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BEA 東亞銀行

The Bank of East Asia, Limited

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

ANNOUNCEMENT AND RESUMPTION OF TRADING

During the course of a regular independent control review performed by the Bank, it was revealed that one of its employees in the Bank's equity derivatives desk had manipulated the valuation of certain equity derivatives held by the Bank without authorisation and in violation of the prescribed operation procedures of the Bank. It is suspected that such unauthorised manipulation was made to conceal losses incurred as a result of certain equity derivatives trades executed by the Trader.

Before discovery of the manipulation, the Bank recorded a trading profit of approximately HK\$38 million for the period from 1st January to 30th June 2008 in respect of the affected equity derivatives. There should have been a trading loss of HK\$93 million after adjusting the effect of the unauthorised manipulation in the total amount of HK\$131 million. No further trading losses have been incurred on the affected equity derivatives subsequent to that date.

The Board considers that such unauthorised manipulation resulted in a material misstatement of the interim profit before and after tax of the Group as announced on 5th August 2008. The restated profit of the Group before and after tax for the six months ended 30th June 2008 are as follows:

	6 months ended 30/6/2008
	HK\$ Mn
Profit before tax	1,073
Profit after tax	821

There is no material effect on the Bank's balance sheet or capital, which remains significantly in excess of regulatory requirements.

The restated consolidated profit and loss account of the Group for the six months ended 30th June 2008 is set out in this announcement.

This announcement is made pursuant to Rule 13.09 of the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited.

Trading in the shares of the Bank was suspended at the request of the Bank with effect from 2:30pm on 18th September 2008 pending the release of this announcement. Application has been made for the resumption of trading in the shares of the Bank from 9:30am on 19th September 2008.

During a regular independent control review performed by The Bank of East Asia, Limited (the "**Bank**"), it was revealed that one of its employees in the Bank's equity derivatives desk (the "**Trader**") had manipulated the valuation of certain equity derivatives held by the Bank without authorisation and in violation of the prescribed operation procedures of the Bank. It is suspected that such unauthorised manipulation was made to conceal losses incurred as a result of certain equity derivatives trades executed by the Trader.

The Bank has carried out immediate investigation and has taken remedial actions expeditiously following discovery of the incident. The Bank has engaged its auditors, KPMG, to carry out a thorough investigation of this case promptly. The Bank, together with KPMG, has reviewed the valuation of all the affected equity derivatives and the relevant records, and is satisfied that all required adjustments have been made.

Before discovery of the manipulation, the Bank recorded a trading profit of approximately HK\$38 million for the period from 1st January to 30th June 2008 in respect of the affected equity derivatives. There should have been a trading loss of HK\$93 million after adjusting the effect of the unauthorised manipulation in the total amount of HK\$131 million. No further trading losses have been incurred on the affected equity derivatives subsequent to that date.

The board of directors of the Bank (the "**Board**") considers that such unauthorised manipulation resulted in a material misstatement of the interim profit before and after tax of the Bank and its subsidiaries (the "**Group**") as announced on 5th August 2008. The restated profit before and after tax of the Group for the six months ended 30th June 2008 are as follows:

	6 months ended 30/6/2008
	HK\$ Mn
Profit before tax	1,073
Profit after tax	821

There is no material effect on the Bank's balance sheet or capital, which remains significantly in excess of regulatory requirements.

The Board considers it essential for the shareholders and the investing public to fully understand the effect on the financial position of the Group as a result of the unauthorised manipulation. The restated consolidated profit and loss account of the Group for the six months ended 30th June 2008, compared with that for the same period as previously announced by the Group is set out below:

	6 months ended 30/6/2008 Restated	6 months ended 30/6/2008 Previously reported
	HK\$ Mn	HK\$ Mn
Interest income	8,832	8,832
Interest expense	(5,349)	(5,349)
Net interest income	3,483	3,483
Fee and commission income	1,425	1,425
Fee and commission expense	(238)	(238)
Net fee and commission	1,187	1,187
Net trading losses	(213)	(82)
Net result from financial instruments designated at fair value through profit or loss	(1,043)	(1,043)

Other operating income	271	271
Non-interest Income	202	333
Operating income	3,685	3,816
Operating expenses	(2,764)	(2,764)
Operating profit before impairment losses	921	1,052
Impairment losses on loans and advances	(89)	(89)
Impairment losses on held-to-maturity investments	(33)	(33)
Impairment losses on available-for-sale financial assets	(198)	(198)
Write back of impairment losses on bank premises	5	5
Impairment losses	(315)	(315)
Operating profit after impairment losses	606	737
Net profit on sale of available-for-sale financial assets	185	185
Net loss on sale of subsidiaries/associates	(9)	(9)
Net loss on sale of fixed assets	(2)	(2)
Valuation gains on investment properties	198	198
Share of profits less losses of associates	95	95
Profit for the period before taxation	1,073	1,204
Income tax		
Current tax		
- Hong Kong	18	(4)
- Overseas	(235)	(235)
Deferred tax	(35)	(35)
Profit for the period after taxation	821	930
Attributable to:		
Equity holders of the Group	785	894
Minority interests	36	36
Profit after taxation	821	930

As it is suspected that fraudulent act may have been involved, the Bank has reported the matter to the Commercial Crime Bureau. The Bank has suspended the Trader from his duties pending investigation.

The Bank considers this an isolated incident involving possible fraudulent conduct of one of its employees. The Bank has a sound and comprehensive internal review and control system which is regularly reviewed both internally and by external professional advisers for improvement. In view of this incident, the Bank has engaged KPMG to conduct a special review on its internal control system and procedures and advise on any existing deficiency, as well as ways to strengthen its internal control measures in relation to equity derivatives trading. The Bank will continue to strengthen its internal control to prevent the occurrence of similar incidents in the future.

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For and on behalf of
The Bank of East Asia, Limited
David LI Kwok-po
Chairman & Chief Executive
Hong Kong, 18th September, 2008

As at the date of this announcement, the Executive Directors of the Bank are: Dr. The Hon. Sir David LI Kwok-po (Chairman & Chief Executive) and Mr. Joseph PANG Yuk-wing (Deputy Chief Executive); 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. Kenneth LO Chin-ming, Mr. KUOK Khoon-ean and Mr. William Doo Wai-hoi, and Non-executive Directors of the Bank are: Mr. Aubrey LI Kwok-sing, Professor Arthur LI Kwok-cheung, Dr. William MONG Man-wai, Tan Sri Dr. KHOO Kay-peng, Mr. Richard LI Tzar-kai, Mr. Eric LI Fook-chuen and Mr. Stephen Charles LI Kwok-sze.