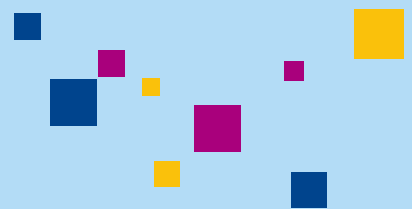




上海商業銀行
SHANGHAI COMMERCIAL BANK

GROUP INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENT

2010



I PRINCIPAL ACTIVITIES

The Shanghai Commercial Bank Limited (the “Bank”) and its subsidiary companies (collectively known as “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 1,600 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 The Shanghai Commercial & Savings Bank, Ltd.

This Group Interim Financial Information Disclosure Statement is presented in thousands of units of Hong Kong dollars (HK\$'000), unless otherwise stated, and have been approved for issue by the Board of Directors on 4th August 2010.

II BASIS OF CONSOLIDATION

(a) Subsidiaries

Subsidiaries are all entities (including special purpose 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 non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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 impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

II BASIS OF CONSOLIDATION (Continued)

(a) Subsidiaries (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
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	Securities brokerage services	Hong Kong	1,000,000 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%
Paofong Insurance Company (Hong Kong) Limited	Insurance	Hong Kong	500,000 ordinary shares of HK\$100 each	60%

All subsidiary companies are held directly by the Bank.

(b) Transactions with non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Disposals to non-controlling interests result in gains and losses to the Group that are recorded in the income statement. Purchases from the non-controlling 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.

(c) 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 income statement included the Group's share of the results of jointly controlled entities, and the consolidated statement of financial position included the Group's share of the net assets of the jointly controlled entities.

III CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 30th June 2010 (unaudited) HK\$'000	Six months ended 30th June 2009 (unaudited) HK\$'000
Interest income	1a	1,110,582	1,241,144
Interest expense	1b	(198,382)	(421,681)
Net interest income		912,200	819,463
Fee and commission income	1c	328,604	320,368
Fee and commission expense	1d	(19,208)	(17,933)
Net fee and commission income		309,396	302,435
Dividend income	2a	7,237	4,615
Net trading income	2b	59,305	39,601
Net income from financial instruments designated at fair value through profit or loss		22,551	21,365
Net losses from disposal of equipment		(1,103)	(201)
Net gains from disposal of available-for-sale investments		115,845	53,915
Other operating income	2c	56,071	54,204
Operating expenses	3	(475,642)	(503,565)
Impairment losses on loans and advances to customers	4	(4,669)	(46,371)
Operating profit		1,001,191	745,461
Share of net profit of jointly controlled entities		1,060	4,872
Profit before income tax		1,002,251	750,333
Income tax expense	5	(172,647)	(129,421)
Profit for the period		829,604	620,912
Attributable to:			
Equity holders		827,964	620,864
Non-controlling interests		1,640	48
		829,604	620,912

IV CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30th June 2010 (unaudited) HK\$'000	Six months ended 30th June 2009 (unaudited) HK\$'000
Profit for the period	829,604	620,912
Exchange differences on translation of foreign operations	7,849	3,800
Net gains on available-for-sale investments		
- Fair value changes taken to equity on available-for-sale investments	357,296	154,238
- Fair value changes transferred to income statement on disposal of the available-for-sale investments	(115,845)	(53,915)
- Deferred income tax	(40,348)	(4,843)
Share of changes in equity of jointly controlled entities	21	4,371
Total comprehensive income for the period	1,038,577	724,563
Attributable to:		
- Equity holders	1,036,940	724,486
- Non-controlling interests	1,637	77
	1,038,577	724,563

V CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30th June 2010 (unaudited) HK\$'000	Restated 31st December 2009 (audited) HK\$'000
Assets			
Cash and balances with banks	6	20,035,139	26,215,291
Placements with and loans and advances to banks	7	14,031,182	14,989,607
Financial assets held for trading		369,119	389,026
Derivative financial instruments	8b	27,016	12,448
Financial assets designated at fair value		404,878	398,430
Loans and advances to customers	9	49,868,460	44,025,984
Investment securities:			
- Available-for-sale		21,075,225	20,225,698
- Held-to-maturity		2,769,234	2,868,942
Investments in jointly controlled entities		157,022	159,901
Property and equipment	10	622,039	638,398
Investment property	11	1,396,107	1,409,479
Deferred income tax assets	13	39,317	43,979
Other assets		1,307,763	1,533,001
Total assets		112,102,501	112,910,184
Liabilities			
Deposits and balances from banks		4,299,107	3,566,474
Derivative financial instruments	8b	35,793	31,264
Deposits from customers	12	89,603,043	91,488,908
Other liabilities		1,580,804	1,552,927
Provisions		60,580	94,500
Current income tax liabilities		76,131	4,397
Deferred income tax liabilities	13	121,340	82,708
Total liabilities		95,776,798	96,821,178
Equity			
Capital and reserves attributable to the equity holders			
Share capital		2,000,000	2,000,000
Retained earnings		5,819,047	5,785,596
Other reserves	14	8,451,480	8,247,991
		16,270,527	16,033,587
Non-controlling interests in equity		55,176	55,419
Total equity		16,325,703	16,089,006
Total equity and liabilities		112,102,501	112,910,184

VI NOTES TO THE GROUP INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENT

1 Net interest income and net fee and commission income

	Six months ended 30th June 2010 HK\$'000	Six months ended 30th June 2009 HK\$'000
(a) Interest income		
Cash and balances with banks	176,430	280,861
Investment securities		
- Available-for-sale	262,204	208,160
- Held-to-maturity	33,830	43,772
Loans and advances		
- to a bank	-	1,188
- to customers	634,573	689,210
Others	3,545	17,953
	<u>1,110,582</u>	<u>1,241,144</u>
Included within interest income		
Interest income on listed investments	52,352	114,102
Interest income on unlisted investments	243,682	137,830
Interest income accrued on impaired financial assets	6,087	15,650
(b) Interest expense		
Deposits and balances from bank	10,831	17,934
Deposits from customers	186,160	402,585
Certificates of deposit issued	-	86
Others	1,391	1,076
	<u>198,382</u>	<u>421,681</u>
(c) Fee and commission income		
Commissions from bills	59,166	54,825
Nominees, custodian and securities brokerage commissions	122,323	134,053
Commissions from wealth management products	31,652	18,355
Commissions from remittance	25,238	24,381
Facility fees	30,075	32,276
Fees from credit cards	20,909	19,432
Commissions from retail banking	22,802	20,829
Commissions from insurance	13,781	14,455
Other fees	2,658	1,762
	<u>328,604</u>	<u>320,368</u>

VI NOTES TO THE GROUP INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENT (Continued)

1 Net interest income and net fee and commission income (Continued)

	Six months ended 30th June 2010 HK\$'000	Six months ended 30th June 2009 HK\$'000
(d) Fee and commission expense		
Commissions on bills	1,529	1,391
Nominees, custodian and securities brokerage commissions paid	8,481	7,857
Commissions on retail banking	9,065	8,567
Fees on credit cards	73	70
Other fees paid	60	48
	<u>19,208</u>	<u>17,933</u>
Of which :		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value		
- fee income	112,808	108,295
- fee expense	1,602	1,461
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers		
- fee income	<u>9,756</u>	<u>8,169</u>

The Group provides custody, trustee and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in these financial statements.

VI NOTES TO THE GROUP INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENT (Continued)

2 Dividend, trading and other operating income

	Six months ended 30th June 2010 HK\$'000	Six months ended 30th June 2009 HK\$'000
(a) Dividend income		
Dividend income from investment in securities		
- listed investments	1,073	1,587
- unlisted investments	6,164	3,028
	<u>7,237</u>	<u>4,615</u>
(b) Net trading income		
Foreign exchange	58,226	28,156
Interest rate instruments	4,463	3,281
Equities	(6,473)	8,164
Other trading income	3,089	-
	<u>59,305</u>	<u>39,601</u>

“Foreign exchange” net trading income includes gains and losses from spot and forward contracts, swaps and translated foreign currency assets and liabilities, which are not designated as qualifying hedging relationship. “Interest rate instruments” includes the results of making markets in instruments in government securities, corporate debt securities and money market instruments. “Equities” trading income includes the results of equity securities in overseas markets and equity derivatives such as stock accumulator forward contracts being conducted principally in Hong Kong, which are held for risk management purposes but not forming part of qualifying hedging relationships. Other trading income includes gains and losses from trading in commodities such as gold coins and gold bars.

(c) Other operating income		
Gross rental income from investment properties	15,147	17,138
Others	40,924	37,066
	<u>56,071</u>	<u>54,204</u>

The Group's direct operating expenses of HK\$2,176,000 (for the six months period ended 30th June 2009: HK\$2,015,000) arising from an investment property that generated rental income were included in operating expenses.

VI NOTES TO THE GROUP INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENT (Continued)

3 Operating expenses

	Six months ended 30th June 2010 HK\$'000	Six months ended 30th June 2009 HK\$'000
Auditors' remuneration (Note a)	3,479	3,581
Advertising costs	14,125	5,589
Depreciation expenses for property and equipment	36,128	37,875
Direct operating expenses arising from an investment property that did not generate rental income	330	53
Employee benefit expenses		
- Wages and salaries and other costs (Note b)	278,098	290,999
- Pension costs - defined contribution schemes	15,703	16,505
- Pension costs - defined benefit schemes	15	24
Premises and equipment expense, excluding depreciation		
- Rental of premises	27,036	25,734
- Building expenses	7,671	6,580
- Building management fee	2,903	2,903
Other operating expenses		
- Computer rental and licence	5,614	6,712
- Credit card business promotion	6,097	5,583
- Credit card service fee	4,724	4,547
- Insurance	5,161	4,998
- Legal and consultancy	3,812	1,280
- Postage	6,103	6,292
- Printing and stationery	4,406	4,230
- Repair and maintenance	7,532	8,494
- Telephone	12,309	12,043
- Travelling and transportation	2,055	2,036
- Water, heat and light	5,957	6,165
- Others	26,384	51,342
	475,642	503,565

(Note a) The amounts of auditors' remuneration comprised of audit fee for Hong Kong office of HK\$1,767,000 (for the six months period ended 30th June 2009: HK\$1,972,000) and that for overseas branches of HK\$1,468,000 (for the six months period ended 30th June 2009: HK\$1,303,000) together with HK\$244,000 (for the six months period ended 30th June 2009: HK\$306,000) for subsidiary companies.

(Note b) Employee benefit expenses include directors' emoluments. The number of persons employed by the Group as at 30th June 2010 was 1,655 (30th June 2009: 1,764).

VI NOTES TO THE GROUP INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENT (Continued)

4 Impairment losses on loans and advances to customers

	Six months ended 30th June 2010 HK\$'000	Six months ended 30th June 2009 HK\$'000
Trade bills	10,292	(173)
Loans and advances to customers	(5,623)	46,544
	<u>4,669</u>	<u>46,371</u>
Net charge / (reversal) of impairment losses on loans and advances to customers		
- Individually assessed	(20,647)	57,129
- Collectively assessed	25,316	(10,758)
	<u>4,669</u>	<u>46,371</u>
Of which		
- new allowances in the period	34,574	75,344
- releases	(24,897)	(15,141)
- recoveries	(5,008)	(13,832)
Net charge to income statement	<u>4,669</u>	<u>46,371</u>

5 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profit for the six months period ended 30th June 2010. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

Current income tax:		
- Hong Kong profits tax	134,051	78,993
- Overseas taxation	37,321	30,433
- Adjustments in respect of prior years	(2,587)	4,000
Total current income tax	<u>168,785</u>	<u>113,426</u>
Deferred income tax:		
- Hong Kong deferred tax	(999)	14,473
- Overseas deferred tax	4,861	1,522
Total deferred income tax	<u>3,862</u>	<u>15,995</u>
Income tax expense	<u>172,647</u>	<u>129,421</u>

VI NOTES TO THE GROUP INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENT (Continued)

5 Income tax expense (Continued)

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

	Six months ended 30th June 2010 HK\$'000	Six months ended 30th June 2009 HK\$'000
Profit before tax	<u>1,002,251</u>	<u>750,333</u>
Tax calculated at domestic tax rates applicable to profits in the respective countries	186,992	147,026
Tax effect of:		
Income not subject to tax	(20,019)	(22,947)
Expenses not deductible for tax purposes	8,720	5,870
Net effect of investments in partnerships	(459)	(4,528)
Adjustment in respect of prior years	(2,587)	4,000
Tax expense	<u>172,647</u>	<u>129,421</u>

The income tax rate applicable to the majority of the Group and its subsidiaries' 2010 income is 16.5% (2009: 16.5%).

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 30th June 2010, the unamortised carrying cost of the investments in such partnerships, which was included in "Other assets", amounted to HK\$660,835,000 (31st December 2009: HK\$892,785,000). The Bank's investments in these special purpose partnerships are amortised over the life of the individual partnerships.

VI NOTES TO THE GROUP INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENT (Continued)

6 Cash and balances with banks

	30th June 2010 HK\$'000	31st December 2009 HK\$'000
Cash in hand	243,565	239,313
Balances with central banks and Hong Kong Monetary Authority	3,984,120	3,052,036
Balances with banks	15,807,454	22,923,942
	<u>20,035,139</u>	<u>26,215,291</u>

As at 30th June 2010, there was HK\$1,500,000 (31st December 2009: 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.

As at 30th June 2010, there were HK\$57,528,000 (31st December 2009: HK\$23,557,000) of statutory reserve deposits on customers' deposits with the central bank in the country the Group is operating the business for the purpose of complying with the local statutory requirements of the country.

7 Placements with and loans and advances to banks

Placements with banks maturing between one and twelve months	<u>14,031,182</u>	<u>14,989,607</u>
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As of 30th June 2010, HK\$90,945,000 (31st December 2009: HK\$90,408,000) was deposited with state banks in the People's Republic of China to comply with the local statutory reserve requirement on injected capital. No impairment allowance was necessary to be provided against the banks.

8 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:

Direct credit substitutes	1,958,575	1,912,441
Trade-related contingencies	3,708,250	2,800,367
Other commitments with an original maturity of:		
- under 1 year	3,198,162	906,513
- 1 year and over	2,593,364	3,038,037
- unconditionally cancellable	35,737,558	35,269,842
	<u>47,195,909</u>	<u>43,927,200</u>

VI NOTES TO THE GROUP INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENT (Continued)

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

	Contract amount	Fair values	
	HK\$'000	Assets HK\$'000	Liabilities HK\$'000
(b) Derivative financial instruments			
At 30th June 2010			
Derivatives held for trading			
- Foreign exchange derivatives			
- Currency forward exchange contracts	2,408,382	24,994	(22,789)
- Cross-currency interest rate swaps contracts	786,401	2,022	(258)
Total derivative assets/(liabilities) held for trading	3,194,783	27,016	(23,047)
Derivatives not qualified as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss			
- Interest rate derivatives			
- Interest rate swaps contracts	400,987	-	(12,746)
Total derivative assets/(liabilities) not qualified as hedges	400,987	-	(12,746)
Total recognised derivative financial assets/(liabilities)	3,595,770	27,016	(35,793)
At 31st December 2009			
Derivatives held for trading			
- Foreign exchange derivatives			
- Currency forward exchange contracts	956,740	12,225	(8,739)
- Cross-currency interest rate swaps contracts	783,230	223	(1,259)
Total derivative assets/(liabilities) held for trading	1,739,970	12,448	(9,998)
Derivatives not qualified as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss			
- Interest rate derivatives			
- Interest rate swaps contracts	399,370	-	(21,266)
Total derivative assets/(liabilities) not qualified as hedges	399,370	-	(21,266)
Total recognised derivative financial assets/(liabilities)	2,139,340	12,448	(31,264)

VI NOTES TO THE GROUP INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENT (Continued)

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

(b) Derivative financial instruments (Continued)

	Credit risk weighted amount	
	30th June 2010 HK\$'000	31st December 2009 HK\$'000
Exchange rate contracts	22,514	15,099
Interest rate swaps contracts	-	748
	22,514	15,847

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

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 as at 30th June 2010 and 31st December 2009 are the amounts that have been calculated in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

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

VI NOTES TO THE GROUP INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENT (Continued)

9 Loans and advances to customers

	30th June 2010 HK\$'000	31st December 2009 HK\$'000
Loans and advances to individuals	12,370,817	11,523,795
Loans and advances to corporate entities	37,813,502	32,816,538
Gross loans and advances to customers	50,184,319	44,340,333
Less: impairment allowances		
- Individually assessed	(114,511)	(137,729)
- Collectively assessed	(201,348)	(176,620)
	<u>49,868,460</u>	<u>44,025,984</u>
Gross trade bills and other eligible bills, included within loans and advances to customers	3,990,751	1,619,946
Less: impairment allowances		
- Collectively assessed	(15,913)	(5,621)
	<u>3,974,838</u>	<u>1,614,325</u>
Value of collateral for loans and advances which are individually impaired	<u>1,340,555</u>	<u>1,733,716</u>
Percentage of classified loans to total loans and advances and trade bills	<u>2.17%</u>	<u>2.67%</u>

The Group accepted listed securities at fair value of HK\$2,740,891,000 as at 30th June 2010 (31st December 2009: HK\$2,599,690,000) as collateral for share financing facilities included in "Term loans and others", which it is permitted to sell or re-pledge in the event of default by the owner of the collateral.

As of 30th June 2010, certain of our branches in the United States have pledged their real estate loans of HK\$66,307,000 (31st December 2009: HK\$67,319,000) to the State of California and with the Comptroller of the Currency in compliance with the regulatory requirements.

VI NOTES TO THE GROUP INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENT (Continued)

10 Property and equipment

	Leasehold land HK\$'000	Bank premises HK\$'000	Furniture, fittings and equipment HK\$'000	Total HK\$'000
2009 (Restated)				
At 1st January				
Cost	325,589	463,387	608,630	1,397,606
Accumulated depreciation	(56,567)	(176,745)	(502,368)	(735,680)
Net book amount	<u>269,022</u>	<u>286,642</u>	<u>106,262</u>	<u>661,926</u>
Year ended 31st December				
Opening net book amount	269,022	286,642	106,262	661,926
Additions	-	-	22,427	22,427
Disposals	-	-	(968)	(968)
Depreciation charge	(4,820)	(8,850)	(34,487)	(48,157)
Exchange rate adjustments	-	3,078	92	3,170
Closing net book amount	<u>264,202</u>	<u>280,870</u>	<u>93,326</u>	<u>638,398</u>
At 31st December				
Cost	325,589	467,222	610,769	1,403,580
Accumulated depreciation	(61,387)	(186,352)	(517,443)	(765,182)
Net book amount	<u>264,202</u>	<u>280,870</u>	<u>93,326</u>	<u>638,398</u>

2010

Interim period ended 30th June				
Opening net book amount	264,202	280,870	93,326	638,398
Additions	-	-	9,002	9,002
Disposals	-	-	(1,115)	(1,115)
Depreciation charge	(2,410)	(4,421)	(15,925)	(22,756)
Exchange rate adjustments	-	(1,456)	(34)	(1,490)
Closing net book amount	<u>261,792</u>	<u>274,993</u>	<u>85,254</u>	<u>622,039</u>
At 30th June				
Cost	325,589	465,404	605,104	1,396,097
Accumulated depreciation	(63,797)	(190,411)	(519,850)	(774,058)
Net book amount	<u>261,792</u>	<u>274,993</u>	<u>85,254</u>	<u>622,039</u>

In accordance with the amendments to HKAS 17, the leasehold land and land use right held by the Group were considered as finance leases and being reclassified to Property and Investment Property (Note 11).

VI NOTES TO THE GROUP INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENT (Continued)

11 Investment Property

	Leasehold land HK\$'000	Bank Premises HK\$'000	Total HK\$'000
2009 (Restated)			
Year ended 31st December			
Opening net book amount	1,379,757	56,465	1,436,222
Depreciation charge	(1,648)	(25,095)	(26,743)
Closing net book amount	<u>1,378,109</u>	<u>31,370</u>	<u>1,409,479</u>
At 31st December			
Cost	1,381,406	62,739	1,444,145
Accumulated depreciation	(3,297)	(31,369)	(34,666)
Net book amount	<u>1,378,109</u>	<u>31,370</u>	<u>1,409,479</u>

2010

Interim period ended 30th June			
Opening net book amount	1,378,109	31,370	1,409,479
Depreciation charge	(824)	(12,548)	(13,372)
Closing net book amount	<u>1,377,285</u>	<u>18,822</u>	<u>1,396,107</u>
At 30th June			
Cost	1,381,406	62,739	1,444,145
Accumulated depreciation	(4,121)	(43,917)	(48,038)
Net book amount	<u>1,377,285</u>	<u>18,822</u>	<u>1,396,107</u>

The restatement was in accordance with the amendments to HKAS 17, see also Note 10.

12 Deposits from customers

	30th June 2010 HK\$'000	31st December 2009 HK\$'000
Demand deposits and current accounts	7,461,166	7,452,215
Savings deposits	27,710,004	29,468,649
Time and call deposits	54,042,333	54,180,091
Deposits from Hong Kong Government Exchange Fund	389,540	387,953
	<u>89,603,043</u>	<u>91,488,908</u>

VI NOTES TO THE GROUP INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENT (Continued)

13 Deferred income tax

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

	Impairment allowances HK\$'000	Accelerated tax depreciation HK\$'000	Fair value gains HK\$'000	Others HK\$'000	Total HK\$'000
Deferred income tax liabilities					
At 1st January 2009	-	(79)	-	-	(79)
Credited/(charged) to the income statement	-	18	(3)	-	15
Charged to equity	-	-	(89)	-	(89)
Acquisition of a subsidiary	-	-	(294)	-	(294)
Reclassification from deferred income tax assets	36,011	(3,605)	(112,244)	(2,423)	(82,261)
At 31st December 2009	36,011	(3,666)	(112,630)	(2,423)	(82,708)
(Charged)/credited to the income statement	(890)	1,965	-	(76)	999
Reclassification to current income tax liabilities	-	-	-	717	717
Credited to equity	-	-	(40,348)	-	(40,348)
At 30th June 2010	<u>35,121</u>	<u>(1,701)</u>	<u>(152,978)</u>	<u>(1,782)</u>	<u>(121,340)</u>
Deferred income tax assets					
At 1st January 2009	75,486	(8,119)	91,656	1,114	160,137
(Charged)/credited to the income statement	(7,990)	3,282	-	9,027	4,319
Credited/(charged) to equity	115	-	(203,900)	-	(203,785)
Reclassification to current income tax liabilities	-	-	-	900	900
Exchange differences	135	8	-	4	147
Reclassification to deferred income tax liabilities	(36,011)	3,605	112,244	2,423	82,261
At 31st December 2009	31,735	(1,224)	-	13,468	43,979
(Charged)/credited to the income statement	3,058	(32)	-	(7,872)	(4,846)
Exchange differences	159	(11)	-	36	184
At 30th June 2010	<u>34,952</u>	<u>(1,267)</u>	<u>-</u>	<u>5,632</u>	<u>39,317</u>

The deferred taxation charged to equity during the six months period (2009: the year) is as follows:

	30th June 2010 HK\$'000	31st December 2009 HK\$'000
Available-for-sale investment revaluation deficit		
- Reserves in shareholders' equity (Note 14)	(40,348)	(203,909)
- Reserves in non-controlling interests	-	(80)
	<u>(40,348)</u>	<u>(203,989)</u>

VI NOTES TO THE GROUP INTERIM FINANCIAL INFORMATION DISCLOSURE STATEMENT (Continued)

14 Other reserves

	Regulatory reserve (Note) HK\$'000	Available- for-sale investment revaluation reserve/ (deficit) HK\$'000	General reserve HK\$'000	Total HK\$'000
Balances at 1st January 2009	362,370	(72,763)	7,267,352	7,556,959
Change in fair value of available-for-sale investments	-	1,047,439	-	1,047,439
Realised on disposal of available-for-sale investments	-	(186,967)	-	(186,967)
Effect of deferred taxation (Note 13)	-	(203,909)	-	(203,909)
Currency translation differences	-	(14,414)	17,676	3,262
Transfer from retained earnings	-	-	26,659	26,659
Share of investment revaluation reserve of jointly controlled entities	-	4,548	-	4,548
Balance at 31st December 2009 and 1st January 2010	362,370	573,934	7,311,687	8,247,991
Change in fair value of available-for-sale investments	-	347,774	-	347,774
Realised on disposal of available-for-sale investments	-	(115,845)	-	(115,845)
Effect of deferred taxation (Note 13)	-	(40,348)	-	(40,348)
Currency translation differences	-	9,525	2,362	11,887
Share of investment revaluation reserve of jointly controlled entities	-	21	-	21
Balance at 30th June 2010	362,370	775,061	7,314,049	8,451,480

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

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

1 Capital structure and adequacy

	30th June 2010	31st December 2009
Capital adequacy ratio	<u>19.5%</u>	<u>19.1%</u>
Core capital ratio	<u>19.4%</u>	<u>19.1%</u>

The capital adequacy ratio as at 30th June 2010 represents the consolidated ratio of the Bank, Shacom Property (CA) Inc., Shacom Property (NY) Inc., Shacom Property Holdings (BVI) Limited, Shacom Investment Limited, Shacom Assets Investments Limited and Shacom Insurance Brokers Limited computed in accordance with section 98(2) of the Hong Kong Banking Ordinance.

The capital base after deductions used in the calculation of the above capital adequacy ratios as at 30th June 2010 and 31st December 2009 and reported to the Hong Kong Monetary Authority are analysed as follows:

	30th June 2010 HK\$'000	31st December 2009 HK\$'000
Core capital:		
Paid up ordinary share capital	2,000,000	2,000,000
Reserves	12,204,200	10,904,409
Income statement	817,225	1,291,938
Less: net deferred tax assets	<u>(71,017)</u>	<u>(73,964)</u>
	14,950,408	14,122,383
Other deductions from core capital	<u>(857,124)</u>	<u>(826,846)</u>
Core capital after deductions	<u>14,093,284</u>	<u>13,295,537</u>
Supplementary capital:		
Collective impairment allowances for loans and advances	201,348	176,620
Regulatory reserve	362,370	362,370
Revaluation reserves for available-for-sale investments	417,870	309,214
Unrealised fair value gains for securities designated at fair value	775	-
	982,363	848,204
Other deductions from supplementary capital	<u>(857,124)</u>	<u>(826,846)</u>
Supplementary capital after deductions	<u>125,239</u>	<u>21,358</u>
Total capital base	<u>14,218,523</u>	<u>13,316,895</u>

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

2 Cross-border claims

The information on cross-border claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk.

	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
As at 30th June 2010				
Asia Pacific excluding Hong Kong	28,848,000	63,000	1,175,000	30,086,000
North America	4,126,000	373,000	988,000	5,487,000
Western Europe	8,260,000	78,000	199,000	8,537,000
As at 31st December 2009				
Asia Pacific excluding Hong Kong	29,699,000	77,000	681,000	30,457,000
North America	5,784,000	566,000	1,006,000	7,356,000
Western Europe	13,482,000	77,000	167,000	13,726,000

3 Gross loans and advances to customers by geographical segments

The following table breaks down the Group's loans and advances exposure by geographical region as of 30th June 2010. For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties. Exposure by geographical sectors is classified according to the location of counterparties after taking into account the transfer of risk.

	The Group	
	30th June 2010 HK\$'000	31st December 2009 HK\$'000
Hong Kong	39,018,904	33,515,366
Asia Pacific excluding Hong Kong	1,418,389	1,443,070
North and South America	9,333,926	8,983,962
Middle East and Africa	1,028	1,132
Europe	412,072	396,803
	<u>50,184,319</u>	<u>44,340,333</u>

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

4 Overdue and classified loans by geographical area

The Group

	30th June 2010		
	Individually assessed to be impaired HK\$'000	Individual Impairment Allowance HK\$'000	Collective Impairment Allowance HK\$'000
Hong Kong	491,258	64,102	-
North America	598,350	50,409	-
	1,089,608	114,511	-

	30th June 2010		
	Overdue HK\$'000	Individual Impairment Allowance HK\$'000	Collective Impairment Allowance HK\$'000
Hong Kong	781,234	37,976	1,877
North America	430,975	32,943	660
Western Europe	29,024	-	116
	1,241,233	70,919	2,653

	31st December 2009		
	Individually assessed to be impaired HK\$'000	Individual Impairment Allowance HK\$'000	Collective Impairment Allowance HK\$'000
Hong Kong	602,733	95,049	-
North America	579,101	42,680	-
	1,181,834	137,729	-

	31st December 2009		
	Overdue HK\$'000	Individual Impairment Allowance HK\$'000	Collective Impairment Allowance HK\$'000
Hong Kong	1,150,637	61,029	3,329
North America	726,804	28,499	1,982
Western Europe	33,596	-	134
	1,911,037	89,528	5,445

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

5 Loans and advances to customers

(a) Gross advances to customers by loan usage

	30th June 2010		31st December 2009	
	Gross Advance HK\$'000	Amount covered by collateral / other security HK\$'000	Gross Advance HK\$'000	Amount covered by collateral / other security HK\$'000
Loans for use in Hong Kong				
- Industrial, commercial and financial				
- Property development	1,930,870	740,795	1,566,075	558,066
- Property investment	11,632,243	10,869,811	10,743,049	9,922,766
- Financial concerns	60,599	59,845	85,951	85,353
- Stockbrokers	10,025	9	29	29
- Wholesale and retail trade	821,475	645,609	838,079	601,753
- Manufacturing	1,341,233	877,788	1,126,480	798,880
- Transport and transport equipment	580,919	214,779	783,467	268,422
- Information technology - telecommunication	958	480	2,294	873
- Hotels, boarding houses and catering	646,483	632,376	676,919	650,340
- Others	2,544,106	1,323,787	2,244,402	1,028,567
- Individuals				
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	344,115	341,234	371,051	367,191
- Loans for the purchase of other residential properties	4,802,536	4,802,536	4,631,092	4,631,092
- Credit card advances	228,425	400	279,061	386
- Others	4,702,254	4,627,112	4,307,761	4,195,747
Trade finance	5,062,676	2,446,572	4,353,347	3,035,182
Loans for use outside Hong Kong *	11,484,651	10,854,647	10,711,330	10,108,833
	46,193,568	38,437,780	42,720,387	36,253,480

* Included in 'Loans for use outside Hong Kong' as at 30th June 2010 were advances to individuals of HK\$2,293,487,000 (31st December 2009: HK\$1,934,830,000).

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

6 Loans and advances overdue for more than 3 months

(i) Gross amount of overdue loans

	30th June 2010		31st December 2009	
	Gross amount of overdue loans HK\$'000	% of total	Gross amount of overdue loans HK\$'000	% of total
Gross advances to customers which have been overdue for:				
- six months or less but over three months	194,476	0.39	39,124	0.09
- one year or less but over six months	54,995	0.11	325,967	0.74
- over one year	185,057	0.37	55,115	0.12
	<u>434,528</u>	<u>0.87</u>	<u>420,206</u>	<u>0.95</u>

(ii) Value of collateral held and impairment allowances against overdue loans and advances

	Outstanding amount of loans and advances HK\$'000	Current market value of collateral HK\$'000	Covered portion by collateral HK\$'000	Uncovered portion by collateral HK\$'000	Impairment allowances - individual assessment HK\$'000
30th June 2010					
Overdue loans and advances on:					
- Customers	<u>434,528</u>	<u>569,428</u>	<u>363,110</u>	<u>71,418</u>	<u>48,228</u>
31st December 2009					
Overdue loans and advances on:					
- Customers	<u>420,206</u>	<u>476,282</u>	<u>339,893</u>	<u>80,313</u>	<u>54,858</u>

Collateral held against such loans mainly include mortgages over properties.

(iii) Rescheduled advances net of amounts included in advances overdue for more than 3 months

	30th June 2010 HK\$'000	% of total Advances to customers	31st December 2009 HK\$'000	% of total Advances to customers
Loans and advances to customers	76,642	0.15	105,902	0.24

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

6 Loans and advances overdue for more than 3 months (Continued)

(iv) Repossessed assets

During the period, the Group obtained assets by taking possession of collateral held as security, as follows:

Nature of assets	Carrying amount	
	30th June 2010 HK\$'000	31st December 2009 HK\$'000
Residential properties	<u>750</u>	<u>18,038</u>

At 30th June 2010, the repossessed assets of the Group and the Bank amounted to HK\$20,830,000 (31st December 2009: HK\$26,500,000).

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness.

Repossessed properties are classified in the statement of financial position within other assets.

7 Non-bank Mainland exposures

	On-balance sheet exposure HK\$ million	Off-balance sheet exposure HK\$ million	Total HK\$ million	Impairment allowances HK\$ million
As at 30th June 2010				
Types of counterparties				
Mainland entities	1,298	20	1,318	-
Companies and individuals outside Mainland where the credit is granted for use in Mainland	3,283	1,230	4,513	29
Other counterparties the exposure to whom are considered by the Group to be non-bank Mainland exposure	118	201	319	-
	<u>4,699</u>	<u>1,451</u>	<u>6,150</u>	<u>29</u>

As at 31st December 2009

Types of counterparties

Mainland entities	1,157	3	1,160	4
Companies and individuals outside Mainland where the credit is granted for use in Mainland	2,990	1,296	4,286	22
Other counterparties the exposure to whom are considered by the Group to be non-bank Mainland exposure	168	194	362	-
	<u>4,315</u>	<u>1,493</u>	<u>5,808</u>	<u>26</u>

APPENDIX - UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

8 Currency concentrations

	Spot assets HK\$'000	Spot liabilities HK\$'000	Forward purchases HK\$'000	Forward sales HK\$'000	Net long / (short) position HK\$'000	Net structural position HK\$'000
As at 30th June 2010						
Equivalent in Hong Kong dollars						
US Dollars	39,689,000	(39,954,000)	2,813,000	(2,918,000)	(370,000)	3,016,000
Pound Sterling	1,739,000	(1,733,000)	36,000	(27,000)	15,000	4,000
Canadian Dollars	1,409,000	(1,411,000)	30,000	(23,000)	5,000	-
Euro	1,843,000	(1,856,000)	274,000	(290,000)	(29,000)	-
Other currencies and gold	9,864,000	(9,670,000)	398,000	(506,000)	86,000	63,000
	<u>54,544,000</u>	<u>(54,624,000)</u>	<u>3,551,000</u>	<u>(3,764,000)</u>	<u>(293,000)</u>	<u>3,083,000</u>

As at 31st December 2009

Equivalent in Hong Kong dollars						
US Dollars	44,230,000	(41,583,000)	1,398,000	(639,000)	3,406,000	2,015,000
Pound Sterling	1,740,000	(1,720,000)	27,000	(30,000)	17,000	2,000
Canadian Dollars	1,594,000	(1,592,000)	29,000	(18,000)	13,000	-
Euro	2,094,000	(2,148,000)	291,000	(258,000)	(21,000)	-
Other currencies and gold	9,351,000	(9,323,000)	330,000	(301,000)	57,000	53,000
	<u>59,009,000</u>	<u>(56,366,000)</u>	<u>2,075,000</u>	<u>(1,246,000)</u>	<u>3,472,000</u>	<u>2,070,000</u>

Net structural position includes structural positions of the Bank's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

- investments in fixed assets and premises, net of depreciation;
- capital and statutory reserves of overseas branches; and
- investments in overseas subsidiaries and related company.

9 Liquidity

	30th June 2010	30th June 2009
Liquidity ratio	<u>51%</u>	<u>54%</u>

The liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio for the six months of the financial period of the Bank's overseas and Hong Kong offices computed in accordance with the Banking (Disclosure) Rules.

REVIEW OF OPERATIONS

The Bank registered its consolidated profit attributable to shareholders of HK\$828 million in the first half year of 2010, an increase of 33.36% or HK\$207 million over the same period in 2009. The Bank's net interest income at HK\$912 million and net fees and commission at HK\$309 million increased by 11.3% and 2.3% respectively as compared with the first half of 2009, while the non-fee income from the treasury operations at HK\$205 million showed a year-on-year increase of 71.5%. The operating expenses of the Group at HK\$476 million decreased by 5.6% as compared to the first half of 2009, while the impairment losses on loans and advances to customers of the Group at HK\$4.7 million registered a year-on-year decline of 89.9% from that of HK\$46 million.

In anticipation of the rising funding cost partly due to the upcoming expiry of The HKSAR Government Full Deposit Protection Scheme while the corresponding increase in the interest spread on loans and advances could be minimal because of market competition, there will be mounting pressure on the net interest income and net interest margin in the second half of the year. Nevertheless, the Bank will strive for the expansion of customer base and cross-selling capabilities in order to sustain loan growth and improve the fees and commission income.

STATEMENT OF COMPLIANCE

The above information is prepared in accordance with and fully complies with the requirements set out in the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority.