

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