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Five-Year Financial Summary

	2005	As restated* 2004	2003	2002	2001
For The Year (In HK$ Million)					
Net interest income	**1,682**	1,500	1,400	1,399	1,516
Other operating income	**826**	825	694	562	540
Operating expenses	**810**	785	736	847	849
Operating profit	**1,702**	1,525	1,192	940	1,064
Profit attributable to shareholders	**1,472**	1,329	1,013	867	988
Dividend	**460**	460	400	400	400
At Year End (In HK$ Million)					
Shareholders' funds	**11,673**	10,631	10,678	10,077	9,741
Total assets	**80,702**	75,058	74,804	73,272	71,653
Total deposits	**64,037**	60,373	59,948	60,150	58,108
Total loans and advances	**34,333**	30,205	28,149	27,757	29,169
Financial Ratios					
Capital adequacy ratio-adjusted	**23%**	23%	23%	22%	22%
Liquidity ratio	**57%**	64%	74%	66%	57%
Loan to deposit ratio**	**61.23%**	59.42%	53.25%	52.65%	56.34%
Dividend payout ratio	**31.25%**	34.60%	39.49%	46.14%	40.48%
Return on average assets	**1.89%**	1.77%	1.37%	1.20%	1.44%

* 2004 figures have been restated to conform with current year's basis of preparation. Figures prior to 2004 have not been restated.

**Loan to deposit ratio is stated based on total loans and advances, trade bills and holdings of debt securities issued by corporations to total deposits.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Fifty-fifth Annual General Meeting of the Members of the Bank will be held at its Registered Office, 12 Queen's Road Central, Hong Kong on Wednesday, 19th April 2006 at 11:15 a.m. to transact the following business:

(1) To receive and consider the audited financial statements and the Reports of the Directors and of the Auditors for the year ended 31st December 2005;

(2) To declare Dividend in respect of the year 2005;

(3) To elect Directors;

(4) To approve the payment of Directors' fees for the year ended 31st December 2005;

(5) To re-appoint Auditors and to authorise the Directors to fix their remuneration.

A Member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not also be a Member.

The Register of Members of the Bank will be closed from Wednesday, 12th April 2006 to Wednesday, 19th April 2006, both days inclusive.

By Order of the Board
Edward Kawah Chu
Assistant General Manager & Corporate Secretary

Hong Kong, 23rd February 2006

Board of Directors



John Kam-pak Yan, Chairman & Managing Director

* Jung-sen Lee, OBE, LLD

Hung-ching Yung, JP

Frank Kai-shu Lau

Lincoln Chu Kuen Yung, JP

Shen Ruolei

* Dr. Philip Kin Hang Wong, GBS, JP, LLD, DH

David Joseph Zuercher
(Michael Gallagher, Alternate)

* Dr. Richard Lee

* Johnson Mou Daid Cha
(Dr. Lam Chat Yu, Alternate)

David Sek-chi Kwok

Robert Law Joss
(Ignatius Wooi-kean Choong, Alternate)

Fu Jianhua
(Zhang Qi, Alternate)

Stephen Ching Yen Lee
(Chen Yih Pin, Alternate)

Edward Kawah Chu

* Independent Non-executive Directors

Front row from left to right:

Mr. Lincoln Chu Kuen Yung

Mr. Robert Law Joss

Mr. Shen Ruolei

Mr. Jung-sen Lee

Mr. John Kam-pak Yan

Mr. Hung-ching Yung

Mr. David Joseph Zuercher

Dr. Philip Kin Hang Wong

Mr. Fu Jianhua

Back row from left to right:

Mr. Edward Kawah Chu

Mr. Stephen Ching Yen Lee

Dr. Richard Lee

Mr. Frank Kai-shu Lau

Mr. Johnson Mou Daid Cha

Mr. David Sek-chi Kwok

Management

Executives

Chairman & Managing Director	John Kam-pak Yan	
General Manager	David Sek-chi Kwok	
Assistant General Manager & Corporate Secretary	Edward Kawah Chu	
Assistant General Managers	Chun-yiu Chan	
	Francis Wai-choi Cheung	
Assistant General Manager & Chief Financial Controller	Henry Koon-man To	
Senior Managers	Chun-sum Chan	Hon-ming Mak
	Daniel Kwok-hung Chan	Paul Kun-kow Wong
	Burton Chi-shan Cheng	Henry Siu-chuen Lau
	John Yu-kam Chow	
Chief Auditor	Pui-man Yeung	
Managers	Albert Tak-wo Leung	Raymond Pui-kam Tse
	Stella Pik-san Lau	Sing-yui Fung
	Elizabeth Po-san Ng	Tony Kwok-keung Wat
	Alvin Kwok-kit Lau	Karen Yan
	Vincent Chi-wing Man	Thomas Chee-kin Lo

Overseas Branches

London Branch	
Manager	Frederick Yan Chu
San Francisco Branch	
Vice President & Manager	Philip She-hoi Lee
New York Branch	
Vice President & Manager	Timothy Kam-tim Chan
Los Angeles Branch	
Senior Vice President & Manager	Ching-hsing Kao

Mainland Branch

Shenzhen Branch	
Manager	Vincent Chi-wing Man

Mainland Representative Office

Shanghai Representative Office	
Chief Representative	Alvin Kwok-kit Lau

Biographical Details of Directors and Senior Management

Directors

Mr. John Kam-pak Yan

Aged 64. Chairman and Managing Director of the Bank. Joined the Bank in August 1959. Appointed a Director in February 1988 and as Managing Director in October 1997. Chief Executive since April 2000. Elected Chairman in September 2001.

Mr. Jung-sen Lee, OBE, LLD

Aged 90. Appointed a Director of the Bank in May 1952. A Director of Lee Gardens International Holdings Limited.

Mr. Hung-ching Yung, JP

Aged 83. Appointed a Director of the Bank in March 1973. Managing Director and General Manager of Nanyang Holdings Limited. Chairman of The Shanghai Commercial & Savings Bank, Ltd. and Shanghai Sung Nan Textile Co. Ltd.

Mr. Frank Kai-shu Lau

Aged 63. Appointed a Director of the Bank in March 1996. Former General Manager of the Bank.

Mr. Lincoln Chu Kuen Yung, JP

Aged 60. Appointed a Director of the Bank in September 1998. He has extensive experience in the textile industry, banking and investment. Currently he serves as a Director of Nanyang Holdings Limited, The Shanghai Commercial & Savings Bank, Ltd. and Tai Ping Carpets International Limited.

Mr. Shen Ruolei

Aged 60. Appointed a Director of the Bank in March 1999. Chairman of Shanghai United International Investment Ltd. and CitiInsurance Life Insurance Company, Ltd. Vice Chairman of Shanghai International Trust & Investment Corporation. A Director of Bank of Shanghai.

Dr. Philip Kin Hang Wong, GBS, JP, LLD, DH

Aged 73. Appointed a Director of the Bank in March 2001. A consultant of a Hong Kong firm of solicitors and also a Notary Public, Hong Kong SAR and a China Appointed Attesting Officer.

Mr. David Joseph Zuercher

Aged 59. Appointed an Alternate Director to Professor Chang-Lin Tien in January 1999 and resigned in March 2001 when he was appointed a Director of the Bank. Executive Vice President of Wells Fargo Bank, N.A.

Dr. Richard Lee

Aged 68. Appointed a Director of the Bank in April 2001. Chairman of TAL Apparel Limited and a Director of Jardine Matheson Holdings Limited, Hongkong Land Holdings Limited and Mandarin Oriental International Limited.

Mr. Johnson Mou Daid Cha

Aged 54. Appointed a Director of the Bank in September 2001. Managing Director of Mingly Corporation, and also a Director of HKR International Limited, Hanison Construction Holdings Limited and China International Capital Corporation Limited.

Mr. David Sek-chi Kwok

Aged 52. General Manager of the Bank. Joined the Bank in October 1971. Appointed a Director in October 2001. Alternate Chief Executive since January 2004 and General Manager since July 2004.

Mr. Robert Law Joss

Aged 64. Served as a Director of the Bank from April 1979 to March 1984 and also from July 1985 to March 1993. Appointed an Alternate Director to Mr. David Joseph Zuercher in March 2001 and resigned in April 2002 when he was appointed a Director of the Bank. A Director of Wells Fargo & Company. Dean of the Graduate School of Business at Stanford University.

Mr. Fu Jianhua

Aged 54. Appointed a Director of the Bank in January 2004. Chairman of Bank of Shanghai. A Director of Shanghai United International Investment Ltd.

Mr. Stephen Ching Yen Lee

Aged 59. Appointed a Director of the Bank in June 2004. Managing Director of The Shanghai Commercial & Savings Bank, Ltd. and Great Malaysia Textile Manufacturing Company Private Limited. Chairman of Singapore Airlines Limited.

Mr. Edward Kawah Chu

Aged 50. Assistant General Manager and Corporate Secretary of the Bank. Joined the Bank in December 1979. Appointed a Director in February 2005.

Mr. Ignatius Wooi-kean Choong

Aged 44. Served as an Alternate Director to Mr. Paul Mandeville Hazen from January 1997 to March 2001 and also as an Alternate Director to Professor Chang-Lin Tien from March 2001 to March 2002. Appointed an Alternate Director to Mr. Robert Law Joss in April 2002. Managing Director, Asia Investment Management, Wells Fargo Bank, N.A.

Dr. Lam Chat Yu

Aged 54. Appointed an Alternate Director to Mr. Johnson Mou Daid Cha in May 2002. He has more than 20 years of investment experience, including 15 years in Silicon Valley, California and 11 years in Asia. He is an Executive Director of Mingly Corporation.

Mr. Michael Gallagher

Aged 44. Appointed an Alternate Director to Mr. David Joseph Zuercher in January 2003. Senior Vice President and Regional Manager of Asia Regional Office, Wells Fargo Bank, N.A.

Mr. Zhang Qi

Aged 32. Appointed an Alternate Director to Mr. Fu Jianhua in January 2004. Senior Supervisor of the General Administration Department of Bank of Shanghai. Secretary of the Board of Directors of Shanghai United International Investment Ltd.

Mr. Chen Yih Pin

Aged 66. Appointed an Alternate Director to Mr. Stephen Ching Yen Lee in June 2004. Managing Director and President of The Shanghai Commercial & Savings Bank, Ltd.

Senior Management

Mr. John Kam-pak Yan

(Biographical details are set out on page 6)

Mr. David Sek-chi Kwok

(Biographical details are set out on page 7)

Mr. Edward Kawah Chu

(Biographical details are set out on page 8)

Mr. Chun-yiu Chan

Aged 57. An Assistant General Manager of the Bank. Joined the Bank in January 1968.

Mr. Francis Wai-choi Cheung

Aged 55. An Assistant General Manager of the Bank. Joined the Bank in July 1969.

Mr. Henry Koon-man To

Aged 53. Assistant General Manager and Chief Financial Controller of the Bank. Joined the Bank in December 1988.


2005 業績優異頒獎典禮





The Bank treasures its employees as valuable resources. Apart from actively recruiting quality new blood, it establishes reward schemes in recognizing performing staff to promote teamwork and solidarity.

本銀行重視人力資源，積極招聘專才，並設獎勵計劃，表彰表現優秀的員工，務求上下一心，群策群力。





Message to Shareholders

The Hong Kong economy experienced another year of robust growth in 2005. The Gross Domestic Product grew 7.3 per cent in real terms in 2005, further to the 8.6 per cent growth in 2004. Benefiting from the economic expansion, the unemployment rate fell to a four-year low of 5.3 per cent by the end of 2005. The improvement in labour market conditions and household income in turn boosted the growth in domestic consumption. On the other hand, after a strong recovery that lasted for two years, the property market slowed following successive interest rate rises in the second half of 2005.

Favourable economic conditions have benefited the local banking industry. Interest margins increased in 2005 as a result of rises in domestic interest rates, while the overall asset quality continued to improve. The number of residential mortgage loans in negative equity dropped by about 90 per cent by the end of 2005 as compared with its peak in the middle of 2003. Similarly, the credit card charge-off ratio declined significantly from its peak in 2002.

Shanghai Commercial Bank Limited (the "Bank") achieved a record high consolidated profit attributable to shareholders of HK$1,472 million in 2005, representing an increase of 10.7 per cent from 2004. Increase in the net interest income as a result of an expansion of the Bank's loan portfolio and an improvement in the net interest margin was a significant factor contributing to the rise in the Bank's profit.

With regard to the Bank's branches outside of Hong Kong, the business results of all three U.S. branches improved in 2005 in line with the buoyant economy in the United States. The Shenzhen Branch, which commenced business in September 2004 as the Bank's first branch in the Mainland and has been generating profits for two years, is preparing for the submission of an application to operate Renminbi business.

As competition becomes increasingly intense in the local banking industry, the Bank continuously devises strategies to maintain and expand its share in the market. During 2005, the Bank set up new SME units in four of its major local branches (Tsimshatsui Branch, Tsuen Wan Branch, Shamshuipo Branch and Kwai Chung Branch) in an effort to strengthen the Bank's niche in serving small and medium-sized enterprises. More resources are being devoted to equip the Bank's marketing teams for the expansion of the Bank's customer base in the trade finance business. The Bank has also been expanding the range of wealth management products offered to its customers as part of its agenda to enhance its fee-generating businesses. A marketing campaign launched to promote the new product of Currency Linked Deposits was highly successful, and the Bank will soon roll out the product of Equity Linked Deposits upon its receipt of approvals from the regulatory authorities.

Equally important to the Bank's business development are the Bank's technological support, back-office operations, as well as human capital. A project to upgrade the Bank's mainframe computer is well under way. In keeping with the spirit of the Bank's compliant culture, the Bank is progressing steadily in its preparation for the implementation of Basel II. Furthermore, the Bank has been recruiting more qualified staff members in the expansion of its work force, as it is the Bank's firm belief that human resources management is the most critical factor for a bank's success.

Wells Fargo Bank, N.A., one of the major shareholders of the Bank, has nominated Mr. David Allen Hoyt to replace Mr. Robert Law Joss as a Director of the Bank, and the appointment of Mr. Hoyt will take effect upon obtaining the approval of the Hong Kong Monetary Authority. Mr. Frank Kai-shu Lau, a Director of the Bank, will not stand for re-election at the forthcoming Annual General Meeting on 19th April 2006. We wish to express the appreciation of the Board to Mr. Joss and Mr. Lau for their precious contributions during the tenure of their directorship.

Looking ahead, the economic growth in Hong Kong is expected to moderate in 2006. Fierce competition in the local banking sector will persist, particularly if loan demand slows in tandem with the economy. Despite the challenges ahead, the Bank will strive to become the most competitive local bank by providing unsurpassed services to its customers, achieving satisfactory growth in its net interest income as well as its fee and commission income, and seizing appropriate growth opportunities.

We wish to take this opportunity to extend our gratitude to the shareholders for their continued support and confidence in the Bank, to our fellow Directors for their counsel and guidance, to all staff members for their dedicated efforts, and to the Bank's customers for their trust and support for the Bank.

John Kam-pak Yan
Chairman & Managing Director

David Sek-chi Kwok
General Manager

Hong Kong, 23rd February 2006

Report of the Directors

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31st December 2005.

Principal activities

The Bank and its subsidiary companies are engaged in the provision of banking and related financial services.

Profit and appropriations

		HK$'000	HK$'000
The Group profit for the year after taxation less minority interests amounted to			1,472,130
Deduct:	Profit retained by jointly controlled entities		(5,500)
	Profit retained by subsidiary companies		(7,119)
			1,459,511
Add:	Dividends received out of prior year's profit retained in a subsidiary company		273,000
Profit for the year dealt with in the financial statements of the Bank			1,732,511
Add:	Restated retained profits of the Bank brought forward		1,117,756
Deduct:	Effect of changes in accounting policies		(54,569)
	Exchange translation differences		(1,593)
			2,794,105
which the Directors propose to appropriate as follows:			
Transfer to general reserve		(500,000)	
Proposed dividend of HK$23 per share		(460,000)	(960,000)
Retained profits of the Bank carried forward			1,834,105

Reserves

Movements in the reserves of the Group and the Bank during the year are set out in Note 26 to the financial statements.

Donations

During the year donations made by the Bank and its subsidiary companies for charitable and other purposes amounted to HK$1,298,000.

Fixed assets

Details of the movements in fixed assets of the Group and the Bank are shown in Note 20 to the financial statements.

Directors

The Directors of the Bank during the year and at the date of this report are:

Jung-sen Lee
Hung-ching Yung
John Kam-pak Yan
Frank Kai-shu Lau
Lincoln Chu Kuen Yung
Shen Ruolei
Dr. Philip Kin Hang Wong
David Joseph Zuercher
  (Michael Gallagher, Alternate)
Dr. Richard Lee
Johnson Mou Daid Cha
  (Dr. Lam Chat Yu, Alternate)
David Sek-chi Kwok
Robert Law Joss
  (Ignatius Wooi-kean Choong, Alternate)
Fu Jianhua
  (Zhang Qi, Alternate)
Stephen Ching Yen Lee
  (Chen Yih Pin, Alternate)
Edward Kawah Chu (appointed on 7th February 2005)

In accordance with Article 104(A) of the Bank's Articles of Association, Mr. Jung-sen Lee, Mr. Hung-ching Yung, Mr. Frank Kai-shu Lau and Mr. Lincoln Chu Kuen Yung shall retire by rotation at the forthcoming Annual General Meeting and, with the exception of Mr. Frank Kai-shu Lau, offer themselves for re-election.

Directors' interests

No contracts of significance in relation to the Group's business to which the Bank, its subsidiary companies, its fellow subsidiaries or its holding companies was a party and in which a Director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the Bank, its subsidiary companies, its fellow subsidiaries or its holding companies a party to any arrangements to enable the Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

Management contracts

No substantial contracts concerning the management and administration of the whole or any substantial part of the business of the Bank were entered into or existed during the year.

Financial disclosures

The Bank has fully complied with the requirements set out in the guideline on "Financial Disclosure by Locally Incorporated Authorized Institutions" issued by the Hong Kong Monetary Authority in November 2002.

Compliance with the Code of Best Practice

According to Article 123 of the Bank's Articles of Association, the Bank adopts the guidelines set out in the Code of Best Practice contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Code of Best Practice"). The Code of Best Practice was replaced by the Code on Corporate Governance Practices which became effective for accounting periods commencing on or after 1st January 2005. After taking into consideration the own circumstances of the Bank, which is a private company, the Board of Directors of the Bank has decided to adopt only those provisions in the Code on Corporate Governance Practices that are relevant and of value to the Bank. The following ten Code Provisions are those that the Bank has chosen to deviate from or are considered not applicable to the Bank: A.2.1, A.4.1, A.4.2, A.5.4, C.1.2, C.2.1, C.3.5, E.2.1, E.2.2 and E.2.3.

Auditors

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
John Kam-pak Yan
Chairman

Hong Kong, 23rd February 2006

Auditors' Report to the Shareholders of Shanghai Commercial Bank Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 18 to 90 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of Directors and Auditors

The Hong Kong Companies Ordinance requires the Directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Bank and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Bank and the Group as at 31st December 2005 and of the profit of the Bank and the Group and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23rd February 2006

Consolidated Profit and Loss Account

for the year ended 31st December 2005

	Note	2005 HK$'000	As restated 2004 HK$'000
Interest income	4(a)	**3,070,440**	2,051,087
Interest expense	4(b)	**(1,388,270)**	(551,214)
Net interest income		**1,682,170**	1,499,873
Other operating income	4(c)	**825,569**	825,409
Operating income		**2,507,739**	2,325,282
Operating expenses	5	**(809,658)**	(785,006)
Operating profit before impairment losses/charge for bad and doubtful debts		**1,698,081**	1,540,276
Reversal of impairment losses on advances and trade bills/ (charge for bad and doubtful debts)	7	**4,242**	(14,984)
Operating profit		**1,702,323**	1,525,292
Net losses on disposal of fixed assets		**(1,497)**	(888)
Profits on disposal of an investment property		**18,461**	–
Profits less losses on disposal of held-to-maturity securities and available-for-sale securities/non-trading securities		**65,360**	25,910
Share of net profits of jointly controlled entities		**7,330**	4,955
Profit before taxation		**1,791,977**	1,555,269
Taxation	8	**(318,873)**	(225,194)
Profit after taxation		**1,473,104**	1,330,075
Attributable to:			
Shareholders of the Bank	26	**1,472,130**	1,329,475
Minority interests		**974**	600
		1,473,104	1,330,075
Dividend	9 and 26	**460,000**	460,000

Profit and Loss Account

for the year ended 31st December 2005

	Note	2005 HK$'000	As restated 2004 HK$'000
Interest income	4(a)	**2,981,884**	1,963,643
Interest expense	4(b)	**(1,393,785)**	(551,839)
Net interest income		**1,588,099**	1,411,804
Dividends from subsidiary companies		**364,409**	81,820
Other operating income	4(c)	**814,130**	820,386
Operating income		**2,766,638**	2,314,010
Operating expenses	5	**(799,563)**	(779,851)
Operating profit before impairment losses/charge for bad and doubtful debts		**1,967,075**	1,534,159
Impairment losses on advances and trade bills/ charge for bad and doubtful debts	7	**(1,974)**	(14,984)
Operating profit		**1,965,101**	1,519,175
Net losses on disposal of fixed assets		**(1,483)**	(815)
Profits on disposal of an investment property		**18,461**	–
Profits less losses on disposal of held-to-maturity securities and available-for-sale securities/non-trading securities		**65,360**	25,910
Profit before taxation		**2,047,439**	1,544,270
Taxation	8	**(314,928)**	(224,739)
Profit after taxation	26	**1,732,511**	1,319,531
Dividend	9 and 26	**460,000**	460,000

Consolidated Balance Sheet

as at 31st December 2005

	Note	2005 HK$'000	As restated 2004 HK$'000
Assets			
Cash and short-term funds	10	**20,420,169**	20,076,076
Placements with banks and other financial institutions maturing between one and twelve months	11	**4,665,155**	2,418,605
Trade bills	12	**1,345,715**	1,357,162
Certificates of deposit held	13	**1,942,602**	2,757,828
Securities at fair value through profit or loss/ securities held for dealing purposes	14	**464,530**	473,599
Derivative financial instruments	28(b)	**9,828**	–
Advances to customers, a bank and other accounts	15	**35,200,468**	30,680,933
Held-to-maturity securities	17	**3,000,981**	8,652,144
Available-for-sale securities/non-trading securities	18	**13,074,434**	8,014,796
Investments in jointly controlled entities	19(a)	**136,938**	130,438
Fixed assets	20	**441,555**	496,289
Total assets		**80,702,375**	75,057,870
Liabilities			
Deposits and balances of banks and other financial institutions		**4,002,147**	3,060,379
Derivative financial instruments	28(b)	**9,094**	–
Deposits from customers	21	**60,930,727**	57,672,909
Certificates of deposit issued	22	**3,106,278**	2,700,000
Other accounts and provisions	23	**975,038**	987,959
Total liabilities		**69,023,284**	64,421,247
Equity			
Minority interests		**6,332**	5,673
Capital and reserves attributable to the shareholders of the bank			
Share capital	25	**2,000,000**	2,000,000
Reserves	26	**9,672,759**	8,630,950
Shareholders' funds		**11,672,759**	10,630,950
Total equity		**11,679,091**	10,636,623
Total liabilities and equity		**80,702,375**	75,057,870

John Kam-pak Yan
Chairman

Hung-ching Yung
Director

Johnson Mou Daid Cha
Director

David Sek-chi Kwok
General Manager

Balance Sheet

as at 31st December 2005

	Note	2005 HK$'000	As restated 2004 HK$'000
Assets			
Cash and short-term funds	10	**20,341,937**	20,076,068
Placements with banks and other financial institutions maturing between one and twelve months	11	**4,665,155**	2,418,605
Trade bills	12	**1,345,715**	1,357,162
Certificates of deposit held	13	**1,942,602**	2,757,828
Securities at fair value through profit or loss/ securities held for dealing purposes	14	**464,530**	473,599
Derivative financial instruments	28(b)	**9,828**	–
Advances to customers, a bank and other accounts	15	**34,950,589**	30,508,005
Held-to-maturity securities	17	**1,427,045**	7,131,333
Available-for-sale securities/non-trading securities	18	**12,620,645**	7,600,897
Investments in jointly controlled entities	19(a)	**96,062**	95,062
Investments in and loans to subsidiary companies	19(b)	**2,095,812**	1,823,716
Fixed assets	20	**417,771**	466,677
Total assets		**80,377,691**	74,708,952
Liabilities			
Deposits and balances of banks and other financial institutions		**4,002,147**	3,060,379
Derivative financial instruments	28(b)	**9,094**	–
Deposits from customers	21	**60,929,819**	57,671,594
Certificates of deposit issued	22	**3,106,278**	2,700,000
Other accounts and provisions	23	**750,877**	983,011
Total liabilities		**68,798,215**	64,414,984
Equity			
Capital and reserves attributable to the shareholders of the bank			
Share capital	25	**2,000,000**	2,000,000
Reserves	26	**9,579,476**	8,293,968
Shareholders' funds		**11,579,476**	10,293,968
Total liabilities and equity		**80,377,691**	74,708,952

John Kam-pak Yan
Chairman

Hung-ching Yung
Director

Johnson Mou Daid Cha
Director

David Sek-chi Kwok
General Manager

Consolidated Statement of Changes in Equity

	Note	Attributable to the Bank's shareholders			Minority Interests	Total Equity
		Share Capital	Other Reserves	Retained Profits		
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1st January 2004, as previously reported	25, 26	2,000,000	7,515,002	1,162,939	5,353	10,683,294
Effect of changes in accounting policies:						
– on adoption of HKAS 17	26	–	(998,619)	18,936	–	(979,683)
– on adoption of HKAS 40	26	–	(11,321)	–	–	(11,321)
Balance at 1st January 2004, as restated		2,000,000	6,505,062	1,181,875	5,353	9,692,290
Change in fair value of non-trading securities	26	–	31,980	–	–	31,980
Effect of deferred taxation	24, 26	–	9,849	–	–	9,849
Exchange translation differences	26	–	3,092	76	–	3,168
Transfer from retained profits	26	–	505,000	(505,000)	–	–
Net gains/(losses) not recognised in the profit and loss account		–	549,921	(504,924)	–	44,997
Profit for the year	26	–	–	1,329,475	600	1,330,075
Realised on disposal of non-trading securities	26	–	(30,459)	–	–	(30,459)
Dividend relating to 2003	26	–	–	(400,000)	(280)	(400,280)
Balance at 31st December 2004, as restated	25, 26	2,000,000	7,024,524	1,606,426	5,673	10,636,623

	Note	Attributable to the Bank's shareholders			Minority Interests	Total Equity
		Share Capital	Other Reserves	Retained Profits		
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1st January 2005, as per above	25, 26	2,000,000	7,024,524	1,606,426	5,673	10,636,623
Opening adjustments on the adoption of						
– HKAS 39	26	–	327,156	(50,102)	5	277,059
– HKFRS 3	26	–	(32,280)	62,812	–	30,532
Balance at 1st January 2005, as restated		2,000,000	7,319,400	1,619,136	5,678	10,944,214
Change in fair value of available-for-sale securities	26	–	(283,612)	–	–	(283,612)
Effect of deferred taxation	24, 26	–	59,389	–	–	59,389
Exchange translation differences	26	–	(8,314)	(887)	–	(9,201)
Transfer from retained profits	26	–	505,000	(505,000)	–	–
Net gains/(losses) not recognised in the profit and loss account		–	272,463	(505,887)	–	(233,424)
Profit for the year	26	–	–	1,472,130	974	1,473,104
Realised on disposal of available-for-sale securities	26	–	(44,483)	–	–	(44,483)
Transfer to retained profits		–	(265,000)	265,000	–	–
Dividend relating to 2004	26	–	–	(460,000)	(320)	(460,320)
Balance at 31st December 2005	25, 26	2,000,000	7,282,380	2,390,379	6,332	11,679,091

	Year ended 31st December	
	2005	2004
	HK$'000	HK$'000
Proposed dividends in retained profits	460,000	460,000

Consolidated Cash Flow Statement

for the year ended 31st December 2005

	2005 HK$'000	2004 HK$'000
Profit before taxation	**1,791,977**	1,555,269
Share of net profits of jointly controlled entities	**(7,330)**	(4,955)
(Reversal of impairment losses on advances and trade bills)/ charge for bad and doubtful debts	**(4,242)**	14,984
Depreciation expenses on property and equipment	**70,449**	82,466
Amortisation of interests in leasehold land	**4,568**	4,452
Amortisation of intangible assets	**632**	–
Net losses on disposal of fixed assets	**1,497**	888
Profits on disposal of an investment property	**(18,461)**	–
Profits less losses on disposal of held-to-maturity securities and available-for-sale securities/non-trading securities	**(65,360)**	(25,910)
Amortisation of held-to-maturity and available-for-sale securities/non-trading securities	**91,429**	49,351
Interest income on held-to-maturity securities and available-for-sale securities/ non-trading securities	**(800,339)**	(621,453)
Dividend income on available-for-sale securities/non-trading securities	**(16,097)**	(11,181)
Interest expenses on certificates of deposit issued	**81,222**	20,202
Operating cash inflow before changes in operating assets and liabilities	**1,129,945**	1,064,113
(Increase)/decrease in operating assets:		
Interest receivable, prepaid expenses and other accounts	**(128,051)**	100,690
Advances to customers and a bank, amounts written off and recoveries	**(4,217,502)**	(2,118,886)
Trade bills	**27,643**	(406,331)
Securities at fair value through profit and loss/securities held for dealing purposes	**(39,566)**	(137,327)
Cash and short-term funds with original maturity beyond three months	**653,817**	(497,207)
Placements with banks and other financial institutions with original maturity beyond three months	**(368,472)**	(477,592)
Treasury bills with original maturity beyond three months	**(78,225)**	–
Certificates of deposit held	**756,748**	136,719
Increase/(decrease) in operating liabilities:		
Interest payable, accrued expenses and other accounts	**(339,345)**	28,450
Deposits from customers	**3,307,201**	662,616
Deposits and balances of banks and other financial institutions with original maturity beyond three months	**(98,346)**	–
Decrease in statutory deposits	**282**	1,497
Net cash inflow/(outflow) from operating activities before taxation	**606,129**	(1,643,258)
Hong Kong profits tax paid	**(29,272)**	(186,707)
Overseas tax paid	**(54,778)**	(38,118)
Net cash inflow/(outflow) from operating activities	**522,079**	(1,868,083)

	Note	2005 HK$'000	2004 HK$'000
Cash flows from investing activities			
Interest received on held-to-maturity securities and available-for-sale securities/non-trading securities		**784,213**	694,440
Dividends received on available-for-sale securities/non-trading securities		**16,097**	11,181
Dividend received from jointly controlled entities		**1,830**	2,080
Purchase of available-for-sale securities/non-trading securities		**(5,905,982)**	(5,155,179)
Purchase of held-to-maturity securities		**(842,736)**	(1,282,147)
Sale/redemption of available-for-sale securities/non-trading securities		**6,655,621**	1,743,405
Sale/redemption of held-to-maturity securities		**615,209**	3,881,330
Payment for acquisition of a subsidiary company		**(18,100)**	–
(Increase)/repayment of advance by a jointly controlled entity		**(1,000)**	300
Purchase of fixed assets		**(41,812)**	(41,660)
Sale of fixed assets		**490**	91
Sale of an investment property		**40,150**	–
Net cash inflow/(outflow) from investing activities		**1,303,980**	(146,159)
Net cash inflow/(outflow) before financing activities		**1,826,059**	(2,014,242)
Cash flows from financing activities			
Interest paid on certificates of deposit issued		**(75,052)**	(20,355)
Dividend paid on ordinary shares		**(460,000)**	(400,000)
Dividend paid to a minority shareholder of a subsidiary company		**(320)**	(280)
Dividend paid to former shareholders of a subsidiary company		**(1,086)**	–
Issue of certificates of deposit	27(a)	**1,640,000**	1,460,000
Redemption of certificates of deposit issued	27(a)	**(1,240,000)**	(1,698,000)
Net cash outflow from financing activities		**(136,458)**	(658,635)
Effect of exchange rate changes		**86,580**	(111,890)
Increase/(decrease) in cash and cash equivalents		**1,776,181**	(2,784,767)
Cash and cash equivalents at 1st January		**18,937,099**	21,721,866
Cash and cash equivalents at 31st December	27(b)	**20,713,280**	18,937,099
Cash flow from operating activities include:			
Interest received		**3,087,562**	2,115,649
Interest paid		**1,382,624**	550,489
Dividend received		**16,627**	13,219

Notes to the Financial Statements

1 Principal activities

The Bank and its subsidiary companies ("the Group") are engaged in the provision of banking and related financial services in Hong Kong, United States, United Kingdom and the Peoples of Republic of China.

2 Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group and the financial statements of the Bank have been prepared under the historical cost convention as modified by the revaluation of certain assets, and in accordance with Hong Kong Financial Reporting Standards (HKFRSs which is a collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The Group has adopted the following applicable new/revised HKFRSs issued which are effective for accounting period beginning on or after 1st January 2005 and the 2004 comparatives have been amended as required in accordance with the relevant requirements:

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

Except for the following, the new/revised HKFRSs did not result in substantial changes to the Group's accounting policies.

In summary:

HKAS 17: Leases ("HKAS 17")
The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are expensed in the profit and loss account on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was accounted for at valuation or cost less accumulated depreciation.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

HKAS 39: Financial Instruments - Recognition and Measurement ("HKAS 39")
The adoption of HKAS 39 has resulted in a change in the accounting policy relating to the classification of certain financial assets previously recognised as held-to-maturity securities into available-for-sale securities. It has also resulted in the recognition of derivative financial instruments at fair value.

HKAS 40: Investment Property ("HKAS 40")
On adoption of HKAS 40, cost method is adopted. The investment properties are to be depreciated over their useful lives and the amount previously credited in revaluation reserve for the investment properties are reversed to reflect the change.

HKFRS 3: Business Combinations ("HKFRS 3"), HKAS 36: Impairment of Assets ("HKAS 36") and HKAS 38: Intangible Assets ("HKAS 38")
The adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill. Until 31st December 2004, negative goodwill was:

- Carried at cost in the reserve account and was assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- The Group recognised the negative goodwill arising before 1st January 2005 in the retained profits account.

HKFRS 5: Non-current Assets Held for Sale and Discontinued Operations ("HKFRS 5")
The adoption of HKFRS 5 has resulted in change in accounting policy for repossessed collateral assets. Repossessed collateral assets are reported as "Repossessed assets" under "Other assets" and the relevant loans are derecognised. The repossessed collateral assets are measured at lower of carrying amount and net realisable value.

In prior years, loans and advances where assets had been repossessed continued to be reported as "Advances to customers" on the balance sheet and the carrying value was adjusted to net realisable value of the repossessed assets.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards, where applicable. All new/revised standards adopted by the Group require retrospective application other than:

HKAS 39: Financial Instruments: Recognition and Measurement ("HKAS 39")
The standard does not permit the recognition, derecognition and measurement of financial assets and liabilities in accordance with these standards on a retrospective basis. The Group applied the previous standard, SSAP 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st January 2005.

HKFRS 3: Business Combinations ("HKFRS 3")
The standard is applied prospectively after the adoption date.

HKFRS 5: Non-current Assets Held for Sale and Discontinued Operations ("HKFRS 5")
The standard is applied prospectively after the adoption date.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

Estimated effect of changes in the accounting policies on balance sheet items of the Group and the Bank

The Group

	HKAS 17 HK$'000	HKAS 32 & HKAS 39 HK$'000	HKFRS 3 HK$'000	Total HK$'000
Increase/(decrease) in assets as at 31st December 2005				
Cash and short-term funds	–	(245)	–	(245)
Placements with banks and other financial institutions maturing between one and twelve months	–	26,414	–	26,414
Trade bills	–	1,945	–	1,945
Certificates of deposit held	–	9,934	–	9,934
Securities at fair value through profit or loss (reclassification)	–	(44,709)	–	(44,709)
Derivative financial instruments	–	9,828	–	9,828
Advances to customers, a bank and other accounts	253,511	98,599	–	352,110
Held-to-maturity securities (reclassification)	–	(3,666,243)	–	(3,666,243)
Available-for-sale securities (reclassification)	–	3,864,378	(3,855)	3,860,523
Fixed assets	(1,433,746)	–	–	(1,433,746)
	(1,180,235)	299,901	(3,855)	(884,189)
Increase/(decrease) in liabilities as at 31st December 2005				
Deposits and balances of banks and other financial institutions	–	1,654	–	1,654
Derivative financial instruments	–	9,094	–	9,094
Deposits from customers	–	69,570	–	69,570
Certificates of deposit issued	–	6,278	–	6,278
Other accounts and provisions	(220,189)	(38,476)	–	(258,665)
	(220,189)	48,120	–	(172,069)
	(960,046)	251,781	(3,855)	(712,120)
Increase/(decrease) in equity as at 31st December 2005				
Property revaluation reserve	(980,284)	–	–	(980,284)
Regulatory reserve	–	262,370	–	262,370
Investment revaluation reserve/(deficit) (net of deferred tax)	–	(24,695)	(3,855)	(28,550)
Capital reserve on consolidation	–	–	(28,425)	(28,425)
Retained profits	20,238	14,101	28,425	62,764
	(960,046)	251,776	(3,855)	(712,125)
Minority interests	–	5	–	5
	(960,046)	251,781	(3,855)	(712,120)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

The Bank

	HKAS 17 HK$'000	HKAS 32 & HKAS 39 HK$'000	Total HK$'000
Increase/(decrease) in assets as at 31st December 2005			
Cash and short-term funds	–	(245)	(245)
Placements with banks and other financial institutions maturing between one and twelve months	–	26,414	26,414
Trade bills	–	1,945	1,945
Certificates of deposit held	–	9,934	9,934
Securities at fair value through profit or loss (reclassification)	–	(44,709)	(44,709)
Derivative financial instruments	–	9,828	9,828
Advances to customers, a bank and other accounts	253,511	109,250	362,761
Held-to-maturity securities (reclassification)	–	(3,671,651)	(3,671,651)
Available-for-sale securities (reclassification)	–	3,857,107	3,857,107
Fixed assets	(1,433,746)	–	(1,433,746)
	(1,180,235)	297,873	(882,362)
Increase/(decrease) in liabilities as at 31st December 2005			
Deposits and balances of banks and other financial institutions	–	1,654	1,654
Derivative financial instruments	–	9,094	9,094
Deposits from customers	–	69,555	69,555
Certificates of deposit issued	–	6,278	6,278
Other accounts and provisions	(220,189)	(38,460)	(258,649)
	(220,189)	48,121	(172,068)
	(960,046)	249,752	(710,294)
Increase/(decrease) in equity as at 31st December 2005			
Property revaluation reserve	(980,284)	–	(980,284)
Regulatory reserve	–	262,370	262,370
Investment revaluation reserve/(deficit) (net of deferred tax)	–	(23,695)	(23,695)
Capital reserve on consolidation	–	–	–
Retained profits	20,238	11,077	31,315
	(960,046)	249,752	(710,294)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

The Group and the Bank

	HKAS 17 HK$'000	HKAS 40 HK$'000	Total HK$'000
Increase/(decrease) in assets as at 31st December 2004			
Advances to customers, a bank and other accounts	331,060	–	331,060
Fixed assets	(1,451,440)	(11,321)	(1,462,761)
	(1,120,380)	(11,321)	(1,131,701)
Increase/(decrease) in liabilities as at 31st December 2004			
Other accounts and provisions	(149,697)	–	(149,697)
	(149,697)	–	(149,697)
	(970,683)	(11,321)	(982,004)
Increase/(decrease) in equity as at 31st December 2004			
Property revaluation reserve	(990,442)	(11,321)	(1,001,763)
Retained profits	19,759	–	19,759
	(970,683)	(11,321)	(982,004)
Minority interest	–	–	–
	(970,683)	(11,321)	(982,004)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

Estimated effect of changes in the accounting policies on consolidated profit and loss account

The Group
Period for the year ended 31st December 2005

	HKAS 17 HK$'000	HKAS 32 & HKAS 39 HK$'000	HKFRS 3 HK$'000	Total HK$'000
Increase/(decrease) in				
Interest income	–	28,100	–	28,100
Operating expenses	13,136	–	–	13,136
Impairment losses on loans and advances	–	18,856	–	18,856
Revaluation loss on derivative financial instruments	–	(1,469)	–	(1,469)
Income tax expenses	(344)	16,714	–	16,370
Revaluation loss on reclassification of securities held for dealing purposes	–	2,002	–	2,002
Change in profit for the year	12,792	64,203	–	76,995

The Bank
Period for the year ended 31st December 2005

	HKAS 17 HK$'000	HKAS 32 & HKAS 39 HK$'000	HKFRS 3 HK$'000	Total HK$'000
Increase/(decrease) in				
Interest income	–	28,100	–	28,100
Operating expenses	13,136	–	–	13,136
Impairment losses on loans and advances	–	20,299	–	20,299
Revaluation loss on derivative financial instruments	–	(1,469)	–	(1,469)
Income tax expenses	(344)	16,714	–	16,370
Revaluation loss on reclassification of securities held for dealing purposes	–	2,002	–	2,002
Change in profit for the year	12,792	65,646	–	78,438

The Group and the Bank
Period for the year ended 31st December 2004

	HKAS 17 HK$'000	Total HK$'000
Decrease in		
Operating expenses	13,136	13,136
Change in profit for the year	13,136	13,136

2 Summary of significant accounting policies (Continued)

2.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries made up to 31st December.

(a) Subsidiaries

Subsidiaries are those entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Bank's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Bank on the basis of dividends received.

(b) Jointly controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an investment.

The consolidated profit and loss account included the Group's share of the results of jointly controlled entities, and the consolidated balance sheet included the Group's share of the net assets of the jointly controlled entities.

In the Bank's balance sheet, the investments in jointly controlled entities are stated at cost less provision, if necessary, for impairment losses. The results of jointly controlled entities are accounted for by the Bank on the basis of dividends received.

2.3 Translation of foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong Dollars, which is the Bank's functional and presentation currency.

(b) Transactions and balances

Transactions in foreign currencies are translated into Hong Kong Dollars at rates of exchange ruling at the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale securities, are included in the fair value reserve in equity.

2 Summary of significant accounting policies (Continued)

2.3 Translation of foreign currencies (Continued)

(c) Group companies and overseas branches
The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated into Hong Kong Dollars at the rates of exchange ruling at the date of that balance sheet;
(ii) income and expenses for each profit and loss account are translated into Hong Kong Dollars at average exchange rates for the year; and
(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

2.4 Income recognition

(a) Interest income and expenses
Interest income and expense are recognised in the profit and loss account for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) Fee and commission income
Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

(c) Dividend income
Dividend income is recognised when the right to receive payment is established.

2 Summary of significant accounting policies (Continued)

2.5 Leases

(a) Land
Interest in freehold land is stated at cost and included as fixed asset on the balance sheet.

Interest in leasehold land is amortised on a straight line basis over the unexpired period of the lease term and included in "other accounts" on the balance sheet.

(b) Operating leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals made under operating leases are expensed in the profit and loss account on a straight-line basis over the lease term. The Group's interests in leasehold land are also accounted as operating leases.

2.6 Fixed assets

(a) Bank premises
Buildings comprise mainly branches and offices. Buildings are stated at cost less accumulated depreciation and impairment losses. Depreciation of buildings is provided annually by charging a sum sufficient to write down the cost of the buildings systematically, based on management's appraisal of the conditions of the buildings, which includes estimations of the remaining useful lives of the buildings, which are not expected to exceed 40 years.

The gain or loss on disposal of bank premises is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in the profit and loss account.

(b) Furniture, fittings and equipment
Furniture, fittings and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation of furniture, fittings and equipment other than computer equipment is calculated to write off the cost of the assets over their estimated useful lives on a reducing balance basis at a rate of 25% in the year of addition and at 20% per annum thereafter. Computer equipment is depreciated on a straight line basis over four years.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.7 Financial assets

From 1st January 2004 to 31st December 2004

(a) Securities held for dealing purposes
Securities held for dealing purposes are securities which are acquired for the purpose of generating a profit from short-term fluctuations in price, and are stated at market value at the balance sheet date with the gains and losses arising on revaluation being dealt with in the profit and loss account. Market value represents the quoted market price for securities that are actively traded in a liquid market.

(b) Non-trading securities
Non-trading securities are securities other than held-to-maturity securities or securities held for dealing purposes, which are intended to be held for long term and are included in the balance sheet at fair value. Net gains or losses arising from the change in fair values of these securities are accounted for as movements in the investment revaluation reserve until the security is disposed of or is determined to be impaired at which time its cumulative gain or loss is transferred from reserve to the profit and loss account. Market value represents the quoted market price for securities that are actively traded in a liquid market.

2 Summary of significant accounting policies (Continued)

2.7 Financial assets (Continued)

From 1st January 2005 onwards

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity securities, and available-for-sale securities. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition.

(a) Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

(c) Held-to-maturity securities
Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity securities, the entire category would be tainted and reclassified as available-for-sale securities.

(d) Available-for-sale securities
Available-for-sale securities are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of securities are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the securities have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale securities and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity securities are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the profit and loss account in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in the profit and loss account. However, interest calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account when the Group's right to receive payment is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

2 Summary of significant accounting policies (Continued)

2.8 Impairment of financial assets

From 1st January 2004 to 31st December 2004

Provisions were made against specific loans and advances as and when the directors had doubts on the ultimate recoverability of principal or interest in full. Specific provision was made to reduce the carrying value of the asset, net of any collateral, to the expected net realisable value based on the directors' assessment of the potential losses on those identified loans and advances on a case-by-case basis. For loans and advances where assets had been repossessed, provision was made for any shortfall between the expected net realisable value of the repossessed assets and the outstanding advances.

Where it was not possible to reliably estimate the loss, the Group applied pre-determined provisioning levels to the unsecured portion of loans and advances based on the Group's loan classification procedures. The Group internally classified loans and advances into 5 categories largely based on an assessment of the borrower's capacity to repay and on the degree of doubt about the collectibility of interest and/or principal. One important indicator of collectibility was the period that payments of interest and/or principal had been overdue. A specific provision ranging from 5% to 100% was made against loans and advances where there was doubt about the collectibility of interest and/or principal.

In addition, amounts had been set aside as a general provision for doubtful debts. Both specific and general provisions were deducted from "Loans and advances to customers" in the balance sheet.

When there was no realistic prospect of recovery, the outstanding debt was written off.

Financial assets, other than loans and advances and securities held for dealing purposes, were reviewed on each balance sheet date to determine whether there was any indication of impairment. If the recoverable amount of the asset was estimated to be less than the carrying amount, the carrying amount of the asset was reduced to its recoverable amount and the impairment loss was recognised in the profit and loss account. For non-trading securities, any loss previously recognised in investment revaluation reserve was transferred to profit and loss account.

From 1st January 2005 onwards

(a) Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

(i) significant financial difficulty of the issuer or obligor;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;
(iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
(iv) it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
(v) the disappearance of an active market for that financial asset because of financial difficulties; or
(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

2 Summary of significant accounting policies (Continued)

2.8 Impairment of financial assets (Continued)

(a) Assets carried at amortised cost (Continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, it includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity securities carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account. If a loan or held-to-maturity security has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectable, it is written off against the related allowances for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the allowances for loan impairment in profit and loss account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit and loss account.

2 Summary of significant accounting policies (Continued)

2.8 Impairment of financial assets (Continued)

(b) Assets carried at fair value
The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale securities, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit and loss account.

2.9 Derivative financial instruments

From 1st January 2004 to 31st December 2004

Off-balance sheet financial instruments included derivatives, such as futures, forwards, swaps, options and other transactions undertaken by the Group in the foreign exchange, interest rate, equity and other markets. The accounting for these instruments was dependent upon whether the transactions were undertaken for trading purposes or to hedge risk.

Derivative financial instruments other than those transacted to hedge risk were deemed to be held for trading purposes.

Transactions undertaken for trading purposes were measured at fair value. Fair values were obtained periodically from various sources, including quoted market prices, discounted cash flow models and option pricing models as appropriate. The gain or loss arising was recognised in the profit and loss account as “Net gain/(loss) from foreign exchange trading” or “Net gain/(loss) from other dealing activities”.

Unrealised gains on trading derivatives which were marked to market were included in “Other assets” account. Unrealised losses on transactions which were marked to market were included in “Other liabilities” account.

On the date a derivative contract was entered into, the Group designated certain derivative transactions as hedges. Derivatives were classified as a hedge when the following criteria were met:

(a) formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship was prepared;
(b) the hedge was documented showing that it was expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and
(c) the hedge was expected to be effective on an on-going basis.

Transactions designated as hedges were valued on an equivalent basis to the assets, liabilities or net positions that they were hedging. Any profit or loss was recognised in the profit and loss account on the same basis as that arising from the related assets, liabilities or net positions.

If the derivative transaction no longer met the criteria for a hedge set out above, the derivative was deemed to be held for trading purposes and was accounted for as set out above.

2 Summary of significant accounting policies (Continued)

2.9 Derivative financial instruments (Continued)

From 1st January 2005 onwards

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profits on day 1.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss account.

2.10 Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statement. However, if the deferred taxation arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for. Deferred taxation is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred taxation related to fair value re-measurement of available-for-sale securities and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the profit and loss account together with the deferred gain or loss.

2.11 Employee benefits

(a) Retirement benefit costs
The Group operates a defined benefit scheme, contributes to two defined contribution schemes and a Mandatory Provident Fund Scheme.

The defined benefit scheme is funded by payments from the Group by taking account recommendations of independent qualified actuaries.

The defined benefit costs are assessed using the Attained Age Method and the cost of providing the benefit is charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries, who value the scheme once every three years.

2 Summary of significant accounting policies (Continued)

2.11 Employee benefits (Continued)

(a) Retirement benefit costs (Continued)
The Group's contributions to the defined contribution schemes and the Mandatory Provident Fund are charged to the profit and loss account. The assets of the Group's Mandatory Provident Fund Scheme, the defined contribution schemes and the defined benefit scheme are held separately from those of the Group in independently administered funds.

(b) Employee leave entitlements
Employee entitlements to annual leave are recognised when they accrue to employees. Employee entitlements to sick leave and maternity leave are recognised when the absences occur.

2.12 Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence.

2.13 Investment properties

Property that is held for long term capital appreciation and not occupied by the companies in the consolidated Group is classified as investment property. Investment property is located in Hong Kong and comprise land held under operating lease and the building situated on top of it. Investment property is measured at cost and all investment properties held by the Group had been disposed of before the balance sheet date.

2.14 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary company and jointly controlled entity at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

From 1st January 2004 to 31st December 2004
Negative goodwill on acquisitions was included in reserves.

From 1st January 2005 onwards
Negative goodwill that was included in reserves in prior years is transferred to retained profits.

2.15 Repossessed assets

Repossessed collateral assets are reported as "Assets held for sale" under "Other assets" and the relevant loans are derecognised. The repossessed collateral assets are measured at lower of carrying amount and net realisable value.

2.16 Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash, balances with banks and other financial institutions, treasury bills, other eligible bills and certificates of deposit.

The cash and cash equivalents exclude certain amount of deposits with the local banks in the countries the Group is operating the business for the purpose of complying with the local statutory requirements of the countries.

2.17 Fiduciary activities

The Group commonly acts as trustees and in other fiduciary capacities, for a fee and commission income, that result in the holding or placing of assets on behalf of individuals, trusts and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

2.18 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3 Financial risk management

3.1 Strategy in using financial instruments

The Group uses different types of derivatives to manage foreign exchange and interest rate sensitivity primarily to hedge its underlying positions. The types of derivatives used by the Group include forward exchange rate and interest rate swap contracts which are typically made over-the-counter and are managed within limits approved by the Directors or with prior approval obtained from the Executive Committee. The policy on the use of derivatives is reviewed by the Executive Committee and recommended changes and amendments are submitted to the Board of Directors for approval.

3.2 Credit risk management

Credit risk is the risk that a customer or counterparty of the Bank will be unable or unwilling to meet a commitment when it falls due. It arises from the lending, trade finance, treasury and other activities undertaken by the Bank. Credit approval and review procedures and guidelines, delegated approval authorities and an effective credit control system are used to maintain the high quality of the loan portfolio and other risk assets. The Bank manages the credit risk of its counterparties within a conservative framework by evaluating the creditworthiness of its counterparties, and setting credit limits on individual counterparty, country and industry sector. The Bank's credit risk is managed and monitored by the Credit Committee under limits and guidelines approved by the Directors. Impairment allowances are made for losses that have been incurred at the balance sheet date.

3.3 Geographical concentrations of assets, liabilities and off-balance sheet items

The Group

	Total assets HK$'000	**Total liabilities HK$'000**	**Contingent liabilities and commitment HK$'000**	**Total operating income HK$'000**	**Profit before taxation HK$'000**	**Capital expenditure HK$'000**
At 31st December 2005						
Hong Kong & PRC	**71,095,472**	**59,941,211**	**28,002,023**	**2,274,806**	**1,637,137**	**41,257**
Europe	**5,834,511**	**5,823,100**	**140,386**	**32,807**	**15,769**	**81**
Americas	**7,008,104**	**6,109,734**	**2,392,607**	**200,126**	**139,071**	**474**
Intersegment eliminations	**(3,235,712)**	**(2,850,761)**	**–**	**–**	**–**	**–**
Total	**80,702,375**	**69,023,284**	**30,535,016**	**2,507,739**	**1,791,977**	**41,812**

	As restated Total assets HK$'000	As restated Total liabilities HK$'000	Contingent liabilities and commitment HK$'000	Total operating income HK$'000	As restated Profit before taxation HK$'000	Capital expenditure HK$'000
At 31st December 2004						
Hong Kong & PRC	65,503,409	55,280,747	28,085,063	2,124,478	1,423,752	40,933
Europe	6,738,327	6,720,572	179,774	39,776	26,067	587
Americas	6,235,982	5,453,161	1,970,747	161,028	105,450	140
Intersegment eliminations	(3,419,848)	(3,033,233)	–	–	–	–
Total	75,057,870	64,421,247	30,235,584	2,325,282	1,555,269	41,660

3 Financial risk management (Continued)

3.3 Geographical concentrations of assets, liabilities and off-balance sheet items (Continued)

The Bank

	Total assets HK$'000	Total liabilities HK$'000	Contingent liabilities and commitment HK$'000	Total operating income HK$'000	Profit before taxation HK$'000	Capital expenditure HK$'000
At 31st December 2005						
Hong Kong & PRC	**70,750,375**	**59,701,352**	**28,002,023**	**2,532,171**	**1,892,532**	**49,205**
Europe	**5,829,507**	**4,939,780**	**140,386**	**34,415**	**15,864**	**81**
Americas	**7,008,104**	**6,990,450**	**2,392,607**	**200,052**	**139,043**	**474**
Intersegment eliminations	**(3,210,295)**	**(2,833,367)**	**–**	**–**	**–**	**–**
Total	**80,377,691**	**68,798,215**	**30,535,016**	**2,766,638**	**2,047,439**	**49,760**

	As restated Total assets HK$'000	As restated Total liabilities HK$'000	Contingent liabilities and commitment HK$'000	Total operating income HK$'000	As restated Profit before taxation HK$'000	Capital expenditure HK$'000
At 31st December 2004						
Hong Kong & PRC	65,133,304	55,259,474	28,083,881	2,166,384	1,472,209	47,184
Europe	6,732,168	6,707,553	179,774	3,703	(13,765)	587
Americas	6,235,982	5,461,796	1,970,747	143,923	85,826	140
Intersegment eliminations	(3,392,502)	(3,013,839)	–	–	–	–
Total	74,708,952	64,414,984	30,234,402	2,314,010	1,544,270	47,911

Geographic sector risk concentrations within the customer loan portfolio were as follows:

The Group

	2005 HK$'000	2005 %	2004 HK$'000	2004 %
Hong Kong & PRC	**28,807,886**	**84%**	25,484,604	84%
Europe	**222,545**	**1%**	264,889	1%
Americas	**5,219,227**	**15%**	4,447,938	15%
Total	**34,249,658**	**100%**	30,197,431	100%

The Bank

	2005 HK$'000	2005 %	2004 HK$'000	2004 %
Hong Kong & PRC	**28,784,527**	**84%**	25,317,910	84%
Europe	**222,545**	**1%**	264,889	1%
Americas	**5,219,227**	**15%**	4,447,938	15%
Total	**34,226,299**	**100%**	30,030,737	100%

3 Financial risk management (Continued)

3.4 Market risk

Market risk is the risk that interest rates, foreign exchange rates or equity prices will move relative to positions taken, resulting in profits or losses. In the ordinary course of business, the Bank enters into various types of financial instruments, mainly forward exchange rate contracts, that are mainly customers-driven and are entered into on behalf of customers. The measuring procedures and limit systems used for market risk management have been approved by the Directors. The Bank's market risk is managed by the Treasury Department and monitored by management. The transactions included in the trading book as at 31st December 2005 for the Group and the Bank is not significant.

3.5 Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31st December. Included in the table are the Group's assets and liabilities at carrying amounts of Hong Kong dollar equivalent (in thousands), categorised by currency.

Concentrations of assets, liabilities and off-balance sheet items:

The Group

At 31st December 2005

	HK$	US$	EUR	Other	Total
Assets					
Cash and short-term funds	5,564,041	8,745,490	1,252,505	4,858,133	20,420,169
Placements with banks and other financial institutions maturing between one and twelve months	2,374,064	1,469,991	29,684	791,416	4,665,155
Trade bills	75,493	1,240,537	27,479	2,206	1,345,715
Certificates of deposit held	1,710,159	232,443	–	–	1,942,602
Securities at fair value through profit or loss	1,291	463,239	–	–	464,530
Derivative financial instruments	–	679	766	8,383	9,828
Advances to customers, a bank and other accounts	26,372,345	8,478,377	40,482	309,264	35,200,468
Held-to-maturity securities	1,569,925	1,431,056	–	–	3,000,981
Available-for-sale securities	2,905,172	9,210,214	87,662	871,386	13,074,434
Investments in jointly controlled entities	136,938	–	–	–	136,938
Fixed assets	331,641	73,230	–	36,684	441,555
Total assets	41,041,069	31,345,256	1,438,578	6,877,472	80,702,375
Liabilities					
Deposits and balances of banks and other financial institutions	2,985,542	1,016,134	–	471	4,002,147
Derivative financial instruments	–	1,837	1,443	5,814	9,094
Deposits from customers	26,110,613	26,644,055	1,462,151	6,713,908	60,930,727
Certificates of deposit issued	3,106,278	–	–	–	3,106,278
Other accounts and provisions	603,456	330,478	12,113	28,991	975,038
Total liabilities	32,805,889	27,992,504	1,475,707	6,749,184	69,023,284
Net on-balance sheet position	8,235,180	3,352,752	(37,129)	128,288	11,679,091
Off-balance sheet net notional position	548,599	544,918	75,763	348,160	1,517,440
Credit commitments	23,335,541	6,749,081	117,363	333,031	30,535,016

3 Financial risk management (Continued)

3.5 Currency risk (Continued)

The Group

At 31st December 2004

	HK$	US$	EUR	Other	Total
Assets					
Cash and short-term funds	4,375,267	10,835,988	467,753	4,397,068	20,076,076
Placements with banks and other financial institutions maturing between one and twelve months	242,500	1,925,126	69,743	181,236	2,418,605
Trade bills	60,599	1,206,300	69,671	20,592	1,357,162
Certificates of deposit held	2,578,822	–	–	179,006	2,757,828
Securities held for dealing purposes	47,853	425,746	–	–	473,599
Advances to customers, a bank and other accounts	24,360,424	5,735,557	174,660	410,292	30,680,933
Held-to-maturity securities	3,493,664	3,534,522	306,449	1,317,509	8,652,144
Non-trading securities	1,115,251	6,599,268	107,056	193,221	8,014,796
Investments in jointly controlled entities	130,438	–	–	–	130,438
Fixed assets	377,332	76,526	–	42,431	496,289
Total assets	36,782,150	30,339,033	1,195,332	6,741,355	75,057,870
Liabilities					
Deposits and balances of banks and other financial institutions	2,149,436	747,183	–	163,760	3,060,379
Deposits from customers	23,307,944	26,682,513	1,167,996	6,514,456	57,672,909
Certificates of deposit issued	2,700,000	–	–	–	2,700,000
Other accounts and provisions	464,739	457,414	27,336	38,470	987,959
Total liabilities	28,622,119	27,887,110	1,195,332	6,716,686	64,421,247
Net on-balance sheet position	8,160,031	2,451,923	–	24,669	10,636,623
Off-balance sheet net notional position	2,646,091	3,513,074	1,674,101	376,778	8,210,044
Credit commitments	22,570,284	6,538,438	622,564	504,298	30,235,584

3 Financial risk management (Continued)

3.5 Currency risk (Continued)

The Bank

At 31st December 2005

	HK$	US$	EUR	Other	Total
Assets					
Cash and short-term funds	5,485,809	8,745,490	1,252,505	4,858,133	20,341,937
Placements with banks and other financial institutions maturing between one and twelve months	2,374,064	1,469,991	29,684	791,416	4,665,155
Trade bills	75,492	1,240,537	27,479	2,207	1,345,715
Certificates of deposit held	1,710,159	232,443	–	–	1,942,602
Securities at fair value through profit or loss	1,291	463,239	–	–	464,530
Derivative financial instruments	–	679	766	8,383	9,828
Advances to customers, a bank and other accounts	26,121,965	8,481,384	40,482	306,758	34,950,589
Held-to-maturity securities	–	1,427,045	–	–	1,427,045
Available-for-sale securities	2,451,384	9,210,215	87,662	871,384	12,620,645
Investments in jointly controlled entities	96,062	–	–	–	96,062
Investments in and loans to subsidiary companies	2,053,893	(458)	–	42,377	2,095,812
Fixed assets	341,488	73,230	–	3,053	417,771
Total assets	40,711,607	31,343,795	1,438,578	6,883,711	80,377,691
Liabilities					
Deposits and balances of banks and other financial institutions	2,985,542	1,016,134	–	471	4,002,147
Derivative financial instruments	–	1,837	1,443	5,814	9,094
Deposits from customers	26,109,705	26,644,056	1,462,151	6,713,907	60,929,819
Certificates of deposit issued	3,106,278	–	–	–	3,106,278
Other accounts and provisions	379,333	330,440	12,113	28,991	750,877
Total liabilities	32,580,858	27,992,467	1,475,707	6,749,183	68,798,215
Net on-balance sheet position	8,130,749	3,351,328	(37,129)	134,528	11,579,476
Off-balance sheet net notional position	548,599	544,918	75,763	348,160	1,517,440
Credit commitments	23,335,541	6,749,081	117,363	333,031	30,535,016

3 Financial risk management (Continued)

3.5 Currency risk (Continued)

The Bank

At 31st December 2004

	HK$	US$	EUR	Other	Total
Assets					
Cash and short-term funds	4,375,259	10,835,988	467,753	4,397,068	20,076,068
Placements with banks and other financial institutions maturing between one and twelve months	242,500	1,925,126	69,743	181,236	2,418,605
Trade bills	60,599	1,206,300	74,908	15,355	1,357,162
Certificates of deposit held	2,578,822	–	–	179,006	2,757,828
Securities held for dealing purposes	47,853	425,746	–	–	473,599
Advances to customers, a bank and other accounts	24,184,640	5,740,122	169,423	413,820	30,508,005
Held-to-maturity securities	1,976,945	3,530,430	306,449	1,317,509	7,131,333
Non-trading securities	701,351	6,599,268	107,056	193,222	7,600,897
Investments in jointly controlled entities	95,062	–	–	–	95,062
Investments in and loans to subsidiary companies	1,779,321	(1,104)	–	45,499	1,823,716
Fixed assets	385,798	76,526	–	4,353	466,677
Total assets	36,428,150	30,338,402	1,195,332	6,747,068	74,708,952
Liabilities					
Deposits and balances of banks and other financial institutions	2,149,436	747,183	–	163,760	3,060,379
Deposits from customers	23,306,628	26,682,513	1,167,996	6,514,457	57,671,594
Certificates of deposit issued	2,700,000	–	–	–	2,700,000
Other accounts and provisions	460,976	457,376	27,336	37,323	983,011
Total liabilities	28,617,040	27,887,072	1,195,332	6,715,540	64,414,984
Net on-balance sheet position	7,811,110	2,451,330	–	31,528	10,293,968
Off-balance sheet net notional position	2,646,091	3,513,074	1,674,101	376,778	8,210,044
Credit commitments	22,569,102	6,538,438	622,564	504,298	30,234,402

3 Financial risk management (Continued)

3.6 Cash flow and fair value interest rate risk

Interest sensitivity of assets, liabilities and off balance sheet items - repricing analysis

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

The Group

	Up to 1 month HK$'000	1-3 months HK$'000	3-12 months HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
At 31st December 2005							
Assets							
Cash and short-term funds	**19,512,700**	**–**	**78,225**	**–**	**–**	**829,244**	**20,420,169**
Placements with banks and other financial institutions maturing between one and twelve months	**–**	**4,197,248**	**467,907**	**–**	**–**	**–**	**4,665,155**
Trade bills	**765,765**	**441,558**	**136,180**	**–**	**–**	**2,212**	**1,345,715**
Certificates of deposit held	**175,844**	**1,117,629**	**597,375**	**51,754**	**–**	**–**	**1,942,602**
Securities at fair value through profit or loss	**–**	**–**	**238,223**	**61,353**	**59,860**	**105,094**	**464,530**
Derivative financial instruments	**3,624**	**5,311**	**893**	**–**	**–**	**–**	**9,828**
Advances to customers, a bank and other accounts	**29,592,907**	**3,215,240**	**843,594**	**55,912**	**–**	**1,492,815**	**35,200,468**
Held-to-maturity securities	**23,510**	**133,230**	**680,198**	**1,566,536**	**597,507**	**–**	**3,000,981**
Available-for-sale securities	**152,107**	**1,917,591**	**1,162,714**	**7,930,708**	**1,487,878**	**423,436**	**13,074,434**
Investments in jointly controlled entities	**–**	**–**	**–**	**–**	**–**	**136,938**	**136,938**
Fixed assets	**–**	**–**	**–**	**–**	**–**	**441,555**	**441,555**
Total assets	**50,226,457**	**11,027,807**	**4,205,309**	**9,666,263**	**2,145,245**	**3,431,294**	**80,702,375**
Liabilities							
Deposits and balances of banks and other financial institutions	**2,597,364**	**977,974**	**–**	**–**	**–**	**426,809**	**4,002,147**
Derivative financial instruments	**3,217**	**4,063**	**345**	**1,469**	**–**	**–**	**9,094**
Deposits from customers	**41,980,580**	**12,839,940**	**1,639,405**	**6,737**	**5,008**	**4,459,057**	**60,930,727**
Certificates of deposit issued	**240,486**	**2,865,792**	**–**	**–**	**–**	**–**	**3,106,278**
Other accounts and provisions	**125,107**	**–**	**–**	**–**	**–**	**849,931**	**975,038**
Total liabilities	**44,946,754**	**16,687,769**	**1,639,750**	**8,206**	**5,008**	**5,735,797**	**69,023,284**
Total interest sensitivity gap	**5,279,703**	**(5,659,962)**	**2,565,559**	**9,658,057**	**2,140,237**	**(2,304,503)**	**11,679,091**
At 31st December 2004							
Assets							
Cash and short-term funds	19,626,538	–	–	–	–	449,538	20,076,076
Placements with banks and other financial institutions maturing between one and twelve months	–	2,193,275	225,330	–	–	–	2,418,605
Trade bills	689,701	441,181	221,186	–	–	5,094	1,357,162
Certificates of deposit held	883,606	1,218,480	–	655,742	–	–	2,757,828
Securities held for dealing purposes	–	–	5,362	274,021	49,401	144,815	473,599
Advances to customers, a bank and other accounts	24,840,119	3,483,906	857,711	7,761	–	1,491,436	30,680,933
Held-to-maturity securities	417,975	1,504,527	588,407	4,246,959	1,894,276	–	8,652,144
Non-trading securities	100,000	99,972	248,552	6,700,156	579,262	286,854	8,014,796
Investments in jointly controlled entities	–	–	–	–	–	130,438	130,438
Fixed assets	–	–	–	–	–	496,289	496,289
Total assets	46,557,939	8,941,341	2,146,548	11,884,639	2,522,939	3,004,464	75,057,870
Liabilities							
Deposits and balances of banks and other financial institutions	1,557,367	1,044,876	–	–	–	458,136	3,060,379
Deposits from customers	43,309,992	7,006,786	1,423,121	20,406	5,000	5,907,604	57,672,909
Certificates of deposit issued	–	2,700,000	–	–	–	–	2,700,000
Other accounts and provisions	226,743	190	3,636	63,040	110,400	583,950	987,959
Total liabilities	45,094,102	10,751,852	1,426,757	83,446	115,400	6,949,690	64,421,247
Total interest sensitivity gap	1,463,837	(1,810,511)	719,791	11,801,193	2,407,539	(3,945,226)	10,636,623

3 Financial risk management (Continued)

3.6 Cash flow and fair value interest rate risk (Continued)

The Bank

	Up to 1 month HK$'000	1-3 months HK$'000	3-12 months HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
At 31st December 2005							
Assets							
Cash and short-term funds	**19,512,700**	**–**	**–**	**–**	**–**	**829,237**	**20,341,937**
Placements with banks and other financial institutions maturing between one and twelve months	**–**	**4,197,248**	**467,907**	**–**	**–**	**–**	**4,665,155**
Trade bills	**765,765**	**441,558**	**136,180**	**–**	**–**	**2,212**	**1,345,715**
Certificates of deposit held	**175,844**	**1,117,629**	**597,375**	**51,754**	**–**	**–**	**1,942,602**
Securities at fair value through profit or loss	**–**	**–**	**238,223**	**61,353**	**59,860**	**105,094**	**464,530**
Derivative financial instruments	**3,624**	**5,311**	**893**	**–**	**–**	**–**	**9,828**
Advances to customers, a bank and other accounts	**29,569,703**	**3,215,240**	**843,594**	**55,912**	**–**	**1,266,140**	**34,950,589**
Held-to-maturity securities	**23,510**	**133,230**	**155,929**	**1,114,376**	**–**	**–**	**1,427,045**
Available-for-sale securities	**133,873**	**1,917,524**	**1,162,673**	**7,630,583**	**1,352,557**	**423,435**	**12,620,645**
Investments in jointly controlled entities	**–**	**–**	**–**	**–**	**–**	**96,062**	**96,062**
Investments in and loans to subsidiary companies	**(2,966)**	**(48,656)**	**–**	**–**	**–**	**2,147,434**	**2,095,812**
Fixed assets	**–**	**–**	**–**	**–**	**–**	**417,771**	**417,771**
Total assets	**50,182,053**	**10,979,084**	**3,602,774**	**8,913,978**	**1,412,417**	**5,287,385**	**80,377,691**
Liabilities							
Deposits and balances of banks and other financial institutions	**2,597,364**	**977,974**	**–**	**–**	**–**	**426,809**	**4,002,147**
Derivative financial instruments	**3,217**	**4,063**	**345**	**1,469**	**–**	**–**	**9,094**
Deposits from customers	**41,979,676**	**12,839,936**	**1,639,404**	**6,737**	**5,008**	**4,459,058**	**60,929,819**
Certificates of deposit issued	**240,486**	**2,865,792**	**–**	**–**	**–**	**–**	**3,106,278**
Other accounts and provisions	**125,107**	**–**	**–**	**–**	**–**	**625,770**	**750,877**
Total liabilities	**44,945,850**	**16,687,765**	**1,639,749**	**8,206**	**5,008**	**5,511,637**	**68,798,215**
Total interest sensitivity gap	**5,236,203**	**(5,708,681)**	**1,963,025**	**8,905,772**	**1,407,409**	**(224,252)**	**11,579,476**
At 31st December 2004							
Assets							
Cash and short-term funds	19,626,538	–	–	–	–	449,530	20,076,068
Placements with banks and other financial institutions maturing between one and twelve months	–	2,193,275	225,330	–	–	–	2,418,605
Trade bills	689,701	441,181	221,186	–	–	5,094	1,357,162
Certificates of deposit held	883,606	1,218,480	–	655,742	–	–	2,757,828
Securities held for dealing purposes	–	–	5,362	274,021	49,401	144,815	473,599
Advances to customers, a bank and other accounts	24,686,560	3,483,906	857,261	7,761	–	1,472,517	30,508,005
Held-to-maturity securities	417,975	1,504,527	588,407	3,330,332	1,290,092	–	7,131,333
Non-trading securities	100,000	99,972	248,552	6,537,045	328,474	286,854	7,600,897
Investments in jointly controlled entities	–	–	–	–	–	95,062	95,062
Investments in and loans to subsidiary companies	(124,323)	(1,500)	–	–	–	1,949,539	1,823,716
Fixed assets	–	–	–	–	–	466,677	466,677
Total assets	46,280,057	8,939,841	2,146,098	10,804,901	1,667,967	4,870,088	74,708,952
Liabilities							
Deposits and balances of banks and other financial institutions	1,557,367	1,044,876	–	–	–	458,136	3,060,379
Deposits from customers	43,309,108	7,006,355	1,423,121	20,406	5,000	5,907,604	57,671,594
Certificates of deposit issued	–	2,700,000	–	–	–	–	2,700,000
Other accounts and provisions	226,743	190	3,636	63,040	110,400	579,002	983,011
Total liabilities	45,093,218	10,751,421	1,426,757	83,446	115,400	6,944,742	64,414,984
Total interest sensitivity gap	1,186,839	(1,811,580)	719,341	10,721,455	1,552,567	(2,074,654)	10,293,968

3 Financial risk management (Continued)

3.6 Cash flow and fair value interest rate risk (Continued)

The table below summarises the effective interest rate by major currencies for monetary financial instruments not carried at fair value through profit or loss:

The Group

	At 31st December 2005				At 31st December 2004			
	HK$ %	**US$ %**	**EUR %**	**Others %**	HK$ %	US$ %	EUR %	Others %
Assets								
Cash and short-term funds	**5.18%**	**4.34%**	**2.34%**	**5.15%**	0.04%	2.30%	2.18%	4.78%
Placements with banks and other financial institutions maturing between one and twelve months	**4.18%**	**4.36%**	**2.43%**	**4.85%**	0.49%	2.29%	2.13%	5.35%
Trade bills	**9.08%**	**6.13%**	**5.95%**	**8.00%**	6.36%	4.04%	5.72%	4.95%
Certificates of deposit held	**3.24%**	**4.48%**	**N/A**	**N/A**	1.61%	N/A	N/A	5.32%
Advances to customers, a bank and other accounts	**6.70%**	**6.29%**	**5.61%**	**3.82%**	3.55%	4.31%	5.30%	2.88%
Held-to-maturity securities	**5.32%**	**3.83%**	**N/A**	**N/A**	3.92%	4.73%	5.84%	5.47%
Available-for-sale securities/ non-trading securities	**3.43%**	**4.85%**	**5.50%**	**5.84%**	3.15%	4.01%	3.64%	5.12%
Liabilities								
Deposits and balances of banks and other financial institutions	**3.85%**	**4.33%**	**N/A**	**3.32%**	0.42%	2.73%	N/A	2.75%
Deposits from customers	**3.30%**	**3.50%**	**1.56%**	**4.05%**	0.15%	1.57%	1.38%	4.05%
Certificates of deposit issued	**4.37%**	**N/A**	**N/A**	**N/A**	0.62%	N/A	N/A	N/A
Other accounts and provisions	**2.75%**	**2.84%**	**0.50%**	**N/A**	0.03%	1.14%	0.50%	2.89%

The above assumed that the financial assets and liabilities at 31st December 2005 were to remain until maturity or settlement without any action by the Group to alter the resulting interest rate risk exposure.

The Bank

	At 31st December 2005				At 31st December 2004			
	HK$ %	**US$ %**	**EUR %**	**Others %**	HK$ %	US$ %	EUR %	Others %
Assets								
Cash and short-term funds	**5.20%**	**4.34%**	**2.34%**	**5.15%**	0.04%	2.30%	2.18%	4.78%
Placements with banks and other financial institutions maturing between one and twelve months	**4.18%**	**4.36%**	**2.43%**	**4.85%**	0.49%	2.29%	2.13%	5.35%
Trade bills	**9.08%**	**6.13%**	**5.95%**	**8.00%**	6.36%	4.04%	5.72%	4.95%
Certificates of deposit held	**3.24%**	**4.48%**	**N/A**	**N/A**	1.61%	N/A	N/A	5.32%
Advances to customers, a bank and other accounts	**6.70%**	**6.29%**	**5.61%**	**3.82%**	3.55%	4.31%	5.30%	2.88%
Held-to-maturity securities	**N/A**	**3.82%**	**N/A**	**N/A**	2.90%	4.73%	5.84%	5.47%
Available-for-sale securities/ non-trading securities	**3.36%**	**4.85%**	**5.50%**	**5.84%**	2.72%	4.01%	3.64%	5.12%
Investments in and loans to subsidiary companies	**3.50%**	**4.08%**	**N/A**	**N/A**	0.50%	2.07%	N/A	N/A
Liabilities								
Deposits and balances of banks and other financial institutions	**3.85%**	**4.33%**	**N/A**	**3.32%**	0.42%	2.73%	N/A	2.75%
Deposits from customers	**3.30%**	**3.50%**	**1.56%**	**4.05%**	0.15%	1.57%	1.38%	4.05%
Certificates of deposit issued	**4.37%**	**N/A**	**N/A**	**N/A**	0.62%	N/A	N/A	N/A
Other accounts and provisions	**2.75%**	**2.84%**	**0.50%**	**N/A**	0.03%	1.14%	0.50%	2.89%

The above assumed that the financial assets and liabilities at 31st December 2005 were to remain until maturity or settlement without any action by the Bank to alter the resulting interest rate risk exposure.

3 Financial risk management (Continued)

3.7 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet payment obligations when they fall due. The liquidity of the Bank is managed and monitored in accordance with the guidelines and procedures laid down in the liquidity management policy approved by the Directors, which has regard to a variety of factors, including liquidity ratio, loan to deposit ratio, liquefiable assets to be kept in Hong Kong, maturity mismatch profile, diversity and stability of the deposits base and ability to borrow in the interbank market. An adequate stock of high quality liquid assets is being maintained at all times, in order to enable the Bank to meet deposit withdrawals, to repay interbank borrowings, and to make new loans and investments as and when required in a timely and cost effective manner. Liquefiable assets held comprise mainly marketable debt securities and interbank placements. The Bank's liquidity risk is managed by the Treasury Department and monitored by management and the Asset and Liability Committee under guidelines and procedures approved by the Directors.

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

The Group

	Up to 1 month HK$'000	1-3 months HK$'000	3-12 months HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Undated HK$'000	Total HK$'000
At 31st December 2005							
Assets							
Cash and short-term funds	20,341,944	–	78,225	–	–	–	20,420,169
Placements with banks and other financial institutions maturing between one and twelve months	–	4,197,387	467,768	–	–	–	4,665,155
Trade bills	731,586	456,137	157,992	–	–	–	1,345,715
Certificates of deposit held	1,244	2,619	1,182,845	755,894	–	–	1,942,602
Securities at fair value through profit or loss	671	670	4,123	61,124	292,848	105,094	464,530
Derivative financial instruments	3,633	5,324	871	–	–	–	9,828
Advances to customers, a bank and other accounts	6,493,128	3,222,973	4,309,168	10,780,755	10,381,695	12,749	35,200,468
Held-to-maturity securities	10,688	49,395	675,505	1,672,008	593,385	–	3,000,981
Available-for-sale securities	214,479	176,181	1,422,833	9,208,776	1,648,471	403,694	13,074,434
Investments in jointly controlled entities	–	–	–	–	–	136,938	136,938
Fixed assets	–	–	–	129,752	273,095	38,708	441,555
Total assets	27,797,373	8,110,686	8,299,330	22,608,309	13,189,494	697,183	80,702,375
Liabilities							
Deposits and balances of banks and other financial institutions	2,924,627	77,520	–	1,000,000	–	–	4,002,147
Derivative financial instruments	3,217	4,063	345	1,469	–	–	9,094
Deposits from customers	46,447,478	12,833,630	1,637,893	11,726	–	–	60,930,727
Certificates of deposit issued	–	6,278	–	3,100,000	–	–	3,106,278
Other accounts and provisions	741,237	38,004	160,951	21,722	–	13,124	975,038
Total liabilities	50,116,559	12,959,495	1,799,189	4,134,917	–	13,124	69,023,284
Net liquidity gap	(22,319,186)	(4,848,809)	6,500,141	18,473,392	13,189,494	684,059	11,679,091
At 31st December 2004							
Assets							
Cash and short-term funds	20,076,076	–	–	–	–	–	20,076,076
Placements with banks and other financial institutions maturing between one and twelve months	–	2,193,275	225,330	–	–	–	2,418,605
Trade bills	672,594	462,584	221,984	–	–	–	1,357,162
Certificates of deposit held	–	179,006	1,298,872	1,279,950	–	–	2,757,828
Securities held for dealing purposes	–	–	5,361	274,021	49,402	144,815	473,599
Advances to customers, a bank and other accounts	5,217,289	2,556,403	3,352,532	11,096,623	8,432,367	25,719	30,680,933
Held-to-maturity securities	343,000	776,391	763,411	4,875,066	1,894,276	–	8,652,144
Non-trading securities	–	–	448,524	6,700,157	579,262	286,853	8,014,796
Investments in jointly controlled entities	–	–	–	–	–	130,438	130,438
Fixed assets	–	–	–	151,791	303,479	41,019	496,289
Total assets	26,308,959	6,167,659	6,316,014	24,377,608	11,258,786	628,844	75,057,870
Liabilities							
Deposits and balances of banks and other financial institutions	1,915,504	44,875	1,100,000	–	–	–	3,060,379
Deposits from customers	49,224,738	6,999,646	1,423,119	25,406	–	–	57,672,909
Certificates of deposit issued	–	–	1,240,000	1,460,000	–	–	2,700,000
Other accounts and provisions	455,150	422,240	68,948	29,217	–	12,404	987,959
Total liabilities	51,595,392	7,466,761	3,832,067	1,514,623	–	12,404	64,421,247
Net liquidity gap	(25,286,433)	(1,299,102)	2,483,947	22,862,985	11,258,786	616,440	10,636,623

3 Financial risk management (Continued)

3.7 Liquidity risk (Continued)

The Bank

	Up to 1 month HK$'000	1-3 months HK$'000	3-12 months HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Undated HK$'000	Total HK$'000
At 31st December 2005							
Assets							
Cash and short-term funds	20,341,937	–	–	–	–	–	20,341,937
Placements with banks and other financial institutions maturing between one and twelve months	–	4,197,387	467,768	–	–	–	4,665,155
Trade bills	731,586	456,137	157,992	–	–	–	1,345,715
Certificates of deposit held	1,244	2,619	1,182,845	755,894	–	–	1,942,602
Securities at fair value through profit or loss	671	670	4,123	61,124	292,848	105,094	464,530
Derivative financial instruments	3,633	5,324	871	–	–	–	9,828
Advances to customers, a bank and other accounts	6,265,608	3,225,794	4,302,032	10,770,537	10,375,269	11,349	34,950,589
Held-to-maturity securities	7,984	46,691	154,184	1,218,186	–	–	1,427,045
Available-for-sale securities	193,475	173,182	1,422,833	8,912,603	1,514,859	403,693	12,620,645
Investments in jointly controlled entities	–	–	–	–	–	96,062	96,062
Investments in and loans to subsidiary companies	(334,359)	(48,656)	685,660	861,327	880,811	51,029	2,095,812
Fixed assets	–	–	–	139,485	259,294	18,992	417,771
Total assets	27,211,779	8,059,148	8,378,308	22,719,156	13,323,081	686,219	80,377,691
Liabilities							
Deposits and balances of banks and other financial institutions	2,924,627	77,520	–	1,000,000	–	–	4,002,147
Derivative financial instruments	3,217	4,063	345	1,469	–	–	9,094
Deposits from customers	46,446,570	12,833,630	1,637,893	11,726	–	–	60,929,819
Certificates of deposit issued	–	6,278	–	3,100,000	–	–	3,106,278
Other accounts and provisions	518,824	37,575	160,368	20,986	–	13,124	750,877
Total liabilities	49,893,238	12,959,066	1,798,606	4,134,181	–	13,124	68,798,215
Net liquidity gap	(22,681,459)	(4,899,918)	6,579,702	18,584,975	13,323,081	673,095	11,579,476
At 31st December 2004							
Assets							
Cash and short-term funds	20,076,068	–	–	–	–	–	20,076,068
Placements with banks and other financial institutions maturing between one and twelve months	–	2,193,275	225,330	–	–	–	2,418,605
Trade bills	672,594	462,584	221,984	–	–	–	1,357,162
Certificates of deposit held	–	179,006	1,298,872	1,279,950	–	–	2,757,828
Securities held for dealing purposes	–	–	5,361	274,021	49,402	144,815	473,599
Advances to customers, a bank and other accounts	5,337,563	2,487,183	3,576,334	10,734,660	8,350,729	21,536	30,508,005
Held-to-maturity securities	343,000	776,391	763,411	3,958,439	1,290,092	–	7,131,333
Non-trading securities	–	–	448,524	6,537,045	328,475	286,853	7,600,897
Investments in jointly controlled entities	–	–	–	–	–	95,062	95,062
Investments in and loans to subsidiary companies	(276,096)	(1,500)	12,300	1,113,006	945,050	30,956	1,823,716
Fixed assets	–	–	–	160,100	287,540	19,037	466,677
Total assets	26,153,129	6,096,939	6,552,116	24,057,221	11,251,288	598,259	74,708,952
Liabilities							
Deposits and balances of banks and other financial institutions	1,915,504	44,875	1,100,000	–	–	–	3,060,379
Deposits from customers	49,223,854	6,999,215	1,423,119	25,406	–	–	57,671,594
Certificates of deposit issued	–	–	1,240,000	1,460,000	–	–	2,700,000
Other accounts and provisions	451,888	422,212	67,364	29,144	–	12,403	983,011
Total liabilities	51,591,246	7,466,302	3,830,483	1,514,550	–	12,403	64,414,984
Net liquidity gap	(25,438,117)	(1,369,363)	2,721,633	22,542,671	11,251,288	585,856	10,293,968

3 Financial risk management (Continued)

3.8 Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities.

The Group

	Carrying value		Fair value	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Financial assets				
Cash and short-term funds	**20,420,169**	20,076,076	**20,420,169**	20,076,076
Placements with banks and other financial institutions maturing between one and twelve months	**4,665,155**	2,418,605	**4,665,155**	2,418,605
Trade bills	**1,345,715**	1,357,162	**1,345,715**	1,357,162
Certificates of deposit held	**1,942,602**	2,757,828	**1,942,602**	2,773,462
Advances to customers, a bank and other accounts	**35,200,468**	30,680,933	**35,200,468**	30,680,933
Held-to-maturity securities	**3,000,981**	8,652,144	**2,992,304**	8,815,036
Financial liabilities				
Deposits and balances of banks and other financial institutions	**4,002,147**	3,060,379	**4,002,147**	3,060,379
Deposits from customers	**60,930,727**	57,672,909	**60,930,727**	57,672,909
Certificates of deposit issued	**3,106,278**	2,700,000	**3,095,749**	2,694,436

The Bank

	Carrying value		Fair value	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Financial assets				
Cash and short-term funds	**20,341,937**	20,076,068	**20,341,937**	20,076,068
Placements with banks and other financial institutions maturing between one and twelve months	**4,665,155**	2,418,605	**4,665,155**	2,418,605
Trade bills	**1,345,715**	1,357,162	**1,345,715**	1,357,162
Certificates of deposit held	**1,942,602**	2,757,828	**1,942,602**	2,773,462
Advances to customers, a bank and other accounts	**34,950,589**	30,508,005	**34,950,589**	30,508,005
Held-to-maturity securities	**1,427,045**	7,131,333	**1,406,624**	7,190,482
Financial liabilities				
Deposits and balances of banks and other financial institutions	**4,002,147**	3,060,379	**4,002,147**	3,060,379
Deposits from customers	**60,929,819**	57,671,594	**60,929,819**	57,671,594
Certificates of deposit issued	**3,106,278**	2,700,000	**3,095,749**	2,694,436

3 Financial risk management (Continued)

3.8 Fair values of financial assets and liabilities (Continued)

(a) Placements with banks and other financial institutions maturing between one and twelve months
The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity. Since these placements mature within twelve months, the carrying amount at balance sheet approximates the fair value.

(b) Trade bills
Trade bills are net of allowance for impairment. The estimated fair value of trade bills represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. The carrying amount at balance sheet approximates the fair value.

(c) Certificates of deposit held
Fair value is based on market prices or broker/dealer price quotations.

(d) Advances to customers, a bank and other accounts
Loans and advances are net of allowances for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. The carrying amount of other accounts are regarded as their fair values.

(e) Held-to-maturity securities
Fair value is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(f) Deposits and balances of banks and other financial institutions
The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity. Since most of these balances mature within twelve months, the carrying amount at balance sheet approximates the fair value.

(g) Deposits from customers
The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity. Since most of these balances mature within twelve months, the carrying amount at balance sheet approximates the fair value.

(h) Certificates of deposit issued
The aggregate fair values are calculated based on quoted market prices.

(i) Financial instruments measured at fair value in the financial statements
The total amount of the change in fair value estimated using a valuation technique that was recognised in profit or loss during the period is net gains of HK$734,000 (2004: Nil). There are no financial instruments measured at fair value using a valuation technique that is not supported by observable market prices or rates.

3.9 Fiduciary activities

At the balance sheet date, the Group had held custody accounts on behalf of customers amounting to approximately HK$28,526,510,000 (At 31st December 2004: HK$25,401,154,000) and assets under trustee administration estimated to amount to approximately HK$55,138,000 (At 31st December 2004: HK$61,370,000).

4 Net interest income and other operating income

(a) Interest income

	The Group		The Bank	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and short term funds	**685,697**	409,474	**686,201**	410,078
Investment securities:				
Interest income on listed investments	**378,964**	359,323	**310,092**	292,635
Interest income on unlisted investments	**343,036**	220,156	**326,289**	206,435
Loans and advances	**1,549,824**	989,787	**1,546,383**	982,149
Others	**112,919**	72,347	**112,919**	72,346
	3,070,440	2,051,087	**2,981,884**	1,963,643

Included within interest income on loans and advances is HK$28,136,000 with respect of interest income accrued on financial assets with impairment indication.

(b) Interest expense

	The Group		The Bank	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Banks and customers	**1,301,415**	525,875	**1,306,929**	526,501
Certificates of deposit issued	**81,222**	20,202	**81,222**	20,202
Others	**5,633**	5,137	**5,634**	5,136
	1,388,270	551,214	**1,393,785**	551,839

(c) Other operating income

	The Group		The Bank	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Fees and commission income - mainly wealth management related and from trade bills	**630,131**	622,048	**609,588**	617,657
Less: Fees and commission expense - mainly brokerage fees	**(24,747)**	(24,004)	**(21,607)**	(24,015)
Net fees and commission income	**605,384**	598,044	**587,981**	593,642
Net gain on foreign exchange trading - mainly transaction related	**118,685**	117,115	**118,693**	115,886
Net profit on securities at fair value through profit or loss/securities held for dealing purposes	**4,452**	5,928	**4,452**	5,928
Dividend income				
– Available-for-sale listed investments	**2,019**	–	**2,019**	–
– Available-for-sale unlisted investments	**14,078**	–	**14,078**	–
– Non-trading unlisted investments	**–**	11,171	**–**	11,171
– Securities at fair value through profit or loss/securities held for dealing purposes	**530**	2,048	**530**	2,048
– Jointly controlled entities	**–**	–	**1,830**	2,080
Others	**80,421**	91,103	**84,547**	89,631
	825,569	825,409	**814,130**	820,386

5 Operating expenses

	The Group		The Bank	
	2005 HK$'000	As restated 2004 HK$'000	2005 HK$'000	As restated 2004 HK$'000
Staff costs				
Salaries and other costs (Note a)	**496,792**	466,888	**483,589**	456,783
Pension costs mainly on defined contribution plans	**25,010**	24,504	**24,431**	24,040
Premises and equipment				
Rental of premises	**37,916**	35,958	**39,524**	37,831
Building expenses	**11,594**	11,136	**11,594**	11,136
Building management fee	**5,307**	5,072	**5,158**	4,966
Depreciation expenses on property and equipment	**70,449**	82,466	**76,204**	86,845
Amortisation of interests in leasehold land	**4,568**	4,452	**4,568**	4,452
Auditors' remuneration (Note b)	**6,771**	3,393	**6,403**	3,111
Other operating expenses				
Telegram and telephone	**21,622**	21,598	**21,563**	21,550
Credit card business promotion	**9,805**	18,484	**9,805**	18,484
Postage	**13,797**	13,053	**13,778**	13,038
Repair and maintenance	**16,561**	13,661	**16,366**	13,649
Legal and consultancy	**2,529**	4,475	**2,759**	4,904
Water, heat and light	**12,738**	11,529	**12,570**	11,457
Printing and stationery	**7,512**	6,912	**7,461**	6,863
Computer rental and licence	**6,207**	6,425	**6,382**	7,009
Travelling and transportation	**4,448**	4,609	**4,285**	4,368
Advertising and business promotion	**6,142**	6,742	**6,069**	6,614
Others	**49,890**	43,649	**47,054**	42,751
	809,658	785,006	**799,563**	779,851

(Note a) The average number of persons employed by the Group during the year was 1,707 (2004: 1,634).

(Note b) The amounts of auditors' remuneration composed of audit fee for Hong Kong office of HK$3,851,000 (2004: HK$ 2,568,000) and that for overseas branches of HK$2,552,000 (2004: HK$543,000). In 2004, audit fee of overseas branches included a reversal of overprovision for audit fee in previous years amounted to HK$1,057,000.

6 Directors' emoluments

	The Group and the Bank	
	2005 HK$'000	2004 HK$'000
Fees	**1,800**	1,490
Basic salaries, allowances and bonus	**24,066**	24,385
Contributions to pension schemes	**704**	762
	26,570	26,637

7 Impairment losses on advances and trade bills/charge for bad and doubtful debts

	The Group		The Bank	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade bills	**(6,136)**	7,819	**(6,136)**	7,819
Loans and advances to customers and a bank	**1,894**	7,165	**8,110**	7,165
	(4,242)	14,984	**1,974**	14,984
Net reversal of individually assessed loan impairment losses (Note 16)				
New allowances (including any amount directly written off during the year)/(releases)	**(2,986)**	–	**(2,404)**	–
Net (reversal)/charge of collectively assessed loan impairment losses (Note 16)				
New allowances (including any amount directly written off during the year)/(releases)	**(1,256)**	–	**4,378**	–
Specific provision charged to profit and loss account (Note 16)				
New provisions (including any amount directly written off during the year)	**–**	49,290	**–**	53,950
General provision charged/(credited) to profit and loss account (Note 16)				
New provisions (including any amount directly written off during the year)	**–**	934	**–**	934
Releases	**–**	(35,240)	**–**	(39,900)
	–	(34,306)	**–**	(38,966)
	(4,242)	14,984	**1,974**	14,984

8 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2004 : 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been provided on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged/(credited) to the profit and loss account represents:

	The Group		The Bank	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current taxation:				
– Hong Kong profits tax	**254,078**	196,352	**251,304**	194,511
– Overseas taxation	**53,524**	39,246	**53,524**	39,493
– Under/(over) provisions in prior years	**217**	(19,204)	**217**	(19,204)
Deferred taxation:				
– Hong Kong deferred tax	**13,750**	10,181	**12,579**	11,320
– Overseas deferred tax	**(2,696)**	(1,381)	**(2,696)**	(1,381)
	318,873	225,194	**314,928**	224,739

8 Taxation (Continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rates of the countries in which the Group operates as follows:

	The Group		The Bank	
	2005	As restated 2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Profit before taxation	**1,791,977**	1,555,269	**2,047,439**	1,544,270
Calculated at a taxation rate of 17.5% (2004:17.5%)	**313,596**	272,172	**358,302**	270,247
Effect of different taxation rates in other countries	**43,617**	35,426	**43,617**	35,426
Income not subject to taxation	**(52,600)**	(54,721)	**(99,988)**	(54,394)
Expenses not deductible for taxation purposes	**18,592**	16,965	**17,329**	18,108
Net effect of investments in partnerships (Note)	**(4,549)**	(25,444)	**(4,549)**	(25,444)
Under/(over) provisions in prior years	**217**	(19,204)	**217**	(19,204)
Taxation charge	**318,873**	225,194	**314,928**	224,739

Note:
The Bank has entered into aircraft leverage lease arrangement (as well as coupon bond transaction in 2004), involving special purpose partnerships in which the Bank is the majority general partner. As of 31st December 2005, the unamortised carrying cost of the investments in such partnerships, which was included in "other accounts", amounted to HK$399,938,000 (2004: HK$272,234,000). The Bank's investments in these special purpose partnerships are amortised over the life of the individual partnerships.

9 Dividend

	2005	2004
	HK$'000	HK$'000
Proposed dividend of HK$23 (2004: HK$23) per share	**460,000**	460,000

10 Cash and short-term funds

	The Group		The Bank	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash in hand	**225,865**	208,861	**225,858**	208,853
Placement with banks and other financial institutions maturing less than one month	**884,213**	433,390	**884,213**	433,390
Money at call and short notice maturing within one month	**19,231,866**	19,433,825	**19,231,866**	19,433,825
Treasury bills (including Exchange Fund Bills)	**78,225**	–	**–**	–
	20,420,169	20,076,076	**20,341,937**	20,076,068

As of 31st December 2005, HK$7,589,000 (2004: HK$7,871,000) was deposited with Federal Reserve Bank in United States to comply with the local reserve requirement.

In addition, as at 31st December 2005, there was HK$1,500,000 (2004:HK$1,500,000) deposited in the name of the Director of Accounting Services Treasury Hong Kong placed by a subsidiary company in the Bank to comply with statutory requirement.

All treasury bills are unlisted held-to-maturity securities.

11 Placements with banks and other financial institutions maturing between one and twelve months

As of 31st December 2005, HK$56,310,000 (2004: HK$56,441,000) was deposited with a state bank in Peoples' Republic of China to comply with the local reserve requirement.

12 Trade bills

	The Group and the Bank	
	2005	2004
	HK$'000	HK$'000
Trade bills	**1,350,487**	1,378,130
Less: Impairment allowances/provisions for bad and doubtful debts		
Collective assessment/general provision (Note 16)	**(4,772)**	(14,278)
Individual assessment/specific provision (Note 16)	**–**	(6,690)
	1,345,715	1,357,162

13 Certificates of deposit held

	The Group and the Bank	
	2005	2004
	HK$'000	HK$'000
Held-to-maturity securities, at amortised cost, unlisted and issued by:		
Banks and other financial institutions	**–**	2,423,080
Available-for-sale securities/non-trading securities, at fair value, unlisted and issued by:		
Banks and other financial institutions	**1,942,602**	334,748
	1,942,602	2,757,828

14 Securities at fair value through profit or loss/securities held for dealing purposes

	The Group and the Bank	
	2005	2004
	HK$'000	HK$'000
Debt securities, at fair value:		
Listed in Hong Kong	**234,553**	–
Listed outside Hong Kong	**51,117**	239,656
Unlisted	**73,767**	89,128
	359,437	328,784
Equity securities, at fair value:		
Listed in Hong Kong	**–**	48,635
Listed outside Hong Kong	**103,509**	96,180
Unlisted	**1,584**	–
	105,093	144,815
	464,530	473,599

	The Group and the Bank	
	2005	2004
	HK$'000	HK$'000
Debt securities issued by:		
Central governments and central banks	**25,405**	212,372
Public sector entities	**20,534**	40,178
Banks and other financial institutions	**248,468**	26,292
Corporate entities	**65,030**	49,942
	359,437	328,784
Equity securities issued by:		
Banks and other financial institutions	**1,584**	48,789
Corporate entities	**103,509**	96,026
	105,093	144,815
	464,530	473,599

15 Advances to customers, a bank and other accounts

	The Group		The Bank	
		As restated		As restated
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Advances to individuals	**8,789,126**	8,126,058	**8,777,321**	8,022,000
Advances to corporate entities	**25,460,532**	22,071,373	**25,448,978**	22,008,737
Gross loans to customers	**34,249,658**	30,197,431	**34,226,299**	30,030,737
Gross advance to a bank	**83,334**	7,770	**83,334**	7,770
Impairment allowances/provisions for bad and doubtful debts				
Collective assessment/general provisions (Note 16)	**(134,180)**	(363,788)	**(134,088)**	(355,863)
Individual assessment/specific provisions (Note 16)	**(54,676)**	(162,784)	**(54,581)**	(162,077)
	34,144,136	29,678,629	**34,120,964**	29,520,567
Accrued interest*	**–**	207,713	**–**	196,878
Other accounts				
Interests in leasehold land**	**255,666**	260,224	**255,666**	260,224
Deferred tax assets (Note 24(b))	**86,154**	103,523	**86,154**	102,376
Other assets***	**714,512**	430,844	**487,805**	427,960
	1,056,332	1,002,304	**829,625**	987,438
	35,200,468	30,680,933	**34,950,589**	30,508,005

Impaired loans/non-performing loans are analysed as follows:

	The Group		The Bank	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Impaired loans				
Trade bills	**35,672**	–	**35,672**	–
Advances to customers	**482,702**	–	**482,502**	–
	518,374	–	**518,174**	–
Non-performing loans				
Trade bills	**–**	9,933	**–**	9,933
Advances to customers	**–**	412,592	**–**	407,576
	–	422,525	**–**	417,509

15 Advances to customers, a bank and other accounts (Continued)

	The Group		The Bank	
	2005 HK$'000	As restated 2004 HK$'000	**2005 HK$'000**	As restated 2004 HK$'000
Gross impaired loans (note a)	**518,374**	–	**518,174**	–
Impairment allowances made in respect of such loans (Note 16)	**(54,676)**	–	**(54,581)**	–
	463,698	–	**463,593**	–
Percentage of such loans to total loans to customers and a bank and trade bills	**1.45%**	–	**1.45%**	–
Non-performing loans (note b)	**–**	422,525	**–**	417,509
Less: suspended interest capitalised/received	**–**	(42,299)	**–**	(41,596)
	–	380,226	**–**	375,913
Specific provisions made in respect of such loans	**–**	(102,166)	**–**	(101,835)
	–	278,060	**–**	274,078
Suspended interest (Note 16)	**–**	48,340	**–**	47,626
Percentage of such loans to total loans to customers and a bank and trade bills	**–**	1.20%	**–**	1.20%

(Note a) Impaired loans are defined as those loans having objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated future cash flows of the loans that can be reliably estimated.

(Note b) Non-performing loans are loans and advances and trade bills on which interest is being placed in suspense or on which interest accrual has ceased under the requirement of the Hong Kong Monetary Authority.

The above specific provisions were made after taking into account the value of collateral in respect of such loans as at 31st December 2004.

As of 31st December 2005, certain of our branches in the United States have pledged their held-to-maturity securities (Note 17) totalling HK$231,605,000 (2004: HK$311,147,000) and real estate loans of HK$52,528,000 (2004: HK$6,441,000) to the State of California and with the Comptroller of the Currency in compliance with the above regulatory requirements.

15 Advances to customers, a bank and other accounts (Continued)

* The accrued interest for the year 2005 has been reclassified to its relevant interest-bearing assets and is analysed as follows:

	The Group 2005 HK$'000	The Bank 2005 HK$'000
Placements with banks and other financial institutions maturing between one and twelve months	**26,414**	**26,414**
Trade bills	**1,945**	**1,945**
Held-to-maturity securities	**21,376**	**15,968**
Available-for-sale securities/non-trading securities	**165,392**	**159,393**
Advances to customers, a bank and other accounts	**63,377**	**63,364**
Others	**1,280**	**1,280**
	279,784	**268,364**

** The Group's interests in leasehold land represent operating leases and their net book value are analysed as follows:

	The Group and the Bank	
	2005 HK$'000	As restated 2004 HK$'000
Leaseholds		
On long-term lease (over 50 years)		
– Held in Hong Kong	**72,579**	72,822
On medium-term lease (10-50 years)		
– Held in Hong Kong	**183,087**	187,402
	255,666	260,224
As at 1st January	**260,224**	–
Effect of changes in accounting policy:		
– on adoption of HKAS 17	**–**	264,676
Additions	**1,529**	–
Disposal	**(1,519)**	–
Amortisation of prepaid operating lease payment	**(4,568)**	(4,452)
As at 31st December	**255,666**	260,224

As stated in Note 20, on adoption of HKAS 17 in 2005, the Group has classified the leasehold land as operating leases retrospectively and the comparative figures for 2004 had been restated to conform with the changed accounting standards. This change has resulted in reclassification of the land cost of HK$260,224,000 (2004: HK$264,676,000) from fixed assets to interests in leasehold land as stated above.

There are interests in freehold land held by the group and are included as fixed assets (Note 20).

*** Included in other assets are loans with repossessed assets of HK$6,561,000 (2004: Nil).

Other assets of the Group also included the trading rights of The Stock Exchange of Hong Kong Limited held by a subsidiary with net book value of HK$2,619,000 as at 31st December 2005 (2004: Nil).

16 Impairment allowances/provisions for bad and doubtful debts (Against trade bills and advances to customers and a bank)

The Group

	Impairment allowances		
	Individual assessment HK$'000	Collective assessment HK$'000	Total HK$'000
At 1st January 2005	169,474	378,066	547,540
Adjustment on the adoption of HKAS 39*	(27,669)	(236,900)	(264,569)
Amounts written off	(104,302)	–	(104,302)
Recoveries of advances written off in previous years	20,159	–	20,159
Credited to profit and loss account (Note 7)	(2,986)	(1,256)	(4,242)
Exchange adjustment	–	(958)	(958)
At 31st December 2005	54,676	138,952	193,628

* The adjustment on the adoption of HKAS 39 includes HK$262,370,000 (Note 26) to regulatory reserve and HK$2,199,000 to retained profits.

Included in:

Trade bills (Note 12)	–	4,772	4,772
Advances to customers and a bank (Note 15)	54,676	134,180	188,856
	54,676	138,952	193,628

The Bank

	Impairment allowances		
	Individual assessment HK$'000	Collective assessment HK$'000	Total HK$'000
At 1st January 2005	168,767	370,141	538,908
Adjustment on the adoption of HKAS 39 (Note 26)	(27,669)	(234,701)	(262,370)
Amounts written off	(104,224)	–	(104,224)
Recoveries of advances written off in previous years	20,111	–	20,111
(Credited)/charged to profit and loss account (Note 7)	(2,404)	4,378	1,974
Exchange adjustment	–	(958)	(958)
At 31st December 2005	54,581	138,860	193,441

Included in:

Trade bills (Note 12)	–	4,772	4,772
Advances to customers and a bank (Note 15)	54,581	134,088	188,669
	54,581	138,860	193,441

16 Impairment allowances/provisions for bad and doubtful debts (Against trade bills and advances to customers and a bank) (Continued)

The Group

	Specific provision HK$'000	General provision HK$'000	Total provision HK$'000	Suspended interest HK$'000
At 1st January 2004	183,094	411,696	594,790	68,455
Amounts written off	(76,394)	–	(76,394)	(19,638)
Recoveries of advances written off in previous years	13,484	–	13,484	–
Charged/(credited) to profit and loss account (Note 7)	49,290	(34,306)	14,984	–
Interest suspended	–	–	–	36,691
Suspended interest recovered	–	–	–	(37,168)
Exchange adjustment	–	676	676	–
At 31st December 2004	169,474	378,066	547,540	48,340
Included in:				
Trade bills (Note 12)	6,690	14,278	20,968	
Advances to customers and a bank (Note 15)	162,784	363,788	526,572	
	169,474	378,066	547,540	

The Bank

	Specific provision HK$'000	General provision HK$'000	Total provision HK$'000	Suspended interest HK$'000
At 1st January 2004	177,713	408,431	586,144	66,340
Amounts written off	(76,356)	–	(76,356)	(19,638)
Recoveries of advances written off in previous years	13,460	–	13,460	–
Charged/(credited) to profit and loss account (Note 7)	53,950	(38,966)	14,984	–
Interest suspended	–	–	–	36,003
Suspended interest recovered	–	–	–	(35,079)
Exchange adjustment	–	676	676	–
At 31st December 2004	168,767	370,141	538,908	47,626
Included in:				
Trade bills (Note 12)	6,690	14,278	20,968	
Advances to customers and a bank (Note 15)	162,077	355,863	517,940	
	168,767	370,141	538,908	

17 Held-to-maturity securities

The Group

	2005 HK$'000	2004 HK$'000
Balance as at 1st January	**8,652,144**	10,885,991
Reclassification on adoption of HKAS 39	**(5,880,917)**	–
Amortisation of premium/discount	**(13,572)**	(21,865)
Additions	**864,112**	2,660,108
Disposals (sale and redemption)	**(615,412)**	(4,936,154)
Exchange difference	**(5,374)**	64,064
Balance as at 31st December	**3,000,981**	8,652,144

The Bank

	2005 HK$'000	2004 HK$'000
Balance as at 1st January	**7,131,333**	9,566,756
Reclassification on adoption of HKAS 39	**(5,882,190)**	–
Amortisation of premium/discount	**(1,754)**	(21,787)
Additions	**800,433**	2,270,621
Disposals (sale and redemption)	**(615,412)**	(4,748,315)
Exchange difference	**(5,365)**	64,058
Balance as at 31st December	**1,427,045**	7,131,333

There was redemption of held-to-maturity securities by the issuer during the year with a net loss of HK$203,000 incurred. In 2004, the amortised cost of the disposed securities was HK$77,573,000 and the related realised net gains on disposal were HK$916,000. The disposals of these securities are to restructure the investment portfolio.

The Group has adopted HKAS 39 in 2005. Under the prospective adoption requirement of HKAS 39, certain held-to-maturity securities were re-designated as available-for-sale securities on 1st January 2005. There was no such re-designation in 2004.

17 Held-to-maturity securities (Continued)

The Group

	Book value		Market value	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Held-to-maturity securities, at amortised cost:				
Debt securities				
Listed in Hong Kong	**1,569,812**	1,765,351	**1,581,574**	1,871,901
Listed outside Hong Kong	**951,357**	3,813,525	**935,669**	3,856,168
	2,521,169	5,578,876	**2,517,243**	5,728,069
Unlisted	**479,812**	3,073,268		
	3,000,981	8,652,144		

The Bank

	Book value		Market value	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Held-to-maturity securities, at amortised cost:				
Debt securities				
Listed in Hong Kong	**–**	248,632	**–**	251,526
Listed outside Hong Kong	**947,233**	3,809,433	**931,563**	3,851,989
	947,233	4,058,065	**931,563**	4,103,515
Unlisted	**479,812**	3,073,268		
	1,427,045	7,131,333		

	The Group		The Bank	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Held-to-maturity securities, are analysed by issuer as follows:				
Debt securities issued by:				
Central governments and central banks	**1,771,077**	1,874,302	**201,265**	357,583
Public sector entities	**363,514**	1,243,835	**363,514**	1,243,835
Banks and other financial institutions	**862,266**	3,623,874	**862,266**	3,623,874
Corporate entities	**4,124**	1,910,133	**–**	1,906,041
	3,000,981	8,652,144	**1,427,045**	7,131,333

As detailed in Note 15, as of 31st December 2005, certain of the United States branches have pledged held-to-maturity securities amounting to HK$231,605,000 (2004: HK$311,147,000) to the State of California and with the Comptroller of the Currency in compliance with local regulatory requirements.

Included in debt securities were HK$1,564,122,000 of Exchange Fund Notes pledged to the Hong Kong Monetary Authority as at 31st December 2005 (2004: HK$1,516,327,000).

Certificates of deposit held classified under held-to-maturity securities are disclosed in Note 13.

18 Available-for-sale securities/non-trading securities

The Group

	2005 HK$'000	2004 HK$'000
Balance as at 1st January 2005	**8,014,796**	4,888,478
Adjustment on adoption of HKAS 39	**6,173,022**	–
Amortisation of premium/discount	**(77,930)**	(38,292)
Additions	**6,079,533**	3,777,218
Amortised cost of securities redeemed and sold during the year	**(6,590,058)**	(662,671)
Investment revaluation reserve realised on disposal	**(44,483)**	(30,459)
Amount offset with interest rate swap contracts on disposal of hedged securities	**(176,852)**	–
Change in fair value	**(225,134)**	31,980
Reclassification to investment in subsidiary company	**(5,855)**	–
Exchange difference	**(72,605)**	48,542
Balance as at 31st December 2005	**13,074,434**	8,014,796

The Bank

	2005 HK$'000	2004 HK$'000
Balance as at 1st January 2005	**7,600,897**	4,564,081
Adjustment on adoption of HKAS 39	**6,173,022**	–
Amortisation of premium/discount	**(66,052)**	(20,320)
Additions	**6,005,883**	3,688,352
Amortised cost of securities redeemed and sold during the year	**(6,590,058)**	(670,510)
Investment revaluation reserve realised on disposal	**(44,483)**	(30,459)
Amount offset with interest rate swap contracts on disposal of hedged securities	**(176,852)**	–
Change in fair value	**(203,252)**	21,211
Reclassification to investment in subsidiary company	**(5,855)**	–
Exchange difference	**(72,605)**	48,542
Balance as at 31st December 2005	**12,620,645**	7,600,897

For available-for-sale debt securities, the amortised cost of the securities disposed by the Group and the Bank during the year was HK$6,436,942,000 and the related realised net gains on disposal were HK$61,045,000.

There were also disposals of available-for-sale equity securities by the Group and the Bank during the year. The related realised net gains on disposal were HK$4,518,000. The revaluation reserve or deficit on the remaining securities was included in Note 26.

The Group

	2005 HK$'000	2004 HK$'000
Available-for-sale securities/non-trading securities, at fair value:		
Debt securities		
Listed in Hong Kong	**159,831**	–
Listed outside Hong Kong	**4,246,343**	2,907,626
Unlisted	**8,247,458**	4,821,951
	12,653,632	7,729,577
Equity securities		
Listed in Hong Kong	**107,164**	–
Unlisted	**313,638**	285,219
	420,802	285,219
	13,074,434	8,014,796

18 Available-for-sale securities/non-trading securities (Continued)

The Bank

	2005 HK$'000	2004 HK$'000
Available-for-sale securities/ non-trading securities, at fair value:		
Debt securities		
Listed in Hong Kong	**159,831**	–
Listed outside Hong Kong	**4,246,343**	2,907,626
Unlisted	**7,793,669**	4,408,052
	12,199,843	7,315,678
Equity securities		
Listed in Hong Kong	**107,164**	–
Unlisted	**313,638**	285,219
	420,802	285,219
	12,620,645	7,600,897

	The Group		The Bank	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Available-for-sale securities/ non-trading securities, at fair value:				
Debt securities issued by:				
Central governments and central banks	**241,485**	705,372	**241,485**	705,372
Public sector entities	**800,396**	257,389	**800,396**	257,389
Banks and other financial institutions	**8,089,514**	4,385,739	**7,635,725**	3,971,840
Corporate entities	**3,522,237**	2,381,077	**3,522,237**	2,381,077
	12,653,632	7,729,577	**12,199,843**	7,315,678
Equity securities issued by:				
Banks and other financial institutions	**384,766**	267,667	**384,766**	267,667
Corporate entities	**36,036**	17,552	**36,036**	17,552
	420,802	285,219	**420,802**	285,219
	13,074,434	8,014,796	**12,620,645**	7,600,897

Certificates of deposit held classified under available-for-sale securities/non-trading securities are disclosed in Note 13. All debt securities have fixed coupons (including zero coupons). Equity securities do not bear interest.

19 Investments in and loans to jointly controlled entities and subsidiary companies

(a) Investments in jointly controlled entities

	The Group	
	2005	2004
	HK$'000	HK$'000
Beginning of year	**130,438**	127,863
Share of results	**9,010**	6,080
Share of tax	**(1,680)**	(1,125)
Increase/(repayment) of advances	**1,000**	(300)
Dividends paid	**(1,830)**	(2,080)
Share of net assets	**136,938**	130,438

	The Bank	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**81,000**	81,000
Provision for impairment in carrying value	**(17,238)**	(17,238)
Amounts due from jointly controlled entities	**32,300**	31,300
	96,062	95,062

Details of the jointly controlled entities are as follows:

Name	Principal activities	Place of incorporation	Particulars of issued share capital	Percentage of ordinary share capital held
Joint Electronic Teller Services Limited	Automatic teller machine data processing services	Hong Kong	100,000 ordinary 'A' shares of HK$100 each and 238 ordinary 'B' shares of HK$100 each	20% of 'A' shares[1]
Bank Consortium Holding Limited	Provision of trustee, administration and custodian services for retirement schemes	Hong Kong	140,000,000 ordinary 'A' shares of HK$1 each and 10,000,000 ordinary 'B' shares of HK$1 each	14.29% of 'A' shares
BC Reinsurance Limited	Reinsurance	Hong Kong	100,000,000 ordinary shares of HK$1 each	21%
Hong Kong Life Insurance Limited	Life insurance and reinsurance	Hong Kong	210,000,000 ordinary shares of HK$1 each	16.67%
i-Tech Solutions Limited	Document processing services	Hong Kong	6,000,000 ordinary shares of HK$1 each	50%

[1] During the year, the Bank has received 2.88% of the dividends paid by the company.
Note: The balances with the jointly controlled entities arising from normal business transactions are included in Note 32.

(b) Investments in and loans to subsidiary companies

	The Bank	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**51,029**	30,957
Loans to subsidiary companies	**2,448,915**	2,058,055
Amounts due from subsidiary companies	**27**	12,331
Amounts due to subsidiary companies	**(404,159)**	(277,627)
	2,095,812	1,823,716

19 Investments in and loans to jointly controlled entities and subsidiary companies (Continued)

(b) Investments in and loans to subsidiary companies (Continued)

Details of the subsidiary companies are as follows:

Name	Principal activities	Place of incorporation	Particulars of issued share capital	Percentage of ordinary share capital held
Shacom Finance Limited	Deposit-taking and lending	Hong Kong	300,000 ordinary shares of HK$100 each	100%
Shanghai Commercial Bank (Nominees) Limited	Nominee services	Hong Kong	100 ordinary shares of HK$100 each	100%
Shanghai Commercial Bank Trustee Limited	Trustee services	Hong Kong	1,000 ordinary shares of HK$10,000 each	60%
Shacom Futures Limited	Commodities trading	Hong Kong	100,000 ordinary shares of HK$100 each	100%
Shacom Investment Limited	Investment in Exchange Fund Bills and Notes	Hong Kong	10,000 ordinary shares of HK$100 each	100%
Shacom Investment Management Limited (In members' voluntary winding up)	Investment holding	Hong Kong	10,000 ordinary shares of HK$1 each	100%
Shacom Property Holdings (BVI) Limited	Property holding	British Virgin Islands	2 ordinary shares of US$1 each	100%
Shacom Property (NY) Inc.	Property holding	United States of America	10 ordinary shares of US$1 each	100%
Shacom Property (CA) Inc.	Property holding	United States of America	10 ordinary shares of US$1 each	100%
Shacom Assets Investments Limited	Investment in notes and bonds	Hong Kong	10,000 ordinary shares of HK$1 each	100%
Infinite Financial Solutions Limited	I.T. application services provider	Hong Kong	500,000 ordinary shares of US$1 each	80%
Shacom Insurance Brokers Limited	Insurance broker	Hong Kong	1,000,000 ordinary shares of HK$1 each	100%
Ocean Crown Investments Limited	Securities brokerage services	Hong Kong	200,000 ordinary shares of HK$100 each	100%
Hai Kwang Property Management Company Limited	Property management	Hong Kong	2 ordinary shares of HK$1 each	100%

All subsidiary companies are held directly by the Bank.

20 Fixed assets

The Group

	Bank premises* HK$'000	Furniture, fittings and equipment HK$'000	Total HK$'000
Cost			
At 1st January 2005, as previously reported	2,107,078	536,635	2,643,713
Effect of changes in accounting policies:			
– on adoption of HKAS 17	(1,609,157)	–	(1,609,157)
– on adoption of HKAS 40	(11,321)	–	(11,321)
At 1st January 2005, as restated	486,600	536,635	1,023,235
Additions	1,020	40,792	41,812
Acquisition of subsidiary	–	626	626
Exchange adjustment	(4,798)	(2,238)	(7,036)
Disposals	(20,468)	(20,029)	(40,497)
At 31st December 2005	462,354	555,786	1,018,140
Accumulated depreciation			
At 1st January 2005, as previously reported	299,820	384,843	684,663
Effect of changes in accounting policy:			
– on adoption of HKAS 17	(157,717)	–	(157,717)
At 1st January 2005, as restated	142,103	384,843	526,946
Charge for the year	9,471	60,978	70,449
Acquisition of subsidiary	–	349	349
Exchange adjustment	(724)	(2,095)	(2,819)
Disposals	(298)	(18,042)	(18,340)
At 31st December 2005	150,552	426,033	576,585
Net book value			
At 31st December 2005	311,802	129,753	441,555

20 Fixed assets (Continued)

The Group

	Bank premises* HK$'000	Furniture, fittings and equipment HK$'000	Total HK$'000
Cost			
At 1st January 2004, as previously reported	2,103,443	505,255	2,608,698
Effect of changes in accounting policies:			
– on adoption of HKAS 17	(1,609,157)	–	(1,609,157)
– on adoption of HKAS 40	(11,321)	–	(11,321)
At 1st January 2004, as restated	482,965	505,255	988,220
Additions	102	41,558	41,660
Exchange adjustment	3,533	1,688	5,221
Disposals	–	(11,866)	(11,866)
At 31st December 2004	486,600	536,635	1,023,235
Accumulated depreciation			
At 1st January 2004, as previously reported	272,601	320,952	593,553
Effect of changes in accounting policy:			
– on adoption of HKAS 17	(140,129)	–	(140,129)
At 1st January 2004, as restated	132,472	320,952	453,424
Charge for the year	9,150	73,316	82,466
Exchange adjustment	481	1,462	1,943
Disposals	–	(10,887)	(10,887)
At 31st December 2004	142,103	384,843	526,946
Net book value			
At 31st December 2004	344,497	151,792	496,289

20 Fixed assets (Continued)

The Bank

	Bank premises* HK$'000	Furniture, fittings and equipment HK$'000	Total HK$'000
Cost			
At 1st January 2005, as previously reported	2,063,113	554,613	2,617,726
Effect of changes in accounting policies:			
– on adoption of HKAS 17	(1,609,157)	–	(1,609,157)
– on adoption of HKAS 40	(11,321)	–	(11,321)
At 1st January 2005, as restated	442,635	554,613	997,248
Additions	1,020	48,740	49,760
Exchange adjustment	(265)	(2,108)	(2,373)
Disposals	(20,468)	(19,882)	(40,350)
At 31st December 2005	422,922	581,363	1,004,285
Accumulated depreciation			
At 1st January 2005, as previously reported	293,775	394,513	688,288
Effect of changes in accounting policy:			
– on adoption of HKAS 17	(157,717)	–	(157,717)
At 1st January 2005, as restated	136,058	394,513	530,571
Charge for the year	8,950	67,254	76,204
Exchange adjustment	(73)	(1,981)	(2,054)
Disposals	(298)	(17,909)	(18,207)
At 31st December 2005	144,637	441,877	586,514
Net book value			
At 31st December 2005	278,285	139,486	417,771

20 Fixed assets (Continued)

The Bank

	Bank premises* HK$'000	Furniture, fittings and equipment HK$'000	Total HK$'000
Cost			
At 1st January 2004, as previously reported	2,062,850	516,818	2,579,668
Effect of changes in accounting policies:			
– on adoption of HKAS 17	(1,609,157)	–	(1,609,157)
– on adoption of HKAS 40	(11,321)	–	(11,321)
At 1st January 2004, as restated	442,372	516,818	959,190
Additions	102	47,809	47,911
Exchange adjustment	161	1,591	1,752
Disposals	–	(11,605)	(11,605)
At 31st December 2004	442,635	554,613	997,248
Accumulated depreciation			
At 1st January 2004, as previously reported	267,527	325,614	593,141
Effect of changes in accounting policy:			
– on adoption of HKAS 17	(140,129)	–	(140,129)
At 1st January 2004, as restated	127,398	325,614	453,012
Charge for the year	8,625	78,220	86,845
Exchange adjustment	35	1,378	1,413
Disposals	–	(10,699)	(10,699)
At 31st December 2004	136,058	394,513	530,571
Net book value			
At 31st December 2004	306,577	160,100	466,677

20 Fixed assets (Continued)

* The land portion of the Bank's premises (other than an investment property included therein) stated at valuation were revalued in October 1993 by the Directors based on an independent professional valuation carried out by Jones Lang LaSalle Limited on an open market value basis. The relevant revaluation surplus were included in property revaluation reserve. Upon adoption of HKAS 17 on 1st January 2005 the revaluation reserve were reversed and the remaining land cost being treated as lease premium paid was reclassified as other assets. Interests in freehold land had not been revalued and the carrying costs were included in bank premises.

On adoption of HKAS 17 on 1st January 2005, where the land and building elements of the leasehold properties held for own use can be allocated reliably at the inception of the lease, the land element is accounted for as operating lease. HKAS 17 has been adopted retrospectively and the comparative figures for 2004 have been restated to conform with the changed policy. The changes for the balance at 1st January 2005 include:

- Reclassification of net book value of leasehold land totalling HK$260,224,000 from bank premises to interests in leasehold land and a HK$59,650,000 at net book value is transferred from the carrying cost of the building portion of bank premises to the land portion of the carrying cost;

- The deferred tax liabilities on the reversed carrying cost of the building portion amounting to HK$10,439,000 was reversed to retained profits;

- Reversal of the opening balance of the property revaluation reserve for the leasehold land of HK$990,442,000, after deducting deferred taxation of HK$210,094,000 had been made to fixed assets; and

- Reversal of the net overstated depreciation on building and the operating charges on leasehold land as at 31st December 2004 amounting to HK$9,320,000 to retained profits.

On adoption of HKAS 40 on 1st January 2005, cost method was adopted. The carrying cost of investment properties is to be depreciated over its useful life and the amount previously held in property revaluation reserve is reversed to the cost. HKAS 40 has been applied retrospectively and the comparative figures for 2004 have been restated to conform with the changed policy. The opening balance of property revaluation reserve of HK$11,321,000 is reversed to bank premises. This change has resulted in a decrease in both the total equity and the fixed assets at 1st January 2005 and 1st January 2004 for the Bank and the Group by HK$11,321,000.

21 Deposits from customers

	The Group		The Bank	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Demand deposits and current accounts	**4,655,211**	5,907,603	**4,655,211**	5,907,603
Savings deposits	**15,271,703**	18,644,144	**15,271,703**	18,644,144
Time, call and notice deposits	**40,614,287**	32,732,662	**40,613,379**	32,731,347
Deposits from Hong Kong Government Exchange Fund	**389,526**	388,500	**389,526**	388,500
	60,930,727	57,672,909	**60,929,819**	57,671,594

22 Certificates of deposit issued

	The Group and the Bank	
	2005	2004
	HK$'000	HK$'000
HK$ floating rate note due in 2007 and 2008 with interest rate of 4.37% (2004: 0.62%)	**3,106,278**	2,700,000

23 Other accounts and provisions

	The Group		The Bank	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Interest payable (Note (i))	**–**	72,061	**–**	72,049
Margin deposits	**180,911**	302,194	**180,911**	302,194
Provision for staff gratuity (Note (ii))	**112,911**	109,901	**111,760**	109,000
Deferred tax liabilities (Note 24(b))	**89**	65	**–**	–
Accruals	**181,298**	71,217	**67,143**	68,279
Others	**499,829**	432,521	**391,063**	431,489
	975,038	987,959	**750,877**	983,011

Note
(i) Interest payable for 2005 has been reclassified to the following items:

	The Group	The Bank
	2005	**2005**
	HK$'000	**HK$'000**
Deposits from customers	**69,570**	**69,556**
Deposits and balances of banks and other financial institutions	**1,654**	**1,654**
Certificates of deposit issued	**6,278**	**6,278**
Others	**205**	**205**
	77,707	**77,693**

(ii) Movement of provision for staff gratuity:

	The Group		The Bank	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1st January	**109,901**	98,247	**109,000**	97,500
Add: Additional accruals	**115,251**	111,242	**113,404**	109,853
Less: Written back	**(5,240)**	(5,381)	**(5,240)**	(5,381)
Less: Payments for past year's services	**(107,001)**	(94,207)	**(105,404)**	(92,972)
At 31st December	**112,911**	109,901	**111,760**	109,000

24 Current and deferred tax liabilities

	The Group		The Bank	
		As restated		As restated
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current tax (Note a)	**31,160**	13,111	**29,818**	12,371
Deferred tax (Note b)	**89**	65	**–**	–
	31,249	13,176	**29,818**	12,371

(a) Current tax

	The Group		The Bank	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong profits tax	**20,455**	734	**19,119**	–
Overseas tax	**10,705**	12,377	**10,699**	12,371
	31,160	13,111	**29,818**	12,371

24 Current and deferred tax liabilities (Continued)

(b) Deferred tax

Deferred taxation for Hong Kong operations is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%) whereas overseas deferred taxation is calculated at the prevailing tax rate in the countries in which the Group operates. The movement on the deferred tax (liabilities)/assets is as follows:

Deferred tax liabilities

The following deferred tax liabilities have been included in "Other accounts and provisions" in Note 23.

	The Group				
	Impairment allowances HK$'000	Accelerated tax depreciation HK$'000	Reserves HK$'000	Others HK$'000	Total HK$'000
At 1st January 2004, as previously reported	78,860	(12,127)	(219,037)	(9,115)	(161,419)
Effect of changes in accounting policy: – on adoption of HKAS 17	–	10,439	214,230	–	224,669
At 1st January 2004, as restated	78,860	(1,688)	(4,807)	(9,115)	63,250
(Charged)/credited to profit and loss account	(10,441)	3,516	–	(4,403)	(11,328)
Reclassification to provision for corporation profit tax	–	–	–	9,000	9,000
Credited to reserves (Note 26)	–	–	9,849	–	9,849
At 31st December 2004 before reclassification	68,419	1,828	5,042	(4,518)	70,771
Reclassification to deferred tax assets	(68,419)	(1,893)	(5,042)	4,518	(70,836)
At 31st December 2004, as restated (Note 23)	–	(65)	–	–	(65)
Charged to profit and loss account	–	(24)	–	–	(24)
At 31st December 2005 (Note 23)	**–**	**(89)**	**–**	**–**	**(89)**

	The Bank				
	Impairment allowances HK$'000	Accelerated tax depreciation HK$'000	Reserves HK$'000	Others HK$'000	Total HK$'000
At 1st January 2004, as previously reported	78,860	(12,070)	(219,037)	(9,115)	(161,362)
Effect of changes in accounting policy: – on adoption of HKAS 17	–	10,439	214,230	–	224,669
At 1st January 2004, as restated	78,860	(1,631)	(4,807)	(9,115)	63,307
(Charged)/credited to profit and loss account	(10,441)	3,524	–	(4,403)	(11,320)
Reclassification to provision for corporation profit tax	–	–	–	9,000	9,000
Credited to reserves (Note 26)	–	–	9,849	–	9,849
At 31st December 2004 before reclassification	68,419	1,893	5,042	(4,518)	70,836
Reclassification to deferred tax assets	(68,419)	(1,893)	(5,042)	4,518	(70,836)
At 31st December 2004, as restated, and as at 31st December 2005 (Note 23)	**–**	**–**	**–**	**–**	**–**

As stated in Note 15, land element has been reclassified as operating leases on adoption of HKAS 17. HKAS 17 has been adopted retrospectively and the comparative figures for 2004 have been restated to conform with the changed accounting policy. For details, please refer to Note 20.

24 Current and deferred tax liabilities (Continued)

(b) Deferred tax (Continued)

Deferred tax assets

The following deferred tax assets have been included in "Other accounts" in Note 15.

	The Group				
	Impairment allowances HK$'000	Accelerated tax depreciation HK$'000	Reserves HK$'000	Others HK$'000	Total HK$'000
At 1st January 2004	29,380	(2,252)	–	2,809	29,937
Credited to profit and loss account	880	1,067	–	581	2,528
Exchange differences	235	(37)	–	24	222
At 31st December 2004, as previously reported	30,495	(1,222)	–	3,414	32,687
Reclassification from deferred tax liabilities	68,419	1,893	5,042	(4,518)	70,836
At 1st January 2005, as restated (Note 15)	**98,914**	**671**	**5,042**	**(1,104)**	**103,523**
Effect of changes in accounting policy: – on adoption of HKAS 39	**(55,596)**	**–**	**(13,955)**	**–**	**(69,551)**
At 1st January 2005, after opening adjustments	**43,318**	**671**	**(8,913)**	**(1,104)**	**33,972**
(Charged)/credited to profit and loss account	**(6,507)**	**(5,262)**	**–**	**739**	**(11,030)**
Credited to reserves (Note 26)	**–**	**–**	**59,389**	**–**	**59,389**
Reclassification to provision for corporation profit tax	**–**	**–**	**–**	**4,181**	**4,181**
Exchange differences	**(307)**	**1**	**–**	**(52)**	**(358)**
At 31st December 2005 (Note 15)	**36,504**	**(4,590)**	**50,476**	**3,764**	**86,154**

24 Current and deferred tax liabilities (Continued)

(b) Deferred tax (Continued)

Deferred tax assets (Continued)

The following deferred tax assets have been included in "Other accounts" in Note 15.

	The Bank				
	Impairment allowances HK$'000	Accelerated tax depreciation HK$'000	Reserves HK$'000	Others HK$'000	Total HK$'000
At 1st January 2004	29,380	(2,252)	–	2,809	29,937
(Charged)/credited to profit and loss account	(266)	1,066	–	581	1,381
Exchange differences	235	(37)	–	24	222
At 31st December 2004, as previously reported	29,349	(1,223)	–	3,414	31,540
Reclassification from deferred tax liabilities	68,419	1,893	5,042	(4,518)	70,836
At 1st January 2005, as restated (Note 15)	**97,768**	**670**	**5,042**	**(1,104)**	**102,376**
Effect of changes in accounting policies:					
– on adoption of HKAS39	**(55,596)**	**–**	**(13,955)**	**–**	**(69,551)**
At 1st January 2005, after opening adjustments	**42,172**	**670**	**(8,913)**	**(1,104)**	**32,825**
(Charged)/credited to profit and loss account	**(5,361)**	**(5,261)**	**–**	**739**	**(9,883)**
Credited to reserves (Note 26)	**–**	**–**	**59,389**	**–**	**59,389**
Reclassification to provision for corporation profit tax	**–**	**–**	**–**	**4,181**	**4,181**
Exchange differences	**(307)**	**1**	**–**	**(52)**	**(358)**
At 31st December 2005 (Note 15)	**36,504**	**(4,590)**	**50,476**	**3,764**	**86,154**

The deferred taxation credited to reserves during the year is as follows:

	The Group and the Bank	
	2005 HK$'000	As restated 2004 HK$'000
Reserves in shareholders' equity		
– Investment revaluation deficit	**45,434**	9,849

25 Share capital

	The Group and the Bank	
	2005 HK$'000	2004 HK$'000
Authorised:		
30,000,000 shares of HK$100 each	**3,000,000**	3,000,000
Issued and fully paid:		
20,000,000 shares of HK$100 each	**2,000,000**	2,000,000

26 Reserves

The Group

	Capital reserve on consolidation HK$'000	Regulatory reserve*** HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve/ (deficit) HK$'000	General reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January 2005, as previously reported	28,425	–	1,001,763	(17,381)	7,013,480	1,586,667	9,612,954
Effect of changes in accounting policies:							
– on adoption of HKAS 17*	–	–	(990,442)	–	–	19,759	(970,683)
– on adoption of HKAS 40**	–	–	(11,321)	–	–	–	(11,321)
At 1st January 2005, as restated	28,425	–	–	(17,381)	7,013,480	1,606,426	8,630,950
Effect of changes in accounting policies:							
– on adoption of HKAS 39	–	262,370	–	64,786	–	(50,102)	277,054
– on adoption of HKFRS 3	(28,425)	–	–	(3,855)	–	62,812	30,532
Balances at 1st January 2005, after opening adjustments	–	262,370	–	43,550	7,013,480	1,619,136	8,938,536
Change in fair value of available-for-sale securities	–	–	–	(283,612)	–	–	(283,612)
Investment revaluation reserve realised on disposal of available-for-sale securities	–	–	–	(44,483)	–	–	(44,483)
Effect of deferred taxation (Note 24(b))	–	–	–	59,389	–	–	59,389
Exchange translation differences	–	–	–	–	(8,314)	(887)	(9,201)
Transfer to retained profits	–	–	–	–	(265,000)	265,000	–
Transfer from retained profits	–	–	–	–	505,000	(505,000)	–
Profit for the year	–	–	–	–	–	1,472,130	1,472,130
Dividend paid in the year	–	–	–	–	–	(460,000)	(460,000)
At 31st December 2005	–	262,370	–	(225,156)	7,245,166	2,390,379	9,672,759

The Bank

	Regulatory reserve*** HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve/ (deficit) HK$'000	General reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January 2005, as previously reported	–	1,001,763	(32,262)	6,748,474	1,557,997	9,275,972
Effect of changes in accounting policies:						
– on adoption of HKAS 17*	–	(990,442)	–	–	19,759	(970,683)
– on adoption of HKAS 40**	–	(11,321)	–	–	–	(11,321)
Balances at 1st January 2005, as restated	–	–	(32,262)	6,748,474	1,577,756	8,293,968
Effect of changes in accounting policies:						
– on adoption of HKAS 39	262,370	–	65,786	–	(54,569)	273,587
– on adoption of HKFRS 3	–	–	(3,855)	–	–	(3,855)
Balances at 1st January 2005, after opening adjustments	262,370	–	29,669	6,748,474	1,523,187	8,563,700
Change in fair value of available-for-sale securities	–	–	(261,730)	–	–	(261,730)
Investment revaluation reserve realised on disposal of available-for-sale securities	–	–	(44,483)	–	–	(44,483)
Effect of deferred taxation (Note 24(b))	–	–	59,389	–	–	59,389
Exchange translation differences	–	–	–	(8,318)	(1,593)	(9,911)
Transfer from retained profits	–	–	–	500,000	(500,000)	–
Profit for the year	–	–	–	–	1,732,511	1,732,511
Dividend paid in the year	–	–	–	–	(460,000)	(460,000)
At 31st December 2005	262,370	–	(217,155)	7,240,156	2,294,105	9,579,476

26 Reserves (Continued)

The Group

	Capital reserve on consolidation HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve/ (deficit) HK$'000	General reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January 2004, as previously reported	28,425	1,009,940	(28,751)	6,505,388	1,162,939	8,677,941
Effect of changes in accounting policies:						
- on adoption of HKAS 17*	–	(998,619)	–	–	18,936	(979,683)
- on adoption of HKAS 40**	–	(11,321)	–	–	–	(11,321)
At 1st January 2004, as restated	28,425	–	(28,751)	6,505,388	1,181,875	7,686,937
Investment revaluation reserve realised on disposal of non-trading securities	–	–	(30,459)	–	–	(30,459)
Change in fair value of non-trading securities	–	–	31,980	–	–	31,980
Effect of deferred taxation (Note 24(b))	–	–	9,849	–	–	9,849
Exchange translation differences	–	–	–	3,092	76	3,168
Transfer from retained profits	–	–	–	505,000	(505,000)	–
Profit for the year	–	–	–	–	1,329,475	1,329,475
Dividend paid in the year	–	–	–	–	(400,000)	(400,000)
At 31st December 2004, as restated	28,425	–	(17,381)	7,013,480	1,606,426	8,630,950

The Bank

	Property revaluation reserve HK$'000	Investment revaluation reserve/ (deficit) HK$'000	General reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January 2004, as previously reported	1,009,940	(32,863)	6,245,382	1,138,687	8,361,146
Effect of changes in accounting policies:					
– on adoption of HKAS 17*	(998,619)	–	–	18,936	(979,683)
– on adoption of HKAS 40**	(11,321)	–	–	–	(11,321)
At 1st January 2004, as restated	–	(32,863)	6,245,382	1,157,623	7,370,142
Investment revaluation reserve realised on disposal of non-trading securities	–	(30,459)	–	–	(30,459)
Change in fair value of non-trading securities	–	21,211	–	–	21,211
Effect of deferred taxation (Note 24(b))	–	9,849	–	–	9,849
Exchange translation differences	–	–	3,092	602	3,694
Transfer from retained profits	–	–	500,000	(500,000)	–
Profit for the year	–	–	–	1,319,531	1,319,531
Dividend paid in the year	–	–	–	(400,000)	(400,000)
At 31st December 2004, as restated	–	(32,262)	6,748,474	1,577,756	8,293,968

26 Reserves (Continued)

* With the adoption of HKAS 17 on 1st January 2005, where the land and building elements of the leasehold properties held for own use can be allocated reliably at the inception of the lease, the land element is accounted for as operating lease. It is measured under cost method and the increases in fair value in prior year that has been credited to the property revaluation reserve are now reversed. HKAS 17 has been adopted retrospectively and the comparative figures for 2004 have been restated to conform with the changed policy. The shareholders' fund for the Bank and the Group at 1st January 2004 and 1st January 2005 have been decreased by HK$979,683,000, net of the deferred tax liability of HK$214,230,000, and HK$970,683,000, net of the deferred tax liability of HK$210,094,000, respectively.

** On adoption of HKAS 40 on 1st January 2005, cost method is adopted. The land cost of investment property that was previously recognised is measured in accordance with HKAS 16. The carrying cost of investment property is to be depreciated over its useful life and the amount previously held in revaluation reserve for investment property is reversed to the cost. The adoption of HKAS 40 has been applied retrospectively and the comparative figures for 2004 have been restated to conform with the changed policy. The shareholders' fund for the Bank and the Group at 1st January 2004 and 1st January 2005 have been decreased by HK$11,321,000 which represented investment property revaluation that was previously recognised in the property revaluation reserve.

*** As at 1st January 2005, HK$262,370,000 was transferred from impairment allowances to regulatory reserve to satisfy the requirement of the Hong Kong Monetary Authority.

27 Notes to the consolidated cash flow statement

(a) Analysis of changes in financing during the year

	Certificates of deposit issued HK$'000
Balance at 1st January 2004	2,938,000
Net cash outflow from financing	(238,000)
Balance at 31st December 2004	2,700,000
Net cash inflow from financing	**400,000**
	3,100,000
Interest payable on certificates of deposit issued at 31st December 2005	**6,278**
Balance at 31st December 2005	**3,106,278**

(b) Analysis of the balances of cash and cash equivalents

	2005 HK$'000	2004 HK$'000
Cash and short-term funds	**20,061,706**	19,141,776
Placements with banks and other financial institutions with original maturity within three months	**3,641,651**	1,763,573
Less: Amounts deposited with regulatory authorities to comply with local regulatory requirements	**(7,589)**	(7,871)
Available-for-sale securities/non-trading securities with original maturity within three months	**18,005**	–
Less: Deposits and balances of banks and other financial institutions with original maturity within three months	**(3,000,493)**	(1,960,379)
	20,713,280	18,937,099

28 Derivative financial instruments and off-balance sheet exposures

(a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	The Group		The Bank	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Direct credit substitutes	**1,228,711**	1,508,201	**1,228,711**	1,508,201
Trade-related contingencies	**3,829,359**	4,611,502	**3,829,359**	4,611,502
Other commitments with an original maturity of:				
– under 1 year or which are unconditionally cancellable	**22,264,539**	20,896,555	**22,264,539**	20,895,373
– 1 year and over	**3,212,407**	3,219,326	**3,212,407**	3,219,326
	30,535,016	30,235,584	**30,535,016**	30,234,402

(b) Derivative financial instruments

The following is a summary of the notional contract amounts of each type of derivatives:

At 31st December 2005	**Contract amount**	**The Group and the Bank Fair value**	
		Assets	**Liabilities**
	HK$'000	**HK$'000**	**HK$'000**
Derivatives held for trading			
Exchange rate contracts			
Forward contracts	**1,184,880**	**9,828**	**(7,625)**
Interest rate contracts			
Interest rate swaps	**332,560**	**–**	**(1,469)**
Total derivative assets/(liabilities) held for trading	**1,517,440**	**9,828**	**(9,094)**

Exchange rate contracts mainly comprise transactions initiated in response to customer demand. No significant positions are maintained by the Group and the Bank.

The Group did not enter into any bilateral netting arrangements during the year and accordingly the following amounts are shown on a gross basis.

28 Derivative financial instruments and off-balance sheet exposures (Continued)

As at 31st December the contract amounts, credit risk weighted amounts and replacement costs of the above exposures are as follows:

	Contract amount 2005 HK$'000	**Credit risk weighted amount 2005 HK$'000**	**Replacement cost 2005 HK$'000**	Contract amount 2004 HK$'000	Credit risk weighted amount 2004 HK$'000	Replacement cost 2004 HK$'000
The Group						
Contingent liabilities and commitments	**30,535,016**	**3,567,125**	**–**	30,235,584	3,981,779	–
Derivatives						
– Exchange rate contracts	**1,184,880**	**4,855**	**9,828**	6,117,778	73,734	112,170
– Interest rate contracts	**332,560**	**717**	**–**	2,092,266	5,474	661
	32,052,456	**3,572,697**	**9,828**	38,445,628	4,060,987	112,831
The Bank						
Contingent liabilities and commitments	**30,535,016**	**3,567,125**	**–**	30,234,402	3,981,779	–
Derivatives						
– Exchange rate contracts	**1,184,880**	**4,855**	**9,828**	6,117,778	73,734	112,170
– Interest rate contracts	**332,560**	**717**	**–**	2,092,266	5,474	661
	32,052,456	**3,572,697**	**9,828**	38,444,446	4,060,987	112,831

Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are therefore subject to the same credit origination, portfolio maintenance and collateral requirements as for customers applying for loans.

Off-balance sheet financial instruments arise from forward and swap transactions undertaken in the foreign exchange and interest rate markets.

The contract amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date; they do not represent the amounts at risk.

The credit risk weighted amounts are the amounts which have been calculated in accordance with the Third Schedule of the Banking Ordinance and guidelines issued by the Hong Kong Monetary Authority. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

Replacement cost is the cost of replacing all contracts which have a positive value when marked to market (should the counterparty default on its obligations) and is obtained by marking to market contracts with a positive value. Replacement cost is a close approximation of the credit risk for these contracts at the balance sheet date.

29 Capital and lease commitments

(a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	The Group		The Bank	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Contracted but not provided for	**16,140**	11,720	**19,040**	15,294
Authorised but not contracted for	**11,481**	2,712	**11,488**	2,712
	27,621	14,432	**30,528**	18,006

(b) Lease commitments

At 31st December 2005 and 31st December 2004 respectively, the Group and the Bank had future aggregate minimum lease payments under non-cancellable building operating leases as follows:

	The Group		The Bank	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**32,922**	34,926	**34,724**	36,635
In the second to fifth years inclusive	**45,533**	47,827	**53,561**	56,477
After the fifth year	**900**	1,536	**4,245**	7,503
	79,355	84,289	**92,530**	100,615

30 Loans to officers

The aggregate of loans made by the Bank to officers and disclosed pursuant to Section 161B(4B) of the Hong Kong Companies Ordinance are as follows:

	Balance outstanding at 31st December		Maximum balance during the year	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Aggregate amount outstanding in respect of principal and interest	**1,884**	4,071	**7,635**	14,789

31 Balances with group companies

Included in the following balance sheet captions are balances with the ultimate holding company:

	The Group and the Bank	
	2005	2004
	HK$'000	HK$'000
Cash and short-term funds	**7,066**	5,252
Trade bills	**1,006**	514
Available-for-sale securities/non-trading securities	**67,341**	54,411
	75,413	60,177
Deposits and balances of banks and other financial institutions at 1st January	**408,519**	414,969
Deposits and balances of banks and other financial institutions received during the year	**175,100**	15,363
Deposits and balances of banks and other financial institutions repaid during the year	**(3,425)**	(21,813)
Deposits and balances of banks and other financial institutions at 31st December	**580,194**	408,519
Interest income on deposits at the ultimate holding company	**254**	211
Interest expense on deposits from the ultimate holding company	**14,069**	3,704
Contingent liabilities arising from letters of guarantee and letters of credit issued	**135,762**	303,951

Included in the following balance sheet captions are balances with subsidiary companies of the ultimate holding company:

	The Group and the Bank	
	2005	2004
	HK$'000	HK$'000
Deposits from customers at 1st January	**274,982**	276,752
Deposits from customers received during the year	**7,970**	7,090
Deposits from customers repaid during the year	**(2,127)**	(8,860)
Deposits from customers at 31st December	**280,825**	274,982
Interest expense on deposits from the subsidiary companies of the ultimate holding company	**7,667**	3,393

32 Balances with related parties

Included in the following balance sheet captions are balances with jointly controlled entities:

	The Group and the Bank	
	2005	2004
	HK$'000	HK$'000
Deposits from customers at 1st January	**251,337**	266,904
Deposits from customers received during the year	**73,811**	28,321
Deposits from customers repaid during the year	**(221,527)**	(43,888)
Deposits from customers at 31st December	**103,621**	251,337
Interest expenses on deposits from the jointly controlled entities	**4,507**	3,192

Amounts due from/(to) subsidiary companies are included in Note 19(b) and amounts due from jointly controlled entities are included in Note 19(a).

Included in the following balance sheet captions are balances with the Directors and their relatives:

	The Group and the Bank	
	2005	2004
	HK$'000	HK$'000
Advances to customers at 1st January	**14,944**	12,932
Advances to customers issued during the year	**8,710**	4,936
Advances to customers repaid during the year	**(4,656)**	(2,924)
Advances to customers at 31st December	**18,998**	14,944
Collectively assessed impairment allowances/ general provisions for bad and doubtful debts	**72**	66
Deposits from customers at 1st January	**189,830**	212,234
Deposits from customers received during the year	**93,148**	88,915
Deposits from customers repaid during the year	**(46,252)**	(111,319)
Deposits from customers at 31st December	**236,726**	189,830
Interest income on advances to the Directors and their relatives	**993**	688
Interest expenses on deposits from the Directors' and their relatives	**4,800**	2,696

32 Balances with related parties (Continued)

Included in the following balance sheet captions are balances with companies controlled by the Directors or their relatives:

	The Group and the Bank	
	2005	2004
	HK$'000	HK$'000
Trade bills	**–**	15
Advances to customers at 1st January	**344,032**	505,856
Advances to customers issued during the year	**93,412**	–
Advances to customers repaid during the year	**(78,828)**	(161,824)
Advances to customers at 31st December	**358,616**	344,032
Available-for-sale securities/non-trading securities	**–**	2,000
	358,616	346,047
Collectively assessed impairment allowances/ general provisions for bad and doubtful debts	**1,363**	1,514
Deposits from customers at 1st January	**369,719**	473,911
Deposits from customers received during the year	**325,313**	88,079
Deposits from customers repaid during the year	**(262,568)**	(192,271)
Deposits from customers at 31st December	**432,464**	369,719
Interest income on advances to the companies controlled by the Directors or their relatives	**19,202**	16,237
Interest expenses on deposits from the companies controlled by the Directors or their relatives	**10,608**	5,571
Contingent liabilities arising from letters of guarantee and letters of credit issued	**187,795**	191,417

32 Balances with related parties (Continued)

Included in the following balance sheet captions are balances with the key management personnel of the Bank and the ultimate holding company and their relatives:

	The Group and the Bank	
	2005	2004
	HK$'000	HK$'000
Advances to customers at 1st January	**10,070**	3,118
Advances to customers issued during the year	**137**	7,347
Advances to customers repaid during the year	**(975)**	(395)
Advances to customers at 31st December	**9,232**	10,070
Collectively assessed impairment allowances/ general provisions for bad and doubtful debts	**35**	44
Deposits from customers at 1st January	**15,023**	17,500
Deposits from customers received during the year	**2,044**	9,128
Deposits from customers repaid during the year	**(12,085)**	(11,605)
Deposits from customers at 31st December	**4,982**	15,023
Interest income on advances to the key management personnel of the Bank and the ultimate holding company and their relatives	**533**	302
Interest expenses on deposits from the key management personnel of the Bank and the ultimate holding company and their relatives	**190**	204
Contingent liabilities arising from letters of guarantee and letters of credit issued	**533**	1,162

32 Balances with related parties (Continued)

Included in the following balance sheet captions are balances with companies controlled by the key management personnel of the Bank and the ultimate holding company or their relatives:

	The Group and the Bank	
	2005	2004
	HK$'000	HK$'000
Deposits from customers at 1st January	**15,581**	16,243
Deposits from customers received during the year	**1,738**	499
Deposits from customers repaid during the year	**(2,588)**	(1,161)
Deposits from customers at 31st December	**14,731**	15,581
Interest expenses on deposits from the companies controlled by the key management personnel of the Bank and the ultimate holding company and their relatives	**443**	235
The compensation of Directors and key management personnel of the Bank:		
Short-term employee benefits	**35,412**	33,360

Note: The aggregate movement of revolving loan is shown in its net position during the year.

The above balances arose from transactions which were entered into by the Group or the Bank in the normal course of business and at arm's length basis.

33 Ultimate holding company

The ultimate holding company is The Shanghai Commercial & Savings Bank, Ltd., which was incorporated in Shanghai, China in 1915 and is authorised to operate in Taipei, Taiwan since 1965.

34 Approval of financial statements

The financial statements on pages 18 to 90 were approved by the Board of Directors on 23rd February 2006.

Supplementary Financial Information

The following information is disclosed as part of the accompanying information to the financial statements and does not form part of the audited financial statements.

1 Corporate governance

(a) The Bank has fully complied with the requirements set out in the guideline on "Corporate Governance of Locally Incorporated Authorised Institutions" issued by the Hong Kong Monetary Authority throughout the year.

(b) Key specialised committees established under the Board of Directors (the "Board")

(i) Executive Committee

The Executive Committee meets monthly and operates as a general management committee under the direct authority of the Board to review the management and performance of the Bank. The members of the Executive Committee are Mr. John Kam-pak Yan (Chairman), Mr. Hung-ching Yung, Mr. Frank Kai-shu Lau, Mr. Shen Ruolei, Mr. David Sek-chi Kwok, Mr. David Joseph Zuercher and Mr. Edward Kawah Chu.

(ii) Audit Committee

The Audit Committee meets quarterly to consider the nature and scope of audit reviews, review the Bank's financial statements, the findings of both internal and external auditors and the effectiveness of the internal control systems of the Bank. The members of the Audit Committee are Mr. Johnson Mou Daid Cha (Chairman), Mr. Lincoln Chu Kuen Yung and Dr. Richard Lee.

(iii) Remuneration Committee

The Remuneration Committee meets at least once a year to make recommendations to the Board on the remuneration of directors and senior management of the Bank. The members of the Remuneration Committee are Mr. Hung-ching Yung (Chairman), Mr. Jung-sen Lee and Dr. Philip Kin Hang Wong.

(iv) Asset and Liability Committee

The Asset and Liability Committee meets monthly to oversee the Bank's operations relating to interest rate risk and liquidity risk and in particular to ensure that the Bank has adequate funds to meet its obligations. The members of the Asset and Liability Committee are Mr. John Kam-pak Yan (Chairman), Mr. David Sek-chi Kwok, Mr. Henry Koon-man To, Mr. Chun-yiu Chan, Mr. Francis Wai-choi Cheung, Mr. Edward Kawah Chu, Mr. John Yu-kam Chow and Mr. Paul Kun-kow Wong.

(v) Credit Committee

The Credit Committee meets monthly to ensure that the Bank's credit policies are adequate and lending activities are conducted in accordance with established policies and relevant laws and regulations. The Credit Committee is also responsible for establishing credit policies, monitoring loan portfolio quality, ensuring compliance with statutory and internal lending limits, and evaluating credit applications and making credit decisions. The members of the Credit Committee are Mr. David Sek-chi Kwok (Chairman), Mr. Chun-yiu Chan, Mr. Francis Wai-choi Cheung and Mr. Chun-sum Chan.

(vi) Operational Risk Management Committee

The Operational Risk Management Committee meets quarterly to establish and to review operational risk management policies, processes and procedures for managing operational risk in all of the Bank's material products, activities, processes and systems. The Operational Risk Management Committee is also responsible for overseeing the identification, assessment, monitoring and control of operational risk exposures. The members of the Operational Risk Management Committee are Mr. David Sek-chi Kwok (Chairman), Mr. Chun-yiu Chan, Mr. Francis Wai-choi Cheung, Mr. Burton Chi-shan Cheng, Mr. Raymond Pui-kam Tse, Mr. Wai-chau Tang, Ms. Karen Yan, Mr. Kwong-yiu Chong and Mr. Lawrence Cheuk-ki Ho.

2 Qualitative information on management of risks

The Bank has in place policies and procedures for the control and monitoring of credit, liquidity, market, interest rate, foreign exchange and operational risks. One of the major functions of the Board is to ensure that the Bank establishes policies, procedures and controls to manage the various types of risk with which it faces.

The Board has delegated its powers to the Executive Committee, the Audit Committee, the Asset and Liability Committee, the Credit Committee and the Operational Risk Management Committee for the supervision of major functional areas, and in particular, the Executive Committee has been delegated the authority to oversee and guide the management of different risks. Senior management is always watchful for changes in economic, political and market conditions in which the Bank operates and the inherent risks the Bank faces. The Internal Audit Department performs regular audits to ensure compliance with the policies and procedures. The Risk Manager is responsible for monitoring the overall risk management of the Bank's operations, except for credit risk, which is managed by the Credit Committee. Reconciliation procedures are also in place to ensure that the systems capture all necessary data. All of the above arrangements ensure that the risk management processes are operating effectively.

2 Qualitative information on management of risks (Continued)

(a) Credit risk management

Credit risk is the risk that a customer or counterparty of the Bank will be unable or unwilling to meet a commitment when it falls due. It arises from the lending, trade finance, treasury and other activities undertaken by the Bank. Credit approval and review procedures and guidelines, delegated approval authorities and an effective credit control system are used to maintain the high quality of the loan portfolio and other risk assets. The Bank manages the credit risk of its counterparties within a conservative framework by evaluating the creditworthiness of its counterparties, and setting credit limits on individual counterparty, country and industry sector. The Bank's credit risk is managed and monitored by the Credit Committee under limits and guidelines approved by the Directors.

(b) Liquidity risk management

Liquidity risk is the risk that the Bank will be unable to meet payment obligations when they fall due. The liquidity of the Bank is managed and monitored in accordance with the guidelines and procedures laid down in the liquidity management policy approved by the Directors, which has regard to a variety of factors, including liquidity ratio, loan to deposit ratio, liquefiable assets to be kept in Hong Kong, maturity mismatch profile, diversity and stability of the deposits base and ability to borrow in the interbank market. An adequate stock of high quality liquid assets is being maintained at all times, in order to enable the Bank to meet deposit withdrawals, to repay interbank borrowings, and to make new loans and investments as and when required in a timely and cost effective manner. Liquefiable assets held comprise mainly marketable debt securities and interbank placements. The Bank's liquidity risk is managed by the Treasury Department and monitored by management and the Asset and Liability Committee under guidelines and procedures approved by the Directors.

(c) Market risk management

Market risk is the risk that interest rates, foreign exchange rates or equity prices will move relative to positions taken, resulting in profits or losses. In the ordinary course of business, the Bank enters into various types of financial instruments, mainly forward exchange contracts, that are mainly customers-driven and are entered into on behalf of customers. The measuring procedures and limit systems used for market risk management have been approved by the Directors. The Bank's market risk is managed by the Treasury Department and monitored by management. The transactions included in the trading book as at 31st December 2005 for the Group and the Bank is not significant.

(d) Interest rate risk management

Interest rate risk is the risk that the Bank's position may be adversely affected by a change of market interest rates. The Bank's interest rate risk arises primarily from the timing differences in the repricing of interest bearing assets, liabilities and commitments. The primary objective of interest rate risk management is to limit the potential adverse effects of interest rate movement on net interest income by closely monitoring the net repricing gap of the Bank's assets and liabilities. The interest rate risk is managed by the Treasury Department and monitored by management and the Asset and Liability Committee under limits approved by the Directors.

(e) Foreign exchange risk management

Foreign exchange risk is the risk that the holding of foreign currencies will affect the Bank's position as a result of a change in foreign currency exchange rates. The Bank's foreign exchange risk arises primarily from currency exposures originated by the Bank's commercial banking businesses. The foreign exchange risk is managed by the Treasury Department and monitored by management and the Asset and Liability Committee within position limits approved by the Directors.

(f) Capital management

The Bank's policy is to maintain a strong capital base to support the development of the Bank's business and to ensure compliance with the statutory capital adequacy ratio requirement, a requirement used to assess the capital adequacy of banks. Capital is allocated to the various activities of the Bank depending on the risk taken by each business division. Where the subsidiaries or branches are directly regulated by other regulators, they are required to maintain capital according to the rules of these regulators.

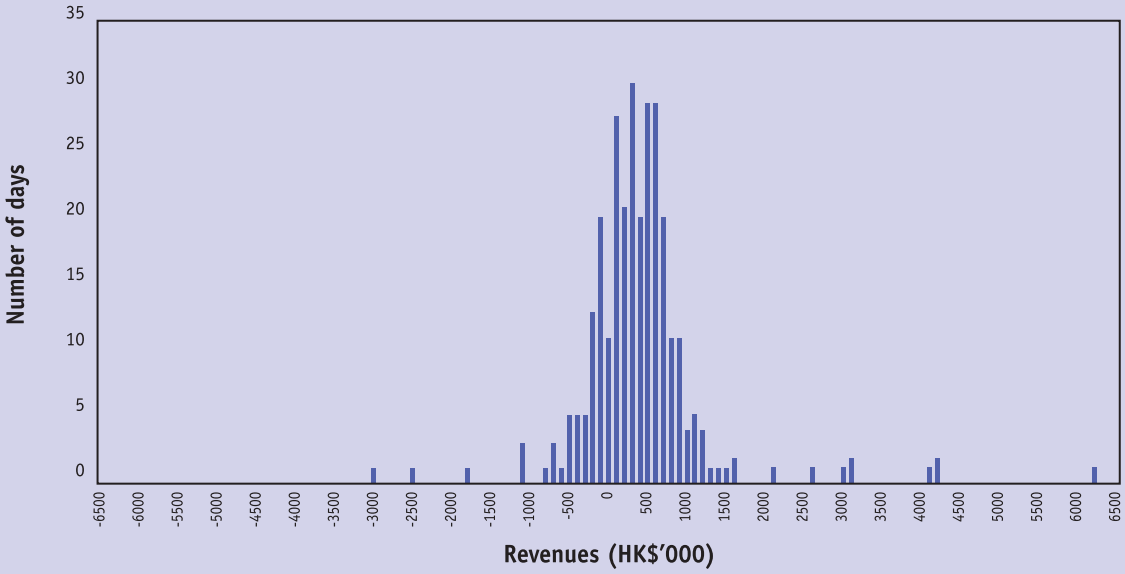
(g) Objectives, policies and strategies for the use of derivatives

The Group uses different types of derivatives to manage foreign exchange and interest rate sensitivity primarily to hedge its underlying positions. The types of derivatives used by the Group include forward exchange rate and interest rate swap contracts which are typically made over-the-counter and are managed within limits approved by the Directors or with prior approval obtained from the Executive Committee. The policy on the use of derivatives is reviewed by the Executive Committee and recommended changes and amendments are submitted to the Board for consideration.

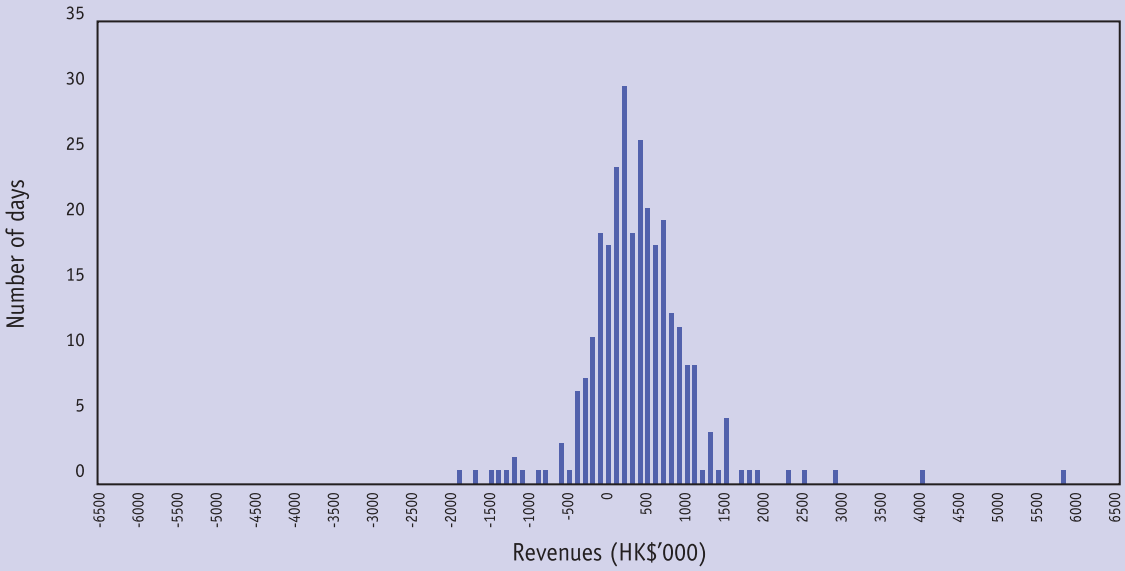
3 Quantitative information on market risk

The average daily revenue arising from foreign exchange, equity and other financial instruments exposures in the year was HK$0.45 million (2004: HK$0.43 million). The standard deviation of these daily revenues was HK$0.80 million (2004: HK$0.70 million). The highest daily revenue was HK$6.24 million (2004: HK$5.89 million) and the maximum daily loss was HK$2.91 million (2004: HK$1.81 million).

Daily distribution of market risk revenues in 2005



Daily distribution of market risk revenues in 2004



4 Capital adequacy and liquidity ratios

	2005	2004
Capital adequacy ratio	**23%**	24%
Adjusted capital adequacy ratio	**23%**	23%
Liquidity ratio	**57%**	64%

The capital adequacy ratio as at 31st December 2005 represents the consolidated ratio of the Bank, Shacom Finance Limited, Shacom Investment Limited, Shacom Investment Management Limited, Shacom Property Holdings (BVI) Limited, Shacom Property (NY) Inc., Shacom Property (CA) Inc. and Shacom Assets Investments Limited, computed in accordance with the Third Schedule of the Banking Ordinance.

The adjusted capital adequacy ratio represents the capital adequacy ratio adjusted to take into account market risk as at the balance sheet date computed in accordance with the Guideline "Maintenance of Adequate Capital Against Market Risks" issued by the Hong Kong Monetary Authority.

The liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio for the twelve months of the financial year for the Bank and Shacom Finance Limited computed in accordance with the Fourth Schedule of the Banking Ordinance.

The components of the total capital base after deductions as reported in the calculation of the capital adequacy ratio as at 31st December and reported to the Hong Kong Monetary Authority are as follows:

	2005 HK$'000	2004 HK$'000
Core capital		
Paid up ordinary share capital	**2,000,000**	2,000,000
Reserves	**7,873,108**	7,283,607
Profit and loss account	**1,362,961**	853,732
	11,236,069	10,137,339
Supplementary capital		
Reserves on revaluation of land and interests in land	**–**	701,234
Reserves on revaluation of holding of available-for-sale securities/ non-trading securities	**(225,156)**	(17,381)
Collective impairment allowances for impaired assets and regulatory reserve/general provisions for bad and doubtful debts	**401,322**	378,066
Total gross and eligible value of supplementary capital	**176,166**	1,061,919
Total capital base before deductions	**11,412,235**	11,199,258
Deductions from total capital base		
Shareholdings in subsidiaries or holding company	**(108,327)**	(75,306)
Exposures to connected companies	**(81,626)**	(86,257)
Equity investments of 20% or more in jointly controlled entities	**(25,300)**	(24,300)
Investments in the capital of other banks and financial institutions	**(317,425)**	(260,256)
	(532,678)	(446,119)
Total capital base after deductions	**10,879,557**	10,753,139

5 Segmental information

(a) Gross advances to customers by industry sector

	The Group		The Bank	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	**1,166,679**	966,512	**1,166,679**	966,512
– Property investment	**6,965,176**	5,542,128	**6,965,176**	5,521,634
– Financial concerns	**24,005**	299,502	**24,005**	299,502
– Stockbrokers	**5,746**	5,455	**5,746**	5,455
– Wholesale and retail trade	**616,258**	485,862	**616,258**	482,336
– Manufacturing	**1,519,268**	1,303,741	**1,519,190**	1,302,689
– Transport and transport equipment	**395,370**	340,181	**386,854**	321,873
– Information technology - telecommunication	**6,053**	4,342	**6,053**	4,342
– Hotels, boarding houses and catering	**1,072,772**	911,726	**1,072,772**	911,726
– Others	**2,701,230**	2,785,393	**2,698,298**	2,762,035
Individuals				
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**464,175**	565,847	**456,671**	556,375
– Loans for the purchase of other residential properties	**4,711,013**	4,931,785	**4,710,710**	4,858,231
– Credit card advances	**369,185**	319,837	**369,185**	319,837
– Others	**2,225,527**	1,420,680	**2,221,545**	1,405,409
Trade finance	**5,574,470**	5,028,950	**5,574,470**	5,028,950
Loans for use outside Hong Kong *	**6,369,354**	5,285,490	**6,369,323**	5,283,831
Accrued interest **	**63,377**	–	**63,364**	–
	34,249,658	30,197,431	**34,226,299**	30,030,737

* Included in 'Loans for use outside Hong Kong' were advances to individuals of HK$1,004,963,000. (2004: HK$887,909,000 (the Group) and HK$882,148,000 (the Bank)).

** Included in accrued interest were advances to individuals of HK$14,263,000 (the Group) and HK$14,247,000 (the Bank) and advances to corporate entities of HK$49,114,000 (the Group) and HK$49,117,000 (the Bank).

5 Segmental information (Continued)

(b) Gross advances to customers by location of counterparty or guarantor if the advances are guaranteed by a party in a location which is different from that of the counterparty are as follows:

	Impaired loans		Non-performing loans		Overdue Advances	
		As restated		As restated		As restated
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
The Group						
Hong Kong	**494,000**	380,000	**1,074,000**	861,000		
North America	**25,000**	–	**–**	2,000		
The Bank						
Hong Kong	**494,000**	376,000	**1,074,000**	861,000		
North America	**25,000**	–	**–**	2,000		

(c) Cross-border claims

Cross-border claims which include financial claims on balances due from banks and other financial institutions, treasury bills, loans and advances, trade bills, certificates of deposit held and securities investments by location and type of counterparties are as follows (in general, risk transfer should only be made 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):

The Group and the Bank

	Banks and other financial institutions HK$'000	Public sector entities HK$'000	Others HK$'000	Total HK$'000
2005				
Asia & Pacific excluding Hong Kong	**9,052,000**	**–**	**687,000**	**9,739,000**
North America	**4,060,000**	**842,000**	**2,546,000**	**7,448,000**
Western Europe	**16,663,000**	**–**	**237,000**	**16,900,000**
2004				
Asia & Pacific excluding Hong Kong	5,706,000	22,000	919,000	6,647,000
North America	4,005,000	3,621,000	678,000	8,304,000
Western Europe	19,218,000	–	397,000	19,615,000

5 Segmental information (Continued)

(d) By class of business

The Group and the Bank are engaged predominantly in banking and related financial activities. It comprises retail and corporate banking, bills, treasury and other classes of business.

The "Others" business mainly comprises remittance, share dealing, provision of trustee, wealth management and insurance agency services.

For the purpose of class of business analysis, the allocation of revenue, besides the direct revenue generated by the business, also includes the benefits of funding resources derived from the other businesses by way of internal fund transfer pricing mechanisms. Cost allocation is based on the direct cost incurred by the class of business and internal allocation of management overheads. Asset allocation is based on the assets directly attributable to the class of business and internal allocation of assets.

	Retail and corporate banking HK$'000	Bills HK$'000	Treasury HK$'000	Others HK$'000	Total HK$'000
2005					
The Group					
Operating income	**1,480,593**	**331,914**	**329,771**	**365,461**	**2,507,739**
Operating profit before provisions	**1,032,536**	**273,502**	**198,929**	**193,114**	**1,698,081**
Operating profit	**1,036,778**	**273,502**	**198,929**	**193,114**	**1,702,323**
Profit before taxation	**1,043,663**	**273,402**	**263,999**	**210,913**	**1,791,977**
Segment assets	**32,292,277**	**4,591,636**	**43,297,743**	**520,719**	**80,702,375**
The Bank					
Operating income	**1,473,305**	**331,902**	**331,999**	**629,432**	**2,766,638**
Operating profit before provisions	**1,027,592**	**273,490**	**201,216**	**464,777**	**1,967,075**
Operating profit	**1,025,618**	**273,490**	**201,216**	**464,777**	**1,965,101**
Profit before taxation	**1,024,832**	**273,390**	**266,286**	**482,931**	**2,047,439**
Segment assets	**32,084,581**	**4,567,273**	**43,293,468**	**432,369**	**80,377,691**

5 Segmental information (Continued)

(d) By class of business (Continued)

	As restated Retail and corporate banking HK$'000	As restated Bills HK$'000	As restated Treasury HK$'000	As restated Others HK$'000	As restated Total HK$'000
2004					
The Group					
Operating income	1,313,699	315,633	354,822	341,128	2,325,282
Operating profit before provisions	864,043	236,450	223,795	215,988	1,540,276
Operating profit	849,676	235,833	223,795	215,988	1,525,292
Profit before taxation	853,563	235,757	249,553	216,396	1,555,269
Segment assets	27,816,937	4,583,586	42,330,331	327,016	75,057,870
The Bank					
Operating income	1,308,090	315,633	353,731	336,556	2,314,010
Operating profit before provisions	861,605	236,450	222,759	213,345	1,534,159
Operating profit	847,238	235,833	222,759	213,345	1,519,175
Profit before taxation	846,789	235,757	248,517	213,207	1,544,270
Segment assets	27,543,399	4,557,350	42,319,660	288,543	74,708,952

(e) Fees and commission income by product lines

	The Group		The Bank	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Import and export	**180,470**	191,611	**180,470**	191,611
Retail banking and wealth management operation	**294,179**	287,806	**273,858**	284,375
Credit cards	**41,402**	39,367	**41,402**	39,367
Remittances	**54,116**	50,683	**54,116**	50,683
Credit facilities	**56,826**	49,401	**56,749**	48,485
Others	**3,138**	3,180	**2,993**	3,136
Total	**630,131**	622,048	**609,588**	617,657

6 Overdue and rescheduled advances

(a) The principal amount of overdue advances to customers (net of suspended interest capitalised for 2004) and the percentage of such advances to total advances to customers and a bank are as follows:

The Group

	2005		2004	
	HK$'000	**%**	HK$'000	%
Gross amount of advances which have been overdue for:				
– six months or less but over three months	**65,104**	**0.19**	71,454	0.24
– one year or less but over six months	**37,878**	**0.11**	19,851	0.06
– over one year	**65,913**	**0.19**	50,911	0.17
	168,895	**0.49**	142,216	0.47
Secured overdue advances	**107,942**		105,925	
Unsecured overdue advances	**60,953**		36,291	
	168,895		142,216	
Market value of security held against the secured overdue advances	**177,435**		153,397	
Individual impairment allowances/specific provisions provided	**11,269**		30,861	

The Bank

	2005		2004	
	HK$'000	**%**	HK$'000	%
Gross amount of advances which have been overdue for:				
– six months or less but over three months	**65,104**	**0.19**	71,231	0.24
– one year or less but over six months	**37,878**	**0.11**	19,851	0.06
– over one year	**65,913**	**0.19**	50,911	0.17
	168,895	**0.49**	141,993	0.47
Secured overdue advances	**107,942**		105,702	
Unsecured overdue advances	**60,953**		36,291	
	168,895		141,993	
Market value of security held against the secured overdue advances	**177,435**		153,097	
Individual impairment allowances/specific provisions provided	**11,269**		30,850	

(b) The principal amount of rescheduled advances to customers (net of those which have been overdue for over three months and reported in item (a) above) and the percentages of such advances to total advances to customers and a bank are as follows:

The Group

	2005		2004	
	HK$'000	**%**	HK$'000	%
Rescheduled advances	**55,248**	**0.16**	111,152	0.37

The Bank

	2005		2004	
	HK$'000	**%**	HK$'000	%
Rescheduled advances	**55,248**	**0.16**	108,642	0.36

6 Overdue and rescheduled advances (Continued)

(c) The principal amount of trade bills which have been overdue for:

	The Group and the Bank	
	2005	2004
	HK$'000	HK$'000
Six months or less but over three months	**1,965**	522

7 The amount of repossessed assets held

	The Group and the Bank	
	2005	2004
	HK$'000	HK$'000
Repossessed assets at fair value	**8,690**	13,090

8 Foreign currency position

	Spot assets HK$'000	Spot liabilities HK$'000	Forward purchases HK$'000	Forward sales HK$'000	Net long positions HK$'000
2005					
The Group and the Bank					
US Dollars	**33,117,000**	**(31,022,000)**	**1,038,000**	**(1,359,000)**	**1,774,000**
Pound Sterling	**1,788,000**	**(1,769,000)**	**81,000**	**(85,000)**	**15,000**
Canadian Dollars	**1,555,000**	**(1,596,000)**	**52,000**	**(11,000)**	**–**
Other currencies and gold	**6,383,000**	**(6,270,000)**	**920,000**	**(1,016,000)**	**17,000**
	42,843,000	**(40,657,000)**	**2,091,000**	**(2,471,000)**	**1,806,000**
2004					
The Group and the Bank					
US Dollars	35,020,000	(31,005,000)	2,551,000	(2,630,000)	3,936,000
Pound Sterling	2,019,000	(1,989,000)	31,000	(15,000)	46,000
Canadian Dollars	1,701,000	(1,710,000)	82,000	(26,000)	47,000
Other currencies and gold	5,607,000	(5,649,000)	2,054,000	(1,928,000)	84,000
	44,347,000	(40,353,000)	4,718,000	(4,599,000)	4,113,000

Structural assets include capital reserves and retained profits of overseas branches together with investments in overseas subsidiaries and related companies:

The Group and the Bank

	Structural assets	
	2005	2004
	HK$'000	HK$'000
US Dollars	**1,247,000**	1,157,000
Pound Sterling	**13,000**	24,000
	1,260,000	1,181,000

Branches and Subsidiary Companies

Head Office

12 Queen's Road Central
Telephone: (852) 2841 5415
Fax: (852) 2810 4623
Telex: 73390; 73650 SCBK HX
SWIFT: SCBK HK HH
Web Site: http://www.shacombank.com.hk

Hong Kong Island Branches

Aberdeen Branch	118 Aberdeen Main Road
Causeway Bay Branch	18 Pennington Street
Hennessy Road Branch	Shop LG 16, C.C. Wu Building, 302 Hennessy Road
North Point Branch	486 King's Road
President Theatre Branch	Shop A, G/F., 517 Jaffe Road
Shaukiwan Branch	136 Shaukiwan Main Street East
Sheung Wan Branch	19-25 Jervois Street
Siu Sai Wan Branch	Shop 9, G/F., Harmony Garden, 9 Siu Sai Wan Road
Taikoo Shing Branch	G502, Tai Yue Avenue, Taikoo Shing
Victoria Centre Branch	G7, Victoria Centre, 15 Watson Road
Wanchai Branch	19-21 Hennessy Road
West Point Branch	47 Catchick Street

Kowloon Branches

Jordan Road Branch	Shop 2, G/F., Sino Cheer Plaza, 23 Jordan Road
Kowloon Bay Branch	Telford House, 16 Wang Hoi Road
Kowloon Tong Branch	G28, Franki Centre, 320 Junction Road
Kwun Tong Branch	57-61 Hong Ning Road
Laichikok Branch	Shops 5-8, G/F., Lai Kwan Court, 438 Castle Peak Road
Mei Foo Sun Chuen (Stage 1) Branch	29D Broadway, Mei Foo Sun Chuen
Mei Foo Sun Chuen (Stage 4) Branch	83B Broadway, Mei Foo Sun Chuen
Mongkok Branch	666 Nathan Road
Ping Shek Estate Branch	115 Tsuen Shek House, Ping Shek Estate
Sanpokong Branch	28 Hong Keung Street
Sham Shui Po Branch	141 Cheung Sha Wan Road
Tokwawan Branch	60 Tokwawan Road
Tsimshatsui Branch	7 Hankow Road
Tsimshatsui East Branch	G27, Houston Centre, 63 Mody Road
Waterloo Road Branch	84K Waterloo Road
Whampoa Garden Branch	Shop 9, Palm Mansions, Whampoa Garden, Site 4

New Territories and Outlying Island Branches

Kingswood Villa Branch	Shop G08, G/F., Phase 2, Kingswood Ginza, 18 Tin Yan Road
Kwai Chung Branch	Shop 3, Hutchison Estate, 482 Castle Peak Road
Ma On Shan Branch	Shop 308, Level 3, Ma On Shan Plaza, 608 Sai Sha Road
Shatin Branch	Shop 70B, Level 3, Shatin Centre, Wang Pok Street
Sheung Shui Branch	126 San Fung Avenue
Tai Po Branch	Shop 83, Level 1, Uptown Plaza, 9 Nam Wan Road
Texaco Road Branch	Shops B128-131, East Asia Commercial Centre, 36-60 Texaco Road
Tseung Kwan O Branch	Shops G1-2, G/F., Metro City Plaza III, The Metropolis, 8 Mau Yip Road
Tsuen Wan Branch	405 Castle Peak Road
Tuen Mun Branch	Shop 4A, Level Two (South Wing), Trend Plaza
Tung Chung Branch	Shops 1-2 , Block 5, Tung Chung Crescent
TVB Office	2/F., Workshop Block, TVB City, 77 Chun Choi Street, Tseung Kwan O Industrial Estate
Yuen Long Branch	17 Hong Lok Road

Overseas Branches

London Branch	65 Cornhill, London EC3V 3NB, U.K.
San Francisco Branch	231 Sansome Street, San Francisco, CA 94104, U.S.A.
New York Branch	125 East 56th Street, New York, NY 10022, U.S.A.
Los Angeles Branch	383 East Valley Boulevard, Alhambra, CA 91801, U.S.A.

Mainland Branch

Shenzhen Branch	26/F., Shenzhen International Financial Building, 2022 Jianshe Road, Shenzhen 518001, P.R.C.

Mainland Representative Office

Shanghai Representative Office	Room 09-13, 9/F., China Merchants Tower, 161 Lu Jia Zui Road (E), Pu Dong, Shanghai 200120, P.R.C.

Wholly-owned Subsidiary Companies

Hai Kwang Property Management Company Limited
Ocean Crown Investments Limited
Shacom Assets Investments Limited
Shacom Finance Limited
Shacom Futures Limited
Shacom Insurance Brokers Limited
Shacom Investment Limited
Shacom Investment Management Limited (In members' voluntary winding up)
Shacom Property (CA) Inc.
Shacom Property (NY) Inc.
Shacom Property Holdings (BVI) Limited
Shanghai Commercial Bank (Nominees) Limited

Subsidiary Companies

Infinite Financial Solutions Limited
Shanghai Commercial Bank Trustee Limited