

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

27. ACQUISITION OF A SUBSIDIARY

On 6 May 2004, the Group acquired 66.7% of the issued share capital of Card Alliance Company Limited and a shareholder's loan of HK\$7,500,000 for consideration of HK\$7,965,000. This acquisition has been accounted for by the acquisition method of accounting. The amount of negative goodwill arising as a result of the acquisition was HK\$641,000 and is included in advances and other accounts.

	HK\$'000
Net assets acquired	
Placements with banks and other financial institutions maturing between one and twelve months	8,387
Advances and other accounts less provision	3,326
Fixed assets	6,319
Deferred tax liabilities	(232)
Other accounts and provisions	(1,142)
Shareholder's loan	(15,000)
Share of net assets before acquisition	(552)
	<u>1,106</u>
Negative goodwill arising on acquisition	(641)
	<u>465</u>
Shareholder's loan	7,500
Total consideration	<u>7,965</u>
Satisfied by:	
Cash	<u>7,965</u>
Net cash inflow arising on acquisition:	
Cash consideration	7,965
Cash and cash equivalents acquired	(8,387)
Net inflow of cash and cash equivalents in respect of the purchase of a subsidiary	<u>(422)</u>

The subsidiary acquired during the year contributed HK\$1,957,000 to the Group's turnover, and a loss of HK\$5,483,000 to the Group's profit from operations.

NOTES TO THE FINANCIAL STATEMENTS

28. OFF-BALANCE SHEET EXPOSURES

	THE GROUP		THE BANK	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments				
– contractual amounts				
Direct credit substitutes	1,023,725	829,984	1,023,725	829,984
Trade – related contingencies	351,095	256,126	351,095	256,126
Other commitments				
With an original maturity of under one year or which are unconditionally cancellable	3,998,729	3,643,812	3,998,087	3,643,170
With an original maturity of one year and over	3,108,000	3,192,101	3,107,572	3,191,031
Forward assets purchases	50,291	165,981	50,291	165,981
	<u>8,531,840</u>	<u>8,088,004</u>	<u>8,530,770</u>	<u>8,086,292</u>

Included under “Other commitments” are non-cancellable operating leases commitments in respect of rented premises. At the balance sheet date, the Group had commitments for future minimum lease payments under these non-cancellable operating leases which fall due as follows:

	THE GROUP		THE BANK	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	37,080	33,708	36,438	33,066
In the second to fifth year inclusive	41,422	49,676	40,994	48,606
Over five years	979	816	979	816
	<u>79,481</u>	<u>84,200</u>	<u>78,411</u>	<u>82,488</u>

Operating lease payments represent rental payable by the Group for certain of its office properties. Leases are negotiated for an average term of three years and rentals are fixed.

Included under “Forward assets purchases” are capital commitments as follows:

	THE GROUP		THE BANK	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:				
– property and equipment	24,532	14,734	24,532	14,734
– investment in fund	25,759	151,247	25,759	151,247
	<u>50,291</u>	<u>165,981</u>	<u>50,291</u>	<u>165,981</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

28. OFF-BALANCE SHEET EXPOSURES - continued

	THE GROUP		THE BANK	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Derivatives - notional amounts				
Forward exchange rate contracts				
– hedging	<u>135,335</u>	<u>19,046</u>	<u>135,335</u>	<u>19,046</u>
Interest rate swap contracts				
– hedging	<u>387,760</u>	<u>611,758</u>	<u>387,760</u>	<u>611,758</u>

The replacement costs and credit risk weighted amounts of the above off-balance sheet exposures are as follows:

	THE GROUP				THE BANK			
	2004		2003		2004		2003	
	Replacement cost	Credit risk weighted amount	Replacement cost	Credit risk weighted amount	Replacement cost	Credit risk weighted amount	Replacement cost	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments	N/A	2,272,921	N/A	2,181,804	N/A	2,272,921	N/A	2,181,804
Exchange rate contracts	1,015	1,461	120	125	1,015	1,461	120	125
Interest rate contracts	8,972	3,941	694	1,683	8,972	3,941	694	1,683
	<u>9,987</u>	<u>2,278,323</u>	<u>814</u>	<u>2,183,612</u>	<u>9,987</u>	<u>2,278,323</u>	<u>814</u>	<u>2,183,612</u>

The above amounts do not take into account the effect of bilateral netting arrangements.

At the balance sheet date, the Group and the Bank as lessor had contracted with tenants for the following future minimum lease payments:

	THE GROUP AND THE BANK	
	2004	2003
	HK\$'000	HK\$'000
Within one year	<u>1,821</u>	<u>1,200</u>
In the second to fifth year inclusive	<u>524</u>	<u>1,700</u>
	<u>2,345</u>	<u>2,900</u>

Leases are negotiated for an average term of 2 years and rentals are also fixed for an average of 2 years.

29. RETIREMENT BENEFITS SCHEME

At the balance sheet date, the Group had two retirement schemes in operation, a non-contributory defined benefit scheme which is registered under the Occupational Retirement Scheme Ordinance (the “ORSO Scheme”) in 1995 and a Mandatory Provident Fund Scheme (the “MPF Scheme”) established under the Mandatory Provident Fund Ordinance in December 2000. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were either staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after December 2000 are required to join the MPF Scheme. Most of the employees enrolled in the MPF Scheme in replacement of the ORSO Scheme (the “participating members”). The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. As a result, retirement benefits accruing subsequent to the establishment of the MPF Scheme are covered therefrom, as far as the ORSO Scheme members participating in the MPF Scheme are concerned. The ORSO Scheme continues to provide retirement benefits to non-participating members and those retirement benefits accrued prior to MPF Scheme to the participating members.

The Group operates the ORSO Scheme for qualifying employees. Under the ORSO Scheme, the employees are entitled to retirement benefits varying between 0 and 100 percent of total contributions made by the Group on attainment of a retirement age of 55. Upon retirement, the employees are entitled to monthly pension until death varying between 0 and 50 percent of final salary depending on years of service completed at the time of retirement. Under the MPF Scheme, the employee contributes 5% of the relevant payroll to the MPF Scheme while the Group contributes from 5% to 10% of the relevant payroll to the MPF Scheme depending on the years of service completed.

The most recent actuarial valuation of the ORSO Scheme was carried out as at 31 December 2004 by the qualified actuaries of Watson Wyatt Hong Kong Limited. The accrued liabilities and future costs were measured using the Projected Unit Credit method. The main actuarial assumptions used were as follows:

Discount rate	4% per annum
Expected return on Scheme assets	5% per annum
Expected rate of salary increase	3% per annum

At the date of the latest formal independent actuarial valuation made at 31 December 2004, the market value of the Scheme assets was HK\$166,305,439 which was sufficient to cover the Aggregate Vested Liability and Aggregate Past Service Liability on that date. The Bank is not required to make any contributions to the Scheme for the next three years following the valuation date. The next formal independent actuarial valuation will be made at 31 December 2007 in accordance with the provisions of the Occupational Retirement Schemes Ordinance.