



The Bank of East Asia, Limited

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

ANNOUNCEMENT OF 2006 FINAL RESULTS

SUMMARY OF RESULTS

The Directors of The Bank of East Asia, Limited ("BEA") are pleased to announce the audited results¹ of the Bank and its subsidiaries (the "Group") for the year ended 31st December, 2006. 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 2005 annual accounts.

A. Consolidated Profit and Loss Account

	2006 HK\$'000	2005 HK\$'000	Variance %
Interest income	12,865,593	7,806,534	+ 64.8
Interest expense	(7,999,958)	(4,046,276)	+ 97.7
Net interest income	4,865,635	3,760,258	+ 29.4
Fee and commission income	1,898,883	1,598,000	+ 18.8
Fee and commission expense	(288,145)	(229,896)	+ 25.3
Net fee and commission	1,610,738	1,368,104	+ 17.7
Net trading profits	586,160	576,024	+ 1.8
Net result from financial instruments designated at fair value through profit or loss	248,177	(42,546)	+ 683.3
Other operating income	253,602	290,698	- 12.8
Non-interest income	2,698,677	2,192,280	+ 23.1
Operating income	7,564,312	5,952,538	+ 27.1
Operating expenses	(3,465,360)	(2,988,047)	+ 16.0
Operating profit before impairment losses	4,098,952	2,964,491	+ 38.3
Impairment losses on loans and advances	(243,848)	(141,485)	+ 72.3
Write back of / (Charge for) impairment losses on held-to-maturity investments and available-for-sale financial assets	12,972	(33,555)	- 138.7
Write back of / (Charge for) impairment losses on associates	24,560	(6,838)	- 459.2
Impairment losses on goodwill	(23,698)	-	
Write back of / (Charge for) impairment losses on bank premises	27,681	(210,140)	- 113.2
Impairment losses	(202,333)	(392,018)	- 48.4
Operating profit after impairment losses	3,896,619	2,572,473	+ 51.5
Net loss on sale of held-to-maturity investments	(17)	(630)	+ 97.3
Net profit on sale of available-for-sale financial assets	49,998	6,983	+ 616.0
Net profit on sale of subsidiaries/associates	1,516	624	+ 142.9
Net (loss)/profit on sale of fixed assets	(8,273)	365,441	- 102.3
Valuation gains on investment properties	137,777	234,221	- 41.2
Share of profits less losses on associates	182,574	33,731	+ 441.3
Profit for the year before taxation	4,260,194	3,212,843	+ 32.6
Income tax			
Current tax ²			
- Hong Kong	(486,855)	(259,840)	+ 87.4
- Overseas	(229,291)	(111,035)	+ 106.5
Deferred tax	(58,430)	(55,987)	+ 4.4
Profit for the year after taxation	3,485,618	2,785,981	+ 25.1
Attributable to:			
Equity holders of the Group	3,434,511	2,748,725	+ 24.9
Minority interests	51,107	37,256	+ 37.2
Profit after taxation	3,485,618	2,785,981	+ 25.1
Proposed final dividend per share	HK\$1.03	HK\$0.93	+ 10.8
Per share			
- Basic earnings ³	HK\$2.24	HK\$1.83	+ 22.4
- Diluted earnings ³	HK\$2.22	HK\$1.82	+ 22.0
- Dividends	HK\$1.46	HK\$1.26	+ 15.9

B. Consolidated Balance Sheet

	2006	2005	Variance	
	HK\$'000	HK\$'000		%
ASSETS				
Cash and balances with banks and other financial institutions	8,317,746	4,525,587	+	83.8
Placements with banks and other financial institutions	66,864,045	45,347,255	+	47.4
Trade bills	620,463	612,587	+	1.3
Trading assets	2,937,534	3,245,579	-	9.5
Financial assets designated at fair value through profit or loss	8,643,479	10,157,707	-	14.9
Advances to customers and other accounts	175,096,666	144,836,789	+	20.9
Available-for-sale financial assets	12,002,197	8,399,121	+	42.9
Held-to-maturity investments	10,249,359	13,016,959	-	21.3
Investments in associates	1,076,738	768,580	+	40.1
Fixed assets	5,749,605	5,355,899	+	7.4
- Investment properties	1,288,541	950,586	+	35.6
- Other property and equipment	4,461,064	4,405,313	+	1.3
Goodwill and intangible assets	2,605,316	2,494,950	+	4.4
Deferred tax assets	39,169	38,469	+	1.8
Total Assets	294,202,317	238,799,482	+	23.2
EQUITY AND LIABILITIES				
Deposits and balances of banks and other financial institutions	31,959,182	13,785,419	+	131.8
Deposits from customers	209,524,220	175,894,925	+	19.1
Trading liabilities	942,595	1,936,999	-	51.3
Certificates of deposit issued	6,998,407	6,431,391	+	8.8
- At fair value through profit or loss	1,943,951	3,047,652	-	36.2
- At amortised cost	5,054,456	3,383,739	+	49.4
Current taxation	334,097	261,695	+	27.7
Deferred tax liabilities	598,118	627,485	-	4.7
Other accounts and provisions	8,046,654	6,908,260	+	16.5
Loan capital	8,154,315	8,548,780	-	4.6
- At fair value through profit or loss	4,288,824	8,548,780	-	49.8
- At amortised cost	3,865,491	-		
Total Liabilities	266,557,588	214,394,954	+	24.3
Share capital	3,875,355	3,775,575	+	2.6
Reserves	23,387,599	20,421,790	+	14.5
Total equity attributable to equity holders of the Group	27,262,954	24,197,365	+	12.7
Minority interests	381,775	207,163	+	84.3
Total Equity	27,644,729	24,404,528	+	13.3
Total Equity and Liabilities	294,202,317	238,799,482	+	23.2

C. Consolidated Summary Statement of Changes in Equity

	2006	2005
	HK\$'000	HK\$'000
Total equity as at 1 st 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	(11,195)	37,818
- Investment revaluation reserve on available-for-sale financial assets	(109,777)	-
Revaluation surplus on bank premises transferred to investment properties	69,444	12,429
Capital reserve on share-based transactions	22,067	29,796
Reversal upon disposal of available-for-sale financial assets	(41,766)	-
Changes in fair value of available-for-sale financial assets	653,701	359,477
Exchange and other adjustments	107,042	27,875
	<u>689,516</u>	<u>467,395</u>
Net profit for the year		
Attributable to:		
Equity holders of the Group	3,434,511	2,748,725
Minority interests	51,107	37,256
	<u>3,485,618</u>	<u>2,785,981</u>
Total recognised income and expenses for the year (of which HK\$51,107,000 (2005: HK\$37,256,000) is attributable to minority interests)	<u>4,175,134</u>	<u>3,253,376</u>
Dividends declared or approved during the year	<u>(2,072,519)</u>	<u>(1,691,428)</u>
Movements in shareholders' equity arising from capital transactions with equity holders of the Group:		
Shares issued under Staff Share Option Schemes	415,523	70,638
Shares issued in lieu of dividends	599,825	313,034
Capital fee	(251)	(58)
	<u>1,015,097</u>	<u>383,614</u>
Movements in minority interests		
Acquisition of subsidiaries	2,561	975
(Increase)/decrease in shareholding	(29,268)	3,409
Share of revaluation surplus of available-for-sale financial assets	149,196	-
	<u>122,489</u>	<u>4,384</u>
Balance as at 31 st December	<u><u>27,644,729</u></u>	<u><u>24,404,528</u></u>

D. Consolidated Cash Flow Statement

	2006 HK\$'000	2005 HK\$'000
OPERATING ACTIVITIES		
Profit for the year before taxation	4,260,194	3,212,843
Adjustments for:		
Charge for impairment losses on loans and advances (Write back of)/charge for impairment allowances on held-to-maturity investments, available-for-sale financial assets and associates	243,848 (37,532)	141,485 40,393
Share of profits less losses of associates	(182,574)	(33,731)
Net loss on sale of held-to-maturity investments	17	630
Net profit on sale of available-for-sale financial assets, subsidiaries and associates	(51,514)	(7,607)
Net loss/(profit) on sale of fixed assets	8,273	(365,441)
Interest expenses on loan capital, certificates of deposit and bonds issued	707,185	655,018
Depreciation on fixed assets	299,074	258,563
Amortisation of intangible assets	2,231	-
Impairment losses on goodwill	23,698	-
(Write back of)/Charge for impairment loss on bank premises	(27,681)	210,140
Dividend income from available-for-sale financial assets	(27,501)	(34,153)
Revaluation gain on certificates of deposit and loan capital issued	16,771	(180,954)
Valuation gains on investment properties	(137,777)	(234,221)
Transfer to capital reserve for staff share options	22,067	29,796
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL	5,118,779	3,692,761
(Increase)/decrease in operating assets:		
Placements with banks and other financial institutions with original maturity beyond three months	(867,011)	6,506,833
Trade bills	(7,833)	788,603
Certificates of deposit held with original maturity beyond three months	-	1,773,884
Other investments in securities	-	8,725,900
Trading assets	(688,690)	(1,750,929)
Financial assets designated at fair value through profit or loss	1,514,228	(10,157,707)
Advances to customers	(27,424,381)	(20,995,660)
Advances to banks and other financial institutions	(29,989)	(141,144)
Treasury bills with original maturity beyond three months	-	486,269
Held-to-maturity debt securities and investment securities	2,749,309	(898,529)
Available-for-sale financial assets	(256,245)	(1,149,412)
Intangible assets	(15,217)	-
Other accounts and accrued interest	(2,501,018)	638,214
Deferred tax assets	(700)	48,993
Increase/(decrease) in operating liabilities:		
Deposits and balances of banks and other financial institutions	18,172,986	4,213,762
Deposits from customers	33,133,134	12,157,260
Trading liabilities	(994,404)	1,936,999
Other accounts and provisions	1,132,006	709,983
Deferred tax liabilities	(206,175)	(216,269)
Exchange adjustments	(30,781)	(25,019)
NET CASH INFLOW FROM OPERATIONS	28,797,998	6,344,792
Income tax paid		
Hong Kong profits tax paid	(459,723)	(208,534)
Overseas profits tax paid	(204,171)	(84,248)
NET CASH FLOWS GENERATED FROM OPERATING ACTIVITIES	28,134,104	6,052,010

D. Consolidated Cash Flow Statement (Continued)

	2006	2005
	HK\$'000	HK\$'000
INVESTING ACTIVITIES		
Dividends received from associates	21,897	19,149
Dividends received from available-for-sale equity securities	27,501	34,153
Purchase of equity securities	(1,655,473)	(207,815)
Proceeds from sale of equity securities	140,925	87,235
Purchase of fixed assets	(511,367)	(603,150)
Proceeds from disposal of fixed assets	59,966	1,083,698
Purchase of associates	(96,479)	-
Increase in shareholding in an associate	-	(23,714)
Proceeds from disposal of associates	1,842	5,083
Purchase of subsidiaries	(72,574)	(13,881)
Decrease in shareholding in a subsidiary	37	4,000
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES	(2,083,725)	384,758
FINANCING ACTIVITIES		
Ordinary dividends paid	(1,472,694)	(1,378,394)
Issue of ordinary share capital	415,523	70,638
Issue of loan capital	3,878,825	4,264,728
Redemption of loan capital	(4,265,690)	-
Capital fee paid on increase in issued share capital	(251)	(58)
Issue of certificates of deposit	7,798,252	8,560,806
Redemption of certificates of deposit issued	(7,198,009)	(6,324,514)
Interest paid on loan capital	(399,797)	(324,833)
Interest paid on certificates of deposit issued	(381,551)	(225,514)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES	(1,625,392)	4,642,859
NET INCREASE IN CASH AND CASH EQUIVALENTS	24,424,987	11,079,627
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	52,283,962	41,204,335
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	76,708,949	52,283,962
Cash flows from operating activities included:		
Interest received	13,861,533	8,818,125
Interest paid	8,917,057	4,634,300
Dividend received	44,227	45,466

Notes:

- (1) The financial information set out in this report does not constitute the Group's statutory accounts for the year ended 31st December, 2006 but there is no material change as compared to those accounts. The statutory accounts for the year ended 31st December, 2006 will be available from the website of The Stock Exchange of Hong Kong Limited.
- (2) 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.
- (3) (a) The calculation of basic earnings per share is based on earnings of HK\$3,434,511,000 (2005: HK\$2,748,725,000) and on the weighted average of 1,533,741,133 (2005: 1,502,313,852) ordinary shares outstanding during the year.

(b) The calculation of diluted earnings per share is based on earnings of HK\$3,434,511,000 (2005: HK\$2,748,725,000) and on 1,543,706,739 (2005: 1,506,328,927) ordinary shares, being the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

E. Fee and Commission Income

Fee and commission income arises from the following services:

	2006	2005	Variance	
	HK\$'000	HK\$'000		%
Corporate services	597,837	477,421	+	25.2
Loans, overdrafts and guarantees	300,575	295,346	+	1.8
Credit cards	307,475	236,030	+	30.3
Other retail banking services	140,683	134,710	+	4.4
Trade finance	110,713	102,458	+	8.1
Securities and asset management	262,245	192,285	+	36.4
Others	179,355	159,750	+	12.3
Total fee and commission income	<u>1,898,883</u>	<u>1,598,000</u>	+	18.8

F. Operating Expenses

	2006	2005	Variance	
	HK\$'000	HK\$'000		%
Contributions to defined contribution plan *	127,460	107,372	+	18.7
Equity-settled share-based payment expenses	22,067	29,796	-	25.9
Salaries and other staff costs	1,713,721	1,461,300	+	17.3
Total staff costs	<u>1,863,248</u>	<u>1,598,468</u>	+	16.6
Premises and equipment expenses excluding depreciation				
- Rental of premises	206,425	164,558	+	25.4
- Maintenance, repairs and others	275,489	243,649	+	13.1
Total premises and equipment expenses excluding depreciation	<u>481,914</u>	<u>408,207</u>	+	18.1
Depreciation on fixed assets	<u>299,074</u>	<u>258,563</u>	+	15.7
Amortisation of intangible assets	<u>2,231</u>	-		
Other operating expenses				
- Communications, stationery and printing	183,916	175,134	+	5.0
- Legal and professional fees	122,125	112,116	+	8.9
- Advertising expenses	158,011	124,962	+	26.4
- Business promotions and business travel	59,165	48,726	+	21.4
- Card related expenses	47,949	57,352	-	16.4
- Stamp duty, overseas and PRC** business taxes, and value added taxes	100,142	52,882	+	89.4
- Insurance expenses	13,342	13,469	-	0.9
- Bank charges	3,633	3,937	-	7.7
- Administration expenses of secretarial business	14,367	12,330	+	16.5
- Membership fees	5,286	5,299	-	0.2
- Bank licence	4,974	3,082	+	61.4
- Audit fee	5,160	5,198	-	0.7
- Donations	15,915	8,436	+	88.7
- Others	84,908	99,886	-	15.0
Total other operating expenses	<u>818,893</u>	<u>722,809</u>	+	13.3
Total operating expenses***	<u>3,465,360</u>	<u>2,988,047</u>	+	16.0

* Forfeited contributions totalling HK\$6,454,000 (2005: HK\$5,751,000) were utilised to reduce the Group's contribution during the year. There were no forfeited contributions available for reducing future contributions at the year end (2005: Nil).

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

*** Included in operating expenses are direct operating expenses of HK\$11,949,000 (2005: HK\$10,381,000) in respect of investment properties which generated rental income during the year.

G. Advances and Other Assets

1. Advances to Customers and Other Accounts

	<u>2006</u>	<u>2005</u>	<u>Variance</u>
	HK\$'000	HK\$'000	%
(i) Advances to customers	166,178,102	138,743,747	+ 19.8
Less: Impairment allowances			
- Individual	(254,014)	(295,575)	- 14.1
- Collective	(443,874)	(478,995)	- 7.3
	<u>165,480,214</u>	<u>137,969,177</u>	+ 19.9
(ii) Other accounts			
Advances to banks and other financial institutions	2,454,109	2,424,120	+ 1.2
Notes and bonds	344,076	387,934	- 11.3
Certificates of deposit held	38,890	38,775	+ 0.3
Accrued interest	1,172,578	985,567	+ 19.0
Other accounts	5,641,146	3,069,729	+ 83.8
	<u>9,650,799</u>	<u>6,906,125</u>	+ 39.7
Less: Impairment allowances			
- Individual	(26,118)	(28,570)	- 8.6
- Collective	(8,229)	(9,943)	- 17.2
	<u>9,616,452</u>	<u>6,867,612</u>	+ 40.0
	<u><u>175,096,666</u></u>	<u><u>144,836,789</u></u>	+ 20.9

2. Advances to Customers – by Industry Sectors

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

	2006	2005	Variance
	HK\$'000	HK\$'000	%
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property development	6,422,770	5,870,869	+ 9.4
- Property investment	20,464,978	19,316,009	+ 5.9
- Financial concerns	1,865,472	1,867,677	- 0.1
- Stockbrokers	258,562	204,725	+ 26.3
- Wholesale and retail trade	1,322,504	1,399,776	- 5.5
- Manufacturing	1,884,745	1,744,187	+ 8.1
- Transport and transport equipment	4,118,384	4,132,657	- 0.3
- Others	7,031,257	6,294,634	+ 11.7
- Sub-total	<u>43,368,672</u>	<u>40,830,534</u>	+ 6.2
Individuals			
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,117,688	1,320,946	- 15.4
- Loans for the purchase of other residential properties	36,956,206	37,188,222	- 0.6
- Credit card advances	2,409,027	1,769,653	+ 36.1
- Others	4,728,035	3,571,901	+ 32.4
- Sub-total	<u>45,210,956</u>	<u>43,850,722</u>	+ 3.1
Total loans for use in Hong Kong	88,579,628	84,681,256	+ 4.6
Trade finance	3,464,619	3,753,789	- 7.7
Loans for use outside Hong Kong	74,133,855	50,308,702	+ 47.4
Total advances to customers	<u>166,178,102</u>	<u>138,743,747</u>	+ 19.8

3. Advances to Customers - by Geographical Areas

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

	Total advances to customers		Advances overdue for over three months	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	105,270,368	98,234,592	361,260	483,095
People's Republic of China	35,322,858	19,939,335	57,202	76,108
Other Asian countries	9,090,413	7,798,982	103,149	84,322
Others	16,494,463	12,770,838	1,690	74,147
Total	<u>166,178,102</u>	<u>138,743,747</u>	<u>523,301</u>	<u>717,672</u>

4. Cross-border Claims

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

	2006			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total 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
	2005			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
People's Republic of China	12,805,155	1,250,504	13,667,134	27,722,793
Asian countries, excluding People's Republic of China	9,950,396	1,200,368	8,991,756	20,142,520
North America	5,345,158	7,725,687	5,872,380	18,943,225
Western Europe	27,877,005	-	2,507,425	30,384,430

5. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and Rescheduled Advances

	2006		2005	
	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	158,741	0.1	326,130	0.2
- 1 year or less but over 6 months	142,127	0.1	184,365	0.1
- Over 1 year	222,433	0.1	207,177	0.2
	523,301	0.3	717,672	0.5
Rescheduled advances to customers	291,246	0.2	351,057	0.3
Total overdue and rescheduled advances	814,547	0.5	1,068,729	0.8
Secured overdue advances	358,674	0.2	515,356	0.4
Unsecured overdue advances	164,627	0.1	202,316	0.1
Market value of security held against secured overdue advances	633,804		1,035,275	

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 31st December, 2006 and 31st December, 2005, nor were there any rescheduled advances to banks and other financial institutions on these two dates.

(b) Impaired advances to customers

	2006		2005	
	HK\$'000	As a % of total loans and advances to customers	HK\$'000	As a % of total loans and advances to customers
Gross impaired advances to customers	1,294,188	0.78	1,434,979	1.03
Individual impairment allowances	254,014		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 31st December, 2006 and 31st December, 2005, nor were there any individual impairment allowances made for them on these two dates.

(c) Other Overdue and Rescheduled Assets

	2006		2005	
	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	841	-	1,551	-
- 1 year or less but over 6 months	1,863	2,065	853	-
- Over 1 year	2,228	17,507	844	19,294
	<u>4,932</u>	<u>19,572</u>	<u>3,248</u>	<u>19,294</u>
Rescheduled assets	-	-	-	-
Total other overdue and rescheduled assets	<u>4,932</u>	<u>19,572</u>	<u>3,248</u>	<u>19,294</u>

* Other assets refer to trade bills and receivables.

(d) Repossessed Assets

	2006	2005
	HK\$'000	HK\$'000
Repossessed properties *	97,096	80,551
Repossessed vehicles and machines	290	1,142
Total repossessed assets	<u>97,386</u>	<u>81,693</u>

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

* The balance included HK\$27,689,000 (2005: HK\$30,036,000) relating to properties that were contracted for sale but not yet completed.

H. Segment Reporting

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

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

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

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

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

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

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

H. Segment Reporting (continued)

2006

	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
The Group								
Net interest income	2,259,845	1,823,940	768,121	459	14,959	(1,689)	-	4,865,635
Other operating income from external customers	550,399	463,822	966,880	598,820	101,052	17,704	-	2,698,677
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
Impairment losses on loans and advances	(31,052)	(212,784)	1,588	(1,789)	189	-	-	(243,848)
Impairment losses on bank premises	-	-	-	-	-	27,681	-	27,681
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
Income tax	(209,755)	(233,070)	(273,735)	(44,693)	(13,323)	-	-	(774,576)
Profit after taxation	907,608	1,037,267	1,280,518	193,003	109,624	(42,402)	-	3,485,618
Attributable to:								
Equity holders of the Group	907,608	1,037,267	1,280,515	140,469	111,054	(42,402)	-	3,434,511
Minority interests	-	-	3	52,534	(1,430)	-	-	51,107
Profit after taxation	907,608	1,037,267	1,280,518	193,003	109,624	(42,402)	-	3,485,618
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

H. Segment Reporting (continued)

2005 (Restated)

	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
The Group								
Net interest income	1,550,588	1,457,495	748,633	173	4,519	(1,150)	-	3,760,258
Other operating income from external customers	472,893	204,770	923,121	479,230	90,975	21,291	-	2,192,280
Inter-segment income	-	-	-	-	-	125,431	(125,431)	-
Operating income	2,023,481	1,662,265	1,671,754	479,403	95,494	145,572	(125,431)	5,952,538
Operating expenses	(1,380,683)	(668,203)	(298,419)	(282,637)	(150,645)	(207,460)	-	(2,988,047)
Inter-segment expenses	(106,823)	(12,969)	(5,193)	-	(446)	-	125,431	-
Operating profit before impairment losses	535,975	981,093	1,368,142	196,766	(55,597)	(61,888)	-	2,964,491
Impairment losses on loans and advances	24,478	(168,519)	3,021	(5,449)	4,984	-	-	(141,485)
Impairment losses on bank premises	-	-	-	-	-	(210,140)	-	(210,140)
Impairment losses on available-for-sale financial assets, held-to-maturity investments and associates	-	(7,358)	(33,230)	-	(194)	389	-	(40,393)
Operating profit after impairment losses	560,453	805,216	1,337,933	191,317	(50,807)	(271,639)	-	2,572,473
Profit on sale of fixed assets, available-for-sale financial assets, held-to-maturity investments and subsidiaries/associates	-	-	6,354	-	591	365,473	-	372,418
Valuation gains on investment properties	-	-	-	-	234,221	-	-	234,221
Share of profits less losses of associates	769	33,588	3,125	-	(5,259)	1,508	-	33,731
Profit before taxation	561,222	838,804	1,347,412	191,317	178,746	95,342	-	3,212,843
Income tax	(77,519)	(111,411)	(185,983)	(26,465)	(25,484)	-	-	(426,862)
Profit after taxation	483,703	727,393	1,161,429	164,852	153,262	95,342	-	2,785,981
Attributable to:								
Equity holders of the Group	483,703	727,393	1,161,429	126,866	153,992	95,342	-	2,748,725
Minority interests	-	-	-	37,986	(730)	-	-	37,256
Profit after taxation	483,703	727,393	1,161,429	164,852	153,262	95,342	-	2,785,981
Depreciation for the year	(92,343)	(47,388)	(19,953)	(20,029)	(4,297)	(74,553)	-	(258,563)
Segment assets	52,593,807	89,583,033	83,765,287	743,249	3,216,695	710,657	-	230,612,728
Investments in associates	38,313	346,355	75,266	-	306,794	1,852	-	768,580
Unallocated assets	-	-	-	-	-	7,418,174	-	7,418,174
Total assets	52,632,120	89,929,388	83,840,553	743,249	3,523,489	8,130,683	-	238,799,482
Segment liabilities	117,038,288	58,864,730	20,425,447	53,831	1,686,814	-	-	198,069,110
Unallocated liabilities	-	-	-	-	-	7,777,064	-	7,777,064
Loan capital	-	-	-	-	-	8,548,780	-	8,548,780
Total liabilities	117,038,288	58,864,730	20,425,447	53,831	1,686,814	16,325,844	-	214,394,954
Capital expenditure incurred during the year	101,932	119,187	161,709	63,846	12,681	195,388	-	654,743

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

I. Off-balance Sheet Exposures

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

	2006 HK\$'000	2005 HK\$'000	Variance %
Contractual amounts of contingent liabilities and commitments			
- Direct credit substitutes	5,214,804	4,839,458	+ 7.8
- Transaction-related contingencies	740,121	805,458	- 8.1
- Trade-related contingencies	1,835,733	1,908,453	- 3.8
- Other commitments with an original maturity of:			
Under 1 year or which are unconditionally cancellable	39,747,438	32,104,801	+ 23.8
1 year or over	14,686,624	9,547,330	+ 53.8
Total	<u>62,224,720</u>	<u>49,205,500</u>	+ 26.5
- Aggregate credit risk weighted amount	<u>12,018,280</u>	<u>9,271,093</u>	+ 29.6
Notional amounts of derivatives			
- Exchange rate contracts	18,266,638	24,853,979	- 26.5
- Interest rate contracts	21,255,579	31,133,238	- 31.7
- Equity contracts	2,576,242	284,970	+ 804.0
Total	<u>42,098,459</u>	<u>56,272,187</u>	- 25.2
- Aggregate credit risk weighted amount	<u>337,962</u>	<u>447,634</u>	- 24.5
- Aggregate replacement costs	<u>662,417</u>	<u>738,425</u>	- 10.3

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.

J. Currency Concentrations

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

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

	2005			
	HK\$Million			
	USD	CNY	Others	Total
Spot assets	66,562	11,738	30,420	108,720
Spot liabilities	(62,331)	(10,510)	(34,599)	(107,440)
Forward purchases	35,406	-	9,676	45,082
Forward sales	(37,795)	-	(5,105)	(42,900)
Net options position	(167)	-	40	(127)
Net long/(short) position	<u>1,675</u>	<u>1,228</u>	<u>432</u>	<u>3,335</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>

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

K. Capital, Capital Adequacy and Liquidity Information

1. Capital Adequacy Ratio	<u>2006</u>	<u>2005</u>
	%	%
Unadjusted capital adequacy ratio as at 31 st December	14.2	17.4
Adjusted capital adequacy ratio as at 31 st December	13.9	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.

2. Group Capital Base after Deductions

	<u>2006</u>	<u>2005</u>
	HK\$'000	HK\$'000
Core capital		
Paid up ordinary share capital	3,875,355	3,775,575
Share premium	1,012,138	656,429
Reserves	17,815,857	16,086,805
Minority interests	232,579	207,163
Deduct: Goodwill	<u>(2,592,330)</u>	<u>(2,494,950)</u>
Total core capital	<u>20,343,599</u>	<u>18,231,022</u>
Eligible supplementary capital		
Reserves on revaluation of land and interests in land (at 70%)	948,382	826,679
Revaluation reserves for available-for-sale financial assets and securities designated at fair value through profit or loss (at 70%)	290,482	305,672
Collectively assessed impairment allowances and regulatory reserve	1,057,883	878,569
Term subordinated debt	<u>8,154,315</u>	<u>8,548,780</u>
Total eligible supplementary capital	<u>10,451,062</u>	<u>10,559,700</u>
Total capital base before deductions	30,794,661	28,790,722
Deductions from total capital base	<u>(3,476,947)</u>	<u>(901,973)</u>
Total capital base after deductions	<u>27,317,714</u>	<u>27,888,749</u>

3. Reserves

	<u>2006</u>	<u>2005</u>	<u>Variance</u>
	HK\$'000	HK\$'000	%
Share premium	1,012,138	656,429	+ 54.2
General reserve	13,256,982	12,643,214	+ 4.9
Revaluation reserve on bank premises	835,829	778,933	+ 7.3
Investment revaluation reserve	861,188	358,729	+ 140.1
Exchange revaluation reserve	184,293	78,568	+ 134.6
Other reserves	137,678	156,228	- 11.9
Retained profits*	<u>7,099,491</u>	<u>5,749,689</u>	+ 23.5
Total	<u>23,387,599</u>	<u>20,421,790</u>	+ 14.5
Proposed dividends, not provided for	<u>1,596,646</u>	<u>1,404,514</u>	+ 13.7

* 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 31st December, 2006, HK\$606,000,000 (2005: HK\$391,000,000) was included in the retained profits in this respect which was distributable to equity holders of the Group subject to consultation with the Hong Kong Monetary Authority.

4. Liquidity Ratio

	<u>2006</u> %	<u>2005</u> %
Average liquidity ratio for the year	44.0	39.3

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

L. Statement of Compliance

- (1) In preparing the accounts for 2006, the Bank has fully complied with the guideline set out in the Supervisory Policy Manual "Financial Disclosure by Locally Incorporated Authorized Institutions" issued by the Hong Kong Monetary Authority.
- (2) The Bank has complied with all the Code Provisions set out in Appendix 14 Code on Corporate Governance Practices (the "Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting year ended 31st December, 2006, except for the deviations from Code Provisions A.2.1, A.4.1, A.4.2 and A.5.4 which are explained as follows:

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

Dr. The Hon. Sir David LI Kwok-po is the Chairman and Chief Executive of the Bank. The Board considers that this structure will not impair the balance of power and authority between the Board and the Management of the Bank. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high calibre individuals and meets regularly every two months to discuss issues affecting operations of the Bank. There is a strong independent element in the composition of the Board. Out of the 17 Board members, 7 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 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.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 7th 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 7th April, 2006.

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 31st December, 2006, except the incident reported hereinafter, other Directors of the Bank have complied with the required standard set out in the Model Code and the Bank's *Policy on Insider Trading – Directors and Chief Executive*.

In July 2006, Mr. Aubrey Li Kwok-sing ("Mr. Li") informed the Bank that the trustee acting for a discretionary trust of which he is one of several named beneficiaries disposed of a total of 300,000 shares in the Bank in January and February 2006. Unfortunately, the disposals took place during the one-month prohibition period (from 10th January to 10th February, 2006) before the announcement of the 2005 final results of the Bank. When Mr. Li became aware of the disposals, he immediately made disclosures to the Stock Exchange and the Bank. The details of the disposals and the structure of the trust in question were clarified through contact between Mr. Li and the trustee in July and August 2006. The trust is structured with four sub-trust funds with each held for the benefit of a different beneficiary. The disposals were made under one of such sub-trust funds, the beneficiary of which was not, and is not Mr. Li. Mr. Li has admitted that he neglected to take steps to arrange for the trustee in question to notify him of dealings by the trust in securities issued by the Bank, and for him to notify the trustee of the prohibition periods applicable to the Bank. Both Mr. Li and the Bank have taken, and will take further steps to prevent the future occurrence of late filings and dealings during prohibition periods.

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 Wednesday, 14th March, 2007 to Friday, 16th March, 2007, both dates inclusive. In order to qualify for the final dividend, all transfer documents should be lodged for registration with Standard Registrars Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong, by 4:00 p.m. Tuesday, 13th March, 2007.
- (b) For the purpose of determining shareholders who are entitled to attend and vote at the 2007 Annual General Meeting to be held on 12th April, 2007 ("2007 AGM"), the Register of Members of the Bank will be closed from Wednesday, 11th April, 2007 to Thursday, 12th April, 2007, both dates inclusive. In order to qualify for attending and voting at the 2007 AGM, all transfer documents should be lodged for registration with Standard Registrars Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong, by 4:00 p.m. Tuesday, 10th April, 2007.

CHAIRMAN'S STATEMENT

I am pleased to inform shareholders that Mr. Stephen Charles Li Kwok-sze was appointed a Non-executive Director of the Bank on 1st May, 2006. Mr. Li is a member of the Institute of Chartered Accountants in England and Wales. He currently holds directorships in several funds managed by INTL Consilium, LLC. He has over 16 years experience in investment banking, having held senior capital markets positions with international investment banks in London and Hong Kong. I am confident that the valuable contribution of Mr. Li will lead to the further success of BEA.

Mr. Chan Kay-cheung, an Executive Director of the Bank, will retire from the Bank with effect from 1st May, 2007 and he will also resign as a Director of the Bank on the same date. Mr. Chan has spent his entire career with the Bank. He joined the Bank in 1965; was appointed a Director in 1996 and was promoted to Deputy Chief Executive in 1997. Altogether, he has served the Bank for over 41 years. He has played a significant role in the Bank's growth, particularly with regard to the development of the Bank's information technology systems and expansion into the Mainland. On behalf of the Board, I take this opportunity to extend our gratitude to Mr. Chan for his invaluable contribution to BEA over the past four decades, and wish him every happiness, good health and success for the future.

In 2006, BEA Group achieved a profit after tax of HK\$3,486 million, representing an increase of HK\$700 million, or 25.1%, over that of HK\$2,786 million in 2005. Basic earnings per share were HK\$2.24. Return on average assets and return of average equity were 1.3% and 13.7% respectively.

As at 31st December, 2006, total consolidated assets were HK\$294,202 million, an increase of HK\$55,403 million over the position at the end of 2005. Advances to customers stood at HK\$166,178 million, representing 56.5% of total consolidated assets. Customer deposits were HK\$209,524 million, while certificates of deposit and subordinated debt issued stood at HK\$15,153 million. The loan-to-deposit ratio was 76.7%, compared with 76.1% at the end of 2005. Total equity increased by 13.3% to HK\$27,645 million.

At the forthcoming Annual General Meeting, to be held on Thursday, 12th April, 2007, the Directors will propose a final dividend of HK\$1.03 per share, which, together with the interim dividend of HK\$0.43 per share paid in September 2006, will constitute a total dividend of HK\$1.46 per share for the full year. This represents an increase of 15.9% over the total dividend of HK\$1.26 per share for the year 2005. Shareholders whose names are on the Register of Members at the close of business on Friday, 16th March, 2007 will be entitled to the proposed final dividend. The final dividend will be paid in cash, with an option to receive new, fully paid shares in lieu of cash. This scrip dividend scheme is conditional upon the passing of the relevant resolution at the Annual General Meeting, and the Listing Committee of The Stock Exchange of Hong Kong Limited granting approval to the listing of and permission to deal in the new shares. Details of the scrip dividend and the election form will be sent to shareholders on or about Friday, 16th March, 2007. The dividend warrants and the share certificates for the scrip dividend will be sent to shareholders by ordinary mail on or about Friday, 13th April, 2007.

In 2006, the operating environment in Hong Kong continued to improve. Loan demand increased with the strong growth of the local economy and the strengthening labour market. Income from securities brokerage increased significantly, owing to the higher IPO and stock market activity. On the other hand, Hong Kong banks continue to experience very thin interest margins, due to high liquidity in the banking system and fierce competition. The overall asset quality of the Banks' portfolio remained healthy in 2006, as the worldwide and local economies continued to sustain the growth momentum.

The Bank is well positioned to take advantage of growth opportunities in 2007. The Bank is alert to the potential for slower economic growth in overseas markets, particularly in the United States. Nevertheless, loan demand and business opportunities are expected to

increase over the coming year, as a result of the recent liberalisation of the rules governing the operation of foreign banks in Mainland China.

In 2006, BEA continued to grow and develop new business lines. Looking to the future, the Bank will continue to diversify by actively developing its wealth management business, including private banking and structured products, and other potential businesses to meet customers' needs. BEA will continue to leverage the market leading position of Tricor's corporate services and share registration business to develop new business opportunities. The bank will also actively promote Blue Cross insurance products and maintain its effective cross-selling initiatives. In addition to pursuing organic growth, the Bank will continue to identify potential opportunities for acquisitions and strategic alliances.

BEA's business in Mainland China continued to grow significantly in 2006. BEA obtained a preliminary approval from the China Banking Regulatory Commission for the establishment of a locally incorporated bank on the Mainland. Establishment of a local subsidiary paves the way for offering retail Renminbi banking services to individual Chinese citizens on the Mainland. In order to take full advantage of this new business opportunity, BEA will continue to expand its branch network and develop new products and services in China.

Outside Hong Kong and China, BEA will continue to develop its unique niche within the overseas Chinese communities in the United States, Canada, United Kingdom and South East Asia.

BEA has made good progress in enhancing its operating efficiencies in recent years. This process is ongoing, and during 2007 the Bank will identify opportunities for further efficiency improvement, including relocation of back-office operations to the Mainland and branch rationalisation. Further efficiency gains will be achieved by streamlining work practices in Hong Kong. BEA is among the pioneers in introducing work practices based on the new Basel II Capital Accord systems, and is well prepared for the implementation of Basel II in 2007. BEA will continue to invest to streamline systems, strengthen corporate governance and enhance risk management, with the aim of further raising the quality standard of its services.

David LI Kwok-po
Chairman and Chief Executive

Hong Kong, 8th February, 2007

EXECUTIVE DIRECTORS' REPORT

FINANCIAL REVIEW

Financial Performance

Hong Kong enjoyed robust economic growth in 2006, leading to a record in the number of persons employed and a sustained increase in private consumption expenditure.

Amidst this favourable economic environment, the BEA Group achieved a profit after tax of HK\$3,486 million for the year ended 31st December, 2006, a growth of 25.1% as compared with 2005.

Despite continued competitive pressure on loan pricing, the Bank Group's net interest income increased by HK\$1,105 million, or 29.4%, to HK\$4,866 million. Non-interest income increased by HK\$506 million, or 23.1%, when compared with 2005, mainly due to an increase in net fee and commission income and the net result from financial instruments designated at fair value through profit or loss. As a result, total operating income increased by 27.1% to HK\$7,564 million.

Operating expenses increased by 16.0% over 2005 to HK\$3,465 million, due to continuing expansion of the Group's activities. As a result of the significant increase in operating income, the cost to income ratio fell from 50.2% in 2005 to 45.8% in 2006.

Operating profit before impairment losses was HK\$4,099 million, an increase of HK\$1,135 million, or 38.3%, as compared with 2005.

Impairment losses on loans and advances increased by HK\$102 million, or 72.3%, when compared with 2005, partly due to a decrease in impairment losses write back and bad debt recovered. There was a write back of impairment loss on bank premises of HK\$28 million due to higher property values in 2006. In 2005, an impairment loss of HK\$ 210 million was recognized on vacant bank premises. As a result, total impairment losses decreased by HK\$190 million, or 48.4%.

Associates performed extremely well in 2006 and the share of profits less losses of associates increased by HK\$148 million to HK\$182 million.

After taking into account income taxes, profit after taxation was HK\$3,486 million, an increase of 25.1% over the HK\$2,786 million recorded the previous year. Profit attributable to equity holders of the Group was HK\$3,435 million, an increase of 24.9%.

Financial Position

Total consolidated assets of the BEA Group were HK\$294,202 million at the end of 2006, representing a rise of 23.2% from HK\$238,799 million at the end of 2005. Advances to customers increased by 19.8% to HK\$166,178 million.

Total deposits increased by 18.8% to HK\$ 216,523 million, while customer deposits rose by 19.1% to HK\$209,524 million. Demand deposits and current accounts increased by a combined HK\$4,265 million to HK\$15,130 million. Savings accounts increased by HK\$8,147 million to HK\$43,644 million. Time deposits at year end 2006 stood at HK\$150,750 million, an increase of HK\$21,217 million, or 16.4%, 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 31st December, 2006, loan capital stood at HK\$8,154 million, a decrease of 4.6%, when compared with the balance at year-end 2005. Total equity stood at HK\$27,645 million, an increase of HK\$3,240 million, or 13.3%, when compared with the balance at the end of 2005.

During 2006, BEA issued HKD floating rate certificates of deposit with a face value of HK\$2,500 million, HKD fixed rate certificates of deposit with a face value of HK\$500 million and USD zero coupon certificates of deposit with a face value of US\$50 million. The Bank redeemed a quantity of certificates of deposit amounting to HK\$2,835 million equivalent upon maturity, and repurchased its own certificates of deposit amounting to HK\$44 million equivalent. The Bank also issued and redeemed a number of short term TWD fixed rate certificates of deposit.

After taking into account all debt instruments issued, the loan-to-deposit ratio was 76.7% at the end of 2006, being 0.6% higher than the 76.1% reported at the end of 2005.

At the end of December 2006, the face value of the outstanding debt portfolio was HK\$7,108 million, with the carrying amount equal to HK\$ 6,998 million.

Maturity Profile of Debts Issued

As at 31st December, 2006

(All expressed in millions of dollars)

	Currency	Total Face Value	Year of Maturity			
			2007	2008	2009	2011
Floating Rate						
Certificates of Deposit						
Issued in 2005	HKD	1,500		1,500		
Issued in 2006	HKD	2,500	2,000		500	
Fixed Rate						
Certificates of Deposit						
Issued in 2005	HKD	500		500		
Issued in 2006	HKD	500			500	
Issued in 2006	TWD	3,150	3,150			
Zero Coupon						
Certificates of Deposit						
Issued in 2006	USD	50				50
Discounted						
Certificates of Deposit						
Issued in 2002	USD	83	83			
Step Up						
Certificates of Deposit						
Issued in 2003	USD	41		41		
Total Debts issued in						
HKD equivalent						
		7,108	3,397	2,322	1,000	389

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.

The Group has established an enterprise-wide risk structure and set up a centralised risk management department to handle and monitor all major risks, including credit risk, market risk, liquidity risk and operational risk. The Group has also appointed a Chief Risk Officer to oversee this function, so as to further enhance the overall risk management capability of the Bank Group.

OPERATIONS REVIEW

IMPROVEMENT TO OPERATIONS

Relocating Back-Office Operations to the Mainland

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. With the business growth of the Bank, plans are being developed to expand the Centre in the forthcoming year.

Information Technology

New Accounting System

The Bank is implementing a new computer system for general ledger operations. The system was under test at the end of 2006, and will be ready for roll out in the first half of 2007.

Core Banking System

In December 2006, the second phase of the Core Banking System Implementation project, covering Deposit and Payment modules, had reached the final stage of testing. User training had commenced. A rollout command group has been established to manage all rollout tasks and the system is targeted for rollout in 2007. With the launch of the second phase of the project, the Bank is increasingly able to serve customers more efficiently and use its resources more effectively.

Customer Relationship Management System

BEA implemented a new email marketing system in 2006. This is closely integrated with the existing Customer Relationship Management platform. The new system provides a fast and cost-effective channel for the Bank to communicate with its customers in a personalised manner. It also enables the Bank to execute permission-based email marketing programmes, thereby delivering targeted information on the Bank's services to customers and raising the success rate of marketing campaigns.

PERSONAL BANKING

Branch Distribution

The Branch Rationalisation Programme continued during the year, with the opening of one new branch, the expansion of one branch, and the relocation of four branches to more prominent sites. At the end of January 2007, the total number of BEA branches in Hong Kong stood at 88.

To further enhance BEA's wealth management services, nine SupremeGold Centres were opened during the year, bringing the total number of SupremeGold Centres to 35 by the end of January 2007. The Bank plans to open another four SupremeGold Centres during 2007.

Following the easing of restrictions on Renminbi business early in the year, BEA launched a new product – Renminbi current accounts for individual customers – in March 2006. BEA

customers are now able to make payment for consumer spending in Guangdong Province by personal cheque drawn on their BEA account, subject to a daily aggregate limit of Rmb80,000 per account.

Cyberbanking

During the past year, the Bank's Electronic Initial Public Offering ("eIPO") service was enhanced, creating a more efficient channel for applying for new shares via the Internet. The upgrade was very timely, being implemented before the major IPOs launched during the year. Cyberbanking's phone banking system was also upgraded.

The number of Cyberbanking customers continued to increase during the year. By the end of 2006, the Bank had over 342,000 registered Cyberbanking users. The average daily usage volume exceeded 188,000 transactions.

Corporate Cyberbanking also recorded steady growth. By the end of 2006, over 18,900 corporate customers had registered with BEA's Corporate Cyberbanking, an increase of 13% year on year.

Property Loans

Despite a host of positive economic fundamentals, the property market remained sluggish, and demand for residential mortgages contracted. As a result, competition for new mortgage business intensified during the year.

BEA responded in a number of innovative ways. The Bank pioneered a new product with the Hong Kong Mortgage Corporation ("HKMC"), launching the Mortgage Insurance Programme for Village Houses. This brought village houses under the Mortgage Insurance Programme for the first time.

The proportion of new mortgage loans priced on the basis of the Hong Kong interbank offered rate ("HIBOR") increased significantly in 2006. BEA introduced a number of HIBOR-based mortgage products to cater for the increasing market demand for such products.

The Bank also actively coordinated with various property developers to provide preferential mortgage plans for homebuyers. This helped to sustain BEA's market share in the face of a contraction in the volume of property transactions throughout the second half of 2006.

Consumer Loans

Consumer Finance Department

The Bank expanded its consumer loan business during the year, introducing new loan products and programmes targeted at specific market segments.

Two new personal loan centres were set up during 2006 to enhance the Bank's loan product delivery channel. At the same time, marketing of the Bank's personal instalment loan products was stepped up. As a result, new loans drawdown for this portfolio grew by 28%, as compared with the previous year.

Improvements were also made to the Bank's electronic delivery systems for personal loans. BEA deposit account holders can now apply for the loans via any BEA ATM in Hong Kong, as well as through Cyberbanking Internet, mobile phone or PDA channels.

Credit Gain Finance

Credit Gain Finance Company Limited ("Credit Gain Finance") has been set up as a wholly owned subsidiary of BEA, specialising in sub-prime personal loans for the Hong Kong market. Registered under the Money Lenders Ordinance and holding a money lenders'

licence, Credit Gain Finance commenced business in mid November 2006 with four branches in Wanchai, Mongkok, Kwun Tong and Tuen Mun.

Credit Gain Finance plans to establish more branches in 2007 in order to expand its business reach.

Credit Cards

A series of marketing programmes was launched during the past year to encourage regular card usage, emphasising the convenience of using BEA credit cards for everyday spending. Brand awareness campaigns positioned the BEA card as a premium value product, and emphasised development of a long-term banking relationship with cardholders.

A notable milestone was achieved during the past year, with BEA expanding its card business in Macau. BEA now handles acquiring business for VISA, MasterCard, China Unionpay, and JCB. This has enhanced the Bank's competitive position, creating new business opportunities in Macau's retail sector at a time of high growth, while also providing the Bank the ability to support existing Hong Kong retail clients who wish to expand their business to Macau.

The Bank launched two new card products during the past year, the Hong Kong University Alumni Association VISA Card and the "BEA Prepaid Card - <Jimmy Series>". BEA also launched the exclusive "Fly&Dine Club" to reinforce and extend the "Fly and Dine" platform of its Platinum Card.

In the year ahead, BEA is planning to offer new products based on advanced chip technology to improve both security and convenience, and promote card loyalty.

CORPORATE BANKING

Corporate Banking Division

BEA maintained an active presence in the syndicated loan market in 2006 by underwriting and participating numerous financing projects. Major syndicated loan deals included HK\$13,350 million for Henderson Land Development Company Limited; HK\$12,000 million for Sun Hung Kai Properties Limited; HK\$7,200 million for Champion REIT; HK\$4,200 million for Shangri-la Asia Limited; HK\$2,600 million for China Overseas Land & Investment Limited; and HK\$4,162.5 million for Ocean Park Corporation.

On the commercial business side, loan demand in Hong Kong was stable, despite the trend for customers with business on the Mainland to look for borrowing opportunities on the Mainland. Loan quality improved. Good growth was recorded in equipment financing, along with the growth in manufacturing business. A new unsecured business loan product, the "Business Ready Cash" scheme, was launched with favourable market response. The product has further strengthened BEA's presence in the small to medium size business loan market segment.

BEA recorded satisfactory growth in its vehicle finance business and remained a key player in the taxi lending industry.

Thirteen IPO Receiving Bank projects were completed in 2006, compared to seven in 2005. One of these projects, the Industrial and Commercial Bank of China Limited IPO, broke the world record as the largest IPO to date, while other projects received substantial oversubscriptions. BEA's systems performed well under these demanding conditions.

BEA offered a total of 47 IPO issues through its retail channels, extending a total of HK\$171.8 billion in stagging loans.

Bank of East Asia (Trustees) Limited

Mandatory Provident Fund

BEA launched two new constituent funds under its Master Trust Scheme in December 2006, namely the BEA (MPF) Greater China Growth Fund and BEA (MPF) Japan Growth Fund, providing more choices to MPF scheme members.

BEA was ranked the second best MPF performer for the year ended 30th September, 2006, according to the MPF Index compiled by Mercer Human Resource Consulting. In addition, the performance of six of the BEA MPF constituent funds were all ranked among the top 25% in their respective categories, according to the Hong Kong Investment Funds Association survey for the year ended 29th December, 2006.

Trust Services

Bank of East Asia (Trustees) Limited was appointed as trustee to the TaoHo Foundation in June 2006, which is a trust fund established for charitable purpose. Although Estate Duty was abolished in February 2006, the company still achieved more than 40% growth in revenue from its private trust business.

WEALTH MANAGEMENT

Structured Products

BEA expanded its structured product business significantly during the past year. A total of 110 products were launched in Hong Kong and on the Mainland, three times the number launched in 2005. Many matured early, providing attractive returns to investors.

The buoyant equity market in Hong Kong not only boosted investment sentiment but also supported the issue of a record number of exotic equity linked deposits. Once available only to high net worth individuals, the Bank successfully launched the Callable Range Accrual Series and the Discounted Shares Accumulation Series to its full customer base.

The Bank also took the initiative to introduce principal protected equity linked investment products on the Mainland and a total of nine such products were launched during the year. BEA is a pioneer in this market, taking the lead to both educate investors and establish a strong presence. The Bank was also one of the first foreign banks to obtain a QDII (Qualified Domestic Institutional Investor) license, allowing it to sell overseas investments to local investors. Two tranches of qualified products were issued by the end of 2006.

During the past year, the Bank also upgraded its online equity linked deposit services for Cyberbanking customers.

BEA's leading position in structured products was recognised by The Asian Banker in its Excellence in Retail Financial Services Awards 2006, with BEA winning in the Best Deposit-Linked Product category.

Mutual Fund Business / Asset Management

The Bank launched two BEA branded mutual funds in 2006, the BEA Japan Growth Fund and the BEA Greater China Growth Fund. The former adopts a feeder fund approach, with the underlying fund managed by AXA Rosenberg Investment Management Asia Pacific Limited, whilst the latter is managed by East Asia Asset Management Company Limited ("EAAM"). Market response to both funds was encouraging. Overall, the Bank's investment fund business performed well, with growth of more than 300% in terms of gross sales; and 20% in terms of net fund assets under custody.

Assets managed by the Bank's investment subsidiary, EAAM continued to grow steadily in 2006, due to satisfactory investment performance and the addition of new accounts. Assets managed for the Group's Mandatory Provident Fund (MPF) and discretionary management business expanded by approximately 28% and 65%, respectively, during the period. Net fee and commission income grew by 21% and net profits increased by 28%.

To streamline the existing organisational structure and improve operational efficiency, the business and operations of EAAM were merged with its sister company, Asia Strategic Investment Management Limited. The reorganisation was completed at the end of 2006. EAAM is now the sole asset management entity of the Bank, responsible for management of the investment assets of retail, corporate, institutional and high net worth customers.

Bancassurance

During 2006, the Bank's life insurance business grew by 130%, as measured by the New Business Index. The Bank continues to meet the market demand by launching various new products. Products launched during the year included "3-Year Accumulator Savings Insurance", "QuickPay Whole Life Insurance" and "Education Savings Insurance", which are underwritten by Blue Cross (Asia-Pacific) Insurance Limited, a member of the Bank Group. A total of three tranches of the "3-Year Accumulator Savings Insurance" offering were launched as a result of overwhelming response from customers.

To drive the growth of the Bank's e-channel insurance business, a redesigned Bancassurance web page was premiered during the year. Customers can purchase travel insurance instantly through the site, and find out more about the Bank's entire Bancassurance range. The Bank also launched an insurance loyalty club, to promote repeat business.

Blue Cross (Asia-Pacific) Insurance Limited

Blue Cross experienced growth in all lines of business, with general insurance premium income recording an increase of 12% year on year.

Blue Cross introduced a new premium travel insurance plan in 2006, TravelSafe Plus, offering enhanced benefits. To counter the impact of rising healthcare costs, Blue Cross adopted an adjusted pricing strategy for medical insurance. This helped the company maintain a healthy business portfolio and contributed to a steady growth in business.

In an award programme jointly organised by Hong Kong Brand Development Council and the Chinese Manufacturers' Association of Hong Kong to give recognition to outstanding brand names established by Hong Kong companies, Blue Cross was awarded the "HK Top Service Brand Awards - Emerging Service Brand". In 2006, Blue Cross also won the "Caring Company" recognition and for two consecutive years "The Most Popular Travel Insurance Company" awards.

Private Banking

The Bank re-launched BEA Private Banking in the fourth quarter of 2005, and the unit had its first full year of operation in 2006. The Bank was encouraged by the successful start of its private banking business. BEA Private Banking expands the Bank's customer profile and provides a new and stable source of fee income. The Bank is expecting its private banking unit to become a very significant part of the entire wealth management business.

In 2006, the buoyant markets rewarded investors handsomely. While maintaining a positive view, the unit will focus on assisting private banking clients to achieve a more balanced investment portfolio and returns in 2007.

INVESTMENT BANKING AND SERVICES

East Asia Securities Company Limited – Securities Cybertrading

East Asia Securities continued to benefit from strong local market sentiment and investor confidence.

More customers are turning to East Asia Securities electronic trading systems. The number of Cybertrading accounts grew by 37% during the year. By the end of December, more than 57% of the company's securities clients had subscribed to the Cybertrading service. Currently, the volume of transactions executed via the Cybertrading system, expressed as a percentage of total turnover, accounts for some 51% of the number of trades and 32% of the gross transaction value.

East Asia Securities successfully launched the eIPO Service and enhanced its Mobile Phone Trading Service during the year. New services include a real-time stock quote service via mobile phones.

In view of the dramatic increase in market turnover and the subsequent increase in trading volume conducted through the Cybertrading system, East Asia Securities increased its trading capacity by acquiring three additional Throttle Rates in its Open Gateway from The Stock Exchange of Hong Kong in December 2006. East Asia Securities has plans to further upgrade its online trading system and expand its IVRS Trading System capacity in the first quarter of 2007, in order to cope with the expected continued growth in the number of Cybertrading accounts and trading volume.

East Asia Futures Limited – Futures Cybertrading

East Asia Futures, the wholly-owned futures and options broking arm of the Bank, also benefited from improved local market sentiment. In particular, trading in derivative products rose strongly. The introduction of Futures Cybertrading also played a role in attracting new customers.

The number of Futures Cybertrading accounts grew by 58% during the year, and, as of 31st December, 2006, more than 62% of the company's clients had subscribed to the service. Currently, the volume of transactions executed via the Futures Cybertrading system, expressed as a percentage of total turnover, accounts for some 48% of the number of trades and 40% of transaction value.

East Asia Futures plans to further increase the speed of order placement and introduce a stop loss function in 2007.

CHINA OPERATIONS

In 2006, BEA expanded its operations to Qingdao, with the opening of a new branch in the city. In addition, the Bank expanded its operations in many existing centres with the opening of nine new sub-branches. These included: Dalian Huafu; Guangzhou Panyu and Huadu; Shenzhen BaoAn; Shanghai Xujiahui and Jing'an; Xiamen Jiahe; Xi'an South Gate; and Macau Horta e Costa. At present, BEA has a total of 31 outlets on the Mainland, including 12 branches, 14 sub-branches and 5 representative offices. The Bank also has 2 branches in Taiwan and 2 in Macau.

BEA has obtained initial approval from the China Banking Regulatory Commission ("CBRC") to open a full branch in Shenyang. Preparations are expected to be complete in the first quarter of 2007. Further expansion is planned for 2007, including but not limited to upgrading the existing representative offices into full branches and establishing more sub-branches on the Mainland and in Macau.

BEA continues to be a market leader on the Mainland. BEA was one of the first foreign banks granted QDII status by the CBRC; the first to obtain a foreign exchange quota to conduct QDII business; and one of the first accredited to provide Renminbi (“Rmb”) fixed deposit services to local residents (minimum deposit of Rmb1 million).

Furthermore, BEA obtained a preliminary approval from the CBRC for the establishment of a locally incorporated bank on the Mainland, namely The Bank of East Asia (China) Limited (“BEA-China”). The establishment of BEA-China will enable the Bank to offer a full range of Rmb services to local residents, in addition to all existing business activities.

BEA’s Greater China non-Hong Kong loan portfolio grew by 63% during the year, while net profit grew by 88%. BEA is confident that the business results in this market will continue to show strong growth, as full liberalisation of the banking sector on the Mainland becomes a reality.

OVERSEAS OPERATIONS

BEA continued the implementation of its international expansion strategy during the year. In May, BEA completed its acquisition of National American Bancorp, San Francisco, California (“NABancorp”). NABancorp is the holding company of National American Bank (“NAB”), a commercial bank in San Francisco with three full-service branches serving the Greater San Francisco area. As part of the acquisition, NAB merged with the BEA Group’s subsidiary, The Bank of East Asia (U.S.A.) N.A. (“BEA-USA”). BEA-USA now operates in New York, Greater Los Angeles and San Francisco. A new BEA-USA web site and Internet Banking were launched on 15th November, 2006.

In May, the Kuala Lumpur Marketing Office of Labuan Branch and Kuala Lumpur Representative Office were relocated to MNI Twin Towers. In December, the Singapore Branch of BEA signed an agreement for the purchase of a commercial building at 60 Robinson Road and the sale of its existing building, with the transaction targeted for completion by 2008. These initiatives will provide additional office space for the Bank’s expansion plans in Singapore and Southeast Asia.

BEA’s overseas business units recorded growth of 23% in the loan portfolio, despite heavy loan prepayments. Overseas business units achieved an increase of 8% in operating profit for the year ended 31st December, 2006.

CORPORATE SERVICES

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

Tricor recorded strong growth in profit for the year as a result of continued business expansion. Its fee revenue, which exceeded HK\$600 million this year, made an important contribution to BEA Group’s fee and commission income. Tricor’s investor services practice has benefited from the buoyant IPO activity in the capital markets in Hong Kong during the past year. It provides share registration and other related investor services to over 50% of the companies listed in Hong Kong. The Hong Kong office has also experienced strong demand for its accounting and payroll outsourcing services and its company secretarial and corporate compliance work from both private and public entities. In addition, the overseas offices have operated well and made a meaningful contribution to Tricor’s total revenue.

In January 2006, Tricor consolidated its Hong Kong offices into a single location at Three Pacific Place on Hong Kong Island. January 2006 also saw the welcome addition of Kuala

Lumpur and Penang offices to Tricor's regional operation, underlining Tricor's leading position in the business. Further, Tricor acquired the business services practices of Ernst & Young in Beijing, Guangzhou, Shanghai and Shenzhen, enhancing its rapidly developing operations in the Mainland.

Tricor now employs 1,000 professional and support staff and provides services in 10 cities in the region. Its senior management comprises highly experienced accountants, chartered secretaries and lawyers who are leading professionals in the integrated business, corporate and investor services business.

HUMAN RESOURCES

The Bank of East Asia Group employees at the end of December 2006:

Hong Kong	4,803
Other Greater China	2,161
Overseas	761
<hr/> Total	<hr/> 7,725

The Bank aims to provide a challenging and rewarding career for all its employees. In recent years, it has introduced a new grading structure to benchmark job positions, enhanced personnel policies and benchmarked its staff benefits offering against the market. An enhanced training programme, provided both in-house and outsourced, aims at empowering staff to perform effectively in their jobs under an increasingly competitive environment. Continuing professional training was provided for licensed intermediaries of related financial businesses to enhance their professional competence and integrity. To encourage a healthy lifestyle and team building, the Bank's Staff Sports and Recreation Club organized numerous social and sports activities.

DEALINGS IN LISTED SECURITIES OF THE BANK

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of listed securities of the Bank during the year ended 31st December, 2006.

David LI Kwok-po
Chairman & Chief Executive

Joseph PANG Yuk-wing
Executive Director

CHAN Kay-cheung
Executive Director

Hong Kong, 8th February, 2007

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.