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HSBC HOLDINGS PLC
Form 6-K
August 01, 2005

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the month of August, 2005

HSBC Holdings plc

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

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

Form 20-F Form 40-F

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

Yes..... No

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

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
2005 INTERIM CONSOLIDATED RESULTS - HIGHLIGHTS

- Operating profit excluding loan impairment charges and other credit risk provisions up 7.7 per cent to HK\$23,759 million (HK\$22,058 million in the first half of 2004; up 16.9 per cent from HK\$20,316 million in the second half of last year).
- Pre-tax profit up 2.2 per cent to HK\$24,163 million (HK\$23,644 million in the first half of 2004; up 21.5 per cent from HK\$19,891 million in the second half of last year).
- Attributable profit up 1.6 per cent to HK\$17,564 million (HK\$17,287 million in the first half of 2004; up 18.2 per cent from HK\$14,860 million in the second half of last year).
- Return on average shareholders' funds of 39.7 per cent (50.1 per cent and 37.0 per cent in the first and second half of 2004 respectively).

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- Assets up 3.7 per cent to HK\$2,582 billion (HK\$2,489 billion at the end of 2004).
- Total capital ratio of 12.2 per cent; tier 1 capital ratio of 11.4 per cent (11.9 per cent and 11.4 per cent at 31 December 2004).
- Cost:income ratio of 38.4 per cent (36.7 per cent and 41.0 per cent for the first and second half of 2004 respectively).

Comparative figures have been restated to reflect the adoption of a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, details of which are set out in the appendix.

Comment by Vincent Cheng, Chairman

In the first half of 2005, The Hongkong and Shanghai Banking Corporation continued to make progress developing its customer group businesses. Operating profit excluding loan impairment provisions was 7.7 per cent higher than in the comparable period in 2004 at HK\$23,759 million. The results reflect a significant improvement in net interest income in Hong Kong on wider deposit margins against a backdrop of rising interest rates. The bank's performance was affected by higher costs in Corporate, Investment Banking and Markets that include the acquisition of Bank of Bermuda operations in Hong Kong. More difficult trading conditions also affected treasury revenues. Pre-tax profit for the group was up 2.2 per cent, reflecting higher net charges for impairment provisions. Highlights include:

- In Personal Financial Services, net interest income increased by HK\$2,937 million or 29.7 per cent over the first half of 2004.
- In Hong Kong, HSBC remained the number one card issuer with 3.6 million cards in force.
- In the rest of Asia-Pacific, cards in issue increased by 41.6 per cent to 4.2 million.
- Overall insurance income from personal customers rose by 11.7 per cent to HK\$1,905 million.
- In Commercial Banking, net interest income increased by HK\$1,846 million or 57.4 per cent, reflecting 10.0 per cent growth in advances over the same period last year.
- Net fee income in Commercial Banking was 7.9 per cent higher at HK\$2,207 million, supported by strong trade activity in Hong Kong and mainland China.
- In Corporate, Investment Banking and Markets, trading income increased by 20.8 per cent over the first half of 2004.
- HSBC acted as the joint global co-ordinator of the HK\$16.8 billion initial public offering by Bank of Communications and of the HK\$9.5 billion IPO of China COSCO Holdings, two of the three largest IPOs in Asia, ex-Japan, this year.

In the first half of the year, we continued to invest in the future of our business. Personal Financial Services increased headcount to support business expansion across the region, and a number of marketing campaigns targeted at the personal lending and wealth management sector added to costs. Investment in technology has also risen as the group has expanded and upgraded the infrastructure necessary to support the increased product range offered to customers. In Commercial Banking, the number of relationship managers and support staff increased. There was significant growth in operating expenses within Corporate, Investment Banking and Markets, reflecting the inclusion of the Asia-Pacific operations of Bank of Bermuda and increased headcount to support business expansion.

Building on the investments in Bank of Communications, Ping An and Bank of Shanghai, we have made significant progress in the development of our China strategy. We acquired 1.34 billion shares in Bank of Communications on its

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listing in Hong Kong in order to maintain our 19.9 per cent stake in the bank. In May, we undertook a soft launch, with Bank of Communications, of a co-branded credit card, the Pacific Credit Card, which is denominated in renminbi and the US dollar. In respect of Ping An, we have reached an agreement to acquire a further 9.91 per cent which, added to the existing stake, will lift HSBC's holding in the company to 19.9 per cent. This agreement is subject to shareholder and regulatory approval. When these investments have been completed, HSBC will have invested around US\$5 billion in China.

Although we anticipate moderate growth in mainland China and Hong Kong in the second half of the year, the success of the United States in correcting the recent slow-down in its economy provides encouragement for the countries and territories of the Asia-Pacific region. However, the outlook remains challenging with strong competition and continuing subdued loan demand in Hong Kong. In these circumstances, the investments made by the customer groups ensure that The Hongkong and Shanghai Banking Corporation is well positioned to pursue its strategy of organic growth and to take advantage of business opportunities in the region.

Results by Customer Group

Figures in HK\$m	Personal Financial Services	Commercial Banking	Corporate, Investment Banking and Markets	Private Banking	Other	Total
Half-year ended 30Jun05						
Net interest income	12,819	5,062	5,034	29	(1,534)	21,410
Net fee income	4,152	2,207	2,452	29	34	8,874
Trading income	449	276	3,701	3	(233)	4,196
Net income from financial instruments designated at fair value	163	(342)	152	-	(29)	(56)
Gains less losses from financial investments	3	23	(35)	-	356	347
Dividend income	3	2	106	-	138	249
Net earned insurance premiums	6,546	356	73	-	-	6,975
Other operating income^	1,028	150	472	7	1,063	2,720
Total operating income	25,163	7,734	11,955	68	(205)	44,715

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Net insurance claims incurred and movement in policyholder liabilities	(5,932)	(168)	(39)	-	-	(6,139)
Net operating income before loan impairment charges and other credit risk provisions	19,231	7,566	11,916	68	(205)	38,576
Loan impairment charges and other credit risk provisions	(60)	(510)	54	-	-	(516)
Net operating income	19,171	7,056	11,970	68	(205)	38,060
Operating expenses^	(7,912)	(2,560)	(4,701)	(52)	408	(14,817)
Operating profit	11,259	4,496	7,269	16	203	23,243
Share of profit in associates	93	566	231	-	30	920
Profit before tax	11,352	5,062	7,500	16	233	24,163
Share of pre-tax profit	47.0%	21.0%	31.0%	-	1.0%	100.0%

Figures in HK\$m	Personal Financial Services	Commercial Banking	Corporate, Investment Banking and Markets	Private Banking	Other	Total restated
Half-year ended 30Jun04						
Net interest income	9,882	3,216	5,993	15	(1,041)	18,065
Net fee income	4,082	2,045	2,225	22	13	8,387
Trading income	276	231	3,063	3	256	3,829
Net investment income on assets backing policyholder liabilities	52	175	-	-	(133)	94

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Gains less losses from financial investments	(9)	3	47	-	541	582
Dividend income	15	4	6	-	86	111
Net earned insurance premiums	6,398	2,268	69	-	-	8,735
Other operating income^	1,145	207	330	1	722	2,405
Total operating income	21,841	8,149	11,733	41	444	42,208
Net insurance claims incurred and movement in policyholder liabilities	(5,197)	(2,114)	(45)	-	-	(7,356)
Net operating income before loan impairment charges and other credit risk provisions	16,644	6,035	11,688	41	444	34,852
Loan impairment charges and other credit risk provisions	(637)	1,570	635	-	(6)	1,562
Net operating income	16,007	7,605	12,323	41	438	36,414
Operating expenses^	(7,490)	(2,316)	(3,375)	(33)	420	(12,794)
Operating profit	8,517	5,289	8,948	8	858	23,620
Share of profit in associates	15	-	-	-	9	24
Profit before tax	8,532	5,289	8,948	8	867	23,644
Share of pre-tax profit	36.1%	22.4%	37.8%	-	3.7%	100.0%

Figures in HK\$m	Personal Financial Services	Commercial Banking	Corporate, Investment Banking and Markets	Private Banking	Other	Total restated
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Half-year ended 31Dec04

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Net interest income	10,903	3,849	5,265	20	(1,132)	18,905
Net fee income	3,442	2,066	2,787	20	(421)	7,894
Trading income	341	289	2,732	2	(190)	3,174
Net investment income on assets backing policyholder liabilities	1,036	1,428	-	-	(138)	2,326
Gains less losses from financial investments	(4)	(2)	17	-	904	915
Dividend income	3	2	11	-	36	52
Net earned insurance premiums	6,788	2,620	79	-	-	9,487
Other operating income^	1,294	242	553	-	(380)	1,709
Total operating income	23,803	10,494	11,444	42	(1,321)	44,462
Net insurance claims incurred and movement in policyholder liabilities	(6,244)	(3,736)	(48)	-	-	(10,028)
Net operating income before loan impairment charges and other credit risk provisions	17,559	6,758	11,396	42	(1,321)	34,434
Loan impairment charges and other credit risk provisions	(653)	(932)	884	-	1	(700)
Net operating income	16,906	5,826	12,280	42	(1,320)	33,734
Operating expenses^	(8,169)	(2,468)	(3,913)	(41)	473	(14,118)
Operating profit	8,737	3,358	8,367	1	(847)	19,616
Share of profit in associates	58	170	20	-	27	275
Profit before tax	8,795	3,528	8,387	1	(820)	19,891
Share of pre-tax profit	44.2%	17.7%	42.2%	-	(4.1)%	100.0%

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^ Other operating income and operating expenses in 'other' include an adjustment of HK\$2,283 million to eliminate intra-group items (first half of 2004: HK\$2,412 million; second half of 2004: HK\$2,541 million).

Personal Financial Services reported profit before tax of HK\$11,352 million, which was HK\$2,820 million, or 33.1 per cent, higher than the first half of 2004. This reflected strong growth in Hong Kong of HK\$2,475 million, or 30.7 per cent, in profit before tax, driven primarily by the widening of deposit margins subsequent to the rises in Hong Kong dollar interest rates this year. In the rest of Asia-Pacific, profit before tax increased by 70.8 per cent to HK\$830 million, reflecting continued expansion across the region, particularly in credit cards and mortgage loans.

Net interest income increased by HK\$2,937 million, or 29.7 per cent, compared with the first half of 2004. In Hong Kong, net interest income improved by HK\$2,257 million, or 30.1 per cent. During the first half of 2005, interest rates in Hong Kong rose significantly reflecting rising US dollar interest rates. In addition, adjustments to the HK\$:US\$ Linked Exchange Rate Mechanism removed the likelihood of an upward realignment of the Hong Kong dollar, prompting a reversal of much of the inward flows from investors in 2004 that had depressed local market rates. This led to a widening of deposit spreads to more normal levels compared with the exceptionally low levels experienced in 2004. Competition in the local mortgage market remained intense and margins were impacted by the rising cost of funds. In the rest of Asia-Pacific, net interest income rose by HK\$680 million, or 28.6 per cent, reflecting strong asset growth across the region. Mortgage lending increased in Australia, Taiwan, Korea, Singapore and India, benefiting from increased use of a direct sales force and successful promotional campaigns. Interest earned on credit cards was higher, notably in Indonesia, the Philippines, India and Taiwan, reflecting strong growth in receivables. Net interest income also includes income of HK\$400 million from held-to-maturity investments in the insurance business; such income was included in 'Other operating income' in prior periods.

Net fee income of HK\$4,152 million was 1.7 per cent higher than the first half of 2004, largely attributable to strong growth in the sales of wealth management and insurance products throughout the rest of Asia-Pacific and higher credit card fee income. Fee income from unit trust sales fell by 30.0 per cent, driven by a change in market sentiment in Hong Kong, as in the higher interest rate environment and with a flattening yield curve, investors reduced their demand for capital guaranteed funds. Sales of structured products in Hong Kong, however, remained strong as income grew by 258.9 per cent to HK\$361 million, reflecting increased marketing effort and an enhanced product range.

Fee income from credit cards was HK\$190 million, or 21.1 per cent, higher than the first half of 2004, as the group maintained its position as the largest card issuer in Hong Kong. In the rest of Asia-Pacific, cards in issue grew by 41.6 per cent. Innovative and targeted promotional campaigns, together with an enhanced rewards programme, led to increased card spending which grew by HK\$13.4 billion across the region.

The group has continued to grow and develop its insurance business throughout the region. Overall, insurance income from personal customers rose by 11.7 per cent to HK\$1,905 million. In Hong Kong, revenues from general insurance and the mandatory provident fund business were higher, although demand fell for life assurance and investment-linked products.

Operating expenses increased by HK\$422 million, or 5.6 per cent, over the first half of 2004. Headcount rose to support business expansion across the region and included the recruitment of additional financial planning managers in Hong Kong and sales staff in the rest of Asia-Pacific. Performance-related pay rose in

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line with the increase in sales revenues. The various growth initiatives also incurred higher marketing costs, particularly for mortgages, credit cards, insurance and investment products, and increased investment in technology to support higher business volumes and new product lines. The increase was partly mitigated by the impact of a change in the allocation of certain centrally borne expenses to customer groups.

The charge for impairment provisions fell markedly, by HK\$577 million to HK\$60 million, with lower provisions in the credit card, mortgage and other personal lending portfolios, reflecting the improved credit conditions across much of the region. In particular, credit conditions improved in Hong Kong as the economy continued to recover with falling unemployment, lower bankruptcies and higher residential property prices, while in the rest of Asia-Pacific, provisions remained relatively flat against a backdrop of significant asset growth.

Income from associates largely represents the share of profits from Bank of Communications attributable to Personal Financial Services for the six months to 31 March 2005.

Commercial Banking reported profit before tax of HK\$5,062 million, a decrease of 4.3 per cent over the first half of 2004, attributable primarily to a net charge for impairment provisions compared with a net release last year. Operating profit excluding provisions grew in Hong Kong by 37.8 per cent to HK\$3,985 million, and in the rest of Asia-Pacific to HK\$1,019 million from HK\$830 million.

Net interest income increased by HK\$1,846 million, or 57.4 per cent, compared with the first half of 2004, reflecting a 10.0 per cent growth in advances since the end of 2004, and improvements in deposit spreads following rises in Hong Kong dollar interest rates, coupled with increased active management of the Commercial Banking deposit base. The benefit was, however, partly offset by competitive pressure on lending margins. In Hong Kong, advances to the manufacturing, trading and retail sectors grew, with higher new lending and increased utilisation of existing facilities. The introduction of Core Business Banking Centres in 2004, together with an increase in the number of dedicated relationship managers to serve key accounts, and the implementation of a pre-approved lending programme for small and medium-sized enterprises, contributed to the growth in lending and deposits. The group continued to benefit from the growth in international trade and the expansion of the Chinese economy. Business links between Hong Kong and mainland China continue to be developed. Throughout the region, the sales force and number of relationship managers have increased to take advantage of cross-selling opportunities for insurance and investment products, as well as expanding lending and deposit-taking activities. In the rest of Asia-Pacific, net interest income increased, notably in Singapore, mainland China and Taiwan, as a result of asset and deposit growth and improved deposit spreads. Net interest income also includes income of HK\$350 million from held-to-maturity investments in the insurance business; this was included in 'Other operating income' in prior periods.

Net fee income at HK\$2,207 million was 7.9 per cent higher than the same period in 2004. Trade finance activity in Hong Kong and mainland China remained strong, and fee income rose despite increasing market competition. The marketing of foreign exchange products to Hong Kong customers engaged in international trade was also successful in contributing to revenues. Income from the sale of wealth management products fell, reflecting a fall in demand for unit trusts in Hong Kong. Net fee income in 2005 additionally includes fees relating to retirement and other investment schemes; these were included in 'Net earned insurance premiums' and 'Net insurance claims incurred and movement in policyholder liabilities' in prior periods.

Operating expenses rose by HK\$244 million, or 10.5 per cent, as the number of

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relationship managers and support staff increased, although savings were made from initiatives to handle business via low cost channels, including the further enhancement of Internet banking. A change in the allocation of certain centrally borne expenses to customer groups pushed cost growth into double digits.

There was a swing of HK\$2,080 million in impairment provisions to a net charge of HK\$510 million from a net credit of HK\$1,570 million in the first half of 2004, with higher new specific provisions, and lower releases and recoveries, in the bank in Hong Kong and Hang Seng Bank.

Income from associates represents the share of profits from Bank of Communications and Industrial Bank attributable to Commercial Banking for the six months to 31 March 2005.

Corporate, Investment Banking and Markets reported profit before tax of HK\$7,500 million, 16.2 per cent lower than the first half of 2004, as a result of a decline in net interest income in Global Markets which more than offset a strong trading performance.

Net interest income fell by HK\$959 million, or 16.0 per cent, compared with the first half of last year. In Corporate and Institutional Banking, deposit spreads improved following rises in Hong Kong dollar interest rates, which together with a modest growth in loans, contributed to the increase in net interest income of 33.6 per cent. In addition, Korea, Taiwan and India benefited from the growth in deposits from securities custody and clearing customers. In Global Markets, the adoption of new accounting standards affected trading income through the reclassification of interest and dividend income on trading assets and liabilities that was formerly recorded as 'Net interest income' and 'Dividend income', to 'Trading income'. This added HK\$568 million to net interest income, but was, however, more than offset by the maturity of higher yielding assets, rising short-term rates and flatter yield curves, resulting in less profitable reinvestment opportunities. In Singapore and Japan, net interest income declined, due similarly to the maturity of high yielding assets and less profitable reinvestment opportunities.

Trading income increased by HK\$638 million, or 20.8 per cent, over the first half of 2004, despite the impact of the inclusion of the net interest expense of HK\$568 million on trading assets and liabilities this year. Debt securities trading benefited from correct positioning, with tightening in short-term corporate spreads in the low Hong Kong dollar interest rate environment in the first quarter of 2005. This was, however, partly offset by losses on certain high yield bonds, following the downgrading of certain companies in the automobile sector during the second quarter.

In Hong Kong, investments made in enhancing the structured products platform resulted in increased revenues in foreign exchange options, equity derivatives, structured credit derivatives and interest rate derivatives, partly offset by lower revenues generated from capital-guaranteed investment solutions as investors switched to deposit products in the rising interest rate environment.

In the rest of Asia-Pacific, excellent progress was made in the roll-out of structured products, particularly in Korea, Singapore and Thailand, with revenues doubling over the same period last year. Foreign exchange revenues also improved, benefiting from currency volatility and the group's growing customer franchise in the region.

Net fee income rose by 10.2 per cent to HK\$2,452 million, principally due to the inclusion of the first six months' results for Bank of Bermuda, which contributed HK\$361 million to revenues. Corporate and Institutional Banking saw an increase in fees and commissions from the securities custody and clearing business, which benefited from increased stock market activity across the region, notably in Korea and India. Investment Banking revenues declined,

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reflecting a quiet market in the early part of 2005, although recovery commenced in the second quarter, particularly in cross-border transactions and advisory business, with HSBC acting as joint global co-ordinator of the HK\$16.8 billion initial public offering by Bank of Communications and of the HK\$9.5 billion IPO of China COSCO Holdings, two of the three largest IPOs in Asia, ex-Japan, this year.

Operating expenses increased by 39.3 per cent compared with the first half of 2004, reflecting higher staff costs and the inclusion of costs relating to the Asia-Pacific operations of Bank of Bermuda. Headcount increased to support business expansion, including the build up of the investment banking division and the recruitment of senior relationship managers to extend coverage along industry sector lines. The cost base was further impacted by a change in the allocation of certain centrally allocated overheads to customer groups and a rise in cost recharges in respect of global management functions.

There was a net release of impairment provisions of HK\$54 million, HK\$581 million lower than in the first half of 2004. New specific individual provisions were lower, reflecting the benign credit environment in Hong Kong, although releases and recoveries fell and there was an increase in collective provisions compared with a release last year.

Income from associates largely represents the share of profits from Bank of Communications and Industrial Bank attributable to Corporate, Investment Banking and Markets for the six months to 31 March 2005.

Other includes income and expenses relating to staff housing loans, certain property activities and investment and other activities that are not allocated to other customer groups.

Net interest income was lower, reflecting an increase in preference shares issued coupled with higher funding costs. The surplus on property revaluation and profits from property sales were higher, offset by lower gains on the disposal and revaluation of long-term investments.

Consolidated Income Statement

	Half-year ended 30Jun05	Half-year ended 30Jun04 restated	Half-year ended 31Dec04 restated
Figures in HK\$m			
Interest income	35,859	27,451	30,496
Interest expense	(14,449)	(9,386)	(11,591)
Net interest income	21,410	18,065	18,905
Fee income	10,579	9,883	9,593
Fee expense	(1,705)	(1,496)	(1,699)
Net fee income	8,874	8,387	7,894
Trading income	4,196	3,829	3,174
Net loss from financial instruments designated at fair value	(56)	-	-
Net investment income on assets backing policyholder liabilities	-	94	2,326
Gains less losses from financial investments	347	582	915
Dividend income	249	111	52
Net earned insurance premiums	6,975	8,735	9,487
Other operating income	2,720	2,405	1,709
Total operating income	44,715	42,208	44,462

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Net insurance claims incurred and movement in policyholder liabilities	(6,139)	(7,356)	(10,028)
Net operating income before loan impairment charges and other credit risk provisions	38,576	34,852	34,434
Loan impairment charges and other credit risk provisions	(516)	1,562	(700)
Net operating income	38,060	36,414	33,734
Employee compensation and benefits	(8,425)	(7,253)	(7,512)
General and administrative expenses	(5,402)	(4,622)	(5,669)
Depreciation of property, plant and equipment	(927)	(870)	(885)
Amortisation of intangible assets	(63)	(49)	(52)
Total operating expenses	(14,817)	(12,794)	(14,118)
Operating profit	23,243	23,620	19,616
Share of profit in associates	920	24	275
Profit before tax	24,163	23,644	19,891
Tax charge	(4,248)	(4,027)	(2,961)
Profit after tax	19,915	19,617	16,930
Profit attributable to minority interests	(2,351)	(2,330)	(2,070)
Profit attributable to shareholders	17,564	17,287	14,860

Extract from the Consolidated Balance Sheet

Figures in HK\$m	At 30Jun05	At 30Jun04 restated	At 31Dec04 restated
Assets			
Cash and short-term funds	493,159	417,031	510,644
Placings with banks maturing after one month	94,560	114,738	74,711
Certificates of deposit	55,427	51,980	51,743
Hong Kong SAR Government certificates of indebtedness	94,804	85,674	92,334
Trading assets	159,447	113,415	109,899
Financial assets designated at fair value	35,647	-	-
Derivatives	77,137	60,759	94,398
Advances to customers	973,637	849,944	919,192
Financial investments	410,442	418,533	450,165
Amounts due from fellow subsidiary companies	67,243	43,488	82,592
Investments in associates	20,508	2,387	16,343
Goodwill and intangible assets	6,222	4,128	5,329
Property, plant and equipment	32,978	29,182	30,425
Deferred tax assets	1,238	1,628	1,711
Retirement benefits	1,229	1,561	1,307
Other assets	58,620	53,424	47,851
	2,582,298	2,247,872	2,488,644
Liabilities			
Hong Kong SAR currency notes in circulation	94,804	85,674	92,334
Deposits by banks	115,254	75,640	74,980
Customer accounts	1,671,433	1,570,851	1,728,111

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Trading liabilities	218,652	35,810	37,281
Financial liabilities			
designated at fair value	2,187	-	-
Derivatives	75,929	57,603	92,362
Debt securities in issue	59,600	131,688	155,162
Retirement benefit liabilities	359	383	327
Amounts due to fellow subsidiary companies	23,367	31,997	17,568
Amounts due to ultimate holding company	748	660	553
Other liabilities	65,380	56,770	60,610
Liabilities to policyholders under long-term assurance business	-	46,829	54,938
Liabilities to customers under investment contracts	29,380	-	-
Liabilities to customers under insurance contracts issued	32,525	-	-
Current taxation	4,085	3,828	2,333
Deferred taxation	3,540	3,530	3,715
Subordinated liabilities	12,569	12,777	11,142
Preference shares	62,978	47,212	55,602
	2,472,790	2,161,252	2,387,018

	At 30Jun05	At 30Jun04 restated	At 31Dec04 restated
Figures in HK\$m			
Capital resources			
Share capital	22,494	16,254	22,494
Other reserves	5,963	3,988	6,525
Retained profits	58,759	46,215	51,497
Proposed dividend	6,000	4,750	4,800
Shareholders' funds	93,216	71,207	85,316
Minority interests	16,292	15,413	16,310
	109,508	86,620	101,626
	2,582,298	2,247,872	2,488,644

Consolidated Statement of Changes in Equity

	Half-year ended 30Jun05	Half-year ended 30Jun04 restated	Half-year ended 31Dec04 restated
Figures in HK\$m			
Called up share capital			
Balance at the beginning of the period			
- Balance previously reported	74,213	51,603	59,570
- Effect of transition to HKFRS	(51,719)	(35,349)	(43,316)
- As restated	22,494	16,254	16,254
New ordinary shares issued	-	-	6,240
Balance at the end of the period	22,494	16,254	22,494

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Property revaluation reserves			
Balance at the beginning of the period			
- Balance previously reported	11,907	7,135	10,856
- Effect of transition to HKFRS	(8,346)	(4,817)	(7,649)
- As restated	3,561	2,318	3,207
Unrealised surplus on revaluation	2,007	1,301	537
Transfer of depreciation from retained profits	(65)	(62)	(96)
Realisation on disposal of property	(438)	(370)	(47)
Other movements	-	20	(40)
Balance at the end of the period	5,065	3,207	3,561
Other reserves			
Balance at the beginning of the period			
- Balance previously reported	5,492	5,060	4,966
- Effect of transition to HKFRS (excluding the effect of HKAS 39 and HKFRS 4)	(2,528)	(3,697)	(4,185)
- As restated	2,964	1,363	781
- Effect of adoption of HKAS 39 and HKFRS 4	1,333	-	-
- As restated	4,297	1,363	781
Long-term equity investments:			
Valuation gains taken to equity	-	160	1,406
Transfer to profit or loss on disposal	-	(221)	(811)
Available-for-sale investments:			
Valuation losses taken to equity	(746)	-	-
Transfer to profit or loss on disposal	(301)	-	-
Transfer to profit or loss on change in fair value of hedged items	306	-	-
Share of associates' available-for-sale reserve	(111)	-	-
Cash flow hedges:			
Losses taken to equity	(2,132)	-	-
Exchange differences arising on monetary items that form part of a net investment in a foreign operation	(540)	(614)	1,457
Employees' options granted cost free by ultimate holding company	125	93	131
Balance at the end of the period	898	781	2,964
	Half-year ended	Half-year ended	Half-year ended
	30Jun05	30Jun04	30Jun04
		restated	
Figures in HK\$m			

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Retained profits		
Balance at the beginning of the period		
- Balance previously reported	51,083	37,764
- Effect of transition to HKFRS (excluding the effect of HKAS 39 and HKFRS 4)	414	1,371
- As restated	51,497	39,135
- Effect of adoption of HKAS 39 and HKFRS 4	(39)	-
- As restated	51,458	39,135
Profit for the period attributable to shareholders	17,564	17,287
Dividends	(10,600)	(10,750)
Transfer of depreciation to property revaluation reserves	65	62
Realisation on disposal of property	438	393
Actuarial losses on defined benefit plans	(168)	(110)
Other movements	2	198
Balance at the end of the period	58,759	46,215
Dividend declared but not yet approved	6,000	4,750
Shareholders' funds at the beginning of the period		
Proposed dividend	81,810	59,070
	4,800	8,450
	86,610	67,520
Net change in shareholders' funds	5,406	7,387
Increase/(decrease) in proposed dividend	1,200	(3,700)
Shareholders' funds at the end of the period	93,216	71,207

Movements in reserves and retained profits are stated net of deferred tax where applicable.

Consolidated Cash Flow Statement

	Half-year ended 30Jun05	Half-year ended 30Jun04 restated
Figures in HK\$m		
Operating activities		
Cash generated from operations	2,921	22,804
Interest received on long-term investments	6,313	6,091
Dividends received on long-term investments	228	104
Dividends received from associates	22	25
Interest paid on loan capital	(213)	(256)
Dividends paid to minority interests	(3,160)	(2,178)
Ordinary dividends paid	(9,400)	(14,450)
Taxation paid	(1,971)	(2,006)
Net cash (outflow)/inflow from operating activities	(5,260)	10,134

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Investing activities		
Purchase of long-term investments	(140,786)	(147,807)
Proceeds from sale or redemption of long-term investments	153,904	132,586
Purchase of tangible fixed assets	(634)	(425)
Proceeds from sale of tangible fixed assets	837	692
Net cash outflow in respect of acquisition of and increased shareholding in subsidiary companies	(1,247)	(972)
Net cash inflow in respect of sales of subsidiary companies	323	-
Purchase of interest in associates	(1,166)	(2,010)
Net cash inflow/(outflow) from investing activities	11,231	(17,936)
Net cash inflow/(outflow) before financing	5,971	(7,802)
Financing		
Issue of cumulative irredeemable preference share capital	7,376	7,784
Issue of subordinated debt	2,392	-
Net cash inflow from financing	9,768	7,784
Increase/(decrease) in cash and cash equivalents	15,739	(18)

Additional Information

1. Net interest income

Figures in HK\$m	Half-year ended 30Jun05	Half-year ended 30Jun04 restated	Half-year ended 31Dec04 restated
Net interest income	21,410	18,065	18,905
Average interest-earning assets	2,008,241	1,888,690	1,961,003
Net interest spread	1.95%	1.82%	1.81%
Net interest margin	2.15%	1.92%	1.92%

Net interest income of HK\$21,410 million was HK\$3,345 million, or 18.5 per cent, higher than the first half of 2004.

Net interest income from the Personal Financial Services business rose by HK\$2,937 million, or 29.7 per cent, primarily due to improved deposit spreads resulting from rises in Hong Kong dollar interest rates this year. This was coupled with strong growth in net interest income in the rest of Asia-Pacific, driven by increased mortgage lending in Australia, Taiwan, Korea, Singapore and India, and significant growth in credit card receivables and improved margins in Indonesia, the Philippines, India and Taiwan. Net interest income from the Commercial Banking business was HK\$1,846 million, or 57.4 per cent, higher than last year, mainly due to growth in lending and deposits and improved deposit spreads, notably in Hong Kong, Singapore, mainland China and Taiwan. Net

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interest income from Corporate, Investment Banking and Markets fell by HK\$959 million, or 16 per cent, largely due to the maturity of high yielding treasury assets in Hong Kong, and flat yield curves that gave limited opportunity for position-taking. This was partly offset by the effect of the reclassification this year of net interest expense of HK\$568 million on trading assets and liabilities to 'Trading income'. In addition, there was loan growth of HK\$7 billion in corporate lending, and an increase in customer deposits of HK\$8 billion. Included in net interest income this year is income earned on held-to-maturity investments in the insurance businesses of HK\$762 million, which last year was classified as 'Net investment income on assets backing policyholder liabilities'.

Average interest-earning assets rose by HK\$120 billion, or 6.3 per cent, to HK\$2,008 billion. Average advances to customers grew by HK\$112 billion, or 13.4 per cent, with strong growth in mortgage lending in Australia, Singapore, Taiwan, Korea and India, and increases in commercial lending and trade finance in Hong Kong and mainland China. Credit card receivables rose in most countries, notably Hong Kong, Taiwan, Australia and Indonesia. Average loans to banks were HK\$91 billion higher, principally in the bank in Hong Kong, offset by the reclassification of certain interest-earning assets to 'Trading Assets'.

The group's net interest margin of 2.15 per cent for the first half of 2005 was 23 basis points higher than the comparable period in 2004. Spread widened by 13 basis points, largely due to the exclusion in 2005 of the net interest expense on trading assets and liabilities. The inclusion of net interest income on held-to-maturity investments in the insurance businesses increased the margin by three basis points, while the rise in the number of preference shares issued and higher funding costs thereon resulted in a fall of five basis points.

For the banking operations in Hong Kong (excluding Hang Seng Bank), net interest margin increased by 46 basis points to 2.22 per cent for the first half of 2005. Spread improved by 37 basis points to 2.04 per cent. This increase was principally due to the reclassification of net interest expense on net trading liabilities to trading profits. Wholesale rates increased significantly since the first half of 2004, resulting in higher spreads on Hong Kong dollar and foreign currency current, savings and deposit accounts. However, spreads on mortgages and corporate lending were adversely impacted by a higher cost of funds and competitive pressures on margins. The average yield on the residential mortgage portfolio, excluding GHOS and staff loans, was 233 basis points below BLR in the first half of 2005 compared with 187 basis points below BLR in the same period last year. The contribution from net free funds rose by nine basis points compared with the first half of 2004.

In Hang Seng Bank, net interest margin improved by 11 basis points to 2.13 per cent with an increase in spread of four basis points due to the rise in deposit spreads and inclusion of interest income from the held-to-maturity investment portfolios held by life assurance funds. Spreads on treasury products narrowed and mortgage portfolio yields continued to be affected by intense market competition. The average yield on the residential mortgage portfolio, excluding GHOS and staff loans, fell to 223 basis points below BLR for the first half of 2005, compared with 192 basis points for the same period last year. The contribution from net free funds rose by seven basis points, benefiting from the rise in market interest rates.

In the rest of Asia-Pacific, net interest margin at 2.00 per cent for 2005 was five basis points higher than for the comparable period in 2004. Spread improved by eight basis points to 1.86 per cent, with rises in several countries including mainland China, Australia, Thailand and Taiwan, which benefited from higher deposit spreads, and increased credit card margins in Indonesia. These were partly offset by lower margins on non-trading treasury assets in Singapore and India. The contribution from net free funds was three basis points lower.

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2. Net fee income

Figures in HK\$m	Half-year ended 30Jun05	Half-year ended 30Jun04 restated	Half-year ended 31Dec restat
Fees and commissions			
- Account services	642	597	6
- Credit facilities	584	736	7
- Import/export	1,345	1,264	1,4
- Remittances	591	520	5
- Securities/stockbroking	1,595	1,494	1,3
- Cards	2,027	1,615	1,8
- Insurance	161	104	1
- Unit trusts	959	1,588	9
- Funds under management	1,017	586	6
- Other	1,658	1,379	1,4
Fees and commissions receivable	10,579	9,883	9,5
Fees and commissions payable	(1,705)	(1,496)	(1,6
	8,874	8,387	7,8

Net fee income was HK\$487 million, or 5.8 per cent, higher than the first half of 2004. Credit card fees rose by 25.5 per cent, reflecting the increase in the number of cards in issue in the rest of Asia-Pacific, and higher cardholder spending. Revenues from trade finance also grew, notably in Hang Seng Bank and in the bank in mainland China and India, attributable to strong regional trade flows. Customer appetite for wealth management products slowed this year in Hong Kong, although the fall in demand for unit trusts was partially offset by increased sales of structured products. Bank of Bermuda contributed HK\$361 million to net fee income, following its integration into the group during the second half of last year.

3. Trading income

Figures in HK\$m	Half-year ended 30Jun05	Half-year ended 30Jun04 restated	Half-year ended 31Dec04 restated
Dealing profits			
- Foreign exchange	2,578	2,681	1,999
- Interest rate derivatives	1,476	1,254	1,126
- Debt securities	318	(136)	(124)
- Equities and other trading	338	30	173
	4,710	3,829	3,174
Net interest expense on trading assets and liabilities	(568)	-	-
Dividend income from trading securities	54	-	-
	4,196	3,829	3,174

Trading income rose by 9.6 per cent to HK\$4,196 million. Debt securities trading benefited from correct positioning as short-term spreads on Hong Kong dollar

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bonds contracted in the low interest rate environment in the earlier part of 2005, but this was partly offset by losses on certain high yield bonds following the downgrading of companies in the automobile sector during the second quarter. Interest rate derivatives trading performed strongly, reflecting an enhanced capability in structured products in Hong Kong, Korea and Singapore, which more than offset the fall in demand for wealth management products in Hong Kong as customers switched to deposit products in the rising interest rate environment. Credit and equity derivatives revenues also grew, and revaluation gains were made on private equity investments.

Net interest expense on trading assets and liabilities largely represents interest payable on the group's own debt and structured deposits managed in the trading book, partly offset by interest income on debt securities. All such interest was classified under 'Net interest income' in prior years.

4. Gains less losses from financial investments

Figures in HK\$m	Half-year ended 30Jun05	Half-year ended 30Jun04 restated	Half-year ended 31Dec04 restated
Profit on disposal of available-for-sale securities	348	-	-
Profit on disposal of long-term investments	-	380	931
Provision for impairment of available-for-sale securities	(1)	-	-
Reversal of/(provision for) impairment of long-term investments	-	202	(16)
	347	582	915

The profit on disposal of available-for-sale securities primarily comprises gains on the sale of equity securities, partly offset by losses on the disposal of US dollar bonds.

In the first half of 2004, there was a partial write-back of a provision against an equity investment.

5. Dividend income

Figures in HK\$m	Half-year ended 30Jun05	Half-year ended 30Jun04 restated	Half-year ended 31Dec04 restated
Listed investments	52	68	32
Unlisted investments	191	37	14

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Other participating interests	6	6	6
	249	111	52

6. Net earned insurance premiums

Figures in HK\$m	Half-year ended 30Jun05	Half-year ended 30Jun04 restated	Half-year ended 31Dec04 restated
Gross insurance premium income	7,239	9,003	9,744
Less: reinsurance premiums	(264)	(268)	(257)
	6,975	8,735	9,487

Premium income decreased compared with the first half of last year largely due to a change in accounting treatment. In 2004, gross premium receipts on certain investment plans and the corresponding increase in the bank's liability to policyholders are disclosed, respectively, under 'Net earned insurance premiums' and 'Net insurance claims incurred and movement in policyholder liabilities'. In 2005, a net number is included under 'Net fee income'.

7. Other operating income

Figures in HK\$m	Half-year ended 30Jun05	Half-year ended 30Jun04 restated	Half-year ended 31Dec04 restated
Rental income	230	232	230
Movement in present value of in force insurance business	490	389	444
Profit on disposal of tangible fixed assets	19	141	51
Profit on disposal of subsidiary and associated companies	58	309	33
Surplus arising on property revaluation	1,038	829	209
Other	885	505	742
	2,720	2,405	1,709

Profit on disposal of subsidiary and associated companies for the first half of 2005 comprises a gain made on the sale of HSBC Asset Management (Australia) Limited. Profit for the first half of 2004 included a gain on the exchange of the group's interest in World Finance International Limited, an associated company, for an interest in Bergesen Worldwide.

The surplus arising on property revaluation comprises gains on the revaluation of investment properties and the reversal of previous revaluation deficits that had arisen when the value of certain premises fell below depreciated historical cost. As permitted by Hong Kong Accounting Standard 40, prior year revaluation gains on investment properties have been credited to reserves and accordingly the prior year profit and loss figures have not been restated.

'Other' includes profits on the sale of a residential property in Hong Kong held on an operating lease.

8. Loan impairment charges and other credit risk provisions

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Figures in HK\$m	Half-year ended 30Jun05	Half-year ended 30Jun04 restated	Half-year ended 31Dec04 restated
Net charge/(release) for impairment provisions			
Advances to customers			
- Specific individual provisions:			
New provisions	1,222	1,627	2,389
Releases	(1,249)	(1,379)	(1,071)
Recoveries	(161)	(336)	(281)
	(188)	(88)	1,037
- Net charge/(release) for collective impairment provisions			
	706	(1,496)	(227)
- Country risk provision			
	(8)	-	-
	510	(1,584)	810
Placings with banks maturing after one month			
- Net release of specific individual provisions			
	-	-	(1)
	510	(1,584)	809
Other credit risk provisions			
	6	22	(109)
Total impairment charge/(credit)			
	516	(1,562)	700

There was a net charge for loan impairment and other credit risk provisions of HK\$516 million compared with a net release of HK\$1,562 million in the same period last year. The charge for new specific individual provisions was lower as credit card provisions were classified as specific individual in 2004, but as collective in 2005. Excluding this effect, specific individual provisions rose, largely against lending to commercial banking customers in Hong Kong. Provisions against mortgages, credit card advances and other personal lending fell, in line with the improving economy in Hong Kong with lower bankruptcies, falling unemployment and a rise in property prices. Releases and recoveries were lower, largely relating to corporates in Hong Kong, Singapore and Thailand, but this was partly offset by higher releases against personal lending in Hong Kong and against lending to commercial banking customers in mainland China. There was a net charge for collective provisions, comprising the reclassification of credit card provisions and a small charge against corporate lending, reflecting the stable credit environment across the region.

9. Employee compensation and benefits

Figures in HK\$m	Half-year ended 30Jun05	Half-year ended 30Jun04 restated	Half-year ended 31Dec04 restated
Salaries and other costs	7,991	6,837	7,163
Retirement benefit costs	434	416	349
	8,425	7,253	7,512

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Staff numbers by region^

	At 30Jun05	At 30Jun04	At 31Dec04
Hong Kong	24,240	23,132	23,947
Rest of Asia-Pacific	22,942	19,430	21,009
Americas/Europe	16	16	16
Total	47,198	42,578	44,972

^ Full-time equivalent

Staff costs increased by HK\$1,172 million, or 16.2 per cent, compared with the first half of 2004, attributable to the increase in headcount throughout the region of 4,620. Staff numbers rose in all customer groups, notably in Personal Financial Services in India, Taiwan, the Philippines, Thailand and Sri Lanka, and Commercial Banking in Hong Kong and mainland China. The build-up of the investment banking division continued in Hong Kong, and the integration of Bank of Bermuda staff also added to headcount.

10. General and administrative expenses

Figures in HK\$m	Half-year ended 30Jun05	Half-year ended 30Jun04 restated	Half-year ended 31Dec04 restated
Premises and equipment			
- Rental expenses	627	597	600
- Other premises and equipment	855	818	943
	1,482	1,415	1,543
Other administrative expenses	3,716	3,077	4,125
Litigation and other provisions	204	130	1
	5,402	4,622	5,669

The increase in general and administrative expenses of HK\$780 million, or 16.9 per cent, reflected additional costs incurred in the business expansion throughout the region. Advertising and marketing expenditure increased in Thailand, Taiwan, India, Indonesia and Singapore, in line with the growth in the Personal Financial Services business in these countries. Other expenses rose, particularly in support of the expansion of the Corporate and Institutional Banking businesses in Singapore, India, Korea and Taiwan.

11. Share of profit in associates

Share of profit in associates in the first half of 2005 included the group's share of post-tax profits from Bank of Communications and Industrial Bank for the six months to 31 March 2005.

12. Taxation

The charge for taxation in the consolidated profit and loss account comprises:

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Figures in HK\$m	Half-year ended 30Jun05	Half-year ended 30Jun04 restated	Half-year ended 31Dec04 restated
Hong Kong profits tax	2,663	2,292	1,690
Overseas taxation	1,300	1,423	1,074
Deferred taxation	285	312	197
	4,248	4,027	2,961

The effective rate of tax for the first half of 2005 was 17.6 per cent, compared with 17.0 per cent for the first half of 2004, principally as a result of the interest expense on preference shares for which tax relief is not available.

13. Dividends

	Half-year ended 30Jun05	Half-year ended 30Jun04	Half-year ended 31Dec04
HK\$ per share	HK\$m	HK\$ per share	HK\$ per share
Dividends on ordinary share capital			
- Paid	0.51 4,600	0.92 6,000	0.53 4,750
- Proposed	0.67 6,000	0.73 4,750	0.53 4,800
	1.18 10,600	1.65 10,750	1.06 9,550

14. Trading assets

Figures in HK\$m	At 30Jun05	At 30Jun04 restated	At 31Dec04 restated
Debt securities	117,682	95,971	89,355
Equity shares	5,860	17,444	20,544
Treasury bills	34,979	-	-
Other	926	-	-
	159,447	113,415	109,899

Treasury bills held for trading have been reclassified from 'Cash and short-term funds' to 'Trading assets'. Certain equity shares and debt securities are now classified as 'Financial assets designated at fair value' (see Note 15).

15. Financial assets designated at fair value

Figures in HK\$m	At30Jun05	At30Jun04 restated	At31Dec04 restated
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Debt securities	15,884	-	-
Equity shares	15,524	-	-
Other	4,239	-	-
	35,647	-	-

There was no such category in 2004.

16. Advances to customers

Figures in HK\$m	At30Jun05	At30Jun04 restated	At31Dec04 restated
Gross advances to customers	980,912	858,625	927,121
Specific individual provisions	(4,114)	(6,058)	(5,482)
Collective impairment provisions	(3,158)	(2,623)	(2,447)
Country risk provisions	(3)	-	-
Total provisions	(7,275)	(8,681)	(7,929)
	973,637	849,944	919,192

Provisions as a percentage of gross advances to customers:

Specific individual provisions	0.42%	0.70%	0.59%
Collective impairment provisions	0.32%	0.31%	0.26%
Country risk provisions	-	-	-
Total provisions	0.74%	1.01%	0.85%

17. Impairment provisions against advances to customers

Figures in HK\$m	Specific individual provisions	Collective impairment provisions	Country risk provisions	Total
At 1Jan05 (restated)	4,719	3,179	11	7,909
Amounts written off	(571)	(901)	-	(1,472)
Recoveries of advances written off in previous years	161	191	-	352
Net charge/(release) to income (Note 8)	(188)	706	(8)	510
Exchange and other adjustments	(7)	(17)	-	(24)
At 30Jun05	4,114	3,158	3	7,275

18. Impaired advances to customers and provisions

The geographical information shown below, and in notes 19, 20, 21, and 23, has been classified by location of the principal operations of the subsidiary company or, in the case of the bank, by location of the branch responsible for

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advancing the funds.

Figures in HK\$m	Hong Kong	Rest of Asia-Pacific	Americas/ Europe	Total
Half-year ended 30Jun05				
Impairment provision charge/ (release)	455	67	(12)	510
At 30Jun05				
Advances to customers which are considered to be impaired are as follows:				
Gross impaired advances	5,436	3,438	-	8,874
Specific individual provisions	(2,230)	(1,884)	-	(4,114)
	3,206	1,554	-	4,760
Specific individual provisions as a percentage of gross impaired advances	41.0%	54.8%	-	46.4%
Gross impaired advances as a percentage of gross advances to customers	0.9%	0.9%	-	0.9%
Figures in HK\$m	Hong Kong	Rest of Asia-Pacific	Americas/ Europe	Total restated
Half-year ended 30Jun04				
Impairment provision charge/ (release)	(1,744)	160	-	(1,584)
At 30Jun04				
Advances to customers which are considered to be impaired are as follows:				
Gross impaired advances	8,599	4,327	5	12,931
Specific individual provisions	(3,016)	(3,037)	(5)	(6,058)
	5,583	1,290	-	6,873
Specific individual provisions as a percentage of gross impaired advances	35.1%	70.2%	100.0%	46.8%
Gross impaired advances as a percentage of gross advances to customers	1.5%	1.5%	41.7%	1.5%

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

The specific provisions are made after taking into account the value of

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collateral in respect of such advances.

Figures in HK\$m	Hong Kong	Rest of Asia-Pacific	Americas/ Europe	Total restated
Half-year ended 31Dec04				
Impairment provision charge/ (release)	64	752	(6)	810
At 31Dec04				
Advances to customers which are considered to be impaired are as follows:				
Gross impaired advances	5,423	4,268	5	9,696
Specific individual provisions	(2,485) 2,938	(2,992) 1,276	(5) -	(5,482) 4,214
Specific individual provisions as a percentage of gross impaired advances	45.8%	70.1%	100.0%	56.5%
Gross impaired advances as a percentage of gross advances to customers	0.9%	1.3%	35.7%	1.0%

19. Overdue advances to customers

Figures in HK\$m	Hong Kong	Rest of Asia-Pacific	Americas/ Europe	Total
At 30Jun05				
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:				
- six months or less but over three months	814	886	-	1,700
- one year or less but over six months	307	379	-	686
- over one year	1,546 2,667	1,272 2,537	- -	2,818 5,204
Overdue advances to customers as a percentage of gross advances to customers:				
- six months or less but over three months	0.1%	0.2%	-	0.2%

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- one year or less but over six months	0.1%	0.1%	-	0.1%
- over one year	0.2%	0.4%	-	0.2%
	0.4%	0.7%	-	0.5%

Figures in HK\$m	Hong Kong	Rest of Asia-Pacific	Americas/ Europe	Total restated
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At 30Jun04

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

- six months or less but over three months	1,447	645	-	2,092
- one year or less but over six months	883	466	-	1,349
- over one year	1,685	1,818	-	3,503
	4,015	2,929	-	6,944

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

- six months or less but over three months	0.2%	0.2%	-	0.2%
- one year or less but over six months	0.2%	0.2%	-	0.2%
- over one year	0.3%	0.6%	-	0.4%
	0.7%	1.0%	-	0.8%

Figures in HK\$m	Hong Kong	Rest of Asia-Pacific	Americas/ Europe	Total restated
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At 31Dec04

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

- six months or less but over three months	959	706	-	1,665
- one year or less but over six months	607	296	-	903
- over one year	1,631	1,430	-	3,061
	3,197	2,432	-	5,629

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

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- six months or less but over three months	0.1%	0.2%	-	0.2%
- one year or less but over six months	0.1%	0.1%	-	0.1%
- over one year	0.3%	0.4%	-	0.3%
	0.5%	0.7%	-	0.6%

20. Rescheduled advances to customers

Figures in HK\$m	Hong Kong	Rest of Asia-Pacific	Americas/ Europe	Total
At 30Jun05				
Rescheduled advances to customers	2,327	552	-	2,879
Rescheduled advances to customers as a percentage of gross advances to customers	0.4%	0.1%	-	0.3%
At 30Jun04 (restated)				
Rescheduled advances to customers	6,404	385	5	6,794
Rescheduled advances to customers as a percentage of gross advances to customers	1.1%	0.1%	41.7%	0.8%
At 31Dec04 (restated)				
Rescheduled advances to customers	4,009	465	5	4,479
Rescheduled advances to customers as a percentage of gross advances to customers	0.7%	0.1%	35.7%	0.5%

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

Rescheduled advances to customers are stated net of any advances which have subsequently become overdue for over three months and which are included in overdue advances to customers (Note 19).

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

The following analysis of advances to customers is based on categories used by the HSBC Group, including The Hongkong and Shanghai Banking Corporation Limited and its subsidiary companies, to manage associated risks.

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Figures in HK\$m	Hong Kong	Rest of Asia-Pacific	Americas/ Europe	Total
At 30Jun05				
Residential mortgages	184,740	108,582	3	293,325
Hong Kong SAR Government's Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme mortgages	39,131	-	-	39,131
Other personal	48,221	42,790	1	91,012
Total personal	272,092	151,372	4	423,468
Commercial, industrial and international trade	126,034	112,301	-	238,335
Commercial real estate	80,473	29,560	-	110,033
Other property-related lending	47,560	15,426	-	62,986
Government	3,349	9,309	-	12,658
Other commercial	57,113	36,308	-	93,421
Total corporate and commercial	314,529	202,904	-	517,433
Non-bank financial institutions	13,381	19,828	-	33,209
Settlement accounts	3,358	3,444	-	6,802
Total financial	16,739	23,272	-	40,011
Gross advances to customers	603,360	377,548	4	980,912
Impairment provisions	(3,871)	(3,404)	-	(7,275)
Net advances to customers	599,489	374,144	4	973,637
Figures in HK\$m	Hong Kong	Rest of Asia-Pacific	Americas/ Europe	Total restated
At 30Jun04				
Residential mortgages	182,972	84,527	-	267,499
Hong Kong SAR Government's Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme mortgage	45,057	-	-	45,057
Other personal	42,843	31,855	7	74,705
Total personal	270,872	116,382	7	387,261

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Commercial, industrial and international trade	106,210	91,069	-	197,279
Commercial real estate	69,943	24,471	5	94,419
Other property-related lending	42,202	10,059	-	52,261
Government	6,515	4,612	-	11,127
Other commercial	57,433	33,755	-	91,188
Total corporate and commercial	282,303	163,966	5	446,274
Non-bank financial institutions	12,070	7,005	-	19,075
Settlement accounts	3,959	2,056	-	6,015
Total financial	16,029	9,061	-	25,090
Gross advances to customers	569,204	289,409	12	858,625
Impairment provisions	(4,664)	(4,012)	(5)	(8,681)
Net advances to customers	564,540	285,397	7	849,944

Figures in HK\$m	Hong Kong	Rest of Asia-Pacific	Americas/Europe	Total restated
At 31Dec04				
Residential mortgages	184,631	98,516	2	283,149
Hong Kong SAR Government's Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme mortgages	41,845	-	-	41,845
Other personal	50,741	37,873	7	88,621
Total personal	277,217	136,389	9	413,615
Commercial, industrial and international trade	109,655	105,133	-	214,788
Commercial real estate	80,726	27,956	5	108,687
Other property-related lending	46,319	14,070	-	60,389
Government	4,781	5,150	-	9,931
Other commercial	56,607	35,006	-	91,613
Total corporate and commercial	298,088	187,315	5	485,408
Non-bank financial institutions	15,008	9,148	-	24,156
Settlement accounts	3,470	472	-	3,942

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Total financial	18,478	9,620	-	28,098
Gross advances to customers	593,783	333,324	14	927,121
Impairment provisions	(4,032)	(3,892)	(5)	(7,929)
Net advances to customers	589,751	329,432	9	919,192

Advances to customers increased by HK\$54 billion, or 5.9 per cent, since the end of 2004.

Advances in Hong Kong increased by HK\$10 billion, or 1.7 per cent. Excluding the impact of lending under the Government Home Ownership Scheme, which remained suspended during 2005, mortgage lending remained flat, in line with the overall market. Commercial lending rose by 5.5 per cent, with particularly strong growth in the manufacturing and retailing sectors and in trade finance, which benefited from focused relationship strategies in the middle-market sector, and the expansion of business banking centres to better serve the customer base.

In the rest of Asia-Pacific, advances grew strongly by HK\$45 billion, or 13.6 per cent, since the end of 2004. Mortgage loans increased by 10.2 per cent, principally in Korea, Taiwan, India, Singapore and Australia. The cards business continued to expand and receivables rose by 15.2 per cent, largely in Taiwan and Indonesia. Lending to corporate and commercial customers rose by 8.3 per cent, notably in mainland China, India, Korea and Indonesia.

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

Figures in HK\$m	Hong Kong	Rest of Asia-Pacific	Americas/ Europe	Others	
At 30Jun05					
Gross advances to customers	550,724	357,221	63,356	9,611	98
Overdue advances to customers	2,865	2,269	69	1	
At 30Jun04 (restated)					
Gross advances to customers	522,134	275,728	56,611	4,152	85
Overdue advances to customers	3,979	2,829	135	1	
At 31Dec04 (restated)					
Gross advances to customers	543,997	319,512	59,461	4,151	92
Overdue advances to customers	3,212	2,343	74	-	

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

The following analysis of advances to customers is based on the categories contained in the 'Quarterly Analysis of Loans and Advances and Provisions'

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return required to be submitted to the HKMA by branches of the bank and by banking subsidiary companies in Hong Kong.

Figures in HK\$m	At 30Jun05	At 30Jun04 restated	At 31Dec04 restated
Gross advances to customers for use in Hong Kong			
Industrial, commercial and financial			
Property development	37,417	32,820	36,230
Property investment	92,976	85,480	93,696
Financial concerns	13,704	14,282	14,784
Stockbrokers	983	1,201	1,185
Wholesale and retail trade	34,679	29,625	32,099
Manufacturing	18,588	13,125	14,336
Transport and transport equipment	33,145	33,610	35,418
Others	47,570	41,332	41,134
	279,062	251,475	268,882
Individuals			
Advances for the purchase of flats under the Hong Kong SAR Government's Home Ownership Scheme, Private Sector Participation and Tenants Purchase Scheme	39,131	45,057	41,845
Advances for the purchase of other residential properties	168,042	168,537	169,482
Credit card advances	22,205	20,189	23,162
Others	22,557	19,772	20,257
	251,935	253,555	254,746
Gross advances to customers for use in Hong Kong	530,997	505,030	523,628
Trade finance	54,439	48,738	49,408
Gross advances to customers for use outside Hong Kong made by branches of the bank and subsidiary companies in Hong Kong	17,924	15,436	20,747
Gross advances to customers made by branches of the bank and subsidiary companies in Hong Kong	603,360	569,204	593,783
Gross advances to customers made by branches of the bank and subsidiary companies outside Hong Kong			
-Rest of Asia-Pacific	377,548	289,409	333,324
-Americas/Europe	4	12	14
Gross advances to customers	980,912	858,625	927,121

An explanation of the significant differences between the categories of advances and their definitions used by the HSBC Group and those used by the HKMA is given on page 18 of the Annual Report and Accounts for 2004.

24. Cross-border exposure

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

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

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

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

Figures in HK\$m	Banks and other financial institutions	Public sector entities	Other	Total
At 30Jun05				
Americas				
United States	51,906	75,139	28,191	155,236
Other	40,686	13,491	47,349	101,526
	92,592	88,630	75,540	256,762
Europe				
United Kingdom	91,103	27	26,182	117,312
Other	335,154	3,746	21,533	360,433
	426,257	3,773	47,715	477,745
Asia-Pacific excluding Hong Kong	159,828	12,047	97,209	269,084
At 30Jun04				
Americas				
United States	22,178	78,603	28,591	129,372
Other	41,665	15,244	48,098	105,007
	63,843	93,847	76,689	234,379
Europe				
United Kingdom	72,230	16	27,131	99,377
Other	262,703	3,785	23,954	290,442
	334,933	3,801	51,085	389,819
Asia-Pacific excluding Hong Kong	134,372	37,255	81,332	252,959
At 31Dec04				
Americas				
United States	45,518	80,047	32,010	157,575
Other	43,044	16,143	47,297	106,484
	88,562	96,190	79,307	264,059
Europe				
United Kingdom	86,613	27	23,294	109,934
Other	332,581	4,219	22,168	358,968
	419,194	4,246	45,462	468,902
Asia-Pacific excluding Hong Kong	151,183	18,454	77,266	246,903

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25. Current, savings and other deposits

Figures in HK\$m	At 30Jun05	At 30Jun04 restated	At 31Dec04 restated
Current accounts and demand deposits	959,723	948,974	1,069,178
Savings accounts	563,002	501,459	516,237
Other deposit accounts	148,708	120,418	142,696
Customer accounts	1,671,433	1,570,851	1,728,111

Current, savings and other deposits decreased by HK\$57 billion, or 3.3 per cent, compared with the end of 2004.

In Hong Kong, current account balances and demand deposits fell in the first half of 2005 by HK\$118 billion, or 13.3 per cent, reflecting the shift by customers into savings and time deposits, in line with the increases in market rates. In the rest of Asia-Pacific, customer accounts rose by HK\$29 billion, or 7.0 per cent.

Certain structured deposits that were previously recorded in 'Other deposit accounts' have, in accordance with revised accounting standards, been reclassified in 2005 to 'Trading liabilities'.

The group's advances-to-deposits ratio increased to 58.3 per cent at 30 June 2005 from 53.2 per cent at 31 December 2004.

26. Trading liabilities

Figures in HK\$m	At 30Jun05	At 30Jun04 restated	At 31Dec04 restated
Certificates of deposit in issue	83,048	-	-
Other debt securities in issue	22,976	-	-
Short positions in securities	52,402	35,810	37,281
Deposits by banks	5,044	-	-
Customer accounts	55,182	-	-
	218,652	35,810	37,281

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

27. Financial liabilities designated as at fair value

Figures in HK\$m	At 30Jun05	At 30Jun04 restated	At 31Dec04 restated
Customer accounts	1,192	-	-
Subordinated liabilities	995	-	-

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forward forward deposits placed	9,710	9,710	8,746
- Undrawn note issuing and revolving underwriting facilities	3,982	1,991	1,614
- Undrawn formal standby facilities, credit lines and other commitments:			
- one year and over	99,653	49,826	44,479
- under one year	715,575	-	-
	886,978	81,355	66,497
Exchange rate contracts			
- Spot and forward foreign exchange	2,545,957	41,632	10,641
- Other exchange rate contracts	971,018	42,392	12,576
	3,516,975	84,024	23,217
Interest rate contracts			
- Interest rate swaps	4,367,557	53,818	13,740
- Other interest rate contracts	679,471	5,560	1,714
	5,047,028	59,378	15,454
Other derivative contracts	163,291	8,805	3,116
Impact of counterparty netting agreements on derivatives exposure	-	(58,343)	(12,693)
At 30Jun04			
Contingent liabilities			
- Acceptances and endorsements	19,538	3,908	3,782
- Guarantees	143,236	126,211	43,358
- Other	67	67	37
	162,841	130,186	47,177
Commitments			
- Documentary credits and short-term trade-related transactions	51,706	13,922	10,170
- Forward asset purchases and forward forward deposits placed	4,320	4,320	2,140
- Undrawn note issuing and revolving underwriting facilities	4,126	2,063	1,686
- Undrawn formal standby facilities, credit lines and other commitments:			
- one year and over	70,567	35,283	33,817
- under one year	579,396	-	-
	710,115	55,588	47,813
Exchange rate contracts			
- Spot and forward foreign exchange	2,300,878	35,515	8,732
- Other exchange rate contracts	650,466	30,711	8,618
	2,951,344	66,226	17,350
Interest rate contracts			
- Interest rate swaps	2,974,127	46,253	12,519
- Other interest rate contracts	695,439	2,652	682
	3,669,566	48,905	13,201

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Other derivative contracts	40,153	2,938	881
Impact of counterparty netting agreements on derivatives exposure	-	(41,574)	(8,699)
At 31Dec04			
Contingent liabilities			
- Acceptances and endorsements	22,714	4,559	4,423
- Guarantees	157,833	136,474	48,837
- Other	35	35	33
	180,582	141,068	53,293
Commitments			
- Documentary credits and short-term trade-related transactions	48,493	13,770	9,591
- Forward asset purchases and forward deposits placed	10,166	10,166	3,716
- Undrawn note issuing and revolving underwriting facilities	4,116	2,058	1,680
- Undrawn formal standby facilities, credit lines and other commitments:			
- one year and over	82,142	1,071	38,311
- under one year	657,682	-	-
	802,599	67,065	53,298
Exchange rate contracts			
- Spot and forward foreign exchange	2,411,793	46,694	11,759
- Other exchange rate contracts	696,883	39,635	11,180
	3,108,676	86,329	22,939
Interest rate contracts			
- Interest rate swaps	3,754,053	57,131	14,679
- Other interest rate contracts	684,692	3,117	875
	4,438,745	60,248	15,554
Other derivative contracts	71,395	4,030	1,222
Impact of counterparty netting agreements on derivatives exposure	-	(59,487)	(12,535)

The tables above give the nominal contract amounts, credit equivalent amounts and risk-weighted amounts of off-balance sheet transactions. The credit equivalent amounts are calculated for the purposes of deriving the risk-weighted amounts. These are assessed in accordance with the Third Schedule of the Hong Kong Banking Ordinance on capital adequacy and depend on the status of the counterparty and the maturity characteristics. The risk-weights used range from 0 per cent to 100 per cent for contingent liabilities and commitments, and from 0 per cent to 50 per cent for exchange rate, interest rate and other derivative contracts. The group has executed close-out netting agreements with certain counterparties, which allow for positive and negative mark-to-market values on different transactions to be offset and settled by a single payment in the event of default by either party. These have been taken into account in calculating total risk assets.

Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend

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

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

Replacement cost of contracts

Figures in HK\$m	At 30Jun05	At 30Jun04	At 31Dec04
Exchange rate contracts	35,368	26,380	54,216
Interest rate contracts	39,518	35,328	41,486
Other derivative contracts	2,251	1,318	1,722
	77,137	63,026	97,424
Less: netting adjustments	(34,831)	(24,115)	(39,907)
	42,306	38,911	57,517

The replacement cost of contracts represents the mark-to-market assets on all contracts with a positive value, i.e. an asset to the group. This comprises the mark-to-market assets on contracts with third parties and fellow subsidiary companies included in the balance sheet in 'Derivatives'.

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

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

31. Foreign exchange exposure

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

Figures in HK\$m	Net structural position
At 30Jun05	
Chinese renminbi	21,128
Indian rupees	7,603
United States dollars	10,381
At 30Jun04	
Australian dollars	3,330

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Chinese renminbi	4,361
Indian rupees	4,064
Korean won	2,670
Singapore dollars	3,614
United States dollars	(50,013)

At 31Dec04

Australian dollars	4,911
Chinese renminbi	18,154
Indian rupees	4,979
Korean won	3,266
Singapore dollars	3,370
United States dollars	(56,355)
Thai baht	1,575

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

Figures in HK\$m	United States dollars	Singapore dollars	Brunei dollars
At 30Jun05			
Spot assets		85,892	5,470
Spot liabilities		(77,505)	(16,318)
Forward purchases		147,882	-
Forward sales		(145,643)	-
		10,626	(10,848)
At 30Jun04			
Spot assets	983,440		
Spot liabilities	(970,080)		
Forward purchases	1,487,766		
Forward sales	(1,410,343)		
Net options position	892		
	91,675		
At 31Dec04			
Spot assets	1,126,118	83,986	5,129
Spot liabilities	(1,042,445)	(74,193)	(15,134)
Forward purchases	1,497,043	104,625	-
Forward sales	(1,516,913)	(104,339)	-
Net options position	(721)	-	-
	63,082	10,079	(10,005)

32. Reconciliation of operating profit to cash generated from operations

Figures in HK\$m	Half-year ended 30Jun05	Half-year ended 30Jun04 restated
Operating profit	23,243	23,620
Net interest income	(21,410)	(18,065)

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Dividend income	(249)	(111)
Depreciation and amortisation	990	919
Impairment provisions	516	(1,562)
Advances written off, net of recoveries	(1,120)	(2,568)
Other provisions for liabilities and charges	245	358
Provisions utilised	(47)	(217)
Employees' options granted cost free	140	100
Interest received	28,409	21,966
Interest paid	(14,473)	(8,383)
Net cash inflow from trading activities	16,244	16,057
Change in treasury bills with original term to maturity of more than three months	(6,609)	(49,775)
Change in placings with banks maturing after one month	(20,867)	(1,390)
Change in trading assets	(29,507)	5,872
Change in trading liabilities	55,628	6,808
Change in financial assets designated at fair value	425	-
Change in financial liabilities designated at fair value	(62)	-
Change in derivatives	(7,063)	5,791
Change in financial investments held for backing liabilities to long-term policyholders	(5,160)	(3,796)
Change in advances to customers	(57,847)	(31,005)
Change in amounts due from fellow subsidiary companies	13,872	13,148
Change in deposits by banks	42,599	4,949
Change in other assets	(14,816)	(6,297)
Change in customer accounts	(21,684)	11,596
Change in amounts due to fellow subsidiary companies	7,530	20,668
Change in amounts due to ultimate holding company	192	285
Change in debt securities in issue	(4,089)	16,732
Change in liabilities to customers under investment contracts	912	-
Change in liabilities to customers under insurance contracts	6,213	-
Change in liabilities to policyholders under long-term assurance business	-	5,336
Change in other liabilities	27,064	8,275
Exchange adjustments	(54)	(450)
Cash generated from operations	2,921	22,804

33. Analysis of cash and cash equivalents

a. Changes in cash and cash equivalents during the period

	Half-year ended 30Jun05	Half-year ended 30Jun04 restated
Figures in HK\$m		
Balance at beginning of period	411,535	316,678
Net cash inflow/(outflow) before the effect of foreign exchange movements	15,739	(18)
Effect of foreign exchange movements	(8,151)	(877)
Balance at end of period	419,123	315,783

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b. Analysis of balances of cash and cash equivalents

	Half-year ended 30Jun05	Half-year ended 30Jun04 restated
Figures in HK\$m		
Cash in hand and current balances		
with banks	62,923	63,700
Placings with banks	326,210	227,456
Treasury bills	26,822	22,251
Certificates of deposit	3,168	2,376
	419,123	315,783

c. Analysis of net outflow of cash and cash equivalents in respect of acquisition of and increased shareholding in subsidiary companies

	Half-year ended 30Jun05	Half-year ended 30Jun04 restated
Figures in HK\$m		
Cash consideration	(1,872)	(972)
Cash and cash equivalents acquired	625	-
	(1,247)	(972)

d. Analysis of net flow of cash and cash equivalents in respect of sale of subsidiary companies

	Half-year ended 30Jun05	Half-year ended 30Jun04
Figures in HK\$m		
Sale proceeds	323	-
	323	-

34. Segmental analysis

The allocation of earnings reflects the benefits of shareholders' funds to the extent that these are actually allocated to businesses in the segment by way of intra-group capital and funding structures. Common costs are included in segments on the basis of the actual recharges made. Geographical information has been classified by the location of the principal operations of the subsidiary company or, in the case of the bank, by the location of the branch responsible for reporting the results or advancing the funds. Due to the nature of the group structure, the analysis of profits shown below includes intra-group items between geographical regions.

Profit and loss account

Figures in HK\$m	Hong Kong	Rest of Asia-Pacific	Americas/ Europe	Total
Half-year ended 30Jun05				
Interest income	23,529	14,225	275	38,029
Interest expense	(8,122)	(8,366)	(131)	(16,619)
Net interest income	15,407	5,859	144	21,410
Fee income	7,057	3,701	1	10,759
Fee expense	(1,035)	(845)	(5)	(1,885)
Trading income	2,381	1,928	(113)	4,196

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Net income from financial instruments designated at fair value	(163)	107	-	(56)
Gains less losses from financial investments	359	(12)	-	347
Dividend income	223	26	-	249
Net earned insurance premiums	6,746	229	-	6,975
Other operating income	3,555	518	11	4,084
Total operating income	34,530	11,511	38	46,079
Net insurance claims incurred and movement in policyholder liabilities	(5,851)	(288)	-	(6,139)
Net operating income before loan impairment charges and other credit risk provisions	28,679	11,223	38	39,940
Loan impairment charges and other credit risk provisions	(459)	(69)	12	(516)
Net operating income	28,220	11,154	50	39,424
Operating expenses	(9,754)	(6,406)	(21)	(16,181)
Operating profit	18,466	4,748	29	23,243
Share of profit in associates	28	892	-	920
Profit before tax	18,494	5,640	29	24,163
Tax charge	(2,873)	(1,372)	(3)	(4,248)
Profit after tax	15,621	4,268	26	19,915
Profit attributable to minority interests	(2,279)	(72)	-	(2,351)
Profit attributable to shareholders	13,342	4,196	26	17,564
Half-year ended 30Jun04				
Interest income	18,238	10,187	258	28,683
Interest expense	(5,307)	(5,084)	(227)	(10,618)
Net interest income	12,931	5,103	31	18,065
Fee income	7,068	2,930	1	9,999
Fee expense	(865)	(740)	(7)	(1,612)
Trading income	2,474	1,355	-	3,829
Net investment income on assets backing policyholder liabilities	53	41	-	94
Gains less losses from financial investments	548	34	-	582
Dividend income	104	7	-	111
Net earned insurance premiums	8,292	443	-	8,735
Other operating income	2,704	323	4	3,031
Total operating income	33,309	9,496	29	42,834
Net insurance claims incurred and movement in policyholder liabilities	(6,995)	(361)	-	(7,356)
Net operating income before loan impairment charges and other				

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credit risk provisions	26,314	9,135	29	35,478
Loan impairment charges and other credit risk provisions	1,747	(185)	-	1,562
Net operating income	28,061	8,950	29	37,040
Operating expenses	(8,500)	(4,905)	(15)	(13,420)
Operating profit	19,561	4,045	14	23,620
Share of profit in associates	24	-	-	24
Profit before tax	19,585	4,045	14	23,644
Tax charge	(2,929)	(1,095)	(3)	(4,027)
Profit after tax	16,656	2,950	11	19,617
Profit attributable to minority interests	(2,330)	-	-	(2,330)
Profit attributable to shareholders	14,326	2,950	11	17,287
Half-year ended 31Dec04				
Interest income	20,296	11,590	343	32,229
Interest expense	(6,905)	(6,171)	(248)	(13,324)
Net interest income	13,391	5,419	95	18,905
Fee income	6,649	3,136	-	9,785
Fee expense	(1,048)	(838)	(5)	(1,891)
Trading income	1,939	1,235	-	3,174
Net investment income on assets backing policyholder liabilities	2,138	188	-	2,326
Gains less losses from financial investments	813	101	1	915
Dividend income	44	8	-	52
Net earned insurance premiums	9,196	291	-	9,487
Other operating income	1,982	403	4	2,389
Total operating income	35,104	9,943	95	45,142
Net insurance claims incurred and movement in policyholder liabilities	(9,762)	(266)	-	(10,028)
Net operating income before loan impairment charges and other credit risk provisions	25,342	9,677	95	35,114
Loan impairment charges and other credit risk provisions	(63)	(643)	6	(700)
Net operating income	25,279	9,034	101	34,414
Operating expenses	(9,418)	(5,363)	(17)	(14,798)
Operating profit	15,861	3,671	84	19,616
Share of profit in associates	28	247	-	275
Profit before tax	15,889	3,918	84	19,891
Tax charge	(1,839)	(1,119)	(3)	(2,961)
Profit after tax	14,050	2,799	81	16,930
Profit attributable to minority interests	(2,043)	(27)	-	(2,070)
Profit attributable to shareholders	12,007	2,772	81	14,860

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Interest income and interest expense for the first half of 2005 include intra-group interest of HK\$2,170 million (first half of 2004: HK\$1,232 million; second half of 2004: HK\$1,733 million). Fee income and fee expense for the first half of 2005 include intra-group fees of HK\$180 million (first half of 2004: HK\$116 million; second half of 2004: HK\$192 million). Other operating income and operating expenses for the first half of 2005 include intra-group items of HK\$1,364 million (first half of 2004: HK\$626 million; second half of 2004: HK\$680 million).

35. Capital adequacy

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

Figures in HK\$m	At 30Jun05	At 30Jun04^	At 31Dec04^
Composition of capital			
Tier 1:			
Shareholders' funds	93,216	124,346	147,495
Less: proposed dividend	(6,000)	(4,750)	(4,800)
property revaluation reserves^^^	(7,158)	(10,856)	(11,907)
available-for-sale investments and equity revaluation reserves classified as regulatory reserve	(2,395)	(1,070)	(1,609)
term preference shares	(1,017)	-	-
goodwill	-	(3,900)	(3,886)
others	(6,043)	(1,718)	(5,771)
Irredeemable non-cumulative preference shares	2,244	-	-
Minority interests^^	51,718	-	-
Total qualifying tier 1 capital	14,666	14,318	14,384
	139,231	116,370	133,906
Tier 2:			
Property revaluation reserves (@70%)	5,011	7,599	7,977
Available-for-sale investments and equity revaluation reserves (@70%)	1,677	749	1,126
Collective impairment provision and regulatory reserve	4,351	2,623	2,447
Perpetual subordinated debt	9,404	9,360	9,328
Term subordinated debt	4,160	1,997	1,814
Term preference shares	3,887	3,120	3,109
Irredeemable cumulative preference shares	7,373	-	-
Total qualifying tier 2 capital	35,863	25,448	25,801
Deductions	(25,640)	(8,634)	(20,251)
Total capital	149,454	133,184	139,456
Risk-weighted assets	1,221,620	1,068,628	1,173,432

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- ^ Comparative amounts for 30 June 2004 and 31 December 2004 are as previously reported.
- ^^ After deduction of minority interests in unconsolidated subsidiary companies.
- ^^^ Includes the revaluation surplus on investment properties which is now reported as part of retained profits.

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

	At 30Jun05	At 30Jun04	At 31Dec04
Total capital	12.2%	12.5%	11.9%
Tier 1 capital	11.4%	10.9%	11.4%

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

Total capital	12.1%	12.4%	11.9%
Tier 1 capital	11.2%	10.8%	11.4%

36. Liquidity ratio

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

	Half-year ended 30Jun05	Half-year ended 30Jun04	Half-year ended 31Dec04
The average liquidity ratio for the period was as follows:			
Hong Kong branches of the bank	48.6%	40.4%	41.7%

37. Property revaluation

The group's premises and investment properties were revalued as at 30 June 2005 on the basis of open market value.

Premises and investment properties in the Hong Kong SAR were valued by DTZ Debenham Tie Leung at 30 June 2005. The valuations were carried out by independent qualified valuers who are members of the Hong Kong Institute of Surveyors. Management considered that there had either been no material changes

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in the values of the properties located outside Hong Kong since 30 September 2004, when the properties were last revalued or reviewed, or that the values of the properties were not material.

The property revaluation has resulted in an increase in the group's revaluation reserves of HK\$1,504 million, net of deferred taxation of HK\$410 million, as at 30 June 2005, and a credit to the profit and loss account of HK\$1,038 million, of which HK\$736 million represents the surplus on the revaluation of investment properties and HK\$302 million relates to the reversal of previous revaluation deficits that had arisen when the value of certain premises fell below depreciated historical cost.

38. Transition to new Hong Kong Financial Reporting Standards and comparative figures

The group has adopted the new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ('new HKFRS') which are equivalent to the new International Financial Reporting Standards, and are effective for accounting periods beginning on or after 1 January 2005.

Comparative numbers have been restated to conform with the new accounting policies, except for those applicable to financial instruments and insurance contracts (HKAS 39 and HKFRS 4 respectively). Included in the appendix to this news release is the reconciliation of the consolidated income statements for the first and second half of 2004 and of the consolidated balance sheets at 30 June 2004 and 31 December 2004, as previously reported and as restated, showing the effects of the adoption of the new HKFRS (except HKAS 39 and HKFRS 4). Also included in the appendix is the restatement of the opening consolidated balance sheet at 1 January 2005, showing the effects of the adoption of HKAS 39 and HKFRS 4.

39. Accounting policies

The accounting policies adopted in 2005 and 2004 are detailed in the appendix to this news release.

40. Statutory accounts

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

Certain financial information in this news release is extracted from the statutory accounts for the year ended 31 December 2004 which have been delivered to the Registrar of Companies and the Hong Kong Monetary Authority. The Auditors expressed an unqualified opinion on those statutory accounts in their report dated 28 February 2005. The Annual Report and Accounts for the year ended 31 December 2004, which include the statutory accounts, can be obtained on request from Group Public Affairs, The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong, and may be viewed on our website: www.hsbc.com.hk.

41. Ultimate holding company

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

42. Statement of compliance

The information in this news release for the half-year ended 30 June 2005 complies with the Hong Kong Accounting Standard 34 on Interim Financial Reporting and the module on Interim Financial Disclosure by Locally Incorporated

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Authorised Institutions under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority.

Appendix

Accounting policies

Basis of preparation

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 HKFRS') which are equivalent to International Financial Reporting Standards and are effective for accounting periods beginning on or after 1 January 2005.

The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries ('the group') have adopted these new HKFRS in the financial statements in 2005 resulting in various changes in accounting policies.

Comparative numbers have been restated to conform with the new accounting policies except for those that applied to financial instruments and insurance contracts, which are driven by HKAS 39 and HKFRS 4, respectively. The policies applied to financial instruments and insurance contracts for 2004 and 2005 are disclosed separately below.

Significant changes in principal accounting policies are listed as follows:

(a) Interest income and expense

From 1 January 2005

Interest income and expense for all interest-bearing financial instruments, except those classified as held for trading or designated at fair value, are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the group estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the group that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest on impaired financial assets is recognised at the original effective interest rate of the financial asset applied to the impaired carrying amount.

From 1 January 2004 to 31 December 2004

Interest income and expense for all interest-bearing financial instruments was recognised in the income statement as it accrued, except in the case of impaired loans and advances. Interest on impaired loans was credited to an interest suspense account in the balance sheet which was netted against the relevant loan.

(b) Non-interest income

Following the change in accounting for interest as described above, from 1

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January 2005, fee and commission income which is an integral part of the effective interest rate of a financial instrument (e.g. loan commitment fees), is recognised as an adjustment to the effective interest rate. Before 1 January 2005, fee and commission income was recognised on an appropriate basis over the relevant period, even if it was interest in nature.

(c) Trading income

From 1 January 2005

Trading income comprises interest income and expense and dividend income attributable to trading financial assets and liabilities, together with all gains and losses from changes in fair value. Income generated from ineffective hedging activities is also included in 'Trading income'.

From 1 January 2004 to 31 December 2004

Trading income comprised all gains and losses from changes in fair value (net of accrued coupons) of trading financial assets and financial liabilities. Interest income and expense, and dividend income were recognised in 'Net interest income' or 'Dividend income' as appropriate.

(d) Net income from financial instruments designated at fair value

From 1 January 2005

Net income from financial instruments designated at fair value comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with interest income and expense and dividend income attributable to those financial instruments. There was no such category for financial instruments prior to 1 January 2005.

(e) Loans and advances to banks and customers

From 1 January 2005

Loans and advances to banks and customers include loans and advances originated by the group, which have not been classified as held for trading or designated at fair value. They are initially recorded at fair value plus any transaction costs, and are subsequently measured at amortised cost using the effective interest method.

Loans and advances classified as held for trading or designated at fair value are reported as trading instruments, or financial instruments designated at fair value, respectively.

(f) Impairment of loans and advances

From 1 January 2005

It is the group's policy that each operating company will make provisions for impaired loans and advances when objective evidence of impairment exists and on a consistent basis, in accordance with established HSBC Group guidelines. Impairment provisions, representing the quantification of incurred losses, can be made on a collective portfolio basis or an individually assessed basis. Impairment provisions are deducted from loans and advances in the balance sheet.

Assets acquired in exchange for advances

Non-current assets acquired in exchange for advances in order to achieve an

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orderly realisation are reported in 'Other assets' in accordance with HKFRS 5. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying value of the advance disposed of, net of provisions, at the date of the exchange. No depreciation is provided in respect of such assets. Any subsequent write-down of an asset to fair value less costs to sell is recorded as an impairment loss and included within 'Other operating income'. Any subsequent increase in fair value less costs to sell not in excess of any cumulative impairment loss, is recognised as a gain in 'Other operating income' in the income statement.

Debt securities or equities acquired in debt-to-debt /equity swaps are included as 'Available-for-sale' securities following the implementation of HKAS 39.

From 1 January 2004 to 31 December 2004

There were two basic types of provisions, specific and general.

Specific provisions represented the quantification of actual and inherent losses from homogeneous portfolios of assets and individually identified accounts. Specific provisions were deducted from loans and advances in the balance sheet.

General provisions augmented specific provisions and provided cover for loans that were impaired at the balance sheet date but which would not be individually identified as such until some time in the future.

(g) Trading securities and trading liabilities

From 1 January 2005

Treasury bills, debt securities, equity shares and short positions in securities which have been acquired or incurred principally for the purpose of selling or repurchasing in the near term are classified as held for trading. Such financial assets or financial liabilities are recognised initially at fair value and transaction costs are taken to the income statement. All gains and losses from changes in the fair value of these assets and liabilities, together with interest and dividends, are recognised in the income statement as 'Trading income' as they arise. The same treatment applies to debt issued by the group or structured deposits taken, where the risk arising from these is actively traded.

From 1 January 2004 to 31 December 2004

Treasury bills, debt securities, equity shares and short positions in securities were included respectively in 'Cash and short-term funds', 'Trading assets' or 'Trading liabilities' in the balance sheet at market value. Changes in the clean market value of such assets and liabilities were recognised in the income statement as 'Trading income' as they arose. The interest element on such instruments was recognised as interest income or interest expense as appropriate in the income statement.

(h) Financial instruments designated at fair value

From 1 January 2005

A financial instrument is classified in this category if it meets the criteria set out below, and is so designated by management. The group designates financial instruments at fair value because the designation:

- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial assets or

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financial liabilities or recognising the gains and losses on them on different bases; or

- applies to a group of financial assets, financial liabilities or both that is managed and its performance evaluated on a fair value basis, in accordance with an HSBC documented risk management or investment strategy, and where information about the group is provided internally on that basis to HSBC's key management personnel; or

- relates to financial instruments containing one or more embedded derivatives which significantly modify the cash flows resulting from the financial instruments, and which would otherwise require separate accounting.

Financial assets and financial liabilities so designated are recognised initially at fair value and transaction costs taken directly to the income statement. Gains and losses from changes in the fair value of such assets and liabilities are recognised in the income statement as they arise, together with interest and dividends, as 'Net income from financial instruments designated at fair value'.

Gains and losses from the changes in fair value of derivative contracts matched with financial instruments designated at fair value are presented in 'Net income from financial instruments designated at fair value'.

From 1 January 2004 to 31 December 2004

The category, 'Financial instruments designated at fair value' was introduced on 1 January 2005 in accordance with HKAS 39.

(i) Financial investments

From 1 January 2005

Treasury bills, debt securities and equity shares intended to be held on a continuing basis are classified as available-for-sale securities unless designated at fair value (see (h)) or classified as held-to-maturity securities. Available-for-sale securities are measured at fair value (excluding accrued coupon). Changes in fair value are recognised in shareholders' equity until the securities are either sold or impaired, while coupon accrual is recognised as 'Net interest income'. On disposal of available-for-sale securities, gains or losses held within shareholders' equity are recycled through the income statement and classified as 'Gains less losses from financial investments'.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group has the positive intention and ability to hold until maturity. Held-to-maturity investments are initially recorded at fair value plus any transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses.

On 1 January 2005, the group has re-designated certain debt securities previously described as 'Long-term held-to-maturity investments' as 'Available-for-sale securities' following the implementation of HKAS 39.

From 1 January 2004 to 31 December 2004

Treasury bills and debt securities and equity shares were accounted for in accordance with HK SSAP 24.

Treasury bills and debt securities intended to be held on a continuing basis

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were classified as 'Long-term investments held-to-maturity' and included in the balance sheet at cost, adjusted for amortisation of premium and discount on acquisition less provision for permanent diminution in value. Any gain or loss on realisation of these securities was recognised in the income statement as it arose and included in 'Profit on tangible fixed assets and long-term investments', which has been reclassified to 'Gains less losses from financial investments' to conform with 2005 disclosure.

Equity shares intended to be held on a continuing basis were classified as 'Long-term investments' and included in the balance sheet at fair value. Gains and losses arising from changes in fair value were accounted for as movements in the 'Long-term equity investment revaluation reserve'. When an investment was disposed of, the cumulative profit or loss, including any amounts previously recognised in the long-term equity investment revaluation reserve, was included in the income statement for the year in 'Profit on tangible fixed assets and long-term investments', or 'Gains less losses from financial investments' in the 2004 restated format.

(j) Derivative financial instruments and hedge accounting

From 1 January 2005

Derivatives are initially recognised at fair value from the date a derivative contract is entered into and are subsequently re-measured at their fair value.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either: (i) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); (ii) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge); or (iii) hedges of net investments in a foreign entity (net investment hedge). Hedge accounting is applied for derivatives designated as fair value, cash flow or net investment in a foreign entity hedge, provided certain criteria are met.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded as 'Trading income' in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used shall be amortised to the income statement over the period to maturity.

Cash flow hedge

The effective portion of changes in the fair value of derivatives (net of interest accrual) that are designated and qualified as cash flow hedges are recognised in shareholders' equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'Trading income' along with accrued interest.

Amounts accumulated in shareholders' equity are recycled through the income statement in the periods in which the hedged item will affect profit or loss (e.g., when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer

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meets the criteria for hedge accounting, any cumulative gain or loss existing in shareholders' equity at that time remains in shareholders' equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in shareholders' equity is immediately transferred to the income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in shareholders' equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in shareholders' equity are included in the income statement when the foreign operation is disposed of.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement and reported in 'Trading income', except where derivative contracts are used with financial instruments designated at fair value, in which case gains and losses are reported in 'Net income from financial instruments designated at fair value'.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not designated at fair value. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

From 1 January 2004 to 31 December 2004

Accounting for derivatives was dependent upon whether the transactions were undertaken for trading or non-trading purposes.

Trading transactions included transactions undertaken for market-making, to service customers' needs and for proprietary purposes, together with any related hedges. Transactions were marked to market through the income statement as 'Trading income'.

Non-trading transactions were those undertaken for hedging purposes as part of the group's risk management strategy against cash flows, assets, liabilities or positions, and were measured on an accruals basis, with the effect being recognised in 'Net interest income'.

(k) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Previously, netting was applied only where a legal right of set-off existed.

(l) Goodwill and intangible assets

(i) The group has early adopted HKFRS 3 and goodwill was frozen at carrying value at 1 January 2004. Goodwill is tested for impairment annually and reported net of accumulated impairment losses. Previously goodwill was amortised over its estimated useful life.

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Negative goodwill is taken to the income statement as it arises.

(ii) Intangible assets include the value of in-force long-term assurance business, computer software, trade names, mortgage servicing rights, customer lists, core deposit relationships, credit card customer relationships and merchant or other loan relationships.

Intangible assets that have a finite useful life, except for the value of in-force long-term assurance business, are stated at cost less amortisation and are amortised over their useful lives. A periodic review is performed on intangible assets to confirm that there has been no impairment such that the carrying value of the asset requires to be reduced.

(m) Property

Investment property

Investment properties are included in the balance sheet at fair value with changes in fair value recognised in the income statement (in 'Other operating income') with effect from 1 January 2005. Previously, the change in the fair value of investment properties was recognised in the premises revaluation reserve. The comparative income statement for 2004 has not been adjusted to reflect the revaluation of investment properties, as permitted by HKAS 40.

Leasehold land for own use

Land held under leases greater than 500 years is regarded as being under a finance lease and is capitalised, revalued periodically and included in 'Property'. Leasehold land with lease term less than 500 years is classified as an operating lease. Lease premiums on operating leases are accounted for as prepaid rentals and are amortised to the income statement on a straight-line basis over the remaining lease term. The premises revaluation reserve has been restated to exclude prior years' revaluations on such leases. Where the original cost of leasehold land and buildings cannot be reliably split, both land and buildings are treated as being under a finance lease, in accordance with HKAS 17.

(n) Pension and other post-retirement benefits

The group implemented HK SSAP 34 (which is materially equivalent to HKAS 19) in relation to the accounting for pensions in 2003, and adopted the corridor approach for the recognition of actuarial gains and losses. The group has changed its policy in 2005 to fully recognise actuarial gains and losses in the statement of changes in equity.

(o) Equity compensation plans

Where shares of HSBC Holdings plc are awarded to an employee of the group on commencement of service as an inducement, or as bonuses with a vesting period, the cost of shares awarded is amortised over the vesting period from the date the shares are awarded. Shares purchased for such purpose are classified as available-for-sale and reported under 'Financial investments'.

For share options, the compensation expense is spread over the vesting period from the date they are granted. The compensation expense is determined by reference to the fair value of the options on grant date, and the impact of any non-market vesting conditions such as option lapses. Where the group is not charged for this by HSBC Holdings plc, the corresponding amount is credited to 'Other reserves'.

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The group has taken advantage of the transition provision in HKFRS 2 'Share-based payment' and applied the treatment described above to shares and options granted after 7 November 2002 which were not yet vested at 1 January 2005. Previously, share awards made to employees as part of their annual bonus were charged to the income statement as incurred. For share options granted, no compensation cost was recognised previously.

(p) Foreign currencies

Exchange differences arising from the re-translation of opening foreign currency net investments and the related cost of hedging and exchange differences arising from re-translation of the result for the period from the average rate to the exchange rate ruling at the period-end are accounted for in a separate foreign exchange reserve. Exchange differences on a monetary item that is part of a net investment in a foreign operation are recognised in the income statement of separate subsidiary financial statements. In the consolidated financial statements, these exchange differences are recognised in the foreign exchange reserve.

(q) Insurance contracts

From 1 January 2005

Through its insurance subsidiaries, the group issues contracts to customers that contain insurance risk, financial risk or a combination thereof. A contract under which the group accepts significant insurance risk from another party, by agreeing to compensate that party on the occurrence of a specified uncertain future event, is classified as an insurance contract. Such an insurance contract may also transfer financial risk, but is accounted for as an insurance contract in accordance with HKFRS 4.

A contract issued by the group that transfers financial risk, without significant insurance risk, is classified as an investment contract, and accounted for as a financial instrument in accordance with HKAS 39. The financial assets held by the group for the purpose of meeting liabilities under insurance and investment contracts are accounted for as financial instruments.

Income generated from assets backing contracts is reported in the income statement on a line-by-line basis according to the classification of assets as detailed in (i). Claims incurred and movement in policyholder liabilities for insurance contracts are reported as such in the income statement. Income allocated to policyholders on investment contracts is reported as 'Interest expense' and 'Net income from financial instruments designated at fair value' as appropriate.

From 1 January 2004 to 31 December 2004

Policies issued by insurance subsidiaries on long-term assurance contracts were all accounted for as insurance contracts. Net investment income on assets backing policyholder liabilities was reported as such in the 2004 restated format. Allocation of such income to policyholders was reported as 'Net insurance claims incurred and movement in policyholder liabilities'.

(r) Debt securities in issue and subordinated liabilities

From 1 January 2005

Debt securities issued for trading purposes or designated at fair value are reported under the appropriate balance sheet captions. Other debt securities in issue and subordinated liabilities are measured at amortised

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cost using the effective interest rate method and are reported under 'Debt securities in issue' or 'Subordinated liabilities'.

From 1 January 2004 to 31 December 2004

Debt securities in issue were measured at cost adjusted for amortised premiums and discounts, and were reported under 'Debt securities in issue' or 'Subordinated liabilities'.

(s) Preference shares

Preference shares satisfying certain conditions set out in HKAS 32, are required to be reclassified as liabilities, with preference dividends reported as interest expense. Previously, such costs were recorded as dividends.

(t) Other presentation differences

Certain profit and loss items have also been reclassified to conform with 2005 presentation including the following:

- reclassifying profit on disposal of tangible fixed assets and surplus on property revaluation to 'Other operating income';
- reclassifying profit on disposal of long-term investments to 'Gains less losses from financial investments';
- provisions for litigation and other charges are reclassified to 'General and administrative expenses';
- 'Share of profits in associates' is stated net of taxes.

Consolidated Income Statement for the half-year ended 30Jun04
Reconciliation of HK GAAP and HKFRS

Effect of transition to HKFRS (excluding HKAS 39 and HKFRS 4)										
Figures in HK\$m	Half-year ended 30Jun04 as reported	Assets acquired in exchange for advances	Pension and other post- retirement benefits	Pro- perty	Goodwill	Equity compe- nsation plans	Insurance contracts	Pre- ference shares	Consol- idation and others	
Interest										
income	27,432	(1)	-	-	-	-	130	-	(110)	
Interest expense	(8,812)	-	-	-	-	-	2	(692)	116	
Net interest income	18,620	(1)	-	-	-	-	132	(692)	6	
Fee income	10,072	-	-	-	-	-	2	-	(191)	
Fee expense	(1,510)	-	-	-	-	-	(26)	-	40	
Net fee income	8,562	-	-	-	-	-	(24)	-	(151)	
Trading income	3,708	-	-	-	-	-	-	-	121	
Net investment income on assets backing										

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policyholder liabilities	-	-	-	-	-	-	94	-	-
Gains less losses from financial investments	-	-	-	-	-	-	-	-	-
Dividend income	139	-	-	-	-	-	-	-	(28)
Net earned insurance premiums	-	-	-	-	-	-	8,735	-	-
Other operating income	2,686	18	-	8	-	-	(1,575)	-	(2)
Total operating income	33,715	17	-	8	-	-	7,362	(692)	(54)
Net insurance claims incurred and movement in policyholder liabilities	-	-	-	-	-	-	(7,356)	-	-
Net operating income before loan impairment charges and other credit risk provisions	33,715	17	-	8	-	-	6	(692)	(54)
Loan impairment charges and other credit risk provisions	1,440	(8)	-	-	-	-	-	-	-
Net operating income	35,155	9	-	8	-	-	6	(692)	(54)
Employee compensation and benefits	(7,281)	-	10	-	-	(3)	4	-	17
General and administrative expenses	(4,451)	-	-	(27)	-	-	(10)	-	(4)
Depreciation of property, plant and equipment	(1,019)	-	-	101	-	-	-	-	48
Amortisation of intangible assets and impairment of goodwill	(38)	-	-	-	37	-	-	-	(48)
Total operating expenses	(12,789)	-	10	74	37	(3)	(6)	-	13
Operating profit	22,366	9	10	82	37	(3)	-	(692)	(41)
Profit on tangible fixed assets and long-term investments	1,092	(9)	-	-	(62)	-	-	-	10
Surplus arising on property revaluation	853	-	-	(32)	-	-	-	-	-

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Share of profit in associates	(12)	-	-	-	-	-	-	-	41
Profit before tax	24,299	-	10	50	(25)	(3)	-	(692)	10
Tax charge	(4,015)	-	-	(7)	-	(17)	-	-	7
Profit after tax	20,284	-	10	43	(25)	(20)	-	(692)	17
Profit attributable to minority interests	(2,365)	-	-	-	-	7	-	-	28
Profit attributable to shareholders	17,919	-	10	43	(25)	(13)	-	(692)	45

Reconciliation of HK GAAP and HKFRS

Effect of transition to HKFRS (excluding HKAS 39)

Figures in HK\$m	Half-year ended 31Dec04 as reported	Assets acquired in exchange for advances	Pension and other post-retirement benefits	Property	Goodwill	Equity compensation plans	Insurance contracts	Pre-ference shares	Consolidation and others
Interest income	30,479	(1)	-	-	-	-	136	-	(118)
Interest expense	(10,867)	-	-	-	-	-	2	(848)	122
Net interest income	19,612	(1)	-	-	-	-	138	(848)	4
Fee Income	9,802	-	-	-	-	-	8	-	(217)
Fee Expense	(1,674)	-	-	-	-	-	(76)	-	51
Net fee income	8,128	-	-	-	-	-	(68)	-	(166)
Trading income	2,907	-	-	-	-	8	15	-	244
Net investment income on assets backing policyholder liabilities	-	-	-	-	-	-	2,326	-	-
Gains less losses from financial investments	-	-	-	-	-	-	-	-	-
Dividend income	47	-	-	-	-	-	(1)	-	6
Net earned insurance premiums	-	-	-	-	-	-	9,487	-	-
Other operating income	3,244	37	-	(5)	-	-	(1,861)	-	(3)
Total operating income	33,938	36	-	(5)	-	8	10,036	(848)	85

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Net insurance claims incurred and movement in policyholder liabilities	-	-	-	-	-	-	(10,028)	-	-
Net operating income before loan impairment charges and other credit risk provisions	33,938	36	-	(5)	-	8	8	(848)	85
Loan impairment charges and other credit risk provisions	(671)	(30)	-	-	-	-	-	-	-
Net operating income	33,267	6	-	(5)	-	8	8	(848)	85
Employee compensation and benefits	(7,462)	-	23	-	-	(92)	4	-	15
General and administrative expenses	(5,628)	-	-	(27)	-	-	(12)	-	(1)
Depreciation of property, plant and equipment	(1,077)	-	-	141	-	-	-	-	51
Amortisation of intangible assets and impairment of goodwill	(36)	-	-	-	36	-	-	-	(52)
Total operating expenses	(14,203)	-	23	114	36	(92)	(8)	-	13
Operating profit	19,064	6	23	109	36	(84)	-	(848)	98
Profit on tangible fixed assets and long-term investments	1,006	(7)	-	-	-	-	-	-	-
Surplus arising on property revaluation	171	-	-	42	-	-	-	-	-
Share of profit in associates	426	-	-	-	32	-	-	-	(44)
Profit before tax	20,667	(1)	23	151	68	(84)	-	(848)	54
Tax charge	(3,071)	-	(16)	(26)	-	(7)	-	-	20
Profit after tax	17,596	(1)	7	125	68	(91)	-	(848)	74
Profit attributable to minority interests	(1,950)	-	-	-	-	11	-	-	(131)
Profit attributable to shareholders	15,646	(1)	7	125	68	(80)	-	(848)	(57)

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Consolidated Balance Sheet at 30Jun04

Reconciliation of HK GAAP and HKFRS

		Effect of transition to HKFRS (excluding HKAS 39 and HKAS 38)							
Figures in HK\$m	At 30Jun04 as reported	Assets acquired in exchange for advances	Pension and other post-retirement benefits	Pro-erty	Goodwill	Equity compensation plans	Insurance contracts	Netting	Preference shares
ASSETS									
Cash and short-term funds	411,902	-	-	-	-	-	4,363	684	
Placings with banks maturing after one month	114,738	-	-	-	-	-	-	-	
Certificates of deposit	51,980	-	-	-	-	-	-	-	
Hong Kong SAR Government certificates of indebtedness	85,674	-	-	-	-	-	-	-	
Trading assets	85,738	-	-	-	-	-	19,241	7,714	
Derivatives	35,938	-	-	-	-	-	-	24,821	
Advances to customers	850,127	(793)	-	-	-	-	-	-	100
Financial investments	402,053	-	-	-	-	548	15,728	-	
Amounts due from fellow subsidiary companies	43,488	-	-	-	-	-	5,420	-	
Investments in associates	2,786	-	-	(80)	-	-	-	-	
Goodwill and intangible assets	907	-	-	-	43	-	2,968	-	
Property, plant and equipment	40,282	-	(10,890)	-	-	-	-	-	
Deferred tax assets	1,589	-	26	-	-	-	-	-	
Retirement benefits	1,074	-	487	-	-	-	-	-	
Other assets	106,427	793	-	2,667	-	(59)	(56,145)	(6)	
	2,234,703	-	513	(8,303)	43	489	(8,425)	33,313	
LIABILITIES									
Hong Kong SAR currency notes in circulation	85,674	-	-	-	-	-	-	-	
Deposits by									

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banks	73,900	-	-	-	-	-	158	1,582	
Customer									
accounts	1,572,387	-	-	-	-	-	(125)	108	
Trading									
liabilities	35,810	-	-	-	-	-	-	-	
Derivatives	33,688	-	-	-	-	-	-	23,915	
Debt									
securities in									
issue	127,399	-	-	-	-	-	(55)	7,696	
Retirement									
benefit									
liabilities	179	-	204	-	-	-	-	-	
Amounts due									
to fellow									
subsidiary									
companies	31,246	-	-	-	1	-	111	-	75
Amounts due									
to ultimate									
holding									
company	660	-	-	-	-	-	-	-	
Other									
liabilities	58,898	-	195	-	(127)	117	(1,746)	12	(75)
Liabilities to									
policyholders									
under									
long-term									
assurance									
business	53,870	-	-	-	-	-	(7,041)	-	
Current									
taxation	3,828	-	-	-	-	-	-	-	
Deferred									
taxation	4,381	-	(113)	(1,016)	-	-	273	-	
Subordinated									
liabilities	12,777	-	-	-	-	-	-	-	
Preference									
shares	-	-	-	-	-	-	-	-	47,21
	2,094,697	-	286	(1,016)	(126)	117	(8,425)	33,313	47,21
CAPITAL RESOURCES									
Share capital	59,570	-	-	-	-	-	-	-	(43,31
Other reserves	15,822	-	-	(9,745)	-	192	-	-	(3,89
Retained									
profits	44,204	-	227	2,458	169	180	-	-	
Proposed									
dividend	4,750	-	-	-	-	-	-	-	
Shareholders'									
funds	124,346	-	-	-	-	-	-	-	
Minority									
interests	15,660	-	-	-	-	-	-	-	
	140,006	-	-	-	-	-	-	-	
	2,234,703	-	513	(8,303)	43	489	(8,425)	33,313	

Consolidated Balance Sheet at 31Dec04

Reconciliation of HK GAAP and HKFRS

Effect of transition to HKFRS (excluding HKAS 39 and HKF

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Figures in HK\$m	At 31Dec04 reported	Assets acquired in exchange for advances	Pension and other post- retirement benefits	Pro- perty	Goodwill	Equity compe- nsation plans	Insurance contracts	Netting	Prefe- renced share
ASSETS									
Cash and short-term funds	501,207	-	-	-	-	-	5,098	4,287	
Placings with banks maturing after one month	74,481	-	-	-	-	-	230	-	
Certificates of deposit	48,643	-	-	-	-	-	3,100	-	
Hong Kong SAR Government certificates of indebtedness	92,334	-	-	-	-	-	-	-	
Trading assets	85,356	-	-	-	-	-	14,937	8,330	
Derivatives	54,837	-	-	-	-	-	-	39,541	
Advances to customers	919,253	(561)	-	-	-	-	-	-	
Financial investments	425,635	-	-	-	-	566	23,829	-	
Amounts due from fellow subsidiary companies	82,592	-	-	-	-	-	6,330	-	
Investments in associates	16,918	-	-	(107)	32	-	-	-	
Goodwill and intangible assets	1,526	-	-	-	67	-	3,513	-	
Property, plant and equipment	42,080	-	-	(11,432)	-	-	-	-	
Deferred tax assets	1,659	-	-	-	-	-	-	-	
Retirement benefits	1,297	-	10	-	-	-	-	-	
Other assets	111,227	561	-	2,622	24	(83)	(66,259)	(1)	
	2,459,045	-	10	(8,917)	123	483	(9,222)	52,157	
LIABILITIES									
Hong Kong SAR currency notes in circulation	92,334	-	-	-	-	-	-	-	
Deposits by banks	73,098	-	-	-	-	-	2	1,880	
Customer accounts	1,730,494	-	-	-	-	-	(227)	221	
Trading liabilities	37,281	-	-	-	-	-	-	-	
Derivatives	50,635	-	-	-	-	-	-	41,727	

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Debt securities in issue	150,179	-	-	-	-	-	(55)	8,315		
Retirement benefit liabilities	211	-	116	-	-	-	-	-		
Amounts due to fellow subsidiary companies	17,137	-	-	-	-	-	219	-	43	
Amounts due to ultimate holding company	479	-	-	-	-	-	-	-	7	
Other liabilities	62,548	-	-	-	(121)	(46)	(54)	14	(50)	
Liabilities to policyholders under long-term assurance business	62,643	-	-	-	-	-	(9,107)	-		
Current taxation	2,333	-	-	-	-	-	-	-		
Deferred taxation	4,676	-	(23)	(1,074)	50	88	-	-		
Subordinated liabilities	11,142	-	-	-	-	-	-	-		
Preference shares	-	-	-	-	-	-	-	-	55,60	
	2,295,190	-	93	(1,074)	(71)	42	(9,222)	52,157	55,60	
CAPITAL RESOURCES										
Share capital	74,213	-	-	-	-	-	-	-	(51,71)	
Other reserves	17,399	-	(10,098)			332			(3,88)	
Retained profits	51,083	-	(83)	2,255	194	109				
Proposed dividend	4,800	-	-	-	-	-				
Shareholders' funds	147,495									
Minority interests	16,360	-	-	-	-	-				
	163,855									
	2,459,045	-	10	(8,917)	123	483	(9,222)	52,157		

Consolidated Balance Sheet at 1Jan05

Effect of transition impacted by HKAS 39 and HKFRS 4

Figures in HK\$m	Balance excluding HKAS 39 and HKFRS 4	HKFRS4	HKAS39	Balance including HKAS 39 and HKFRS 4
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ASSETS

Cash and short-term funds	510,644	-	(33,625)	477,019
Placings with banks				
maturing after one month	74,711	-	(1,018)	73,693
Certificates of deposit	51,743	-	(2)	51,741
Hong Kong SAR Government				
certificates of indebtedness	92,334	-	-	92,334
Trading assets	109,899	-	20,041	129,940
Financial assets designated at				
fair value	-	-	36,072	36,072
Derivatives	94,398	-	(7,237)	87,161
Advances to customers	919,192	-	(4,036)	915,156
Financial investments	450,165	-	(15,468)	434,697
Amounts due from fellow				
subsidiary companies	82,592	-	(1,477)	81,115
Investments in associates	16,343	-	-	16,343
Goodwill and intangible assets	5,329	-	-	5,329
Property, plant and equipment	30,425	-	-	30,425
Deferred tax assets	1,711	-	(328)	1,383
Retirement benefits	1,307	-	-	1,307
Other assets	47,851	(89)	(10,384)	37,378
	2,488,644	(89)	(17,462)	2,471,093

LIABILITIES

Hong Kong SAR currency				
notes in circulation	92,334	-	-	92,334
Deposits by banks	74,980	-	(2,325)	72,655
Customer accounts	1,728,111	28,518	(63,512)	1,693,117
Trading liabilities	37,281	-	125,743	163,024
Financial liabilities				
designated at fair value	-	-	1,254	1,254
Derivatives	92,362	-	654	93,016
Debt securities in issue	155,162	-	(91,473)	63,689
Retirement benefit liabilities	327	-	-	327
Amounts due to fellow				
subsidiary companies	17,568	-	(1,731)	15,837
Amounts due to ultimate				
holding company	553	-	-	553
Other liabilities	60,610	(28,651)	12,540	44,499
Liabilities to policyholders under				
long-term assurance business	54,938	-	(54,938)	-
Liabilities to customers under				
investment contracts	-	-	28,468	28,468
Liabilities to customers under				
insurance contracts issued	-	-	26,312	26,312
Current taxation	2,333	-	29	2,362
Deferred taxation	3,715	-	(155)	3,560
Subordinated liabilities	11,142	-	74	11,216
Preference shares	55,602	-	-	55,602
	2,387,018	(133)	(19,060)	2,367,825

CAPITAL RESOURCES

Share capital	22,494	-	-	22,494
Other reserves	6,525	3	1,330	7,858
Retained profits	51,497	41	(80)	51,458
Proposed dividend	4,800	-	-	4,800
Shareholders' funds	85,316			86,610
Minority interests	16,310	-	348	16,658
	101,626			103,268
	2,488,644	(89)	(17,462)	2,471,093

SIGNATURE

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

HSBC Holdings plc

By:

Name: P A Stafford

Title: Assistant Group Secretary

Date: 1 August, 2005