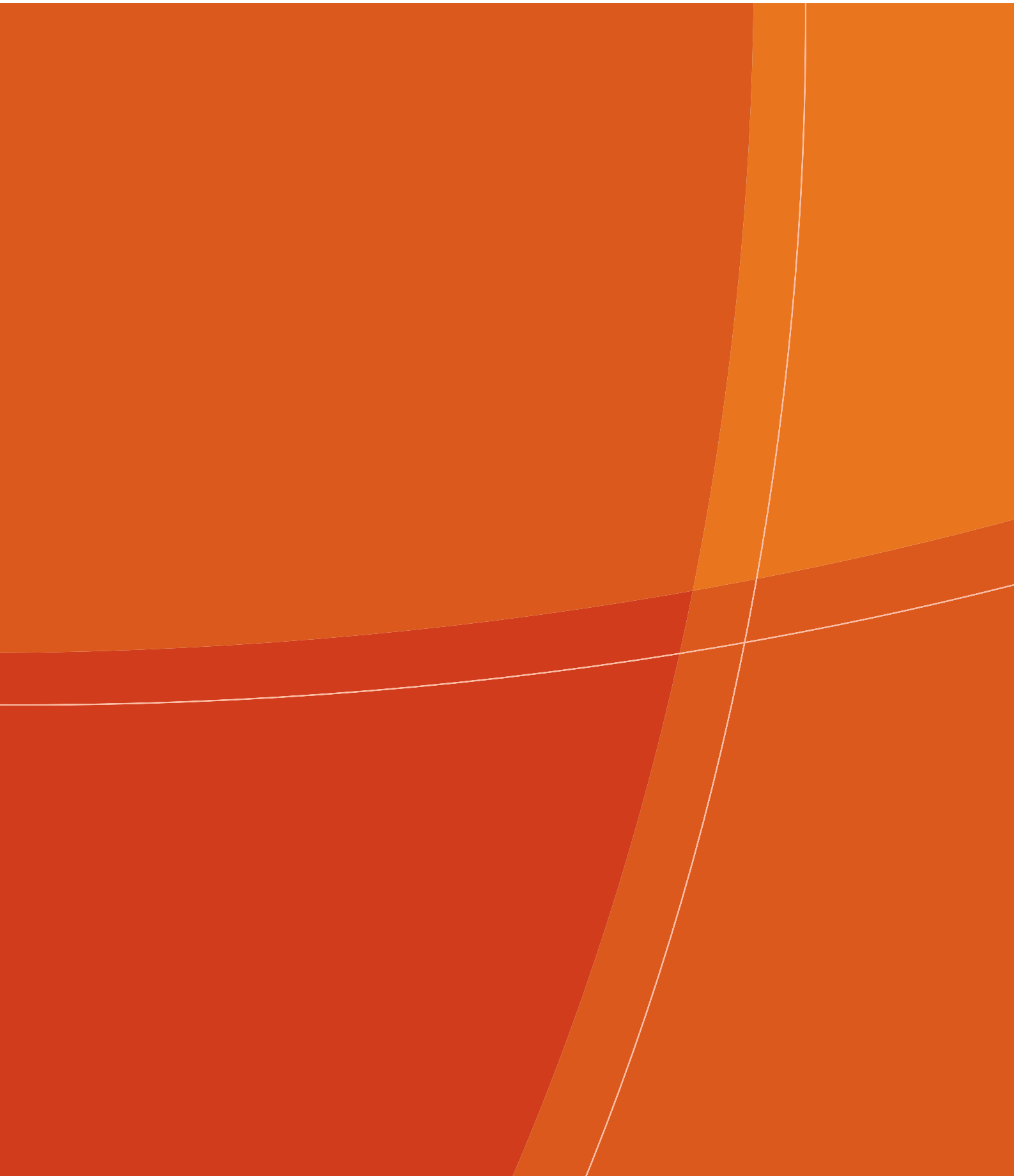


The Bank of East Asia, Limited

Interim Report 2006
(Stock Code: 23)



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The Bank of East Asia, Limited

(Incorporated in Hong Kong with limited liability in 1918)

(Stock Code: 23)

Interim Report 2006

INTERIM RESULTS

The Directors of The Bank of East Asia, Limited ("BEA") are pleased to announce the unaudited results¹ of the Bank and its subsidiaries (the "Group") for the six months ended 30th June, 2006. The interim financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2005 audited accounts. The interim financial report is unaudited, but has been reviewed by KPMG, in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors is included on page 26.

A. Consolidated Profit and Loss Account

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

| | 6 months ended 30/6/2006 | 6 months ended 30/6/2005 Restated | 6 months ended 31/12/2005 |
|---------------------------------|-----------------------------|---|------------------------------|
| | HK\$ | HK\$ | HK\$ |
| Per share | | | |
| — Basic earnings ³ | 1.03 | 0.79 | 1.04 |
| — Diluted earnings ³ | 1.02 | 0.79 | 1.04 |
| — Dividends | 0.43 | 0.33 | 0.93 |

B. Consolidated Balance Sheet

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

C. Consolidated Summary Statement of Changes in Equity

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

D. Condensed Consolidated Cash Flow Statement

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

Notes:

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

E. Fee and Commission Income

Fee and commission income arises from the following services:

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

F. Net Trading Profits

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

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

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

H. Other Operating Income

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

I. Operating Expenses

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

* PRC denotes the People's Republic of China.

J. Trading Assets

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

K. Financial Assets Designated at Fair Value through Profit or Loss

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

L. Advances to Customers and Other Accounts

(a) Advances to Customers and Other Accounts

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

(b) Advances to customers — by industry sectors

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

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

(c) Impaired advances to customers

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

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

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

M. Available-For-Sale Financial Assets

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

N. Held-to-maturity Investments

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

O. Segment Reporting

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

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

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

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

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

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

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

| | 6 months ended 30/6/2006 | | | | | | | |
|---|-----------------------------------|----------------------|-----------------------|-----------------------|----------|-------------|------------------------------|--------------|
| | Personal Financial Services | Corporate Banking | Investment Banking | Corporate Services | Others | Unallocated | Inter-segment elimination | Consolidated |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Net interest income | 1,176,277 | 1,269,941 | (141,111) | 208 | 3,556 | (568) | — | 2,308,303 |
| Other operating income from external customers | 240,980 | 207,672 | 406,138 | 292,774 | 80,732 | 7,909 | — | 1,236,205 |
| Inter-segment income | — | — | — | — | — | 71,752 | (71,752) | — |
| Total operating income | 1,417,257 | 1,477,613 | 265,027 | 292,982 | 84,288 | 79,093 | (71,752) | 3,544,508 |
| Operating expenses | (734,253) | (385,641) | (164,872) | (171,147) | (74,449) | (106,372) | — | (1,636,734) |
| Inter-segment expenses | (58,429) | (7,583) | (2,893) | — | (391) | (2,456) | 71,752 | — |
| Operating profit/(loss) before impairment losses | 624,575 | 1,084,389 | 97,262 | 121,835 | 9,448 | (29,735) | — | 1,907,774 |
| Impairment losses on loans and advances | 10,004 | (164,923) | 1,238 | (232) | (755) | — | — | (154,668) |
| Impairment losses on goodwill | — | — | — | — | (23,698) | — | — | (23,698) |
| Impairment loss on bank premises | — | — | — | — | — | 10,915 | — | 10,915 |
| Impairment losses on available-for-sale financial assets, held-to-maturity investments and associates | — | 3,779 | 12,828 | — | — | — | — | 16,607 |
| | 634,579 | 923,245 | 111,328 | 121,603 | (15,005) | (18,820) | — | 1,756,930 |
| Profit on sale of fixed assets, available-for-sale financial assets, held-to-maturity investments and subsidiaries/associates | — | — | 2,945 | — | 1,308 | (3,941) | — | 312 |
| Revaluation surplus on investment properties | — | — | — | — | 40,478 | — | — | 40,478 |
| Share of profits less losses of associates | 1,068 | 10,221 | 3,311 | — | 34,098 | (944) | — | 47,754 |
| Profit/(loss) before taxation | 635,647 | 933,466 | 117,584 | 121,603 | 60,879 | (23,705) | — | 1,845,474 |
| Income tax | (88,527) | (128,814) | (15,953) | (16,969) | (3,759) | — | — | (254,022) |
| Profit/(loss) for the period after taxation | 547,120 | 804,652 | 101,631 | 104,634 | 57,120 | (23,705) | — | 1,591,452 |
| Attributable to: | | | | | | | | |
| Equity holders of the Group | 547,120 | 804,652 | 101,628 | 77,795 | 57,844 | (23,705) | — | 1,565,334 |
| Minority interests | — | — | 3 | 26,839 | (724) | — | — | 26,118 |
| Profit/(loss) for the period after taxation | 547,120 | 804,652 | 101,631 | 104,634 | 57,120 | (23,705) | — | 1,591,452 |
| Depreciation for the period | (54,737) | (26,920) | (10,697) | (6,327) | (3,517) | (41,554) | — | (143,752) |

6 months ended 30/6/2005 (restated)

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

P. Analysis of Assets and Liabilities by Remaining Maturity

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

31/12/2005

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

Q. Deferred Tax Assets and Liabilities Recognised

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

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

R. Reserves

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

* The Group complies with Hong Kong Monetary Authority's requirement to maintain minimum impairment allowances in excess of those required under Hong Kong Accounting Standards. As at 30th June, 2006, HK\$506,000,000 (30/6/2005: HK\$362,000,000) was included in the retained profits in this respect which was distributable to equity holders of the Group subject to consultation with the Hong Kong Monetary Authority.

S. Consolidated Cash Flow Statement

(a) Purchase of subsidiaries

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

(b) Cash and cash equivalents

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

T. Off-balance Sheet Exposures

Contingent liabilities and commitments

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

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

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

U. Material Related Party Transactions

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

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

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

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

V. Statement of Compliance

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

SUPPLEMENTARY FINANCIAL INFORMATION

1. Capital Adequacy Ratio and Capital Base

(a) Capital adequacy ratio

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

The unadjusted capital adequacy ratio is computed on the consolidated basis which comprises the positions of the Bank and its subsidiaries as required by the Hong Kong Monetary Authority for its regulatory purposes, and is in accordance with the Third Schedule to the Hong Kong Banking Ordinance.

The adjusted capital adequacy ratio which takes into account market risks as at the balance sheet date is computed in accordance with the Guideline "Maintenance of Adequate Capital Against Market Risks" issued by the Hong Kong Monetary Authority and on the same consolidated basis as for the unadjusted capital adequacy ratio.

(b) Group capital base after deductions

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

2. Liquidity Ratio

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

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

3. Segmental information

(a) Advances to customers — by geographical areas

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

| | 30/6/2006 | |
|----------------------------|--------------------------------|--|
| | Total advances to customers | Advances overdue for over three months |
| | HK\$'000 | HK\$'000 |
| Hong Kong | 100,394,600 | 421,702 |
| People's Republic of China | 26,006,723 | 102,310 |
| Other Asian Countries | 7,646,199 | 109,023 |
| Others | 15,036,227 | 11,040 |
| Total | <u>149,083,749</u> | <u>644,075</u> |
| | 30/6/2005 | |
| | Total advances to customers | Advances overdue for over three months |
| | HK\$'000 | HK\$'000 |
| Hong Kong | 93,820,480 | 466,632 |
| People's Republic of China | 15,253,965 | 120,557 |
| Other Asian Countries | 7,129,398 | 115,168 |
| Others | 12,214,423 | 40,141 |
| Total | <u>128,418,266</u> | <u>742,498</u> |

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

(b) Cross-border claims

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

| | 30/6/2006 | | | |
|--|--|------------------------------|------------|------------|
| | Banks and other financial institutions | Public sector entities | Others | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| People's Republic of China | 16,940,523 | 1,598,676 | 16,396,434 | 34,935,633 |
| Asian countries, excluding People's Republic of China | 10,232,626 | 1,140,937 | 8,901,050 | 20,274,613 |
| North America | 6,168,351 | 7,601,858 | 6,433,631 | 20,203,840 |
| Western Europe | 36,616,996 | — | 2,325,362 | 38,942,358 |
| | 30/6/2005 | | | |
| | Banks and other financial institutions | Public sector entities | Others | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| People's Republic of China | 11,073,787 | 1,048,312 | 11,425,950 | 23,548,049 |
| Asian countries, excluding People's Republic of China | 9,213,301 | 1,282,925 | 8,010,298 | 18,506,524 |
| North America | 4,450,453 | 7,796,515 | 5,346,038 | 17,593,006 |
| Western Europe | 15,632,976 | — | 2,618,197 | 18,251,173 |
| | 31/12/2005 | | | |
| | Banks and other financial institutions | Public sector entities | Others | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| People's Republic of China | 12,805,155 | 1,250,504 | 13,667,134 | 27,722,793 |
| Asian countries, excluding People's Republic of China | 9,950,396 | 1,200,368 | 8,991,756 | 20,142,520 |
| North America | 5,345,158 | 7,725,687 | 5,872,380 | 18,943,225 |
| Western Europe | 27,877,005 | — | 2,507,425 | 30,384,430 |

4. Overdue, Rescheduled and Repossessed Assets

(a) Overdue and rescheduled advances

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

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

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

(b) Other overdue and rescheduled assets

| | 30/06/2006 | |
|--|------------------|---------------|
| | Accrued interest | 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 |
| | <hr/> | <hr/> |
| | 4,250 | 20,534 |
| Rescheduled assets | — | — |
| | <hr/> | <hr/> |
| Total other overdue and rescheduled assets | <u>4,250</u> | <u>20,534</u> |
| | | |
| | 30/06/2005 | |
| | Accrued interest | Other assets* |
| | HK\$'000 | HK\$'000 |
| Other assets overdue for | | |
| — 6 months or less but over 3 months | 1,582 | — |
| — 1 year or less but over 6 months | 1,220 | 477 |
| — Over 1 year | 154 | 19,292 |
| | <hr/> | <hr/> |
| | 2,956 | 19,769 |
| Rescheduled assets | — | — |
| | <hr/> | <hr/> |
| Total other overdue and rescheduled assets | <u>2,956</u> | <u>19,769</u> |
| | | |
| | 31/12/2005 | |
| | Accrued interest | Other assets* |
| | HK\$'000 | HK\$'000 |
| Other assets overdue for | | |
| — 6 months or less but over 3 months | 1,551 | — |
| — 1 year or less but over 6 months | 853 | — |
| — Over 1 year | 844 | 19,294 |
| | <hr/> | <hr/> |
| | 3,248 | 19,294 |
| Rescheduled assets | — | — |
| | <hr/> | <hr/> |
| Total other overdue and rescheduled assets | <u>3,248</u> | <u>19,294</u> |

* Other assets refer to trade bills and receivables.

(c) Repossessed assets

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

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

5. Currency Concentrations

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

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

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

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

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

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

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

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

INDEPENDENT REVIEW REPORT



TO THE BOARD OF DIRECTORS OF THE BANK OF EAST ASIA, LIMITED

INTRODUCTION

We have been instructed by the Group to review the interim financial report set out on pages 1 to 18.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, Interim financial reporting issued by the Hong Kong Institute of Certified Public Accountants. The interim financial report is the responsibility of, and has been approved by, the Directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquires of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2006.

KPMG

Certified Public Accountants
Hong Kong, 4th August, 2006

INTERIM DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

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

FINANCIAL REVIEW

Financial Performance

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

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

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

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

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

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

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

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

Financial Position

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

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

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

During the first half of 2006, BEA issued HKD floating rate certificates of deposit with a face value of HK\$2,500 million, and HKD fixed rate certificates of deposit with a face value of HK\$500 million. The Bank redeemed a quantity of certificates of deposit amounting to HK\$785 million equivalent upon maturity, and repurchased its own USD certificates of deposit amounting to HK\$30 million equivalent. The Bank also issued and redeemed a number of short term TWD fixed rate certificates of deposit.

After taking into account all debt instruments issued, the loan-to-deposit ratio was 73.9% at the end of June 2006, being 2.2% lower than the 76.1% reported at the end of 2005.

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

Maturity Profile of Debts Issued

As at 30th June, 2006

(All expressed in millions of dollars)

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

Risk Management

BEA has established comprehensive risk management procedures that enable it to identify, measure, monitor and control the various types of risk it faces, and, where appropriate, to allocate capital against those risks. All risk management policies have been approved by the Board of Directors. Risk management mechanisms have been established at different levels throughout the Group. This is supplemented by active management involvement, effective internal controls and comprehensive audits in the best interests of the Group.

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

(a) Credit Risk Management

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

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

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

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

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

(b) Liquidity Risk and Market Risk Management

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

(1) Liquidity Risk Management

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

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

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

(2) Market Risk Management

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

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

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

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

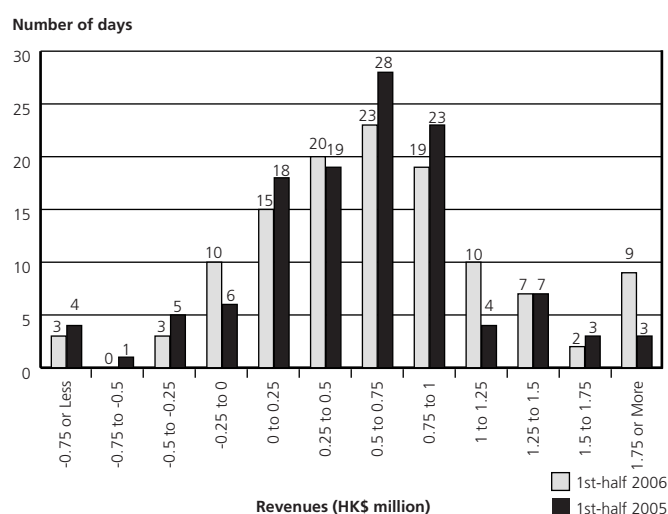
Financial derivatives are instruments that derive their value from the performance of underlying assets, interest or currency exchange rates or indices. The Group principally uses financial derivative instruments as investment alternatives or to manage foreign exchange, interest rate or equity risk,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

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

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

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

DAILY DISTRIBUTION OF MARKET RISK-RELATED TREASURY TRADING REVENUES 1st-half 2006 vs 1st-half 2005



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

(i) *Foreign exchange exposure*

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

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

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

(ii) *Interest rate exposure*

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

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

(iii) *Equities exposure*

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

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

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

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

OPERATIONS REVIEW

FINANCIAL RATINGS

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

IMPROVEMENTS TO OPERATIONS

Relocating Back-Office Operations to China

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

Information Technology

New Accounting System

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

Core Banking System

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

PERSONAL BANKING

Branch Distribution

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

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

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

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

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

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

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

Cyberbanking

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

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

Property Loans

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

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

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

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

Consumer Loans

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

Credit Cards

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

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

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

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

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

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

CORPORATE BANKING

Corporate Lending

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

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

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

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

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

Securities Lending

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

Bank of East Asia (Trustees) Limited

Mandatory Provident Fund

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

Trust Services

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

WEALTH MANAGEMENT

Structured Products

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

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

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

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

Mutual Fund Business/Asset Management

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

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

Bancassurance

To further enhance product variety and to target customers who aim for high savings and a short payment term, the Bank launched two new life insurance products in the first half of 2006, namely the 3-Year Accumulator Savings Insurance and QuickPay Whole Life Insurance. A single premium payment option was also introduced for applicants for QuickPay Whole Life, to allow greater flexibility.

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

Blue Cross (Asia-Pacific) Insurance Limited

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

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

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

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

Private Banking

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

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

INVESTMENT BANKING AND SERVICES

East Asia Securities Company Limited — Securities Cybertrading

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

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

The Company registered 27% growth in the number of Cybertrading accounts, compared with the corresponding period last year. As of 30th June, 2006, more than 55% of the Company's securities clients had subscribed to Cybertrading. Currently, 53% of trades and 35% of transaction value (expressed as a percentage of total turnover) are executed via the Cybertrading System.

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

East Asia Futures Limited — Futures Cybertrading

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

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

CHINA OPERATIONS

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

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

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

OVERSEAS OPERATIONS

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

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

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

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

CORPORATE SERVICES

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

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

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

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

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

MEDICAL SERVICES

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

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

HUMAN RESOURCES

The Bank of East Asia Group employees at 30th June, 2006:

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

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

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

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

FUTURE PROSPECTS

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

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

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

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30th June, 2006, the interests and short positions of the Directors and Chief Executive of the Bank in the shares, underlying shares and debentures of the Bank and its associated corporations as recorded in the Register required to be kept under section 352 of the Securities and Futures Ordinance (the "SFO") were as follows:

I. Long positions in shares of the Bank:

| <u>Name</u> | <u>Capacity and nature</u> | <u>No. of shares</u> | <u>Total</u> | <u>% of issued share capital</u> |
|-----------------------------|--|----------------------|--------------------------|----------------------------------|
| David LI Kwok-po | Beneficial owner | 28,455,577 | 29,143,427 ¹ | 1.90 |
| | Interest of spouse | 687,850 | | |
| LI Fook-wo | Beneficial owner | 1,235,804 | 32,191,182 ² | 2.09 |
| | Founder of discretionary trust | 30,955,378 | | |
| WONG Chung-hin | Beneficial owner | 46,810 | 390,941 ³ | 0.03 |
| | Interest of spouse | 344,131 | | |
| LEE Shau-kee | Beneficial owner | 647,985 | 1,647,985 ⁴ | 0.11 |
| | Interest of corporation | 1,000,000 | | |
| Allan WONG Chi-yun | Interest of spouse | 124 | 10,483,025 ⁵ | 0.68 |
| | Founder of discretionary trust | 10,482,901 | | |
| Aubrey LI Kwok-sing | Beneficial owner | 23,391 | 30,994,413 ⁶ | 2.02 |
| | Interest of spouse | 15,644 | | |
| | Beneficiary of discretionary trust | 30,955,378 | | |
| Joseph PANG Yuk-wing | Beneficial owner | 880,000 | 880,000 | 0.06 |
| William MONG Man-wai | Beneficial owner | 876,602 | 6,119,263 ⁷ | 0.40 |
| | Interest of corporation | 5,242,661 | | |
| CHAN Kay-cheung | Beneficial owner | 908,200 | 908,200 | 0.06 |
| Winston LO Yau-lai | — | — | Nil | Nil |
| KHOO Kay-peng | Interest of corporation | 1,000,000 | 1,000,000 ⁸ | 0.07 |
| Thomas KWOK Ping-kwong | — | — | Nil | Nil |
| Richard LI Tzar-kai | — | — | Nil | Nil |
| TAN Man-kou | — | — | Nil | Nil |
| Kenneth LO Chin-ming | — | — | Nil | Nil |
| Eric LI Fook-chuen | Beneficial owner | 1,040,201 | 33,849,527 ⁹ | 2.20 |
| | Founder and beneficiary of discretionary trust | 18,769,731 | | |
| | Interest of corporation | 14,039,595 | | |
| Stephen Charles LI Kwok-sze | Beneficial owner | 11,224,241 | 24,244,076 ¹⁰ | 1.58 |
| | Interest of children | 440,533 | | |
| | Beneficiary of discretionary trusts | 12,579,302 | | |

Notes:

1. David LI Kwok-po was the beneficial owner of 28,455,577 shares and he was deemed to be interested in 687,850 shares through the interests of his spouse, Penny POON Kam-chui.
2. LI Fook-wo was the beneficial owner of 1,235,804 shares. The remaining 30,955,378 shares were held by The Fook Wo Trust, of which LI Fook-wo was the founder, but he had no influence on how the trustee exercises his discretion. The disclosure of these 30,955,378 shares was made on a voluntary basis. Aubrey LI Kwok-sing was also interested in this same block of 30,955,378 shares as one of the discretionary beneficiaries of the trust (please refer to note 6 below).
3. WONG Chung-hin was the beneficial owner of 46,810 shares and he was deemed to be interested in 344,131 shares through the interests of his spouse, LAM Mei-lin.
4. LEE Shau-kee was the beneficial owner of 647,985 shares.

LEE Shau-kee was deemed to be interested in 1,000,000 shares held through Superfun Enterprises Limited ("Superfun"). Superfun was wholly owned by The Hong Kong and China Gas Company Limited which was 38.46% held by Henderson Investment Limited which in turn was 67.94% held by Kingslee S.A., a wholly-owned subsidiary of Henderson Land Development Company Limited ("Henderson Land").

Henderson Land was 61.87% held by Henderson Development Limited ("Henderson Development"). Hopkins (Cayman) Limited ("Hopkins") as trustee of a unit trust (the "Unit Trust") owned all the issued ordinary shares of Henderson Development. Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"), as trustees of respective discretionary trusts, held units in the Unit Trust. The entire issued share capital of Hopkins, Rimmer and Riddick were owned by LEE Shau-kee.
5. Allan WONG Chi-yun was deemed to be interested in 124 shares through the interests of his spouse, Margaret KWOK Chi-wai. He was also deemed to be interested in 10,482,901 shares held by a discretionary trust, The Wong Chung Man 1984 Trust, of which Allan WONG Chi-yun was a founder.
6. Aubrey LI Kwok-sing was the beneficial owner of 23,391 shares and he was deemed to be interested in 15,644 shares through the interests of his spouse, Elizabeth WOO. The remaining 30,955,378 shares were held by The Fook Wo Trust, a discretionary trust in which Aubrey LI Kwok-sing was one of the discretionary beneficiaries. LI Fook-wo had also made disclosure in respect of the same block of 30,955,378 shares as founder of the discretionary trust (please refer to note 2 above).
7. William MONG Man-wai was the beneficial owner of 876,602 shares. Of the remaining 5,242,661 shares, (i) 4,502,798 shares were held through Shun Hing Electronic Trading Co. Ltd., (ii) 668,323 shares were held through Shun Hing Technology Co. Ltd., and (iii) 71,540 shares were held through Shun Hing Advertising Co. Ltd. Such corporations are accustomed to act in accordance with the directions or instructions of William MONG Man-wai who is the Chairman of these corporations.
8. KHOO Kay-peng was deemed to be interested in 1,000,000 shares which were held through Bonham Industries Limited, a company in which he held 99.9% of the issued capital.
9. Eric LI Fook-chuen was the beneficial owner of 1,040,201 shares, and 18,769,731 shares were held by New Jerico Limited in the capacity of trustee of The Jerico Unit Trust. Eric LI Fook-chuen is the sole director of New Jerico Limited. All the units in The Jerico Unit Trust are held by The New Elico Trust, of which Eric LI Fook-chuen is the founder and a discretionary beneficiary. Eric LI Fook-chuen was also deemed to be interested in 14,039,595 shares held by The Kowloon Dairy Limited of which he is the Chairman and Chief Executive Officer.
10. Stephen Charles LI Kwok-sze was the beneficial owner of 11,224,241 shares, and he was deemed to be interested in 440,533 shares through the interests of his children under the age of 18. 12,429,738 shares were held by a discretionary trust of which Stephen Charles LI Kwok-sze, his spouse and his children under the age of 18 are beneficiaries; and 149,564 shares were held by a discretionary trust of which his children under the age of 18 are beneficiaries.

II. Long positions in (in respect of equity derivatives) underlying shares of the Bank:

Shares options, being unlisted physically settled equity derivatives, to subscribe for the ordinary shares of the Bank were granted to David LI Kwok-po, Joseph PANG Yuk-wing and CHAN Kay-cheung pursuant to the approved Staff Share Option Schemes. Information in relation to these shares options during the six months ended 30th June, 2006 was shown in the following section under the heading "Information on Share Options".

III. Interests in debentures of the Bank:

| Name | Capacity and nature | Amount of debentures |
|---------------------|---------------------------------------|----------------------|
| Richard LI Tzar-kai | Founder of discretionary trust (Note) | US\$4,000,000 |
| Richard LI Tzar-kai | Founder of discretionary trust (Note) | HK\$50,000,000 |

Note: These interests were held through a discretionary investment company, PCI Investment Management Limited, being a controlled corporation of two discretionary trusts, The Ocean Trust and The Starlite Trust, of which Richard LI Tzar-kai was the founder.

Save as disclosed above, no other interest or short position in the shares, underlying shares or debentures of the Bank or any of its associated corporations were recorded in the Register.

INFORMATION ON SHARE OPTIONS

Information in relation to share options disclosed in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") was as follows:

(1) Movement of share options during the six months ended 30th June, 2006:

| Name | Date of Grant ^a | Number of Share Options | | | | Outstanding at 30/6/2006 |
|-------------------------------|----------------------------|-------------------------|------------------------|------------------------|---------|--------------------------|
| | | Outstanding at 1/1/2006 | Granted | Exercised | Lapsed | |
| David LI Kwok-po | 19/4/2001 | 850,000 | — | 850,000 ^c | — | Nil |
| | 18/4/2002 | 850,000 | — | — | — | 850,000 |
| | 02/5/2003 | 1,000,000 | — | — | — | 1,000,000 |
| | 22/4/2004 | 1,000,000 | — | — | — | 1,000,000 |
| | 03/5/2005 | 1,000,000 | — | — | — | 1,000,000 |
| | 03/5/2006 | — | 1,000,000 ^b | — | — | 1,000,000 |
| Joseph PANG Yuk-wing | 19/4/2001 | 400,000 | — | 400,000 ^c | — | Nil |
| | 18/4/2002 | 400,000 | — | — | — | 400,000 |
| | 02/5/2003 | 500,000 | — | — | — | 500,000 |
| | 22/4/2004 | 500,000 | — | — | — | 500,000 |
| | 03/5/2005 | 500,000 | — | — | — | 500,000 |
| | 03/5/2006 | — | 500,000 ^b | — | — | 500,000 |
| CHAN Kay-cheung | 19/4/2001 | 400,000 | — | 400,000 ^c | — | Nil |
| | 18/4/2002 | 400,000 | — | — | — | 400,000 |
| | 02/5/2003 | 500,000 | — | — | — | 500,000 |
| | 22/4/2004 | 500,000 | — | — | — | 500,000 |
| | 03/5/2005 | 500,000 | — | — | — | 500,000 |
| | 03/5/2006 | — | 500,000 ^b | — | — | 500,000 |
| Aggregate of other Employees* | 19/4/2001 | 365,000 | — | 365,000 ^c | — | Nil |
| | 18/4/2002 | 635,000 | — | 285,000 ^c | — | 350,000 |
| | 02/5/2003 | 4,270,000 | — | 2,645,000 ^c | — | 1,625,000 |
| | 22/4/2004 | 12,350,000 | — | 6,290,000 ^c | 50,000 | 6,010,000 |
| | 03/5/2005 | 13,990,000 | — | 2,490,000 ^c | 205,000 | 11,295,000 |
| | 03/5/2006 | — | 1,250,000 ^b | — | — | 1,250,000 |

* Employees working under employment contracts that were regarded as "Continuous Contracts" for the purpose of the Hong Kong Employment Ordinance.

Notes:

a. Particulars of share options:

| <u>Date of Grant</u> | <u>Vesting Period</u> | <u>Exercise Period</u> | <u>Exercise Price Per Share</u> |
|----------------------|-----------------------|------------------------|---------------------------------|
| | | | HK\$ |
| 19/4/2001 | 19/4/2001 — 18/4/2002 | 19/4/2002 — 19/4/2006 | 16.96 |
| 18/4/2002 | 18/4/2002 — 17/4/2003 | 18/4/2003 — 18/4/2007 | 15.80 |
| 02/5/2003 | 02/5/2003 — 01/5/2004 | 02/5/2004 — 02/5/2008 | 14.90 |
| 22/4/2004 | 22/4/2004 — 21/4/2005 | 22/4/2005 — 22/4/2009 | 23.23 |
| 03/5/2005 | 03/5/2005 — 02/5/2006 | 03/5/2006 — 03/5/2010 | 22.95 |
| 03/5/2006 | 03/5/2006 — 02/5/2007 | 03/5/2007 — 03/5/2011 | 33.05 |

b. (i) The closing price of the shares of the Bank immediately before 3rd May, 2006 on which the options were granted was HK\$33.00.

(ii) Fair value of share options granted during the six months ended 30th June, 2006 and assumptions:

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on a trinomial lattice model. The contractual life of the option is used as an input into this model.

| | <u>30/06/2006</u> |
|--|-------------------|
| Fair value at measurement date | HK\$6.38 |
| Share price | HK\$33.05 |
| Exercise price | HK\$33.05 |
| Expected volatility (expressed as weighted average volatility used in the modelling under trinomial lattice model) | 23.27% |
| Option life | 5 years |
| Expected dividends | 7.35% |
| Risk-free interest rate (based on Exchange Fund Notes) | 4.63% |

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

c. The half-year weighted average ("HWA") closing price of the shares of the Bank immediately before the date on which the Options were exercised during the six months ended 30th June, 2006:

| <u>Date of Grant</u> | <u>No. of Options Exercised</u> | <u>Exercise Price Per Share</u> | <u>HWA Closing Price</u> |
|----------------------|-------------------------------------|-------------------------------------|------------------------------|
| | | HK\$ | HK\$ |
| 19/4/2001 | 2,015,000 | 16.96 | 26.56 |
| 18/4/2002 | 285,000 | 15.80 | 28.04 |
| 02/5/2003 | 2,645,000 | 14.90 | 27.24 |
| 22/4/2004 | 6,290,000 | 23.23 | 28.40 |
| 03/5/2005 | 2,490,000 | 22.95 | 31.21 |

(2) No share options were cancelled during the six months ended 30th June, 2006.

(3) The accounting policy adopted for share options:

Share options are granted to employees to acquire shares of the Bank. For option schemes adopted before 2002, the option price was 95% of the average closing price of the existing shares of the Bank for the last five business days immediately preceding the date of offer. At the date of offer or the date of grant, no employee benefit cost or obligation is recognised.

For option schemes adopted in and after 2002, the option exercise price equals the fair value of the underlying shares at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received. The fair value of share options granted to employees is recognised as an expense in the profit and loss account with a corresponding increase in a capital reserve within equity. The fair value is measured at the grant date using the trinomial model, taking into account terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to those share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged or credited to the profit and loss account for the year of the review unless the original expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Bank's shares.

The equity amount is recognised in capital reserve until either the option is exercised (when it is transferred to share premium) or the option expires (when it is released directly to retained profits).

Save as disclosed above, as at 30th June, 2006, none of the Directors or Chief Executive of the Bank or their spouses or children under 18 years of age were granted or exercised any right to subscribe for any equity or debt securities of the Bank or any of its associated corporations.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 30th June, 2006, the interests and short positions of Substantial Shareholders and Other Persons of the Bank in the shares and underlying shares of the Bank as recorded in the Register required to be kept under section 336 of the SFO were as follows:

Long position in shares of the Bank:

| <u>Name</u> | <u>Capacity and nature</u> | <u>No. of shares</u> | <u>% on issued share capital</u> |
|---|------------------------------|----------------------|----------------------------------|
| Silchester International Investors Limited | Investment Manager | 122,982,200* | 8.00 |
| Silchester International Investors International Value Equity Trust | Collective Investment Scheme | 79,124,500* | 5.15 |
| East Asia International Trustees Limited | Trustee | 83,137,567 | 5.41 |

* *The Bank was informally notified by Silchester International Investors Limited of these shareholdings and these increases in shareholdings were not required to be disclosed under Part XV of the SFO. As Silchester International Investors Limited controls the securities held by Silchester International Investors International Value Equity Trust, the 122,982,200 shares included the 79,124,500 shares held by Silchester International Investors International Value Equity Trust.*

Save as disclosed above, no other interest or short position in the shares or underlying shares of the Bank were recorded in the Register.

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, 2006.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

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

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

Code Provision A.2.1

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

Dr. The Hon. Sir David LI Kwok-po is the Chairman and Chief Executive of the Bank. The Board considers that this structure will not impair the balance of power and authority between the Board and the Management of the Bank. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high calibre individuals and meets regularly every two months to discuss issues affecting operations of the Bank. There is a strong independence element in the composition of the Board. Out of the 17 Board members, seven are Independent Non-executive Directors. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Bank to make and implement decisions promptly and efficiently. The Board has full confidence in Sir David, and believes that his appointment to the posts of Chairman and Chief Executive is beneficial to the business prospects and management of the Bank.

Code Provision A.4.1 and A.4.2

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

At the Annual General Meeting of the Bank held on 7th April, 2006, a special resolution was passed to amend the relevant Articles of Association of the Bank which provide that every Director appointed by the Board during the year shall retire at the next general meeting; every Director shall be subject to retirement at least once every three years.

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

COMPLIANCE WITH MODEL CODE

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

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

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

By order of the Board

David Li Kwok-po

Chairman & Chief Executive

Hong Kong, 4th August, 2006.

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