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HSBC HOLDINGS PLC
Form 6-K
July 31, 2006

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer
Pursuant to Rule 13a - 16 or 15d - 16 of
the Securities Exchange Act of 1934

For the month of July 2006

HSBC Holdings plc

42nd Floor, 8 Canada
Square, London E14 5HQ, England

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F).

Form 20-F Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934).

Yes No

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
2006 INTERIM CONSOLIDATED RESULTS - HIGHLIGHTS

- Net operating income before loan impairment charges and other credit risk provisions up 15.0 per cent to HK\$44,353 million (HK\$38,576 million in the first half of 2005; up 14.8 per cent from HK\$38,646 million in the second half of last year).
- Pre-tax profit up 5.6 per cent to HK\$25,516 million (HK\$24,163 million in the first half of 2005; up 21.0 per cent from HK\$21,086 million in the second half of last year).
- Attributable profit up 5.2 per cent to HK\$18,471 million (HK\$17,564 million in the first half of 2005; up 20.7 per cent from HK\$15,309 million in the second half of last year).
- Return on average shareholders' funds of 34.9 per cent (39.7 per cent and 35.2 per cent in the first and second half of 2005 respectively).
- Assets up 8.4 per cent to HK\$2,898 billion (HK\$2,673 billion at the end of 2005); risk-weighted assets up 5.4 per cent to HK\$1,306 billion

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(HK\$1,238 billion at 31 December 2005).

- Total capital ratio of 13.1 per cent; tier 1 capital ratio of 12.1 per cent (12.4 per cent and 11.7 per cent at 31 December 2005).
- Cost efficiency ratio of 39.4 per cent (38.4 per cent and 44.0 per cent for the first and second half of 2005 respectively).

Within this document, the Hong Kong Special Administrative Region of the People's Republic of China has been referred to as 'Hong Kong'.

Comment by Vincent Cheng, Chairman

In the first half of 2006, The Hongkong and Shanghai Banking Corporation reported solid results and continued to invest in the growth of its businesses both in Hong Kong and the rest of the Asia-Pacific region. Supported by a strong economy in Hong Kong, deepening links with mainland China, and generally favourable conditions in other parts of Asia, the group increased marketing activity and the recruitment of customer-facing staff to grow market share and customer penetration in its major businesses. The exceptions to this generally benign environment were deteriorating personal credit conditions in Taiwan and Indonesia.

Net operating income before loan impairment charges was HK\$44,353 million, an increase of HK\$5,777 million, or 15.0 per cent, compared with the first half of 2005, and HK\$5,707 million, or 14.8 per cent, higher than the second half of 2005. Net interest income benefited from rising interest rates that led to wider deposit spreads and an increase in demand for deposit and savings products in both Hong Kong and the rest of Asia-Pacific.

Personal Financial Services' net operating income before loan impairment charges rose 14.2 per cent to HK\$21,967 million compared with the same period in 2005. Net operating income before loan impairment charges in the second half of 2005 was 7.1 per cent higher. Mortgage market share increased significantly after an effective marketing campaign that focused on simplified and transparent pricing by the bank in Hong Kong. There was also increased mortgage lending in Singapore, Taiwan, India and Korea.

Supported by increased investment in marketing, the number of cards in the region exceeded 9 million. Buoyant stock markets and favourable economic conditions in Hong Kong and many parts of the region drove demand for wealth management products.

Commercial Banking's net operating income before loan impairment charges rose 22.3 per cent to HK\$9,254 million compared with the first half of 2005, and by HK\$459 million, or 5.2 per cent, compared with the second half of 2005.

In Hong Kong, there was strong demand for credit in the property and Mainland manufacturing sectors. Insurance revenues continued to grow following the establishment of a dedicated commercial banking insurance division.

In the rest of Asia-Pacific, corporate lending and trade finance grew strongly in India and asset spreads improved. Liability spreads improved across the region.

Net operating income before loan impairment charges in Corporate, Investment Banking and Markets increased by 5.0 per cent to HK\$12,513 million compared with the first half of 2005, and by 20.7 per cent, or HK\$2,146 million, compared with the second half. Net interest income fell by HK\$1,017 million, compared with the first half of 2005. In Global Markets, balance sheet management revenues declined as the cost of funding fixed rate asset positions, entered into in earlier periods, rose significantly. Flat yield curves made it difficult to

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generate income through position-taking. This was partially offset by a strong performance in Global Transactional Banking (trade services, payments and cash management and securities services).

Fee income from asset management rose by 79.9 per cent, reflecting higher fund advisory and distribution fees. Foreign exchange profits were higher as currency volatility provided trading opportunities. Customer volumes increased in India, Korea and Taiwan.

Our commercial and personal insurance businesses continued to make significant progress across the region.

We continued to invest in our China businesses where there was strong growth in both our branch operations and investments. Net operating income before loan impairment charges in the first half of 2006 was 45.1 per cent higher than in the first half of 2005, at HK\$1,155 million. Income from our investments was 44.0 per cent higher, at HK\$1,283 million.

The group's operating profit was HK\$24,281 million, an increase of HK\$1,038 million, or 4.5 per cent, compared with the first half of 2005, and an increase of HK\$4,180 million, or 20.8 per cent, compared with the second half.

In Hong Kong, a modest loan impairment charge for personal lending contrasted with net releases in the first half of 2005 and was offset by a reduction in charges in commercial lending.

In the rest of Asia-Pacific, loan impairment charges and other credit risk provisions were impacted by the deteriorating personal credit environment in Taiwan and Indonesia.

In both Hong Kong and the rest of Asia-Pacific, costs increased to continue business expansion. The recruitment of customer-facing staff and investment in IT resources rose in all three of our major businesses. Marketing costs were higher in both Personal Financial Services and Commercial Banking.

We will continue to identify opportunities for growing our business in the region. The regional economy is likely to benefit from robust external demand, although the pace of growth will be somewhat slower than in the first half due to the impact of higher interest rates and oil prices. Domestic demand in Asia remains buoyant and could help mitigate any slowdown in external demand such as a possible slowdown in the US economy.

Results by Customer Group

| Figures in HK\$m | Personal Financial Services | Commercial Banking | Corporate, Investment Banking and Markets | Private Banking | Other | Total |
|-------------------------|-----------------------------------|-----------------------|---|--------------------|---------|--------|
| Half-year ended 30JUN06 | | | | | | |
| Net interest income | 14,403 | 6,458 | 4,017 | 39 | (1,327) | 23,590 |
| Net fee income | 5,177 | 2,445 | 3,511 | 33 | (252) | 10,914 |
| Net trading income | 459 | 386 | 4,587 | 6 | (976) | 4,462 |

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|--|-----------|---------|---------|-------|---------|-----------|
| Net income/(loss) from financial instruments designated at fair value | 63 | (319) | 18 | - | 266 | 28 |
| Gains less losses from financial investments | 84 | (1) | 195 | - | 872 | 1,150 |
| Dividend income | 3 | 2 | 23 | - | 563 | 591 |
| Net earned insurance premiums | 10,413 | 437 | 62 | - | - | 10,912 |
| Other operating income | 836 | 71 | 148 | 7 | 1,388 | 2,450 |
| Total operating income | 31,438 | 9,479 | 12,561 | 85 | 534 | 54,097 |
| Net insurance claims incurred and movement in policyholder liabilities | (9,471) | (225) | (48) | - | - | (9,744) |
| Net operating income before loan impairment charges and other credit risk provisions | 21,967 | 9,254 | 12,513 | 85 | 534 | 44,353 |
| Loan impairment charges and other credit risk provisions | (2,480) | (258) | 155 | - | - | (2,583) |
| Net operating income | 19,487 | 8,996 | 12,668 | 85 | 534 | 41,770 |
| Operating expenses | (9,046) | (3,011) | (5,222) | (81) | (129) | (17,489) |
| Operating profit | 10,441 | 5,985 | 7,446 | 4 | 405 | 24,281 |
| Share of profit in associates | 116 | 723 | 296 | - | 100 | 1,235 |
| Profit before tax | 10,557 | 6,708 | 7,742 | 4 | 505 | 25,516 |
| Share of profit before tax | 41.4% | 26.3% | 30.3% | - | 2.0% | 100.0% |
| Advances to customers (net) | 448,553 | 253,528 | 323,275 | 3,264 | 15,744 | 1,044,364 |
| Customer accounts | 1,042,668 | 375,923 | 388,996 | 7,139 | 3,542 | 1,818,268 |
| Half-year ended 30JUN05 | | | | | | |
| Net interest income | 12,819 | 5,062 | 5,034 | 29 | (1,534) | 21,410 |
| Net fee income | 4,152 | 2,207 | 2,452 | 29 | 34 | 8,874 |
| Net trading income | 449 | 276 | 3,701 | 3 | (233) | 4,196 |
| Net income/(loss) from financial instruments designated at fair value | 163 | (342) | 152 | - | (29) | (56) |
| Gains less losses from financial investments | 3 | 23 | (35) | - | 356 | 347 |

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|--|---------|---------|---------|-------|---------|-----------|
| Dividend income | 3 | 2 | 106 | - | 138 | 249 |
| Net earned insurance premiums | 6,546 | 356 | 73 | - | - | 6,975 |
| Other operating income | 1,028 | 150 | 472 | 7 | 1,063 | 2,720 |
| Total operating income | 25,163 | 7,734 | 11,955 | 68 | (205) | 44,715 |
| Net insurance claims incurred and movement in policyholder liabilities | (5,932) | (168) | (39) | - | - | (6,139) |
| Net operating income before loan impairment charges and other credit risk provisions | 19,231 | 7,566 | 11,916 | 68 | (205) | 38,576 |
| Loan impairment charges and other credit risk provisions | (60) | (510) | 54 | - | - | (516) |
| Net operating income | 19,171 | 7,056 | 11,970 | 68 | (205) | 38,060 |
| Operating expenses | (7,912) | (2,560) | (4,701) | (52) | 408 | (14,817) |
| Operating profit | 11,259 | 4,496 | 7,269 | 16 | 203 | 23,243 |
| Share of profit in associates | 93 | 566 | 231 | - | 30 | 920 |
| Profit before tax | 11,352 | 5,062 | 7,500 | 16 | 233 | 24,163 |
| Share of profit before tax | 47.0% | 21.0% | 31.0% | - | 1.0% | 100.0% |
| Advances to customers (net) | 418,884 | 235,856 | 300,955 | 3,551 | 14,391 | 973,637 |
| Customer accounts | 992,860 | 336,228 | 334,524 | 6,234 | 1,587 | 1,671,433 |
| Half-year ended 31DEC05 | | | | | | |
| Net interest income | 13,982 | 6,027 | 3,691 | 34 | (1,653) | 22,081 |
| Net fee income | 3,898 | 2,317 | 2,936 | 26 | 46 | 9,223 |
| Trading income | 234 | 362 | 3,514 | 7 | (1,133) | 2,984 |
| Net income/(loss) from financial instruments designated at fair value | 503 | (306) | (30) | - | 273 | 440 |
| Gains less losses from financial investments | (3) | - | 54 | - | 358 | 409 |
| Dividend income | 2 | 12 | 61 | - | 44 | 119 |
| Net earned insurance premiums | 11,891 | 400 | 74 | - | - | 12,365 |
| Other operating income | 956 | 145 | 100 | 6 | 970 | 2,177 |
| Total operating income | 31,463 | 8,957 | 10,400 | 73 | (1,095) | 49,798 |

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|--|----------|---------|---------|-------|---------|-----------|
| Net insurance claims incurred and movement in policyholder liabilities | (10,957) | (162) | (33) | - | - | (11,152) |
| Net operating income before loan impairment charges and other credit risk provisions | 20,506 | 8,795 | 10,367 | 73 | (1,095) | 38,646 |
| Loan impairment charges and other credit risk provisions | (1,284) | (386) | 111 | - | 11 | (1,548) |
| Net operating income | 19,222 | 8,409 | 10,478 | 73 | (1,084) | 37,098 |
| Operating expenses | (9,020) | (2,864) | (4,941) | (61) | (111) | (16,997) |
| Operating profit | 10,202 | 5,545 | 5,537 | 12 | (1,195) | 20,101 |
| Share of profit in associates | 86 | 524 | 215 | - | 160 | 985 |
| Profit before tax | 10,288 | 6,069 | 5,752 | 12 | (1,035) | 21,086 |
| Share of profit before tax | 48.8% | 28.8% | 27.3% | - | (4.9%) | 100.0% |
| Advances to customers (net) | 436,676 | 235,675 | 309,092 | 3,230 | 14,653 | 999,326 |
| Customer accounts | 984,734 | 374,370 | 366,752 | 7,405 | 1,849 | 1,735,110 |

Personal Financial Services reported profit before tax of HK\$10,557 million, a decrease of 7.0 per cent over the first half of 2005 as strong growth in operating income of 14.2 per cent was offset by higher credit card impairment allowances in Taiwan and Indonesia, and investment expenditure in the rest of Asia-Pacific.

Net interest income increased by HK\$1,584 million, or 12.4 per cent, compared with the first half of 2005. In Hong Kong, net interest income rose by HK\$967 million, or 9.9 per cent, as effective management of deposit pricing amid the continued trend of rising interest rates resulted in a further widening of liability spreads. The local mortgage market remained highly competitive as sales volumes in the housing market slowed, but a significant increase in market share of new business was achieved, largely as a result of a simplified pricing campaign launched by the bank in Hong Kong in the first quarter of 2006. Credit card lending in Hong Kong grew, but net interest income fell as the benefit of higher receivables was more than offset by a rise in funding costs. Average customer deposit balances remained flat, reflecting a competitive market and customer preference for investment in unit trusts and structured deposit products.

In the rest of Asia-Pacific, net interest income rose by HK\$617 million, or 20.2 per cent, reflecting strong balance sheet growth across the region. The deposit base expanded in a number of countries, particularly Singapore, mainland China and Indonesia, reflecting a more focused strategy on HSBC Premier customers, and deposit spreads improved on the back of higher interest rates. Mortgage lending increased in Korea, Singapore, Taiwan and India, led by competitive pricing and increased marketing activity. These volume benefits were, however, partly offset by lower spreads resulting from higher funding costs and reduced yields. Interest earned on credit cards was higher in the Philippines, Indonesia and

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India, reflecting growth in receivables, but spreads narrowed in the face of increased funding costs. Income from personal instalment loans rose, notably in India, Korea and Indonesia, following the successful launch of these products in mid-2005.

Net fee income of HK\$5,177 million was 24.7 per cent higher than the first half of 2005, driven by increased stock market activity in Hong Kong and the region and greater demand for wealth management products. While the investment environment proved volatile, the group continued to develop and market a diversified wealth management product set to suit a variety of customer appetites in changing markets. In Hong Kong, fee income was up by HK\$637 million, or 20.8 per cent. Fee income from stockbroking and custody services rose by 88.7 per cent, as transaction volumes were higher reflecting buoyant stock market conditions in the first quarter of 2006. Sales of unit trusts increased significantly as investors switched to equity-related products, encouraged by improved markets and the launch of new investment funds. In the rest of Asia-Pacific, fee income rose by 35.7 per cent on the back of strong demand for investment products in India, Singapore, Taiwan and Korea, with revenue from wealth management sales in the region increasing by HK\$193 million, or 41.8 per cent.

Fee income from credit cards was HK\$313 million, or 25.3 per cent, higher than the first half of 2005 as the group strengthened its position as the largest card issuer in Hong Kong, with 4.4 million cards in force. In the rest of Asia-Pacific, particularly India and the Philippines, expansion of the cards business continued. This was supported by extensive marketing campaigns and sales efforts, resulting in a rise of 19.6 per cent in the number of cards to a total of 5.0 million issued, as well as a 17.3 per cent increase in cardholder spending.

Insurance income rose by 27.1 per cent, with continued focus on the development of the group's retirement planning proposition and supported by increased levels of marketing activity. Sales of other life assurance products also grew and revenues from general insurance, particularly medical, travel and home insurance increased.

Gains from financial investments principally comprise profit realised from the partial disposal of an operational investment.

The charge for loan impairment increased by HK\$2,420 million to HK\$2,480 million, primarily attributable to higher credit card delinquency levels in Taiwan and Indonesia. Delinquency rates and write-offs rose in Taiwan as a result of government measures to control excessive consumer credit growth. Indonesia has been affected by higher minimum repayment rules, coupled with a hefty reduction in the government subsidy of fuel prices. Volume growth in personal lending and credit card receivables also contributed to the increased charge. The prior period benefited from non-recurring releases of provisions against mortgage lending and restructured facilities in Hong Kong.

Operating expenses were HK\$1,134 million, or 14.3 per cent, higher than in the first half of 2005, principally driven by continued investment to develop and expand the business in the rest of the Asia-Pacific region. Compared with the second half of 2005, however, expenses were flat. In Hong Kong, operating expenses rose by 7.5 per cent, largely in relation to a major credit card marketing campaign and headcount growth in customer-facing roles. Technology costs were also higher, reflecting investment in customer portfolio management systems and the enhancement of channel capabilities. In the rest of Asia-Pacific, costs increased by HK\$779 million, or 24.4 per cent, notably in India and Korea, as the group continued to pursue organic growth in the region. Headcount rose by 30.7 per cent as sales and support functions were expanded, and premises costs rose as new branches were opened in Korea, India, and mainland China. Higher marketing costs were incurred to drive sales and promote

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the HSBC brand, with specific campaigns targeted to increase customer numbers and raise market share in credit cards, mortgages and personal loans, and to attract new deposits. In addition, costs were incurred in the start-up of the consumer finance business in the region.

Income from associates of HK\$116 million includes improved results from Bank of Communications and Industrial Bank.

Commercial Banking reported profit before tax of HK\$6,708 million, an increase of 32.5 per cent over the first half of 2005, driven by improved deposit spreads and balance sheet growth. Operating profit, excluding loan impairment charges, grew by 22.2 per cent in Hong Kong to HK\$4,873 million, and in the rest of Asia-Pacific by 34.4 per cent to HK\$1,370 million.

Net interest income increased by HK\$1,396 million, or 27.6 per cent, compared with the first half of 2005. This reflected growth in average advances and deposits as well as improvements in deposit spreads following further rises in interest rates this year. In Hong Kong, net interest income rose by HK\$941 million, or 24.2 per cent, as strong demand for credit continued in the property sector and from manufacturers with operations on the Mainland, but lending margins were compressed due to keen market competition. Liability balances increased, reflecting the active promotion of the 'BusinessVantage' account in Hong Kong and the widening of deposit spreads. Emphasis on the small and medium-sized enterprises ('SME') segment was strengthened with the opening of new dedicated SME centres, more relationship managers and the launch of a new criteria-based lending programme. Cross-border relationships continue to be developed. A new dedicated Taiwan team was set up to pursue business growth from the Taiwanese segment in Hong Kong and mainland China, and the alignment of resources to support customer needs in mainland China led to an increase in inter-office referrals.

In the rest of Asia-Pacific, net interest income grew by 38.5 per cent. In India, corporate lending and trade finance grew strongly and asset spreads improved, and in Singapore continued effort was made to gain new customers and deepen relationships with existing customers in the mid-market and SME segments. Liability spreads improved across the region. The deposit base expanded in various countries, particularly in India due to the receipt of IPO funds and in Singapore which benefited from the introduction of new distribution channels and marketing campaigns. In addition, the offshore business in Mauritius performed well.

Net fee income rose by HK\$238 million, or 10.8 per cent, largely attributable to higher fees from account services and remittances, particularly in Hong Kong as a result of the successful marketing of new payment services, and in India where the SME business was repositioned to focus on the provision of transactional banking services. Credit card fee income grew as the number of merchant relationships increased. Income from sales of foreign exchange products increased by 39.9 per cent, benefiting from an increase in cross-border remittances. Fees from trade services were marginally higher as increases in India, Bangladesh and Indonesia were offset by lower revenues in Hong Kong due to intense market competition. Income from the sale of wealth management products in Hong Kong fell in line with a shift in market demand away from guaranteed funds to shorter-term deposit products.

Insurance revenues, particularly from life insurance products, continued to grow following the establishment of a dedicated commercial banking insurance division last year. Income increased by 56.1 per cent.

The charge for loan impairment was HK\$252 million lower than the first half of 2005, reflecting a decrease in new specific provisions in Hong Kong, although new charges in mainland China were higher. Credit quality generally remained stable elsewhere in the region, despite the more volatile external environment

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in which interest rates and commodity prices have continued to rise.

Operating expenses increased by 17.6 per cent over the first half of 2005, as the number of sales and back-office staff increased in support of SME initiatives, insurance business expansion and product development. Expenditure increased on marketing campaigns to win new business and increase market penetration. Ongoing investment in the development and promotion of internet banking and other lower-cost delivery channels also incurred higher IT and infrastructure costs. Business Internet Banking in Hong Kong continued to show impressive growth and was enhanced to support sales of unit trusts and structured deposits. User numbers increased by over 40 per cent and the proportion of online transactions grew by 56 per cent. Staff costs and marketing expenditure rose in Korea and mainland China in order to develop our commercial banking business in these countries.

Income from associates of HK\$723 million includes improved results from Bank of Communications and Industrial Bank.

Corporate, Investment Banking and Markets reported profit before tax of HK\$7,742 million, 3.2 per cent higher than the first half of 2005. An excellent performance in Global Transaction Banking and strong trading profits were largely offset by a decline in net interest income in Global Markets.

Net interest income fell by HK\$1,017 million, or 20.2 per cent, compared with the first half of 2005. In Global Markets, balance sheet management revenues declined as the cost of funding fixed rate asset positions, put on in earlier periods, rose significantly. In addition, flat yield curves made it difficult to generate income through position-taking. These asset positions had, however, largely run off by the period end. Net interest income in Global Transaction Banking increased by 90.3 per cent, notably in Hong Kong and India, as deposit spreads improved as a result of interest rate rises across the region, coupled with business growth. Deposit balances grew by 27.9 per cent as the payments and cash management business successfully completed the implementation of several cross-border cash management solutions. The securities services business performed well, particularly in India, Taiwan and Korea and settlement balances increased due to higher stock market transaction volumes, which were in part boosted by a rise in foreign investment. Trade finance revenues grew, notably in Japan and Korea. Net interest income from corporate lending was flat as the benefit of balance sheet growth in Hong Kong was offset by competitive pressures on spreads. Strong growth in advances to corporates in mainland China was achieved, reflecting investment made in expanding customer relationships and inflow of business into the group's new branches on the Mainland.

Net fee income increased by HK\$1,059 million, or 43.2 per cent. The securities services business continued to broaden capabilities across the region. Volumes benefited from buoyant local stock markets in the first quarter, particularly in Hong Kong, India and Korea, resulting in a rise in fee income of 60.2 per cent. Fee income from the asset management business increased by 79.9 per cent, reflecting higher fund advisory and distribution fees and growth in funds under management. The investment banking division arranged a number of structured finance transactions in Hong Kong, but underwriting income was lower as adverse market sentiment in Hong Kong in the second quarter of 2006 caused the postponement of several local IPOs.

Net trading income rose by 23.9 per cent to HK\$4,587 million. Foreign exchange profits were higher as currency volatility provided good trading opportunities and customer volumes increased in India, Korea and Taiwan, which also benefited from inward foreign investment in the local stock markets. Expansion of the product range in the equities and equity derivatives business, together with more active stock markets, produced strong trading results. However, the stock market decline late in the period did have some negative impact in reducing the flow of deals. Good positioning for interest rate rises resulted in strong gains

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in interest rate derivatives and government securities trading. Private equity investments also performed strongly. However, corporate bond trading in Hong Kong was adversely affected by lower turnover of fixed rate products in the rising rate environment and price falls in emerging markets securities.

Gains on the disposal of financial investments largely comprised profits made on the sale of Philippine government securities.

There was a net release of loan impairment provisions of HK\$155 million, compared with a release of HK\$54 million in the first half of 2005, as the corporate credit environment throughout the region remained benign.

Operating expenses increased by 11.1 per cent compared with the first half of 2005, reflecting headcount increases and IT investment to support business expansion in all areas and higher performance-related remuneration in the investment banking division and in Global Markets. The transfer of HSBC Securities Japan to the group in the second quarter of 2005 also contributed to the increase in expenses as a full period of costs was reflected this year. Cost growth has slowed, however, as total expenses were 5.7 per cent up compared to the second half of 2005.

Income from associates of HK\$296 million includes improved results from Bank of Communications and Industrial Bank.

Other includes income and expenses relating to certain funding, investment, property and other activities that are not allocated to other customer groups, together with the elimination of inter-segment transactions. Gains from financial investments largely comprise profit on the disposal of part of the group's stake in UTI Bank, and other operating income includes profits made on property sales. These gains were partially offset by lower revaluation gains on investment property.

Consolidated Income Statement

| Figures in HK\$m | Half-year ended 30JUN06 | Half-year ended 30JUN05 | Half-year ended 31DEC05 |
|--|----------------------------|----------------------------|----------------------------|
| Interest income | 53,745 | 35,859 | 44,340 |
| Interest expense | (30,155) | (14,449) | (22,259) |
| Net interest income | 23,590 | 21,410 | 22,081 |
| Fee income | 13,185 | 10,579 | 11,092 |
| Fee expense | (2,271) | (1,705) | (1,869) |
| Net fee income | 10,914 | 8,874 | 9,223 |
| Net trading income | 4,462 | 4,196 | 2,984 |
| Net income/(loss) from financial instruments designated at fair value | 28 | (56) | 440 |
| Gains less losses from financial investments | 1,150 | 347 | 409 |
| Dividend income | 591 | 249 | 119 |
| Net earned insurance premiums | 10,912 | 6,975 | 12,365 |
| Other operating income | 2,450 | 2,720 | 2,177 |
| Total operating income | 54,097 | 44,715 | 49,798 |
| Net insurance claims incurred and movement in policyholder liabilities | (9,744) | (6,139) | (11,152) |
| Net operating income before loan impairment charges and other credit risk provisions | 44,353 | 38,576 | 38,646 |

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| Loan impairment charges and other credit risk provisions | (2,583) | (516) | (1,548) |
| Net operating income | 41,770 | 38,060 | 37,098 |
| Employee compensation and benefits | (10,109) | (8,425) | (9,311) |
| General and administrative expenses | (6,317) | (5,402) | (6,693) |
| Depreciation of property, plant and equipment | (934) | (927) | (898) |
| Amortisation of intangible assets | (129) | (63) | (95) |
| Total operating expenses | (17,489) | (14,817) | (16,997) |
| Operating profit | 24,281 | 23,243 | 20,101 |
| Share of profit in associates | 1,235 | 920 | 985 |
| Profit before tax | 25,516 | 24,163 | 21,086 |
| Tax expense | (4,569) | (4,248) | (3,803) |
| Profit for the period | 20,947 | 19,915 | 17,283 |
| Attributable to shareholders | 18,471 | 17,564 | 15,309 |
| Attributable to minority interests | 2,476 | 2,351 | 1,974 |

Consolidated Balance Sheet

| Figures in HK\$m | At 30JUN06 | At 30JUN05 restated | At 31DEC05 |
|---|------------|------------------------|------------|
| ASSETS | | | |
| Cash and short-term funds | 563,169 | 493,159 | 502,730 |
| Placings with banks maturing after one month | 113,890 | 94,560 | 69,554 |
| Items in the course of collection from other banks | 34,247 | 37,980 | 17,782 |
| Certificates of deposit | 62,182 | 55,427 | 53,831 |
| Hong Kong SAR Government certificates of indebtedness | 97,774 | 94,804 | 97,344 |
| Trading assets | 216,433 | 159,447 | 215,681 |
| Financial assets designated at fair value | 38,379 | 35,647 | 37,073 |
| Derivatives | 93,118 | 77,137 | 72,039 |
| Advances to customers | 1,044,364 | 973,637 | 999,326 |
| Financial investments | 427,326 | 410,442 | 394,497 |
| Amounts due from fellow subsidiaries | 84,472 | 67,243 | 101,173 |
| Investments in associates | 24,733 | 20,508 | 23,061 |
| Goodwill and intangible assets | 8,371 | 6,222 | 7,252 |
| Property, plant and equipment | 28,893 | 28,685 | 29,805 |
| Deferred tax assets | 1,426 | 1,238 | 1,272 |
| Retirement benefit assets | 1,641 | 1,229 | 1,788 |
| Other assets | 57,407 | 22,031 | 48,324 |
| Total assets | 2,897,825 | 2,579,396 | 2,672,532 |
| LIABILITIES | | | |
| Hong Kong SAR currency notes in circulation | 97,774 | 94,804 | 97,344 |
| Deposits by banks | 108,416 | 115,254 | 83,802 |
| Customer accounts | 1,818,268 | 1,671,433 | 1,735,110 |
| Items in the course of transmission to other banks | 43,273 | 44,578 | 20,927 |
| Trading liabilities | 270,742 | 218,652 | 250,198 |
| Financial liabilities designated at fair value | 33,975 | 31,567 | 33,291 |
| Derivatives | 95,505 | 75,929 | 72,009 |
| Debt securities in issue | 65,605 | 59,600 | 61,468 |
| Retirement benefit liabilities | 415 | 359 | 394 |
| Amounts due to fellow subsidiaries | 31,130 | 23,367 | 22,275 |

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| | | | |
|--|-----------|-----------|-----------|
| Amounts due to ultimate holding company | 2,649 | 748 | 2,502 |
| Other liabilities | 48,833 | 20,802 | 46,628 |
| Liabilities under insurance contracts issued | 50,517 | 32,525 | 41,845 |
| Current taxation | 3,834 | 4,085 | 2,044 |
| Deferred taxation | 4,055 | 3,032 | 3,729 |
| Subordinated liabilities | 17,038 | 12,569 | 12,561 |
| Preference shares | 72,104 | 62,978 | 71,980 |
| Total liabilities | 2,764,133 | 2,472,282 | 2,558,107 |

EQUITY

| | | | |
|------------------------------|-----------|-----------|-----------|
| Share capital | 22,494 | 22,494 | 22,494 |
| Other reserves | 14,002 | 4,745 | 6,037 |
| Retained profits | 73,791 | 57,583 | 64,303 |
| Proposed dividend | 5,500 | 6,000 | 4,500 |
| Shareholders' funds | 115,787 | 90,822 | 97,334 |
| Minority interests | 17,905 | 16,292 | 17,091 |
| | 133,692 | 107,114 | 114,425 |
| Total equity and liabilities | 2,897,825 | 2,579,396 | 2,672,532 |

Consolidated Statement of Changes in Equity

| | Half-year ended 30JUN06 | Half-year ended 30JUN05 restated | Half-year ended 31DEC05 |
|--|----------------------------|--|----------------------------|
| Figures in HK\$m | | | |
| Called up share capital | 22,494 | 22,494 | 22,494 |
| Property revaluation reserves | | | |
| Balance at the beginning of the period | 4,082 | 3,065 | 3,847 |
| Unrealised surplus on revaluation | 1,253 | 1,360 | 693 |
| Transfer of depreciation from retained profits | (100) | (78) | (95) |
| Transfer from/(to) retained profits | - | 164 | (164) |
| Realisation on disposal of properties | (447) | (441) | (82) |
| Deferred tax and other movements | (106) | (223) | (117) |
| Share of associates' unrealised surplus on revaluation | 103 | - | - |
| Balance at the end of the period | 4,785 | 3,847 | 4,082 |
| Other reserves | | | |
| Balance at the beginning of the period | 1,955 | 4,297 | 898 |
| Available-for-sale investments: | | | |
| Fair value gains/(losses) taken to equity | 5,533 | (836) | (481) |
| Transfer to income statement on disposal | (1,081) | (312) | (275) |
| Transfer to income statement on change in fair value of hedged items | 574 | 310 | 673 |
| Deferred tax and other movements | 187 | 97 | (91) |
| Share of associates' available-for-sale reserves | 106 | (111) | 668 |
| Cash flow hedges: | | | |
| Fair value gains/(losses) taken to equity | 58 | (2,588) | 66 |
| Transfer to income statement | 859 | - | 538 |
| Deferred tax and other movements | (143) | 456 | (114) |
| Exchange differences arising on monetary items that form part of a net investment in a foreign operation | 852 | (540) | (250) |

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| | | | |
|--|---------|----------|---------|
| Employees' options granted cost free by ultimate holding company | 334 | 125 | 182 |
| Exchange and other movements | (17) | - | 141 |
| Balance at the end of the period | 9,217 | 898 | 1,955 |
| Retained profits | | | |
| Balance at the beginning of the period | 64,303 | 50,445 | 57,583 |
| Profit for the period attributable to shareholders | 18,471 | 17,564 | 15,309 |
| Dividends | (9,257) | (10,600) | (9,700) |
| Transfer of depreciation to property revaluation reserve | 100 | 78 | 95 |
| Transfer to property revaluation reserve | - | (164) | 164 |
| Realisation on disposal of properties | 447 | 441 | 82 |
| Actuarial (losses)/gains on defined benefit plans | (280) | (168) | 241 |
| Deferred tax and other movements | 7 | (13) | 529 |
| Balance at the end of the period | 73,791 | 57,583 | 64,303 |
| Dividend declared but not yet approved | 5,500 | 6,000 | 4,500 |
| Changes in equity attributable to minority interests | | | |
| Balance at the beginning of the period | 17,091 | 16,658 | 16,292 |
| Profit attributable to minority interests | 2,476 | 2,351 | 1,974 |
| Dividends | (2,248) | (2,374) | (1,609) |
| Increase in stake and other movements | 586 | (343) | 434 |
| Balance at the end of the period | 17,905 | 16,292 | 17,091 |

Consolidated Cash Flow Statement

| Figures in HK\$m | Half-year ended 30JUN06 | Half-year ended 30JUN05 |
|---|----------------------------|----------------------------|
| Operating activities | | |
| Cash generated from operations | 118,945 | 2,921 |
| Interest received on financial investments | 9,095 | 6,313 |
| Dividends received on financial investments | 206 | 228 |
| Dividends received from associates | 33 | 22 |
| Taxation paid | (2,019) | (1,971) |
| Net cash inflow from operating activities | 126,260 | 7,513 |
| Investing activities | | |
| Purchase of financial investments | (201,753) | (140,786) |
| Proceeds from sale or redemption of financial investments | 174,201 | 153,904 |
| Purchase of property, plant and equipment | (568) | (634) |
| Proceeds from sale of property, plant and equipment | 707 | 837 |
| Purchase of other intangibles | (532) | - |
| Net cash outflow in respect of acquisition of | | |

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| | | |
|---|----------|---------|
| and increased shareholding in subsidiary companies | - | (1,247) |
| Net cash inflow in respect of sale of subsidiary companies | - | 323 |
| Net cash outflow in respect of purchase of interest in associates | - | (1,166) |
| Net cash (outflow)/inflow from investing activities | (27,945) | 11,231 |
| Net cash inflow before financing | 98,315 | 18,744 |
| Financing | | |
| Issue of cumulative irredeemable preference shares | - | 7,376 |
| Increase in non-equity minority interests | 322 | - |
| Issue of subordinated liabilities | 4,485 | 2,392 |
| Ordinary dividends paid | (8,257) | (9,400) |
| Dividends paid to minority interests | (3,043) | (3,160) |
| Interest paid on preference shares | (1,856) | - |
| Interest paid on loan capital | (383) | (213) |
| Net cash outflow from financing | (8,732) | (3,005) |
| Increase in cash and cash equivalents | 89,583 | 15,739 |

1. Net interest income

| Figures in HK\$m | Half-year ended 30JUN06 | Half-year ended 30JUN05 | Half-year ended 31DEC05 |
|---------------------------------|----------------------------|----------------------------|----------------------------|
| Net interest income | 23,590 | 21,410 | 22,081 |
| Average interest-earning assets | 2,179,207 | 2,008,241 | 2,054,010 |
| Net interest spread | 1.76% | 1.95% | 1.83% |
| Net interest margin | 2.18% | 2.15% | 2.13% |

Net interest income of HK\$23,590 million was HK\$2,180 million, or 10.2 per cent, higher than the first half of 2005. The contribution from balance sheet growth and improved deposit spreads throughout the region was partially offset by significantly lower balance sheet management income which was impacted by higher funding costs and flat yield curves.

Net interest income in Personal Financial Services rose by HK\$1,584 million, or 12.4 per cent, partly due to improved liability spreads earned in the higher interest rate environment, coupled with strong growth in the deposit base outside of Hong Kong. Lending growth also contributed to the increase in interest income, particularly personal loans in India, Korea and Indonesia, credit cards in the Philippines, Indonesia and India, and mortgages in Taiwan and Singapore. Net interest income in Commercial Banking was HK\$1,396 million, or 27.6 per cent, ahead of the prior period due to balance sheet growth, notably in Hong Kong, India and Singapore, and improved deposit spreads. In Corporate, Investment Banking and Markets, net interest income from Global Transaction Banking increased significantly, due to higher deposit balances and spreads,

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notably in Hong Kong and India.

Average interest earning assets rose by HK\$171.0 billion, or 8.5 per cent, to HK\$2,179.2 billion. Average advances to customers grew by HK\$77.1 billion, or 8.1 per cent, with strong increases in corporate loans in Hong Kong, mainland China, India and Singapore, and rises in mortgage lending in Korea, Singapore, Taiwan and India. Average credit card balances rose in all areas, notably Hong Kong and Indonesia, and personal instalment loans grew, most significantly in Korea. Average placements with banks were HK\$28.1 billion higher, and holdings of available-for-sale securities rose by HK\$18.9 billion, reflecting the deployment of the commercial surplus. Lending to fellow HSBC subsidiaries increased by HK\$35.3 billion.

The group's net interest margin of 2.18 per cent for the first half of 2006 was three basis points higher than the comparable period in 2005. Net interest spread declined by 19 basis points, while the contribution from net free funds increased by 22 basis points. The reduction in balance sheet management income negatively affected net interest margin by 26 basis points when compared to the first half of 2005.

For the bank in Hong Kong, net interest margin decreased by 16 basis points to 2.08 per cent for the first half of 2006. Spread fell by 29 basis points, primarily due to the negative impact of lower balance sheet management income as fixed rate asset positions faced an increase in funding costs. Spreads on mortgages and credit cards were also impacted by a higher cost of funds, and competitive pressures on pricing affected corporate lending margins. The average yield on the residential mortgage portfolio, excluding Government Home Ownership Scheme ('GHOS') and staff loans, dropped slightly to 234 basis points below Best Lending Rate ('BLR') in the first half of 2006, compared with 233 basis points below BLR in the same period last year. The contribution from net free funds increased by 13 basis points due to the increase in market interest rates.

At Hang Seng Bank, net interest margin improved by 24 basis points as the increase in contribution from net free funds outweighed the fall in spread. Net interest spread declined by 17 basis points as returns on treasury products were affected by rising funding costs and flat yield curves, and spreads narrowed on non-BLR corporate and personal loans due to competitive pressures on pricing. The average yield on the residential mortgage portfolio, excluding GHOS and staff loans, was 228 basis points below BLR for the first half of 2006, compared with 223 basis points for the same period last year. The contribution from net free funds increased by 41 basis points, benefiting from the rise in market interest rates and from higher balances of structured deposits which are classified as trading liabilities, the related interest expense being included within 'net trading income'.

In the rest of Asia-Pacific, net interest margin at 2.15 per cent was 15 basis points higher than the first half of 2005. Spread decreased by 10 basis points to 1.76 per cent. All major sites faced an increase in funding costs due to higher interest rates across the region. This was coupled with competitive pressures on mortgage lending rates in Korea, Taiwan and Australia, and lower yields on credit card advances in Taiwan and Indonesia. Margins did rise, however, in several other countries, notably in India due to an increase in higher-yielding personal loans and credit cards, favourable pricing on commercial banking loans, and a rise in low cost current account balances from custody and clearing customers. In addition, margins were higher in mainland China from higher spreads on corporate lending as deposit rate rises lagged lending rate increases, and in Singapore due to rises in mortgage lending rates. The contribution from net free funds rose by 25 basis points, benefiting from higher market interest rates.

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2. Net fee income

| Figures in HK\$m | Half-year ended 30JUN06 | Half-year ended 30JUN05 | Half-year ended 31DEC05 |
|-------------------------|----------------------------|----------------------------|----------------------------|
| Account services | 709 | 642 | 672 |
| Credit facilities | 640 | 584 | 575 |
| Import/export | 1,400 | 1,345 | 1,432 |
| Remittances | 684 | 591 | 657 |
| Securities/stockbroking | 2,572 | 1,595 | 1,807 |
| Cards | 2,348 | 2,027 | 2,204 |
| Insurance | 154 | 161 | 119 |
| Unit trusts | 1,227 | 959 | 668 |
| Funds under management | 1,658 | 1,017 | 1,216 |
| Other | 1,793 | 1,658 | 1,742 |
| Fee income | 13,185 | 10,579 | 11,092 |
| Fee expense | (2,271) | (1,705) | (1,869) |
| | 10,914 | 8,874 | 9,223 |

Net fee income was HK\$2,040 million, or 23.0 per cent, higher than the first half of 2005. Securities broking and custody fees rose by 61.3 per cent, reflecting higher stock market turnover in Hong Kong and the region. The buoyant stock markets which prevailed throughout most of the period also stimulated customer demand for unit trusts. Funds under management increased, in part due to institutional business transferred from another HSBC Group entity in the second quarter of 2005. Related fee income also includes significant fund advisory and performance fees, reflecting the success of certain emerging markets funds. Credit card fees rose by 15.8 per cent due to the increase in the number of cards in circulation and higher cardholder spending. Trade finance income, although higher, was affected by tougher market competition, whilst remittance and other account fees grew, reflecting the group's strong transactional capabilities.

3. Net trading income

| Figures in HK\$m | Half-year ended 30JUN06 | Half-year ended 30JUN05 | Half-year ended 31DEC05 |
|--|----------------------------|----------------------------|----------------------------|
| Dealing profits | 4,947 | 4,721 | 3,839 |
| Gain/(loss) from hedging activities | 8 | (11) | 10 |
| Net interest expense | (605) | (568) | (916) |
| Dividend income | 112 | 54 | 51 |

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4,462

4,196

2,984

Trading income rose by 6.3 per cent to HK\$4,462 million. Foreign exchange profits benefited from exchange rate volatility, coupled with higher customer volumes as foreign investors sought to participate in local stock markets. Revenues grew strongly in the equities and equity derivatives business due to an expanded product range and more active stock markets in the first few months of the year. Strong gains were also made on the revaluation of private equity investments. Interest rate derivatives and government securities trading achieved good results, profiting from correct positioning for interest rate rises. The rising rate environment, however, negatively impacted corporate bond trading, and the increase in structured deposit products resulted in higher interest expense.

4. Gains less losses from financial investments

| Figures in HK\$m | Half-year ended 30JUN06 | Half-year ended 30JUN05 | Half-year ended 31DEC05 |
|--|----------------------------|----------------------------|----------------------------|
| Profit on disposal of available-for-sale securities | 1,236 | 348 | 414 |
| Impairment losses on available-for-sale securities | (86) | (1) | (5) |
| | 1,150 | 347 | 409 |

The profit on the disposal of available-for-sale securities largely comprises the gain on the sale of part of the group's stake in UTI Bank, reducing the group's interest to 4.99 per cent. Profits were also made on the sale of Philippine government securities.

An impairment charge was taken against an available-for-sale equity investment in Taiwan.

5. Other operating income

| Figures in HK\$m | Half-year ended 30JUN06 | Half-year ended 30JUN05 | Half-year ended 31DEC05 |
|---|----------------------------|----------------------------|----------------------------|
| Rental income from investment properties | 109 | 104 | 111 |
| Movement in present value of in-force insurance business | 632 | 490 | 695 |
| Profit on disposal of property, plant and equipment | 448 | 19 | 85 |
| Profit/(loss) on disposal of | | | |

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| | | | |
|---|-------|-------|-------|
| subsidiaries and associates | - | 58 | (5) |
| Surplus arising on property revaluation | 337 | 1,038 | 499 |
| Other | 924 | 1,011 | 792 |
| | 2,450 | 2,720 | 2,177 |

Profit on the disposal of property, plant and equipment principally comprises the gain made on the disposal of a commercial property in Hong Kong.

The surplus arising on property revaluation was lower due to a slowdown in property price rises in Hong Kong.

6. Insurance income

Included in the consolidated income statement are the following revenues earned by the group's insurance business:

| Figures in HK\$m | Half-year ended 30JUN06 | Half-year ended 30JUN05 | Half-year ended 31DEC05 |
|--|----------------------------|----------------------------|----------------------------|
| Net interest income | 1,074 | 771 | 944 |
| Net fee income | 299 | 222 | 262 |
| Net income from financial instruments designated at fair value | (255) | (57) | 73 |
| Gains less losses from financial investments | 29 | 29 | 24 |
| Dividend income | - | 1 | 1 |
| Net earned insurance premiums | 10,912 | 6,975 | 12,365 |
| Movement in present value of in-force business | 632 | 490 | 695 |
| Other operating income | 41 | 80 | 10 |
| | 12,732 | 8,511 | 14,374 |
| Net insurance claims incurred and movement in policyholder liabilities | (9,744) | (6,139) | (11,152) |
| Net operating income | 2,988 | 2,372 | 3,222 |

Premium income rose by HK\$3,937 million, or 56.4 per cent, over the first half of 2005, primarily attributable to growth in the life assurance business in Hong Kong. The product range was expanded with the launch of new retirement and other investment-linked products. Investment income was higher, reflecting the growing portfolio size and higher interest yields. The movement in the present value of in-force business increased due to the rise in the number of life policies in force. Claims and movement in policyholder liabilities comprise returns owed to investment policyholders as well as general insurance claims. The increase is largely in line with the rise in premium income.

7. Loan impairment charges and other credit risk provisions

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| Figures in HK\$m | Half-year ended 30JUN06 | Half-year ended 30JUN05 | Half-year ended 31DEC05 |
|---|----------------------------|----------------------------|----------------------------|
| Net charge for impairment of customer advances | | | |
| - Individually assessed impairment allowances: | | | |
| New allowances | 815 | 1,222 | 905 |
| Releases | (553) | (1,249) | (506) |
| Recoveries | (133) | (161) | (106) |
| | 129 | (188) | 293 |
| - Net charge for collectively assessed impairment allowances | 2,434 | 706 | 1,255 |
| - Country risk allowances | (3) | (8) | 10 |
| | 2,560 | 510 | 1,558 |
| Net charge/(release) of other credit risk provisions | 23 | 6 | (10) |
| Net charge for loan impairment and other credit risk provisions | 2,583 | 516 | 1,548 |

The net charge for loan impairment and other credit risk provisions was HK\$2,067 million higher than in the first half of 2005. The environment for corporate credit remained stable in contrast to more difficult credit conditions for personal lending in some parts of the region.

The charge for new individually assessed allowances was lower, attributable to a decrease in charges against corporate lending, as the prior period included a significant one-time charge. Releases and recoveries were also lower, largely relating to corporates in Hong Kong, mainland China and India, and against mortgage lending in Hong Kong.

The net charge for collectively assessed allowances rose significantly, due to higher provisions against credit card lending, most notably in Taiwan and Indonesia. Delinquency rates and write-offs rose in Taiwan as a result of government measures to curb excessive consumer credit growth. These included increasing the minimum monthly repayment amount while at the same time introducing a debt renegotiation scheme which offers extended repayment periods at substantially reduced rates. Indonesia was also affected by higher minimum repayment rules, coupled with rises in inflation largely as a result of the reduction of government fuel price subsidies.

8. Employee compensation and benefits

| Figures in HK\$m | Half-year ended 30JUN06 | Half-year ended 30JUN05 | Half-year ended 31DEC05 |
|--------------------------|----------------------------|----------------------------|----------------------------|
| Wages and salaries | 6,852 | 5,949 | 6,362 |
| Performance-related pay | 2,655 | 1,933 | 2,184 |
| Social security costs | 143 | 109 | 129 |
| Retirement benefit costs | 459 | 434 | 636 |

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| | | | |
|--------------------------------------|------------|------------|------------|
| | 10,109 | 8,425 | 9,311 |
| Staff numbers by region [^] | | | |
| | At 30JUN06 | At 30JUN05 | At 31DEC05 |
| Hong Kong | 25,655 | 24,240 | 24,842 |
| Rest of Asia-Pacific | 29,052 | 22,942 | 25,956 |
| Americas/Europe | 17 | 16 | 18 |
| Total | 54,724 | 47,198 | 50,816 |

[^] Full-time equivalent

Staff costs increased by HK\$1,684 million, or 20.0 per cent, compared with the first half of 2005. Salaries rose by 15.2 per cent in line with increases in headcount throughout the region. Staff numbers rose in all customer groups, notably in Personal Financial Services in Hong Kong, India, Indonesia and Korea, in Commercial Banking in Hong Kong, mainland China, Indonesia and Korea, and in Corporate, Investment Banking and Markets in Hong Kong, India, mainland China and Korea due to expansion of the payments and cash management and securities businesses. Headcount in the Group Service Centre in Guangdong rose by more than 1,300 in order to support the expansion in processing work. Performance-related remuneration increased in line with improved operating revenues.

9. General and administrative expenses

| Figures in HK\$m | Half-year ended 30JUN06 | Half-year ended 30JUN05 | Half-year ended 31DEC05 |
|------------------------------------|----------------------------|----------------------------|----------------------------|
| Premises and equipment | | | |
| - Rental expenses | 756 | 627 | 672 |
| - Other premises and equipment | 1,124 | 855 | 1,234 |
| | 1,880 | 1,482 | 1,906 |
| Marketing and advertising expenses | 1,395 | 1,039 | 1,801 |
| Other administrative expenses | 3,039 | 2,677 | 2,877 |
| Litigation and other provisions | 3 | 204 | 109 |
| | 6,317 | 5,402 | 6,693 |

The increase in general and administrative expenses of HK\$915 million, or 16.9 per cent, reflected additional costs incurred in business expansion throughout the region. Premises and equipment costs rose, in part due to new branch openings in several countries. Technology costs also increased, reflecting ongoing investment in new systems and channel development. Marketing and advertising expenditure was higher in Hong Kong, India, Korea and mainland China, and comprised specific product campaigns and other drives to increase brand awareness.

10. Share of profit in associates

Share of profit in associates in the first half of 2006 included the group's

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share of post-tax profits from Bank of Communications and Industrial Bank, and amortisation of intangible assets arising on acquisition, for the six months to 31 March 2006.

11. Taxation

The charge for taxation in the consolidated income statement comprises:

| Figures in HK\$m | Half-year ended 30JUN06 | Half-year ended 30JUN05 | Half-year ended 31DEC05 |
|-------------------------|----------------------------|----------------------------|----------------------------|
| Current income tax | | | |
| - Hong Kong profits tax | 2,797 | 2,663 | 2,311 |
| - Overseas taxation | 1,709 | 1,300 | 1,298 |
| Deferred taxation | 63 | 285 | 194 |
| | 4,569 | 4,248 | 3,803 |

The effective rate of tax for the first half of 2006 was 17.9 per cent, compared with 17.6 per cent for the first half of 2005. The increase was attributable to a higher proportion of the group's taxable profits being generated in higher tax rate jurisdictions and a rise in interest payable on preference shares for which no tax relief is available. It was partially offset by certain tax-free gains on the disposal of financial investments.

12. Dividends

| | Half-year ended 30JUN06 | | Half-year ended 30JUN05 | | Half-year ended 31DEC05 | |
|--|----------------------------|-------|----------------------------|--------|----------------------------|-------|
| | HK\$ per share | HK\$m | HK\$ per share | HK\$m | HK\$ per share | HK\$m |
| Dividends on ordinary share capital | | | | | | |
| - Paid | 0.42 | 3,757 | 0.51 | 4,600 | 0.58 | 5,200 |
| - Proposed | 0.61 | 5,500 | 0.67 | 6,000 | 0.50 | 4,500 |
| | 1.03 | 9,257 | 1.18 | 10,600 | 1.08 | 9,700 |

13. Trading assets

| Figures in HK\$m | At 30JUN06 | At 30JUN05 | At 31DEC05 |
|------------------|------------|------------|------------|
| Debt securities | 109,842 | 117,682 | 108,687 |
| Equity shares | 16,133 | 5,860 | 22,677 |
| Treasury bills | 78,291 | 34,979 | 69,880 |
| Other | 12,167 | 926 | 14,437 |
| | 216,433 | 159,447 | 215,681 |

14. Financial assets designated at fair value

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| Figures in HK\$m | At 30JUN06 | At 30JUN05 | At 31DEC05 |
|------------------|------------|------------|------------|
| Debt securities | 15,289 | 15,884 | 15,070 |
| Equity shares | 21,304 | 15,524 | 18,320 |
| Treasury bills | - | 34 | 94 |
| Other | 1,786 | 4,205 | 3,589 |
| | 38,379 | 35,647 | 37,073 |

Financial assets designated at fair value largely comprise investments held by the group's insurance companies.

15. Advances to customers

| Figures in HK\$m | At 30JUN06 | At 30JUN05 | At 31DEC05 |
|--|------------|------------|------------|
| Gross advances to customers | 1,051,435 | 980,912 | 1,005,902 |
| Impairment allowances: | | | |
| - Individually assessed | (2,578) | (4,114) | (2,963) |
| - Collectively assessed | (4,483) | (3,158) | (3,600) |
| - Country risk | (10) | (3) | (13) |
| | (7,071) | (7,275) | (6,576) |
| | 1,044,364 | 973,637 | 999,326 |
| Allowances as a percentage of gross advances to customers: | | | |
| Individually assessed | 0.25% | 0.42% | 0.29% |
| Collectively assessed | 0.43% | 0.32% | 0.36% |
| Country risk | - | - | - |
| Total allowances | 0.68% | 0.74% | 0.65% |

16. Impairment allowances against advances to customers

| Figures in HK\$m | Individually assessed allowances | Collectively assessed allowances | Country risk allowances | Total |
|--|----------------------------------|----------------------------------|-------------------------|---------|
| At 1 January 2006 | 2,963 | 3,600 | 13 | 6,576 |
| Amounts written off | (618) | (1,808) | - | (2,426) |
| Recoveries of advances written off in previous years | 133 | 219 | - | 352 |
| Net charge/(release) to income (Note 7) | 129 | 2,434 | (3) | 2,560 |
| Unwinding of discount of loan impairment | (41) | (11) | - | (52) |
| Exchange and other adjustments | 12 | 49 | - | 61 |

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| | | | | |
|------------|-------|-------|----|-------|
| At 30JUN06 | 2,578 | 4,483 | 10 | 7,071 |
|------------|-------|-------|----|-------|

17. Impaired advances to customers and allowances

The geographical information shown below, and in notes 18, 19, 21 and 23, has been classified by location of the principal operations of the subsidiary company or, in the case of the bank, by location of the branch responsible for advancing the funds.

| Figures in HK\$m | Hong Kong | Rest of Asia-Pacific | Americas/ Europe | Total |
|---|-----------|-------------------------|---------------------|---------|
| Half-year ended 30JUN06 | | | | |
| Impairment charge | 514 | 2,046 | - | 2,560 |
| At 30JUN06 | | | | |
| Advances to customers which are considered to be impaired are as follows: | | | | |
| Gross impaired advances | 3,918 | 4,306 | - | 8,224 |
| Individually assessed allowances | (1,275) | (1,303) | - | (2,578) |
| | 2,643 | 3,003 | - | 5,646 |
| Individually assessed allowances as a percentage of gross impaired advances | 32.5% | 30.3% | - | 31.3% |
| Gross impaired advances as a percentage of gross advances to customers | 0.6% | 1.1% | - | 0.8% |

Impaired advances to customers are those advances where objective evidence exists that full repayment of principal or interest is considered unlikely.

Individually assessed allowances are made after taking into account the value of collateral held in respect of such advances.

Half-year ended 30JUN05

| | | | | |
|-----------------------------|-----|----|------|-----|
| Impairment charge/(release) | 455 | 67 | (12) | 510 |
|-----------------------------|-----|----|------|-----|

At 30JUN05

Advances to customers which are considered to be impaired are as follows:

| | | | | |
|----------------------------------|---------|---------|---|---------|
| Gross impaired advances | 5,436 | 3,438 | - | 8,874 |
| Individually assessed allowances | (2,230) | (1,884) | - | (4,114) |
| | 3,206 | 1,554 | - | 4,760 |

Individually assessed allowances

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| | | | | |
|--|-------|-------|---|-------|
| as a percentage of gross impaired advances | 41.0% | 54.8% | - | 46.4% |
| Gross impaired advances as a percentage of gross advances to customers | 0.9% | 0.9% | - | 0.9% |

Half-year ended 31DEC05

| | | | | |
|-------------------|-----|-----|---|-------|
| Impairment charge | 701 | 857 | - | 1,558 |
|-------------------|-----|-----|---|-------|

At 31DEC05

Advances to customers which are considered to be impaired are as follows:

| | | | | |
|----------------------------------|---------|---------|---|---------|
| Gross impaired advances | 3,920 | 3,079 | - | 6,999 |
| Individually assessed allowances | (1,335) | (1,628) | - | (2,963) |
| | 2,585 | 1,451 | - | 4,036 |

| | | | | |
|---|-------|-------|---|-------|
| Individually assessed allowances as a percentage of gross impaired advances | 34.1% | 52.9% | - | 42.3% |
|---|-------|-------|---|-------|

| | | | | |
|--|------|------|---|------|
| Gross impaired advances as a percentage of gross advances to customers | 0.6% | 0.8% | - | 0.7% |
|--|------|------|---|------|

18. Overdue advances to customers

| Figures in HK\$m | Hong Kong | Rest of Asia-Pacific | Americas/ Europe | Total |
|------------------|-----------|----------------------|------------------|-------|
|------------------|-----------|----------------------|------------------|-------|

At 30JUN06

Gross advances to customers which have been overdue with respect to either principal or interest for periods of:

| | | | | |
|--------------------------|-------|-------|---|-------|
| - three to six months | 1,158 | 1,299 | - | 2,457 |
| - six months to one year | 750 | 403 | - | 1,153 |
| - over one year | 1,008 | 1,020 | - | 2,028 |
| | 2,916 | 2,722 | - | 5,638 |

Overdue advances to customers as a percentage of gross advances to customers:

| | | | | |
|--------------------------|------|------|---|------|
| - three to six months | 0.2% | 0.3% | - | 0.2% |
| - six months to one year | 0.1% | 0.1% | - | 0.1% |
| - over one year | 0.2% | 0.3% | - | 0.2% |
| | 0.5% | 0.7% | - | 0.5% |

At 30JUN05

Gross advances to customers which have been overdue with respect

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to either principal or interest
for periods of:

| | | | | |
|--------------------------|-------|-------|---|-------|
| - three to six months | 814 | 886 | - | 1,700 |
| - six months to one year | 307 | 379 | - | 686 |
| - over one year | 1,546 | 1,272 | - | 2,818 |
| | 2,667 | 2,537 | - | 5,204 |

Overdue advances to customers as a
percentage of gross advances to
customers:

| | | | | |
|--------------------------|------|------|---|------|
| - three to six months | 0.1% | 0.2% | - | 0.2% |
| - six months to one year | 0.1% | 0.1% | - | 0.1% |
| - over one year | 0.2% | 0.4% | - | 0.2% |
| | 0.4% | 0.7% | - | 0.5% |

At 31DEC05

Gross advances to customers which
have been overdue with respect to
either principal or interest for
periods of:

| | | | | |
|--------------------------|-------|-------|---|-------|
| - three to six months | 1,073 | 891 | - | 1,964 |
| - six months to one year | 272 | 430 | - | 702 |
| - over one year | 1,053 | 1,071 | - | 2,124 |
| | 2,398 | 2,392 | - | 4,790 |

Overdue advances to customers as a
percentage of gross advances to
customers:

| | | | | |
|--------------------------|------|------|---|------|
| - three to six months | 0.2% | 0.2% | - | 0.2% |
| - six months to one year | - | 0.1% | - | 0.1% |
| - over one year | 0.2% | 0.3% | - | 0.2% |
| | 0.4% | 0.6% | - | 0.5% |

19. Rescheduled advances to customers

| Figures in HK\$m | Hong Kong | Rest of Asia-Pacific | Americas/ Europe | Total |
|--|-----------|-------------------------|---------------------|-------|
| At 30JUN06 | | | | |
| Rescheduled advances to customers | 2,016 | 1,862 | - | 3,878 |
| Rescheduled advances to customers as a percentage of gross advances to customers | 0.3% | 0.5% | - | 0.4% |
| At 30JUN05 | | | | |
| Rescheduled advances to customers | 2,327 | 552 | - | 2,879 |

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| | | | | |
|--|-------|------|---|-------|
| Rescheduled advances to customers as a percentage of gross advances to customers | 0.4% | 0.1% | - | 0.3% |
| At 31DEC05 | | | | |
| Rescheduled advances to customers | 1,941 | 623 | - | 2,564 |
| Rescheduled advances to customers as a percentage of gross advances to customers | 0.3% | 0.2% | - | 0.3% |

Rescheduled advances are those advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or because of the inability of the borrower to meet the original repayment schedule.

Rescheduled advances to customers are stated net of any advances which have subsequently become overdue for over three months and which are included in overdue advances to customers (Note 18).

20. Repossessed assets

| Figures in HK\$m | At 30JUN06 | At 30JUN05 | At 31DEC05 |
|-------------------|------------|------------|------------|
| Reposessed assets | 480 | 403 | 478 |

Reposessed assets are non-financial assets acquired in exchange for loans in order to achieve an orderly realisation, and are included in 'Other assets' at the lower of fair value (less costs to sell) and the carrying amount of the loan (net of any impairment allowance).

21. Analysis of advances to customers based on categories used by the HSBC Group

The following analysis of advances to customers is based on categories used by the HSBC Group, including The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries, for risk management purposes.

| Figures in HK\$m | Hong Kong | Rest of Asia-Pacific | Americas/ Europe | Total |
|--|-----------|-------------------------|---------------------|---------|
| At 30JUN06 | | | | |
| Residential mortgages | 188,585 | 122,572 | 4 | 311,161 |
| Hong Kong SAR Government's Home Ownership Scheme, Private Sector Participation | | | | |

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| | | | | |
|---|---------|---------|---|-----------|
| Scheme and Tenants Purchase Scheme mortgages | 33,863 | - | - | 33,863 |
| Credit card advances | 26,524 | 17,957 | - | 44,481 |
| Other personal | 29,138 | 32,388 | 1 | 61,527 |
| Total personal | 278,110 | 172,917 | 5 | 451,032 |
| Commercial, industrial and international trade | 138,577 | 122,447 | - | 261,024 |
| Commercial real estate | 103,403 | 35,462 | - | 138,865 |
| Other property-related lending | 47,777 | 13,746 | - | 61,523 |
| Government | 3,247 | 7,557 | - | 10,804 |
| Other commercial | 49,325 | 40,088 | - | 89,413 |
| Total corporate and commercial | 342,329 | 219,300 | - | 561,629 |
| Non-bank financial institutions | 19,363 | 11,263 | - | 30,626 |
| Settlement accounts | 6,197 | 1,951 | - | 8,148 |
| Total financial | 25,560 | 13,214 | - | 38,774 |
| Gross advances to customers | 645,999 | 405,431 | 5 | 1,051,435 |
| Impairment allowances | (3,039) | (4,032) | - | (7,071) |
| Net advances to customers | 642,960 | 401,399 | 5 | 1,044,364 |
| At 30JUN05 | | | | |
| Residential mortgages | 184,740 | 108,582 | 3 | 293,325 |
| Hong Kong SAR Government's Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme mortgages | 39,131 | - | - | 39,131 |
| Credit card advances | 22,205 | 14,467 | - | 36,672 |
| Other personal | 26,016 | 28,323 | 1 | 54,340 |
| Total personal | 272,092 | 151,372 | 4 | 423,468 |
| Commercial, industrial and international trade | 126,034 | 112,301 | - | 238,335 |
| Commercial real estate | 80,473 | 29,560 | - | 110,033 |
| Other property-related lending | 47,560 | 15,426 | - | 62,986 |
| Government | 3,349 | 9,309 | - | 12,658 |
| Other commercial | 57,113 | 36,308 | - | 93,421 |
| Total corporate and | | | | |

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| | | | | |
|---|---------|---------|---|-----------|
| commercial | 314,529 | 202,904 | - | 517,433 |
| Non-bank financial institutions | 13,381 | 19,828 | - | 33,209 |
| Settlement accounts | 3,358 | 3,444 | - | 6,802 |
| Total financial | 16,739 | 23,272 | - | 40,011 |
| Gross advances to customers | 603,360 | 377,548 | 4 | 980,912 |
| Impairment allowances | (3,871) | (3,404) | - | (7,275) |
| Net advances to customers | 599,489 | 374,144 | 4 | 973,637 |
| At 31DEC05 | | | | |
| Residential mortgages | 182,257 | 117,211 | 4 | 299,472 |
| Hong Kong SAR Government's Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme mortgages | 36,291 | - | - | 36,291 |
| Credit card advances | 29,882 | 16,539 | - | 46,421 |
| Other personal | 27,480 | 31,316 | 1 | 58,797 |
| Total personal | 275,910 | 165,066 | 5 | 440,981 |
| Commercial, industrial and international trade | 129,774 | 110,668 | - | 240,442 |
| Commercial real estate | 97,364 | 32,615 | - | 129,979 |
| Other property-related lending | 47,661 | 17,340 | - | 65,001 |
| Government | 2,347 | 5,891 | - | 8,238 |
| Other commercial | 53,681 | 37,851 | - | 91,532 |
| Total corporate and commercial | 330,827 | 204,365 | - | 535,192 |
| Non-bank financial institutions | 15,246 | 11,987 | - | 27,233 |
| Settlement accounts | 2,173 | 323 | - | 2,496 |
| Total financial | 17,419 | 12,310 | - | 29,729 |
| Gross advances to customers | 624,156 | 381,741 | 5 | 1,005,902 |
| Impairment allowances | (3,092) | (3,484) | - | (6,576) |
| Net advances to customers | 621,064 | 378,257 | 5 | 999,326 |

Net advances to customers increased by HK\$45.0 billion, or 4.5 per cent, since the end of 2005.

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Net advances in Hong Kong grew by HK\$21.9 billion, or 3.5 per cent, since the end of 2005. Excluding the impact of lending under the Government Home Ownership Scheme which remained suspended, mortgage lending rose by 3.5 per cent due to the successful launch of HSBC's simplified pricing campaign. Credit card advances dropped back from seasonally high balances at the end of December which were inflated by personal tax payments. Corporate and commercial lending increased, buoyed by demand for credit in the manufacturing and property sectors, although lending to large corporations declined.

In the rest of Asia-Pacific, net advances rose by HK\$23.1 billion, or 6.1 per cent, since the end of 2005. Mortgage balances grew by 4.6 per cent with increases in Taiwan, India and Australia. Credit card advances increased by 8.6 per cent, mainly in Australia, India, Thailand, the Philippines and Sri Lanka. Lending to corporate and commercial customers rose by HK\$14.9 billion, largely in mainland China, Australia, Japan, India and Mauritius.

22. Analysis of advances to customers by geographical area according to the location of counterparties, after risk transfer

| Figures in HK\$m | Hong Kong | Rest of Asia-Pacific | Americas/ Europe | Others | Total |
|-------------------------------|-----------|-------------------------|---------------------|--------|-----------|
| At 30JUN06 | | | | | |
| Gross advances to customers | 581,542 | 378,801 | 83,748 | 7,344 | 1,051,435 |
| Overdue advances to customers | 2,782 | 2,551 | 305 | - | 5,638 |
| At 30JUN05 | | | | | |
| Gross advances to customers | 550,724 | 357,221 | 63,356 | 9,611 | 980,912 |
| Overdue advances to customers | 2,865 | 2,269 | 69 | 1 | 5,204 |
| At 31DEC05 | | | | | |
| Gross advances to customers | 570,329 | 354,626 | 73,959 | 6,988 | 1,005,902 |
| Overdue advances to customers | 2,337 | 2,222 | 223 | 8 | 4,790 |

23. Analysis of advances to customers by industry sector based on categories and definitions used by the Hong Kong Monetary Authority ('HKMA')

The following analysis of advances to customers is based on the categories contained in the 'Quarterly Analysis of Loans and Advances and Provisions' return required to be submitted to the HKMA by branches of the bank and by banking subsidiary companies in Hong Kong.

Figures in HK\$m At 30JUN06 At 30JUN05 At 31DEC05

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Gross advances to customers for use
in Hong Kong

| | | | |
|--------------------------------------|---------|---------|---------|
| Industrial, commercial and financial | | | |
| Property development | 43,643 | 37,417 | 41,141 |
| Property investment | 107,883 | 92,976 | 104,214 |
| Financial concerns | 10,410 | 13,704 | 12,667 |
| Stockbrokers | 776 | 983 | 1,094 |
| Wholesale and retail trade | 35,315 | 34,679 | 34,256 |
| Manufacturing | 18,283 | 18,588 | 17,847 |
| Transport and transport equipment | 29,878 | 33,145 | 31,202 |
| Others | 43,868 | 47,570 | 44,697 |
| | 290,056 | 279,062 | 287,118 |

Individuals

| | | | |
|--|---------|---------|---------|
| Advances for the purchase of flats under the Hong Kong SAR Government's Home Ownership Scheme, Private Sector Participation and Tenants Purchase Scheme | 33,863 | 39,131 | 36,291 |
| Advances for the purchase of other residential properties | 170,374 | 168,042 | 165,148 |
| Credit card advances | 26,524 | 22,205 | 29,882 |
| Others | 24,776 | 22,557 | 23,826 |
| | 255,537 | 251,935 | 255,147 |

| | | | |
|---|---------|---------|---------|
| Gross advances to customers for use in Hong Kong | 545,593 | 530,997 | 542,265 |
|---|---------|---------|---------|

| | | | |
|---------------|--------|--------|--------|
| Trade finance | 55,639 | 54,439 | 49,902 |
|---------------|--------|--------|--------|

| | | | |
|---|--------|--------|--------|
| Gross advances to customers for use outside Hong Kong made by branches of the bank and subsidiary companies in Hong Kong | 44,767 | 17,924 | 31,989 |
|---|--------|--------|--------|

| | | | |
|--|---------|---------|---------|
| Gross advances to customers made by branches of the bank and subsidiary companies in Hong Kong | 645,999 | 603,360 | 624,156 |
|--|---------|---------|---------|

| | | | |
|---|---------|---------|---------|
| Gross advances to customers made by branches of the bank and subsidiary companies outside Hong Kong | | | |
| - Rest of Asia-Pacific | 405,431 | 377,548 | 381,741 |
| - Americas/Europe | 5 | 4 | 5 |

| | | | |
|-----------------------------|-----------|---------|-----------|
| Gross advances to customers | 1,051,435 | 980,912 | 1,005,902 |
|-----------------------------|-----------|---------|-----------|

24. Cross-border exposure

The country risk exposures in the tables below are prepared in accordance with the HKMA Return of External Positions Part II: Cross-Border Claims (MA(BS)9) guidelines.

Cross-border claims are on-balance sheet exposures to counterparties based on the location of the counterparties after taking into account the transfer of risk.

The tables show claims on individual countries and territories or areas, after risk transfer, amounting to 10 per cent or more of the aggregate cross-border

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claims.

Cross-border risk is controlled centrally through a well-developed system of country limits and is frequently reviewed to avoid concentration of transfer, economic or political risk.

| Figures in HK\$m | Banks and other financial institutions | Public sector entities | Other | Total |
|----------------------------------|---|------------------------------|---------|---------|
| At 30JUN06 | | | | |
| Americas | | | | |
| United States | 44,625 | 77,197 | 29,906 | 151,728 |
| Other | 41,320 | 7,775 | 49,033 | 98,128 |
| | 85,945 | 84,972 | 78,939 | 249,856 |
| Europe | | | | |
| United Kingdom | 113,869 | 14 | 24,447 | 138,330 |
| Other | 369,449 | 5,267 | 32,383 | 407,099 |
| | 483,318 | 5,281 | 56,830 | 545,429 |
| Asia-Pacific excluding Hong Kong | 175,332 | 12,084 | 102,108 | 289,524 |
| At 30 June 2005 | | | | |
| Americas | | | | |
| United States | 51,906 | 75,139 | 28,191 | 155,236 |
| Other | 40,686 | 13,491 | 47,349 | 101,526 |
| | 92,592 | 88,630 | 75,540 | 256,762 |
| Europe | | | | |
| United Kingdom | 91,103 | 27 | 26,182 | 117,312 |
| Other | 335,154 | 3,746 | 21,533 | 360,433 |
| | 426,257 | 3,773 | 47,715 | 477,745 |
| Asia-Pacific excluding Hong Kong | 159,828 | 12,047 | 97,209 | 269,084 |
| At 31DEC05 | | | | |
| Americas | | | | |
| United States | 38,673 | 72,477 | 34,515 | 145,665 |
| Other | 39,328 | 9,909 | 50,744 | 99,981 |
| | 78,001 | 82,386 | 85,259 | 245,646 |
| Europe | | | | |
| United Kingdom | 111,377 | 14 | 22,232 | 133,623 |
| Other | 338,060 | 5,842 | 39,509 | 383,411 |
| | 449,437 | 5,856 | 61,741 | 517,034 |
| Asia-Pacific excluding Hong Kong | 154,135 | 33,897 | 108,476 | 296,508 |

25. Financial investments

| Figures in HK\$m | At 30JUN06 | At 30JUN05 | At 31DEC05 |
|----------------------|------------|------------|------------|
| Debt securities | | | |
| - available-for-sale | 375,115 | 379,876 | 350,624 |

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| | | | |
|----------------------|---------|---------|---------|
| - held-to-maturity | 30,873 | 23,671 | 28,102 |
| | 405,988 | 403,547 | 378,726 |
| Equity shares | | | |
| - available-for-sale | 21,338 | 6,895 | 15,771 |
| | 427,326 | 410,442 | 394,497 |

26. Customer accounts

| Figures in HK\$m | At 30JUN06 | At 30JUN05 | At 31DEC05 |
|--------------------------------------|------------|------------|------------|
| Current accounts and demand deposits | 969,450 | 959,723 | 925,008 |
| Savings accounts | 703,023 | 563,002 | 664,478 |
| Other deposit accounts | 145,795 | 148,708 | 145,624 |
| | 1,818,268 | 1,671,433 | 1,735,110 |

Customer accounts increased by HK\$83.2 billion, or 4.8 per cent, since the end of 2005.

In Hong Kong, customer accounts rose by HK\$42.2 billion, or 3.3 per cent, in the first half of 2006, largely from personal customers. In the rest of Asia-Pacific, customer accounts grew by HK\$41.2 billion, or 9.0 per cent. Deposits from personal customers increased by 12.0 per cent, notably in Singapore, Australia, mainland China, Taiwan and Indonesia. Deposits from commercial and corporate customers rose by 7.6 per cent, with increases in Taiwan, Singapore, mainland China and India, attributable to expansion of the payment and cash management business and higher balances from securities custody and clearing customers.

The group's advances-to-deposits ratio dropped slightly to 57.4 per cent at 30 June 2006 from 57.6 per cent at 31 December 2005.

27. Trading liabilities

| Figures in HK\$m | At 30JUN06 | At 30JUN05 | At 31DEC05 |
|----------------------------------|------------|------------|------------|
| Certificates of deposit in issue | 76,450 | 83,048 | 83,937 |
| Other debt securities in issue | 23,184 | 22,976 | 20,361 |
| Short positions in securities | 65,500 | 52,402 | 55,025 |
| Deposits by banks | 10,100 | 5,044 | 13,488 |
| Customer accounts | 95,508 | 55,182 | 77,387 |
| | 270,742 | 218,652 | 250,198 |

Trading liabilities include customer deposits and certificates of deposit with embedded options or other derivatives, the market risk of which is managed in the trading book.

The increase in customer accounts represents growth in structured deposit products in Hong Kong.

28. Financial liabilities designated at fair value

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| Figures in HK\$m | At 30JUN06 | At 30JUN05 | At 31DEC05 |
|---|------------|------------|------------|
| Deposits by banks | 371 | - | 360 |
| Customer accounts | 1,678 | 1,192 | 1,600 |
| Subordinated liabilities | 949 | 995 | 967 |
| Liabilities to customers under investment contracts | 30,977 | 29,380 | 30,364 |
| | 33,975 | 31,567 | 33,291 |

29. Debt securities in issue

| Figures in HK\$m | At 30JUN06 | At 30JUN05 | At 31DEC05 |
|-------------------------|------------|------------|------------|
| Certificates of deposit | 47,926 | 43,397 | 49,068 |
| Other debt securities | 17,679 | 16,203 | 12,400 |
| | 65,605 | 59,600 | 61,468 |

30. Reserves

| Figures in HK\$m | At 30JUN06 | At 30JUN05 restated | At 31DEC05 |
|--|------------|------------------------|------------|
| Other reserves | | | |
| - Property revaluation reserve | 4,785 | 3,847 | 4,082 |
| - Available-for-sale investments reserve | 8,218 | 2,399 | 2,899 |
| - Cash flow hedge reserve | (993) | (2,248) | (1,767) |
| - Foreign exchange reserve | 905 | 303 | 53 |
| - Other | 1,087 | 444 | 770 |
| | 14,002 | 4,745 | 6,037 |
| Retained profits | 73,791 | 57,583 | 64,303 |
| Total reserves | 87,793 | 62,328 | 70,340 |

The property revaluation reserve includes an amount of HK\$149 million in relation to properties classified as assets held for sale, included in 'Other assets' in the consolidated balance sheet, at 30 June 2006 (30 June 2005 and 31 December 2005: nil).

31. Contingent liabilities, commitments and derivatives

| Figures in HK\$m | Contract amount | Credit equivalent amount | Risk-weighted amount |
|--------------------------------------|-----------------|--------------------------|----------------------|
| At 30JUN06 | | | |
| Contingent liabilities | | | |
| - Guarantees | 90,745 | 66,286 | 54,298 |
| - Other | 32 | 32 | 32 |
| | 90,777 | 66,318 | 54,330 |
| Commitments | | | |
| - Documentary credits and short-term | | | |

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| | | | |
|--|-----------|----------|----------|
| trade-related transactions | 66,335 | 24,512 | 13,620 |
| - Undrawn note issuing and revolving underwriting facilities | 427 | 214 | - |
| - Undrawn formal standby facilities, credit lines and other commitments: | | | |
| - one year and over | 89,723 | 44,861 | 39,771 |
| - under one year | 803,823 | - | - |
| | 960,308 | 69,587 | 53,391 |
| Derivatives | | | |
| Exchange rate contracts | | | |
| - Spot and forward foreign exchange | 3,246,950 | 43,787 | 11,447 |
| - Other exchange rate contracts | 1,111,295 | 51,188 | 15,497 |
| | 4,358,245 | 94,975 | 26,944 |
| Interest rate contracts | | | |
| - Interest rate swaps | 5,551,438 | 70,576 | 18,506 |
| - Other interest rate contracts | 995,880 | 5,938 | 1,799 |
| | 6,547,318 | 76,514 | 20,305 |
| Forward asset purchases and forward forward deposits placed | 4,971 | 4,971 | 1,682 |
| Other derivative contracts | 377,211 | 16,929 | 5,195 |
| | 382,182 | 21,900 | 6,877 |
| Impact of counterparty netting agreements on derivatives exposure | - | (68,506) | (14,666) |
| At 30JUN05 | | | |
| Contingent liabilities | | | |
| - Acceptances and endorsements | 22,273 | 4,875 | 4,762 |
| - Guarantees | 157,375 | 134,910 | 48,035 |
| - Other | 40 | 40 | 40 |
| | 179,688 | 139,825 | 52,837 |
| Commitments | | | |
| - Documentary credits and short-term trade-related transactions | 58,058 | 19,828 | 11,658 |
| - Undrawn note issuing and revolving underwriting facilities | 3,982 | 1,991 | 1,614 |
| - Undrawn formal standby facilities, credit lines and other commitments: | | | |
| - one year and over | 99,653 | 49,826 | 44,479 |
| - under one year | 715,575 | - | - |
| | 877,268 | 71,645 | 57,751 |
| Derivatives | | | |
| Exchange rate contracts | | | |
| - Spot and forward foreign exchange | 2,545,957 | 41,632 | 10,641 |
| - Other exchange rate contracts | 971,018 | 42,392 | 12,576 |
| | 3,516,975 | 84,024 | 23,217 |
| Interest rate contracts | | | |
| - Interest rate swaps | 4,367,557 | 53,818 | 13,740 |
| - Other interest rate contracts | 679,471 | 5,560 | 1,714 |
| | 5,047,028 | 59,378 | 15,454 |
| Forward asset purchases and forward forward deposits placed | 9,710 | 9,710 | 8,746 |
| Other derivative contracts | 163,291 | 8,805 | 3,116 |
| | 173,001 | 18,515 | 11,862 |
| Impact of counterparty netting agreements on derivatives exposure | - | (58,343) | (12,693) |
| At 31DEC05 | | | |

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| | | | |
|--|-----------|----------|----------|
| Contingent liabilities | | | |
| - Guarantees | 83,114 | 60,166 | 48,893 |
| - Other | 37 | 37 | 37 |
| | 83,151 | 60,203 | 48,930 |
| Commitments | | | |
| - Documentary credits and short-term trade-related transactions | 55,402 | 20,650 | 10,905 |
| - Undrawn note issuing and revolving underwriting facilities | 3,249 | 1,625 | 975 |
| - Undrawn formal standby facilities, credit lines and other commitments: | | | |
| - one year and over | 97,207 | 48,604 | 41,115 |
| - under one year | 752,797 | - | - |
| | 908,655 | 70,879 | 52,995 |
| Derivatives | | | |
| Exchange rate contracts | | | |
| - Spot and forward foreign exchange | 2,536,795 | 36,655 | 9,753 |
| - Other exchange rate contracts | 884,046 | 41,124 | 12,481 |
| | 3,420,841 | 77,779 | 22,234 |
| Interest rate contracts | | | |
| - Interest rate swaps | 4,775,236 | 55,580 | 14,442 |
| - Other interest rate contracts | 815,110 | 4,159 | 1,340 |
| | 5,590,346 | 59,739 | 15,782 |
| Forward asset purchases and forward forward deposits placed | | | |
| | 1,849 | 1,849 | 775 |
| Other derivative contracts | 289,019 | 15,885 | 5,649 |
| | 290,868 | 17,734 | 6,424 |
| Impact of counterparty netting agreements on derivatives exposure | | | |
| | - | (55,354) | (11,915) |

The tables above give the nominal contract amounts, credit equivalent amounts and risk-weighted amounts of contingent liabilities, commitments and derivatives. The credit equivalent amounts are calculated for the purposes of deriving the risk-weighted amounts. These are assessed in accordance with the Third Schedule of the Hong Kong Banking Ordinance on capital adequacy and depend on the status of the counterparty and maturity characteristics. The risk-weights used range from 0 per cent to 100 per cent for contingent liabilities and commitments, and from 0 per cent to 50 per cent for derivatives.

Contingent liabilities and commitments are credit-related instruments. The contract amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

Derivatives arise from futures, forward, swap and option transactions undertaken by the group in the foreign exchange, interest rate and equity, credit and commodity markets. The contract amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Fair value of derivative assets

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| Figures in HK\$m | At 30JUN06 | At 30JUN05 | At 31DEC05 |
|----------------------------|------------|------------|------------|
| Exchange rate contracts | 38,552 | 35,368 | 31,074 |
| Interest rate contracts | 51,004 | 39,518 | 38,319 |
| Other derivative contracts | 3,562 | 2,251 | 2,646 |
| | 93,118 | 77,137 | 72,039 |
| Less: netting adjustments | (42,248) | (34,831) | (32,038) |
| | 50,870 | 42,306 | 40,001 |

The fair value of derivative assets represents the mark-to-market amounts of all derivative contracts with a positive value. These assets arise from contracts with third parties and fellow subsidiaries and are included in the balance sheet as 'Derivatives'.

Fair value is a close approximation of the credit risk for these contracts at the balance sheet date. The actual credit risk is measured internally as the sum of positive mark-to-market values and an estimate for the future fluctuation risk, using a future risk factor.

The netting adjustments represent amounts where the group has in place legally enforceable rights of offset with individual counterparties to offset the gross amount of positive mark-to-market assets with any negative mark-to-market liabilities with the same customer. These offsets are recognised by the Hong Kong Monetary Authority in the calculation of risk assets for the capital adequacy ratio.

32. Foreign exchange exposure

Foreign exchange exposures may be divided broadly into two categories: structural and non-structural. Structural exposures are normally long term in nature and include those arising from investments in overseas subsidiaries, branches, associates and strategic investments as well as capital instruments denominated in currencies other than Hong Kong dollars. Non-structural exposures arise primarily from trading positions and balance sheet management activities. Non-structural exposures can arise and change rapidly. Foreign currency exposures are managed in accordance with the group's risk management policies and procedures.

The group had the following structural foreign currency exposures which exceeded 10 per cent of the net structural foreign currency exposure in all currencies:

| Figures in HK\$m | Net structural position |
|-----------------------|-------------------------|
| At 30JUN06 | |
| Chinese renminbi | 39,995 |
| United States dollars | 10,613 |
| At 30JUN05 | |
| Chinese renminbi | 21,128 |
| Indian rupees | 7,603 |
| United States dollars | 10,381 |
| At 31DEC05 | |

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| | |
|-----------------------|--------|
| Chinese renminbi | 32,510 |
| Indian rupees | 7,979 |
| United States dollars | 11,780 |

The increase in the Chinese renminbi structural position during the first half of 2006 was principally attributable to the rise in the market value of the group's shareholding in Ping An Insurance, while the Indian rupee exposure fell to below 10 per cent of the group's total foreign currency structural exposure following the disposal of shares in UTI Bank.

The group had the following non-structural foreign currency positions which exceeded 10 per cent of the group's net foreign currency non-structural positions in all currencies:

| Figures in HK\$m | United States dollars | Singapore dollars | Brunei dollars |
|----------------------|--------------------------|----------------------|-------------------|
| At 30JUN06 | | | |
| Spot assets | 1,144,826 | 105,727 | 6,359 |
| Spot liabilities | (1,119,320) | (93,803) | (14,929) |
| Forward purchases | 1,953,665 | 176,817 | 24,193 |
| Forward sales | (1,972,119) | (180,365) | (24,055) |
| Net options position | (1,170) | - | - |
| | 5,882 | 8,376 | (8,432) |
| At 30JUN05^ | | | |
| Spot assets | | 85,892 | 5,470 |
| Spot liabilities | | (77,505) | (16,318) |
| Forward purchases | | 147,882 | - |
| Forward sales | | (145,643) | - |
| Net options position | | - | - |
| | | 10,626 | (10,848) |
| At 31DEC05 | | | |
| Spot assets | 1,229,340 | 107,578 | 5,523 |
| Spot liabilities | (1,188,737) | (90,549) | (18,062) |
| Forward purchases | 1,507,086 | 157,007 | 43 |
| Forward sales | (1,558,902) | (161,647) | - |
| Net options position | 3,361 | - | - |
| | (7,852) | 12,389 | (12,496) |

^ At 30 June 2005, the net US dollar non-structural position was less than 10 per cent of the group's total net position in all currencies, and is therefore not required to be disclosed.

33. Segmental analysis

The allocation of earnings reflects the benefits of shareholders' funds to the extent that these are actually allocated to businesses in the segment by way of intra-group capital and funding structures. Common costs are included in segments on the basis of the actual recharges made. Geographical information has been classified by the location of the principal operations of the subsidiary company or, in the case of the bank, by the location of the branch responsible

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for reporting the results or advancing the funds. Due to the nature of the group structure, the analysis of profits shown below includes intra-group items between geographical regions.

Income statement

| Figures in HK\$m | Hong Kong | Rest of Asia-Pacific | Americas/ Europe | Total |
|--|-----------|-------------------------|---------------------|----------|
| Half-year ended 30JUN06 | | | | |
| Interest income | 38,238 | 18,852 | 402 | 57,492 |
| Interest expense | (22,167) | (11,378) | (357) | (33,902) |
| Net interest income | 16,071 | 7,474 | 45 | 23,590 |
| Fee income | 8,491 | 4,998 | - | 13,489 |
| Fee expense | (1,518) | (1,051) | (6) | (2,575) |
| Net trading income | 1,816 | 2,660 | (14) | 4,462 |
| Net income from financial instruments designated at fair value | 64 | (36) | - | 28 |
| Gains less losses from financial investments | 945 | 205 | - | 1,150 |
| Dividend income | 579 | 12 | - | 591 |
| Net earned insurance premiums | 10,218 | 694 | - | 10,912 |
| Other operating income | 3,183 | 511 | 12 | 3,706 |
| Total operating income | 39,849 | 15,467 | 37 | 55,353 |
| Net insurance claims incurred and movement in policyholder liabilities | (9,253) | (491) | - | (9,744) |
| Net operating income before loan impairment charges and other credit risk provisions | 30,596 | 14,976 | 37 | 45,609 |
| Loan impairment charges and other credit risk provisions | (544) | (2,039) | - | (2,583) |
| Net operating income | 30,052 | 12,937 | 37 | 43,026 |
| Operating expenses | (10,762) | (7,963) | (20) | (18,745) |
| Operating profit | 19,290 | 4,974 | 17 | 24,281 |
| Share of profit in associates | 81 | 1,154 | - | 1,235 |
| Profit before tax | 19,371 | 6,128 | 17 | 25,516 |
| Tax expense | (2,968) | (1,591) | (10) | (4,569) |
| Profit for the period | 16,403 | 4,537 | 7 | 20,947 |
| Attributable to shareholders | 14,006 | 4,458 | 7 | 18,471 |
| Attributable to minority interests | 2,397 | 79 | - | 2,476 |
| Half-year ended 30JUN05 | | | | |
| Interest income | 23,529 | 14,225 | 275 | 38,029 |
| Interest expense | (8,122) | (8,366) | (131) | (16,619) |
| Net interest income | 15,407 | 5,859 | 144 | 21,410 |
| Fee income | 7,057 | 3,701 | 1 | 10,759 |
| Fee expense | (1,035) | (845) | (5) | (1,885) |
| Net trading income | 2,381 | 1,928 | (113) | 4,196 |
| Net income from financial instruments designated at fair value | (163) | 107 | - | (56) |

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| | | | | |
|--|----------|---------|-------|----------|
| Gains less losses from financial investments | 359 | (12) | - | 347 |
| Dividend income | 223 | 26 | - | 249 |
| Net earned insurance premiums | 6,746 | 229 | - | 6,975 |
| Other operating income | 3,555 | 518 | 11 | 4,084 |
| Total operating income | 34,530 | 11,511 | 38 | 46,079 |
| Net insurance claims incurred and movement in policyholder liabilities | (5,851) | (288) | - | (6,139) |
| Net operating income before loan impairment charges and other credit risk provisions | 28,679 | 11,223 | 38 | 39,940 |
| Loan impairment charges and other credit risk provisions | (459) | (69) | 12 | (516) |
| Net operating income | 28,220 | 11,154 | 50 | 39,424 |
| Operating expenses | (9,754) | (6,406) | (21) | (16,181) |
| Operating profit | 18,466 | 4,748 | 29 | 23,243 |
| Share of profit in associates | 28 | 892 | - | 920 |
| Profit before tax | 18,494 | 5,640 | 29 | 24,163 |
| Tax expense | (2,873) | (1,372) | (3) | (4,248) |
| Profit for the period | 15,621 | 4,268 | 26 | 19,915 |
| Attributable to shareholders | 13,342 | 4,196 | 26 | 17,564 |
| Attributable to minority interests | 2,279 | 72 | - | 2,351 |
| Half-year ended 31DEC05 | | | | |
| Interest income | 31,610 | 15,388 | 254 | 47,252 |
| Interest expense | (16,027) | (8,970) | (174) | (25,171) |
| Net interest income | 15,583 | 6,418 | 80 | 22,081 |
| Fee income | 7,180 | 4,220 | 1 | 11,401 |
| Fee expense | (1,217) | (958) | (3) | (2,178) |
| Net trading income | 771 | 2,270 | (57) | 2,984 |
| Net income from financial instruments designated at fair value | 94 | 346 | - | 440 |
| Gains less losses from financial investments | 355 | 54 | - | 409 |
| Dividend income | 127 | (8) | - | 119 |
| Net earned insurance premiums | 11,394 | 971 | - | 12,365 |
| Other operating income | 2,925 | 613 | 11 | 3,549 |
| Total operating income | 37,212 | 13,926 | 32 | 51,170 |
| Net insurance claims incurred and movement in policyholder liabilities | (10,151) | (1,001) | - | (11,152) |
| Net operating income before loan impairment charges and other credit risk provisions | 27,061 | 12,925 | 32 | 40,018 |
| Loan impairment charges and other credit risk provisions | (702) | (846) | - | (1,548) |
| Net operating income | 26,359 | 12,079 | 32 | 38,470 |
| Operating expenses | (10,760) | (7,592) | (17) | (18,369) |
| Operating profit | 15,599 | 4,487 | 15 | 20,101 |
| Share of profit in associates | 150 | 835 | - | 985 |
| Profit before tax | 15,749 | 5,322 | 15 | 21,086 |
| Tax expense | (2,538) | (1,262) | (3) | (3,803) |
| Profit for the period | 13,211 | 4,060 | 12 | 17,283 |
| Attributable to shareholders | 11,302 | 3,995 | 12 | 15,309 |

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| | | | | |
|------------------------------------|-------|----|---|-------|
| Attributable to minority interests | 1,909 | 65 | - | 1,974 |
|------------------------------------|-------|----|---|-------|

Interest income and interest expense for the first half of 2006 include intra-group interest of HK\$3,747 million (first half of 2005: HK\$2,170 million; second half of 2005: HK\$2,912 million). Fee income and fee expense for the first half of 2006 include intra-group fees of HK\$304 million (first half of 2005: HK\$180 million; second half of 2005: HK\$309 million). Other operating income and operating expenses for the first half of 2006 include intra-group items of HK\$1,256 million (first half of 2005: HK\$1,364 million; second half of 2005: HK\$1,372 million).

34. Capital adequacy

The table below sets out an analysis of regulatory capital and capital adequacy ratios for the group:

| Figures in HK\$m | At 30JUN06 | At 30JUN05 | At 31DEC05 |
|---------------------------------|------------|------------|------------|
| Composition of capital | | | |
| Tier 1: | | | |
| Shareholders' funds | 115,787 | 93,216 | 97,334 |
| Less: proposed dividend | (5,500) | (6,000) | (4,500) |
| property revaluation reserves^ | (8,027) | (7,158) | (7,892) |
| available-for-sale investments | | | |
| reserve^^ | (8,198) | (2,395) | (3,051) |
| classified as regulatory | | | |
| reserve^^^ | (1,362) | (1,017) | (1,319) |
| goodwill | (3,865) | (6,043) | (3,784) |
| others | 989 | 2,244 | 1,769 |
| Irredeemable non-cumulative | | | |
| preference shares | 51,676 | 51,718 | 51,587 |
| Minority interests^^^^ | 16,172 | 14,666 | 14,808 |
| Total qualifying tier 1 capital | 157,672 | 139,231 | 144,952 |
| Tier 2: | | | |
| Property revaluation reserves | | | |
| (@70%) | 5,619 | 5,011 | 5,524 |
| Available-for-sale investments | | | |
| reserves (@70%) | 5,739 | 1,677 | 2,136 |
| Collective impairment provision | | | |
| and regulatory reserve | 6,038 | 4,351 | 5,112 |
| Perpetual subordinated debt | 9,352 | 9,404 | 9,359 |
| Term subordinated debt | 10,588 | 4,160 | 6,117 |
| Term preference shares | 3,884 | 3,887 | 3,877 |
| Irredeemable cumulative | | | |
| preference shares | 16,544 | 7,373 | 16,516 |
| Total qualifying tier 2 capital | 57,764 | 35,863 | 48,641 |
| Deductions | (44,987) | (25,640) | (39,528) |
| Total capital | 170,449 | 149,454 | 154,065 |
| Risk-weighted assets | 1,305,529 | 1,221,620 | 1,238,164 |

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^ Includes the revaluation surplus on investment properties which is reported as part of retained profits.

^^ Includes adjustments made in accordance with guidelines issued by the HKMA.

^^^ The regulatory reserve is maintained for satisfying the Banking Ordinance for prudential supervision. Movements in this reserve are made in consultation with the HKMA.

^^^^ After deduction of minority interests in unconsolidated subsidiary companies.

The group's capital adequacy ratios adjusted for market risks calculated in accordance with the HKMA Guideline on 'Maintenance of Adequate Capital Against Market Risks' are as follows:

| | At 30JUN06 | At 30JUN05 | At 31DEC05 |
|----------------|------------|------------|------------|
| Total capital | 13.1% | 12.2% | 12.4% |
| Tier 1 capital | 12.1% | 11.4% | 11.7% |

The group's capital adequacy ratios calculated in accordance with the provisions of the Third Schedule of the Banking Ordinance, which does not take into account market risks, are as follows:

| | | | |
|----------------|-------|-------|-------|
| Total capital | 12.8% | 12.1% | 12.0% |
| Tier 1 capital | 11.8% | 11.2% | 11.2% |

35. Liquidity ratio

The Banking Ordinance requires banks operating in Hong Kong to maintain a minimum liquidity ratio, calculated in accordance with the provisions of the Fourth Schedule of the Banking Ordinance, of 25 per cent. This requirement applies separately to the Hong Kong branches of the bank and to those subsidiary companies which are Authorised Institutions under the Banking Ordinance in Hong Kong.

| | | |
|-----------------|-----------------|-----------------|
| Half-year ended | Half-year ended | Half-year ended |
| 30JUN06 | 30JUN05 | 31DEC05 |

The average liquidity ratio for the period was as

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follows:

| | | | |
|--------------------------------|-------|-------|-------|
| Hong Kong branches of the bank | 49.1% | 48.6% | 47.8% |
|--------------------------------|-------|-------|-------|

36. Property revaluation

The group's premises and investment properties were revalued at 30 June 2006 on the basis of open market value.

Premises and investment properties in the Hong Kong SAR were valued by DTZ Debenham Tie Leung at 30 June 2006. The valuations were carried out by independent qualified valuers who are members of the Hong Kong Institute of Surveyors. Management considered that there had either been no material changes in the values of the properties located outside Hong Kong since 30 September 2005, when the properties were last revalued or reviewed, or that the values of the properties were not material.

The property revaluation has resulted in an increase in the group's revaluation reserves of HK\$1,036 million, net of deferred taxation of HK\$217 million, as at 30 June 2006. In addition, there was a credit to the income statement of HK\$337 million, of which HK\$320 million represents the surplus on the revaluation of investment properties and HK\$17 million relates to the reversal of previous revaluation deficits that had arisen when the value of certain premises fell below depreciated historical cost.

37. Accounting policies

The accounting policies applied in preparing this news release are the same as those applied in preparing the accounts for the year ended 31 December 2005, as disclosed in the Annual Report and Accounts for 2005.

38. Restatement of comparative figures

Leasehold land

As disclosed on page 31 of the 2005 Annual Report and Accounts, in the second half of 2005 the group revised its accounting policy for land held on leases expiring after more than 500 years and which are not eligible to be treated as finance leases. Such interests in land were reclassified from 'Property, plant and equipment' to 'Other assets' and were remeasured on a historical cost basis. In order to reflect this, certain comparative figures for the half-year ended 30 June 2005 have been restated as follows: total assets and equity as at 30 June 2005 have been reduced by HK\$2,902 million and HK\$2,394 million respectively, and the deferred tax liability as at 30 June 2005 has been reduced by HK\$508 million.

39. Statutory accounts

The information in this news release is not audited and does not constitute statutory accounts.

Certain financial information in this news release is extracted from the statutory accounts for the year ended 31 December 2005 which have been delivered to the Registrar of Companies and the Hong Kong Monetary Authority. The Auditors expressed an unqualified opinion on those statutory accounts in their report dated 6 March 2006. The Annual Report and Accounts for the year ended 31 December 2005, which include the statutory accounts, can be obtained on request from Group Public Affairs, The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong, and may be viewed on our website:

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www.hsbc.com.hk.

40. Ultimate holding company

The Hongkong and Shanghai Banking Corporation Limited is an indirectly-held, wholly-owned subsidiary of HSBC Holdings plc.

41. Statement of compliance

The information in this news release for the half-year ended 30 June 2006 complies with Hong Kong Accounting Standard 34 on Interim Financial Reporting and the module on Interim Financial Disclosure by Locally Incorporated Authorised Institutions under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HSBC Holdings plc

By:

Name: P A Stafford

Title: Assistant Group Secretary

Date: 31 July 2006