

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statements of Standard Accounting Practice (“SSAP”) No.25 “Interim Financial Reporting”. The accounting policies and basis of preparation are the same as those used in the annual financial statements for the year ended 31 December 2000, except that the Group has changed its accounting policy following the adoption of the revised SSAP No.9 “Events after the balance sheet date”. In accordance with the revised SSAP No.9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively and accordingly, the proposed final dividend previously recorded as a current liability as at 31 December 2000 has been reclassified under the shareholders’ equity in the balance sheet. Certain comparative figures have been reclassified to conform with the current period’s presentation.

2. SEGMENTAL INFORMATION

(a) By classes of business:

	Turnover		Profit from operating activities	
	Six months ended 30 June 2001 (Unaudited) HK\$’000	2000 (Unaudited) HK\$’000	Six months ended 30 June 2001 (Unaudited) HK\$’000	2000 (Unaudited) HK\$’000 Restated
Banking	171,731	164,388	53,895	44,714
Insurance	229,781	205,593	22,875	34,456
Investment Services	42,106	51,344	5,716	19,558
Others (including intra-group items)	(494)	1,903	2,038	8,392
	<u>443,124</u>	<u>423,228</u>	<u>84,524</u>	<u>107,120</u>

The amounts attributable to individual business divisions represented the gross amounts before eliminating any intra-group transactions on consolidation.

(b) By geographical area:

Over 90% of the Group’s turnover and operating profit for the six months ended 30 June 2001 were attributable to the Group’s operations in Hong Kong.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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:

	Six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Banking:		
Interest income relating to banking business	427,590	474,320
Interest expense relating to banking business	(274,484)	(326,119)
Net fees and commission income relating to banking business	18,223	19,117
Gains less losses arising from dealing in foreign currencies	3,523	3,203
Other operating income from banking business	2,935	3,355
	177,787	173,876
Insurance:		
Gross premiums written	224,295	199,748
Investment services:		
Brokerage commission income	31,069	37,525
Interest income relating to provision of margin finance business	10,618	14,667
Interest expense relating to provision of margin finance business	(645)	(2,588)
	41,042	49,604
Turnover #	443,124	423,228
Reinsurance commission income	20,798	15,913
Dividend income from:		
Listed investments	1,638	9,677
Unlisted investments*	1,800	3,865
Interest income, excluding that relating to the banking and provision of margin finance business	23,416	25,026
Other income	3,925	4,539
	51,577	59,020
Total revenue	494,701	482,248

Turnover attributable to individual business divisions represented amounts after elimination of intra-group transactions.

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



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. TURNOVER AND REVENUE (continued)

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

	Six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Gains/(losses) on disposal of other investments, net	(710)	4,311
Unrealised losses on other investments, net	(10,469)	(10,166)
Increase in unearned premiums	(22,955)	(10,416)
Increase in life and contingency reserves	(4,058)	(742)
Gains less losses on disposal of held-to-maturity securities and investment securities	4,357	357
Write back of provision on held-to-maturity securities and investment securities	3,350	129
Gains/(losses) on disposal of fixed assets, net	(852)	56
	<u>(31,337)</u>	<u>(16,471)</u>

4. PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Reinsurance premiums ceded	89,302	84,853
Commission expenses for insurance business	48,976	42,029
Net claims after deducting recoveries from reinsurers	59,343	60,250
Commission expenses for investment service business	10,927	8,019
Auditors' remuneration	1,583	1,106
Depreciation charges	11,742	13,639
Fixed assets written off	–	115
Amortisation of intangible assets	72	43
Staff costs (including directors' remuneration)	83,752	76,763
Operating lease rentals in respect of land and buildings	6,458	6,134
Provision for bad and doubtful debts	19,762	38,799
	<u>19,762</u>	<u>38,799</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. TAX

Hong Kong profits tax for the Group has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the period. 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.

	Six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Hong Kong	12,827	13,678
Elsewhere	1,334	2,085
	<u>14,161</u>	<u>15,763</u>

6. TRANSFER TO CAPITAL RESERVE

During the period, Asia Financial Capital Limited, a 85%-owned subsidiary of the Company, issued and allotted 5,000,000 ordinary shares of HK\$1 each to its shareholders by way of capitalization of a sum of HK\$5,000,000 standing to the credit of its retained profits. Accordingly, an amount of HK\$4,250,000 was transferred to a non-distributable capital reserve at Group level to reflect the capitalisation.

7. INTERIM DIVIDEND

	Six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interim dividend: HK1.8 cents (2000: HK2.5 cents) per ordinary share	<u>19,027</u>	<u>25,649</u>

The directors have resolved to pay an interim dividend of HK1.8 cents per share for the six months ended 30 June 2001 (2000: HK2.5 cents per share) to shareholders whose names appear on the Register of Members of the Company as at the close of business on 12 October 2001.

Total interim dividend will be HK\$19,027,061 on the basis of 1,057,058,924 shares in issue during the period (2000: HK\$25,648,896 for 1,025,955,853 shares).

The interim dividend will be paid in cash, subject to an option for the shareholders to elect to receive new scrip shares of the Company credited as fully paid in lieu of cash ("Scrip Dividend Scheme"). A circular containing details of the Scrip Dividend Scheme together with a Form of Election will be despatched to shareholders on or about 17 October 2001. The issue of new shares under the Scrip Dividend Scheme is subject to the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting listing of and permission to deal in the new shares. Dividend warrants and certificates representing new shares to be issued under the Scrip Dividend Schemes will be despatched to shareholders on or about 15 November 2001.



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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\$63,038,000 (2000: HK\$89,345,000) and the weighted average of 1,038,184,927 (2000: 1,005,935,991) ordinary shares in issue during the period.

Diluted earnings per share for each of the six months ended 30 June 2001 and 2000 has not been calculated as no diluting events existed during these periods.

9. CASH AND SHORT TERM FUNDS

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
Cash in hand and balances with banks and other financial institutions	141,943	149,723
Money at call and short notice	3,824,161	3,606,940
Treasury bills including Exchange Fund Bills #	148,523	147,529
	<u>4,114,627</u>	<u>3,904,192</u>

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:

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
With a residual maturity of:		
Three months or less	89,887	39,943
One year or less but over three months	58,636	107,586
	<u>148,523</u>	<u>147,529</u>

10. 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:

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
With a residual maturity of:		
Three months or less	598,233	1,186,831
One year or less but over three months	160,726	314,751
	<u>758,959</u>	<u>1,501,582</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. PREMIUM RECEIVABLES

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

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
Three months or less	68,136	37,013
Six months or less but over three months	15,921	14,996
One year or less but over six months	7,751	5,625
Over one year	–	2,007
	91,808	59,641
Less: Provision for bad and doubtful debts	(5,155)	(4,864)
	86,653	54,777

12. OTHER INVESTMENTS

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
Listed equity, at market value		
– in Hong Kong	102,615	111,073
– outside Hong Kong	62,618	41,937
	165,233	153,010
Unlisted equity	56,489	–
	221,722	153,010

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

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
Public sector entities	103	118
Banks and other financial institutions	24,784	11,450
Corporate entities	196,835	141,442
	221,722	153,010

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. 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:

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
With a residual maturity of:		
Three months or less	–	20,004
One year or less but over three months	59,991	63,379
Five years or less but over one year	163,748	124,775
	<u>223,739</u>	<u>208,158</u>

14. HELD-TO-MATURITY SECURITIES

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
Listed debt		
– in Hong Kong	82,149	80,158
– outside Hong Kong	121,112	143,128
	203,261	223,286
Unlisted debt	603,155	546,827
	806,416	770,113
Market value of listed held-to-maturity securities	201,013	221,751

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

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
Public sector entities	8,175	71,710
Banks and other financial institutions	228,699	190,911
Corporate entities	569,542	507,492
	806,416	770,113

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. HELD-TO-MATURITY SECURITIES (continued)

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

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
With a residual maturity of:		
Three months or less	399,980	368,412
One year or less but over three months	134,620	60,984
Five years or less but over one year	212,622	262,767
Over five years	52,954	71,710
Undated	6,240	6,240
	806,416	770,113

15. ADVANCES AND OTHER ACCOUNTS

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
Advances to customers	8,869,508	8,298,099
Provision for bad and doubtful debts	(210,712)	(192,262)
	8,658,796	8,105,837
Accrued interest and other accounts less provisions	243,371	249,033
Provision for bad and doubtful debts	(2,037)	(1,113)
	241,334	247,920
Dividends receivable	1,800	–
Tax recoverable	732	643
	8,902,662	8,354,400



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. ADVANCES AND OTHER ACCOUNTS (continued)

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

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
Repayable on demand	866,919	1,051,372
With a residual maturity of:		
Three months or less	1,039,022	1,658,423
One year or less but over three months	705,895	428,453
Five years or less but over one year	2,388,614	1,892,033
Over five years	3,566,904	2,971,918
Undated	302,154	295,900
	<u>8,869,508</u>	<u>8,298,099</u>

16. INVESTMENT SECURITIES

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
Listed equity		
– outside Hong Kong	207,390	207,390
Unlisted		
– equity	42,165	54,469
– debt	19,349	19,535
	<u>61,514</u>	<u>74,004</u>
Total	<u>268,904</u>	<u>281,394</u>
Market value of listed investment securities	<u>103,407</u>	<u>80,061</u>

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. INVESTMENT SECURITIES (continued)

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

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
Corporate entities	61,514	70,953
Bank and other financial institutions	207,390	207,390
Others	–	3,051
	<u>268,904</u>	<u>281,394</u>

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

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
With a residual maturity of five years or less but over one year	3,051	3,051
Undated	16,298	16,484
	<u>19,349</u>	<u>19,535</u>

17. 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:

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
Repayable on demand	53,352	24,383
With a residual maturity of three months or less	601,601	260,075
	<u>654,953</u>	<u>284,458</u>



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. 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:

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
Repayable on demand	1,383,643	1,292,169
With a residual maturity of:		
Three months or less	8,172,494	8,466,798
One year or less but over three months	569,247	894,872
Five years or less but over one year	12,059	11,700
	<u>10,137,443</u>	<u>10,665,539</u>

19. CERTIFICATES OF DEPOSIT ISSUED

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

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
With a residual maturity of:		
One year or less but over three months	200,000	350,000
Five years or less but over one year	1,100,000	600,000
	<u>1,300,000</u>	<u>950,000</u>

20. 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:

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
Direct credit substitutes	46,486	54,547
Transaction-related contingencies	9,163	9,297
Trade-related contingencies	275,112	316,296
Other commitments with an original maturity of under one year or which are unconditionally cancellable	2,766,012	2,569,544
Other commitments with an original maturity of one year and over	366,215	374,703
Others	158,052	—
	<u>3,621,040</u>	<u>3,324,387</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. OFF-BALANCE SHEET EXPOSURES (continued)

(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:

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
Forward foreign exchange contracts-hedging:		
Swaps	1,727,072	158,882
Others	210,813	120,146
	<u>1,937,885</u>	<u>279,028</u>

(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:

	At 30 June 2001		At 31 December 2000	
	Replacement cost (Unaudited) HK\$'000	Credit risk weighted amount (Unaudited) HK\$'000	Replacement cost (Audited) HK\$'000	Credit risk weighted amount (Audited) HK\$'000
Direct credit substitutes	–	30,535	–	30,511
Transaction-related contingencies	–	43	–	–
Trade-related contingencies	–	46,956	–	51,390
Other commitments with an original maturity of 1 year and over or which are unconditionally cancellable	–	143,001	–	184,900
Exchange rate contracts	394	2,264	219	597
Others	–	31,610	–	–
	<u>394</u>	<u>254,409</u>	<u>219</u>	<u>267,398</u>



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. OTHER COMMITMENTS

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

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
Contracted, but not provided for	<u>3,120</u>	<u>8,960</u>

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:

	At 30 June 2001 (Unaudited) HK\$'000	At 31 December 2000 (Audited) HK\$'000
Within one year	3,376	3,276
In the second to fifth years, inclusive	<u>4,577</u>	<u>6,396</u>
	<u>7,953</u>	<u>9,672</u>

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

22. RELATED PARTY TRANSACTIONS

	At 30 June 2001		At 31 December 2000	
	Directors and key management personnel (Unaudited) HK\$'000	Enterprises and individuals related to directors and key management personnel (Unaudited) HK\$'000	Directors and key management personnel (Audited) HK\$'000	Enterprises and individuals related to directors and key management personnel (Audited) HK\$'000
Loans and advances granted:				
Aggregate balance at balance sheet date	13,715	36,242	12,271	26,949
Deposits received:				
Aggregate balance at balance sheet date	106,784	338,375	104,649	297,341
Interbank activities:				
Deposits placed	–	558,254	–	433,705
Deposits received	–	110,850	–	2,480
Standby credit facilities available to the Group	<u>–</u>	<u>623,984</u>	<u>–</u>	<u>623,976</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. RELATED PARTY TRANSACTIONS (continued)

	Six months ended 30 June 2001		Six months ended 30 June 2000	
	Directors and key management personnel (Unaudited) HK\$'000	Enterprises and individuals related to directors and key management personnel (Unaudited) HK\$'000	Directors and key management personnel (Unaudited) HK\$'000	Enterprises and individuals related to directors and key management personnel (Unaudited) HK\$'000
Loans and advances granted:				
Interest income received and receivable	349	858	500	1,032
Deposits received:				
Interest expenses paid and payable	2,607	7,098	3,170	8,711
Interbank activities:				
Interest income	–	5,142	–	7,548
Interest expenses	–	623	–	50
Premium income:				
Gross premiums written	79	535	75	657
Reinsurance premium ceded	–	8,245	–	6,942
Commission income, net	7	694	6	773
Rental expenses	–	132	–	132

During the six months ended 30 June 2001, the Group paid service fee expense amounting to HK\$2,580,000 (2000: HK\$400,000) to a jointly-controlled entity of the Group. In addition, deposits aggregating HK\$190,845,000 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\$2,213,000.

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.