

SHANGHAI COMMERCIAL BANK LIMITED

Annual Report 2006

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Five-Year Financial Summary

	2006	2005	2004	2003	2002
For The Year (In HK$ Million)					
Net interest income	**1,849**	1,682	1,500	1,400	1,399
Other operating income	**1,008**	908	825	694	562
Operating expenses	**842**	810	785	736	847
Operating profit	**1,981**	1,785	1,525	1,192	940
Profit attributable to shareholders	**1,662**	1,472	1,329	1,013	867
Dividend	**506**	460	460	400	400
At Year End (In HK$ Million)					
Shareholders' funds	**13,026**	11,673	10,631	10,678	10,077
Total assets	**93,760**	80,702	75,058	74,804	73,272
Total deposits	**75,343**	64,037	60,373	59,948	60,150
Total loans and advances	**38,472**	35,600	30,205	28,149	27,757
Financial Ratios					
Capital adequacy ratio-adjusted	**22%**	23%	23%	23%	22%
Liquidity ratio	**53%**	57%	64%	74%	66%
Loan to deposit ratio*	**55.79%**	61.10%	59.42%	53.25%	52.65%
Dividend payout ratio	**30.45%**	31.25%	34.60%	39.49%	46.14%
Return on average assets	**1.90%**	1.89%	1.77%	1.37%	1.20%

* 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-sixth Annual General Meeting of the Members of the Bank will be held at its Registered Office, 12 Queen's Road Central, Hong Kong on Monday, 23rd April 2007 at 11:00 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 2006;

(2) To declare Dividend in respect of the year 2006;

(3) To elect Directors;

(4) To approve the payment of Directors' fees for the year ended 31st December 2006;

(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 Monday, 16th April 2007 to Monday, 23rd April 2007, both days inclusive.

By Order of the Board
Tony Kam-hung Mak
Corporate Secretary

Hong Kong, 28th February 2007

Board of Directors

John Kam-pak Yan, Chairman & Managing Director	
* Jung-sen Lee, OBE, LLD	(passed away on 24th February 2007)
(Chien Lee, Alternate)	(appointed on 31st August 2006) (ceased on 24th February 2007)
Hung-ching Yung, JP	
Frank Kai-shu Lau	(retired on 19th April 2006)
Lincoln Chu Kuen Yung, JP	
Shen Ruolei	
* Dr. Philip Kin Hang Wong, GBS, JP, LLD, DH	
David Joseph Zuercher	
(Michael Gallagher, Alternate)	(resigned on 25th January 2007)
(Clifford Sterling Lawrence, Alternate)	(appointed on 25th January 2007)
* Dr. Richard Lee	
* Johnson Mou Daid Cha	
(Dr. Lam Chat Yu, Alternate)	
David Sek-chi Kwok	
Robert Law Joss	(resigned on 7th April 2006)
(Ignatius Wooi-kean Choong, Alternate)	(resigned on 7th April 2006)
Fu Jianhua	
(Zhang Qi, Alternate)	
Stephen Ching Yen Lee	
(Chen Yih Pin, Alternate)	(resigned on 19th April 2006)
Edward Kawah Chu	
David Allen Hoyt	(appointed on 7th April 2006)
(Ignatius Wooi-kean Choong, Alternate)	(appointed on 7th April 2006)
Chen Yih Pin	(elected on 19th April 2006)
(Yi-Jen Chiou, Alternate)	(appointed on 15th February 2007)

* Independent Non-executive Directors

Management

Executives

Chairman & Managing Director	John Kam-pak Yan	
General Manager	David Sek-chi Kwok	
Assistant General Managers	Edward Kawah Chu	
	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
	Burton Chi-shan Cheng	Paul Kun-kow Wong
	John Yu-kam Chow	Henry Siu-chuen Lau
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 65. 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 91. Appointed a Director of the Bank in May 1952. Passed away on 24th February 2007.

Mr. Hung-ching Yung, JP

Aged 84. 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.

Mr. Frank Kai-shu Lau

Aged 64. Appointed a Director of the Bank in March 1996. Retired on 19th April 2006.

Mr. Lincoln Chu Kuen Yung, JP

Aged 61. 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 61. Appointed a Director of the Bank in March 1999. Chairman of Shanghai United International Investment Ltd. and United MetLife Insurance Company Limited. Vice Chairman of Shanghai International Trust & Investment Corporation. A Director of Bank of Shanghai.

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

Aged 74. 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 60. 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 69. 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 55. 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 53. 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 65. 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. Resigned on 7th April 2006.

Mr. Fu Jianhua

Aged 55. Appointed a Director of the Bank in January 2004. President of Shanghai Pudong Development Bank. A Director of Shanghai United International Investment Ltd.

Mr. Stephen Ching Yen Lee

Aged 60. 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 51. An Assistant General Manager of the Bank. Joined the Bank in December 1979. Appointed a Director in February 2005.

Mr. David Allen Hoyt

Aged 52. Appointed a Director of the Bank in April 2006. Senior Executive Vice President, Wholesale Banking, Wells Fargo & Company. A Director of Wells Fargo Bank, N.A.

Mr. Chen Yih Pin

Aged 67. Appointed an Alternate Director to Mr. Stephen Ching Yen Lee in June 2004 and resigned in April 2006 when he was elected a Director of the Bank. Managing Director of The Shanghai Commercial & Savings Bank, Ltd.

Mr. Ignatius Wooi-kean Choong

Aged 45. Served as an Alternate Director to Mr. Paul Mandeville Hazen from January 1997 to March 2001, an Alternate Director to Professor Chang-Lin Tien from March 2001 to March 2002 and also an Alternate Director to Mr. Robert Law Joss from April 2002 to April 2006. Appointed an Alternate Director to Mr. David Allen Hoyt in April 2006. Managing Director, Asia Investment Management, Wells Fargo Bank, N.A.

Dr. Lam Chat Yu

Aged 55. Appointed an Alternate Director to Mr. Johnson Mou Daid Cha in May 2002. He has more than 20 years of investment experience, including 16 years in Silicon Valley, California and 12 years in Asia. He is an Executive Director of Mingly Corporation.

Mr. Michael Gallagher

Aged 45. Appointed an Alternate Director to Mr. David Joseph Zuercher in January 2003. Resigned on 25th January 2007.

Mr. Zhang Qi

Aged 33. 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. Chien Lee

Aged 54. Appointed an Alternate Director to Mr. Jung-sen Lee in August 2006. Ceased as an Alternate Director to the late Mr. Jung-sen Lee on 24th February 2007.

Mr. Clifford Sterling Lawrence

Aged 58. Appointed an Alternate Director to Mr. David Joseph Zuercher in January 2007. Senior Vice President and Asia General Manager, Wells Fargo Bank, N.A.

Mr. Yi-Jen Chiou

Aged 49. Appointed an Alternate Director to Mr. Chen Yih Pin in February 2007. 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 58. An Assistant General Manager of the Bank. Joined the Bank in January 1968.

Mr. Francis Wai-choi Cheung

Aged 56. An Assistant General Manager of the Bank. Joined the Bank in July 1969.

Mr. Henry Koon-man To

Aged 54. Assistant General Manager and Chief Financial Controller of the Bank. Joined the Bank in December 1988.


優游豐盛退休生活
由精明策劃開始
上海商業銀行


佣金回贈
源源不絕
證券
買賣
上海商業銀行


股票掛鈎存款
Equity Linked Deposit
開展理想潛在回報新體驗
A new way to achieve potentially higher interest rewards
上海商業銀行


上海商業銀行
「公司優惠計劃」
助您提早達成目標
基本計劃之首年保費
優惠可達95折
凡特選之公司或員工及家屬投保指定壽險計劃，首年保費優惠達九五折。另外，公司可享現金回贈，回贈次數不限。


上海商業銀行為您呈獻
全面退休策劃服務
把握機會
請立即行動！

The Bank continues to introduce new products and services as well as organize investment seminars, offering customers a comprehensive package of wealth management and investment services.

本銀行不斷推出新產品及服務，並舉辦投資講座，為客戶提供多元化的投資理財服務。



Message to Shareholders

2006 was a year of challenge. Due to the continued weak loan demand, the price war in the mortgage business raged on with quotation as low as HIBOR plus a small margin. Competition in other business sectors was no less intense, which put to test the talent and commitment of the staff of Shanghai Commercial Bank (the "Bank"). Despite the difficult operating environment, the Bank was still able to secure a record high consolidated profit attributable to shareholders of HK$1,661 million, a 12.87 percent increase from 2005. Increase in net interest income and non-interest income, which includes fee income from the stock brokerage business, mainly contributed to the Bank's outstanding performance.

2006 was also a year of growth. The Shenzhen Branch obtained the requisite approval from the China Banking Regulatory Commission for the operation of Renminbi business in the Mainland. A sixth SME unit was set up in the Causeway Bay Branch as part of the Bank's effort to strengthen its SME business. In order to provide quicker, better services to its stock brokerage customers, the Bank has launched a new stock trading system that is superior in both speed and capacity. To cater for the increased stock brokerage business, the bank premises of the Kingswood Villa Branch and the Aberdeen Branch have been expanded.

It is our firm belief that competent, devoted employees are the Bank's most valuable assets. The Bank will continue to invest in recruiting and retaining the most talented employees in the market. We are also grateful for the excellent stewardship of the Bank's Board of Directors. It is with much regret that we report the passing away of Mr. Jung-sen Lee on 24th February 2007. Mr. Lee served as a Director of the Bank since May 1952 and contributed in a very positive way to the development of the Bank over the years. He will be greatly missed by us all.

We anticipate 2007 to bring us new and bigger challenges. Our plan is to expand our business in the Mainland and the overseas market to capture profits, and to continue to brave the competition in the increasingly difficult local market. Together with our family of staff, our Directors as well as our customers, we believe that we will set another new record in 2007.

John Kam-pak Yan
Chairman & Managing Director

David Sek-chi Kwok
General Manager

Hong Kong, 28th February 2007

Report of the Directors

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31st December 2006.

Principal activities

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

Profit and appropriations

		HK$'000
The Group profit for the year after taxation less minority interests amounted to		1,661,582
Deduct:	Profit retained by jointly controlled entities	(27,836)
	Profit retained by subsidiary companies	(2,849)
Profit for the year dealt with in the financial statements of the Bank		1,630,897
Add:	Retained earnings of the Bank brought forward	1,834,105
	Currency translation differences	1,778
	Reversal of impairment losses on investments in jointly controlled entities	17,238
which the Directors proposed a dividend of HK$25.30 per share		(506,000)
Retained earnings of the Bank carried forward		2,978,018

Other reserves

Movements in the other reserves of the Group and the Bank during the year are set out in Note 27 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$915,000.

Property and equipment

Details of the movements in property and equipment of the Group and the Bank are shown in Note 18 to the financial statements.

Directors

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

Jung-sen Lee	(passed away on 24th February 2007)
(Chien Lee, Alternate)	(appointed on 31st August 2006) (ceased on 24th February 2007)
Hung-ching Yung	
John Kam-pak Yan	
Frank Kai-shu Lau	(retired on 19th April 2006)
Lincoln Chu Kuen Yung	
Shen Ruolei	
Dr. Philip Kin Hang Wong	
David Joseph Zuercher	
(Michael Gallagher, Alternate)	(resigned on 25th January 2007)
(Clifford Sterling Lawrence, Alternate)	(appointed on 25th January 2007)
Dr. Richard Lee	
Johnson Mou Daid Cha	
(Dr. Lam Chat Yu, Alternate)	
David Sek-chi Kwok	
Robert Law Joss	(resigned on 7th April 2006)
(Ignatius Wooi-kean Choong, Alternate)	(resigned on 7th April 2006)
Fu Jianhua	
(Zhang Qi, Alternate)	
Stephen Ching Yen Lee	
(Chen Yih Pin, Alternate)	(resigned on 19th April 2006)
Edward Kawah Chu	
David Allen Hoyt	(appointed on 7th April 2006)
(Ignatius Wooi-kean Choong, Alternate)	(appointed on 7th April 2006)
Chen Yih Pin	(elected on 19th April 2006)
(Yi-Jen Chiou, Alternate)	(appointed on 15th February 2007)

In accordance with Article 104(A) of the Bank's Articles of Association, Mr. Shen Ruolei, Dr. Philip Kin Hang Wong, Mr. David Joseph Zuercher, Mr. Fu Jianhua and Dr. Richard Lee shall retire by rotation at the forthcoming Annual General Meeting and, being eligible, 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 Authorised 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 individual 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, 28th February 2007

Auditor's Report to the Shareholders of Shanghai Commercial Bank Limited

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Shanghai Commercial Bank Limited (the "Bank") and its subsidiaries (together, the "Group") set out on pages 18 to 84, which comprise the consolidated and company balance sheets as at 31st December 2006, the consolidated and company profit and loss accounts, the consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and the Group as at 31st December 2006 and of the profit of the Bank and the Group and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28th February 2007

Consolidated Profit and Loss Account

for the year ended 31st December 2006

	Note	2006 HK$'000	2005 HK$'000
Interest income	4(a)	**4,565,937**	3,070,440
Interest expense	4(b)	**(2,717,093)**	(1,388,270)
Net interest income		**1,848,844**	1,682,170
Fee and commission income	4(c)	**732,505**	630,131
Fee and commission expense	4(d)	**(29,606)**	(24,747)
Net fee and commission income		**702,899**	605,384
Dividend income	4(e)	**19,399**	16,627
Net trading income	4(f)	**186,538**	123,137
Net loss from disposal of property and equipment		**(532)**	(1,497)
Profits on disposal of an investment property		**–**	18,461
Net gain from disposal/redemption of available-for-sale investments		**21,038**	65,360
Other operating income		**78,832**	80,421
Operating expenses	5	**(841,895)**	(809,658)
(Impairment losses)/reversal of impairment losses on loans and advances to customers	7	**(34,574)**	4,242
Operating profit		**1,980,549**	1,784,647
Share of net profits of jointly controlled entities		**29,666**	7,330
Profit before taxation		**2,010,215**	1,791,977
Taxation	8	**(347,610)**	(318,873)
Profit after taxation		**1,662,605**	1,473,104
Attributable to:			
Shareholders of the Bank		**1,661,582**	1,472,130
Minority interests		**1,023**	974
		1,662,605	1,473,104
Dividend			
Final dividend proposed after the balance sheet date	9	**506,000**	460,000

Profit and Loss Account

for the year ended 31st December 2006

	Note	2006 HK$'000	2005 HK$'000
Interest income	4(a)	**4,468,736**	2,981,884
Interest expense	4(b)	**(2,724,240)**	(1,393,785)
Net interest income		**1,744,496**	1,588,099
Fee and commission income	4(c)	**701,793**	609,588
Fee and commission expense	4(d)	**(25,078)**	(21,607)
Net fee and commission income		**676,715**	587,981
Dividend income	4(e)	**121,783**	382,866
Net trading income	4(f)	**186,526**	123,146
Net loss from disposal of property and equipment		**(399)**	(1,483)
Profits on disposal of an investment property		**–**	18,461
Net gain from disposal/redemption of available-for-sale investments		**21,038**	65,360
Other operating income		**94,363**	84,546
Operating expenses	5	**(832,430)**	(799,563)
Reversal of impairment losses on investments in jointly controlled entities		**17,238**	–
Impairment losses on loans and advances to customers	7	**(34,779)**	(1,974)
Profit before taxation		**1,994,551**	2,047,439
Taxation	8	**(346,416)**	(314,928)
Profit after taxation		**1,648,135**	1,732,511
Dividend			
Final dividend proposed after the balance sheet date	9	**506,000**	460,000

Consolidated Balance Sheet

as at 31st December 2006

	Note	2006 HK$'000	2005 HK$'000
Assets			
Cash and short-term funds	10	**24,446,440**	20,420,169
Placements with and loans and advances to banks and other financial institutions	11	**10,583,476**	4,748,809
Trading securities	12	**248,084**	231,090
Derivative financial instruments	13(b)	**23,962**	9,828
Financial assets at fair value through profit or loss	12	**403,296**	233,440
Loans and advances to customers	14	**38,311,148**	35,406,197
Investment securities:			
– Available-for-sale	15	**14,708,304**	15,017,036
– Held-to-maturity	16	**2,469,794**	3,000,981
Investments in jointly controlled entities	17(a)	**164,774**	136,938
Property and equipment	18	**427,831**	441,555
Leasehold land and land use rights	20	**278,661**	255,666
Deferred income tax assets	25	**71,915**	86,154
Other assets	21	**1,622,791**	714,512
Total assets		**93,760,476**	80,702,375
Liabilities			
Deposits from banks and other financial institutions		**3,765,378**	4,002,147
Derivative financial instruments	13(b)	**19,853**	9,094
Deposits from customers	22	**72,237,097**	60,930,727
Certificates of deposit issued	23	**3,105,934**	3,106,278
Other liabilities and provisions	24	**1,579,449**	943,789
Current income tax liabilities		**19,483**	31,160
Deferred income tax liabilities	25	**67**	89
Total liabilities		**80,727,261**	69,023,284
Equity			
Capital and reserves attributable to the equity holders of the bank			
Share capital	26	**2,000,000**	2,000,000
Retained earnings		**3,592,717**	2,390,379
Other reserves	27	**7,433,623**	7,282,380
		13,026,340	11,672,759
Minority interests in equity		**6,875**	6,332
Total equity		**13,033,215**	11,679,091
Total equity and liabilities		**93,760,476**	80,702,375

Approved and authorised for issue by the Board of Directors on 28th February 2007

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 2006

	Note	2006 HK$'000	2005 HK$'000
Assets			
Cash and short-term funds	10	**23,533,786**	20,341,937
Placements with and loans and advances to banks and other financial institutions	11	**10,583,476**	4,748,809
Trading securities	12	**248,084**	231,090
Derivative financial instruments	13(b)	**23,962**	9,828
Financial assets at fair value through profit or loss	12	**403,296**	233,440
Loans and advances to customers	14	**38,311,148**	35,383,025
Investment securities:			
– Available-for-sale	15	**14,197,983**	14,563,247
– Held-to-maturity	16	**1,430,955**	1,427,045
Investments in jointly controlled entities	17(a)	**113,300**	96,062
Investments in and loans to subsidiary companies	17(b)	**2,428,630**	2,095,812
Property and equipment	18	**393,528**	417,771
Investment properties	19	**7,721**	–
Leasehold land and land use rights	20	**278,661**	255,666
Deferred income tax assets	25	**71,915**	86,154
Other assets	21	**954,022**	487,805
Total assets		**92,980,467**	80,377,691
Liabilities			
Deposits from banks and other financial institutions		**3,765,378**	4,002,147
Derivative financial instruments	13(b)	**19,853**	9,094
Deposits from customers	22	**72,237,097**	60,929,819
Certificates of deposit issued	23	**3,105,934**	3,106,278
Other liabilities and provisions	24	**919,766**	721,059
Current income tax liabilities		**18,860**	29,818
Total liabilities		**80,066,888**	68,798,215
Equity			
Capital and reserves attributable to the equity holders of the bank			
Share capital	26	**2,000,000**	2,000,000
Retained earnings		**3,484,018**	2,294,105
Other reserves	27	**7,429,561**	7,285,371
		12,913,579	11,579,476
Total equity and liabilities		**92,980,467**	80,377,691

Approved and authorised for issue by the Board of Directors on 28th February 2007

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 equity holders of the Bank			Minority interests	Total equity
		Share capital	Other reserves	Retained earnings		
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1st January 2005		2,000,000	7,319,400	1,619,136	5,678	10,944,214
Fair value gains, net of tax:						
– available-for-sale investments	27	–	(224,223)	–	–	(224,223)
Currency translation differences	27	–	(8,314)	(887)	–	(9,201)
Transfer from retained earnings	27	–	505,000	(505,000)	–	–
Net income/(expense) recognised directly in equity		–	272,463	(505,887)	–	(233,424)
Realised on disposal of available-for-sale investments	27	–	(44,483)	–	–	(44,483)
Profit for the year		–	–	1,472,130	974	1,473,104
Transfer to retained earnings	27	–	(265,000)	265,000	–	–
Total recognised income and expenses for 2005		–	(37,020)	1,231,243	974	1,195,197
Dividend relating to 2004		–	–	(460,000)	(320)	(460,320)
Balance at 31st December 2005		2,000,000	7,282,380	2,390,379	6,332	11,679,091

	Note	Attributable to the equity holders of the Bank			Minority interests	Total equity
		Share capital	Other reserves	Retained earnings		
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1st January 2006		2,000,000	7,282,380	2,390,379	6,332	11,679,091
Fair value gains, net of tax:						
– available-for-sale investments	27	–	152,037	–	–	152,037
Currency translation differences	27	–	9,214	756	–	9,970
Net income/(expense) recognised directly in equity		–	161,251	756	–	162,007
Realised on disposal of available-for-sale investments	27	–	(10,008)	–	–	(10,008)
Profit for the year	27	–	–	1,661,582	1,023	1,662,605
Total recognised income and expenses for 2006		–	151,243	1,662,338	1,023	1,814,604
Dividend relating to 2005		–	–	(460,000)	(480)	(460,480)
Balance at 31st December 2006		2,000,000	7,433,623	3,592,717	6,875	13,033,215

	Year ended 31st December	
	2006	2005
	HK$'000	HK$'000
Proposed dividend in retained earnings	506,000	460,000

Consolidated Cash Flow Statement

for the year ended 31st December 2006

	2006 HK$'000	2005 HK$'000
Profit before taxation	**2,010,215**	1,791,977
Share of net profits of jointly controlled entities	**(29,666)**	(7,330)
Impairment losses/(reversal of impairment losses) on loans and advances to customers	**34,574**	(4,242)
Depreciation expenses on property and equipment and investment properties	**58,435**	70,449
Amortisation of interests in leasehold land	**4,823**	4,568
Amortisation of intangible assets	**–**	632
Net loss from disposal of property and equipment	**532**	1,497
Profits on disposal of an investment property	**–**	(18,461)
Net gain from disposal/redemption of available-for-sale investments	**(21,038)**	(65,360)
Amortisation of held-to-maturity and available-for-sale investments	**72,893**	91,816
Interest income on held-to-maturity and available-for-sale investments	**(801,900)**	(800,339)
Dividend income on available-for-sale investments	**(19,399)**	(16,097)
Operating cash inflow before changes in operating assets and liabilities	**1,309,469**	1,049,110
(Increase)/decrease in operating assets:		
Other assets	**(1,021,935)**	(136,174)
Loans and advances to customers, amounts written off and recoveries	**(2,940,506)**	(4,113,975)
Trading securities	**(16,994)**	193,874
Financial assets at fair value through profit or loss	**(169,856)**	(233,440)
Cash and short-term funds with original maturity beyond three months	**(149,517)**	653,817
Placements with and loans and advances to banks and other financial institutions with original maturity beyond three months	**(5,729,269)**	(444,356)
Exchange fund bills with original maturity beyond three months	**(834,423)**	(78,225)
Increase/(decrease) in operating liabilities:		
Other liabilities and provisions	**625,263**	(339,453)
Certificates of deposit issued	**(344)**	406,278
Deposits from customers	**11,306,370**	3,307,201
Deposits from banks and other financial institutions with original maturity beyond three months	**271,416**	(98,346)
Net cash inflow from operating activities before taxation	**2,649,674**	166,311
Hong Kong profits tax paid	**(160,532)**	(29,272)
Overseas tax paid	**(57,695)**	(54,778)
Net cash inflow from operating activities	**2,431,447**	82,261

	Note	2006 HK$'000	2005 HK$'000
Cash flows from investing activities			
Interest received on held-to-maturity and available-for-sale investments		**800,769**	784,213
Dividends received on available-for-sale investments		**18,492**	16,097
Dividends received from jointly controlled entities		**1,830**	1,830
Purchase of available-for-sale investments		**(3,025,378)**	(6,618,479)
Purchase of held-to-maturity investments		**(248,105)**	(842,736)
Sale/redemption of available-for-sale investments		**3,512,917**	8,135,513
Redemption of held-to-maturity investments		**768,086**	615,209
Acquisition of a subsidiary company		**–**	(18,100)
Increase of advances to a jointly controlled entity		**–**	(1,000)
Purchase of leasehold land		**(28,076)**	(1,529)
Disposal of leasehold land		**597**	1,519
Purchase of property and equipment		**(41,206)**	(41,812)
Sale of property and equipment		**845**	490
Sale of an investment property		**–**	38,631
Net cash inflow from investing activities		**1,760,771**	2,069,846
Net cash inflow before financing activities		**4,192,218**	2,152,107
Cash flows from financing activities			
Dividend paid on ordinary shares to the equity holders of the Bank		**(460,000)**	(460,000)
Dividend paid to a minority shareholder of a subsidiary company		**(480)**	(320)
Dividend paid to former shareholders of a subsidiary company		**–**	(1,086)
Net cash outflow from financing activities		**(460,480)**	(461,406)
Effect of exchange rate changes		**(86,485)**	85,480
Net increase in cash and cash equivalents		**3,645,253**	1,776,181
Cash and cash equivalents at 1st January		**20,713,280**	18,937,099
Cash and cash equivalents at 31st December	28	**24,358,533**	20,713,280

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 People's Republic of China. The Group employs over 1,500 people.

The Bank is a financial institution incorporated in Hong Kong. The address of its registered office is 12 Queen's Road Central, Hong Kong.

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

These consolidated financial statements are presented in thousands of units of HK dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 28th February 2007.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group and the financial statements of the Bank have been prepared 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 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 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 available-for-sale investments, financial assets at fair value through profit or loss, trading securities and derivative financial instruments. 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 areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 2.19.

(a) Amendments and interpretations to existing standards effective in 2006

HKAS 39 (Amendment), The Fair Value Option, is mandatory for the Group's accounting periods beginning on or after 1st January 2006. This amendment restricts the circumstances under which the fair value option in HKAS 39 can be used, as compared to the original HKAS 39. It does not have any impact on the classification and valuation of the Group's financial instruments classified as at fair value through profit or loss prior to 1st January 2006 as the Group is able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss.

HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts, are mandatory for the Group's accounting periods beginning on or after 1st January 2006. Any new and existing financial guarantee contracts that were previously not accounted for under HKFRS 4 are now required to be accounted for under HKAS 39. In prior years, financial guarantee contracts were not accounted for under HKFRS 4 but were disclosed as off-balance sheet contingent liabilities under HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets". With effect from 1st January 2006 and in accordance with the above amendment, financial guarantee contracts issued are recognised initially at fair value and subsequently measured at the higher of (i) the amount recognised under HKAS 37, and (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised over the life of the guarantee on a straight-line basis. No restatement of comparative figures was made as the amounts were immaterial.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Amendments and interpretations to existing standards effective in 2006 (Continued)
HK(IFRIC) - INT 4, Determining whether an Arrangement contains a Lease, is mandatory for the Group's accounting periods beginning on or after 1st January 2006. This interpretation requires an assessment of whether certain supply arrangements contain in substance a lease that should be recognised by both the "lessor" and "lessee" in accordance with HKAS 17, Leases. The Group has reviewed its contracts in accordance with the requirements of this interpretation, resulting in a few contracts being accounted for as leases under HKAS 17. However, these leases are operating leases, and their reclassification has had no impact on the expense recognised in respect of them.

(b) Standards, amendments and interpretations effective in 2006 but not relevant to the Group's operations
The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1st January 2006 but either did not result in substantial changes to the Group's accounting policies or are not relevant to the Group's operations:

HKAS 21 (Amendment), Net Investment in a Foreign Operation;
HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
HKFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards;
HKFRS 6, Exploration for and Evaluation of Mineral Resources;
HK(IFRIC) – INT 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;
HK(IFRIC) – INT 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment.

(c) Standards, amendments and interpretations that are not yet effective and have either not been early adopted by the Group or not relevant to the Group
The Group has chosen not to early adopt the following standards, amendments and interpretations to existing standards that were issued but not yet effective for accounting periods beginning on 1st January 2006:

HKFRS 7, Financial Instruments: Disclosures and the Amendment to HKAS 1, Presentation of Financial Statements - Capital Disclosures, are effective for annual accounting periods beginning on or after 1st January 2007. HKFRS 7 introduces certain new disclosures relating to financial instruments while incorporating many of the requirements presently in HKAS 32. HKFRS 7 will supersede HKAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and the disclosure requirements of HKAS 32 Financial Instruments: Disclosure and Presentation. The Group has assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the key impact will be more qualitative and quantitative disclosures primarily related to fair value measurement and risk management. Accordingly the adoption of this standard will have no effect on the Group's results of operations or financial position. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1st January 2007.

HK(IFRIC) - INT 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1st May 2006). HK(IFRIC) - INT 8 requires consideration of transactions involving the issuance of equity instruments - where the identifiable consideration received is less than the fair value of the equity instruments issued - to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC) - INT 8 from 1st January 2007, but it is not expected to have any significant impact on the Group's financial statements;

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(c) Standards, amendments and interpretations that are not yet effective and have either not been early adopted by the Group or not relevant to the Group (Continued)
HK(IFRIC) - INT 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1st June 2006). HK(IFRIC) - INT 9 requires an entity to assess whether an embedded derivatives is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group will apply HK(IFRIC) - INT 9 from 1st January 2007, but it is not expected to have any significant impact on the Group's financial statements; and

HK(IFRIC) - INT 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1st November 2006). HK(IFRIC) - INT 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC) - INT 10 from 1st January 2007, but it is not expected to have any significant impact on the Group's financial statements.

The following interpretations were issued but not yet effective for accounting periods beginning on 1st January 2006 and has been assessed to be not relevant to the Group's operations:

HK(IFRIC) - INT 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1st March 2006). HK(IFRIC) - INT 7 provides guidance on how to apply the requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflation in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC) - INT 7 is not relevant to the Group's operations.

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 interests. 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.

2 Summary of significant accounting policies (Continued)

2.2 Basis of consolidation (Continued)

(a) Subsidiaries (Continued)
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 for 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 and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities 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, are included in the fair value reserve in equity.

(c) Group companies and overseas branches
The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) 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 operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 Summary of significant accounting policies (Continued)

2.4 Income recognition

(a) Interest income
Interest income 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 and of allocating the interest income 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.

The Group also applies the effective interest method in determining the interest expense in the profit and loss account.

(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.

Commissions 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.

2.5 Leases

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

Interest in leasehold land is amortised on a straight-line basis over the unexpired period of the lease term.

(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 for as operating leases.

2 Summary of significant accounting policies (Continued)

2.6 Property and equipment

(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

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 investments, and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss
This category has two sub-categories: trading securities, and financial assets 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 it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual pattern of short-term profit-making. Derivatives are also categorised as held for trading unless they are designated as hedges.

A financial asset is typically classified as fair value through profit or loss at inception if it meets the following criteria:

(i) The designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases; or
(ii) A group of financial assets and/or financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the financial assets and/or financial liabilities is provided internally to the key management personnel such as Board of Directors and Chief Executive Officers.

2 Summary of significant accounting policies (Continued)

2.7 Financial assets (Continued)

(b) Loans and receivables
Loans and receivables, including cash and short-term funds, placements with and loans and advances to banks and other financial institutions and loans and advances to customers, 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 investments
Held-to-maturity investments 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. If the Group were to sell other than an insignificant amount of held-to-maturity investments, the entire category would be tainted and reclassified as available-for-sale investments.

(d) Available-for-sale investments
Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale investments 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.

Regular purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale investments and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented 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 available-for-sale investments are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in the 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. Dividend income from financial assets at fair value through profit or loss is recognised in the profit and loss account when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the securities and other changes in the carrying amount of the securities. The translation differences on monetary securities are recognised in profit and loss account; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

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, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2 Summary of significant accounting policies (Continued)

2.8 Impairment of assets

(1) Impairment of financial assets

(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 asset 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.

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 asset, whether significant or not, it includes the asset 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 investments 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 investment 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.

2 Summary of significant accounting policies (Continued)

2.8 Impairment of assets (Continued)

(1) Impairment of financial assets (Continued)

(a) Assets carried at amortised cost (Continued)

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 uncollectible, 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.

(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 investments, 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 Summary of significant accounting policies (Continued)

2.8 Impairment of assets (Continued)

(2) Impairment of investment in subsidaries and jointly controlled entities and non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation, but are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Derivative financial instruments

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 statements. However, if it 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 or 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 is controlled by the Group and it is probable that the temporary difference will not be reversed 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 investments 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 Summary of significant accounting policies (Continued)

2.11 Employee benefits

(a) Retirement benefit costs

The Group operates four retirement benefit schemes comprising of two defined contribution schemes, a Mandatory Provident Fund Scheme and a defined benefit scheme that are available to the Group's employees. However, the principal schemes that the Group contributes to are the two defined contribution schemes and the Mandatory Provident Fund Scheme. 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.

The Group's contributions to the defined contribution schemes and the Mandatory Provident Fund Scheme are charged to the profit and loss account.

The defined benefit scheme is funded by payments from the Group by taking 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.

(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 rental yields or for capital appreciation or both is classified as investment property. Investment property is located in Hong Kong and comprises land held under operating leases and the building situated on top of it. Investment property is measured at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties using the straight-line method over the shorter of the leases or 40 years.

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 identifiable 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.

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 Summary of significant accounting policies (Continued)

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.

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 Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses to the Group that are recorded in the profit and loss account. Purchases from the minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.19 Critical accounting estimates and judgements in applying accounting policies

(1) Critical accounting estimates and assumptions

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment allowances on loans and advances
The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the profit and loss account, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between estimates and actual loss experience.

(b) Impairment of available-for-sale investments
The Group follows the guidance of HKAS 39 to determine when an available-for-sale investment is impaired. This determination requires judgement. In making this judgement, the Group evaluates among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

2 Summary of significant accounting policies (Continued)

2.19 Critical accounting estimates and judgements in applying accounting policies (Continued)

(1) Critical accounting estimates and assumptions (Continued)

(c) Held-to-maturity investments

The Group follows the guidance of HKAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

(d) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(2) Critical judgements in applying the Group's accounting policies

Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or service or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgement.

3 Financial risk management

3.1 Strategy in using financial instruments

By their nature, the Group's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances; the Group also enters into financial guarantees and other commitments such as letters of credit and performance, and other bonds.

The Group also trades in financial instruments where it takes positions in traded and over-the-counter instruments, including derivatives, to take advantage of short-term market movements in equities and bonds and in currency and interest rate. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

3.2 Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment allowances are made for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.

The Group has issued credit related commitments including guarantees and letters of credit. The primary purpose of these instruments is to ensure that funds are available to customers as required. These instruments represent irrevocable assurances that the Group will make payments in the events that a customer cannot meet its obligations to third parties. These instruments carry similar credit risk as loans.

(a) Derivatives

The Group maintains strict control limits on net open derivatives positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets where their fair values are positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

3 Financial risk management (Continued)

3.2 Credit risk (Continued)

(b) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit - which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties - carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions - are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

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 commitments HK$'000**	**Total operating income HK$'000**	**Profit before taxation HK$'000**	**Capital expenditure HK$'000**
At 31st December 2006						
Hong Kong & PRC	**82,349,454**	**70,154,765**	**29,599,793**	**2,567,087**	**1,811,322**	**67,876**
Europe	**5,060,474**	**5,060,254**	**175,041**	**20,203**	**4,190**	**1,089**
America	**6,350,548**	**5,512,242**	**2,510,032**	**249,222**	**194,703**	**317**
Total	**93,760,476**	**80,727,261**	**32,284,866**	**2,836,512**	**2,010,215**	**69,282**

	Total assets HK$'000	Total liabilities HK$'000	Contingent liabilities and commitments HK$'000	Total operating income HK$'000	Profit before taxation HK$'000	Capital expenditure HK$'000
At 31st December 2005						
Hong Kong & PRC	69,342,407	58,375,846	28,002,023	2,274,806	1,637,137	41,257
Europe	4,787,574	4,778,170	140,386	32,807	15,769	81
America	6,572,394	5,869,268	2,392,607	200,126	139,071	474
Total	80,702,375	69,023,284	30,535,016	2,507,739	1,791,977	41,812

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 commitments HK$'000	Total operating income HK$'000	Profit before taxation HK$'000	Capital expenditure HK$'000
At 31st December 2006						
Hong Kong & PRC	**81,575,438**	**69,507,450**	**29,599,793**	**2,552,960**	**1,795,138**	**77,010**
Europe	**5,054,481**	**5,046,488**	**175,041**	**21,818**	**4,795**	**–**
America	**6,350,548**	**5,512,950**	**2,510,032**	**249,105**	**194,618**	**317**
Total	**92,980,467**	**80,066,888**	**32,284,866**	**2,823,883**	**1,994,551**	**77,327**

	Total assets HK$'000	Total liabilities HK$'000	Contingent liabilities and commitments HK$'000	Total operating income HK$'000	Profit before taxation HK$'000	Capital expenditure HK$'000
At 31st December 2005						
Hong Kong & PRC	69,022,727	58,161,404	28,002,023	2,532,171	1,892,532	49,205
Europe	4,782,570	4,766,923	140,386	34,415	15,864	81
America	6,572,394	5,869,888	2,392,607	200,052	139,043	474
Total	80,377,691	68,798,215	30,535,016	2,766,638	2,047,439	49,760

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

The Group

	2006 HK$'000	2006 %	2005 HK$'000	2005 %
Hong Kong & PRC	**32,396,951**	**84%**	30,143,272	84%
Europe	**276,928**	**1%**	222,545	1%
America	**5,798,177**	**15%**	5,234,008	15%
Total	**38,472,056**	**100%**	35,599,825	100%

The Bank

	2006 HK$'000	2006 %	2005 HK$'000	2005 %
Hong Kong & PRC	**32,396,951**	**84%**	30,119,913	84%
Europe	**276,928**	**1%**	222,545	1%
America	**5,798,177**	**15%**	5,234,008	15%
Total	**38,472,056**	**100%**	35,576,466	100%

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 2006 for the Group and the Bank is not significant.

3 Financial risk management (Continued)

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. The off-balance sheet gap represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Group's exposure to currency movements, and their fair values.

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

The Group

At 31st December 2006

	HK$	US$	EUR	Other	Total
Assets					
Cash and short-term funds	9,443,805	9,582,787	1,056,754	4,363,094	24,446,440
Placements with and loans and advances to banks and other financial institutions	5,390,609	3,655,144	52,086	1,485,637	10,583,476
Trading securities	–	248,084	–	–	248,084
Derivative financial instruments	8,224	5,982	4,122	5,634	23,962
Financial assets at fair value through profit or loss	–	403,296	–	–	403,296
Loans and advances to customers	27,953,286	9,853,877	119,665	384,320	38,311,148
Investment securities:					
– Available-for-sale	3,599,955	9,945,021	205,031	958,297	14,708,304
– Held-to-maturity	1,034,900	1,201,853	–	233,041	2,469,794
Investments in jointly controlled entities	162,323	–	–	2,451	164,774
Property and equipment	315,887	70,754	–	41,190	427,831
Leasehold land and land use rights	278,661	–	–	–	278,661
Deferred income tax assets	56,454	15,145	–	316	71,915
Other assets	1,390,567	172,332	16,530	43,362	1,622,791
Total assets	49,634,671	35,154,275	1,454,188	7,517,342	93,760,476
Liabilities					
Deposits from banks and other financial institutions	2,422,263	1,276,355	1,546	65,214	3,765,378
Derivative financial instruments	8,256	5,282	3,317	2,998	19,853
Deposits from customers	32,554,572	31,236,994	1,423,404	7,022,127	72,237,097
Certificates of deposit issued	3,105,934	–	–	–	3,105,934
Other liabilities and provisions	1,203,014	296,631	48,420	31,384	1,579,449
Current income tax liabilities	583	17,428	–	1,472	19,483
Deferred income tax liabilities	67	–	–	–	67
Total liabilities	39,294,689	32,832,690	1,476,687	7,123,195	80,727,261
Net on-balance sheet position	10,339,982	2,321,585	(22,499)	394,147	13,033,215
Off-balance sheet net notional position	(2,570,528)	2,659,411	(22,303)	(50,783)	15,797
Contingent liabilities and commitments	24,405,121	7,364,123	164,103	351,519	32,284,866

3 Financial risk management (Continued)

3.5 Currency risk (Continued)

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 and loans and advances to banks and other financial institutions	2,374,064	1,553,645	29,684	791,416	4,748,809
Trading securities	–	231,090	–	–	231,090
Derivative financial instruments	–	679	766	8,383	9,828
Financial assets at fair value through profit or loss	1,291	232,149	–	–	233,440
Loans and advances to customers	25,574,666	9,613,966	66,508	151,057	35,406,197
Investment securities:					
– Available-for-sale	4,615,331	9,442,657	87,662	871,386	15,017,036
– Held-to-maturity	1,569,925	1,431,056	–	–	3,000,981
Investments in jointly controlled entities	136,938	–	–	–	136,938
Property and equipment	331,641	73,230	–	36,684	441,555
Leasehold land and land use rights	255,666	–	–	–	255,666
Deferred income tax assets	72,899	12,770	–	485	86,154
Other assets	544,607	8,524	1,453	159,928	714,512
Total assets	41,041,069	31,345,256	1,438,578	6,877,472	80,702,375
Liabilities					
Deposits from 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 liabilities and provisions	582,912	322,905	12,113	25,859	943,789
Current income tax liabilities	20,455	7,573	–	3,132	31,160
Deferred income tax liabilities	89	–	–	–	89
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
Contingent liabilities and 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 2006

	HK$	US$	EUR	Other	Total
Assets					
Cash and short-term funds	8,531,151	9,582,787	1,056,754	4,363,094	23,533,786
Placements with and loans and advances to banks and other financial institutions	5,390,609	3,655,144	52,086	1,485,637	10,583,476
Trading securities	–	248,084	–	–	248,084
Derivative financial instruments	8,224	5,982	4,122	5,634	23,962
Financial assets at fair value through profit or loss	–	403,296	–	–	403,296
Loans and advances to customers	27,953,286	9,853,877	119,665	384,320	38,311,148
Investment securities:					
– Available-for-sale	3,089,635	9,945,021	205,031	958,296	14,197,983
– Held-to-maturity	–	1,197,915	–	233,040	1,430,955
Investments in jointly controlled entities	113,300	–	–	–	113,300
Investments in and loans to subsidiary companies	2,383,167	(384)	–	45,847	2,428,630
Property and equipment	320,270	70,754	–	2,504	393,528
Investment properties	7,721	–	–	–	7,721
Leasehold land and land use rights	278,661	–	–	–	278,661
Deferred income tax assets	56,454	15,145	–	316	71,915
Other assets	748,312	172,331	16,530	16,849	954,022
Total assets	48,880,790	35,149,952	1,454,188	7,495,537	92,980,467
Liabilities					
Deposits from banks and other financial institutions	2,422,263	1,276,355	1,546	65,214	3,765,378
Derivative financial instruments	8,256	5,282	3,317	2,998	19,853
Deposits from customers	32,554,572	31,236,994	1,423,404	7,022,127	72,237,097
Certificates of deposit issued	3,105,934	–	–	–	3,105,934
Other liabilities and provisions	574,033	293,021	48,420	4,292	919,766
Current income tax liabilities	–	17,422	–	1,438	18,860
Total liabilities	38,665,058	32,829,074	1,476,687	7,096,069	80,066,888
Net on-balance sheet position	10,215,732	2,320,878	(22,499)	399,468	12,913,579
Off-balance sheet net notional position	(2,570,528)	2,659,411	(22,303)	(50,783)	15,797
Contingent liabilities and commitments	24,405,121	7,364,123	164,103	351,519	32,284,866

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 and loans and advances to banks and other financial institutions	2,374,064	1,553,645	29,684	791,416	4,748,809
Trading securities	–	231,090	–	–	231,090
Derivative financial instruments	–	679	766	8,383	9,828
Financial assets at fair value through profit or loss	1,291	232,149	–	–	233,440
Loans and advances to customers	25,550,644	9,613,966	66,508	151,907	35,383,025
Investment securities:					
– Available-for-sale	4,161,543	9,442,658	87,662	871,384	14,563,247
– Held-to-maturity	–	1,427,045	–	–	1,427,045
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
Property and equipment	341,488	73,230	–	3,053	417,771
Leasehold land and land use rights	255,666	–	–	–	255,666
Deferred income tax assets	72,899	12,770	–	485	86,154
Other assets	318,248	11,531	1,453	156,573	487,805
Total assets	40,711,607	31,343,795	1,438,578	6,883,711	80,377,691
Liabilities					
Deposits from 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 liabilities and provisions	360,213	322,874	12,113	25,859	721,059
Current income tax liabilities	19,120	7,566	–	3,132	29,818
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
Contingent liabilities and commitments	23,335,541	6,749,081	117,363	333,031	30,535,016

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.

3 Financial risk management (Continued)

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

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 2006							
Assets							
Cash and short-term funds	**22,923,097**	**139,297**	**723,526**	**–**	**–**	**660,520**	**24,446,440**
Placements with and loans and advances to banks and other financial institutions	**–**	**7,036,287**	**3,547,189**	**–**	**–**	**–**	**10,583,476**
Trading securities	**407**	**3,491**	**5,601**	**56,205**	**71,063**	**111,317**	**248,084**
Derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**23,962**	**23,962**
Financial assets at fair value through profit or loss	**–**	**–**	**403,296**	**–**	**–**	**–**	**403,296**
Loans and advances to customers	**32,677,261**	**4,086,054**	**814,731**	**250,668**	**–**	**482,434**	**38,311,148**
Investment securities:							
– Available-for-sale	**1,091,757**	**4,192,798**	**619,551**	**7,600,215**	**665,128**	**538,855**	**14,708,304**
– Held-to-maturity	**124,142**	**271,736**	**210,176**	**1,863,740**	**–**	**–**	**2,469,794**
Investments in jointly controlled entities	**–**	**–**	**–**	**–**	**–**	**164,774**	**164,774**
Property and equipment	**–**	**–**	**–**	**–**	**–**	**427,831**	**427,831**
Leasehold land and land use rights	**–**	**–**	**–**	**–**	**–**	**278,661**	**278,661**
Deferred income tax assets	**–**	**–**	**–**	**–**	**–**	**71,915**	**71,915**
Other assets	**–**	**–**	**–**	**–**	**–**	**1,622,791**	**1,622,791**
Total assets	**56,816,664**	**15,729,663**	**6,324,070**	**9,770,828**	**736,191**	**4,383,060**	**93,760,476**
Liabilities							
Deposits from banks and other financial institutions	**1,811,428**	**1,339,513**	**25,040**	**–**	**–**	**589,397**	**3,765,378**
Derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**19,853**	**19,853**
Deposits from customers	**53,314,587**	**11,010,884**	**2,927,474**	**118,176**	**5,000**	**4,860,976**	**72,237,097**
Certificates of deposit issued	**240,460**	**2,865,474**	**–**	**–**	**–**	**–**	**3,105,934**
Other liabilities and provisions	**180,409**	**–**	**–**	**–**	**–**	**1,399,040**	**1,579,449**
Current income tax liabilities	**–**	**–**	**–**	**–**	**–**	**19,483**	**19,483**
Deferred income tax liabilities	**–**	**–**	**–**	**–**	**–**	**67**	**67**
Total liabilities	**55,546,884**	**15,215,871**	**2,952,514**	**118,176**	**5,000**	**6,888,816**	**80,727,261**
Total interest sensitivity gap	**1,269,780**	**513,792**	**3,371,556**	**9,652,652**	**731,191**	**(2,505,756)**	**13,033,215**
At 31st December 2005							
Assets							
Cash and short-term funds	19,512,700	–	78,225	–	–	829,244	20,420,169
Placements with and loans and advances to banks and other financial institutions	–	4,280,902	467,907	–	–	–	4,748,809
Trading securities	–	–	4,783	61,353	59,860	105,094	231,090
Derivative financial instruments	3,624	5,311	893	–	–	–	9,828
Financial assets at fair value through profit or loss	–	–	233,440	–	–	–	233,440
Loans and advances to customers	30,358,672	3,573,144	979,774	55,912	–	438,695	35,406,197
Investment securities:							
– Available-for-sale	327,951	3,035,220	1,760,089	7,982,462	1,487,878	423,436	15,017,036
– Held-to-maturity	23,510	133,230	680,198	1,566,536	597,507	–	3,000,981
Investments in jointly controlled entities	–	–	–	–	–	136,938	136,938
Property and equipment	–	–	–	–	–	441,555	441,555
Leasehold land and land use rights	–	–	–	–	–	255,666	255,666
Deferred income tax assets	–	–	–	–	–	86,154	86,154
Other assets	–	–	–	–	–	714,512	714,512
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 from 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 liabilities and provisions	125,107	–	–	–	–	818,682	943,789
Current income tax liabilities	–	–	–	–	–	31,160	31,160
Deferred income tax liabilities	–	–	–	–	–	89	89
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

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 2006							
Assets							
Cash and short-term funds	**22,873,272**	**–**	**–**	**–**	**–**	**660,514**	**23,533,786**
Placements with and loans and advances to banks and other financial institutions	**–**	**7,036,287**	**3,547,189**	**–**	**–**	**–**	**10,583,476**
Trading securities	**407**	**3,491**	**5,601**	**56,205**	**71,063**	**111,317**	**248,084**
Derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**23,962**	**23,962**
Financial assets at fair value through profit or loss	**–**	**–**	**403,296**	**–**	**–**	**–**	**403,296**
Loans and advances to customers	**32,677,261**	**4,086,054**	**814,731**	**250,668**	**–**	**482,434**	**38,311,148**
Investment securities:							
– Available-for-sale	**1,086,157**	**4,112,395**	**555,961**	**7,250,156**	**654,458**	**538,856**	**14,197,983**
– Held-to-maturity	**124,124**	**271,736**	**203,997**	**831,098**	**–**	**–**	**1,430,955**
Investments in jointly controlled entities	**–**	**–**	**–**	**–**	**–**	**113,300**	**113,300**
Investments in and loans to subsidiary companies	**–**	**–**	**–**	**–**	**–**	**2,428,630**	**2,428,630**
Property and equipment	**–**	**–**	**–**	**–**	**–**	**393,528**	**393,528**
Investment properties	**–**	**–**	**–**	**–**	**–**	**7,721**	**7,721**
Leasehold land and land use rights	**–**	**–**	**–**	**–**	**–**	**278,661**	**278,661**
Deferred income tax assets	**–**	**–**	**–**	**–**	**–**	**71,915**	**71,915**
Other assets	**–**	**–**	**–**	**–**	**–**	**954,022**	**954,022**
Total assets	**56,761,221**	**15,509,963**	**5,530,775**	**8,388,127**	**725,521**	**6,064,860**	**92,980,467**
Liabilities							
Deposits from banks and other financial institutions	**1,811,428**	**1,339,513**	**25,040**	**–**	**–**	**589,397**	**3,765,378**
Derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**19,853**	**19,853**
Deposits from customers	**53,314,587**	**11,010,884**	**2,927,474**	**118,176**	**5,000**	**4,860,976**	**72,237,097**
Certificates of deposit issued	**240,460**	**2,865,474**	**–**	**–**	**–**	**-**	**3,105,934**
Other liabilities and provisions	**180,409**	**–**	**–**	**–**	**–**	**739,357**	**919,766**
Current income tax liabilities	**–**	**–**	**–**	**–**	**–**	**18,860**	**18,860**
Total liabilities	**55,546,884**	**15,215,871**	**2,952,514**	**118,176**	**5,000**	**6,228,443**	**80,066,888**
Total interest sensitivity gap	**1,214,337**	**294,092**	**2,578,261**	**8,269,951**	**720,521**	**(163,583)**	**12,913,579**
At 31st December 2005							
Assets							
Cash and short-term funds	19,512,700	–	–	–	–	829,237	20,341,937
Placements with and loans and advances to banks and other financial institutions	–	4,280,902	467,907	–	–	–	4,748,809
Trading securities	–	–	4,783	61,353	59,860	105,094	231,090
Derivative financial instruments	3,624	5,311	893	–	–	–	9,828
Financial assets at fair value through profit or loss	–	–	233,440	–	–	–	233,440
Loans and advances to customers	30,335,468	3,573,144	979,774	55,912	–	438,727	35,383,025
Investment securities:							
– Available-for-sale	309,717	3,035,153	1,760,048	7,682,337	1,352,557	423,435	14,563,247
– Held-to-maturity	23,510	133,230	155,929	1,114,376	–	–	1,427,045
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
Property and equipment	–	–	–	–	–	417,771	417,771
Leasehold land and land use rights	–	–	–	–	–	255,666	255,666
Deferred income tax assets	–	–	–	–	–	86,154	86,154
Other assets	–	–	–	–	–	487,805	487,805
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 from 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 liabilities and provisions	125,107	–	–	–	–	595,952	721,059
Current income tax liabilities	–	–	–	–	–	29,818	29,818
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

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 2006				At 31st December 2005			
	HK$	**US$**	**EUR**	**Other**	HK$	US$	EUR	Other
	%	**%**	**%**	**%**	%	%	%	%
Assets								
Cash and short-term funds	**4.01%**	**5.31%**	**3.61%**	**5.23%**	5.18%	4.34%	2.34%	5.15%
Placements with and loans and advances to banks and other financial institutions	**4.19%**	**5.24%**	**3.62%**	**5.92%**	4.18%	4.64%	2.43%	4.85%
Loans and advances to customers	**6.15%**	**8.99%**	**6.68%**	**3.06%**	6.71%	6.25%	5.72%	3.91%
Investment securities:								
– Available-for-sale	**3.49%**	**5.00%**	**3.85%**	**6.02%**	3.35%	4.84%	5.50%	5.84%
– Held-to-maturity	**5.39%**	**2.74%**	**N/A**	**N/A**	5.32%	3.83%	N/A	N/A
Liabilities								
Deposits from banks and other financial institutions	**3.64%**	**5.86%**	**4.04%**	**6.23%**	3.85%	4.33%	N/A	3.32%
Deposits from customers	**3.22%**	**4.50%**	**2.63%**	**4.83%**	3.30%	3.50%	1.56%	4.05%
Certificates of deposit issued	**4.20%**	**N/A**	**N/A**	**N/A**	4.37%	N/A	N/A	N/A
Other liabilities and provisions	**1.55%**	**3.74%**	**2.07%**	**0.18%**	2.75%	2.84%	0.50%	N/A

The Bank

	At 31st December 2006				At 31st December 2005			
	HK$	**US$**	**EUR**	**Other**	HK$	US$	EUR	Other
	%	**%**	**%**	**%**	%	%	%	%
Assets								
Cash and short-term funds	**4.01%**	**5.31%**	**3.61%**	**5.23%**	5.20%	4.34%	2.34%	5.15%
Placements with and loans and advances to banks and other financial institutions	**4.19%**	**5.24%**	**3.62%**	**5.92%**	4.18%	4.64%	2.43%	4.85%
Loans and advances to customers	**6.15%**	**8.99%**	**6.68%**	**3.06%**	6.71%	6.25%	5.72%	3.91%
Investment securities:								
– Available-for-sale	**2.93%**	**5.00%**	**3.85%**	**6.02%**	3.31%	4.84%	5.50%	5.84%
– Held-to-maturity	**N/A**	**2.73%**	**N/A**	**N/A**	N/A	3.82%	N/A	N/A
Investments in and loans to subsidiary companies	**3.80%**	**N/A**	**N/A**	**N/A**	3.50%	4.08%	N/A	N/A
Liabilities								
Deposits from banks and other financial institutions	**3.64%**	**5.86%**	**4.04%**	**6.23%**	3.85%	4.33%	N/A	3.32%
Deposits from customers	**3.22%**	**4.50%**	**2.63%**	**4.83%**	3.30%	3.50%	1.56%	4.05%
Certificates of deposit issued	**4.20%**	**N/A**	**N/A**	**N/A**	4.37%	N/A	N/A	N/A
Other liabilities and provisions	**1.55%**	**3.74%**	**2.07%**	**0.18%**	2.75%	2.84%	0.50%	N/A

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 Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees, and from margin and other calls on cash-settled derivatives. The Group does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board set limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Group provides guarantees and issues letters of credit based on a third party's creditability and deposit amount. Liquidity requirements to support calls under guarantees and letters of credit are considerably less than the amounts under commitments because the Group does not generally expect the third party to draw funds under those agreements. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as experience shows that many of these commitments are likely to expire or terminate without being funded.

3 Financial risk management (Continued)

3.7 Liquidity risk (Continued)

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

	Repayable on demand HK$'000	Up to 1 month HK$'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 2006								
Assets								
Cash and short-term funds	897,976	22,685,718	139,285	723,461	–	–	–	24,446,440
Placements with and loans and advances to banks and other financial institutions	–	–	6,953,178	3,546,717	83,581	–	–	10,583,476
Trading securities	–	469	3,354	5,676	56,205	71,063	111,317	248,084
Derivative financial instruments	–	2,617	8,651	12,152	542	–	–	23,962
Financial assets at fair value through profit or loss	–	–	–	1,861	–	401,435	–	403,296
Loans and advances to customers	3,810,887	3,420,574	3,707,811	3,975,991	12,514,958	10,880,927	–	38,311,148
Investment securities:								
– Available-for-sale	–	272,859	502,131	1,257,277	9,853,018	2,284,165	538,854	14,708,304
– Held-to-maturity	–	124,124	248,358	233,176	1,864,136	–	–	2,469,794
Investments in jointly controlled entities	–	–	–	–	–	–	164,774	164,774
Property and equipment	–	–	–	–	112,762	277,164	37,905	427,831
Leasehold land and land use rights	–	–	–	–	–	278,661	–	278,661
Deferred income tax assets	–	–	–	–	71,915	–	–	71,915
Other assets	1,972	724,990	24,527	366,184	487,565	2,619	14,934	1,622,791
Total assets	4,710,835	27,231,351	11,587,295	10,122,495	25,044,682	14,196,034	867,784	93,760,476
Liabilities								
Deposits from banks and other financial institutions	864,556	1,435,999	439,554	25,269	1,000,000	–	–	3,765,378
Derivative financial instruments	–	1,793	5,090	10,901	2,069	–	–	19,853
Deposits from customers	23,902,697	35,117,488	10,139,779	3,050,846	26,287	–	–	72,237,097
Certificates of deposit issued	–	479	5,455	1,850,000	1,250,000	–	–	3,105,934
Other liabilities and provisions	68,752	1,241,366	49,190	219,981	–	160	–	1,579,449
Current income tax liabilities	–	17,773	–	623	1,087	–	–	19,483
Deferred income tax liabilities	–	–	–	–	67	–	–	67
Total liabilities	24,836,005	37,814,898	10,639,068	5,157,620	2,279,510	160	–	80,727,261
Net liquidity gap	(20,125,170)	(10,583,547)	948,227	4,964,875	22,765,172	14,195,874	867,784	13,033,215
At 31st December 2005								
Assets								
Cash and short-term funds	3,805,436	16,536,508	–	78,225	–	–	–	20,420,169
Placements with and loans and advances to banks and other financial institutions	–	–	4,197,387	468,088	83,334	–	–	4,748,809
Trading securities	–	556	556	4,123	61,124	59,637	105,094	231,090
Derivative financial instruments	–	3,633	5,324	871	–	–	–	9,828
Financial assets at fair value through profit or loss	–	115	114	–	–	233,211	–	233,440
Loans and advances to customers	859,469	5,994,209	3,767,003	4,323,710	10,350,406	10,111,400	–	35,406,197
Investment securities:								
– Available-for-sale	–	215,723	178,800	2,605,678	9,964,670	1,648,471	403,694	15,017,036
– Held-to-maturity	–	10,688	49,395	675,505	1,672,008	593,385	–	3,000,981
Investments in jointly controlled entities	–	–	–	–	–	–	136,938	136,938
Property and equipment	–	–	–	–	129,752	273,095	38,708	441,555
Leasehold land and land use rights	–	–	–	–	–	255,666	–	255,666
Deferred income tax assets	–	–	–	–	86,154	–	–	86,154
Other assets	–	395,262	22,821	19,438	–	275,490	1,501	714,512
Total assets	4,664,905	23,156,694	8,221,400	8,175,638	22,347,448	13,450,355	685,935	80,702,375
Liabilities								
Deposits from banks and other financial institutions	49,096	2,875,531	77,520	–	1,000,000	–	–	4,002,147
Derivative financial instruments	–	3,217	4,063	345	1,469	–	–	9,094
Deposits from customers	20,071,134	26,376,344	12,833,630	1,637,893	11,726	–	–	60,930,727
Certificates of deposit issued	–	–	6,278	–	3,100,000	–	–	3,106,278
Other liabilities and provisions	48,152	683,942	38,004	141,832	18,735	–	13,124	943,789
Current income tax liabilities	–	9,143	–	19,119	2,898	–	–	31,160
Deferred income tax liabilities	–	–	–	–	89	–	–	89
Total liabilities	20,168,382	29,948,177	12,959,495	1,799,189	4,134,917	–	13,124	69,023,284
Net liquidity gap	(15,503,477)	(6,791,483)	(4,738,095)	6,376,449	18,212,531	13,450,355	672,811	11,679,091

3 Financial risk management (Continued)

3.7 Liquidity risk (Continued)

The Bank

	Repayable on demand HK$'000	Up to 1 month HK$'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 2006								
Assets								
Cash and short-term funds	**897,970**	**22,635,816**	**–**	**–**	**–**	**–**	**–**	**23,533,786**
Placements with and loans and advances to banks and other financial institutions	**–**	**–**	**6,953,178**	**3,546,717**	**83,581**	**–**	**–**	**10,583,476**
Trading securities	**–**	**469**	**3,354**	**5,676**	**56,205**	**71,063**	**111,317**	**248,084**
Derivative financial instruments	**–**	**2,617**	**8,651**	**12,152**	**542**	**–**	**–**	**23,962**
Financial assets at fair value through profit or loss	**–**	**–**	**–**	**1,861**	**–**	**401,435**	**–**	**403,296**
Loans and advances to customers	**3,810,887**	**3,420,574**	**3,707,811**	**3,975,991**	**12,514,958**	**10,880,927**	**–**	**38,311,148**
Investment securities:								
– Available-for-sale	**–**	**267,259**	**421,701**	**1,194,258**	**9,502,179**	**2,273,732**	**538,854**	**14,197,983**
– Held-to-maturity	**–**	**124,123**	**248,339**	**227,395**	**831,098**	**–**	**–**	**1,430,955**
Investments in jointly controlled entities	**–**	**–**	**–**	**–**	**–**	**–**	**113,300**	**113,300**
Investments in and loans to subsidiary companies	**(170,594)**	**(3,369)**	**66,285**	**75,309**	**2,345,510**	**64,434**	**51,055**	**2,428,630**
Property and equipment	**–**	**–**	**–**	**–**	**123,892**	**250,587**	**19,049**	**393,528**
Investment properties	**–**	**–**	**–**	**–**	**–**	**7,721**	**–**	**7,721**
Leasehold land and land use rights	**–**	**–**	**–**	**–**	**–**	**278,661**	**–**	**278,661**
Deferred income tax assets	**–**	**–**	**–**	**–**	**71,915**	**–**	**–**	**71,915**
Other assets	**1,972**	**62,082**	**23,662**	**366,853**	**486,019**	**–**	**13,434**	**954,022**
Total assets	**4,540,235**	**26,509,571**	**11,432,981**	**9,406,212**	**26,015,899**	**14,228,560**	**847,009**	**92,980,467**
Liabilities								
Deposits from banks and other financial institutions	**864,556**	**1,435,999**	**439,554**	**25,269**	**1,000,000**	**–**	**–**	**3,765,378**
Derivative financial instruments	**–**	**1,793**	**5,090**	**10,901**	**2,069**	**–**	**–**	**19,853**
Deposits from customers	**23,902,697**	**35,117,488**	**10,139,779**	**3,050,846**	**26,287**	**–**	**–**	**72,237,097**
Certificates of deposit issued	**–**	**479**	**5,455**	**1,850,000**	**1,250,000**	**–**	**–**	**3,105,934**
Other liabilities and provisions	**68,752**	**582,251**	**49,116**	**219,647**	**–**	**–**	**–**	**919,766**
Current income tax liabilities	**–**	**17,773**	**–**	**–**	**1,087**	**–**	**–**	**18,860**
Total liabilities	**24,836,005**	**37,155,783**	**10,638,994**	**5,156,663**	**2,279,443**	**–**	**–**	**80,066,888**
Net liquidity gap	**(20,295,770)**	**(10,646,212)**	**793,987**	**4,249,549**	**23,736,456**	**14,228,560**	**847,009**	**12,913,579**
At 31st December 2005								
Assets								
Cash and short-term funds	3,805,436	16,536,501	–	–	–	–	–	20,341,937
Placements with and loans and advances to banks and other financial institutions	–	–	4,197,387	468,088	83,334	–	–	4,748,809
Trading securities	–	556	556	4,123	61,124	59,637	105,094	231,090
Derivative financial instruments	–	3,633	5,324	871	–	–	–	9,828
Financial assets at fair value through profit or loss	–	115	114	–	–	233,211	–	233,440
Loans and advances to customers	859,469	5,993,142	3,765,048	4,316,325	10,340,188	10,108,853	–	35,383,025
Investment securities:								
– Available-for-sale	–	194,719	175,801	2,605,678	9,668,497	1,514,859	403,693	14,563,247
– Held-to-maturity	–	7,984	46,691	154,184	1,218,186	–	–	1,427,045
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
Property and equipment	–	–	–	–	139,485	259,294	18,992	417,771
Leasehold land and land use rights	–	–	–	–	–	255,666	–	255,666
Deferred income tax assets	–	–	–	–	86,154	–	–	86,154
Other assets	–	174,505	21,895	19,692	–	271,612	101	487,805
Total assets	4,664,905	22,576,796	8,164,160	8,254,621	22,458,295	13,583,943	674,971	80,377,691
Liabilities								
Deposits from banks and other financial institutions	49,096	2,875,531	77,520	–	1,000,000	–	–	4,002,147
Derivative financial instruments	–	3,217	4,063	345	1,469	–	–	9,094
Deposits from customers	20,071,134	26,375,436	12,833,630	1,637,893	11,726	–	–	60,929,819
Certificates of deposit issued	–	–	6,278	–	3,100,000	–	–	3,106,278
Other liabilities and provisions	48,152	462,871	37,575	141,249	18,088	–	13,124	721,059
Current income tax liabilities	–	7,801	–	19,119	2,898	–	–	29,818
Total liabilities	20,168,382	29,724,856	12,959,066	1,798,606	4,134,181	–	13,124	68,798,215
Net liquidity gap	(15,503,477)	(7,148,060)	(4,794,906)	6,456,015	18,324,114	13,583,943	661,847	11,579,476

3 Financial risk management (Continued)

3.7 Liquidity risk (Continued)

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

3.8 Fair values of financial assets and liabilities

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale investments) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

3 Financial risk management (Continued)

3.8 Fair values of financial assets and liabilities (Continued)

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	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Cash and short-term funds	**24,446,440**	20,420,169	**24,449,055**	20,420,119
Placements with and loans and advances to banks and other financial institutions	**10,583,476**	4,748,809	**10,583,476**	4,748,809
Loans and advances to customers	**38,311,148**	35,406,197	**38,311,148**	35,406,197
Held-to-maturity investments	**2,469,794**	3,000,981	**2,478,165**	2,992,304
Financial liabilities				
Deposits from banks and other financial institutions	**3,765,378**	4,002,147	**3,765,378**	4,002,147
Deposits from customers	**72,237,097**	60,930,727	**72,237,097**	60,930,727
Certificates of deposit issued	**3,105,934**	3,106,278	**3,106,656**	3,095,749

The Bank

	Carrying value		Fair value	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Cash and short-term funds	**23,533,786**	20,341,937	**23,533,786**	20,341,937
Placements with and loans and advances to banks and other financial institutions	**10,583,476**	4,748,809	**10,583,476**	4,748,809
Loans and advances to customers	**38,311,148**	35,383,025	**38,311,148**	35,383,025
Held-to-maturity investments	**1,430,955**	1,427,045	**1,413,780**	1,406,624
Financial liabilities				
Deposits from banks and other financial institutions	**3,765,378**	4,002,147	**3,765,378**	4,002,147
Deposits from customers	**72,237,097**	60,929,819	**72,237,097**	60,929,819
Certificates of deposit issued	**3,105,934**	3,106,278	**3,106,656**	3,095,749

3 Financial risk management (Continued)

3.8 Fair values of financial assets and liabilities (Continued)

(a) Placements with and loans and advances to banks and other financial institutions
The fair value of floating rate placements is their carrying amount. 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. The loans to banks bear interest at a floating rate, the Group has assessed its fair value, after taking into account the relevant market interest rates and noted that its carrying amount at balance sheet approximates the fair value.

(b) Loans and advances to customers
Substantially all the loans and advances to customers are on floating rate term, bear interest at prevailing market interest rates and their carrying value approximates fair value.

(c) Held-to-maturity investments
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.

(d) Deposits from 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.

(e) 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.

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

3.9 Fiduciary activities

The Group provides custody and trustee services to third parties and those assets that are held in a fiduciary capacity are not included in these financial statements. These services give rise to the risk that the Group will be accused of maladministration. At the balance sheet date, the Group had held custody accounts on behalf of customers amounting to approximately HK$35,594,143,000 (At 31st December 2005: HK$28,526,510,000) and assets under trustee administration estimated to amount to approximately HK$70,504,000 (At 31st December 2005: HK$55,138,000).

4 Net interest income and other operating income

(a) Interest income

	The Group		The Bank	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and short-term funds and placements with banks and other financial institutions	**1,355,235**	685,697	**1,355,235**	686,201
Investment securities:				
Interest income on listed investments	**353,690**	378,964	**295,541**	310,092
Interest income on unlisted investments	**375,344**	343,036	**334,940**	326,289
Loans and advances to customers	**2,426,349**	1,615,567	**2,427,701**	1,612,128
Others	**55,319**	47,176	**55,319**	47,174
	4,565,937	3,070,440	**4,468,736**	2,981,884

Included within interest income on loans and advances is HK$30,383,000 (2005: HK$28,136,000) with respect of interest income accrued on financial assets with impairment indication.

4 Net interest income and other operating income (Continued)

(b) Interest expense

	The Group		The Bank	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Banks and customers	**2,556,639**	1,301,415	**2,563,870**	1,306,929
Certificates of deposit issued	**139,619**	81,222	**139,619**	81,222
Others	**20,835**	5,633	**20,751**	5,634
	2,717,093	1,388,270	**2,724,240**	1,393,785

(c) Fee and commission income

	The Group		The Bank	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Commissions from bills	**179,678**	180,470	**179,678**	180,470
Nominees, custodian and securities brokerage commissions	**209,059**	129,440	**185,226**	115,657
Commissions from structured products	**111,551**	94,435	**111,550**	94,435
Commissions from remittance	**54,819**	54,116	**54,819**	54,116
Facility fees	**57,033**	56,826	**57,033**	56,749
Fees from credit cards	**42,085**	41,402	**42,085**	41,402
Commissions from retail banking	**42,972**	33,928	**39,955**	30,838
Commissions from insurance	**33,205**	36,376	**29,353**	32,928
Other fees	**2,103**	3,138	**2,094**	2,993
	732,505	630,131	**701,793**	609,588

(d) Fee and commission expense

	The Group		The Bank	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Commissions on bills	**2,674**	3,699	**2,674**	3,699
Nominees, custodian and securities brokerage commissions paid	**10,073**	7,480	**6,166**	4,817
Commissions on retail banking	**16,788**	13,550	**16,167**	13,073
Other fees paid	**71**	18	**71**	18
	29,606	24,747	**25,078**	21,607

4 Net interest income and other operating income (Continued)

(e) Dividend income

	The Group		The Bank	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trading securities				
– listed investments	**–**	530	**–**	530
Available-for-sale investments				
– listed investments	**3,211**	2,019	**3,211**	2,019
– unlisted investments	**16,188**	14,078	**16,188**	14,078
	19,399	16,097	**19,399**	16,097
Jointly controlled entities				
– unlisted investments	**–**	–	**1,830**	1,830
Subsidiary companies				
– unlisted investments	**–**	–	**100,554**	364,409
	19,399	16,627	**121,783**	382,866

(f) Net trading income

	The Group		The Bank	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Net gain on foreign exchange trading				
– mainly transaction related	**124,325**	118,685	**124,313**	118,694
Interest rate instruments	**29,297**	984	**29,297**	984
Equities	**32,916**	3,468	**32,916**	3,468
	186,538	123,137	**186,526**	123,146

Included within net trading income are gains of HK$20,719,000 (2005: losses of HK$920,000) relating to those financial instruments that were designated at fair value through profit or loss on initial recognition.

Net gain on foreign exchange trading includes gains and losses from spot and forward contracts and translated foreign currency assets and liabilities. "Interest rate instruments" includes the results of marking markets in instruments in government securities, corporate debt securities, money market instruments and interest rate swaps. "Equities" trading income includes the results of marking markets globally in equity securities and equity derivatives such as forward contracts.

5 Operating expenses

	The Group		The Bank	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Auditors' remuneration (Note a)	**6,086**	6,771	**5,699**	6,403
Advertising costs	**6,610**	6,142	**6,585**	6,069
Amortisation of interests in leasehold land (Note 20)	**4,823**	4,568	**4,823**	4,568
Depreciation expenses (Note 18 and 19)	**58,435**	70,449	**64,621**	76,204
Employee benefit expenses				
Wages and salaries and other costs (Note b)	**530,861**	496,792	**516,727**	483,589
Pension costs - defined contribution schemes	**26,029**	24,859	**25,454**	24,280
Pension costs - defined benefit schemes	**147**	151	**147**	151
Premises and equipment expense, excluding depreciation				
Rental of premises	**39,474**	37,916	**40,940**	39,524
Building expenses	**13,219**	11,594	**13,219**	11,594
Building management fee	**5,333**	5,307	**5,184**	5,158
Other operating expenses				
Computer rental and licence	**7,942**	6,207	**7,434**	6,382
Credit card business promotion	**8,874**	9,805	**8,874**	9,805
Legal and consultancy	**4,733**	2,529	**5,013**	2,759
Postage	**14,308**	13,797	**14,275**	13,778
Printing and stationery	**7,895**	7,512	**7,853**	7,461
Repair and maintenance	**15,491**	16,561	**17,411**	16,366
Telegram and telephone	**21,683**	21,622	**21,601**	21,563
Travelling and transportation	**4,328**	4,448	**4,190**	4,285
Water, heat and light	**13,190**	12,738	**12,980**	12,570
Others	**52,434**	49,890	**49,400**	47,054
	841,895	809,658	**832,430**	799,563

(Note a) The amounts of auditors' remuneration composed of audit fee for Hong Kong office of HK$3,347,000 (2005: HK$3,851,000) and that for overseas branches of HK$2,352,000 (2005: HK$2,552,000) together with HK$387,000 (2005: HK$368,000) for subsidiary companies.

(Note b) The average number of persons employed by the Group during the year was 1,761 (2005: 1,707).

6 Directors' emoluments

	The Group and the Bank	
	2006	2005
	HK$'000	HK$'000
Fees	**1,630**	1,800
Basic salaries, allowances and bonus	**27,267**	24,066
Contributions to pension schemes	**797**	704
	29,694	26,570

7 Impairment losses/(Reversal of impairment losses) on loans and advances to customers

	The Group		The Bank	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade bills	**(1,665)**	(6,136)	**(1,665)**	(6,136)
Loans and advances	**36,239**	1,894	**36,444**	8,110
	34,574	(4,242)	**34,779**	1,974
Net charge/(reversal) of impairment losses on loans and advances to customers				
– Individually assessed (Note 14)	**55,488**	(2,986)	**55,601**	(2,404)
– Collectively assessed (Note 14)	**(20,914)**	(1,256)	**(20,822)**	4,378
	34,574	(4,242)	**34,779**	1,974
Of which				
– new allowances (including any amount directly written off in the year)	**61,716**	–	**61,716**	4,378
– releases	**(27,142)**	(4,242)	**(26,937)**	(2,404)
	34,574	(4,242)	**34,779**	1,974

8 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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 Group		The Bank	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current taxation:				
– Hong Kong profits tax	**277,651**	254,078	**276,435**	251,304
– Overseas taxation	**65,558**	53,524	**65,558**	53,524
– (Over)/under provisions in prior years	**(1,224)**	217	**(1,224)**	217
Deferred taxation:				
– Hong Kong deferred tax	**6,867**	13,750	**6,889**	12,579
– Overseas deferred tax	**(1,242)**	(2,696)	**(1,242)**	(2,696)
	347,610	318,873	**346,416**	314,928

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	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Profit before taxation	**2,010,215**	1,791,977	**1,994,551**	2,047,439
Calculated at a taxation rate of 17.5% (2005: 17.5%)	**351,788**	313,596	**349,046**	358,302
Effect of different taxation rates in other countries	**29,418**	43,617	**29,418**	43,617
Income not subject to taxation	**(52,244)**	(52,600)	**(51,950)**	(99,988)
Expenses not deductible for taxation purposes	**24,680**	18,592	**25,934**	17,329
Net effect of investments in partnerships (Note)	**(4,808)**	(4,549)	**(4,808)**	(4,549)
(Over)/under provisions in prior years	**(1,224)**	217	**(1,224)**	217
Taxation charge	**347,610**	318,873	**346,416**	314,928

Note:
The Bank has entered into aircraft leverage lease arrangement as well as coupon bond transaction, involving special purpose partnerships in which the Bank is the general partner. As of 31st December 2006, the unamortised carrying cost of the investments in such partnerships, which was included in "Other assets", amounted to HK$845,766,000 (2005: HK$399,938,000). The Bank's investments in these special purpose partnerships are amortised over the life of the individual partnerships.

9 Dividend

The dividends paid during the year ended 2006 and 2005 were HK$460,000,000 (HK$23 per share). A dividend in respect of 2006 of HK$25.30 per share, amounting to a total dividend of HK$506,000,000 is to be proposed at the Annual General Meeting on 23rd April 2007. These financial statements do not reflect this dividend payable, but will be reflected as an appropriation of retained earnings for the year ended 31st December 2006.

	2006 HK$'000	2005 HK$'000
Proposed dividend of HK$25.30 (2005: HK$23) per share	**506,000**	460,000

10 Cash and short-term funds

	The Group		The Bank	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Cash in hand	**225,004**	225,865	**224,998**	225,858
Balances with central banks	**6,488**	12,299	**6,488**	12,299
Placement with banks and other financial institutions maturing less than one month	**668,587**	871,914	**668,587**	871,914
Money at call and short notice maturing within one month	**22,633,713**	19,231,866	**22,633,713**	19,231,866
Exchange Fund Bills	**912,648**	78,225	**–**	–
	24,446,440	20,420,169	**23,533,786**	20,341,937

As at 31st December 2006, there was HK$1,500,000 (2005: 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 Exchange Fund Bills were unlisted held-to-maturity securities and were pledged to the Hong Kong Monetary Authority as at 31st December 2005 and 2006 respectively to facilitate settlement operations.

11 Placements with and loans and advances to banks and other financial institutions

	The Group and the Bank	
	2006	2005
	HK$'000	HK$'000
Placements with other banks and other financial institutions maturing between one and twelve months	**10,499,525**	4,665,475
Gross loans and advances to a bank	**83,951**	83,334
	10,583,476	4,748,809

As of 31st December 2006, HK$86,474,000 (2005: HK$56,310,000) was deposited with state banks in the People's Republic of China to comply with the local reserve requirement.

12 Financial assets at fair value through profit or loss (including trading securities)

	The Group and the Bank	
	2006	2005
	HK$'000	HK$'000
Trading securities:		
Debt securities		
Listed outside Hong Kong	**62,715**	51,117
Unlisted	**74,052**	74,880
	136,767	125,997
Equity securities		
Listed outside Hong Kong	**109,044**	103,509
Unlisted	**2,273**	1,584
	111,317	105,093
Total trading securities	**248,084**	231,090
Financial assets at fair value through profit or loss (designated at initial recognition)	**403,296**	233,440
Total	**651,380**	464,530
Market value of listed securities	**575,055**	388,066

	The Group and the Bank	
	2006	2005
	HK$'000	HK$'000
Included within debt securities are:		
Other government bonds	**44,029**	25,405
Other debt securities	**92,738**	100,592
	136,767	125,997

All the financial assets at fair value through profit or loss (designated at initial recognition) are issued by banks and other financial institutions.

13 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 and the Bank	
	2006	2005
	HK$'000	HK$'000
Direct credit substitutes	**1,783,587**	1,228,711
Trade-related contingencies	**4,234,092**	3,829,359
Other commitments with an original maturity of:		
– under 1 year or which are unconditionally cancellable	**24,736,130**	22,264,539
– 1 year and over	**1,531,057**	3,212,407
	32,284,866	30,535,016

(b) Derivative financial instruments

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

At 31st December 2006

	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	**6,452,342**	**14,586**	**(8,918)**
Interest rate contracts			
Interest rate swaps	**500,413**	**510**	**(2,069)**
Equity contracts	**1,845,014**	**8,866**	**(8,866)**
Total derivative assets/(liabilities) held for trading	**8,797,769**	**23,962**	**(19,853)**

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 and equity 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.

13 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 2006 HK$'000	**Credit risk weighted amount 2006 HK$'000**	**Replacement cost 2006 HK$'000**	Contract amount 2005 HK$'000	Credit risk weighted amount 2005 HK$'000	Replacement cost 2005 HK$'000
The Group and the Bank						
Contingent liabilities and commitments	**32,284,866**	**3,343,092**	**–**	30,535,016	3,567,125	–
Derivatives						
– Exchange rate contracts	**6,452,342**	**23,326**	**14,586**	1,184,880	4,855	9,828
– Interest rate contracts	**500,413**	**1,078**	**510**	332,560	717	–
– Equity contracts	**1,845,014**	**–**	**8,866**	–	–	–
	41,082,635	**3,367,496**	**23,962**	32,052,456	3,572,697	9,828

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 Hong Kong 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 these contracts to market. Replacement cost is a close approximation of the credit risk for these contracts at the balance sheet date.

14 Loans and advances to customers

	The Group		The Bank	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Advances to individuals	**8,973,495**	8,789,126	**8,973,495**	8,777,321
Advances to corporate entities	**28,494,839**	25,460,212	**28,494,839**	25,448,658
Trade bills	**1,003,722**	1,350,487	**1,003,722**	1,350,487
Gross loans and advances and trade bills	**38,472,056**	35,599,825	**38,472,056**	35,576,466
Less: Impairment allowances				
Collective assessment	**(119,019)**	(138,952)	**(119,019)**	(138,860)
Individual assessment	**(41,889)**	(54,676)	**(41,889)**	(54,581)
	38,311,148	35,406,197	**38,311,148**	35,383,025

Impaired loans are analysed as follows:

	The Group		The Bank	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Impaired loans				
Trade bills	**35,002**	35,672	**35,002**	35,672
Loans and advances	**421,671**	482,702	**421,671**	482,502
	456,673	518,374	**456,673**	518,174

	The Group		The Bank	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Gross impaired loans (Note a)	**456,673**	518,374	**456,673**	518,174
Impairment allowances made in respect of such loans	**(41,889)**	(54,676)	**(41,889)**	(54,581)
	414,784	463,698	**414,784**	463,593
Percentage of such loans to total loans and advances and trade bills	**1.19%**	1.46%	**1.19%**	1.46%

(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.

The above loan impairment allowances were made after taking into account the value of collateral in respect of such advances.

The Bank accepted listed securities at fair value of HK$2,404,059,874 (2005: HK$1,416,701,146) as collateral.

As of 31st December 2006, certain of our branches in the United States have pledged their held-to-maturity investments totalling HK$232,822,000 (2005: HK$231,605,000) and real estate loans of HK$72,937,000 (2005: HK$52,528,000) to the State of California and with the Comptroller of the Currency in compliance with the above regulatory requirements.

14 Loans and advances to customers (Continued)

Movement in impairment allowance on loans and advances to customers

The Group

	Impairment allowances		
	Individual assessment HK$'000	Collective assessment HK$'000	Total HK$'000
At 1st January 2006	54,676	138,952	193,628
Amounts written off	(97,676)	–	(97,676)
Recoveries of advances written off in previous years	29,401	–	29,401
Charged/(credited) to profit and loss account (Note 7)	55,488	(20,914)	34,574
Exchange adjustment	–	981	981
At 31st December 2006	41,889	119,019	160,908
Deducted from:			
Loans and advances (excluding trade bills)	41,765	116,036	157,801
Trade bills	124	2,983	3,107
	41,889	119,019	160,908

The Bank

	Impairment allowances		
	Individual assessment HK$'000	Collective assessment HK$'000	Total HK$'000
At 1st January 2006	54,581	138,860	193,441
Amounts written off	(97,676)	–	(97,676)
Recoveries of advances written off in previous years	29,383	–	29,383
Charged/(credited) to profit and loss account (Note 7)	55,601	(20,822)	34,779
Exchange adjustment	–	981	981
At 31st December 2006	41,889	119,019	160,908
Deducted from:			
Loans and advances (excluding trade bills)	41,765	116,036	157,801
Trade bills	124	2,983	3,107
	41,889	119,019	160,908

14 Loans and advances to customers (Continued)

Movement in impairment allowance on loans and advances to customers (Continued)

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 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 27) to regulatory reserve and HK$2,199,000 to retained earnings.

Deducted from:			
Loans and advances (excluding trade bills)	54,676	134,180	188,856
Trade bills	–	4,772	4,772
	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 adoption of HKAS 39 (Note 27)	(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
Deducted from:			
Loans and advances (excluding trade bills)	54,581	134,088	188,669
Trade bills	–	4,772	4,772
	54,581	138,860	193,441

15 Available-for-sale investments

	The Group		The Bank	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Debt securities:				
Listed in Hong Kong	**903,664**	159,831	**903,664**	159,831
Listed outside Hong Kong	**3,726,258**	4,246,343	**3,726,258**	4,246,343
Unlisted	**9,542,161**	10,190,060	**9,031,840**	9,736,271
	14,172,083	14,596,234	**13,661,762**	14,142,445
Equity securities:				
Listed in Hong Kong	**150,746**	107,164	**150,746**	107,164
Unlisted	**385,475**	313,638	**385,475**	313,638
	536,221	420,802	**536,221**	420,802
	14,708,304	15,017,036	**14,197,983**	14,563,247
Market value of listed securities	**4,780,668**	4,513,338	**4,780,668**	4,513,338
Included within debt securities are:				
Certificates of deposit held	**868,259**	1,942,602	**868,259**	1,942,602
Other debt securities	**13,303,824**	12,653,632	**12,793,503**	12,199,843
	14,172,083	14,596,234	**13,661,762**	14,142,445
Available-for-sale investments are analysed by categories of issuers as follows:				
Central governments and central banks	**88,411**	241,485	**88,411**	241,485
Public sector entities	**783,790**	800,396	**783,790**	800,396
Banks and other financial institutions	**10,178,453**	10,416,882	**9,668,132**	9,963,093
Corporate entities	**3,657,650**	3,558,273	**3,657,650**	3,558,273
	14,708,304	15,017,036	**14,197,983**	14,563,247

15 Available-for-sale investments (Continued)

The Group

The movement in available-for-sale investments is summarised as follows :	**2006 HK$'000**	2005 HK$'000
Balance as at 1st January	**15,017,036**	8,349,544
Adjustment on adoption of HKAS 39	**–**	8,596,102
Exchange differences	**89,486**	(70,258)
Additions	**3,481,721**	6,979,546
Changes in fair value	**161,437**	(283,612)
Amortised cost of securities redeemed and sold during the year	**(3,957,721)**	(8,250,654)
Investment revaluation reserve realised on disposal (Note 27)	**(10,008)**	(44,483)
Amortisation of premium/discount	**(58,562)**	(76,442)
Amount offset with interest rate swap contracts on disposal of hedged securities	**–**	(176,852)
Reclassification to investment in a subsidiary company	**–**	(5,855)
Others	**(15,085)**	–
Balance as at 31st December	**14,708,304**	15,017,036

The Bank

	2006 HK$'000	2005 HK$'000
Balance as at 1st January	**14,563,247**	7,935,645
Adjustment on adoption of HKAS 39	**–**	8,596,102
Exchange differences	**89,485**	(70,258)
Additions	**3,400,865**	6,905,896
Changes in fair value	**154,361**	(261,730)
Amortised cost of securities redeemed and sold during the year	**(3,939,721)**	(8,250,654)
Investment revaluation reserve realised on disposal (Note 27)	**(10,023)**	(44,483)
Amortisation of premium/discount	**(45,211)**	(64,564)
Amount offset with interest rate swap contracts on disposal of hedged securities	**–**	(176,852)
Reclassification to investment in a subsidiary company	**–**	(5,855)
Others	**(15,020)**	–
Balance as at 31st December	**14,197,983**	14,563,247

16 Held-to-maturity investments

	The Group		The Bank	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Debt securities:				
Listed in Hong Kong	**1,034,788**	1,569,812	**–**	–
Listed outside Hong Kong	**947,689**	951,357	**943,638**	947,233
Unlisted	**487,317**	479,812	**487,317**	479,812
	2,469,794	3,000,981	**1,430,955**	1,427,045
Market value of listed securities	**1,996,857**	2,517,243	**932,472**	931,563
Included within debt securities are:				
Treasury bills	**85,820**	100,687	**85,820**	100,687
Other debt securities	**2,383,974**	2,900,294	**1,345,135**	1,326,358
	2,469,794	3,000,981	**1,430,955**	1,427,045
Held-to-maturity investments are analysed by categories of issuers as follows:				
Central governments and central banks	**1,238,405**	1,771,077	**203,616**	201,265
Public sector entities	**368,834**	363,514	**368,834**	363,514
Banks and other financial institutions	**858,505**	862,266	**858,505**	862,266
Corporate entities	**4,050**	4,124	**–**	–
	2,469,794	3,000,981	**1,430,955**	1,427,045

As detailed in Note 14, as of 31st December 2006, certain of the United States branches have pledged held-to-maturity investments amounting to HK$232,822,000 (2005: HK$231,605,000) to the State of California and with the Comptroller of the Currency in compliance with local regulatory requirements.

Included in debt securities were HK$1,032,642,000 of Exchange Fund Notes pledged to the Hong Kong Monetary Authority as at 31st December 2006 (2005: HK$1,564,122,000) to facilitate settlement operations.

16 Held-to-maturity investments (Continued)

The Group

	2006 HK$'000	2005 HK$'000
Balance as at 1st January	**3,000,981**	8,652,144
Reclassification on adoption of HKAS 39	**–**	(5,880,917)
Additions	**248,105**	864,112
Disposals (sale and redemption)	**(768,086)**	(615,412)
Amortisation of premium/discount	**(12,501)**	(13,572)
Exchange differences	**3,575**	(5,374)
Others	**(2,280)**	–
Balance as at 31st December	**2,469,794**	3,000,981

The Bank

	2006 HK$'000	2005 HK$'000
Balance as at 1st January	**1,427,045**	7,131,333
Reclassification on adoption of HKAS 39	**–**	(5,882,190)
Additions	**248,105**	800,433
Disposals (sale and redemption)	**(248,086)**	(615,412)
Amortisation of premium/discount	**(938)**	(1,754)
Exchange differences	**3,575**	(5,365)
Others	**1,254**	–
Balance as at 31st December	**1,430,955**	1,427,045

There was no redemption of held-to-maturity investments by the issuer during the year. In 2005, there was redemption of held-to-maturity investments by the issuer with a net loss of HK$203,000 incurred.

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

(a) Investments in jointly controlled entities

	The Group	
	2006	2005
	HK$'000	HK$'000
Beginning of year	**136,938**	130,438
Share of results	**32,520**	9,010
Share of tax	**(2,854)**	(1,680)
Increase of advances	**–**	1,000
Dividends paid	**(1,830)**	(1,830)
Share of net assets	**164,774**	136,938

	The Bank	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**81,000**	81,000
Provision for impairment in carrying value	**–**	(17,238)
Amounts due from jointly controlled entities	**32,300**	32,300
	113,300	96,062

The provision for impairment in carrying value brought forward from 31st December 2005 was reversed during the year as the subject entity had achieved profitability as forecasted.

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	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**51,055**	51,029
Loans to subsidiary companies	**2,601,520**	2,448,915
Amounts due from subsidiary companies	**34**	27
Amounts due to subsidiary companies	**(223,979)**	(404,159)
	2,428,630	2,095,812

17 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 (In members' voluntary winding up) (Note)	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 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%
Shacom Securities Limited (formerly known as 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.

Note: The deposit-taking company licence was revoked by the Hong Kong Monetary Authority on 26th October 2006.

18 Property and equipment

The Group

	Bank premises HK$'000	Furniture, fittings and equipment HK$'000	Total HK$'000
At 1st January 2005			
Cost	466,132	536,635	1,002,767
Accumulated depreciation	(142,103)	(384,843)	(526,946)
Net book amount	324,029	151,792	475,821
Year ended December 2005			
Opening net book amount	324,029	151,792	475,821
Additions	1,020	40,792	41,812
Acquisition of a subsidiary company	–	277	277
Disposals	–	(1,987)	(1,987)
Depreciation charge (Note 5)	(9,173)	(60,978)	(70,151)
Exchange rate adjustments	(4,074)	(143)	(4,217)
Closing net book amount	311,802	129,753	441,555
At 31st December 2005			
Cost	462,354	555,786	1,018,140
Accumulated depreciation	(150,552)	(426,033)	(576,585)
Net book amount	311,802	129,753	441,555
Year ended December 2006			
Opening net book amount	**311,802**	**129,753**	**441,555**
Additions	**7,919**	**33,287**	**41,206**
Disposals	**(252)**	**(1,464)**	**(1,716)**
Depreciation charge (Note 5)	**(9,371)**	**(49,064)**	**(58,435)**
Exchange rate adjustments	**4,970**	**251**	**5,221**
Closing net book amount	**315,068**	**112,763**	**427,831**
At 31st December 2006			
Cost	**475,912**	**566,775**	**1,042,687**
Accumulated depreciation	**(160,844)**	**(454,012)**	**(614,856)**
Net book amount	**315,068**	**112,763**	**427,831**

18 Property and equipment (Continued)

The Bank

	Bank premises HK$'000	Furniture, fittings and equipment HK$'000	Total HK$'000
At 1st January 2005			
Cost	422,167	554,613	976,780
Accumulated depreciation	(136,058)	(394,513)	(530,571)
Net book amount	286,109	160,100	446,209
Year ended December 2005			
Opening net book amount	286,109	160,100	446,209
Additions	1,020	48,740	49,760
Disposals	–	(1,973)	(1,973)
Depreciation charge (Note 5)	(8,652)	(67,254)	(75,906)
Exchange rate adjustments	(192)	(127)	(319)
Closing net book amount	278,285	139,486	417,771
At 31st December 2005			
Cost	422,922	581,363	1,004,285
Accumulated depreciation	(144,637)	(441,877)	(586,514)
Net book amount	278,285	139,486	417,771
Year ended December 2006			
Opening net book amount	**278,285**	**139,486**	**417,771**
Additions	**–**	**41,332**	**41,332**
Disposals	**(252)**	**(1,330)**	**(1,582)**
Depreciation charge (Note 5)	**(8,645)**	**(55,778)**	**(64,423)**
Exchange rate adjustments	**247**	**183**	**430**
Closing net book amount	**269,635**	**123,893**	**393,528**
At 31st December 2006			
Cost	**422,964**	**600,735**	**1,023,699**
Accumulated depreciation	**(153,329)**	**(476,842)**	**(630,171)**
Net book amount	**269,635**	**123,893**	**393,528**

19 Investment properties

The Group and the Bank

	HK$'000
At 1st January 2005	
Cost	20,468
Accumulated depreciation	-
Net book amount	20,468
Year ended December 2005	
Opening net book amount	20,468
Depreciation charge (Note 5)	(298)
Disposals	(20,170)
Closing net book amount	–
At 31st December 2005	
Cost	–
Accumulated depreciation	–
Net book amount	–

The Bank

Year ended December 2006	
Opening net book amount	**–**
Additions	**7,919**
Depreciation charge (Note 5)	**(198)**
Closing net book amount	**7,721**
At 31st December 2006	
Cost	**7,919**
Accumulated depreciation	**(198)**
Net book amount	**7,721**

In the opinion of the directors of the Bank, the net book amount of the Bank's investment properties at 31st December 2006 approximates its fair value. The fair value was determined by reference to recent market prices for similar properties.

The above investment properties are depreciated on a straight-line basis over the shorter of the leases or 40 years.

The carrying value of investment properties shown above comprises buildings situated in Hong Kong.

20 Leasehold land and land use rights

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

	The Group and the Bank	
	2006	2005
	HK$'000	HK$'000
In Hong Kong held on:		
Leases of over 50 years	**100,184**	72,579
Leases of between 10 to 50 years	**178,477**	183,087
	278,661	255,666
Opening	**255,666**	260,224
Additions	**28,076**	1,529
Disposal	**(258)**	(1,519)
Amortisation of prepaid operating lease payment (Note 5)	**(4,823)**	(4,568)
	278,661	255,666

There are interests in freehold land held by the Group and are included as property and equipment (Note 18).

21 Other assets

	The Group		The Bank	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Repossessed assets	**18,487**	6,561	**18,487**	6,561
Accounts receivable and prepayments	**1,496,844**	639,038	**873,323**	425,902
Others*	**107,460**	68,913	**62,212**	55,342
	1,622,791	714,512	**954,022**	487,805

* Included in other assets of the Group are 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 2006 (2005: HK$2,619,000).

22 Deposits from customers

	The Group		The Bank	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Demand deposits and current accounts	**4,860,976**	4,655,211	**4,860,976**	4,655,211
Savings deposits	**18,710,539**	15,271,703	**18,710,539**	15,271,703
Time, call and notice deposits	**48,274,424**	40,614,287	**48,274,424**	40,613,379
Deposits from Hong Kong Government Exchange Fund	**391,158**	389,526	**391,158**	389,526
	72,237,097	60,930,727	**72,237,097**	60,929,819

23 Certificates of deposit issued

	The Goup and the Bank	
	2006	2005
	HK$'000	HK$'000
HK$ floating rate note due in 2007 and 2008 with interest rate of 4.20% (2005: 4.37%)	**3,105,934**	3,106,278

24 Other liabilities and provisions

	The Group		The Bank	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Margin deposits	**260,495**	180,911	**260,495**	180,911
Provision for staff gratuity (Note)	**90,673**	112,911	**89,831**	111,760
Accounts payable and accruals	**722,348**	181,298	**73,266**	67,143
Others	**505,933**	468,669	**496,174**	361,245
	1,579,449	943,789	**919,766**	721,059

Note
Movement of provision for staff gratuity:

	The Group		The Bank	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1st January	**112,911**	109,901	**111,760**	109,000
Add: Additional accruals	**121,835**	115,251	**120,127**	113,404
Less: Written back	**(6,144)**	(5,240)	**(5,695)**	(5,240)
Less: Payments for past year's services	**(137,929)**	(107,001)	**(136,361)**	(105,404)
At 31st December	**90,673**	112,911	**89,831**	111,760

25 Deferred income tax

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax liabilities

	The Group				
	Impairment allowances HK$'000	**Accelerated tax depreciation HK$'000**	**Reserves HK$'000**	**Others HK$'000**	**Total HK$'000**
At 1st January 2005	–	(65)	–	–	(65)
Recognised in the profit and loss account	–	(24)	–	–	(24)
At 31st December 2005	–	(89)	–	–	(89)
Recognised in the profit and loss account	**–**	**22**	**–**	**–**	**22**
At 31st December 2006	**–**	**(67)**	**–**	**–**	**(67)**

There were no deferred income tax liabilities for the Bank as at 31st December 2005 and 2006.

25 Deferred income tax (Continued)

Deferred income tax assets

	The Group				
	Impairment allowances HK$'000	Accelerated tax depreciation HK$'000	Reserves HK$'000	Others HK$'000	Total HK$'000
At 1st January 2005	43,318	671	(8,913)	(1,104)	33,972
Recognised in the profit and loss account	(6,507)	(5,262)	–	739	(11,030)
Credited to reserves (Note 27)	–	–	59,389	–	59,389
Reclassification to current income tax liabilities	–	–	–	4,181	4,181
Exchange differences	(307)	1	–	(52)	(358)
At 31st December 2005	36,504	(4,590)	50,476	3,764	86,154
Recognised in the profit and loss account	**(3,823)**	**(1,533)**	**–**	**(291)**	**(5,647)**
Charged to reserves (Note 27)	**–**	**–**	**(9,400)**	**–**	**(9,400)**
Reclassification to current income tax liabilities	**–**	**–**	**–**	**401**	**401**
Exchange differences	**324**	**5**	**–**	**78**	**407**
At 31st December 2006	**33,005**	**(6,118)**	**41,076**	**3,952**	**71,915**

	The Bank				
	Impairment allowances HK$'000	Accelerated tax depreciation HK$'000	Reserves HK$'000	Others HK$'000	Total HK$'000
At 1st January 2005	42,172	670	(8,913)	(1,104)	32,825
Recognised in the profit and loss account	(5,361)	(5,261)	–	739	(9,883)
Credited to reserves (Note 27)	–	–	59,389	–	59,389
Reclassification to current income tax liabilities	–	–	–	4,181	4,181
Exchange differences	(307)	1	–	(52)	(358)
At 31st December 2005	36,504	(4,590)	50,476	3,764	86,154
Recognised in the profit and loss account	**(3,823)**	**(1,533)**	**–**	**(291)**	**(5,647)**
Charged to reserves (Note 27)	**–**	**–**	**(9,400)**	**–**	**(9,400)**
Reclassification to current income tax liabilities	**–**	**–**	**–**	**401**	**401**
Exchange differences	**324**	**5**	**–**	**78**	**407**
At 31st December 2006	**33,005**	**(6,118)**	**41,076**	**3,952**	**71,915**

The deferred taxation (charged)/credited to reserves during the year is as follows:

	The Group and the Bank	
	2006 HK$'000	2005 HK$'000
Reserves in shareholders' equity		
– Investment revaluation reserve/(deficit)	**(9,400)**	45,434

26 Share capital

	The Group and the Bank	
	2006	2005
	HK$'000	HK$'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

27 Other reserves

The Group

	Regulatory reserve (Note) HK$'000	Investment revaluation reserve/ (deficit) HK$'000	General reserve HK$'000	Total HK$'000
Balances at 1st January 2006	**262,370**	**(225,156)**	**7,245,166**	**7,282,380**
Change in fair value of available-for-sale investments	**–**	**161,437**	**–**	**161,437**
Investment revaluation reserve realised on disposal of available-for-sale investments (Note 15)	**–**	**(10,008)**	**–**	**(10,008)**
Effect of deferred taxation (Note 25)	**–**	**(9,400)**	**–**	**(9,400)**
Currency translation differences	**–**	**–**	**9,214**	**9,214**
At 31st December 2006	**262,370**	**(83,127)**	**7,254,380**	**7,433,623**

The Bank

	Regulatory reserve (Note) HK$'000	Investment revaluation reserve/ (deficit) HK$'000	General reserve HK$'000	Total HK$'000
Balances at 1st January 2006	**262,370**	**(217,155)**	**7,240,156**	**7,285,371**
Change in fair value of available-for-sale investments	**–**	**154,361**	**–**	**154,361**
Investment revaluation reserve realised on disposal of available-for-sale investments (Note 15)	**–**	**(10,023)**	**–**	**(10,023)**
Effect of deferred taxation (Note 25)	**–**	**(9,400)**	**–**	**(9,400)**
Currency translation differences	**–**	**–**	**9,252**	**9,252**
At 31st December 2006	**262,370**	**(82,217)**	**7,249,408**	**7,429,561**

27 Other reserves (Continued)

The Group

	Regulatory reserve (Note) HK$'000	Investment revaluation reserve/ (deficit) HK$'000	General reserve HK$'000	Total HK$'000
Balances at 1st January 2005	262,370	43,550	7,013,480	7,319,400
Change in fair value of available-for-sale investments	–	(283,612)	–	(283,612)
Investment revaluation reserve realised on disposal of available-for-sale investments (Note 15)	–	(44,483)	–	(44,483)
Effect of deferred taxation (Note 25)	–	59,389	–	59,389
Currency translation differences	–	–	(8,314)	(8,314)
Transfer to retained earnings	–	–	(265,000)	(265,000)
Transfer from retained earnings	–	–	505,000	505,000
At 31st December 2005	262,370	(225,156)	7,245,166	7,282,380

The Bank

	Regulatory reserve (Note) HK$'000	Investment revaluation reserve/ (deficit) HK$'000	General reserve HK$'000	Total HK$'000
Balances at 1st January 2005	262,370	29,669	6,748,474	7,040,513
Change in fair value of available-for-sale investments	–	(261,730)	–	(261,730)
Investment revaluation reserve realised on disposal of available-for-sale investments (Note 15)	–	(44,483)	–	(44,483)
Effect of deferred taxation (Note 25)	–	59,389	–	59,389
Currency translation differences	–	–	(8,318)	(8,318)
Transfer from retained earnings	–	–	500,000	500,000
At 31st December 2005	262,370	(217,155)	7,240,156	7,285,371

Note: The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudent supervision purpose. Any movements in the reserve are made in consultation with the Hong Kong Monetary Authority.

28 Notes to the consolidated cash flow statement

Analysis of the balances of cash and cash equivalents

	2006 HK$'000	2005 HK$'000
Cash and short-term funds	**23,103,792**	20,054,117
Placements with and loans and advances to banks and other financial institutions with original maturity within three months	**3,747,049**	3,641,651
Available-for-sale investments with original maturity within three months	**–**	18,005
Less: Deposits from banks and other financial institutions with original maturity within three months	**(2,492,308)**	(3,000,493)
	24,358,533	20,713,280

Included in cash and short-term funds are HK$3,729,000 (2005: HK$7,589,000) of statutory 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.

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	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Property and equipment				
Contracted but not provided for	**8,495**	16,140	**10,602**	19,040
Authorised but not contracted for	**7,759**	11,481	**7,915**	11,488
	16,254	27,621	**18,517**	30,528

29 Capital and lease commitments (Continued)

(b) Lease commitments

Where a Group company is the lessee, the future minimum lease payments under non-cancellable building operating leases are as follows:

	The Group		The Bank	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
No later than 1 year	**36,952**	32,922	**39,119**	34,724
Later than 1 year and no later than 5 years	**38,421**	45,533	**47,588**	53,561
Later than 5 years	**8,392**	900	**9,920**	4,245
	83,765	79,355	**96,627**	92,530

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	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Aggregate amount outstanding in respect of principal and interest	**158,492**	1,884	**171,314**	7,635

Out of the balance as at 31st December 2006, HK$156,491,000 (2005: HK$1,884,000) was included in the "loans and advances to customers" under the balances with the directors and their relatives stated in Note 32.

31 Balances with group companies

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

	The Group and the Bank	
	2006	2005
	HK$'000	HK$'000
Cash and short-term funds	**1,315**	7,066
Loans and advances to customers - trade bills	**2,309**	1,006
Available-for-sale investments	**71,172**	67,341
	74,796	75,413
Collectively assessed impairment allowances	**7**	4
Deposits from banks and other financial institutions at 1st January	**580,194**	408,519
Deposits from banks and other financial institutions received during the year	**673**	175,100
Deposits from banks and other financial institutions repaid during the year	**(128,626)**	(3,425)
Deposits from banks and other financial institutions at 31st December	**452,241**	580,194
Interest income on deposits placed at and loans to the ultimate holding company	**328**	254
Interest expense on deposits from the ultimate holding company	**22,754**	14,069
Contingent liabilities and other commitments	**190,409**	135,762

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

	The Group and the Bank	
	2006	2005
	HK$'000	HK$'000
Deposits from customers at 1st January	**280,825**	274,982
Deposits from customers received during the year	**11,408**	7,970
Deposits from customers repaid during the year	**(1,967)**	(2,127)
Deposits from customers at 31st December	**290,266**	280,825
Interest expense on deposits from the subsidiary companies of the ultimate holding company	**13,058**	7,667

32 Related party transactions

A number of transactions were entered into with related parties by the Group or the Bank in the normal course of business and at arm's length basis. These include loans, deposits and trade finance transactions. The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

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

	The Group and the Bank	
	2006	2005
	HK$'000	HK$'000
Deposits from customers at 1st January	**103,621**	251,337
Deposits from customers received during the year	**171,742**	73,811
Deposits from customers repaid during the year	**(4,742)**	(221,527)
Deposits from customers at 31st December	**270,621**	103,621
Interest expenses on deposits from the jointly controlled entities	**7,310**	4,507
Contingent liabilities and other commitments	**8,000**	–

Amounts due from/(to) subsidiary companies are included in Note 17(b) and amounts due from jointly controlled entities are included in Note 17(a).

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

	The Group and the Bank	
	2006	2005
	HK$'000	HK$'000
Loans and advances to customers at 1st January	**18,998**	14,944
Loans and advances to customers granted during the year	**161,771**	8,710
Loans and advances to customers repaid during the year	**(280)**	(4,656)
Loans and advances to customers at 31st December (Note 30)	**180,489**	18,998
Collectively assessed impairment allowances	**560**	72
Deposits from customers at 1st January	**236,726**	189,830
Deposits from customers received during the year	**117,184**	93,148
Deposits from customers repaid during the year	**(131,757)**	(46,252)
Deposits from customers at 31st December	**222,153**	236,726
Interest income on loans and advances to the Directors and their relatives	**6,608**	993
Interest expenses on deposits from the Directors and their relatives	**9,668**	4,800
Contingent liabilities and other commitments	**65,502**	–

32 Related party transactions (Continued)

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

	The Group and the Bank	
	2006	2005
	HK$'000	HK$'000
Loans and advances to customers at 1st January	**358,616**	344,032
Loans and advances to customers granted during the year	**109,524**	93,412
Loans and advances to customers repaid during the year	**(68,590)**	(78,828)
Loans and advances to customers at 31st December	**399,550**	358,616
Collectively assessed impairment allowances	**1,239**	1,363
Deposits from customers at 1st January	**432,464**	369,719
Deposits from customers received during the year	**420,206**	325,313
Deposits from customers repaid during the year	**(203,340)**	(262,568)
Deposits from customers at 31st December	**649,330**	432,464
Interest income on loans and advances to the companies controlled by the Directors and their relatives	**27,284**	19,202
Interest expenses on deposits from the companies controlled by the Directors and their relatives	**22,458**	10,608
Contingent liabilities and other commitments	**378,395**	187,795

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

	The Group and the Bank	
	2006	2005
	HK$'000	HK$'000
Loans and advances to customers at 1st January	**9,232**	10,070
Loans and advances to customers granted during the year	**10,842**	137
Loans and advances to customers repaid during the year	**(81)**	(975)
Loans and advances to customers at 31st December	**19,993**	9,232
Collectively assessed impairment allowances	**62**	35
Deposits from customers at 1st January	**4,982**	15,023
Deposits from customers received during the year	**7,618**	2,044
Deposits from customers repaid during the year	**(2,072)**	(12,085)
Deposits from customers at 31st December	**10,528**	4,982
Interest income on loans and advances to the key management personnel of the Bank and the ultimate holding company and their relatives	**1,020**	533
Interest expenses on deposits from the key management personnel of the Bank and the ultimate holding company and their relatives	**248**	190
Contingent liabilities and other commitments	**2,825**	533

32 Related party transactions (Continued)

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

	The Group and the Bank	
	2006	2005
	HK$'000	HK$'000
Deposits from customers at 1st January	**14,731**	15,581
Deposits from customers received during the year	**10,578**	1,738
Deposits from customers repaid during the year	**(7,752)**	(2,588)
Deposits from customers at 31st December	**17,557**	14,731
Interest expenses on deposits from the companies controlled by the key management personnel of the Bank and the ultimate holding company and their relatives	**677**	443
The compensation of Directors and key management personnel of the Bank:		
Salaries and other short-term employee benefits	**39,269**	35,412

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

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 84 were approved by the Board of Directors on 28th February 2007.

Supplementary Financial Information

The following information is disclosed as part of the accompanying information to the accounts 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 Authorized 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. 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, as well as to 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, Ms. Karen Yan, Mr. Wai-chau Tang, Mr. William Wei-lim Ng, Mr. Kwong-yiu Chong and Mr. Stephen Chi-ming Chow.

2 Qualitative information on management of risks

The Bank has in place policies and procedures for the identification, measurement, 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 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 with 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 Audit Department performs regular audits to ensure compliance with the policies and procedures. The Risk Management Department 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 counterparties, countries and industry sectors. 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 customer-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 2006 for the Group and the Bank are 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 those regulators.

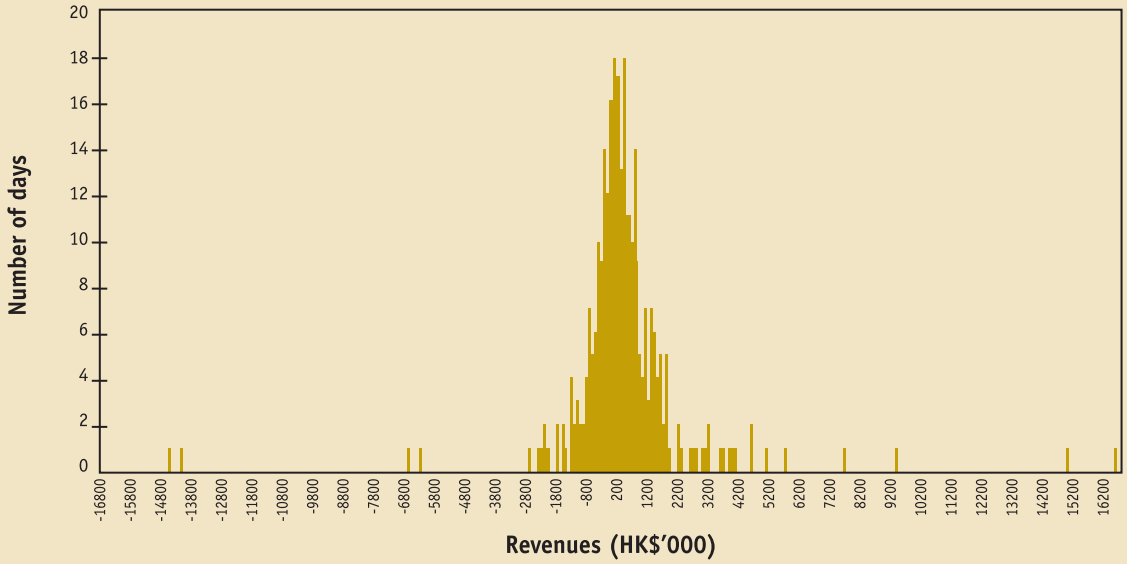
(g) Objectives, policies and strategies for the use of derivatives

The Group uses different types of derivatives to manage foreign exchange and interest rate sensitivity primarily by hedging 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.

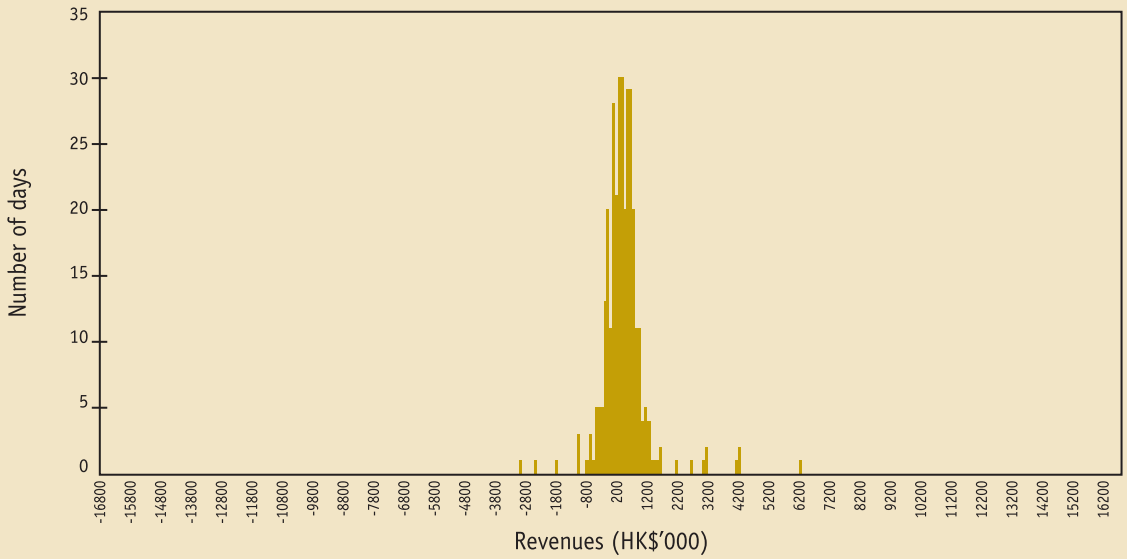
3 Quantitative information on market risk

The average daily revenue arising from foreign exchange, equity and other financial instruments exposures in the year was HK$0.47 million (2005: HK$0.45 million). The standard deviation of these daily revenues was HK$2.29 million (2005: HK$0.80 million). The highest daily revenue was HK$16.69 million (2005: HK$6.24 million) and the maximum daily loss was HK$14.58 million (2005: HK$2.91 million).

Daily distribution of market risk revenues in 2006



Daily distribution of market risk revenues in 2005



4 Capital adequacy and liquidity ratios

	2006	2005
Capital adequacy ratio	**22%**	23%
Adjusted capital adequacy ratio	**22%**	23%
Liquidity ratio	**53%**	57%

The capital adequacy ratio as at 31st December 2006 represents the consolidated ratio of the Bank, Shacom Investment 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 Hong Kong Banking Ordinance.

The adjusted capital adequacy ratio represents the capital adequacy ratio adjusted to take into account both credit and 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 Hong Kong 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:

	2006 HK$'000	2005 HK$'000
Core capital		
Paid up ordinary share capital	**2,000,000**	2,000,000
Reserves	**9,069,417**	7,873,108
Profit and loss account	**1,142,835**	1,362,961
	12,212,252	11,236,069
Supplementary capital		
Reserves on revaluation of holding of available-for-sale securities	**(83,127)**	(225,156)
Collective impairment allowances for impaired assets and regulatory reserve	**381,389**	401,322
Total gross and eligible value of supplementary capital	**298,262**	176,166
Total capital base before deductions	**12,510,514**	11,412,235
Deductions from total capital base		
Shareholdings in subsidiaries or holding company	**(113,170)**	(108,327)
Exposures to connected companies	**(100,190)**	(81,626)
Equity investments of 20% or more in jointly controlled entities	**(25,300)**	(25,300)
Investments in the capital of other banks and financial institutions	**(367,903)**	(317,425)
	(606,563)	(532,678)
Total capital base after deductions	**11,903,951**	10,879,557

5 Loans and advances to customers

Gross advances to customers by loan usage:

	The Group		The Bank	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	**1,161,955**	1,166,679	**1,161,955**	1,166,679
– Property investment	**8,234,894**	6,965,176	**8,234,894**	6,965,176
– Financial concerns	**32,470**	24,005	**32,470**	24,005
– Stockbrokers	**7,446**	5,746	**7,446**	5,746
– Wholesale and retail trade	**577,664**	616,258	**577,664**	616,258
– Manufacturing	**1,277,010**	1,519,268	**1,277,010**	1,519,190
– Transport and transport equipment	**387,010**	395,370	**387,010**	386,854
– Information technology - telecommunication	**2,798**	6,053	**2,798**	6,053
– Hotels, boarding houses and catering	**1,045,600**	1,072,772	**1,045,600**	1,072,772
– Others	**3,699,563**	2,749,339	**3,699,563**	2,746,393
Individuals				
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**391,103**	464,175	**391,103**	456,671
– Loans for the purchase of other residential properties	**4,480,254**	4,711,013	**4,480,254**	4,710,710
– Credit card advances	**386,746**	370,922	**386,746**	370,922
– Others	**2,744,753**	2,225,527	**2,744,753**	2,221,545
Trade finance	**5,959,056**	5,574,470	**5,959,056**	5,574,470
Loans for use outside Hong Kong *	**7,080,012**	6,382,565	**7,080,012**	6,382,535
	37,468,334	34,249,338	**37,468,334**	34,225,979

* Included in 'Loans for use outside Hong Kong' were advances to individuals of HK$970,639,000 (2005: HK$1,004,963,000).

6 Segmental information

(a) Overdue and impaired loans by geographical area

The Group and the Bank

	Impaired loans		Overdue advances	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**449,000**	494,000	**1,167,000**	1,074,000
Asia Pacific excluding Hong Kong	**7,000**	–	**–**	–
North and South America	**–**	25,000	**112,000**	–
Europe	**–**	–	**17,000**	–
	456,000	519,000	**1,296,000**	1,074,000

(b) 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

2006

	Banks and other financial institutions HK$'000	**Public sector entities HK$'000**	**Others HK$'000**	**Total HK$'000**
Asia Pacific excluding Hong Kong	**8,140,000**	**–**	**817,000**	**8,957,000**
North America	**5,507,000**	**511,000**	**3,053,000**	**9,071,000**
Western Europe	**26,842,000**	**7,000**	**255,000**	**27,104,000**

2005

	Banks and other financial institutions HK$'000	Public sector entities HK$'000	Others HK$'000	Total HK$'000
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

6 Segmental information (Continued)

(c) 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.

2006

The Group

	Retail and corporate banking HK$'000	Bills HK$'000	Treasury HK$'000	Others HK$'000	Total HK$'000
Net interest income	1,446,396	129,160	273,288	–	1,848,844
Net fee and commission income	121,083	184,154	–	397,662	702,899
Net trading income	–	–	186,538	–	186,538
Profit before taxation	1,107,502	262,210	351,561	288,942	2,010,215
Segment assets	34,897,862	4,559,911	53,296,589	1,006,114	93,760,476

The Bank

	Retail and corporate banking HK$'000	Bills HK$'000	Treasury HK$'000	Others HK$'000	Total HK$'000
Net interest income	1,441,945	129,160	173,391	–	1,744,496
Net fee and commission income	119,015	185,241	–	372,459	676,715
Net trading income	–	–	186,526	–	186,526
Profit before taxation	1,072,023	263,297	351,617	307,614	1,994,551
Segment assets	34,897,862	4,559,911	53,296,589	226,105	92,980,467

6 Segmental information (Continued)

(c) By class of business (Continued)

2005

The Group

	Retail and corporate banking HK$'000	Bills HK$'000	Treasury HK$'000	Others HK$'000	Total HK$'000
Net interest income	1,166,396	117,806	397,968	–	1,682,170
Net fee and commission income	115,127	184,157	–	306,100	605,384
Net trading income	–	–	123,137	–	123,137
Profit before taxation	895,367	247,629	443,023	205,958	1,791,977
Segment assets	32,292,277	4,591,636	43,297,743	520,719	80,702,375

The Bank

	Retail and corporate banking HK$'000	Bills HK$'000	Treasury HK$'000	Others HK$'000	Total HK$'000
Net interest income	1,160,088	117,806	310,205	–	1,588,099
Net fee and commission income	114,147	184,147	–	289,687	587,981
Net trading income	–	–	123,146	–	123,146
Profit before taxation	876,533	247,619	445,988	477,299	2,047,439
Segment assets	32,084,581	4,567,273	43,293,468	432,369	80,377,691

6 Segmental information (Continued)

(d) Fee and commission income by product lines

	The Group		The Bank	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Import and export	**179,678**	180,470	**179,678**	180,470
Retail banking and wealth management operation	**396,787**	294,179	**366,084**	273,858
Credit cards	**42,085**	41,402	**42,085**	41,402
Remittances	**54,819**	54,116	**54,819**	54,116
Credit facilities	**57,033**	56,826	**57,033**	56,749
Others	**2,103**	3,138	**2,094**	2,993
Total	**732,505**	630,131	**701,793**	609,588

7 Overdue and rescheduled advances

(a) Advances

The Group and the Bank

(i) Gross amount of overdue loans

	2006		2005	
	HK$'000	**%**	HK$'000	%
Gross advances to customers which have been overdue for:				
– six months or less but over three months	**49,236**	**0.13**	65,104	0.19
– one year or less but over six months	**31,136**	**0.08**	37,878	0.11
– over one year	**63,931**	**0.17**	65,913	0.19
	144,303	**0.38**	168,895	0.49

(ii) Rescheduled advances net of amounts included in overdue advances

	2006		2005	
	HK$'000	**%**	HK$'000	%
Advances to customers	**64,013**	**0.17**	55,248	0.16

(b) Repossessed assets

At 31st December 2006, the fair value of repossessed assets of the Group and the Bank amounted to HK$20,598,000 (2005: HK$8,690,000).

8 Currency concentrations

2006

The Group and the Bank

Equivalent in Hong Kong dollars	Spot assets HK$'000	Spot liabilities HK$'000	Forward purchases HK$'000	Forward sales HK$'000	Net long/ (short) position HK$'000
US Dollars	**35,847,000**	**(34,497,000)**	**4,961,000**	**(2,647,000)**	**3,664,000**
Pound Sterling	**1,849,000**	**(1,849,000)**	**86,000**	**(67,000)**	**19,000**
Canadian Dollars	**1,729,000**	**(1,736,000)**	**23,000**	**(14,000)**	**2,000**
Euro	**1,467,000**	**(1,473,000)**	**489,000**	**(431,000)**	**52,000**
Other currencies and gold	**5,076,000**	**(5,064,000)**	**395,000**	**(412,000)**	**(5,000)**
	45,968,000	**(44,619,000)**	**5,954,000**	**(3,571,000)**	**3,732,000**

2005

The Group and the Bank

Equivalent in Hong Kong dollars	Spot assets HK$'000	Spot liabilities HK$'000	Forward purchases HK$'000	Forward sales HK$'000	Net long position HK$'000
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)	–
Euro	1,473,000	(1,513,000)	347,000	(305,000)	2,000
Other currencies and gold	4,910,000	(4,757,000)	573,000	(711,000)	15,000
	42,843,000	(40,657,000)	2,091,000	(2,471,000)	1,806,000

Net structural position include capital reserves and retained earnings of overseas branches together with investments in overseas subsidiaries and related companies:

The Group and the Bank

	Net structural position	
	2006 HK$'000	2005 HK$'000
US Dollars	**1,476,000**	1,247,000
Pound Sterling	**8,000**	13,000
Chinese Renminbi	**23,000**	–
	1,507,000	1,260,000

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

Subsidiary Companies

Infinite Financial Solutions Limited
Shanghai Commercial Bank Trustee Limited