

The consolidated financial statements of the Company are prepared in accordance with U.K. GAAP which differs in certain significant respects from Hong Kong GAAP. A description of the significant differences is set out below. This summary is not intended to provide a comprehensive listing of all existing or future differences between U.K. GAAP and Hong Kong GAAP, including those specifically related to Standard Chartered or the banking and financial services industry in which Standard Chartered operates. This summary does not attempt to identify disclosure, presentation or classification differences between U.K. GAAP and Hong Kong GAAP that would affect the manner in which transactions and events are presented in Standard Chartered's consolidated financial statements and the notes thereto.

*Investments in securities*

U.K. GAAP

Securities, including equity shares and treasury bills, which are intended for use on a continuing basis are classified as investment securities. Investment securities are stated at cost less any provision for permanent diminution in value. Where dated investment securities are purchased at a premium or a discount, these premiums or discounts are amortised through the profit and loss account. Securities other than investment securities are classified as dealing securities and are stated at market value.

Hong Kong GAAP

Under Hong Kong Statement of Accounting Practice 24 "Accounting for Investments in Securities", investment securities classified as held-to-maturity securities are stated at amortised cost less any provision for diminution in value. Other securities, not intended to be held until maturity, are accounted for either under the "benchmark" or "alternative" treatment. Under the benchmark treatment investment securities held on a continuing basis for an identified long-term purpose are stated at cost less provision for permanent diminution. Other securities are stated at fair value with changes in value recognised in the profit and loss account. Under the alternative treatment securities are identified as either trading or non-trading. Trading securities are stated at fair value with changes in fair value recognised in the profit and loss account as they arise. Non-trading securities are stated at fair value with changes in fair value recognised in the revaluation reserve until disposal.

The Company is not able to quantify, on practical grounds, the differences arising from different treatment by Hong Kong GAAP and U.K. GAAP for investments in securities as explained above. The reason for this is that the Company would have to examine all the relevant transactions and accounting records during the period in order to ascertain whether these transactions meet the definition for held-to-maturity investments under Hong Kong GAAP. Due to the time that has lapsed it is impractical for the Company to perform such examinations. Furthermore, if some of the investment securities under U.K. GAAP do not qualify as held-to-maturity investments under Hong Kong GAAP, such investments would be required to be stated at the fair value at the relevant reporting dates. The Company would now experience practical difficulty in obtaining fair values for certain illiquid investments at the relevant balance sheet dates.

*Tangible fixed assets***U.K. GAAP**

Under Financial Reporting Standard 15 “Tangible Fixed Assets”, revaluation gains should be recognised in the profit and loss account only to the extent (after adjusting for subsequent depreciation) that they reverse revaluation losses on the same asset that were previously recognised in the profit and loss account. All other revaluation gains should be recognised in the statement of total recognised gains and losses.

All revaluation losses that are caused by a clear consumption of economic benefits should be recognised in the profit and loss account. Other revaluation losses should be recognised:

- in the statement of recognised gains and losses until the carrying amount reaches its depreciated historical cost; and
- thereafter, in the profit and loss account unless it can be demonstrated that the recoverable amount (the higher of net realisable value and value in use as defined in Financial Reporting Standard 11 “Impairment of fixed assets and goodwill”) of the asset is greater than its revalued amount, in which case the loss should be recognised in the statement of recognised gains and losses to the extent that the recoverable amount of the asset is greater than its revalued amount.

**Hong Kong GAAP**

Under SSAP 17 “Property, plant and equipment”, when an asset’s carrying amount is increased as a result of a revaluation, the increase should be credited directly to equity under the heading of revaluation reserve. However, a revaluation increase should be recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

When an asset’s carrying amount is decreased as a result of a revaluation, the decrease should be recognised as an expense. However, a revaluation decrease should be charged directly against any related revaluation reserve to the extent that the decrease does not exceed the amount held in the revaluation reserve in respect of that same asset. Any excess thereafter will be charged to the profit and loss account.

As at 30th June 2002, the Group’s total properties comprised less than 1% of the Group’s total assets. In accordance with SSAP 17 no revaluation was carried out at that date. A formal revaluation of the Group’s Principal Properties was performed as at 31st August, 2002 by independent valuers. The Directors consider that there are no significant diminutions in the value of the Group’s Principal Properties.

*Dividends***U.K. GAAP**

Dividends declared after the period end are recognised as a liability in the period to which they relate.

**Hong Kong GAAP**

Under Hong Kong SSAP 9 (revised) “Events after the balance sheet date” which is effective for accounting periods beginning on or after 1st January, 2001, dividends are only recognised as a liability in the accounting period in which they are declared by the directors (in the case of interim dividends) or approved by the shareholders (in the case of final dividends).

The retained profit for the six months ended 30th June, 2002 would be reduced by U.S.\$169 million (year ended 31st December, 2001: U.S.\$31 million increase; 2000: U.S.\$21 million increase; 1999: U.S.\$36 million increase) had the Company adopted Hong Kong SSAP 9 (revised).

*Cash Flow Statement***U.K. GAAP**

The Group prepares its cash flow statement in accordance with Financial Reporting Standard 1 “Cash flow statements” (FRS 1). FRS 1 is based on cash, with no concept of cash equivalents. Cash is defined as cash in hand and deposits with qualifying financial institutions repayable on demand, less overdrafts from such institutions repayable on demand.

**Hong Kong GAAP**

Under Hong Kong Statement of Standard Accounting Practice 15 “Cash flow statements” (Revised 2001) (“HK SSAP 15”), the statement is based on a wider concept of cash and cash equivalents. Cash includes cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

HK SSAP 15 also specifies that bank borrowings are generally considered to be financing activities. However, bank overdrafts repayable on demand which form an integral part of an enterprise’s cash management are included as a component of cash and cash equivalents.

In addition, HK SSAP 15 is different from FRS 1 in respect of the presentation/classification of the cash flow statement. HK SSAP 15 classifies cash flows under three headings: (a) cash flows from operating activities; (b) cash flows from investing activities; and (c) cash flows from financing activities. FRS 1 specifies a fuller analysis using eight headings: (a) cash flows from operating activities, (b) dividends from joint ventures and associates; (c) returns on investment and servicing of finance; (d) taxation; (e) capital expenditure and financial investment; (f) acquisitions and disposals; (g) equity dividends paid; and (h) financing.

*Retirement benefits*

## U.K. GAAP

*Background*

Financial Reporting Standard 17 “Retirement benefits” (“FRS 17”) has been published by the Accounting Standards Board in December 2000 to replace United Kingdom Statement of Standard Accounting Practice 24 “Accounting for pension costs” (“UK SSAP 24”).

Currently UK SSAP 24 is still applicable although additional disclosure is required under the transitional provisions in FRS 17.

*Main changes of FRS 17 from UK SSAP 24*

The requirements for defined contribution schemes remain unchanged but there are significant changes to the treatment of defined benefit schemes. The main changes introduced by FRS 17 to the treatment of defined benefit schemes from UK SSAP 24 are:

- a move from using an actuarial basis to using fair values to measure pension scheme assets
- a move from using the expected rate of return on the scheme assets to discount the scheme liabilities, to a discount rate that reflects the characteristics of the liabilities (suggesting the use of a high quality corporate bond rate) (scheme liabilities are to be actuarially estimated using the projected unit method)
- a move from recognising any shortfall or surplus in scheme assets in the profit and loss account against adjustment to pension costs over the service lives of the employees to immediate recognition on the balance sheet of the employer with the gains and losses recognised in the statement of total recognised gains and losses
- a move from a prepayment or an accrual which represents the extent to which contributions have been paid either ahead of or behind the recognition of cost in the profit and loss account to a pension liability or asset equal to the deficit or recoverable surplus in the defined benefit scheme to be presented separately on the face of the balance sheet following other assets or liabilities.

## Hong Kong GAAP

Hong Kong Statement of Standard Accounting Practice 34 “Employment benefits” (“HK SSAP 34”) has been published by the Hong Kong Society of Accountants in December 2001 and is effective for periods beginning on or after 1st January, 2002. HK SSAP 34 contains transitional provisions which are applicable only to defined benefit plans.

HK SSAP 34 requires the defined benefit pension scheme assets to be measured at fair value at the balance sheet date. HK SSAP 34 requires actuarial gains and losses to be recognised in the profit and loss account if the net cumulative unrecognised actuarial gains

and losses at the end of the previous reporting period exceeded the greater of 10% of the present value of the defined benefit obligation at that date (before deducting plan assets) and 10% of the fair value of any plan assets at that date. These limits should be calculated and applied separately for each defined benefit plan. Actuarial gains and losses falling outside this ten percent ‘corridor’ may be recognised in the profit and loss account over the average remaining working lives of participating employees. However, recognition on a faster systematic basis is permitted if consistently applied. In addition, HK SSAP 34 does not allow the balance sheet or liability to be offset by the related deferred tax.

Transitional provisions for defined benefit scheme are summarised as follows:

- A liability or asset at the date of first adoption of HK SSAP 34 needs to be determined and compared to the amount that would have been recognised at the same date under the previous accounting policy.
- A resulting transitional loss can be recognised either immediately under Hong Kong Statement of Standard Accounting Practice 2 “Net profit or loss for the period, fundamental errors and changes in accounting policies” (“HK SSAP 2”) or on a straight-line basis over up to five years from the date of adoption.
- A resulting transitional gain should be recognised immediately under HK SSAP 2.

The Group has not quantified, on practical grounds, the differences arising from the different treatments between Hong Kong GAAP and U.K. GAAP for retirement benefits. In order to quantify the differences, the Group would need to examine approximately 50 different retirement benefit schemes operating throughout the world during the period. Additionally, the Group has already provided disclosures under two accounting standards (UK SSAP 24 and FRS 17). Full compliance with a third standard (HK SSAP 34) would be costly in terms of commissioning a third actuarial review, the results of which the Group do not believe would be materially different from those obtained under the FRS 17 disclosures.

#### *Deferred taxation*

##### U.K. GAAP

Under Financial Reporting Standard 19 “Deferred tax”, deferred taxation is provided in full, subject to the recoverability of deferred tax assets, on timing differences at the rates of taxation anticipated to apply when the differences crystallise, arising from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

##### Hong Kong GAAP

Under Statement of Standard Accounting Practice 12 “Accounting for deferred tax”, provision is made, under the liability method, for the tax effect arising from all material timing differences which are expected with reasonable probability to crystallise in the foreseeable future.

The deferred tax asset balance would be decreased by U.S.\$167 million (at 30th June, 2001: U.S.\$156 million) (at 31st December, 2001: U.S.\$156 million; 2000: U.S.\$155 million; 1999: U.S.\$92 million) and the deferred tax liability balance would be increased by U.S.\$nil (at 30th June 2001: U.S.\$nil) (at 31st December 2001: U.S.\$nil; 2000: U.S.\$nil; 1999: U.S.\$49 million). The profit and loss reserves balance would be decreased by U.S.\$151 million (at 30th June, 2001: U.S.\$140 million) (at 31st December, 2001: U.S.\$140 million; 2000: U.S.\$139 million; 1999: U.S.\$125 million) and the Premises Revaluation Reserve would be decreased by U.S.\$16 million (at 30th June, 2001: U.S.\$16 million) (at 31st December, 2001: U.S.\$16 million; 2000: U.S.\$16 million; 1999: U.S.\$16 million).