

Notes to Financial Statements

31st December, 2000

1. Corporate Information

The nature of operations of the Group and its principal activities have not changed during the year and consisted of the provision of banking, insurance and investment services.

2. Summary of Significant Accounting Policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAPs"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, modified with respect to the measurement of premises and other investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 31st December, 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All the significant intercompany transactions and balances within the Group are eliminated on consolidation.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) Interest income on advances to customers is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (ii) Interest income on finance leases and hire purchase contracts is recognised on the basis set out below, under the heading of "Finance leases and hire purchase contracts";
- (iii) Fees and commission income from the banking business are recognised when earned or accrued;

2. Summary of Significant Accounting Policies (Cont'd)

Revenue recognition (Cont'd)

- (iv) Premiums from direct underwriting and the reinsurance business are recorded based on insurance policy contracts incepted and advices received from the ceding companies during the financial year, respectively, and are recognised as income when risk coverage is provided to the insured or the ceding companies;
- (v) Dividends from investments are accounted for when the right to receive payment is established;
- (vi) Profits or losses arising on the sale of investments are recognised when the buyer takes title;
- (vii) Commission and trading revenue are recognised on a trade date basis;
- (viii) Service fee income from the provision of investment advisory services is accounted for in the period in which it is earned;
- (ix) Corporate advisory services fee income is recognised when the services are rendered;
- (x) Commission on underwriting of shares is recognised when the obligation under the underwriting or sub-underwriting agreement has expired; and
- (xi) Rental income is recognised on the accrual basis.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than 50% of its voting power or issued share capital or controls the composition of its board of directors.

The Company's investments in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors. Details of the subsidiaries are set out in note 18.

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2. Summary of Significant Accounting Policies (Cont'd)

Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values which are expected to be other than temporary.

The results of jointly-controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are stated at cost less any provisions for diminutions in values which are expected to be other than temporary.

Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest of not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's investments in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminution in values which are other than temporary.

The results of associates are included in the Company's profit and loss account to the extent of dividends received. The Company's interests in associates are stated at cost less any provisions for diminutions in values which are other than temporary.

2. Summary of Significant Accounting Policies (Cont'd)

Investments

- (i) Certificates of deposit and held-to-maturity securities are redeemable at fixed dates, intended to be held to maturity and are stated at amortised cost less provisions for diminutions in values, on an individual investment basis. Amortised cost is cost plus or minus the cumulative amortisation of the difference between the purchase price and the maturity amount. Provisions for diminutions in values are made when carrying amounts are not expected to be recovered and are charged to the profit and loss account.
- (ii) Investment securities are securities which are intended to be held on a continuing basis and are stated at cost less provisions for diminutions in values, on an individual investment basis. Provisions are made when the fair values have declined below the carrying amounts unless there is evidence that the decline is temporary. Any reduction in carrying amounts is charged to the profit and loss account.
- (iii) Where the circumstances and events which led to the write-downs or write-offs of investment securities, certificates of deposit and other held-to-maturity securities cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the appreciation in fair value is credited to the profit and loss account, on an individual investment basis, to the extent of the amount previously charged.
- (iv) Investments other than investment securities, certificates of deposit and held-to-maturity securities are classified as other investments and are stated at their fair values on an individual investment basis. The gains or losses arising from changes in their respective fair values are credited or charged to the profit and loss account for the period in which they arise.

Advances and other accounts

Advances to customers, banks and other financial institutions, and accrued interest and other accounts are stated in the balance sheet net of provisions for bad and doubtful debts.

Sales of amounts receivable on mortgage loans without recourse to the Group are recognised when control over the receivables has been irrevocably transferred to a third party and the receivables are then no longer included in the balance sheet.

Interest on doubtful advances is credited to a suspense account which is netted in the balance sheet against the relevant balances.

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2. Summary of Significant Accounting Policies (Cont'd)

Bad and doubtful debts

Provision is made against advances and other accounts as and when they are considered doubtful. In addition, an amount is set aside as a general provision for doubtful debts. These provisions are deducted from advances and other accounts.

Unearned premiums

Unearned premiums represent that portion of premiums written which are estimated to relate to periods of risk subsequent to the balance sheet date. They are computed on the gross premiums written from direct and reinsurance underwriting less reinsurance premiums ceded during the year on a 1/24th basis.

Life reserve

The life reserve represents a reserve to cover unexpired risks of life insurance policies and is computed by reference to an actuarial valuation carried out annually.

Contingency reserve

Contingency reserve represents a reserve to cover unexpired default risk in respect of mortgage insurance policies and is computed as 50% of the net earned premium written on these policies. Such reserve is released to the insurance revenue accounts on expiry of the seventh year subsequent to the inception of the policies, when it is estimated that the amount of claim losses arising from the default in mortgage repayment can be assessed with reasonable accuracy.

Commission expenses and other acquisition costs

Commission expenses and other acquisition costs relating to the underwriting of general and life insurance are charged to the profit and loss account as incurred.

Outstanding claims

Full provision has been made for outstanding claims including those incurred but not reported until after the balance sheet date. This provision, although not capable of precise assessment, has been made in light of the available information and after taking into account the direct claims handling expenses and possible recoveries from other parties.

2. Summary of Significant Accounting Policies (Cont'd)

Unexpired risk

Provision is made for any excess of expected claims over unearned premiums and anticipated investment returns.

Premium receivables and receivables from reinsurance companies

The Group grants credit terms of less than 12 months to all its customers and cedants of the insurance business.

Intangible assets

Intangible assets represent the eligible rights to trade on or through The Stock Exchange of Hong Kong Limited ("Stock Exchange Trading Right") and the Hong Kong Futures Exchange Limited ("Futures Exchange Trading Right") and are stated at cost less accumulated amortisation. Amortisation is calculated on the straight-line basis to write off the cost of the assets over their estimated useful life of ten years.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation. Surpluses arising on revaluation are credited directly to the asset revaluation reserve.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalised as an additional cost of the fixed assets.

Advantage has been taken of the transitional provision set out in paragraph 72 of the SSAP 2.117, "Property, plant and equipment", issued by the Hong Kong Society of Accountants, which grants exemption from the requirement to make revaluations of the premises of the Group on a regular basis and, accordingly, no revaluation of these fixed assets was carried out in the current year.

Depreciation is calculated on the following bases to write off the cost or valuation of each asset, less any estimated residual value, over its estimated useful life.

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2. Summary of Significant Accounting Policies (Cont'd)

Fixed assets and depreciation (Cont'd)

Leasehold premises with residual lease periods of not more than 50 years are amortised in equal annual instalments over the terms of the leases excluding any renewal periods. Leasehold premises with lease periods of more than 50 years are amortised on the reducing balance basis at 2% per annum.

Furniture, fixtures, equipment and motor vehicles are depreciated to write off the cost of each asset over its estimated useful life of 3 to 10 years.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the sales proceeds and the carrying amount of the relevant asset. On disposal or retirement, any attributable revaluation surplus realised in respect of previous valuations is transferred directly to retained profits as a reserve movement.

Finance leases and hire purchase contracts

Leases that transfer substantially all the rewards and risks of ownership of assets leased to the lessees are accounted for as finance leases. At the inception of a finance lease, the Group records the transaction as if the leased assets were sold.

The amounts due from the lessees under finance leases and hire purchase contracts of a financing nature are recorded in the balance sheet as advances to customers. The amounts comprise the gross investment in the finance leases and hire purchase contracts less gross earnings allocated to future accounting periods.

The total gross earnings under finance leases and hire purchase contracts of a financing nature are allocated to the accounting periods over the duration of the underlying agreements on the "Rule of 78" basis.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

2. Summary of Significant Accounting Policies (Cont'd)

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash equivalents

Cash equivalents represent short term highly liquid investments, treasury bills and other debt securities which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired, less deposits and balances of banks and other financial institutions with original maturity within three months.

Foreign currencies

Foreign currency transactions are translated at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of subsidiaries, jointly-controlled entities and associates expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Translation differences, if any, are dealt with as movements in reserves.

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2. Summary of Significant Accounting Policies (Cont'd)

Off-balance sheet financial instruments

Off-balance sheet financial instruments arise from forward and swap transactions undertaken by the Group in the foreign exchange market.

Transactions undertaken for trading purposes are marked to market value and the gain or loss arising is recognised in the profit and loss account. Transactions designated as hedges are revalued on an equivalent basis to the assets, liabilities or net positions that they hedge. Any profit or loss arising from the revaluation is recognised in the profit and loss account.

Staff retirement schemes

The Group operates defined contribution provident funds (the "Funds") for its employees. Contributions to the Funds are charged to the profit and loss account as incurred. The amount of contribution made by the Group is based on a specified percentage of the monthly salary of the eligible employees. Forfeited contributions in respect of employees who leave the Group before their contributions become fully vested are available to the Group to reduce its ongoing funding and retirement scheme costs.

Commencing from 1st December, 2000, the Mandatory Provident Fund Schemes Ordinance took effect and introduced certain new arrangements for the provision of employee benefits. A new Mandatory Provident Fund scheme (the "MPF Scheme") has been set up by the Company for this purpose and employer's voluntary contributions are made under the scheme.

The future provision for all the Group's employees eligible for participation will be made under the MPF Scheme. The forfeited amount shall be refunded to the Group when the members leave employment prior to vesting fully of the employer's voluntary contributions.

3. Turnover and Revenue

Turnover represents the aggregate of gross premiums on fire, marine, general accident and life insurance, brokerage commission income for securities dealing, and net interest income from the provision of margin finance for securities dealing. Turnover also includes net interest income, commissions, fees and other revenue earned from the banking business.

An analysis of the Group's turnover and revenue is as follows:

	2000 HK\$'000	1999 HK\$'000
Banking:		
Interest income relating to banking business	980,486	895,297
Interest expense relating to banking business	(668,442)	(617,360)
Net fees and commission income relating to banking business	40,673	28,034
Gains less losses arising from dealing in foreign currencies	6,446	3,778
Other operating income from banking business	6,312	7,748
	365,475	317,497
Insurance:		
Gross premiums written	360,132	350,512
Investment services:		
Brokerage commission income	102,659	56,635
Interest income relating to provision of margin finance business	29,493	18,987
Interest expense relating to provision of margin finance business	(4,400)	(3,054)
	127,752	72,568
Turnover	853,359	740,577
Reinsurance commission income	28,533	32,762
Dividend income from:		
Listed investments	10,226	2,490
Unlisted investments*	5,832	247
Interest income, excluding that relating to the banking and provision of margin finance business	53,279	56,657
Other income	10,144	7,178
	108,014	99,334
Total revenue	961,373	839,911

* Excluding that relating to the banking business which is included in turnover.

Over 90% of the Group's turnover is attributable to its operations in Hong Kong.

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3. Turnover and Revenue (Cont'd)

Other net income/(expenses) of the Group is analysed as follows:

	2000 HK\$'000	1999 HK\$'000
Gains less losses on disposal of other investments:		
Shares of Hong Kong Exchanges and Clearing Limited *	17,060	–
Other listed investments	956	5,281
Unrealised gain/(loss) on other investments, net:		
Shares of Hong Kong Exchanges and Clearing Limited *	38,039	–
Other listed investments	(14,476)	4,173
Decrease/(increase) in unearned premiums (note 30)	(7,857)	8,088
Increase in life and contingency reserves (note 31)	(469)	(1,608)
Gains less losses on disposal of investment securities	1,345	19,711
Write back of provision/(provision) on held-to-maturity securities and investment securities	(5,060)	2,141
Gain/(loss) on disposal of fixed assets, net	(13)	13
Loss on partial disposal of interest in a subsidiary	–	(360)
	29,525	37,439

* Pursuant to the restructuring of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Hong Kong Futures Exchange Limited (the "Futures Exchange") completed on 6th March, 2000, the Group was granted three units of Stock Exchange Trading Rights, one unit of Futures Exchange Trading Rights and 3,808,500 ordinary shares of HK\$1 each in Hong Kong Exchanges and Clearing Limited (the "HKEC Shares"), in exchange for it giving up the three shares and one share, respectively, in the Stock Exchange and the Futures Exchange previously held. The prior costs of the previously-held shares in the Stock Exchange and the Futures Exchange have been apportioned to the Stock Exchange Trading Rights, the Futures Exchange Trading Rights and the HKEC shares according to their respective estimated fair value as at 6th March, 2000.

The Stock Exchange Trading Rights and Futures Exchange Trading Rights have been classified as intangible assets (note 21). During the year, 1,610,000 out of the 3,808,500 HKEC Shares were disposed of by the Group at a profit of approximately HK\$17,060,000.

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4. Profit from Operating Activities

The Group's profit from operating activities is arrived at after charging:

	Group	
	2000 HK\$'000	1999 HK\$'000
Reinsurance premiums ceded	137,537	133,022
Commission expenses for insurance business	82,226	79,500
Net claims after deducting recoveries from reinsurers	119,006	124,098
Commission expenses for investment service business	18,431	9,994
Auditors' remuneration	2,200	2,071
Depreciation charges	27,780	30,637
Fixed assets written off	115	55
Amortisation of intangible assets	120	–
Staff costs (including directors' remuneration, note 9)	178,711	146,890
Operating lease rentals in respect of land and buildings	12,117	12,681
Provision for bad and doubtful debts	120,179	111,941
Provision for amount due from an associate	3,336	–
Write-off of investment in an associate	108	–

A segmental analysis of the Group's profit from operating activities disclosed pursuant to the Listing Rules of The Stock Exchange of Hong Kong Limited is as follows:

	2000 HK\$'000	1999 HK\$'000
Banking	74,110	40,957
Insurance	55,633	86,891
Investment services	71,718	21,659
Others (including adjustments arising on consolidation)	13,114	16,670
Profit from operating activities	214,575	166,177

The amounts attributable to individual business divisions represented the gross amounts before eliminating any intercompany transactions on consolidation. The Group's profit from operating activities is arrived at after eliminating all significant intercompany transactions on consolidation.

Over 90% of the Group's profit from operating activities is attributable to its operation in Hong Kong.

Notes to Financial Statements (Cont'd)

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5. Tax

Hong Kong profits tax for the Group has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2000 HK\$'000	1999 HK\$'000
Current year provision:		
Hong Kong	22,937	18,774
Elsewhere	3,582	4,649
Overprovision in prior years	(2,739)	(3,810)
Rebate relating to prior year	–	(2,760)
	23,780	16,853
Share of tax credit attributable to an associate	(3)	–
Deferred tax charge (note 33)	11	–
	23,788	16,853

6. Net Profit from Ordinary Activities Attributable to Shareholders

The net profit attributable to shareholders dealt with in the financial statements of the Company is HK\$66,682,000 (1999: HK\$66,857,000).

7. Dividends

	Group and Company	
	2000 HK\$'000	1999 HK\$'000
Interim dividend paid: HK2.5 cents (1999: HK2.0 cents) per ordinary share	25,649	19,949
Proposed final dividend: HK5.5 cents (1999: HK5.0 cents) per ordinary share	57,046	50,251
	82,695	70,200

The final dividend will be paid in cash, subject to an option for the shareholders to elect to receive new shares of the Company credited as fully paid in lieu of cash. The number of new shares to be allotted to a shareholder who elects to receive a scrip dividend will be calculated by dividing the total amount of the final dividend on the whole or the appropriate part of his registered holding of shares, by the market value of the shares. For the purpose of calculating the number of new shares to be allotted, the board of directors proposes to value the shares at an amount which represents an approximately 3% discount to the closing market prices of the shares listed on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding and including 18th May, 2001. Fractional entitlements to new shares will be disregarded and the benefit thereof will be accrued to the Company.

8. Earnings Per Share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders of HK\$175,119,000 (1999: HK\$148,073,000) and the weighted average of 1,017,413,485 (1999: 993,107,207) ordinary shares in issue during the year.

Diluted earnings per share for the years ended 31st December, 2000 and 1999 has not been calculated as no diluting events existed during these years.

Notes to Financial Statements (Cont'd)

31st December, 2000

9. Directors' Remuneration and Emoluments of Five Highest Paid Individuals

Directors' remuneration

	Group	
	2000 HK\$'000	1999 HK\$'000
Fees:		
Executive directors	340	320
Independent non-executive directors	130	85
Other non-executive directors	540	430
	1,010	835
Other emoluments of executive directors:		
Basic salaries, housing, other allowances and benefits in kind	4,900	4,971
Contributions to provident fund	158	206
Bonuses paid and payable	6,275	2,501
	11,333	7,678
Other emoluments of independent non-executive directors:		
Basic salaries, housing, other allowances and benefits in kind	30	25
Other emoluments of other non-executive directors:		
Basic salaries, housing, other allowances and benefits in kind	22	22
Bonuses paid and payable	80	100
	102	122
	12,475	8,660

The directors' remuneration shown above does not include the estimated monetary value of the preferential interest rates for the loans granted to a director as included in the loans to officers, disclosed in note 34 to the financial statements, which amounted to approximately HK\$50,000 (1999: HK\$103,000).

9. Directors' Remuneration and Emoluments of Five Highest Paid Individuals (Cont'd)

The number of directors whose remuneration fell within the bands set out below is as follows:

	Number of directors	
	2000	1999
Nil – HK\$1,000,000	15	19
HK\$2,000,001 – HK\$2,500,000	1	1
HK\$2,500,001 – HK\$3,000,000	–	1
HK\$3,000,001 – HK\$3,500,000	1	1
HK\$6,000,001 – HK\$6,500,000	1	–
	18	22

There was no arrangement under which a director waived or agreed to waive any remuneration.

Employee costs

The five highest paid individuals include two (1999: two) directors, details of whose remuneration are set out above. The remuneration of the remaining three (1999: three) highest paid individuals is analysed below.

	Group	
	2000 HK\$'000	1999 HK\$'000
Basic salaries, housing, other allowances and benefits in kind	4,074	5,181
Contributions to provident fund	200	242
Bonuses paid and payable	12,048	4,718
	16,322	10,141

	Number of employees	
	2000	1999
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$2,500,001 – HK\$3,000,000	1	–
HK\$3,500,001 – HK\$4,000,000	–	1
HK\$4,000,001 – HK\$4,500,000	–	1
HK\$5,000,001 – HK\$5,500,000	1	–
HK\$8,500,001 – HK\$9,000,000	1	–
	3	3

Notes to Financial Statements (Cont'd)

31st December, 2000

10. Cash and Short Term Funds

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Cash in hand and balances with banks and other financial institutions	149,723	222,169	286	287
Money at call and short notice *	3,606,940	3,586,373	-	-
Treasury bills including Exchange Fund Bills #	147,529	373,802	-	-
	3,904,192	4,182,344	286	287

* Included in the Group's money at call and short notice as at 31st December, 1999 are deposits of approximately HK\$1,097,000 pledged in favour of Autoridade Monetária e Cambial de Macau as security for the outstanding claims provision and unearned premium reserve as required under the laws of Macau.

The treasury bills (including Exchange Fund Bills) are all unlisted debt securities issued by central governments and central banks. The maturity profile of which as at the balance sheet date is as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
With a residual maturity of:		
Three months or less	39,943	294,857
One year or less but over three months	107,586	40,256
Five years or less but over one year	-	38,689
	147,529	373,802

11. Placements with Banks and Other Financial Institutions Maturing Between One and Twelve Months

The maturity profile of placements with banks and other financial institutions maturing between one and twelve months as at the balance sheet date is as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
With a residual maturity of:		
Three months or less	1,186,831	1,241,818
One year or less but over three months	314,751	175,662
	1,501,582	1,417,480

Included in the Group's placements with banks and other financial institutions are deposits of approximately HK\$15,879,000 (1999: HK\$27,030,000) pledged in favour of Autoridade Monetaria e Cambial de Macau as security for the outstanding claims provision and unearned premium reserve as required under the laws of Macau.

12. Premium Receivables

The ageing analysis of the Group's premium receivables as at the balance sheet date is as follows:

	2000 HK\$'000	1999 HK\$'000
Three months or less	37,013	33,548
Six months or less but over three months	14,996	14,872
One year or less but over six months	5,625	6,783
Over one year	2,007	2,786
	59,641	57,989
Less: Provision for bad and doubtful debts	(4,864)	(3,816)
	54,777	54,173

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13. Other Investments

	Group	
	2000 HK\$'000	1999 HK\$'000
Listed equity, at market value		
– in Hong Kong	111,073	38,129
– outside Hong Kong	41,937	4,506
	<u>153,010</u>	<u>42,635</u>

The other investments analysed by issuers as at the balance sheet date are as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Public sector entities	118	1,946
Banks and other financial institutions	11,450	5,614
Corporate entities	141,442	35,075
	<u>153,010</u>	<u>42,635</u>

14. Certificates of Deposit Held

Certificates of deposit held by the Group are all unlisted debt securities.

The maturity profile of certificates of deposit held as at the balance sheet date is as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
With a residual maturity of:		
Three months or less	20,004	–
One year or less but over three months	63,379	115,149
Five years or less but over one year	124,775	39,963
	<u>208,158</u>	<u>155,112</u>

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15. Held-to-maturity Securities

	Group	
	2000 HK\$'000	1999 HK\$'000
Listed debt		
– in Hong Kong	80,158	55,626
– outside Hong Kong	143,128	35,120
	223,286	90,746
Unlisted debt	546,827	268,902
	770,113	359,648
Market value of listed held-to-maturity securities	221,751	89,422

The held-to-maturity securities analysed by issuers as at the balance sheet date are as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Public sector entities	71,710	52,112
Banks and other financial institutions	190,911	110,723
Corporate entities	507,492	196,813
	770,113	359,648

The maturity profile of held-to-maturity securities as at the balance sheet date is as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
With a residual maturity of:		
Three months or less	368,412	158,063
One year or less but over three months	60,984	–
Five years or less but over one year	262,767	149,473
Over five years	71,710	52,112
Undated	6,240	–
	770,113	359,648

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16. Advances and Other Accounts

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Advances to customers	8,298,099	7,858,239	-	-
Provision for bad and doubtful debts	(192,262)	(204,875)	-	-
	8,105,837	7,653,364	-	-
Advances to banks and other financial institutions	-	38,860	-	-
Accrued interest and other accounts less provisions	249,033	178,931	1,651	2,250
Provision for bad and doubtful debts	(1,113)	(375)	-	-
	247,920	178,556	1,651	2,250
Dividends receivable	-	-	33,000	63,200
Tax recoverable	643	-	-	-
	8,354,400	7,870,780	34,651	65,450

Specific provisions were made after taking into account the value of collateral in respect of the advances to customers against which the specific provisions were made.

Included in advances to customers of the Group are receivables in respect of assets leased under finance leases. The amounts receivable under finance leases and hire purchase contracts amounted to HK\$143,118,000 (1999: HK\$122,731,000). As at 31st December, 2000, the cost of assets for the purpose of letting under finance leases and hire purchase contracts was HK\$314,145,000 (1999: HK\$299,006,000). The aggregate rentals received and receivable in respect of the year ended 31st December, 2000 in relation to finance leases and hire purchase contracts were HK\$116,885,000 (1999: HK\$129,391,000).

16. Advances and Other Accounts (Cont'd)

The maturity profile of advances to customers as at the balance sheet date is as follows:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Repayable on demand	1,051,372	982,194	–	–
With a residual maturity of:				
Three months or less	1,658,423	1,236,822	–	–
One year or less but over three months	428,453	436,745	–	–
Five years or less but over one year	1,892,033	1,583,449	–	–
Over five years	2,971,918	3,126,711	–	–
Undated	295,900	492,318	–	–
	8,298,099	7,858,239	–	–

17. Investment Securities

	Group	
	2000 HK\$'000	1999 HK\$'000
Listed equity		
– in Hong Kong	–	6,670
– outside Hong Kong	207,390	207,193
	207,390	213,863
Unlisted		
– equity	54,469	63,646
– debt	19,535	24,758
	74,004	88,404
Total	281,394	302,267
Market value of listed investment securities	80,061	258,280

Notes to Financial Statements (Cont'd)

31st December, 2000

17. Investment Securities (Cont'd)

The directors are of the opinion that the decline in market value of the listed investment securities as at the balance sheet date is temporary in nature and, accordingly, a provision in respect of the carrying value thereof has not been made in these financial statements.

The investment securities analysed by issuers as at the balance sheet date are as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Corporate entities	70,953	92,280
Bank and other financial institutions	207,390	207,193
Others	3,051	2,794
	281,394	302,267

The maturity profile of debt securities included in investment securities as at the balance sheet date is as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
With a residual maturity of five years or less but over one year	3,051	2,795
Undated	16,484	21,963
	19,535	24,758

Included in the unlisted investment securities are equity interests in certain companies in which the percentage of equity attributable to the Group amounts to over 20%. These investments, however, are not equity accounted for in accordance with SSAP 2.110, "Accounting for associates", as the directors consider that the Group is not in a position to exercise significant influence over their operations. The results of these companies are dealt with in the consolidated profit and loss account of the Group to the extent of dividends received from these companies.

31st December, 2000

17. Investment Securities (Cont'd)

The particulars of these companies are as follows:

Name	Place of incorporation	Class of shares held	Proportion held
Robina Manila Hotel Limited	British Virgin Islands	Ordinary	25%
Yangon Hotel Holdings Limited	Cook Islands	Ordinary	30%

18. Investments in Subsidiaries

	Company	
	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	1,621,378	1,621,378

Balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries of the Company are as follows:

Company	Place of incorporation	Equity interest attributable to the Company		Nominal value of issued share capital	Principal activities
		Direct	Indirect		
Asia Insurance Company, Limited ("AI")	Hong Kong	100%	–	HK\$600,000,000 (Note (a))	Insurance
Asia Commercial Bank Limited	Hong Kong	100%	–	HK\$800,000,000	Banking
Asia Investment Services Limited	British Virgin Islands	100%	–	HK\$20,000,000	Investment holding
AFH Investments (BVI) Limited	British Virgin Islands	100%	–	US\$1,000,000	Investment holding
Asia Insurance (Finance) Limited	Hong Kong	–	100%	HK\$25,000,000	Mortgage loan financing

Notes to Financial Statements (Cont'd)

31st December, 2000

18. Investments in Subsidiaries (Cont'd)

Company	Place of incorporation	Equity interest attributable to the Company		Nominal value of issued share capital	Principal activities
		Direct	Indirect		
Asia Insurance (Pensions Fund) Limited	Hong Kong	–	100%	HK\$1,000,000	Pension fund management and investment holding
Chamberlain Investment Limited	Republic of Liberia	–	100%	US\$100	Investment holding
Progressive Investment Company Limited	Hong Kong	–	100%	HK\$10,000,000	Property investment
Bedales Investment Limited	Republic of Liberia	–	100%	Ordinary US\$100	Investment holding
		–	100%	Preference US\$3,000,000	
Asia Insurance Agency Inc.	United States of America	–	85%	US\$1,300,000	Insurance broking
Asia Commercial Bank (Nominees) Limited	Hong Kong	–	100%	HK\$100,000	Nominee services
Asia Commercial Bank (Trustee) Limited	Hong Kong	–	100%	HK\$10,000,000	Trustee services
ACB Finance Limited	Hong Kong	–	100%	HK\$25,000,000	Deposit-taking and finance lease and hire purchase

31st December, 2000

18. Investments in Subsidiaries (Cont'd)

Company	Place of incorporation	Equity interest attributable to the Company		Nominal value of issued share capital	Principal activities
		Direct	Indirect		
Hocomban Investments Limited	Hong Kong	–	100%	HK\$5,000,000	Property investment
Asia Investment Services (HK) Limited	Hong Kong	–	100%	HK\$10,000	Investment holding
Asia Financial (Securities) Limited	Hong Kong	–	100%	HK\$15,000,000	Securities brokerage and provision of margin finance
Asia Financial Pacific (Securities) Limited	Hong Kong	–	100%	HK\$12,000,000	Securities brokerage
AFH Credit Limited	Hong Kong	–	100%	HK\$5,000,000	Provision of loans and margin finance
Asia Financial (Research) Limited	Hong Kong	–	100%	HK\$600,000	Provision of investment advisory services
Asia Financial (Assets Management) Limited ("AFAM")	Hong Kong	–	72.86%	Class 'A' HK\$16,275,000	Provision of investment advisory services
		–	63.77%	Class 'B' HK\$6,417 (Note (b))	
Asia Financial International Limited	British Virgin Islands	–	85%	US\$100	Investment holding

Notes to Financial Statements (Cont'd)

31st December, 2000

18. Investments in Subsidiaries (Cont'd)

Company	Place of incorporation	Equity interest attributable to the Company		Nominal value of issued share capital	Principal activities
		Direct	Indirect		
Asia Financial Investment Management Limited (Formerly Asia Financial Corporate Finance Limited)	Hong Kong	–	85%	HK\$500,000	Provision of corporate advisory services
Asia Financial Consultancy Limited (Formerly Asia Financial Investment Consultancy Limited)	Hong Kong	–	85%	HK\$2	Provision of corporate advisory services
Asia Financial (Futures) Limited	Hong Kong	–	100%	HK\$20,000,000	Futures and options brokerage
Asia Financial Capital Limited	Hong Kong	–	85%	HK\$5,000,000	Provision of corporate advisory services

Notes:

(a) On 14th November, 2000, 200,000,000 ordinary shares of HK\$1 each in AI were issued and allotted at par to the Company, the sole shareholder of AI, by way of capitalisation of a sum of HK\$200,000,000 standing to the credit of the retained profits of AI.

(b) "A" Shares of AFAM carry the right to dividends and are eligible to vote at general meetings and participate in any surplus assets on the winding up of the company.

"B" Shares of AFAM carry the same rights and rank pari passu with the "A" Shares except that "B" Shares do not carry the right to vote at general meetings.

18. Investments in Subsidiaries (Cont'd)

The above table lists the subsidiaries of the Company as at 31st December, 2000 which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the assets and/or liabilities of the Group. To give details of the other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

The principal places of operations of the subsidiaries are the same as the places of incorporation, except for Asia Investment Services Limited, AFH Investments (BVI) Limited, Chamberlain Investment Limited, Bedales Investment Limited and Asia Financial International Limited, which operate mainly in Hong Kong.

19. Investments in Jointly-controlled Entities

	Group	
	2000	1999
	HK\$'000	HK\$'000
Share of net assets other than goodwill	12,910	20,000
Share of goodwill	2,197	–
	15,107	20,000

Loans to jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment, except for the amounts of HK\$4,600,000 and HK\$5,200,000 which bear interest at 0.5% above the 6-month HIBOR per annum, respectively, and are both repayable by 29th December, 2006.

Notes to Financial Statements (Cont'd)

31st December, 2000

19. Investments in Jointly-controlled Entities (Cont'd)

Particulars of the jointly-controlled entities of the Group are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of		Principal activities
			Ownership interest	Voting power	
Bank Consortium Holding Limited *	Corporate	Hong Kong	12.9%	1 out of 7 [#]	Provision of mandatory provident fund scheme services
Card Alliance Company Limited *	Corporate	Hong Kong	33.3%	2 out of 6 [#]	Provision of credit card support services
Net Alliance Company Limited	Corporate	Hong Kong	15%	2 out of 10 [#]	Provision of electronic banking support services

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

Representing the number of votes on the board of directors attributable to the Group.

31st December, 2000

20. Investments in Associates

	Group	
	2000 HK\$'000	1999 HK\$'000
Share of net assets	46,195	26,403

Balances with associates are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal associates of the Group are as follows:

Company	Place of incorporation	Percentage of interest held by the Group	Nominal value of issued share capital	Principal activities
Asia Investments International Limited *	British Virgin Islands	30%	US\$10,000	Investment holding
APIC Holdings, Inc. *	Philippines	50%	Peso23,241,700	Investment holding
Asian Insurance International (Holding) Limited	Bermuda	25%	US\$1,600,000	Investment holding
BC Reinsurance Limited *	Hong Kong	21%	HK\$100,000,000	Dormant
Asia Financial ICIA Limited	British Virgin Islands	50%	US\$10,050,000	Investment holding
Asia Financial LAMCO International Limited	Hong Kong	42.5%	HK\$800,000	Dormant

All the associates are corporate entities as at the balance sheet date.

* *Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.*

The above table lists the associates of the Group as at 31st December, 2000 which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the assets and/or liabilities of the Group. To give details of the other associates would, in the opinion of the director, result in particulars of excessive length.

Notes to Financial Statements (Cont'd)

31st December, 2000

21. Intangible Assets

	Group	
	2000 HK\$'000	1999 HK\$'000
Cost:		
At beginning of year	–	–
Transfer from other investments (note 3)	1,437	–
At 31st December	1,437	–
Accumulated amortisation:		
At beginning of year	–	–
Provided during the year	120	–
At 31st December	120	–
Net book value:		
At 31st December	1,317	–

The intangible assets represent three units of Stock Exchange Trading Rights and one unit of Futures Exchange Trading Rights in Hong Kong Exchanges and Clearing Limited.

31st December, 2000

22. Fixed Assets**Group**

	Premises HK\$'000	Furniture, fixtures, equipment and motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:			
At beginning of year	480,644	154,169	634,813
Additions	–	14,189	14,189
Disposals	–	(1,519)	(1,519)
Written off	–	(398)	(398)
At 31st December, 2000	480,644	166,441	647,085
Accumulated depreciation:			
At beginning of year	87,186	111,213	198,399
Charge for the year	9,227	18,553	27,780
Disposals	–	(1,375)	(1,375)
Written off	–	(283)	(283)
At 31st December, 2000	96,413	128,108	224,521
Net book value:			
At 31st December, 2000	384,231	38,333	422,564
At 31st December, 1999	393,458	42,956	436,414

The cost or valuation of the premises comprises:

	2000 HK\$'000	1999 HK\$'000
At 1991 valuation	360,843	360,843
At cost	119,801	119,801
	480,644	480,644

Notes to Financial Statements (Cont'd)

31st December, 2000

22. Fixed Assets (Cont'd)

Furniture, fixtures, equipment and motor vehicles are stated at cost.

Had the revalued premises of the Group been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK\$118,223,000 (1999: HK\$120,636,000).

The net book values of the premises comprise properties held under:

	2000 HK\$'000	1999 HK\$'000
Long term leases in Hong Kong	273,613	280,844
Medium term leases in Hong Kong	71,073	72,337
Medium term leases outside Hong Kong	38,035	38,700
Short term leases outside Hong Kong	1,510	1,577
	384,231	393,458

Company

	Furniture and fixtures HK\$'000
Cost:	
At beginning of year	1,639
Additions	114
At 31st December, 2000	1,753
Accumulated depreciation:	
At beginning of year	1,056
Charge for the year	211
At 31st December, 2000	1,267
Net book value:	
At 31st December, 2000	486
At 31st December, 1999	583

23. Share Capital

	2000 HK\$'000	1999 HK\$'000
Authorised:		
1,500,000,000 ordinary shares of HK\$1 each	1,500,000	1,500,000
Issued and fully paid:		
1,037,197,334 (1999: 1,005,015,538) ordinary shares of HK\$1 each	1,037,197	1,005,015

Pursuant to the scrip dividend scheme in relation to the final dividend payment for the year ended 31st December, 1999 and the interim dividend payment for the six months ended 30th June, 2000, an additional 32,181,796 ordinary shares of HK\$1 each were issued and credited as fully paid in lieu of cash dividends of HK\$41,602,000. The amount in excess of the par value of the shares issued, of approximately HK\$9,420,000, was credited to the share premium account (note 24).

Notes to Financial Statements (Cont'd)

31st December, 2000

24. Reserves

Group	Share	General	Contributed	Asset	Capital	Total
	premium			reserve		
	account	reserve	surplus	reserve	reserve	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 1999	536,823	359,883	88,562	164,943	113,240	1,263,451
Issue of shares	6,835	-	-	-	-	6,835
At 31st December, 1999	543,658	359,883	88,562	164,943	113,240	1,270,286
Reserves retained by:						
Company and subsidiaries	543,658	359,639	88,562	164,943	113,240	1,270,042
Associates	-	244	-	-	-	244
	543,658	359,883	88,562	164,943	113,240	1,270,286
At 1st January, 2000	543,658	359,883	88,562	164,943	113,240	1,270,286
Issue of shares (note 23)	9,420	-	-	-	-	9,420
Transfer from retained profits	-	-	-	-	200,000	200,000
At 31st December, 2000	553,078	359,883	88,562	164,943	313,240	1,479,706
Reserves retained by:						
Company and subsidiaries	553,078	359,639	88,562	164,943	313,240	1,479,462
Associates	-	244	-	-	-	244
	553,078	359,883	88,562	164,943	313,240	1,479,706

24. Reserves (Cont'd)**Company**

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Total HK\$'000
At 1st January 1999	536,823	301,865	210,280	1,048,968
Issue of shares	6,835	–	–	6,835
At 31st December, 1999 and 1st January 2000	543,658	301,865	210,280	1,055,803
Issue of shares (note 23)	9,420	–	–	9,420
At 31st December, 2000	553,078	301,865	210,280	1,065,223

During the year, Asia Insurance Company, Limited, a wholly-owned subsidiary of the Company, issued and allotted 200,000,000 ordinary shares of HK\$1 each to the Company by way of capitalisation of a sum of HK\$200,000,000 standing to the credit of its retained profits. Accordingly, a corresponding amount was transferred to a non-distributable capital reserve at Group level to reflect the capitalisation.

The Group's general reserve was set up mainly from the transfer of retained profits.

The Group's contributed surplus arose in 1990 as a result of a Group reorganisation, and represents the difference between the nominal value of the Company's shares issued under the reorganisation and the nominal value of the shares of the subsidiaries acquired.

The Company's contributed surplus arose from the same reorganisation in 1990, and represents the difference between the nominal value of the Company's shares issued under the reorganisation and the then consolidated net asset value of the acquired subsidiaries.

Under the Companies Act 1981 of Bermuda (as amended), the Company's contributed surplus is distributable to shareholders.

At the balance sheet date, the reserves of the Company available for cash distribution to shareholders, as calculated under the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK\$374,705,000 (1999: HK\$390,718,000).

In addition, under the provisions of the Companies Act 1981 of Bermuda (as amended), the Company's share premium account and capital reserve may be distributed in the form of fully paid bonus shares.

31st December, 2000

25. Banking Facilities

As at 31st December, 2000, the Group's bank loans and overdrafts were secured by:

- (i) marketable securities of the Group's clients (consent of the clients has been properly obtained by the Group) with an aggregate market value of approximately HK\$83 million at 31st December 2000; and
- (ii) corporate guarantee from the Company to the extent of HK\$390 million (note 39).

26. Bank Loans, Secured

All the secured bank loans were repayable within one year as at the balance sheet date.

27. Deposits and Balances of Banks and other Financial Institutions

The maturity profile of deposits and balances of banks and other financial institutions as at the balance sheet date is as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Repayable on demand	24,383	37,711
With a residual maturity of three months or less	260,075	219,831
	284,458	257,542

28. Current, Fixed, Savings and other Deposits of Customers

The maturity profile of current, fixed, savings and other deposits of customers as at the balance sheet date is as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Repayable on demand	1,292,169	977,767
With a residual maturity of:		
Three months or less	8,466,798	8,664,643
One year or less but over three months	894,872	669,574
Five years or less but over one year	11,700	4,059
	10,665,539	10,316,043

31st December, 2000

29. Certificates of Deposit Issued

The maturity profile of certificates of deposit issued as at the balance sheet date is as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
With a residual maturity of:		
One year or less but over three months	350,000	619,561
Five years or less but over one year	600,000	–
	950,000	619,561

30. Unearned Premiums

	Fire insurance HK\$'000	Marine insurance HK\$'000	General accident and other insurance HK\$'000	Total HK\$'000
Group				
At 1st January, 1999	24,709	10,117	68,471	103,297
Decrease in unearned premiums (note 3)	(133)	(3,250)	(4,705)	(8,088)
At 31st December, 1999	24,576	6,867	63,766	95,209
Represented by:				
Unearned premiums in respect of direct and reinsurance inwards business	45,021	15,574	87,346	147,941
Less: Reinsurance outwards	(20,445)	(8,707)	(23,580)	(52,732)
At 31st December, 1999	24,576	6,867	63,766	95,209
At 1st January, 2000	24,576	6,867	63,766	95,209
Increase in unearned premiums (note 3)	584	1,422	5,851	7,857
At 31st December, 2000	25,160	8,289	69,617	103,066
Represented by:				
Unearned premiums in respect of direct and reinsurance inwards business	46,249	16,961	96,284	159,494
Less: Reinsurance outwards	(21,089)	(8,672)	(26,667)	(56,428)
At 31st December, 2000	25,160	8,289	69,617	103,066

Notes to Financial Statements (Cont'd)

31st December, 2000

31. Life and Contingency Reserves

Group	Life reserve HK\$'000	Contingency reserve HK\$'000	Total HK\$'000
At 1st January, 1999	10,376	–	10,376
Increase in reserve (note 3)	1,571	37	1,608
At 31st December, 1999 and 1st January, 2000	11,947	37	11,984
Increase in reserve (note 3)	308	161	469
At 31st December, 2000	12,255	198	12,453

32. Provisions for Outstanding Claims

Provisions for outstanding claims are recorded net of recoveries from reinsurers. The gross claim provisions before reinsurance recoveries amounted to HK\$239,277,000 (1999: HK\$279,273,000) at the balance sheet date. In addition, included in the total provisions is HK\$41,500,000 (1999: HK\$47,500,000) specifically made in respect of claims incurred but not reported at the balance sheet date.

31st December, 2000

33. Deferred Tax

	Group	
	2000 HK\$'000	1999 HK\$'000
At beginning of year	2,726	2,726
Charge for the year (note 5)	11	–
At balance sheet date	2,737	2,726

The principal components of the Group's deferred tax liability/(asset) provided/(not recognised) at the balance sheet date were as follows:

	Provided		Not recognised	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Accelerated capital allowances	2,122	2,125	–	–
Tax losses carried forward	–	–	(10,636)	(9,257)
Others	615	601	(226)	–
	2,737	2,726	(10,862)	(9,257)

The revaluation of the Group's premises does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

Notes to Financial Statements (Cont'd)

31st December, 2000

34. Loans to Officers

No loans have been granted by the Company to any of its directors during the year and/or remained outstanding at the balance sheet date.

Particulars of a loan to an officer of the insurance group, who is also a director of the Company, are as follows:

Name of borrower	1st January, 2000 HK\$'000	31st December, 2000 HK\$'000	Maximum amount outstanding during the year HK\$'000
Lau Ki-Chit	1,762	1,545	1,762

The loan is secured by a property. Interest is charged at 4% per annum, and the loan is repayable by monthly instalments.

Loans to directors of the Company by the banking group, disclosed pursuant to Section 161B(4C) of the Hong Kong Companies Ordinance, are as follows:

	2000 HK\$'000	1999 HK\$'000
Aggregate amount of relevant loans outstanding at the balance sheet date	36,392	40,954
Maximum aggregate amount of relevant loans outstanding during the year	44,629	43,992

35. Notes to Consolidated Cash Flow Statement

(a) Reconciliation of profit from operating activities to net cash inflow/(outflow) from operating activities

	2000 HK\$'000	1999 HK\$'000
Profit from operating activities	214,575	166,177
Interest income, excluding that related to the banking and provision of margin finance business	(53,279)	(56,657)
Dividend income	(16,058)	(2,737)
Loan recoveries	712	336
Provision for bad and doubtful debts	120,179	111,941
Provision/(write back of provision) on held-to maturity securities and investment securities	5,060	(2,141)
Gain on disposal of other investments, net	(18,016)	(5,281)
Unrealised loss/(gain) on other investments, net	(23,563)	(4,173)
Realised gain on disposal of investment securities, net	(1,345)	(19,711)
Loss on partial disposal of interest in a subsidiary	-	360
Provision for amount due from an associate	3,336	-
Write-off of investments in an associate	108	-
Amortisation of intangible assets	120	-
Depreciation charges	27,780	30,637
Fixed assets written off	115	55
Loss/(gain) on disposal of fixed assets	13	(13)
Increase in money at call and short notice with original maturity over three months	(211,555)	-
Decrease in treasury bills including Exchange Fund Bills with original maturity over three months	81,498	2,332
Increase in placements with banks and other financial institutions with original maturity over three months	(234,190)	(122,823)
Decrease/(increase) in pledged deposits	24,729	(9)
Decrease/(increase) in amounts due from reinsurance companies	1,231	(65)
Decrease/(increase) in premium receivables	(1,652)	5,895
Decrease/(increase) in amounts due from associates	(41)	3,377
Decrease/(increase) in certificates of deposit held with original maturity over three months	(53,046)	84,660
Increase in held-to-maturity securities with original maturity over three months	(238,027)	(147,290)
Increase in advances to customers	(571,578)	(366,569)
Decrease in advances to banks and other financial institutions	38,860	-
Decrease/(increase) in accrued interest and other accounts	(70,102)	283
Increase/(decrease) in deposits and balances of banks and other financial institutions with original maturity over three months	(207,683)	207,683
Increase in current, fixed, savings and other deposits of customers	349,496	2,437,190
Increase/(decrease) in certificates of deposit issued	330,439	(281,337)
Increase/(decrease) in other accounts and provisions	(20,673)	76,930
Increase in amount due to an associate	66	18,503
Increase in amounts due to reinsurance companies	10,432	3,531
Increase/(decrease) in unearned premiums	7,857	(8,088)
Increase in life and contingency reserves	469	1,608
Increase in provisions for outstanding claims	450	273
Net cash inflow/(outflow) from operating activities	(503,283)	2,134,877

Notes to Financial Statements (Cont'd)

31st December, 2000

35. Notes to Consolidated Cash Flow Statement (Cont'd)

(b) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$'000	Bank loans HK\$'000	Minority interests HK\$'000
At 1st January, 1999	1,523,544	20,000	2,169
Net cash inflow from financing	–	12,000	–
Shares issued in lieu of cash dividends	25,129	–	–
Arising on partial disposal of interest in a subsidiary	–	–	360
Minority shareholders' share of profit for the year	–	–	1,310
<hr/>			
At 31st December, 1999 and 1st January, 2000	1,548,673	32,000	3,839
Shares issued in lieu of cash dividends	41,602	–	–
Dividend paid to a minority shareholders	–	–	(150)
Minority shareholders' share of profit for the year	–	–	7,172
<hr/>			
At 31st December, 2000	1,590,275	32,000	10,861

31st December, 2000

35. Notes to Consolidated Cash Flow Statement (Cont'd)**(c) Acquisition of a subsidiary**

	2000 HK\$'000	1999 HK\$'000
Net assets acquired:		
Cash and short term funds	-	9,168
Investment securities	-	4,400
Advances to customers	-	17,825
Accrued interest and other accounts	-	7,619
Fixed assets	-	323
Other accounts and provisions	-	(25,013)
	-	14,322
Satisfied by:		
Cash and short term funds	-	7,253
Interests in associates	-	7,069
	-	14,322

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2000 HK\$'000	1999 HK\$'000
Cash consideration paid	-	(7,253)
Cash and short term funds acquired	-	9,168
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	-	1,915

The subsidiary acquired during the year ended 31st December, 1999 utilised HK\$357,000 of the Group's net operating cash flow, utilised HK\$33,000 for investing activities, and had no significant impact in respect of returns on investments and servicing of finance, tax and financing activities.

31st December, 2000

35. Notes to Consolidated Cash Flow Statement (Cont'd)

(d) Major non-cash transaction

During the year, an aggregate of 32,181,796 (1999: 18,294,082) ordinary shares of HK\$1 each of the Company were issued and credited as fully paid in lieu of cash dividends of HK\$41,602,000 (1999: HK\$25,129,000). The amount in excess of the par value of the shares issued, of approximately HK\$9,420,000 (1999: HK\$6,835,000), was credited to the share premium account.

36. Off-balance Sheet Exposures

(a) Contingent liabilities and commitments

The following is a summary of the contractual amount of each significant class of contingent liabilities and commitments of the Group which are attributable to its banking business outstanding at the balance sheet date:

	2000 HK\$'000	1999 HK\$'000
Direct credit substitutes	54,547	47,457
Transaction-related contingencies	9,297	–
Trade-related contingencies	316,296	270,061
Other commitments with an original maturity of under one year or which are unconditionally cancellable	2,569,544	1,002,432
Other commitments with an original maturity of one year and over	374,703	–
	3,324,387	1,319,950

31st December, 2000

36. Off-balance Sheet Exposures (Cont'd)**(b) Derivatives**

The following is a summary of the contractual amount of each significant class of derivatives entered into by the Group (which are attributable to its banking business) which remained outstanding at the balance sheet date:

	2000 HK\$'000	1999 HK\$'000
Forward foreign exchange contracts – hedging:		
Swaps	158,882	576,655
Others	120,146	46,352
	279,028	623,007

- (c) The aggregate replacement costs and credit risk weighted amounts of the above off-balance sheet exposures, which do not take into account the effects of bilateral netting arrangements, are:

Group

	2000		1999	
	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Direct credit substitutes	–	30,511	–	21,314
Trade-related contingencies	–	51,390	–	48,206
Other commitments with an original maturity of 1 year and over or which are unconditionally cancellable	–	184,900	–	–
Exchange rate contracts	219	597	782	1,334
	219	267,398	782	70,854

Notes to Financial Statements (Cont'd)

31st December, 2000

37. Other Commitments

- (a) At the balance sheet date, the Group had capital commitments as follows:

	2000 HK\$'000	1999 HK\$'000
Contracted, but not provided for	8,960	3,109

The Company did not have any significant capital commitments as at the balance sheet date.

- (b) Set out below are the Group's annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:

	2000 HK\$'000	1999 HK\$'000
Within one year	3,276	–
In the second to fifth years, inclusive	6,396	9,911
	<u>9,672</u>	<u>9,911</u>

The Company did not have any significant commitments under non-cancellable operating leases.

38. Possible Litigation

- (a) A claim amounting to HK\$16 million was brought against a subsidiary of the Company by a customer in 1997 alleging that the Group is liable for the compensation of a loss of profit suffered by the customer. Having considered the legal counsels' advice, the directors believe that the Group has meritorious defences for the claim. Accordingly, the directors consider that provision for the claim is not necessary.
- (b) A claim was also brought against another subsidiary of the Company by an overseas broker in 1999 alleging that the Group did not settle a trade transaction which caused a loss of approximately MYR9 million (equivalent to approximately HK\$18 million) to the overseas broker. Having considered the legal counsel's advice, the directors believed that the Group has a very good case to defend the claim. Accordingly, the director consider that no provision for the claim is necessary.

31st December, 2000

39. Other Contingent Liabilities

As at 31st December, 2000, corporate guarantee of HK\$390 million in aggregate was executed by the Company for banking facilities made available to the Group which was utilised to the extent of HK\$40,706,000 at the balance sheet date (note 25).

40. Related Party Transactions**Group**

	2000		1999	
	Directors and key management personnel HK\$'000	Enterprises and individuals related to directors and key management personnel HK\$'000	Directors and key management personnel HK\$'000	Enterprises and individuals related to directors and key management personnel HK\$'000
Loans and advances granted:				
Aggregate balance at balance sheet date	12,271	26,949	15,375	59,571
Interest income received and receivable	878	2,242	1,106	5,805
Deposits received:				
Aggregate balance at balance sheet date	104,649	297,341	98,493	98,394
Interest expenses paid and payable	6,264	17,831	5,258	3,475
Interbank activities:				
Deposits placed	-	433,705	-	398,641
Deposits received	-	2,480	-	1,198
Certificates of deposit held	-	-	-	5,000
Interest income	-	20,758	-	15,909
Interest expenses	-	156	-	214
Standby credit facilities available to the Group	-	623,976	-	621,760
Premium income:				
Gross premiums written	41	7,441	-	5,889
Reinsurance premium ceded	-	13,629	-	14,271
Commission income, net	10	3,564	-	2,462
Fees and commission:				
Income	27	52	15	41
Expenses	-	617	-	676
Rental expenses	-	1,104	-	1,104

31st December, 2000

40. Related Party Transactions (Cont'd)

During the year, the Group paid service fee expense amounting to HK\$1,600,000 (1999: Nil) to a jointly-controlled entity of the Group. In addition, deposits aggregating HK\$96,640,000 were placed by certain jointly-controlled entities to a subsidiary of the Group and interest expenses paid and payable to the jointly-controlled entities amounted to HK\$2,862,000.

All the above transactions were carried out within the scope of normal business of the Group under normal commercial terms and conditions except for certain loans which were granted to key management personnel under the Staff Housing Loan Policy of the Group.

41. Post Balance Sheet Event

Subsequent to the balance sheet date, on 12th February, 2001, two wholly-owned subsidiaries of the Company together with certain other independent investors entered into a shareholder agreement in respect of incorporating a company for the purpose of engaging in the underwriting of individual and group life insurance and reinsurance business. The Group is entitled to appoint a total of two directors out of the twelve seats constituting the board of directors of the investee company and is committed to contribute an initial capital contribution of HK\$35,000,000 in aggregate into the investee company.

42. Comparative Amounts

Certain comparative amounts have been reclassified to conform with the current year's presentation. In particular, in last year, the Group had certain equity interests in and loans to a jointly-controlled entity (the "JV") as defined under SSAP 21, "Accounting for interests in joint ventures". The amounts were included in "investment securities" as there were no significant results or reserve movements of the JV to be shared by the Group for the year ended 31st December, 1999. For the current year, the directors considered that it is more appropriate to classify the investment under "interests in jointly-controlled entities" and accounted for the JV in accordance with SSAP 21. The related comparative amounts have been reclassified to conform with the current year's presentation.

In addition, the directors have reviewed the presentation of the profit and loss account and have reclassified certain items in the comparative consolidated profit and loss account from "other revenue" and "other operating expenses" to "other net income", to bring the presentation in line with that of the current year.

43. Approval of the Financial Statements

The financial statements were approved by the board of directors on 22nd March, 2001.