

The Bank of East Asia, Limited

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

ANNOUNCEMENT OF 2007 INTERIM RESULTS

INTERIM RESULTS

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

1. Consolidated Profit and Loss Account

	6 months ended 30/6/2007	6 months ended 30/6/2006 Restated	6 months ended 31/12/2006 Restated
	HK\$'000	HK\$'000	HK\$'000
Interest income	8,210,401	6,471,704	7,576,840
Interest expense	(5,448,142)	(4,103,482)	(4,946,262)
Net interest income	2,762,259	2,368,222	2,630,578
Fee and commission income	1,168,372	902,888	995,995
Fee and commission expense	(211,242)	(127,335)	(160,810)
Net fee and commission	957,130	775,553	835,185
Net trading profits	395,708	71,583	519,063
Net result from financial instruments designated at fair value through profit or loss	161,034	175,378	(64,852)
Other operating income	201,634	153,772	99,830
Non-interest Income	1,715,506	1,176,286	1,389,226
Operating income	4,477,765	3,544,508	4,019,804
Operating expenses	(2,178,836)	(1,636,734)	(1,828,626)
Operating profit before impairment losses	2,298,929	1,907,774	2,191,178
Impairment losses on loans and advances	(136,780)	(154,668)	(89,180)
Write back of impairment losses on held-to-maturity investments	-	12,828	144
Write back of impairment losses on associates	-	3,779	20,781
Impairment losses on goodwill	-	(23,698)	-
Write back of impairment losses on bank premises	116,451	10,915	16,766
Impairment losses	(20,329)	(150,844)	(51,489)
Operating profit after impairment losses	2,278,600	1,756,930	2,139,689
Net (loss)/ profit on sale of held-to-maturity investments	-	(444)	427
Net profit on sale of available-for-sale financial assets	77,764	3,390	46,608
Net profit on sale of subsidiaries/associates	319	1,330	186
Net loss on sale of fixed assets	(1,526)	(3,964)	(4,309)
Valuation gains on investment properties	20,913	40,478	97,299
Share of profits less losses of associates	51,670	47,754	134,820
Profit for the period before taxation	2,427,740	1,845,474	2,414,720
Income tax			
Current tax ^c			
- Hong Kong	(259,084)	(175,971)	(310,884)
- Overseas	(149,340)	(99,603)	(129,688)
Deferred tax	(108,488)	21,552	(79,982)
Profit for the period after taxation	1,910,828	1,591,452	1,894,166
Attributable to:			
Equity holders of the Group	1,877,166	1,565,334	1,869,177
Minority interests	33,662	26,118	24,989
Profit after taxation	1,910,828	1,591,452	1,894,166
Profit for the Bank	1,285,299	1,317,809	1,700,808
Proposed dividends	752,826	661,067	1,596,646
Per share			
- Basic earnings ^d	HK\$1.20	HK\$1.03	HK\$1.21
- Diluted earnings ^d	HK\$1.20	HK\$1.02	HK\$1.20
- Dividends	HK\$0.48	HK\$0.43	HK\$1.03

2. Consolidated Balance Sheet

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

3. Consolidated Summary Statement of Changes in Equity

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

4. Condensed Consolidated Cash Flow Statement

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

Notes:

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

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

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

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

	Six months ended 30/6/2006		
	As previously reported HK\$'000	Increase /(decrease) in the profit for the period HK\$'000	As restated HK\$'000
Interest income	5,900,286	571,418	6,471,704
Interest expense	(3,591,983)	(511,499)	(4,103,482)
Net interest income	2,308,303	59,919	2,368,222
Net trading profits	73,987	(2,404)	71,583
Net result from financial instruments designated at fair value through profit or loss	232,893	(57,515)	175,378

	Six months ended 31/12/2006		
	As previously reported HK\$'000	Increase /(decrease) in the profit for the period HK\$'000	As restated HK\$'000
Interest income	6,965,307	611,533	7,576,840
Interest expense	(4,407,975)	(538,287)	(4,946,262)
Net interest income	2,557,332	73,246	2,630,578
Net trading profits	512,173	6,890	519,063
Net result from financial instruments designated at fair value through profit or loss	15,284	(80,136)	(64,852)

(c) The provision for Hong Kong profits tax is calculated at 17.5% of the estimated assessable profits for the six months ended 30th June, 2007. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

(d) (i) The calculation of basic earnings per share is based on earnings of HK\$1,877,166,000 (six months ended 30th June, 2006: HK\$1,565,334,000) and on the weighted average of 1,558,501,265 (six months ended 30th June, 2006: 1,523,266,272) ordinary shares outstanding during the six months ended 30th June, 2007.

(ii) The calculation of diluted earnings per share is based on earnings of HK\$1,877,166,000 (six months ended 30th June, 2006: HK\$1,565,334,000) and on 1,568,898,743 (six months ended 30th June, 2006: 1,531,440,619) ordinary shares, being the weighted average number of ordinary shares outstanding during the six months ended 30th June, 2007, adjusted for the effects of all dilutive potential shares.

5. Interest Income

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

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

6. Interest expense

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

7. Fee and Commission Income

Fee and commission income arises from the following services:

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

8. Net Trading Profits

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

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

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

10. Other Operating Income

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

11. Operating Expenses

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

* PRC denotes the People's Republic of China.

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

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

13. Trading Assets

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

14. Financial Assets Designated At Fair Value Through Profit or Loss

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

15. Advances to Customers and Other Accounts

(a) Advances to Customers and Other Accounts

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

(b) Advances to customers - by industry sectors

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

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

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

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

(c) Advances to customers – by geographical areas

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

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

% of total advances to customers 0.60%

Market value of security held against impaired advances to customers 2,332,339

	30/6/2006				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	100,394,600	421,702	798,447	146,077	246,694
People's Republic of China	26,006,723	102,310	335,883	18,890	84,146
Other Asian Countries	7,646,199	109,023	166,276	52,871	61,079
Others	15,036,227	11,040	36,644	-	40,007
Total	149,083,749	644,075	1,337,250	217,838	431,926

% of total advances to customers 0.90%

Market value of security held against impaired advances to customers 2,411,815

	31/12/2006				
	Total advances to customers	Advances overdue for over three months	Impaired advances to customers	Individual impairment allowance	Collective impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	105,270,368	361,260	786,086	171,264	272,508
People's Republic of China	35,322,858	57,202	275,942	10,749	81,187
Other Asian Countries	9,090,413	103,149	198,818	70,278	59,639
Others	16,494,463	1,690	33,342	1,723	30,540
Total	166,178,102	523,301	1,294,188	254,014	443,874

% of total advances to customers 0.78%

Market value of security held against impaired advances to customers 2,340,517

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

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

16. Available-For-Sale Financial Assets

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

17. Held-to-maturity Investments

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

18. Fixed Assets

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

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

19. Other Liabilities

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

20. Loan Capital

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

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

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

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

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

21. Segment Reporting

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

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

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

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

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

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

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

6 months ended 30/6/2007

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

6 months ended 30/6/2006 (Restated)

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

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

22. Analysis of Assets and Liabilities by Remaining Maturity

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

	31/12/2006						
	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated or overdue	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets							
Cash and balances with banks and other financial institutions	8,317,746	-	-	-	-	-	8,317,746
Placements with banks and other financial institutions	-	64,315,952	1,717,526	830,567	-	-	66,864,045
Trade bills	31,258	439,366	104,631	-	-	45,208	620,463
Trading assets	387	516,124	134,770	13,043	31,485	2,241,725	2,937,534
Financial assets designated at fair value through profit or loss	-	197,519	375,619	7,928,462	141,043	836	8,643,479
Advances to customers and other accounts	4,099,733	30,736,093	23,224,513	54,944,952	52,686,001	9,405,374	175,096,666
Available-for-sale financial assets	-	4,371,077	1,370,320	2,096,336	608,292	3,556,172	12,002,197
Held-to-maturity investments	-	848,234	842,936	7,268,993	1,260,134	29,062	10,249,359
Undated assets	-	-	-	-	-	9,470,828	9,470,828
Total assets	12,449,124	101,424,365	27,770,315	73,082,353	54,726,955	24,749,205	294,202,317
Liabilities							
Deposits and balances of banks and other financial institutions	4,512,307	11,312,398	14,202,290	821,476	1,039,047	71,664	31,959,182
Deposits from customers	59,423,997	134,799,884	10,812,037	4,463,928	-	24,374	209,524,220
- Demand deposits and current accounts	15,130,231	-	-	-	-	-	15,130,231
- Savings deposit	43,644,321	-	-	-	-	-	43,644,321
- Time, call and notice deposits	649,445	134,799,884	10,812,037	4,463,928	-	24,374	150,749,668
Trading liabilities	386	216,675	9,033	63,430	3,004	650,067	942,595
Certificates of deposit issued	-	3,033,404	964,439	3,000,564	-	-	6,998,407
Current taxation	-	-	334,097	-	-	-	334,097
Loan capital	-	-	-	3,865,491	4,288,824	-	8,154,315
Undated liabilities	-	-	-	-	-	8,644,772	8,644,772
Total liabilities	63,936,690	149,362,361	26,321,896	12,214,889	5,330,875	9,390,877	266,557,588
Net liability gap	(51,487,566)	(47,937,996)	1,448,419	60,867,464	49,396,080		

23. Deferred Tax Assets and Liabilities Recognised

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

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

24. Reserves

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

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

25. Consolidated Cash Flow Statement

(a) Purchase of subsidiaries

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

(b) Cash and cash equivalents

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

26. Off-balance Sheet Exposures

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

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

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

27. Material Related Party Transactions

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

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

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

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

28. Basis of Consolidation

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

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

29. Non-adjusting post balance sheet events

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

30. Statement of Compliance

The Interim Report together with the Supplementary Financial Information on pages 25 to 30 has fully complied with the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority, the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and HKAS 34 "Interim Financial Reporting" issued by the HKICPA in October, 2004.

SUPPLEMENTARY FINANCIAL INFORMATION

A. Capital Adequacy Ratio and Capital Base

(a) Capital adequacy ratio

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

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

(b) Group capital base after deductions

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

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

B. Liquidity Ratio

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

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

C. Cross-border Claims

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

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

D. Non-bank Mainland exposures

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

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

E. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and rescheduled advances

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

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

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

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

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

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

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

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

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

(b) Other overdue and rescheduled assets

	30/06/2007	
	Accrued interest	Other assets*
	HK\$'000	HK\$'000
Other assets overdue for		
- 6 months or less but over 3 months	604	3,948
- 1 year or less but over 6 months	754	422
- Over 1 year	1,435	13,110
	<u>2,793</u>	<u>17,480</u>
Rescheduled assets	-	-
Total other overdue and rescheduled assets	<u>2,793</u>	<u>17,480</u>
	30/06/2006	
	Accrued interest	Other assets*
	HK\$'000	HK\$'000
Other assets overdue for		
- 6 months or less but over 3 months	1,506	1,889
- 1 year or less but over 6 months	1,109	15
- Over 1 year	1,635	18,630
	<u>4,250</u>	<u>20,534</u>
Rescheduled assets	-	-
Total other overdue and rescheduled assets	<u>4,250</u>	<u>20,534</u>
	31/12/2006	
	Accrued interest	Other assets*
	HK\$'000	HK\$'000
Other assets overdue for		
- 6 months or less but over 3 months	841	-
- 1 year or less but over 6 months	1,863	2,065
- Over 1 year	2,228	17,507
	<u>4,932</u>	<u>19,572</u>
Rescheduled assets	-	-
Total other overdue and rescheduled assets	<u>4,932</u>	<u>19,572</u>

* Other assets refer to trade bills and receivables.

(c) Repossessed assets

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

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

F. Currency Concentrations

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

	30/6/2007 HK\$ Million			Total
	USD	CNY	Others	
Spot assets	88,361	39,559	38,862	166,782
Spot liabilities	(81,774)	(37,286)	(43,394)	(162,454)
Forward purchases	22,838	576	13,521	36,935
Forward sales	(27,862)	(631)	(8,100)	(36,593)
Net options position	(45)	-	26	(19)
Net long position	<u>1,518</u>	<u>2,218</u>	<u>915</u>	<u>4,651</u>

	30/6/2006 HK\$ Million			Total
	USD	CNY	Others	
Spot assets	70,046	18,325	36,090	124,461
Spot liabilities	(67,099)	(16,861)	(36,103)	(120,063)
Forward purchases	28,673	-	7,508	36,181
Forward sales	(30,220)	-	(6,979)	(37,199)
Net options position	27	-	(40)	(13)
Net long position	<u>1,427</u>	<u>1,464</u>	<u>476</u>	<u>3,367</u>

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

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

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

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

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

INTERIM DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

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

FINANCIAL REVIEW

Financial Performance

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

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

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

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

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

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

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

Financial Position

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

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

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

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

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

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

Maturity Profile of Debts Issued

As at 30th June, 2007

(All expressed in millions of dollars)

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

Risk Management

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

(a) Credit Risk Management

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

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

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

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

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

(b) Market risk management

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

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

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

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

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

(i) Currency risk

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

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

(ii) Interest rate risk

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

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

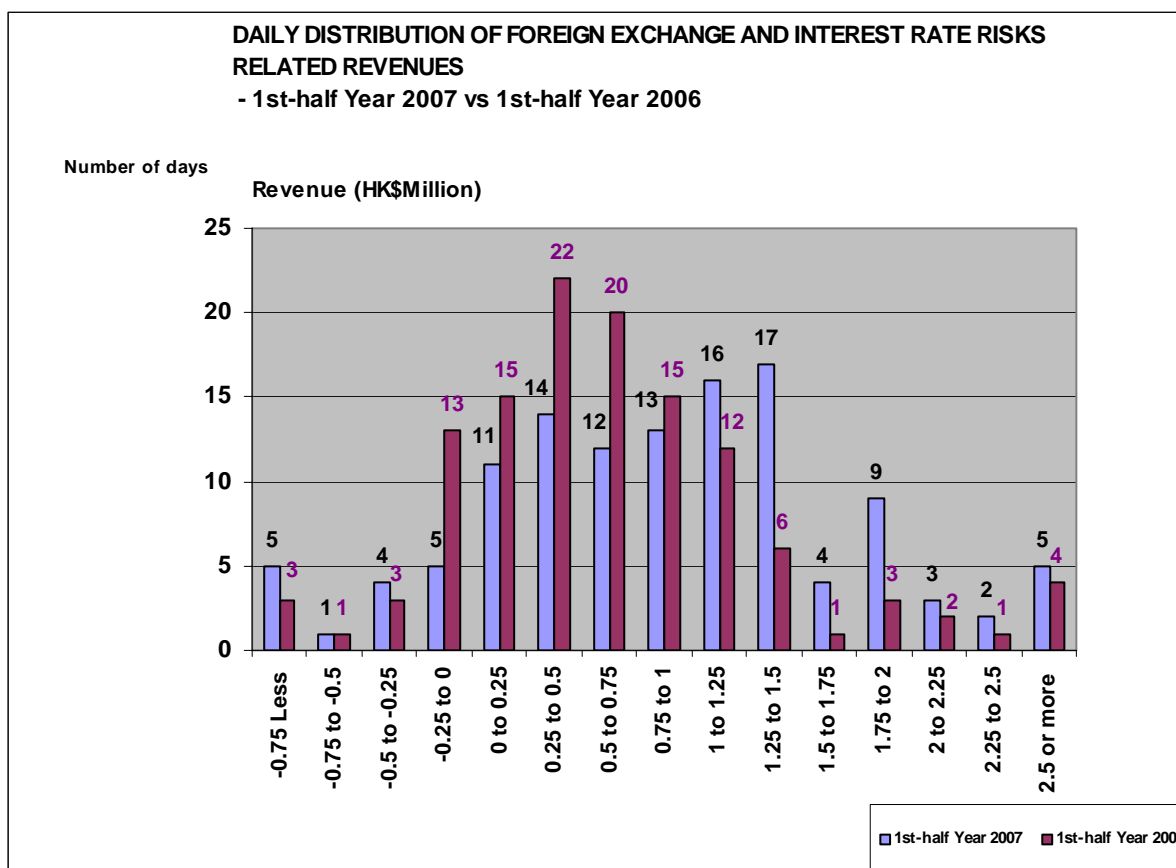
Value-at-risk statistics

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

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

Foreign exchange and Interest rate risks related revenue statistics

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



(c) Liquidity risk management

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

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

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

(d) Strategic risk management

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

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

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

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

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

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

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

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

OPERATIONS REVIEW

RECENT AWARDS

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

IMPROVEMENTS TO OPERATIONS

Relocation of Back-Office Operations to the Mainland

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

Information Technology

New Accounting System

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

PERSONAL BANKING

Branch Distribution

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

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

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

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

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

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

Cyberbanking

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

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

Property Loans

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

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

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

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

Consumer Loans

Consumer Finance Department

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

Credit Gain Finance

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

Credit Cards

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

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

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

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

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

CORPORATE BANKING

Corporate Lending

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

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

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

Securities Lending

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

Bank of East Asia (Trustees) Limited

Mandatory Provident Fund

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

Trust Services

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

WEALTH MANAGEMENT

Structured Products

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

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

Mutual Fund Business / Asset Management

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

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

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

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

Bancassurance

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

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

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

Blue Cross (Asia-Pacific) Insurance Limited

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

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

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

Private Banking

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

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

INVESTMENT BANKING AND SERVICES

East Asia Securities Company Limited – Securities Cybertrading

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

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

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

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

East Asia Futures Limited – Futures Cybertrading

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

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

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

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

CHINA OPERATIONS

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

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

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

OVERSEAS OPERATIONS

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

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

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

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

CORPORATE SERVICES

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

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

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

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

HUMAN RESOURCES

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

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

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

FUTURE PROSPECTS

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

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

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

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

DEALING IN LISTED SECURITIES OF THE BANK

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

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

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

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

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

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

COMPLIANCE WITH MODEL CODE

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

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

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

By order of the Board

David LI Kwok-po

Chairman & Chief Executive

Hong Kong, 2nd August, 2007.

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