset Management Company Limited as the platform. This entity was subsequently renamed BEA Union Investment Management Limited ("BEA Union") in July.

Leveraging on the parent group's extensive distribution and investment capabilities, BEA Union implemented new measures to establish a stronger foothold in both retail and

institutional markets in Asia, such as identifying new innovative investment solutions to meet growing demand and extending relations with key institutional investors in the region.

Seasoned portfolio managers were seconded from the German parent to establish BEA Union as the sole Asia competency centre for both holding groups. Business development and marketing teams were also strengthened to enhance market penetration capabilities.

### **Bancassurance**

The life insurance business of the Bank, as represented by the new business index, achieved year-on-year growth of 30%. This result was supported by the launch of various insurance plans, namely Flexi Retirement Income Insurance, Lifetime Medical Savings Insurance and Lifetime Protection Insurance.

Segmented marketing strategies were adopted to promote suitable products to existing customer groups, such as payroll account holders, civil servants, university students and mortgage holders.

The E-channel was further developed in 2007 to provide more convenient sales and service options. Furthermore, a membership programme incorporating an incentive regime was introduced to encourage repeat purchases.

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

Blue Cross focused on the SME and personal markets during the past year. New business premium income in the SME group medical and personal general insurance categories grew by 28% and 19%, respectively, year-on-year. As a mark of Blue Cross' popularity in the travel insurance segment, the company has been named "The Most Popular Travel Insurance Company" for three years in succession (2005 – 2007).

Blue Cross took further steps in 2007 to expand its Internet business by launching web advertising and direct marketing campaigns. Web premium income increased by more than 120% compared to 2006.

Two key insurance products were revamped during the year to meet customers' needs with enhanced product features and benefits, namely household insurance and domestic helper insurance.

### **Private Banking**

The Bank re-launched BEA Private Banking in late 2005, with the aim of providing best-in-class financial services to high net worth customers. The business has now been in operation for over two years, and has now achieved critical mass in terms of both clients and business turnover. Customer assets under management doubled in 2007, while revenues more than tripled.

Most Asian markets registered strong growth during 2007, leading to a very successful year in overall investment returns for many customers.

### **Investment Banking and Services**

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

East Asia Securities registered profit growth of more than 100% on better local market sentiment and improved investor confidence.

East Asia Securities is committed to using technology to improve and expand its brokerage service network. When compared with the corresponding period last year, the company

registered a rise of 58% in the number of Cybertrading accounts. As of 31<sup>st</sup> December, 2007, more than 72% of the company's securities clients had subscribed to Cybertrading.

The volume of transactions executed via Cybertrading, expressed as a percentage of total turnover, reached 53% of the number of trades and 22% of the gross transaction value by the end of the year.

With the dramatic increase in market turnover and trading volume conducted through Cybertrading, East Asia Securities further upgraded its hardware capacity and enlarged its online trading system in the third quarter of 2007.

### **East Asia Futures Limited – Futures Cybertrading**

For the year 2007, East Asia Futures, the wholly-owned futures and option broking arm of the Bank, continued to benefit from improved local market conditions and increasing demand for derivative products.

In particular, the company expanded its clientele base with the implementation of the Futures Cybertrading Service. As compared with the corresponding period last year, the company registered growth of 57% in the number of Futures Cybertrading accounts. As of 31<sup>st</sup> December, 2007, more than 69% of the company's clients had subscribed for the Futures Cybertrading Service.

East Asia Futures has instituted various incentive schemes to encourage clients to execute trades via its user-friendly electronic trading platform. The schemes have generated strong positive response from clients. Currently, the volume of transactions executed via the Futures Cybertrading System, expressed as a percentage of total turnover, accounts for some 58% of the number of trades and 50% of transaction value.

East Asia Futures has plans to upgrade the software and hardware of its electronic trading system in 2008 in order to further enhance its Futures Cybertrading Service.

### **China Operations**

The year 2007 was a fruitful one for BEA's China business. In April, BEA was among the first group of foreign banks to transfer its mainland operations to a locally incorporated subsidiary bank, The Bank of East Asia (China) Limited ("BEA China"). This subsidiary operates under the rules and regulations applicable to local banks on the Mainland.

BEA and BEA China have over 50 outlets on the Mainland, one of the most extensive networks of any foreign bank in China. A total of 18 new outlets were added in 2007. BEA China extended its operations to Shenyang, Wuhan and Nanjing and opened 14 sub-branches, including Shanghai Changning, Zhuhai Jida, Chengdu Jincheng, Xi'an Xidajie, Dalian ETDZ, Chongqing Shapingba, Beijing Yabaolu, Guangzhou Haizhu, Xiamen Hexiang, Shenzhen Longgang, Hangzhou Wenhui, Shanghai Dongfang Road, Xiamen Xiada and Guangzhou Development District.

The parent company retains a branch in Shanghai for conducting foreign exchange wholesale banking business, and four representative offices in Tianjin, Fuzhou, Suzhou, and Dongguan.

BEA China has further expanded its service area by substantially increasing the number of Automatic Teller Machines (ATMs), from 25 at the end of 2006 to 95 at the end of 2007.

In November, BEA China was assigned the Standard & Poor's A- long-term and A-2 short-term counterparty credit ratings. Standard & Poor's has also announced that the outlook for the ratings is stable in light of the status of BEA China as a core subsidiary of BEA. The ratings assigned to BEA China are the same as those of its parent bank, BEA.

The success of BEA's China operations is widely recognised. Some of the major awards won in 2007 are set out below:

1. The Asian Bankers highly coveted "Best Foreign Retail Bank in China" Award;
2. "Top 5 Foreign Banks" in the "China Business News Financial Brand Ranking 2007"; and
3. "Best Foreign Subsidiary Bank in China" in the 2007 Asian Banks Competitive Rankings held during the 21<sup>st</sup> Century Annual Finance Summit of Asia.

The prosperous economic conditions experienced during 2007 allowed BEA China to expand its business rapidly. BEA China will continue to leverage BEA's banking expertise to maintain its leading position on the Mainland.

Macau is another fast growing market for BEA. The Macau Branch was relocated to NAPE district in the southern part of Macau during 2007, and the existing branch premises was redeployed as Macau Praia Grande Sub-branch. BEA currently maintains three outlets in Macau. The Bank also has two branches in Taiwan.

### **Overseas Operations**

In 2007, The Bank of East Asia (U.S.A) N.A. opened two new branches in Brooklyn and Flushing in the New York area. Plans are under way to open three additional branches in the San Francisco Bay area and two new branches in Los Angeles. By the end of 2008, BEA will have 17 offices in the United States in the states of New York and California.

The Bank's subsidiary in Canada, The Bank of East Asia (Canada), performed well, with loan assets growing by 33% during the year.

In the United Kingdom, the two branches in London and Birmingham continued to outperform. The Birmingham Branch celebrated its 10<sup>th</sup> Anniversary on 23<sup>rd</sup> October, 2007. Feasibility studies are currently being carried out to explore the possibility of expanding the branch network in the United Kingdom to North London and Manchester.

Plans are under way to implement a new treasury and core banking system for BEA Singapore Branch. Construction work for the new BEA Singapore Branch Building at 60 Robinson Road is on schedule. The new building is expected to be ready for occupancy by the end of 2008.

### **Corporate Services**

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

Strong marketing efforts, continued expansion of the regional network and group synergies, together with a vibrant economy, brought about a great increase in demand for Tricor's professional services in the region. During the year, Tricor recorded a substantial growth in profit. With gross revenue in excess of HK\$750 million, Tricor has continued to be a key contributor to the BEA Group's fee and commission income earnings.

The past year saw the rapid expansion of Tricor's operation in Malaysia. Tricor Malaysia acquired corporate service practices in Kuala Lumpur, Johor Bahru and Labuan. In December, Tricor Malaysia entered into a preliminary agreement to acquire a major corporate services group in Malaysia. Upon completion of this acquisition, Tricor Malaysia will become a leading practice in Malaysia. During the year, Tricor also acquired the

corporate services practice of Ernst & Young in Barbados, further strengthening Tricor's capability to provide offshore corporate services.

Tricor now operates in 13 cities and employs some 1,150 professional and support staff, compared with a staff complement of 1,000 at the beginning of 2006. Tricor will continue to look for business opportunities as well as expand its regional network.

### **Human Resources**

Bank of East Asia Group employees at the end of December 2007:

Hong Kong	5,162
Other Greater China	3,417
Overseas	914
<hr/>	<hr/>
Total	9,493

The Bank treasures its human capital and continuously reviews its personnel policies, compensation and benefits to attract high calibre candidates and reward top performing members of staff. An external consultant has been employed to further enhance the staff performance-related bonus programme. The Human Resources Division also conducts regular reviews to streamline personnel processes. As a caring employer, the Bank has a series of Employee Assistance Programmes and recreation activities to build team spirit and encourage a caring workplace environment.

The Bank's training platform has been considerably upgraded in recent years, in order to provide a greater range of opportunities for staff members to upgrade their skills and discover their true potential. The programmes have enhanced work effectiveness and improved the Bank's readiness for any business challenge.

**David LI Kwok-po**  
*Chairman & Chief Executive*

**Joseph PANG Yuk-wing**  
*Executive Director*

Hong Kong, 15<sup>th</sup> February, 2008

*As at the date of this announcement, the Executive Directors of the Bank are: Dr. The Hon. Sir David LI Kwok-po (Chairman & Chief Executive) and Mr. Joseph PANG Yuk-wing (Deputy Chief Executive); Non-executive Directors of the Bank are: Dr. LI Fook-wo, Mr. Aubrey LI Kwok-sing, Professor Arthur LI Kwok-cheung, 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, Mr. Kenneth LO Chin-ming, Mr. KUOK Khoon-ean and Mr. William Doo Wai-hoi.*