



Standard Chartered Bank  
(Hong Kong) Limited  
Directors' Report and  
Financial Statements

For the period ended 31 December 2004

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## **Report of the directors**

The directors have pleasure in submitting their first annual report and financial statements for the period from 12 December 2003 (the date of incorporation) to 31 December 2004.

### **Principal activities**

Standard Chartered Bank (Hong Kong) Limited (the "Bank") is a licensed bank registered under the Hong Kong Banking Ordinance. The Bank's principal activities are the provision of banking and related financial services. The principal activities and other particulars of the Bank's subsidiaries are set out in note 17 of the financial statements.

### **Financial statements**

The profit of the Bank for the period ended 31 December 2004 and the state of the Bank's affairs as at that date are set out in the financial statements on pages 5 to 35.

From the date of incorporation (12 December 2003) to 30 June 2004, the Bank had no operations. On 1 July 2004, the Bank acquired, principally by a private ordinance in Hong Kong, the businesses of the Hong Kong SAR branch of Standard Chartered Bank, Manhattan Card Company Limited, Standard Chartered Finance Limited and Chartered Capital Corporation Limited and commenced operations.

The directors do not recommend any payment of dividend in respect of the period.

### **Charitable donations**

Charitable donations made by the Bank during the period amounted to HK\$1 million.

### **Fixed assets**

Details of movements in fixed assets are set out in note 18 on the financial statements.

### **Share capital**

Details of the movements in the share capital of the Bank during the period are set out in note 29 on the financial statements. Shares were issued during the period to provide the initial capital of the Bank and to fund the business acquisitions and ongoing operations of the Bank.

### **Directors**

The directors during the period and up to the date of this report are:

#### *Executive directors*

Peter David Sullivan (appointed on 1 September 2004)

Julian Fong Loong Choon (appointed on 12 December 2003)

Peter Wong Tung Shun (appointed on 12 December 2003 and resigned on 19 November 2004)

*Non-executive directors*

Chow Chung Kong\*, Chairman (appointed on 28 June 2004)

Kaikhushru Shiavax Nargolwala (appointed on 5 July 2004)

Michael Bernard DeNoma (appointed on 6 October 2004)

Raymond Kwok Ping Luen\* (appointed on 28 June 2004)

Edgar Cheng Wai Kin\* (appointed on 28 June 2004)

Ma Xuezheng\* (appointed on 28 June 2004)

*\* Independent non-executive directors*

There being no provision in the Bank's articles of association for the retirement of directors by rotation, all the present directors continue in office for the ensuing year.

**Directors' service contracts**

The independent non-executive directors were appointed by the board of directors on 28 June 2004 for a term of 3 years commencing on 28 June 2004. Their remuneration is determined by the shareholders at the general meeting.

**Directors' interests in Share Option Schemes**

Certain directors of the Bank have been granted options under various share option schemes of Standard Chartered PLC, the ultimate holding company. During the period, PTS Wong, PD Sullivan, KS Nargolwala, MB DeNoma and JLC Fong were granted options under these schemes.

Except as disclosed above, at no time during the period was the Bank, any of its holding companies, subsidiaries, or fellow subsidiaries, a party to any other arrangement to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

**Directors' interests in contracts**

No contract of significance to which the Bank, its holding companies, subsidiaries or fellow subsidiaries was a party and in which a director of the Bank had a material interest, subsisted at the end of the period or at any time.

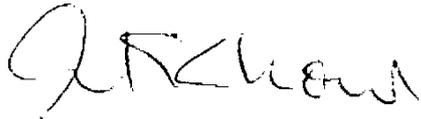
**Compliance with Supervisory Policy Manual on Financial Disclosure by Locally Incorporated Authorised Institutions**

The financial statements for the period ended 31 December 2004 fully comply with the guideline on "Financial Disclosure by Locally Incorporated Authorised Institutions" under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority.

**Auditors**

KPMG were appointed as the first auditors of the Bank. KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the appointment of KPMG as auditors of the Bank is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'C K Chow', written in a cursive style.

Sir C K Chow  
Chairman

Hong Kong, 16 February 2005

**Auditors' report to the shareholders of  
Standard Chartered Bank (Hong Kong) Limited**

*(Incorporated in Hong Kong SAR with limited liability)*

We have audited the financial statements on pages 5 to 35 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of directors and auditors**

The Hong Kong Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

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

**Basis of opinion**

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

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

**Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Bank as at 31 December 2004 and of the Bank's profit and cash flows for the period then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.



Certified Public Accountants  
Hong Kong, 16 February 2005

**Income statement**  
**For the period ended 31 December 2004**  
*(Expressed in millions of Hong Kong dollars)*

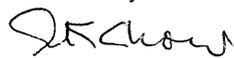
	<i>Note</i>	<i>For the period ended 31 December 2004 HK\$'M</i>
Interest income	4(a)	4,809
Interest expense	4(b)	(1,355)
<b>Net interest income</b>		<u>3,454</u>
Fee and commission income		1,582
Fee and commission expense		(416)
Net trading gains	4(c)	298
Other operating income	4(d)	41
		<u>1,505</u>
<b>Total operating income</b>		<u>4,959</u>
Operating expenses	4(e)	(2,327)
<b>Operating profit before provisions</b>		<u>2,632</u>
Charge for bad and doubtful debts	4(f)	(118)
<b>Profit from ordinary activities before taxation</b>		<u>2,514</u>
Taxation	5(a)	(414)
<b>Profit attributable to shareholders</b>	30	<u><u>2,100</u></u>

The notes on pages 10 to 35 form part of these financial statements.

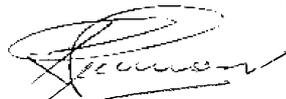
**Balance sheet as at 31 December 2004***(Expressed in millions of Hong Kong dollars)*

	<i>Note</i>	<i>2004 HK\$'M</i>
<b>Assets</b>		
Cash and short-term funds	7	40,905
Placements with banks and other financial institutions maturing after one month		7,738
Certificates of deposit held	8	1,474
Hong Kong SAR Government certificates of indebtedness	9	19,681
Trading securities	10	2,581
Advances to customers less provisions	11(a)	168,954
Amounts due from immediate holding company	13	64,458
Amounts due from fellow subsidiaries	14	28
Amounts due from subsidiaries of the Bank	15	577
Non-trading securities	16	23,534
Investments in subsidiaries	17	86
Deferred tax assets	24(b)	137
Fixed assets	18	1,948
Goodwill	19	611
Other assets	26(a)	8,160
		<u>340,872</u>
<b>Liabilities</b>		
Hong Kong SAR currency notes in circulation	9	19,681
Deposits and balances of banks and other financial institutions		10,373
Deposits from customers	20	238,922
Certificates of deposit issued		10,525
Debt securities issued		6,108
Amounts due to immediate holding company	21	8,951
Amounts due to fellow subsidiaries	22	261
Amounts due to subsidiaries of the Bank	23	22
Current taxation	24(a)	114
Other liabilities	25	19,080
		<u>314,037</u>
<b>Capital resources</b>		
Dated capital notes	28	8,383
Share capital	29	3,878
Reserves	30	14,574
Shareholders' equity		<u>18,452</u>
		<u>26,835</u>
		<u>340,872</u>

Approved and authorised for issue by the Board of Directors on 16 February 2005.

Directors  
Sir C K ChowChief Operating Officer  
Ben Hung

Peter David Sullivan



Julian Fong Loong Choon



The notes on pages 10 to 35 form part of these financial statements.

**Statement of changes in equity**  
**For the period ended 31 December 2004**

(Expressed in millions of Hong Kong dollars)

	Note	<i>For the period ended</i> 31 December 2004 HK\$'M
Issue of ordinary share capital	29	78
Issue of preference share capital	29	3,800
Premium received on shares issued	30	12,500
		<hr/>
<b>Movements in shareholders' equity arising from capital transactions with shareholders</b>		16,378
		<hr/>
Reserves of acquired businesses	30	(136)
Change in fair value of non-trading securities	30	110
		<hr/>
<b>Net losses not recognised in the income statement</b>		(26)
		<hr/>
<b>Profit attributable to shareholders</b>	30	2,100
		<hr/>
<b>Shareholders' equity at 31 December 2004</b>		18,452
		<hr/> <hr/>

The notes on pages 10 to 35 form part of these financial statements.

**Cash flow statement**  
**For the period ended 31 December 2004**  
*(Expressed in millions of Hong Kong dollars)*

	<i>Note</i>	<i>For the period ended 31 December 2004 HK\$'M</i>
<b>Operating activities</b>		
Profit from ordinary activities before taxation		2,514
Adjustments for non-cash items:		
Charge for bad and doubtful debts		118
Advances written off net of recoveries		(379)
Depreciation		250
Interest expense on dated capital notes		110
Amortisation of goodwill		19
		<hr/> 2,632
(Increase)/decrease in operating assets:		
Treasury bills with original maturity beyond three months		8,518
Placements with banks and other financial institutions with original maturity beyond three months		8,226
Certificates of deposit held with original maturity beyond three months		22
Trading securities		(484)
Gross advances to customers		(6,049)
Amounts due from immediate holding company, fellow subsidiaries and subsidiaries of the Bank		(5,388)
Non-trading securities		(1,741)
Other assets		(2,187)
Increase/(decrease) in operating liabilities:		
Deposits and balances from banks and other financial institutions		(5,076)
Deposits from customers		11,633
Certificates of deposit issued		(3,931)
Debt securities issued		465
Amounts due to immediate holding company, fellow subsidiaries and subsidiaries of the Bank		(34,252)
Other liabilities		5,600
		<hr/>
<b>Cash outflow from operations</b>		<b>(22,012)</b>
Tax paid		
Hong Kong SAR profits tax paid		(815)
		<hr/>
<b>Net cash used in operating activities</b>		<b>(22,827)</b>
		<hr style="border-top: 1px dashed black;"/>

	Note	<i>For the period ended 31 December 2004 HK\$'M</i>
<b>Investing activities</b>		
Payment for purchase of fixed assets		(520)
Net cash acquired in business acquisitions	31(a)(iii)	45,980
<b>Net cash acquired in investing activities</b>		<u>45,460</u>
<b>Financing activities</b>		
Proceeds from the issue of dated capital notes		8,383
Proceeds from the issue of A shares		12,500
Proceeds from the issue of preference shares		3,800
<b>Net cash from financing activities</b>		<u>24,683</u>
<b>Net increase in cash and cash equivalents</b>		<u>47,316</u>
<b>Cash and cash equivalents at 31 December</b>	31(b)	<u>47,316</u>
<b>Cash flows from operating activities include:</b>		
Interest received		4,759
Interest paid		(1,268)
Dividends received		13

The notes on pages 10 to 35 form part of these financial statements.

## Notes on the financial statements

(Expressed in millions of Hong Kong dollars)

### 1 Principal activities

The principal activities of Standard Chartered Bank (Hong Kong) Limited (“the Bank”) are the provision of banking and related financial services.

### 2 Incorporation and acquisition of businesses

Standard Chartered Bank (Hong Kong) Limited was incorporated with limited liability on 12 December 2003 under the Companies Ordinance (Chapter 32) as a non-private company (registered number 875305). On 4 March 2004, it obtained a banking licence from the Hong Kong Monetary Authority. From the date of incorporation (12 December 2003) to 30 June 2004 it did not carry out any operations.

On 1 July 2004, Standard Chartered Bank (Hong Kong) Limited acquired the businesses of Manhattan Card Company Limited, Standard Chartered Finance Limited, Standard Chartered International Trade Products Limited and Chartered Capital Corporation Limited for cash payments equal to their respective opening net book values at that date. The business of the Hong Kong SAR branch of Standard Chartered Bank was acquired by Standard Chartered Bank (Hong Kong) Limited in exchange for the issuance of Ordinary B shares.

The mechanisms by which the Bank acquired these businesses were the Standard Chartered Bank (Hong Kong) Limited (Merger) Ordinance (a Hong Kong SAR private ordinance), an Order of the High Court of Justice in England and Wales (pursuant to a scheme under Part VII of the English Financial Services and Markets Act 2000), and through bilateral agreements.

In accordance with the provisions of the Standard Chartered Bank (Hong Kong) Limited (Merger) Ordinance, the businesses and the property, reserves and liabilities of the Hong Kong SAR branch of Standard Chartered Bank and of Manhattan Card Company Limited, Standard Chartered Finance Limited, Standard Chartered International Trade Products Limited and Chartered Capital Corporation Limited were transferred to the Bank on 1 July 2004 at their carrying values in their accounts immediately prior to the transfer.

By the Legal Tender Notes Issue Ordinance (Amendment of Schedule) Notice 2004, Standard Chartered Bank (Hong Kong) Limited replaced Standard Chartered Bank as a bank note issuing bank in Hong Kong with effect from 1 July 2004.

### 3 Significant accounting policies

#### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice “SSAP” and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Bank is set out below.

#### (b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the marking to market of certain investments in securities and derivative financial instruments as explained in the accounting policies set out below.

Group financial statements have not been prepared as the Bank is a wholly-owned subsidiary of another company at the period end.

**(c) Recently issued accounting standards**

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Bank has not early adopted these new HKFRSs in the financial statements for the period ended 31 December 2004. The Bank is well advanced in its assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

**(d) Revenue recognition**

Provided it is probable that the economic benefits will flow to the Bank and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

Interest income is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable, except in the case of interest on doubtful debts (note 3(e)(v)).

Fee and commission income is recognised when the corresponding service is provided, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised as income in the accounting period in which the costs or risk is incurred accounted for as interest income.

Finance income implicit in finance lease payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Commission paid to dealers for finance lease loans is amortised over the terms of the leases.

Dividend income from listed investments is recognised when the share price of the investment is quoted ex-dividend. Dividend income from unlisted investments is recognised when the right to receive payment is established.

**(e) Advances and doubtful debts**

(i) Advances to customers including trade bills are measured at the cash consideration at the time of drawdown and are stated in the balance sheet at the principal amounts outstanding net of any suspended interest and provisions for bad and doubtful debts. Cash rebates granted in relation to residential mortgage loans are charged to the income statement when incurred.

(ii) Loans are designated as non-performing as soon as management has doubts as to the ultimate recoverability of principal or interest or when contractual payments of principal or interest are 90 days overdue. When a loan is designated as non-performing, interest will be suspended and a specific provision raised if required.

(iii) Specific provisions

Specific provisions represent the quantification of expected losses from identified accounts and are deducted from loans and advances in the balance sheet.

The amount of specific provision raised is assessed on a case-by-case basis. Specific provisions are made against the carrying amount of advances that are identified as being in doubt, based on regular reviews of outstanding balances, to reduce these advances, net of any realisable collateral, to their recoverable amounts.

(iv) General provisions

General provisions augment specific provisions and provide cover for loans which are impaired at the balance sheet date but which will not be identified as such until some time in the future. The Bank maintains a general provision that is determined taking into account the structure and risk characteristics of the Bank's loan portfolio and the expected loss of the individual components of the loan portfolio based primarily on the historical loss experience. Historic levels of latent risk are reviewed regularly to determine that the level of general provisioning continues to be appropriate. General provisions are deducted from loans and advances to customers in the balance sheet.

(v) Advances on which interest is being suspended

Interest accrued on non-performing loans is credited to a suspense account which is netted in the balance sheet against "Advances to customers". Amounts received from the realisation of collateral are applied to the repayment of outstanding indebtedness, with any surplus used to recover any specific provisions and then suspended interest.

(vi) Non-accrual loans

Loans are not reclassified as accruing until interest and principal payments are up-to-date and future payments are reasonably assured. Where the probability of receiving interest payments is remote, interest is no longer accrued. Where the loan has no reasonable prospect of recovery, the loan and any related suspended interest are written off.

(vii) Repossessed assets

Equity shares acquired for release in full or in part of the obligations of the borrowers due to restructuring or the inability of borrowers to repay are recorded as non-trading securities in the balance sheet. Other assets acquired similarly continue to be recorded as "loans and advances" in the balance sheet until the assets are realised. If the estimated realisable value of the assets is less than the carrying value of the obligation, the carrying value is adjusted to reflect the loss in the income statement.

**(f) Leases**

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets held under finance leases

Where the Bank is a lessor under a finance lease, an amount representing the net investment in the lease is included in the balance sheet as advances to customers. Revenue arising from finance leases is recognised in accordance with the Bank's revenue recognition policies, as set out in note 3(d).

(ii) Operating lease charges

Where the Bank has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term.

**(g) Investments in securities**

Investments in securities, other than investments in subsidiaries, comprise trading securities and non-trading securities.

- (i) Trading securities, which are purchased for resale over a short period of time or for market making, are stated in the balance sheet at fair value. The fair value is based on the quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available or the securities are not actively traded, the fair value is estimated using pricing models or discounted cash flow techniques. Changes in fair value are recognised in the income statement as they arise.
- (ii) Non-trading securities are securities held for liquidity purposes or other securities not held for trading purposes. The fair value is based on the quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available or the securities are not actively traded, the fair value is estimated using pricing models or discounted cash flow techniques.

Changes in fair value are recognised in the non-trading securities revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative gain or loss is transferred from the non-trading securities revaluation reserve to the income statement.

- (iii) Profits or losses on disposal of investments in securities are determined as the difference between the net disposal proceeds and the carrying amounts of the investments and are accounted for in the income statement as they arise. In the case of non-trading securities, the profit or loss includes any amount previously held in the non-trading securities revaluation reserve in respect of that security.

**(h) Subsidiaries**

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Bank, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Bank has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

In the Bank's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 3(l)).

**(i) Goodwill**

Goodwill represents the excess of the purchase consideration over the fair values of the identifiable net assets acquired and is amortised to the income statement on a straight-line basis over its estimated useful economic life of 20 years. Goodwill is stated in the balance sheet at cost less accumulated amortisation and any impairment losses (see note 3(l)).

**(j) Fixed assets**

- (i) Fixed assets are carried in the balance sheet on the following bases:
  - premises are stated in the balance sheet at cost less accumulated depreciation; and
  - equipment, furniture and fixtures are stated in the balance sheet at cost less accumulated depreciation (see note 3(k)) and any impairment losses (see note 3(l))
- (ii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

**(k) Depreciation**

Depreciation is calculated to write off the cost or valuation of other fixed assets over their estimated useful lives as follows:

- leasehold land is depreciated on a straight-line basis over the remaining term of the lease;
- buildings are depreciated on a straight-line basis over the shorter of their estimated useful lives, being 50 years from the date of completion, and the unexpired terms of the lease; and
- equipment, furniture and fixtures are depreciated on a straight-line basis over their estimated useful life of three to fifteen years.

**(l) Impairment of assets**

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets;
- investments in subsidiaries; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of such an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its net selling price and value in use.

**(m) Cash and cash equivalents**

Cash and cash equivalents comprise cash and balances with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

**(n) Dated capital notes and debt securities issued**

Dated capital notes and debt securities issued are included in the balance sheet at the value of the net proceeds received upon issue, adjusted for the amortisation of any premium or discount arising on issue.

Interest on dated capital notes and debt securities issued is charged to the income statement at the coupon rate adjusted for the amortisation of any premium or discount arising on issue so as to achieve a constant rate of charge over the period from the date of issue to the date of redemption.

When dated capital notes and debt securities issued are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

**(o) Off-balance sheet financial instruments**

Off-balance sheet financial instruments mainly comprise derivatives arising from forward, swap and option transactions undertaken by the Bank in the foreign exchange and interest rate markets. Netting is applied where a legal right of set-off exists.

The accounting for these instruments is dependent upon whether the transactions are undertaken for trading purposes or non-trading purposes.

(i) Trading transactions

Trading transactions include transactions undertaken for the execution of orders from customers and market making, and for proprietary purposes, as well as any related hedges.

Transactions undertaken for trading purposes are marked to market and the net present value of the gain or loss arising is recognised in the income statement as net trading gains/losses. Unrealised gains on transactions are included in 'Other assets' in the balance sheet. Unrealised losses on transactions are included in 'Other liabilities'.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current credit worthiness of the counterparties.

(ii) Non-trading transactions

Non-trading transactions are those which are held for hedging purposes and are accounted for on an equivalent basis to the underlying assets, liabilities or net positions. Any profit or loss arising is recognised on the same basis as that arising from the related assets, liabilities or positions.

To qualify as a hedge, a derivative must be highly effective at reducing the price or interest rate risk of the asset, liability or net position to which it is linked and be designated as a hedge at inception of the contract.

Any gain or loss on termination of hedging derivatives is recognised to the income statement immediately.

**(p) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Bank has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(q) Income tax**

- (i) Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets will also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) to the extent that, in the case of taxable differences, the Bank controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities where the Bank has the legally enforceable right to set off current tax assets against current tax liabilities and intends to settle on a net basis.

**(r) Employee benefits**

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Bank of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Bank.
- (ii) Contributions to the Bank's defined contribution scheme are recognised as an expense in the income statement as incurred.
- (iii) The Bank's net obligation in respect of its defined benefit retirement plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate takes reference of the yield at the balance sheet date on government bonds that have maturity dates approximating the terms of the Bank's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

The retirement benefit cost of defined benefit scheme charged to the income statement is determined by calculating the current service cost, interest cost and expected return on scheme assets and taking into account the amount of actuarial gains and losses required to be recognised.

**(s) Translation in foreign currencies**

Transactions in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

**(t) Related party transactions**

The Bank has taken advantage of the exemption from the disclosure requirements of SSAP 20 "Related party disclosures" as it is a wholly owned subsidiary and the consolidated financial statements in which the Bank is included contain related party disclosures comparable to those required by SSAP 20.

**4 Operating profit**

The operating profit for the period is stated after taking account of the following:

	<i>For the period ended 31 December 2004 HK\$M</i>
<b>(a) Interest income</b>	
Interest income on listed securities	218
Interest income on unlisted securities	339
Other interest income	4,252
	<u>4,809</u>
<b>(b) Interest expense</b>	
Interest expense on customer deposits, deposits of banks and other financial institutions, certificates of deposit issued and debt securities issued	1,245
Interest expense on dated capital notes	110
	<u>1,355</u>
<b>(c) Net trading gains</b>	
Gains less losses from dealing in foreign currencies	256
Gains less losses from trading securities	42
	<u>298</u>
<b>(d) Other operating income</b>	
Dividend income from unlisted securities	8
Dividend income from subsidiaries of the Bank	5
Others	28
	<u>41</u>
<b>(e) Operating expenses</b>	
Staff costs	
- contributions to defined contribution plan	22
- expenses recognised for defined benefit plan (note 26(c))	32
- salaries and other staff costs	1,095
Depreciation	250
Premises and equipment expense, excluding depreciation	
- rental of premises	170
- others	116
Computer costs	236
Auditors' remuneration	6
Goodwill amortisation	19
Others	381
	<u>2,327</u>

The costs on share options granted by the ultimate holding company to certain of the employees are included in salaries and other staff costs.

	<i>For the period ended 31 December 2004 HK\$'M</i>
<b>(f) Charge for bad and doubtful debts</b>	
Specific provisions	
- new provisions	592
- releases	(112)
- recoveries	(117)
	<hr/>
	363
General provisions	
- releases	(245)
	<hr/>
Net charge for bad and doubtful debts (note 12)	<u>118</u>

## 5 Taxation in the income statement

### (a) Taxation in the income statement represents:

	<i>For the period ended 31 December 2004 HK\$'M</i>
Current tax – Provision for Hong Kong Profits Tax	
Tax for the period	393
Over-provision in respect of acquired businesses	(9)
	<hr/>
	384
	-----
Deferred tax	
Origination and reversal of temporary differences	30
	<hr/>
	<u>414</u>

### (b) Reconciliation between tax expenses and accounting profit at application tax rates:

	<i>For the period ended 31 December 2004 HK\$'M</i>
Profit from ordinary activities before taxation	<u>2,514</u>
Notional tax on profit from ordinary activities before taxation, calculated at Hong Kong profits tax rate of 17.5%	440
Tax effect of non-deductible expenses	15
Tax effect of non-taxable revenue	(32)
Over-provision in prior period in respect of acquired businesses	(9)
	<hr/>
Actual tax expense	<u>414</u>

**6 Directors' remuneration**

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	<i>For the period ended 31 December 2004 HK\$M</i>
Fees	1
Salaries and other emoluments	11
	<hr/>
	12
	<hr/> <hr/>

The above emoluments as disclosed do not include the benefits relating to share options granted to certain directors under the ultimate holding company's share options scheme. The details of these share options are disclosed under the paragraph "Directors' interests in Share Option Schemes" in the directors' report.

**7 Cash and short-term funds**

	<i>2004 HK\$M</i>
Cash and balances with banks and other financial institutions	7,850
Money at call and placements with banks maturing within one month	11,121
Treasury bills (including Exchange Fund Bills) (note 27)	21,934
	<hr/>
	40,905
	<hr/> <hr/>
Treasury bills are analysed as follows:	
Non-trading, at fair value	14,751
Trading, at fair value	7,183
	<hr/>
	21,934
	<hr/> <hr/>

All treasury bills were issued by central governments and central banks and are unlisted.

**8 Certificates of deposit held**

	<i>2004 HK\$M</i>
Non-trading securities, unlisted at fair value (note 27)	1,304
Trading securities, at fair value (note 27):	
Listed in Hong Kong	2
Unlisted	168
	<hr/>
	1,474
	<hr/> <hr/>

**9 Hong Kong SAR Government certificates of indebtedness and currency notes in circulation**

The Hong Kong Special Administrative Region currency notes in circulation are secured by the deposit of funds in respect of which the Government of the Hong Kong Special Administrative Region certificates of indebtedness are held.

**10 Trading securities**

	<i>2004</i> <i>HK\$'M</i>
Debt securities, at fair value (note 27):	
Listed in Hong Kong	2,171
Unlisted	410
	<u>2,581</u>
Issued by:	
Central governments and central banks	2,161
Public sector entities	106
Banks and other financial institutions	84
Corporate entities	230
	<u>2,581</u>

**11 Advances to customers less provisions****(a) Advances to customers less provisions**

	<i>2004</i> <i>HK\$'M</i>
Gross advances to customers (note 27)	166,694
Trade bills (note 27)	5,310
	<u>172,004</u>
Specific provisions for bad and doubtful debts (note 12)	(2,267)
General provisions for bad and doubtful debts (note 12)	(783)
	<u>168,954</u>

**(b) Non-performing advances on which interest has been placed in suspense or on which interest accrual has ceased are as follows:**

	<i>2004</i> <i>HK\$'M</i>
Gross non-performing advances to customers	3,391
Specific provisions for bad and doubtful debts	(2,267)
	<u>1,124</u>
Gross non-performing advances as a % of gross advances to customers (including trade bills)	<u>1.97%</u>

The specific provisions were made after taking into account the value of collateral in respect of such advances.

**(c) Net investment in finance leases**

Advances to customers include the net investment in equipment leased to customers under finance leases. The total minimum lease payments receivable under finance leases and their present values at the period end, are as follows:

	2004		
	<i>Present value of the minimum lease payments receivable</i>	<i>Interest income relating to future periods</i>	<i>Total minimum lease payments</i>
	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>
Within 1 year	188	27	215
After 1 year but within 5 years	306	40	346
After 5 years	204	31	235
	698	98	796
Provisions for bad and doubtful debts	(1)		
Net investment in finance leases	697		

**12 Provisions for bad and doubtful debts**

	2004			
	<i>Specific</i>	<i>General</i>	<i>Total</i>	<i>Suspended Interest</i>
	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>	<i>HK\$'M</i>
Additions through business acquisitions	2,283	1,028	3,311	697
Amounts written off	(496)	-	(496)	(27)
Recoveries of advances previously written off	117	-	117	-
Charged to the income statement (note 4(f))	592	-	592	-
Released to the income statement (note 4(f))	(229)	(245)	(474)	-
Interest suspended during the period	-	-	-	60
Suspended interest recovered	-	-	-	(9)
At 31 December 2004	2,267	783	3,050	721

**13 Amounts due from immediate holding company**

The amounts due from immediate holding company are unsecured. HK\$60,109 million bears interest on normal commercial term at fixed maturity. The rest is interest-free and repayable on demand. The maturity profile analysed by remaining period as at 31 December 2004 to the contractual maturity dates is shown in note 27.

**14 Amounts due from fellow subsidiaries**

The amounts due from fellow subsidiaries are unsecured. HK\$26 million bears interest on normal commercial term at fixed maturity. The rest is interest-free and repayable on demand. The maturity profile analysed by remaining period as at 31 December 2004 to the contractual maturity dates is shown in note 27.

**15 Amounts due from subsidiaries of the Bank**

The amounts due from subsidiaries are unsecured. HK\$514 million bears interest on normal commercial term at fixed maturity. The rest is interest-free and repayable on demand. The maturity profile analysed by remaining period as at 31 December 2004 to the contractual maturity dates is shown in note 27.

**16 Non-trading securities**

	2004 HK\$'M
Debt securities, at fair value (note 27):	
Listed in Hong Kong	2,222
Listed outside Hong Kong	6,309
Unlisted	14,745
	<u>23,276</u>
Equity shares, at fair value (note 27):	
Listed in Hong Kong	107
Listed outside Hong Kong	10
Unlisted	141
	<u>258</u>
	<u>23,534</u>
Issued by:	
Central governments and central banks	5,465
Public sector entities	4,197
Banks and other financial institutions	7,663
Corporate entities	6,209
	<u>23,534</u>

**17 Investments in subsidiaries**2004  
HK\$'M

Unlisted shares, at cost

86

The principal subsidiaries of the Bank are:

<i>Name of company</i>	<i>Place of incorporation</i>	<i>Particulars of issued and Paid up capital</i>	<i>Proportion of ownership interest held by the Bank</i>	<i>Principal Activity</i>
C.E.C. Finance Limited	Hong Kong	12,800,000 ordinary shares of HK\$1 each	51%	Provision of instalment finance and hire purchase facilities
Standard Chartered Investment Services Limited	Hong Kong	1,500,000 ordinary shares of HK\$10 each	100%	Investment advisor
Manhattan Mortgage Company Limited	Hong Kong	100 ordinary shares of HK\$1 each	100%	Management of mortgage portfolio
Standard Chartered Asset Consulting Services Company Limited	Beijing	US\$1,330,000	100%	Consultancy services
SC Learning Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	Provision of learning solutions
SCL Consulting (Shanghai) Company Limited	Shanghai	US\$140,000	100%*	Consultancy services

\* indirectly held

The post-acquisition profits and losses of the subsidiaries attributable to the Bank includes profits of HK\$5 million which have been dealt with in the financial statements of the Bank and losses of HK\$6 million which have not been dealt with in the financial statements of the Bank as at 31 December 2004.

**18 Fixed assets****(a) Movements in fixed assets are as follows:**

	Premises HK\$'M	2004 Equipment, Furniture & Fixtures HK\$'M	Total HK\$'M
<b>Cost:</b>			
Additions			
- through business acquisitions	1,017	1,790	2,807
- others	462	58	520
Disposals	(6)	(310)	(316)
	<hr/>	<hr/>	<hr/>
At 31 December 2004	1,473	1,538	3,011
	<hr/>	<hr/>	<hr/>
<b>Accumulated depreciation:</b>			
Additions through business acquisitions	126	1,003	1,129
Charge for the period	26	224	250
Written back on disposals	(6)	(310)	(316)
	<hr/>	<hr/>	<hr/>
At 31 December 2004	146	917	1,063
	<hr/>	<hr/>	<hr/>
<b>Net book value:</b>			
At 31 December 2004	1,327	621	1,948
	<hr/>	<hr/>	<hr/>

**(b) The analysis of net book value of premises is as follows:**

	2004 HK\$'M
Leasehold in Hong Kong	
- medium-term leases	1,283
- short leases	44
	<hr/>
	1,327
	<hr/>

**19 Goodwill**

	2004 HK\$M
<b>Cost:</b>	
Addition through business acquisitions	772
At 31 December 2004	<u>772</u>
<b>Accumulated amortisation:</b>	
Addition through business acquisitions	142
Charge for the period	19
At 31 December 2004	<u>161</u>
<b>Carrying amount:</b>	
At 31 December 2004	<u>611</u>

Goodwill is amortised on a straight-line basis over 20 years. The amortisation of goodwill for the period is included in "operating expenses" in the income statement.

**20 Deposits from customers**

	2004 HK\$M
Demand deposits and current accounts	23,534
Savings deposits	118,787
Time, call and notice deposits	96,601
	<u>238,922</u>

**21 Amounts due to immediate holding company**

Of the amounts due to immediate holding company, HK\$5,050 million represents deposits from immediate holding company, which are unsecured and interest-bearing.

The remaining HK\$3,901 million is non-interest bearing and is repayable on demand.

The maturity of amounts due to immediate holding company analysed by the remaining period as at 31 December 2004 to the contractual maturity dates is shown in note 27.

**22 Amounts due to fellow subsidiaries**

Of the amounts due to fellow subsidiaries, HK\$70 million represents deposits from fellow subsidiaries, which are unsecured and interest-bearing. The remaining HK\$191 million is non-interest bearing and is repayable on demand.

The maturity of amounts due to fellow subsidiaries analysed by the remaining period as at 31 December 2004 to the contractual maturity dates is shown in note 27.

**23 Amounts due to subsidiaries of the Bank**

Of the amounts due to subsidiaries, HK\$12 million represents deposits from subsidiaries, which are unsecured and interest-bearing. The remaining HK\$10 million is non-interest bearing and is repayable on demand.

The maturity of amounts due to subsidiaries analysed by the remaining period as at 31 December 2004 to the contractual maturity dates is shown in note 27.

**24 Taxation in the balance sheet****(a) Current taxation in the balance sheet represents:**

	2004 HK\$'M
Provision for Hong Kong profits tax for the period	393
Balance of provision in respect of acquired businesses	536
Provisional profits tax paid	(815)
	<u>114</u>

**(b) Deferred tax assets recognised:**

**The components of gross deferred tax (assets)/liabilities recognised in the balance sheet and the movements during the period are as follows:**

	2004			
	<i>Fixed assets</i> HK\$'M	<i>General provision for doubtful debts</i> HK\$'M	<i>Others</i> HK\$'M	<i>Total</i> HK\$'M
Addition through business acquisitions	33	(179)	8	(138)
Charged/(credited) to income statement	(12)	42	-	30
Credited to reserves	-	-	(29)	(29)
At 31 December 2004	<u>21</u>	<u>(137)</u>	<u>(21)</u>	<u>(137)</u>

**25 Other liabilities**

	2004 HK\$'M
Short positions in securities	9,264
Accrued charges	9,816
	<u>19,080</u>

**26 Employee retirement benefits**

The Bank makes contributions to a defined benefit retirement scheme which covers 53% of the Bank's employees. The scheme is administered by a trustee, with the assets held separately from those of the Bank.

**(a) The amounts recognised in the balance sheet are as follows:**

	2004 HK\$'M
Fair value of plan assets	1,237
Present value of wholly or partly funded obligations	(1,296)
Net unrecognised actuarial losses	93
	<hr/>
Net asset recognised in the balance sheet (included in "other assets")	34
	<hr/> <hr/>

**(b) Movements in the net asset recognised in the balance sheet are as follows:**

	2004 HK\$'M
Contributions paid to scheme	66
Expense recognised in the income statement (note 4(e))	(32)
	<hr/>
At 31 December 2004	34
	<hr/> <hr/>

**(c) The expense recognised in the income statement for the period is as follows:**

	For the period ended 31 December 2004 HK\$'M
Current service cost	45
Interest cost	30
Actuarial expected return on plan assets	(43)
	<hr/>
	32
	<hr/> <hr/>

The actual return on plan assets (taking into account all charges in the fair value of the plan assets excluding contributions paid and received) was net income of HK\$38 million.

**(d) The principal actuarial assumptions used in the valuation are as follows:**

	2004
Discount rate	4.0%
Expected rate of return on plan assets	7.0%
Future salary increases	4.5%

## 27 Maturity profile

	Note	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated or overdue more than one month	Total
		HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
2004								
<b>Assets</b>								
Treasury bills	7	-	17,710	4,224	-	-	-	21,934
Placements with banks and other financial institutions maturing after one month		-	2,896	4,842	-	-	-	7,738
Certificates of deposit held	8	-	322	909	243	-	-	1,474
Debt securities:								
Trading	10	-	32	364	1,371	814	-	2,581
Non-trading	16	-	4,357	7,707	11,161	51	258	23,534
Gross advances to customers, before provisions for bad and doubtful debts	11(a)	4,839	44,504	16,613	37,218	59,517	4,003	166,694
Trade bills	11(a)	2,909	2,025	376	-	-	-	5,310
Amounts due from immediate holding company	13	4,349	49,853	9,281	913	62	-	64,458
Amounts due from fellow subsidiaries	14	2	26	-	-	-	-	28
Amounts due from subsidiaries of the Bank	15	63	514	-	-	-	-	577
<b>Liabilities</b>								
Deposits and balances of banks and other financial institutions		4,630	5,551	192	-	-	-	10,373
Deposits from customers	20	142,321	91,877	3,687	974	63	-	238,922
Certificates of deposit issued		-	770	4,558	5,075	122	-	10,525
Debt securities issued		-	-	-	6,108	-	-	6,108
Amounts due to immediate holding company	21	3,901	4,044	473	533	-	-	8,951
Amounts due to fellow subsidiaries	22	191	70	-	-	-	-	261
Amounts due to subsidiaries of the Bank	23	10	12	-	-	-	-	22

The analysis of the above assets and liabilities by remaining period to maturity is disclosed in order to comply with the guideline on "Financial Disclosure by Locally Incorporated Authorised Institutions" under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority. The disclosure does not imply that the treasury bills, trading securities and non-trading securities will be held to maturity or that the deposits from customers will be withdrawn on maturity.

**28 Dated capital notes**

	2004 HK\$'M
HK\$4,500 million 4.3% Notes 2009/2014 due to the immediate holding company	4,500
HK\$670 million Floating Rate Step-Up Notes 2014	669
HK\$500 million 3.5% Fixed/Floating Rate Step-Up Notes 2014	498
US\$350 million 4.375% Fixed/Floating Rate Step-Up Notes 2014	2,716
	<u>8,383</u>

All dated capital notes are unsecured and subordinated to the claims of other creditors. Subsequent to the balance sheet date, the HK\$4,500 million 4.3% Notes were repaid in full to the immediate holding company.

**29 Share capital**

	2004 No. of shares in million	HK\$'M
<b>Authorised, issued and fully paid:</b>		
'A' ordinary shares of HK\$0.05 each	780	39
'B' ordinary shares of HK\$0.05 each	780	39
	<u>1,560</u>	<u>78</u>
Preference shares of HK\$1.00 each	3,800	3,800
	<u>5,360</u>	<u>3,878</u>

- (i) The Bank was incorporated with authorised share capital of HK\$1,000 which comprised 20,000 ordinary shares of HK\$0.05 each. On incorporation, the Bank issued share capital of HK\$0.10 which comprised 2 ordinary shares of HK\$0.05 each for cash consideration of HK\$2.
- (ii) On 13 February 2004, the authorised share capital was increased to HK\$1,000,000 by the creation of 19,980,000 additional ordinary shares of HK\$0.05 each in the capital of the Bank.
- (iii) On 18 February 2004, 18,781,740 ordinary shares of HK\$0.05 each were allotted to Standard Chartered Bank, the immediate holding company, for cash consideration of HK\$300,507,840.
- (iv) On 28 June 2004, the authorised share capital of the Bank increased from HK\$1,000,000 to HK\$3,878,000,000 and was reorganised into 780,000,000 class A ordinary shares of HK\$0.05 each (including the conversion of the existing ordinary shares into A Shares), 780,000,000 class B ordinary shares of HK\$0.05 each and 3,800,000,000 non-cumulative irredeemable preference shares of HK\$1.00 each.
- (v) On 28 June 2004, 761,218,258 "A" ordinary shares and 3,800,000,000 preference shares were allotted to Standard Chartered Bank at HK\$16.03 and HK\$1.00 each respectively. On 1 July 2004, 780,000,000 "B" ordinary shares were allotted at HK\$0.10 each as consideration for the transfer of the business of the Hong Kong SAR branch of Standard Chartered Bank.

- (vi) The Bank has an obligation to issue Ordinary B shares as follows:

At the time of the acquisition by the Bank of the net assets of the Hong Kong SAR branch of Standard Chartered Bank, the precise valuation of these net assets had yet to be determined. The Bank agreed to issue further ordinary shares to reflect the amount of the final valuation. The Bank will, therefore, be issuing, in accordance with the Articles of Association (Article 14(C)), an additional 451,315,097 B ordinary shares of HK\$0.05 each (an aggregate nominal value of HK\$22,565,754.85) to the existing holder of B ordinary shares by capitalising the share premium account paid up on the ordinary shares in issue.

- (vii) The preference shares bear a non-cumulative preferential dividend at a rate of 8.25% per annum on their nominal amount and rank in priority to the A Shares and the B Shares with respect to the payment of dividends and any return of capital. The B Shares rank in priority to the A Shares with respect to any return of capital.

### 30 Reserves

	Share premium	2004		Retained profits	Total
		Revaluation reserves			
		Premises	Non-trading securities		
HK\$'M	HK\$'M	HK\$'M	HK\$'M	HK\$'M	
Additions through business acquisitions	-	3	(139)	-	(136)
Premium on shares issued	12,500	-	-	-	12,500
Change in fair value, net of deferred tax	-	-	110	-	110
Profit for the period	-	-	-	2,100	2,100
	<u>12,500</u>	<u>3</u>	<u>(29)</u>	<u>2,100</u>	<u>14,574</u>

The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance. The revaluation reserve has been set up and will be dealt with in accordance with the accounting policies adopted for the revaluation of non-trading securities (note 3(g)).

### 31 Notes to the cash flow statement

#### (a) Business acquisitions

- (i) On 1 July 2004, 780,000,000 "B" ordinary shares were allotted at HK\$0.10 each as consideration for the transfer of the business of Hong Kong SAR branch of Standard Chartered Bank.

2004  
HK\$'M

#### Assets/(liabilities) and reserves acquired

Cash and short term funds	53,662
Placements with banks and financial institutions maturing after one month	16,837
Certificates of deposit held	1,496
Hong Kong SAR Government certificates of indebtedness	18,741
Trading securities	2,097
Advances to customers less provisions	156,620
Amounts due from immediate holding company, fellow subsidiaries and subsidiaries of the Bank	55,066

	2004 HK\$M
Non-trading securities	21,675
Investments in subsidiaries	10
Fixed assets	1,678
Other assets and deferred tax assets	6,103
Hong Kong SAR currency notes in circulation	(18,741)
Deposits and balances of banks and other financial institutions	(15,423)
Deposits from customers	(227,283)
Certificates of deposit issued	(14,456)
Debt securities issued	(5,643)
Amounts due to immediate holding company, fellow subsidiaries and subsidiaries of the Bank	(38,753)
Other liabilities and taxation	(13,744)
Reserves	136
	<hr/>
Net assets, liabilities and reserves acquired	78
	<hr/>
Cash and cash equivalents acquired included in the above (note 31(a)(iii))	48,161
	<hr/> <hr/>

- (ii) On 1 July 2004, the Bank acquired the businesses of Manhattan Card Company Limited, Standard Chartered Finance Limited, Standard Chartered International Trade Products Limited and Chartered Capital Corporation Limited for cash payments equal to their respective opening net book values at that date.

	2004 HK\$M
<b>Assets/(liabilities) acquired</b>	
Cash and short term funds	6
Advances to customers less provisions	6,024
Amounts due from immediate holding company, fellow subsidiaries and subsidiaries of the Bank	735
Non-trading securities	8
Investments in subsidiaries	76
Other assets	8
Goodwill	630
Deposits from customers	(6)
Amounts due to immediate holding company, fellow subsidiaries and subsidiaries of the Bank	(5,152)
Other liabilities and taxation	(142)
	<hr/>
Net identifiable assets and liabilities	2,187
Less: cash and cash equivalents acquired	(6)
	<hr/>
Net cash paid in respect of the business acquisitions (note 31(a)(iii))	2,181
	<hr/> <hr/>

## (iii) Net cash acquired in business acquisitions

	2004 HK\$'M
Cash and cash equivalents acquired from Hong Kong SAR branch of Standard Chartered Bank (note 31(a)(i))	48,161
Net cash paid in respect of the business acquisitions (note 31(a)(ii))	(2,181)
Net cash acquired in business acquisitions	<u>45,980</u>

**(b) Cash and cash equivalents**

	2004 HK\$'M
(i) Components of cash and cash equivalents in the cash flow statement	
Cash and balances with banks and other financial institutions	7,773
Money at call and short notice	7,914
Placements with banks and other financial institutions with original maturity within three months	66
Amounts due to immediate holding company, fellow subsidiaries and subsidiaries of the Bank with original maturity within three months	31,563
	<u>47,316</u>
(ii) Reconciliation with the balance sheet	
Cash and short-term funds	40,905
Placements with banks and other financial institutions maturing after one month	7,738
Certificates of deposit held	1,474
Amounts due from immediate holding company, fellow subsidiaries and subsidiaries of the Bank	65,063
Nostro overdraft included in deposits and balances of banks and other financial institutions	(77)
Nostro overdraft included in amounts due to immediate holding company	(492)
Amounts shown in the balance sheet	114,611
Less: amounts with an original maturity of beyond three months	(67,295)
Cash and cash equivalents in the cash flow statement	<u>47,316</u>

**32 Off-balance sheet exposures****(a) Contractual amounts of contingent liabilities and commitments**

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

	2004 HK\$'M
Direct credit substitutes	7,724
Transaction-related contingencies	3,408
Trade-related contingencies	18,937
Other commitments:	
– with an original maturity of under one year or which are unconditionally cancellable	134,303
– with an original maturity of one year and over	9,381
Others	16,364
	<hr/> 190,117 <hr/> <hr/>

Contingent liabilities and commitments are credit-related instruments, which include acceptances, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. As the facilities may expire without being drawn upon, the contracted amounts do not represent expected future cash flows.

**(b) Derivatives**

Derivative instruments are contracts whose characteristics and value depend on the value of one or more underlying financial instruments, interest or exchange rates or indices. They include futures, forwards, swaps, and options transactions in the foreign exchange and interest rate markets.

The following is a summary of the notional amounts of each significant type of derivative entered into by the Bank:

	2004 HK\$'M
<b>Exchange rate contracts</b>	
Forwards	549,390
Cross currency swaps	6,495
Options purchased	6,712
Options written	6,712
<b>Interest rate contracts</b>	
Forwards	651
Swaps	67,887
Options purchased	9,494
Options written	9,494
<b>Other derivatives</b>	26
	<hr/> 656,861 <hr/> <hr/>

Include in the above table are cross currency swaps of HK\$6,464 million and interest rate swaps contracts of HK\$59,097 million entered into by the Bank for hedging purposes. The remaining derivative contracts in the above table were entered into for trading purposes.

The notional amounts of these instruments indicate the volume of transactions outstanding and do not represent amounts at risk.

**(c) Replacement cost and credit risk weighted amounts of contingent liabilities and commitments.**

The replacement costs and credit risk weighted amounts of the above off-balance sheet exposures of the Bank are as follows. The Bank did not enter into any bilateral netting arrangements during the period and accordingly these amounts are shown on a gross basis.

	2004	
	Replacement cost HK\$'M	Credit risk weighted amount HK\$'M
Contingent liabilities and commitments	-	19,329
Exchange rate contracts	6,464	2,267
Interest rate contracts	298	110
	<u>6,762</u>	<u>21,706</u>

The replacement cost represents the cost of replacing all contracts which have a positive value when marked to market and which have not been subject to any bilateral netting arrangement.

The credit risk-weighted amount refers to the amount as computed in accordance with the Third Schedule to the Hong Kong Banking Ordinance on capital adequacy and depend on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments, and from 0% to 50% for exchange rate and interest rate contracts.

**(d) Capital commitments**

Capital commitments outstanding at 31 December 2004 not provided for in the financial statements were as follows:

	2004 HK\$'M
Contracted for	<u>41</u>

**(e) Lease commitments**

The Bank leases a number of properties under operating leases. The leases typically run for an initial period of two to ten years, with an option to renew. Future minimum lease payments under non-cancellable operating leases are payable as follows:

	2004 HK\$M
Within 1 year	38
After 1 year but within 5 years	13
After 5 years	40
	<u>91</u>

**(f) Contingencies**

The Bank is named in and is defending a number of legal actions arising from its banking activities. A provision of HK\$2 million was booked in 2004 in respect of legal costs, and is included in other liabilities in the balance sheet of the Bank. Management of the Bank believes that the resolution of these actions and proceedings will not be material to the financial position of the Bank.

**33 Loans to officers**

Loans to officers of the Bank disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	2004 HK\$M
Aggregate amount of relevant loans by the Bank outstanding at 31 December 2004	<u>1,256</u>
Maximum aggregate amount of relevant loans by the Bank outstanding during the period	<u>1,258</u>

**34 Assets pledged as security for liabilities**

A security amounting to HK\$5,177 million has been pledged to a third party to secure the same amount due to the third party as at 31 December 2004. In addition, the Bank maintains pledged cash and securities accounts with a financial institution to secure any borrowings or other obligations resulting from the Bank's use of a clearing system. As at 31 December 2004, the Bank did not have borrowings due to the financial institution and the pledged cash and securities amounted to HK\$86 million and HK\$9,401 million respectively.

**35 Ultimate holding company**

The directors consider the Bank's ultimate holding company at 31 December 2004 to be Standard Chartered PLC, which is incorporated in Great Britain, registered in England and Wales and has registered office at 1 Aldermanbury Square, London EC2V 7SB. Standard Chartered PLC has dual listings on the London Stock Exchange and the Stock Exchange of Hong Kong.

**Unaudited supplementary financial information****(a) Capital adequacy ratios**

	<i>2004</i>
Capital adequacy ratio as at 31 December	15.9%
Adjusted capital adequacy ratio as at 31 December	14.9%

The capital adequacy ratio is computed on the consolidated basis of the Bank and certain of its financial subsidiaries as specified by the Hong Kong Monetary Authority ("HKMA") for its regulatory purposes, and is in accordance with the Third Schedule to the Hong Kong Banking Ordinance. The adjusted capital adequacy ratio incorporating market risk is computed on an unconsolidated basis as agreed with the HKMA, and is in accordance with the guideline on "Maintenance of Adequate Capital Against Market Risks" under the Supervisory Policy Manual issued by the HKMA.

	<i>2004</i>
	<i>HK\$'M</i>
Components of capital base after deductions	
Core capital:	
Paid up ordinary share capital	78
Irredeemable non-cumulative preference shares	3,800
Share premium	12,500
Reserves (including retained profits)	2,821
Minority interest	48
Deduct: Goodwill	(667)
	<u>18,580</u>
Eligible supplementary capital:	
Premises revaluation reserves (at 70%)	2
Non-trading securities revaluation reserves	(29)
General provisions for bad and doubtful debts	785
Dated capital notes	8,383
	<u>9,141</u>
Total capital base before deductions	27,721
Deductions from total capital base	(23)
Total capital base after deductions	<u>27,698</u>

**(b) Liquidity ratio**

	2004
Average liquidity ratio for the period	<u>35.7%</u>

The average liquidity ratio is computed as the simple average of each calendar month's average ratio and in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

**(c) Segmental information***(i) Advances to customers – by industry sector*

The analysis of gross advances to customers (net of suspended interest) by industry sector is based on the categories used by the Hong Kong Monetary Authority.

	2004 HK\$'M
Gross advances for use in Hong Kong	
<i><u>Industrial, commercial and financial</u></i>	
- Property development	3,181
- Property investment	14,769
- Financial concerns	9,192
- Stockbrokers	719
- Wholesale and retail trade	3,325
- Manufacturing	6,217
- Transport and transport equipment	2,962
- Others	5,515
<i><u>Individuals</u></i>	
- Advances for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	2,525
- Advances for the purchase of other residential properties	86,793
- Credit card advances	9,875
- Others	4,276
Total gross advances for use in Hong Kong	<u>149,349</u>
Trade finance	10,870
Gross advances for use outside Hong Kong	6,475
Gross advances to customers (net of suspended interest)	<u><u>166,694</u></u>

*(ii) Advances to customers – by geographical area*

Advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when an advance is guaranteed by a party in an area which is different from that of the counterparty. At 31 December 2004, over 90 per cent of the Bank's advances to customers were classified under the area of Hong Kong.

*(iii) Cross border claims*

Cross border claims are on-balance sheet exposures of counterparties based on the location of those counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated. Claims on individual countries or area, after risk transfer, amounting to 10% or more of the aggregate cross border claims are shown as follows:

	2004			
	<i>Banks and other financial institutions HK\$'M</i>	<i>Public sector entities HK\$'M</i>	<i>Other HK\$'M</i>	<i>Total HK\$'M</i>
Asia Pacific excluding Hong Kong	8,711	-	7,595	16,306
North America	198	7,062	4,453	11,713
Western Europe				
- United Kingdom	65,163	-	322	65,485
- Others	12,809	1,114	885	14,808
	<u>77,972</u>	<u>1,114</u>	<u>1,207</u>	<u>80,293</u>

*(iv) Geographical segments*

Geographical segments are identified based on the location of the branches of the Bank responsible for reporting the results or booking the assets, the location of customers and the location of the assets. For the period ended 31 December 2004, all of the Bank's operations and branches were located in Hong Kong. More than 90% of assets were either located in Hong Kong or were extended to companies and individual domiciled in Hong Kong. The balance of the assets were extended to companies and individuals domiciled outside Hong Kong, mainly in China.

*(v) Business segments*

The Bank comprises two main business segments: Consumer Banking which provides financial services to customers including lending and deposit taking activities, credit card facilities and investment services; and Wholesale Banking which provides financial services to corporations and institutions, including lending and deposit taking activities, structured finance products, syndicated loans, cash management, investment advice, distributing fixed income and equity investments, interbank and capital market activities and foreign exchange transactions. For the period ended 31 December 2004, 74.0% of total operating income (net of interest expense) was contributed by Consumer Banking, 25.3% by Wholesale Banking and 0.7% by unallocated items.

**(d) Overdue and rescheduled assets***(i) Overdue advances to customers*

	2004	
	HK\$M	% of advances
Gross advances to customers* which have been overdue with respect to either principal or interest for periods of:		
- 6 months or less but over 3 months	168	0.1%
- 1 year or less but over 6 months	188	0.1%
- over 1 year	2,140	1.2%
	<hr/>	<hr/>
	2,496	1.4%
Add: Rescheduled advances to customers (note d(ii))	535	
	<hr/>	
Total overdue and rescheduled advances to customers	3,031	
Add: Advances overdue for 3 months or less, or not yet overdue, and on which interest has been suspended	391	
Less: Advances overdue over 3 months and on which interest is still being accrued	(23)	
Less: Rescheduled advances on which interest is still being accrued	(8)	
	<hr/>	
Gross non-performing advances to customers*	3,391	
	<hr/> <hr/>	

\*Stated after deduction of interest in suspense

*(ii) Rescheduled advances to customers*

	2004	
	HK\$M	% of advances
Rescheduled advances (note d(i))	535	0.3%
	<hr/> <hr/>	<hr/> <hr/>

Rescheduled advances are those advances, which have been restructured or renegotiated because of deteriorations in the financial position of the borrowers, or the inability of the borrowers to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Bank. Rescheduled advances to customers are stated net of any advances that have subsequently become overdue for over 3 months and reported as overdue advances in note d(i) above.

Non-performing placements with banks and other financial institutions are those placements on which interest is being placed in suspense or on which interest accrual has ceased. There were no non-performing advances, overdue advances and rescheduled advances to banks and other financial institutions as at 31 December 2004.

**(e) Repossessed assets**

	2004 HK\$'M
Repossessed assets	112

**(f) Foreign exchange exposures**

Foreign exchange exposures arising from trading, non-trading and structural positions, with an individual currency constituting 10% or more of the total net position in all foreign currencies, are shown as follows:

	2004 HK\$'M
US dollar exposure	
Spot assets	94,579
Spot liabilities	(84,707)
Forward purchases	272,370
Forward sales	(281,566)
Net long non-structural position	676

**(g) Corporate governance**

The Bank is committed to high standards of corporate governance, and has fully complied throughout the period with the guideline on "Corporate Governance of Locally Incorporated Authorised Institutions" under the Supervisory Policy Manual issued by the HKMA.

**Board committees**

The Board of Directors has established various committees while reserving key strategic matters for its own approval. The major committees are detailed below:

*(i) Executive Committee ("EXCO")*

The EXCO operates under the direct authority of the Board and meets regularly in relation to the day to day management, operation and control of the business. It also sub-delegates to various committees certain aspects of the conduct of the business as detailed below. The EXCO comprises of the Chief Executive Officer, the Chief Financial Officer and the Heads of various business functions.

(ii) *Risk Committee*

The Risk Committee is responsible for assisting the Board to supervise and direct the management of credit, market, country, operational, compliance and reputational risk within the Bank. It also ensures that processes and procedures in place for monitoring and control of risk meet the standards set down in internal procedures and external regulatory requirements.

The Committee meets regularly and comprises of the Chief Executive Officer, the Chief Financial Officer, Executive Directors, Heads of Credit and representatives from other relevant units. It has appointed various sub-committees to supervise and review specific areas of risk, including the Portfolio Management Committee, the Early Alert Committee, the Group Special Asset Management ("GSAM") Committee, the Excess Approval Committee and the Country Operational Risk Group ("CORG").

(iii) *Asset and Liability Committee ("ALCO")*

The ALCO is appointed by the Executive Committee of the Bank. It is chaired by the CEO, and with authority derived from the Board, is responsible for both statutory and prudential liquidity. It is also responsible to ensure that the balance sheet management is in compliance with regulatory requirements relating to management of liquidity, capital adequacy and structural market risks. These are managed through the provision of liquidity policies and guidelines agreed in ALCO. The members of the ALCO include the Chief Executive Officer, the Chief Financial Officer, key business and risk management heads.

(iv) *Audit Committee*

The Audit Committee meets regularly with the internal audit and the external auditors to review and discuss the Bank's Head of internal financial control, internal control, compliance and risk management systems. The Committee also discusses matters raised by the internal and external auditors and ensures that audit recommendations are implemented appropriately. The Committee comprises of at least 3 non-executive directors, the majority of whom are independent.

(v) *Country Operational Risk Group ("CORG")*

CORG is appointed by the Risk Committee to review all operational risks including key project risks, legal and compliance risks, reputational risks, e-commerce risks, outsourcing risks, internal financial control risks, front office risks, middle office risks and risks in support functions. The Committee comprises the Chief Executive Officer, the Manager, Operational Risk and representatives from other relevant units.

**(h) Management of risks**

(i) *Capital management*

The Bank's policy is to maintain a capital base to support the development of the Bank's business and to meet statutory capital adequacy ratios. As disclosed in note (a) above, both the Bank's unconsolidated adjusted capital adequacy ratio incorporating market risk of 14.9% and consolidated unadjusted ratio of 15.9% as at 31 December 2004 are well above the statutory minimum ratio of 10%.

(ii) *Credit risk management*

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from lending, trade finance, treasury and other activities. The Bank has dedicated standards, policies and procedures to monitor and control credit risk.

The Bank has put in place a credit control structure and effective credit risk management tools to ensure proper management of the quality of its credit portfolio. The Bank's credit policies and procedures define credit extension criteria, credit approval authorities delegated from the Board, credit monitoring processes, the loan grading system and provisioning policy. It also takes into account the requirements of the Hong Kong Banking Ordinance and the guidelines issued by the HKMA with respect to large exposures and provisioning requirements. The Bank's policy is not to have significant concentrations of exposure to individual counterparties or individual overseas countries.

The Bank has various Committees established to monitor and manage credit risk as discussed above. In addition there are dedicated credit risk monitoring units responsible for implementation of credit policies, review of large credit exposures, control of cross border and country exposures, review of levels of bad debt provisioning and the management of risk concentrations in the portfolio.

(iii) *Liquidity management*

The Bank defines Liquidity Risk as the risk that it either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or can only secure them at excessive cost.

The Bank has established standards, principles, policies and techniques for managing liquidity risk. Liquidity risk management is governed by the ALCO. The tools used for the management of liquidity risk, range from key balance sheet ratios and medium-term funding requirements to ensure balance sheets are not developing structural imbalances, to short term cashflow limits and controls on borrowing in the wholesale markets. They are supplemented by the establishment of a liquidity crisis contingency plan and regular stress test on liquidity positions.

Global Markets is responsible for the day-to-day management of all the liquidity risk in the Bank, executing liquidity directives and operating within the liquidity policy and approved limits. Liquidity limits are regularly monitored by a Market Risk function that is independent from the business. Liquidity profiles are reviewed by ALCO on a regular basis.

Customer deposits form a significant part of the Bank's overall funding. Its composition has remained relatively diversified and stable. Professional markets are accessed for the purposes of providing additional funding, maintaining a presence in local money markets and optimising asset and liability maturities.

(iv) *Market risk management*

*Market risk*

The Bank recognises market risk as the exposure created by potential changes in market prices and rates. The Bank is exposed to market risk arising principally from customer driven transactions.

The Bank transacts in the money market, foreign exchange markets and capital markets giving rise to market risk exposures. Positions are taken as a result of the execution of customers' orders, market making and proprietary trading activities.

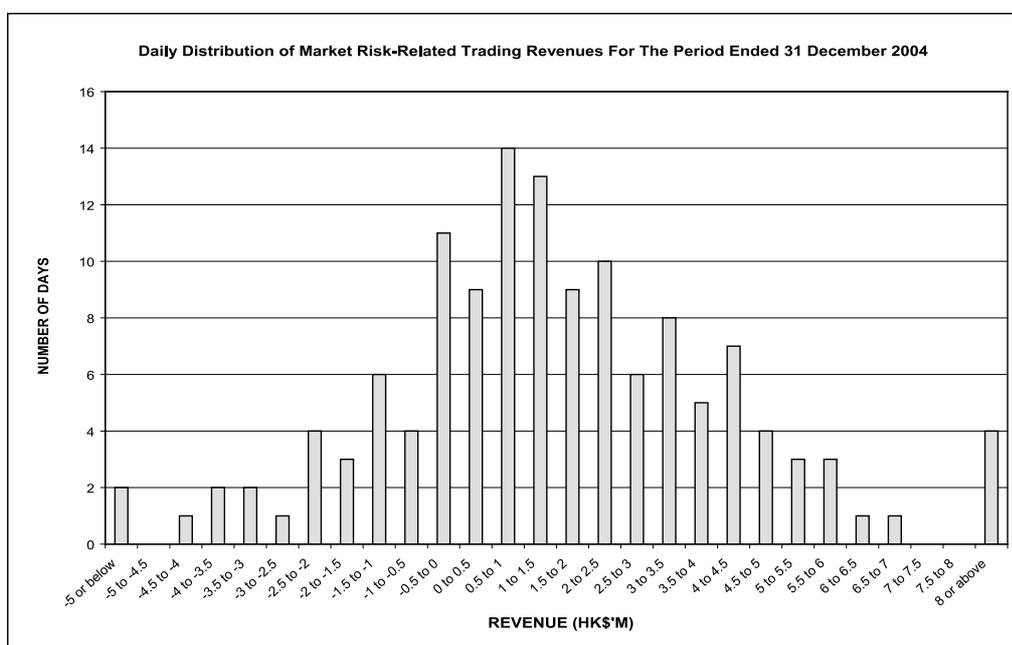
Other financial instruments transacted include debt and other securities and certain off-balance sheet (“derivative”) financial instruments. Derivative instruments are contracts whose characteristics and value derived from underlying financial instruments, interest and exchange rates or indices. They include futures, forwards, swaps, and options transactions in the foreign exchange and interest rate markets. The Bank only enters derivative positions to meet customer demand or for hedging purposes. Derivative contracts entered into by the Bank are primarily over-the-counter derivatives.

#### *Risk management*

The Bank has established standards, principles, policies, and techniques for managing market risk. The Bank has established clear market risk management policies and framework, including limits setting, monitoring and reporting and control procedures, which are reviewed regularly by the Risk Committee. Market risk limits are set by the Risk Committee.

Historical simulation is used to measure Value at Risk on trading exposure by applying actual historical market rate movements based on one-day holding period and a 97.5% confidence level. Additional limits are placed on specific instruments and currency concentrations where appropriate. Sensitivity measures are used in addition to VaR as part of the overall risk management tools. Market risk exposures are measured and monitored against approved limits or triggers to ensure the Bank’s market risk exposures are within acceptable levels. Regular stress test on market risk exposures are also performed. The Risk Committee reviews stress test results on a regular basis.

For the period ended 31 December 2004, the average daily revenue of the Bank earned from market risk-related trading activities was HK\$1.5 million. The standard deviation of these daily trading revenues was HK\$2.9 million. An analysis on the daily distribution of market risk-related trading revenues is provided below.



*Foreign exchange exposure*

The Bank's foreign exchange positions arise from foreign exchange trading and commercial banking operations. Foreign exchange trading exposures are principally derived from customer driven transactions.

The average daily foreign exchange dealing revenue for the six months ended 31 December 2004 was HK\$1.2 million.

Foreign Exchange related VaR as at 31 December 2004 was HK\$0.8 million. The average VaR for the six months ended 31 December 2004 was HK\$1.7 million.

*Interest rate exposure*

The Bank's interest rate exposures comprise trading exposures and non-trading structural interest rate exposures. Structural interest rate risk generally arises from the differing re-pricing characteristics of commercial banking assets and liabilities.

The average daily revenue earned from interest rate activities for the six months ended 31 December 2004 was HK\$0.3 million.

Interest rate trading related VaR as at 31 December 2004 was HK\$0.7 million. The average VaR for the six months end 31 December 2004 was HK\$2.0 million.

**Unaudited Additional Information – Pro Forma Income Statement \*\***

Figures in HK\$'M

	<b>1 July to 31 December 2004</b>	<i>Pro forma 1 January 2004 to 30 June 2004</i>	<i>Pro forma Year Ended 31 December 2004</i>	<i>Pro forma Year Ended 31 December 2003</i>
Interest income	<b>4,809</b>	4,229	9,038	9,855
Interest expense	<b>(1,355)</b>	(745)	(2,100)	(2,766)
<b>Net interest income</b>	<b>3,454</b>	3,484	6,938	7,089
- Fee and commission income	<b>1,582</b>	1,608	3,190	2,834
- Fee and commission expense	<b>(416)</b>	(308)	(724)	(451)
Net fee and commission income	<b>1,166</b>	1,300	2,466	2,383
Net trading gains	<b>298</b>	287	585	545
Other operating income	<b>41</b>	45	86	47
	<b>1,505</b>	1,632	3,137	2,975
<b>Total operating income</b>	<b>4,959</b>	5,116	10,075	10,064
Staff costs	<b>(1,149)</b>	(1,098)	(2,247)	(2,134)
Premises and equipment	<b>(536)</b>	(543)	(1,079)	(1,149)
Others	<b>(642)</b>	(789)	(1,431)	(1,300)
<b>Operating expenses</b>	<b>(2,327)</b>	(2,430)	(4,757)	(4,583)
<b>Operating profit before provisions</b>	<b>2,632</b>	2,686	5,318	5,481
Charge for bad and doubtful debts	<b>(118)</b>	(738)	(856)	(2,172)
<b>Profit from ordinary activities before taxation</b>	<b>2,514</b>	1,948	4,462	3,309
Taxation	<b>(414)</b>	(308)	(722)	(451)
<b>Profit attributable to shareholders</b>	<b>2,100</b>	1,640	3,740	2,858

\*\* Prepared by aggregating the financial information of the businesses that were transferred into Standard Chartered Bank (Hong Kong) Limited

**Unaudited Additional Information – Pro Forma Balance Sheet \*\***

<i>Figures in HK\$'M</i>	<i>At 31 December 2004</i>	<i>Pro forma at 31 December 2003</i>	<i>Pro forma at 30 June 2004</i>
<b>Assets</b>			
Cash and short-term funds	40,905	32,215	53,667
Placements with banks and other financial institutions maturing after one month	7,738	9,665	16,837
Certificates of deposit held	1,474	6,884	1,496
Hong Kong SAR Government certificates of indebtedness	19,681	17,461	18,741
Trading Securities	2,581	1,561	2,098
Advances to customers less provisions	168,954	162,125	162,643
Amounts due from immediate holding company	64,458	47,957	49,208
Amounts due from fellow subsidiaries	28	550	548
Amounts due from subsidiaries of the Bank	577	548	570
Non-trading securities	23,534	12,784	21,683
Investments in subsidiaries	86	75	86
Deferred tax assets	137	162	138
Fixed assets	1,948	1,942	1,679
Goodwill	611	650	631
Other assets	8,160	9,990	5,981
	<u>340,872</u>	<u>304,569</u>	<u>336,006</u>
<b>Liabilities</b>			
Hong Kong SAR currency notes in circulation	19,681	17,461	18,741
Deposits and balances of banks and other financial institutions	10,373	13,968	15,423
Deposits from customers	238,922	218,834	227,289
Certificates of deposit issued	10,525	15,162	14,456
Debt securities issued	6,108	5,439	5,643
Amounts due to immediate holding company	8,951	17,994	16,325
Amounts due to fellow subsidiaries	261	285	1,338
Amounts due to subsidiaries of the Bank	22	18	1
Current taxation	114	204	546
Other liabilities	19,080	13,704	13,508
	<u>314,037</u>	<u>303,069</u>	<u>313,270</u>
<b>Capital resources</b>			
Dated capital notes	8,383	-	4,500
Share capital	3,878	369	4,208
Reserves	14,574	1,131	14,028
Shareholders' equity	18,452	1,500	18,236
	<u>26,835</u>	<u>1,500</u>	<u>22,736</u>
	<u>340,872</u>	<u>304,569</u>	<u>336,006</u>

\*\* Prepared by aggregating the financial information of the businesses that were transferred into Standard Chartered Bank (Hong Kong) Limited