

Notes to Financial Statements

31st December, 2001

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. Impact of New and Revised Statements of Standard Accounting Practice ("SSAPs")

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 13 (Revised): "Accounting for investment properties"
- SSAP 14 (Revised): "Leases"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business combinations - subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill - continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

These SSAPs prescribe new accounting measurements and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements arising from those SSAPs which have had significant effects on these financial statements are summarised as follows:

SSAP 9 (Revised) prescribes which type of events, occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained profits on a separate line within the shareholders' equity section of the balance sheet. The prior year adjustment arising from the adoption of this revised SSAP is detailed in note 10 to the financial statements.

Notes to Financial Statements (cont'd)

31st December, 2001

2. Impact of New and Revised Statements of Standard Accounting Practice ("SSAPs") (cont'd)

SSAP13 (Revised) prescribes the accounting treatment for land and buildings held for investment purposes ("investment properties"). In prior years, a banking subsidiary of the Company (the "Bank") was exempt from compliance with SSAP 13. The exemption has however, been withdrawn by the revisions to SSAP 13, with the major impact on these financial statements being the separate disclosure within fixed assets of the investment properties held by the Bank, which were previously included in the premises category within fixed assets. The accounting policy and other detailed information in relation to the Group's investment properties are set out in notes 3 and 24 to the financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements and accordingly no prior year adjustment was required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 18 and 39 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year. The adoption of the SSAP has resulted in a prior year adjustment, further details of which are included in notes 9, 18 and 26 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements.

SSAP 31 prescribes the recognition and measurement criteria for the impairment of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior years' financial statements.

3. Summary of Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong 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, except for the periodic remeasurement of investment properties, premises and other investments as further explained in the accounting policies below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. 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 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 is recognised on the basis set out below, under the heading "Finance leases";
- (iii) fees and commission income from the banking business are recognised when earned or accrued;
- (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) dividend income is recognised when the Group's right to receive payment is established;
- (vi) profits or losses arising on the sale of investments are recognised when the buyer takes title;

Notes to Financial Statements (cont'd)

31st December, 2001

3. Summary of Significant Accounting Policies (cont'd)

Revenue recognition (cont'd)

- (vii) commission and trading revenue are recognised on a trade date basis;
- (viii) service fees 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 whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the activities of the joint venture company, capital contributions of the joint venture parties and details regarding the appointment of the board of directors or equivalent governing body of the joint venture company. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.



3. Summary of Significant Accounting Policies (cont'd)

Joint venture companies (cont'd)

A joint venture company is treated as:

- (a) a subsidiary, if the Group has unilateral control over the joint venture company;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control with other joint venture parties over the joint venture company;
- (c) an associate, if the Group does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's share/registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds less than 20% of the joint venture company's share/registered capital, and neither has joint control nor is in a position to exercise significant influence over the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control by the Group and other joint venture parties, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

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 impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally 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 interests 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 impairment losses.



Notes to Financial Statements (cont'd)

31st December, 2001

3. Summary of Significant Accounting Policies (cont'd)

Impairment of assets

An assessment is made at each balance sheet date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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 any impairment losses, 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.
- (ii) Investment securities are securities which are intended to be held on a continuing basis and are stated at cost less any impairment losses that are considered by the directors to be other than temporary, on an individual investment basis.
- (iii) In situations where the circumstances and events which led to impairments of investment securities, certificates of deposit or 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 reversal of the impairment is credited to the profit and loss account, on an individual investment basis, to the extent of the amount previously charged.

3. Summary of Significant Accounting Policies (cont'd)

Investments (cont'd)

- (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.
- (v) Equity-linked notes are debt securities with a maturity of usually less than one year, whose return is linked to the share price performance of a particular Hong Kong or overseas listed reference equity. The Group purchases such equity-linked notes at a discount and receives the full nominal amount of the notes (the "Nominal Value") at the maturity date, provided that the closing price of the particular reference equity on the maturity date is above a predetermined strike price (the "Strike Price"). If the closing price of the reference equity on the maturity date is at or below the Strike Price, the Group is obliged to redeem the equity-linked notes in exchange for shares in the underlying reference equity.

The equity-linked notes are stated at the cost of the notes plus cumulative amortisation of the difference between their purchase price and their Nominal Value at the maturity date.

Advances and other assets

Advances to customers, banks and other financial institutions, and accrued interest and other assets are recognised when cash is advanced, and 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. The receivables are then no longer included in the balance sheet.



Notes to Financial Statements (cont'd)

31st December, 2001

3. Summary of Significant Accounting Policies (cont'd)

Advances and other assets (cont'd)

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

Cash rebates granted in relation to residential mortgage loans which are subject to a prepayment penalty are capitalised and amortised to the profit and loss account over the prepayment penalty period.

Bad and doubtful debts

Provision is made against advances and other assets 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 assets.

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 the unexpired risks of life insurance policies and is computed by reference to an actuarial valuation carried out annually.

Contingency reserve

The contingency reserve is a reserve to cover unexpired default risk in respect of mortgage insurance policies and is computed as 50% of the net earned premiums written on these policies. Such reserve is released to the insurance revenue accounts on the expiry of the seventh year subsequent to the inception of the policies, when it is estimated that the amount of any claim losses arising from a 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 not deferred and are charged to the profit and loss account as incurred.

3. Summary of Significant Accounting Policies (cont'd)

Outstanding claims

Full provision has been made for outstanding claims including those incurred but not reported and those incurred but not sufficiently reported until after the balance sheet date, and also for related claims handling expenses estimated to be necessarily and directly incurred in the claims settlement process. This provision, although not capable of precise assessment, has been made in the light of available information and after taking into account any direct claims handling expenses and possible recoveries from other parties. Claims provisions are not discounted and no estimate of inflationary adjustments are made until confirmed as necessary.

Incurred but not reported outstanding claims represent losses which arose prior to the balance sheet date but which were reported only subsequent to the balance sheet date. Incurred but not sufficiently reported outstanding claims represent losses which arose and reported prior to the balance sheet date but whose claims have been revised with the development of evidence available only subsequent to the balance sheet date. These outstanding claims have been estimated by reference to the historical pattern of claim settlement in respect of each major class of the insurance portfolio. Any differences between the original claim provisions made in previous years and the subsequently revised or the settled amount are included in the insurance revenue account for the financial year in which the revision or settlement is made.

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 of its customers and cedants of the insurance business.

Intangible assets

Intangible assets, representing the eligibility 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 Rights"), are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis to write off the cost of the trading rights over their estimated useful life of ten years.



Notes to Financial Statements (cont'd)

31st December, 2001

3. Summary of Significant Accounting Policies (cont'd)

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. 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 80 of SSAP 17, "Property, plant and equipment", which grants exemption from the requirement to continue making revaluations of the premises of the Group subsequent to 1995 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.

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 net 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.



3. Summary of Significant Accounting Policies (cont'd)

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated, except where the unexpired terms of the leases are 20 years or less in which case depreciation is provided to write off the carrying amounts over the remaining lease terms, and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On the disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous revaluations is released to the profit and loss account.

Finance leases

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 are recorded in the balance sheet as advances to customers. The amounts comprise the gross investment in the finance leases less gross earnings allocated to future accounting periods.

The total gross earnings under finance leases are allocated to the accounting periods over the duration of the underlying agreements so as to produce an approximately constant periodic rate of return on the net cash investment for each accounting period.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in fixed assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.



Notes to Financial Statements (cont'd)

31st December, 2001

3. 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 for 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.

Provisions

A provision, other than those for outstanding claims and those arising from insurance contracts with policyholders, is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value of the amount arising from the passage of time is included in finance costs in the profit and loss account.

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.



3. Summary of Significant Accounting Policies (cont'd)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within shareholders' equity in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

In previous years, the Company recognised its proposed final dividend to shareholders, which was declared and approved after the balance sheet date, as a liability in its balance sheet. The Company also recognised the proposed final dividends of subsidiaries, which were declared and approved after the balance sheet date, as income in its profit and loss account for the year. The revised accounting treatment for dividends resulting from the adoption of SSAP 9 (Revised) and SSAP 18 (Revised) have given rise to prior year adjustments in both the Group's and the Company's financial statements, further details of which are included in notes 9, 10, 18 and 26 to the financial statements.

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 into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Translation differences, if any, are dealt with as movements in reserves.



Notes to Financial Statements (cont'd)

31st December, 2001

3. 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 a defined contribution provident fund (the "Fund") and a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for its employees. The MPF Scheme has operated since 1st December, 2000. Contributions to the Fund and the MPF Scheme are charged to the profit and loss account as incurred. The amount of contributions by the Group is based on a specified percentage of the monthly salary of eligible employees. Forfeited contributions of the Fund in respect of employees who left before they became fully vested are available to the Group to reduce its ongoing funding and retirement scheme costs. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully. The assets of the Fund and the MPF Scheme are held separately from those of the Group and placed in an independently administered fund.



4. Segment Information

SSAP 26 was adopted during the year, as further explained in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the banking business segment engages in the provision of banking, financial and related services;
- (b) the insurance segment engages in the provision of underwriting of general and life insurance;
- (c) the investment services segment engages in the provision of securities brokerage, futures and options brokerage, loans and margin finance and investment advisory services; and
- (d) the corporate and other segment engages in the business of securities trading and holding, and also includes general corporate income and expense items.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.



Notes to Financial Statements (cont'd)

31st December, 2001

4. Segment Information (cont'd)

Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

| Group | Banking | | Insurance | | Investment Services | | Corporate and other | | Eliminations | | Consolidated | |
|--|------------------|------------------|------------------|------------------|---------------------|------------------|---------------------|------------------|------------------|------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| Segment revenue: | | | | | | | | | | | | |
| External customers | 333,040 | 365,475 | 446,517 | 360,132 | 73,960 | 127,752 | - | - | - | - | 853,517 | 853,359 |
| Inter-segment | (9,625) | (21,282) | 2,548 | 5,611 | 1,812 | 4,052 | - | - | 5,265 | 11,619 | - | - |
| Total | 323,415 | 344,193 | 449,065 | 365,743 | 75,772 | 131,804 | - | - | 5,265 | 11,619 | 853,517 | 853,359 |
| Segment results | 68,402 | 74,110 | 24,881 | 55,633 | (8,238) | 71,718 | (26,477) | 11,553 | 1,773 | 1,561 | 60,341 | 214,575 |
| Share of results of: | | | | | | | | | | | | |
| Jointly-controlled entities | (12,671) | (7,393) | (2,031) | - | - | - | - | - | - | - | (14,702) | (7,393) |
| Associates | - | - | - | (1,177) | 6 | 8 | - | 66 | - | - | 6 | (1,103) |
| Profit before tax | | | | | | | | | | | 45,645 | 206,079 |
| Tax | | | | | | | | | | | (15,316) | (23,788) |
| Profit before minority interests | | | | | | | | | | | 30,329 | 182,291 |
| Minority interests | | | | | | | | | | | (221) | (7,172) |
| Net profit from ordinary activities attributable to shareholders | | | | | | | | | | | 30,108 | 175,119 |

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4. Segment Information (cont'd)

Business segments (cont'd)

| Group | Banking | | Insurance | | Investment Services | | Corporate and other | | Eliminations | | Consolidated | |
|--|-------------------|-------------------|------------------|------------------|---------------------|----------------|---------------------|----------------|------------------|------------------|-------------------|-------------------|
| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment assets | 13,446,830 | 14,202,409 | 1,257,487 | 1,216,976 | 281,761 | 417,344 | 455,213 | 605,583 | (394,168) | (726,575) | 15,047,123 | 15,715,737 |
| Interests in jointly-controlled entities | 19,907 | 15,107 | 36,440 | 21,000 | - | - | - | - | - | - | 56,347 | 36,107 |
| Interests in associates | - | - | 6,060 | 5,160 | 351 | 345 | 19,690 | 19,690 | - | - | 26,101 | 25,195 |
| Total assets | 13,466,737 | 14,217,516 | 1,299,987 | 1,243,136 | 282,112 | 417,689 | 474,903 | 625,273 | (394,168) | (726,575) | 15,129,571 | 15,777,039 |
| Segment liabilities | 11,915,931 | 12,672,255 | 410,604 | 356,919 | 83,869 | 282,083 | 20,929 | 46,650 | (422,724) | (717,944) | 12,008,609 | 12,639,963 |
| Other segment information: | | | | | | | | | | | | |
| Depreciation and charges | 20,363 | 23,318 | 1,610 | 1,223 | 1,673 | 1,367 | 266 | 214 | 10 | 1,658 | 23,922 | 27,780 |
| Amortisation of intangible assets | - | - | - | - | 143 | 120 | - | - | - | - | 143 | 120 |
| Impairment of assets | 1,140 | - | - | - | - | - | - | - | - | - | 1,140 | - |
| Provision/(write back of provision) for bad and doubtful debts | 49,834 | 94,039 | 6,433 | 1,048 | 19,383 | 25,092 | (3,500) | - | - | - | 72,150 | 120,179 |
| Provision against amount due from an associate | - | - | - | 3,336 | - | - | - | - | - | - | - | 3,336 |
| Write-off of investment in an associate | - | - | - | 108 | - | - | - | - | - | - | - | 108 |
| Impairment of held-to-maturity securities and investment securities | 3,897 | 1,560 | 14,537 | - | - | - | 13,256 | 3,500 | - | - | 31,690 | 5,060 |
| Capital expenditure | 20,092 | 8,974 | 1,112 | 1,460 | 2,952 | 3,641 | 345 | 114 | - | - | 24,501 | 14,189 |

Geographical segments

Over 90% of the Group's revenue, results, assets, liabilities, off-balance sheet commitments and exposures are derived from operations carried out in Hong Kong.

Notes to Financial Statements (cont'd)

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5. 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, investment income from investments and other revenue earned from the banking business.

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

| | 2001 | 2000 |
|--|------------------|-----------|
| | HK\$'000 | HK\$'000 |
| Banking: | | |
| Interest income relating to banking business | 720,747 | 980,486 |
| Interest expense relating to banking business | (439,080) | (668,442) |
| Net fees and commission income relating to banking business | 39,694 | 40,673 |
| Gains less losses arising from dealing in foreign currencies | 6,737 | 6,446 |
| Other operating income from banking business | 4,942 | 6,312 |
| | 333,040 | 365,475 |
| Insurance: | | |
| Gross premiums written | 446,517 | 360,132 |
| Investment Services: | | |
| Brokerage commission income | 58,108 | 102,659 |
| Interest income relating to provision of margin finance business | 16,655 | 29,493 |
| Interest expense relating to provision of margin finance business | (803) | (4,400) |
| | 73,960 | 127,752 |
| Turnover | 853,517 | 853,359 |
| Reinsurance commission income | 40,196 | 28,533 |
| Dividend income from: | | |
| Listed investments | 2,791 | 10,226 |
| Unlisted investments* | 4,378 | 5,832 |
| Interest income, excluding that relating to the banking and provision of margin finance businesses | 39,567 | 53,279 |
| Other income | 7,433 | 10,144 |
| Other revenue | 94,365 | 108,014 |
| | 947,882 | 961,373 |

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

Notes to Financial Statements (cont'd)

31st December, 2001

5. Turnover and Revenue (cont'd)

The other net income/(expenses) of the Group are analysed as follows:

| | 2001 | 2000 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Increase in unearned premiums – note 32 | (27,985) | (7,857) |
| Decrease/(increase) in life and contingency reserves – note 33 | 1,217 | (469) |
| Gain/(loss) on disposal of other investments, net: | | |
| Shares of Hong Kong Exchanges and Clearing Limited * | (1,792) | 17,060 |
| Other listed investments | (9,720) | 956 |
| Unrealised gain/(loss) on other investments, net: | | |
| Shares of Hong Kong Exchanges and Clearing Limited * | (11,957) | 38,039 |
| Other listed investments | (19,313) | (14,476) |
| Gains less losses on disposal of investment securities | 11,865 | 1,345 |
| Impairment of held-to-maturity securities and investment securities # | (31,690) | (5,060) |
| Gain on disposal of held-to-maturity securities | 4,441 | – |
| Loss on disposal of fixed assets, net | (851) | (13) |
| | (85,785) | 29,525 |

* 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"), effective on 6th March, 2000, the Group received three Stock Exchange Trading Rights, a Futures Exchange Trading Right and 3,808,500 ordinary shares of HK\$1.00 each in Hong Kong Exchanges and Clearing Limited (the "HKEC Shares") in exchange for its three shares and one share previously held in the Stock Exchange and Futures Exchange, respectively.

The prior costs of the previously-held shares in the Stock Exchange and Futures Exchange were apportioned to the Stock Exchange Trading Rights, the Futures Exchange Trading Rights and the HKEC Shares on the basis of their respective estimated fair value on 6th March, 2000.

Included in the balance is an impairment provision of HK\$27,256,000 made against an investment security for the shortfall between the carrying amount of the investment and the market value as at the balance sheet date, representing the extent that the directors consider the decline in the carrying amount to be other than temporary.

Notes to Financial Statements (cont'd)

31st December, 2001

6. Profit from Operating Activities

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

| | Group | |
|---|----------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Reinsurance premiums ceded | 175,784 | 137,537 |
| Commission expenses for insurance business | 100,996 | 82,226 |
| Net claims after deducting recoveries from reinsurers | 130,942 | 119,006 |
| Commission expenses for investment service business | 16,736 | 18,431 |
| Auditors' remuneration | 2,200 | 2,200 |
| Depreciation charges | 23,922 | 27,780 |
| Fixed assets written off | 888 | 115 |
| Amortisation of intangible assets | 143 | 120 |
| Staff costs (including directors' remuneration, note 7): | | |
| Wages and salaries | 159,150 | 175,185 |
| Pension scheme contributions | 6,835 | 5,810 |
| Less: Forfeited contributions | (879) | (2,284) |
| Net pension contributions | 5,956 | 3,526 |
| | 165,106 | 178,711 |
| Minimum lease payments under operating leases in respect of land and buildings | 12,986 | 12,117 |
| Impairment of other assets | 1,140 | – |
| Provision against bad and doubtful debts | 72,150 | 120,179 |
| Provision against amount due from an associate | – | 3,336 |
| Write-off of investment in an associate | – | 108 |



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

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

| | Group | |
|--|-----------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Fees: | | |
| Executive directors | 370 | 340 |
| Independent non-executive directors | 140 | 130 |
| Other non-executive directors | 593 | 540 |
| | 1,103 | 1,010 |
| Other emoluments of executive directors: | | |
| Basic salaries, housing, other allowances and benefits in kind | 4,924 | 4,900 |
| Pension scheme contributions | 185 | 158 |
| Bonuses paid and payable | 918 | 6,275 |
| | 6,027 | 11,333 |
| Other emoluments of independent non-executive directors: | | |
| Basic salaries, housing, other allowances and benefits in kind | 30 | 30 |
| Other emoluments of other non-executive directors: | | |
| Basic salaries, housing, other allowances and benefits in kind | 32 | 22 |
| Bonuses paid and payable | 80 | 80 |
| | 112 | 102 |
| | 7,272 | 12,475 |

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 36 to the financial statements, which amounted to approximately HK\$6,000 (2000: HK\$50,000).

Notes to Financial Statements (cont'd)

31st December, 2001

7. 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 | |
|-------------------------------|---------------------|-----------|
| | 2001 | 2000 |
| Nil – HK\$1,000,000 | 16 | 15 |
| HK\$1,500,001 – HK\$2,000,000 | 1 | – |
| HK\$2,000,001 – HK\$2,500,000 | 2 | 1 |
| HK\$3,000,001 – HK\$3,500,000 | – | 1 |
| HK\$6,000,001 – HK\$6,500,000 | – | 1 |
| | 19 | 18 |

Koji Fukuda, a non-executive director of the Company, has waived his director's fee with effect from May 2001 in the amount of HK\$26,667 in aggregate. Save as aforesaid, there was no arrangement under which a director waived or agreed to waive any remuneration.

The five highest paid individuals include three (2000: two) directors, details of whose remuneration are set out above. The remuneration of the remaining two (2000: three) highest paid individuals is analysed below:

| | Group | |
|--|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Basic salaries, housing, other allowances and benefits in kind | 4,283 | 4,074 |
| Pension scheme contributions | 339 | 200 |
| Bonuses paid and payable | – | 12,048 |
| | 4,622 | 16,322 |

7. DIRECTORS' REMUNERATION AND EMOLUMENTS OF FIVE HIGHEST PAID INDIVIDUALS (cont'd)

The number of non-director, highest paid individuals whose remuneration fell within the following bands is as follows:

| | Number of employees | |
|-------------------------------|---------------------|----------|
| | 2001 | 2000 |
| HK\$2,000,001 – HK\$2,500,000 | 2 | – |
| HK\$2,500,001 – HK\$3,000,000 | – | 1 |
| HK\$5,000,001 – HK\$5,500,000 | – | 1 |
| HK\$8,500,001 – HK\$9,000,000 | – | 1 |
| | 2 | 3 |

8. 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 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 | |
|---|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Current year provision: | | |
| Hong Kong | 13,948 | 22,937 |
| Elsewhere | 1,964 | 3,582 |
| Overprovision in prior years | (1,175) | (2,739) |
| | 14,737 | 23,780 |
| Share of tax charge/(credit) attributable to: | | |
| Jointly-controlled entity | 58 | – |
| Associate | – | (3) |
| Deferred tax charge – note 35 | 521 | 11 |
| Tax charge for the year | 15,316 | 23,788 |

Notes to Financial Statements (cont'd)

31st December, 2001

9. Net Profit from Ordinary Activities Attributable to Shareholders

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$6,739,000 (restated 2000: HK\$96,882,000).

The comparative amount for 2000 has been restated by a prior year adjustment resulting in a net credit of HK\$30,200,000 to the Company's net profit for that year, representing the 1999 proposed final dividends of HK\$63,200,000 from its subsidiaries, net of the 2000 proposed final dividend of HK\$33,000,000. The prior year adjustment reversed dividends from subsidiaries which were declared and approved by the subsidiaries after the prior year's balance sheet date, but which were recognised by the Company as revenue in its financial statements for that year. The prior year adjustment resulted in a reduction of HK\$63,200,000 in the amount of the Company's retained profits as at 1st January, 2000. This change in accounting policy has arisen from the adoption of revisions to SSAP 18, as further detailed in notes 2 and 26 to the financial statements.

The effect of this change in accounting policy on the Company's net profit for the current year was to increase the net profit by HK\$33,000,000 to HK\$6,739,000, representing the 2000 proposed final dividends of HK\$33,000,000 from its subsidiaries.

10. Dividends

| | Group and Company | |
|--|-------------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Interim dividend paid: | | |
| HK1.8 cents (2000: HK2.5 cents) per ordinary share | 19,027 | 25,649 |
| Proposed final dividend: | | |
| HK1.0 cent (2000: HK5.5 cents) per ordinary share | 10,580 | 57,046 |
| | 29,607 | 82,695 |

10. Dividends (cont'd)

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting and will be paid in cash.

During the year, the Group adopted SSAP 9 (Revised) "Events after the balance sheet date" as detailed in note 2 to the financial statements. To comply with the revised SSAP 9, a prior year adjustment has been made to reclassify the proposed final dividend for the year ended 31st December, 2000 of HK\$57,046,000, which was recognised as a liability at the prior year end, to the proposed final dividend reserve account within the shareholders' equity section of the balance sheet. The result of this has been to reduce the liabilities and increase the shareholders' equity of the Group and the Company previously reported as at 31st December, 2000 by HK\$57,046,000.

The effect of this change in accounting policy for the current year's financial statements is the inclusion of the current year's proposed final dividend of HK\$10,580,000 in the proposed final dividend reserve account within the shareholders' equity section of the balance sheet at 31st December, 2001, whereas in previous years it would have been recognised as a liability at the balance sheet date.

11. Earnings Per Share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders of HK\$30,108,000 (2000: HK\$175,119,000) and the weighted average of 1,047,823,429 (2000: 1,017,413,485) ordinary shares in issue during the year.

A diluted earnings per share amount for the years ended 31st December, 2001 and 2000 has not been disclosed as no diluting events existed during these years.



Notes to Financial Statements (cont'd)

31st December, 2001

12. Cash and Short Term Funds

| | Group | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| Cash in hand and balances with banks and other financial institutions | 183,603 | 149,723 | 283 | 286 |
| Money at call and short notice | 3,370,327 | 3,606,940 | – | – |
| Treasury bills, including Exchange Fund Bills # | 169,371 | 147,529 | – | – |
| | 3,723,301 | 3,904,192 | 283 | 286 |

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 | |
|--|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| With a residual maturity of: | | |
| Three months or less | 99,806 | 39,943 |
| One year or less but over three months | 69,565 | 107,586 |
| | 169,371 | 147,529 |

13. 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 | |
|--|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| With a residual maturity of: | | |
| Three months or less | 558,400 | 1,186,831 |
| One year or less but over three months | 123,563 | 314,751 |
| | 681,963 | 1,501,582 |

Included in the Group's placements with banks and other financial institutions were deposits of approximately HK\$16,192,000 (2000: HK\$15,879,000) 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.

14. Premium Receivables

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

| | 2001 HK\$'000 | 2000 HK\$'000 |
|--|------------------|------------------|
| Three months or less | 65,526 | 37,013 |
| Six months or less but over three months | 16,204 | 14,996 |
| One year or less but over six months | 4,393 | 5,625 |
| Over one year | 2,473 | 2,007 |
| | 88,596 | 59,641 |
| Less: Provision for bad and doubtful debts | (5,555) | (4,864) |
| | 83,041 | 54,777 |

Notes to Financial Statements (cont'd)

31st December, 2001

15. Other Investments

| | Group | |
|--|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Listed equity, at market value | | |
| – in Hong Kong | 58,467 | 111,073 |
| – outside Hong Kong | 17,602 | 41,937 |
| | 76,069 | 153,010 |
| Debt listed outside Hong Kong, at market value | 16,685 | – |
| Investment funds | | |
| – listed in Hong Kong, at market value | 2,978 | – |
| – listed outside Hong Kong, at market value | 59,664 | – |
| – unlisted | 79,545 | – |
| | 142,187 | – |
| Equity-linked notes, at amortised cost | 7,945 | – |
| | 242,886 | 153,010 |

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

| | Group | |
|--|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Public sector entities | 29,388 | 118 |
| Banks and other financial institutions | 6,218 | 11,450 |
| Corporate entities | 207,280 | 141,442 |
| | 242,886 | 153,010 |



16. Certificates of Deposit Held

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

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

| | Group | |
|--|-----------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| With a residual maturity of: | | |
| Three months or less | 40,005 | 20,004 |
| One year or less but over three months | 104,915 | 63,379 |
| Five years or less but over one year | 78,900 | 124,775 |
| | 223,820 | 208,158 |

17. Held-to-maturity Securities

| | Group | |
|--|------------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Listed debt | | |
| – in Hong Kong | 55,875 | 80,158 |
| – outside Hong Kong | 175,132 | 143,128 |
| | 231,007 | 223,286 |
| Unlisted debt | 954,338 | 546,827 |
| | 1,185,345 | 770,113 |
| Market value of listed held-to-maturity securities | 236,269 | 221,751 |

During the year, held-to-maturity securities with an aggregated amortised cost of HK\$126,546,000 were disposed of with a profit of HK\$4,441,000 being recognised in the profit and loss account. The major reason for the disposal of these held-to-maturity securities was to restructure the investment portfolio with shorter maturities to allow for more effective interest rate risk management.

Notes to Financial Statements (cont'd)

31st December, 2001

17. Held-to-maturity Securities (cont'd)

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

| | Group | |
|--|------------------|----------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Public sector entities | 7,448 | 71,710 |
| Banks and other financial institutions | 231,672 | 190,911 |
| Corporate entities | 946,225 | 507,492 |
| | 1,185,345 | 770,113 |

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

| | Group | |
|--|------------------|----------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| With a residual maturity of: | | |
| Three months or less | 816,711 | 368,412 |
| One year or less but over three months | 8,020 | 60,984 |
| Five years or less but over one year | 227,256 | 262,767 |
| Over five years | 133,358 | 71,710 |
| Undated | – | 6,240 |
| | 1,185,345 | 770,113 |



18. Advances and Other Assets**(a) Advances and other assets**

| | Group | | Company | |
|--|------------------|------------------|------------------|--------------------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 (Restated) |
| Advances to customers (note 18(b)) | 8,177,405 | 8,298,099 | – | – |
| Provisions for bad and doubtful debts | (218,263) | (192,262) | – | – |
| | 7,959,142 | 8,105,837 | – | – |
| Accrued interest and other assets | 209,409 | 249,033 | 1,704 | 1,651 |
| Provisions for bad and doubtful debts | (1,355) | (1,113) | – | – |
| Provision for impairment | (1,140) | – | – | – |
| | 206,914 | 247,920 | 1,704 | 1,651 |
| Tax recoverable | 2,975 | 643 | – | – |
| Total | 8,169,031 | 8,354,400 | 1,704 | 1,651 |

The specific provisions for bad and doubtful debts were made after taking into account the value of collateral in respect of the advances to customers against which the specific provisions were made.

The Company's other assets in the prior year have been adjusted for the effect of the prior year adjustment of HK\$33,000,000 in respect of dividends proposed by certain of its subsidiaries after the prior year's balance sheet date, as further explained in note 9 to the financial statements.

Notes to Financial Statements (cont'd)

31st December, 2001

18. Advances and Other Assets (cont'd)

(a) Advances and other assets (cont'd)

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

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| Repayable on demand | 801,055 | 1,051,372 | – | – |
| With a residual maturity of: | | | | |
| Three months or less | 920,509 | 1,658,423 | – | – |
| One year or less but over three months | 660,355 | 428,453 | – | – |
| Five years or less but over one year | 2,352,671 | 1,892,033 | – | – |
| Over five years | 3,182,987 | 2,971,918 | – | – |
| Undated | 259,828 | 295,900 | – | – |
| | 8,177,405 | 8,298,099 | – | – |

18. Advances and Other Assets (cont'd)**(b) Finance lease receivables**

Included in advances to customers of the Group are receivables in respect of assets leased under finance leases as set out below.

| | Minimum lease payments 2001 HK\$'000 | Minimum lease payments 2000 HK\$'000 | Present value of minimum lease payments 2001 HK\$'000 | Present value of minimum lease payments 2000 HK\$'000 |
|--|---|--|--|---|
| Amounts receivable under finance leases: | | | | |
| Within one year | 79,070 | 71,405 | 65,876 | 57,959 |
| In the second to fifth years, inclusive | 112,030 | 85,818 | 102,122 | 76,450 |
| Over five years | 26,202 | 15,328 | 22,038 | 8,709 |
| | 217,302 | 172,551 | 190,036 | 143,118 |
| Less: Unearned finance income | (27,266) | (29,433) | | |
| Present value of minimum lease payments receivable | 190,036 | 143,118 | | |

The Group enters into finance leasing arrangements with customers in respect of motor vehicles. The terms of the finance leases entered into range from 1 to 5 years, except for the financing loans for taxi and public light bus which have maximum terms of 20 years.

In previous years, SSAP 14 required lessors under finance leases to disclose the net investment in finance leases at the balance sheet date, the cost of assets acquired for the purpose of letting under finance leases and the aggregate rentals receivable during the reporting period. However, SSAP 14 (Revised), which was adopted during the year, requires lessors to disclose the total gross investment in the leases and the present value of minimum lease payments analysed between those receivable within one year, in the second to fifth years, inclusive and over five years, as well as certain other disclosures as detailed above which were not previously required. Accordingly, the prior year comparative amounts for finance lease receivables have been restated to accord with the current year's presentation.

Notes to Financial Statements (cont'd)

31st December, 2001

19. Investment Securities

| | Group | |
|--|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Listed equity outside Hong Kong, at cost | 204,005 | 207,390 |
| Provision for impairment | (27,256) | – |
| | 176,749 | 207,390 |
| Unlisted | | |
| – equity | 41,149 | 54,469 |
| – debt | 19,174 | 19,535 |
| | 60,323 | 74,004 |
| Total | 237,072 | 281,394 |
| Market value of listed investment securities | 108,550 | 80,061 |

The directors are of the opinion that the decline in market value of the listed investment securities as at the balance sheet date, except for the amount of HK\$27,256,000 already provided for as further detailed in note 5 above, is temporary in nature and, accordingly, no additional provision in respect of the carrying amount thereof has been made in these financial statements.

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

| | Group | |
|---------------------------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Bank and other financial institutions | 176,749 | 207,390 |
| Corporate entities | 57,448 | 70,953 |
| Others | 2,875 | 3,051 |
| | 237,072 | 281,394 |

19. Investment Securities (cont'd)

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

| | Group | |
|---|-----------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| With a residual maturity of five years or less but over one year | 2,876 | 3,051 |
| Undated | 16,298 | 16,484 |
| | 19,174 | 19,535 |

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 10, "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.

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% |

Notes to Financial Statements (cont'd)

31st December, 2001

20. Investments in Subsidiaries

| | Company | |
|--------------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Unlisted shares, at cost | 1,701,378 | 1,621,378 |
| Provision for impairment | (7,743) | – |
| | 1,693,635 | 1,621,378 |

The 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 | Percentage of equity attributable to the Company | | Nominal value of issued share capital | Principal activities |
|--|------------------------|--|----------|---------------------------------------|--|
| | | Direct | Indirect | | |
| Asia Insurance Company, Limited | Hong Kong | 100 | – | HK\$600,000,000 | Insurance |
| Asia Commercial Bank Limited | Hong Kong | 100 | – | HK\$800,000,000 | Banking |
| Asia Investment Services Limited ("AIS") | British Virgin Islands | 100 | – | HK\$100,000,000 (Note (a)) | 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 |
| Asia Insurance (Pensions Fund) Limited | Hong Kong | – | 100 | HK\$1,000,000 | Pension fund management and investment holding |

Notes to Financial Statements (cont'd)

31st December, 2001

20. Investments in Subsidiaries (cont'd)

| Company | Place of incorporation | Percentage of equity attributable to the Company | | Nominal value of issued share capital | Principal activities |
|---|--------------------------|--|----------|---------------------------------------|---|
| | | Direct | Indirect | | |
| 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 provision of finance lease and hire purchase loans |
| Hocomban Investments Limited | Hong Kong | – | 100 | HK\$5,000,000 | Property investment |



Notes to Financial Statements (cont'd)

31st December, 2001

20. Investments in Subsidiaries (cont'd)

| Company | Place of incorporation | Percentage of equity attributable to the Company | | Nominal value of issued share capital | Principal activities |
|---|------------------------|--|----------|---------------------------------------|--|
| | | Direct | Indirect | | |
| 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 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, 2001

20. Investments in Subsidiaries (cont'd)

| Company | Place of incorporation | Percentage of equity attributable to the Company | | Nominal value of issued share capital | Principal activities |
|---|------------------------|--|----------|---------------------------------------|--|
| | | Direct | Indirect | | |
| Asia Investment Management Limited (Formerly Asia Financial Investment Management Limited) | Hong Kong | – | 85 | HK\$500,000 | Provision of corporate advisory services |
| Asia Financial 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\$10,000,000 | Provision of corporate advisory services |

Notes:

- (a) On 30th June, 2001, 8,000,000 ordinary shares of HK\$10 each in AIS were issued and allotted at par to the Company.
- (b) The "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.

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



Notes to Financial Statements (cont'd)

31st December, 2001

20. Investments in Subsidiaries (cont'd)

The above table lists the subsidiaries of the Company as at 31st December, 2001 which, in the opinion of the directors, principally affected the results for 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 their places of incorporation, except for AIS, AFH Investments (BVI) Limited, Chamberlain Investment Limited, Bedales Investment Limited and Asia Financial International Limited, which operate mainly in Hong Kong.

21. Interests in Jointly-Controlled Entities

| | Group | |
|---|---------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Share of net assets other than goodwill | 54,385 | 33,910 |
| Share of goodwill | 1,962 | 2,197 |
| | 56,347 | 36,107 |

The loans to jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment, except for the amount of HK\$27,000,000 which is repayable by 29th December, 2008.



21. Interests 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 | 13.3 | 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 Co. Limited | Corporate | Hong Kong | 15 | 2 out of 10 [#] | Provision of electronic banking support services |
| Hong Kong Life Insurance Limited* | Corporate | Hong Kong | 16.6 | 2 out of 12 [#] | Provision of writing of long term insurance business |
| BC Reinsurance Limited | Corporate | Hong Kong | 21 | 2 out of 10 [#] | Reinsurance underwriting |

* 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.



Notes to Financial Statements (cont'd)

31st December, 2001

22. Interests in Associates

| | Group | |
|---------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Share of net assets | 26,101 | 25,195 |

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

Particulars of the principal associates of the Group, which are all corporate entities, 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 |
| 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 |
| Professional Liability Underwriting Services Limited | Hong Kong | 30 | HK\$3,000,000 | Insurance agent |

* *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, 2001 which, in the opinion of the directors, principally affected the results for 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 directors, result in particulars of excessive length.

23. Intangible Assets

| Group | HK\$'000 |
|---|----------|
| Cost: | |
| At beginning of year and at 31st December, 2001 | 1,437 |
| Accumulated amortisation: | |
| At beginning of year | 120 |
| Provided during the year | 143 |
| At 31st December, 2001 | 263 |
| Net book value: | |
| At 31st December, 2001 | 1,174 |
| At 31st December, 2000 | 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.



Notes to Financial Statements (cont'd)

31st December, 2001

24. Fixed Assets

Group

| | Investment properties | Premises | Furniture, fixtures, equipment and motor vehicles | Total |
|--|----------------------------------|-----------------|--|--------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Cost or valuation: | | | | |
| At beginning of year | – | 480,644 | 166,441 | 647,085 |
| Additions | – | 4,770 | 19,731 | 24,501 |
| Disposals | – | – | (2,866) | (2,866) |
| Written off | – | – | (1,332) | (1,332) |
| Reclassification | 8,776 | (8,776) | – | – |
| Revaluation surplus | 754 | – | – | 754 |
| At 31st December, 2001 | 9,530 | 476,638 | 181,974 | 668,142 |
| Accumulated depreciation: | | | | |
| At beginning of year | – | 96,413 | 128,108 | 224,521 |
| Charge for the year | – | 7,598 | 16,324 | 23,922 |
| Disposals | – | – | (1,961) | (1,961) |
| Written off | – | – | (444) | (444) |
| Reclassification | 1,415 | (1,415) | – | – |
| Reversal of accumulated depreciation upon revaluation | (1,415) | – | – | (1,415) |
| At 31st December, 2001 | – | 102,596 | 142,027 | 244,623 |
| Net book value: | | | | |
| At 31st December, 2001 | 9,530 | 374,042 | 39,947 | 423,519 |
| At 31st December, 2000 | – | 384,231 | 38,333 | 422,564 |



Notes to Financial Statements (cont'd)

31st December, 2001

24. Fixed Assets (cont'd)

The cost or valuation of the premises comprises:

| | 2001 | 2000 |
|-------------------|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| At 1991 valuation | 360,843 | 360,843 |
| At cost | 115,795 | 119,801 |
| | 476,638 | 480,644 |

The investment properties of the Group are stated at 2001 valuation and furniture, fixtures, equipment and motor vehicles are stated at cost less accumulated depreciation.

The net book values of the premises of the Group comprise:

| | 2001 | 2000 |
|--------------------------------------|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Long term leases in Hong Kong | 272,893 | 273,613 |
| Medium term leases in Hong Kong | 62,262 | 71,073 |
| Medium term leases outside Hong Kong | 37,421 | 38,035 |
| Short term leases outside Hong Kong | 1,466 | 1,510 |
| | 374,042 | 384,231 |

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\$97,913,000 (2000: HK\$99,982,000).

All of the Group's investment properties were revalued at 31st December, 2001 on an open market existing use basis by A.G.Wilkinson & Associates, an independent firm of professional valuers.

The Group's investment properties were held under medium term leases in Hong Kong.

The gross rental income earned from leasing of the Group's investment properties amounted to HK\$241,000 for the year ended 31st December, 2001.



Notes to Financial Statements (cont'd)

31st December, 2001

24. Fixed Assets (cont'd)

Company

| | Furniture and fixtures HK\$'000 |
|---------------------------|--|
| Cost: | |
| At beginning of year | 1,753 |
| Additions | 345 |
| At 31st December, 2001 | <u>2,098</u> |
| Accumulated depreciation: | |
| At beginning of year | 1,267 |
| Charge for the year | 266 |
| At 31st December, 2001 | <u>1,533</u> |
| Net book value: | |
| At 31st December, 2001 | <u>565</u> |
| At 31st December, 2000 | <u>486</u> |

25. Share Capital

| | 2001 HK\$'000 | 2000 HK\$'000 |
|---|------------------|------------------|
| Authorised: | | |
| 1,500,000,000 ordinary shares of HK\$1 each | <u>1,500,000</u> | 1,500,000 |
| Issued and fully paid: | | |
| 1,058,021,428 (2000: 1,037,197,334) ordinary shares of HK\$1 each | <u>1,058,021</u> | 1,037,197 |

Pursuant to the scrip dividend scheme in relation to the final dividend payment for the year ended 31st December, 2000 and the interim dividend payment for the six months ended 30th June, 2001, 20,824,094 ordinary shares of HK\$1 each were issued and credited as fully paid in lieu of cash dividends of HK\$28,277,048. The amount in excess of the par value of the shares issued, of approximately HK\$7,452,954, was credited to the share premium account (note 26).

Notes to Financial Statements (cont'd)

31st December, 2001

26. Reserves

Group

| | Share premium account HK\$'000 | General reserve HK\$'000 | Contributed surplus HK\$'000 | Investment | | Statutory reserve HK'000 | Capital reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|--------------------------------|---|--------------------------------|------------------------------------|---|--|--------------------------------|--------------------------------|---------------------------------|-------------------|
| | | | | Asset revaluation reserve HK\$'000 | property revaluation reserve HK\$'000 | | | | |
| At 1st January, 2000 | 543,658 | 359,883 | 88,562 | 164,943 | - | - | 113,240 | 659,842 | 1,930,128 |
| Issue of shares | 9,420 | - | - | - | - | - | - | - | 9,420 |
| Net profit for the year | - | - | - | - | - | - | - | 175,119 | 175,119 |
| Transfer from retained profits | - | - | - | - | - | - | 200,000 | (200,000) | - |
| Dividends | - | - | - | - | - | - | - | (82,695) | (82,695) |
| At 31st December, 2000 | 553,078 | 359,883 | 88,562 | 164,943 | - | - | 313,240 | 552,266 | 2,031,972 |
| Reserves retained by: | | | | | | | | | |
| Company and subsidiaries | 553,078 | 359,639 | 88,562 | 164,943 | - | - | 313,240 | 580,850 | 2,060,312 |
| Jointly-controlled entities | - | - | - | - | - | - | - | (7,393) | (7,393) |
| Associates | - | 244 | - | - | - | - | - | (21,191) | (20,947) |
| | 553,078 | 359,883 | 88,562 | 164,943 | - | - | 313,240 | 552,266 | 2,031,972 |
| At 1st January, 2001 | 553,078 | 359,883 | 88,562 | 164,943 | - | - | 313,240 | 552,266 | 2,031,972 |
| Issue of shares (note 25) | 7,453 | - | - | - | - | - | - | - | 7,453 |
| Revaluation surplus | - | - | - | - | 2,169 | - | - | - | 2,169 |
| Net profit for the year | - | - | - | - | - | - | - | 30,108 | 30,108 |
| Transfer from retained profits | - | - | - | - | - | 2,427 | 4,250 | (6,677) | - |
| Dividends | - | - | - | - | - | - | - | (29,607) | (29,607) |
| At 31st December, 2001 | 560,531 | 359,883 | 88,562 | 164,943 | 2,169 | 2,427 | 317,490 | 546,090 | 2,042,095 |
| Reserves retained by: | | | | | | | | | |
| Company and subsidiaries | 560,531 | 359,639 | 88,562 | 164,943 | 2,169 | 2,427 | 317,490 | 589,428 | 2,085,189 |
| Jointly-controlled entities | - | - | - | - | - | - | - | (22,153) | (22,153) |
| Associates | - | 244 | - | - | - | - | - | (21,185) | (20,941) |
| | 560,531 | 359,883 | 88,562 | 164,943 | 2,169 | 2,427 | 317,490 | 546,090 | 2,042,095 |

Notes to Financial Statements (cont'd)

31st December, 2001

26. Reserves (cont'd)

Company

| | Share premium account HK\$'000 | Contributed surplus HK\$'000 | Capital reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|--|---|------------------------------------|--------------------------------|---------------------------------|-------------------|
| At 1st January, 2000: | | | | | |
| As previously reported | 543,658 | 301,865 | 210,280 | 88,853 | 1,144,656 |
| Prior year adjustment: | | | | | |
| SSAP 18 (Revised) – | | | | | |
| Proposed final dividends for 1999 from subsidiaries no longer recognised as income for the year | – | – | – | (63,200) | (63,200) |
| As restated | 543,658 | 301,865 | 210,280 | 25,653 | 1,081,456 |
| Issue of shares | 9,420 | – | – | – | 9,420 |
| Net profit for the year (as restated) | – | – | – | 96,882 | 96,882 |
| Interim 2000 dividend | – | – | – | (25,649) | (25,649) |
| Proposed final 2000 dividend | – | – | – | (57,046) | (57,046) |
| At 31st December, 2000 | 553,078 | 301,865 | 210,280 | 39,840 | 1,105,063 |
| At 1st January, 2001: | | | | | |
| As previously reported | 553,078 | 301,865 | 210,280 | 72,840 | 1,138,063 |
| Prior year adjustment: | | | | | |
| SSAP 18 (Revised) – | | | | | |
| Proposed final dividends for 2000 from subsidiaries no longer recognised as income for the year | – | – | – | (33,000) | (33,000) |
| As restated | 553,078 | 301,865 | 210,280 | 39,840 | 1,105,063 |
| Issue of shares (note 25) | 7,453 | – | – | – | 7,453 |
| Net profit for the year | – | – | – | 6,739 | 6,739 |
| Interim 2001 dividend | – | – | – | (19,027) | (19,027) |
| Proposed final 2001 dividend | – | – | – | (10,580) | (10,580) |
| At 31st December, 2001 | 560,531 | 301,865 | 210,280 | 16,972 | 1,089,648 |

26. Reserves (cont'd)

During the year, Asia Financial Capital Limited, a non-wholly owned subsidiary indirectly held by the Company, issued and allotted 4,250,000 and 750,000 ordinary shares of HK\$1 each to its immediate holding company and its other shareholders, respectively, by way of capitalisation of a sum of HK\$5,000,000 standing to the credit of its retained profits. Accordingly, a corresponding amount of HK\$4,250,000 was transferred to the non-distributable capital reserve at Group level to reflect the effect of 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.

In accordance with the Macau Commercial Codes, certain entities, including the branch of Asia Insurance Company, Limited, a wholly-owned subsidiary of the Company, whose principal operation is conducted in Macau, is required to appropriate annually not less than 25% of its profit after tax to a statutory reserve, until the balance of the reserve reaches 50% of the entity's capital fund. The statutory reserve may be utilised by the Branch for certain restricted purposes including the set off against accumulated losses, if any, arising under certain specified circumstances.

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\$318,837,000 (restated 2000: HK\$341,705,000).

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.



Notes to Financial Statements (cont'd)

31st December, 2001

27. Banking Facilities

As at 31st December, 2001, the Group's bank loans and overdrafts were secured by:

- (i) marketable securities of the Group's clients (with the consent of the clients having been obtained by the Group) with an aggregate market value of approximately HK\$30 million at 31st December, 2001; and
- (ii) a corporate guarantee from the Company to the extent of HK\$355 million (note 42).

28. Bank Loans, Secured

All of the secured bank loans as at 31st December, 2000 were repayable within one year.

29. Deposits and Balances of Banks and Other Financial Institutions

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

| | Group | |
|--|-----------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Repayable on demand | 16,967 | 24,383 |
| With a residual maturity of three months or less | 237,561 | 260,075 |
| | 254,528 | 284,458 |

30. Current, Fixed, Savings and Other Deposits of Customers

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

| | Group | |
|--|------------------|------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Repayable on demand | 1,648,107 | 1,292,169 |
| With a residual maturity of: | | |
| Three months or less | 7,940,639 | 8,466,798 |
| One year or less but over three months | 345,337 | 894,872 |
| Five years or less but over one year | 10,438 | 11,700 |
| | 9,944,521 | 10,665,539 |

31. Certificates of Deposit Issued

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

| | Group | |
|--|------------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| With a residual maturity of: | | |
| One year or less but over three months | 600,000 | 350,000 |
| Five years or less but over one year | 600,000 | 600,000 |
| | 1,200,000 | 950,000 |

Notes to Financial Statements (cont'd)

31st December, 2001

32. Unearned Premiums

| | Fire insurance | Marine insurance | General accident and other insurance | Total |
|--|---------------------------|-----------------------------|---|--------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Group | | | | |
| At 1st January, 2000 | 24,576 | 6,867 | 63,766 | 95,209 |
| Increase in unearned premiums (note 5) | 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 |
| At 1st January, 2001 | 25,160 | 8,289 | 69,617 | 103,066 |
| Increase/(decrease) in unearned premiums (note 5) | 1,879 | (841) | 26,947 | 27,985 |
| At 31st December, 2001 | 27,039 | 7,448 | 96,564 | 131,051 |
| Represented by: | | | | |
| Unearned premiums in respect of direct and reinsurance inwards business | 51,581 | 14,475 | 151,868 | 217,924 |
| Less: Reinsurance outwards | (24,542) | (7,027) | (55,304) | (86,873) |
| At 31st December, 2001 | 27,039 | 7,448 | 96,564 | 131,051 |

33. Life and Contingency Reserves**Group**

| | Life reserve | Contingency reserve | Total |
|--|-------------------------|--------------------------------|--------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1st January, 2000 | 11,947 | 37 | 11,984 |
| Increase in reserve (note 5) | 308 | 161 | 469 |
| At 31st December, 2000 and 1st January, 2001 | 12,255 | 198 | 12,453 |
| Increase/(decrease) in reserve (note 5) | (1,623) | 406 | (1,217) |
| At 31st December, 2001 | 10,632 | 604 | 11,236 |

34. 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\$270,934,000 (2000: HK\$239,277,000) at the balance sheet date. Included in the total provisions is HK\$6,586,000 (2000: HK\$9,039,000) specifically made in respect of expenses for settling claims at the balance sheet date. In addition, included in the total provisions is HK\$47,500,000 (2000: HK\$41,500,000) specifically made in respect of claims incurred but not reported as at the balance sheet date.

Notes to Financial Statements (cont'd)

31st December, 2001

35. Deferred Tax

| | Group | |
|------------------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| At beginning of year | 2,737 | 2,726 |
| Charge for the year – note 8 | 521 | 11 |
| At balance sheet date | 3,258 | 2,737 |

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 | |
|--------------------------------|------------------|------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| Accelerated capital allowances | 2,493 | 2,122 | – | – |
| Tax losses carried forward | – | – | (14,272) | (10,636) |
| Others | 765 | 615 | (24) | (226) |
| | 3,258 | 2,737 | (14,296) | (10,862) |

The revaluation of the Group's investment properties 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, 2001

36. Loans to Officers

No loans have been granted by the Company to any of its directors during the year.

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, | 31st December, | Maximum |
|------------------|--------------|----------------|-------------|
| | 2001 | 2001 | amount |
| | HK\$'000 | HK\$'000 | outstanding |
| | | | during |
| | | | the year |
| | | | HK\$'000 |
| Lau Ki-Chit | 1,545 | 1,318 | 1,545 |

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:

| | 2001 | 2000 |
|---|---------------|----------|
| | HK\$'000 | HK\$'000 |
| Aggregate amount of relevant loans outstanding at the balance sheet date | 37,854 | 36,392 |
| Maximum aggregate amount of relevant loans outstanding during the year | 42,831 | 44,629 |

Notes to Financial Statements (cont'd)

31st December, 2001

37. Notes to Consolidated Cash Flow Statement

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

| | 2001 HK\$'000 | 2000 HK\$'000 |
|--|------------------|------------------|
| Profit from operating activities | 60,341 | 214,575 |
| Interest income, excluding that related to the banking and provision of margin finance business | (39,567) | (53,279) |
| Dividend income | (7,169) | (16,058) |
| Loan recoveries | 2,670 | 712 |
| Provision for bad and doubtful debts | 72,150 | 120,179 |
| Impairment of assets | 1,140 | – |
| Provision against held-to-maturity securities and investment securities | 31,690 | 5,060 |
| Loss/(gain) on disposal of other investments, net | 11,512 | (18,016) |
| Unrealised loss/(gain) on other investments, net | 31,270 | (23,563) |
| Gain on disposal of investment securities, net | (11,865) | (1,345) |
| Gain on disposal of held-to-maturity securities | (4,441) | – |
| Provision against amount due from an associate | – | 3,336 |
| Write-off of investments in an associate | – | 108 |
| Amortisation of intangible assets | 143 | 120 |
| Depreciation charges | 23,922 | 27,780 |
| Fixed assets written off | 888 | 115 |
| Loss on disposal of fixed assets | 851 | 13 |
| Decrease/(increase) in money at call and short notice with original maturity over three months | 181,689 | (211,555) |
| Decrease in treasury bills including Exchange Fund Bills with original maturity over three months | 38,021 | 81,498 |
| Decrease/(increase) in placements with banks and other financial institutions with original maturity over three months | 172,583 | (234,190) |
| Decrease in pledged deposits | 8 | 24,729 |
| Decrease in amounts due from reinsurance companies | 6,732 | 1,231 |
| Increase in premium receivables | (28,955) | (1,652) |
| Increase in amounts due from associates | (223) | (41) |
| Increase in certificates of deposit held with original maturity over three months | (15,662) | (53,046) |
| Increase in held-to-maturity securities with original maturity over three months | (185,663) | (238,027) |
| Decrease/(increase) in advances to customers | 69,308 | (571,578) |
| Decrease in advances to banks and other financial institutions | – | 38,860 |
| Decrease/(increase) in accrued interest and other accounts | 39,624 | (70,102) |
| Decrease in deposits and balances of banks and other financial institutions with original maturity over three months | – | (207,683) |
| Increase/(decrease) in current, fixed, savings and other deposits of customers | (721,018) | 349,496 |
| Increase in certificates of deposit issued | 250,000 | 330,439 |
| Decrease in accrued liabilities and other payables | (143,919) | (20,673) |
| Increase in amount due to an associate | – | 66 |
| Increase in amounts due to reinsurance companies | 22,656 | 10,432 |
| Increase in unearned premiums | 27,985 | 7,857 |
| Increase/(decrease) in life and contingency reserves | (1,217) | 469 |
| Increase in provisions for outstanding claims | 12,456 | 450 |
| Net cash outflow from operating activities | (102,060) | (503,283) |

37. 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, 2000 | 1,548,673 | 32,000 | 3,839 |
| Shares issued in lieu of cash dividends | 41,602 | – | – |
| Dividend paid to a minority shareholder | – | – | (150) |
| Minority shareholders' share of profit for the year | – | – | 7,172 |
| At 31st December, 2000 and 1st January, 2001 | 1,590,275 | 32,000 | 10,861 |
| Shares issued in lieu of cash dividends | 28,277 | – | – |
| Net cash outflow from financing activities | – | (32,000) | – |
| Dividend paid to a minority shareholder | – | – | (816) |
| Minority shareholders' share of profit for the year | – | – | 221 |
| At 31st December, 2001 | 1,618,552 | – | 10,266 |

(c) Major non-cash transaction

During the year, an aggregate of 20,824,094 (2000: 32,181,796) ordinary shares of HK\$1 each of the Company were issued and credited as fully paid in lieu of cash dividends of HK\$28,277,000 (2000: HK\$41,602,000). The amount in excess of the par value of the shares issued, of approximately HK\$7,453,000 (2000: HK\$9,420,000), was credited to the share premium account.

Notes to Financial Statements (cont'd)

31st December, 2001

38. 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) which remained outstanding at the balance sheet date:

| | 2001 | 2000 |
|--|------------------|-----------|
| | HK\$'000 | HK\$'000 |
| Direct credit substitutes | 35,952 | 54,547 |
| Transaction-related contingencies | 9,076 | 9,297 |
| Trade-related contingencies | 175,820 | 316,296 |
| Other commitments with an original maturity of under one year or which are unconditionally cancellable | 3,077,444 | 2,569,544 |
| Other commitments with an original maturity of one year and over | 325,534 | 374,703 |
| | 3,623,826 | 3,324,387 |

(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:

| | 2001 | 2000 |
|---|------------------|----------|
| | HK\$'000 | HK\$'000 |
| Forward foreign exchange contracts – hedging: | | |
| Swaps | 2,614,594 | 158,882 |
| Others | 221,692 | 120,146 |
| | 2,836,286 | 279,028 |

38. Off-Balance Sheet Exposures (cont'd)

- (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

| | Replacement cost 2001 HK\$'000 | Replacement cost 2000 HK\$'000 | Credit risk weighted amount 2001 HK\$'000 | Credit risk weighted amount 2000 HK\$'000 |
|---|---|---|--|--|
| Direct credit substitutes | – | – | 25,735 | 30,511 |
| Trade-related contingencies | – | – | 29,021 | 51,390 |
| Other commitments with an original maturity of 1 year and over or which are unconditionally cancellable | – | – | 162,767 | 184,900 |
| Exchange rate contracts | 6,330 | 219 | 5,683 | 597 |
| | 6,330 | 219 | 223,206 | 267,398 |

39. Operating Lease Arrangements**(a) As lessor**

The Group leases its investment properties (note 24) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 2 years. The terms of the leases generally also require the tenants to pay security deposits.

At 31st December, 2001, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due within one year of HK\$147,000 as at 31st December, 2001 (2000: HK\$241,000).

Notes to Financial Statements (cont'd)

31st December, 2001

39. Operating Lease Arrangements (cont'd)

(b) As lessee

The Group leases certain of its branch premises under operating lease arrangements. Leases for premises are negotiated for terms ranging from 2 to 3 years. The terms of the leases generally require the Group to pay security deposits.

At 31st December, 2001, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | |
|---|------------------|--------------------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 (Restated) |
| Within one year | 6,950 | 9,002 |
| In the second to fifth years, inclusive | 4,597 | 6,830 |
| | 11,547 | 15,832 |

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease payments receivable under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than the payments to be made during only the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above have been restated to accord with the current year's presentation.

40. Other Commitments

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

| | 2001 HK\$'000 | 2000 HK\$'000 |
|----------------------------------|------------------|------------------|
| Contracted, but not provided for | 6,044 | 8,960 |

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

41. Pending Litigations

- (a) A claim for approximately HK\$16 million was brought against a subsidiary of the Company in 1997 by a client alleging that the Group is liable for compensation on a loss of profit suffered by the client. Having considered the legal counsel's advice, the directors believe that the Group has meritorious defences for the claim. Accordingly, the directors consider that a 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 MYR 9 million (equivalent to approximately HK\$18.5 million) to the overseas broker. Having considered the legal counsel's advice, the directors believe that the Group has a very good case to defend the claim. Accordingly, the directors consider that a provision for the claim is not necessary.
- (c) The Securities and Futures Commission ("SFC") has conducted an investigation against Asia Financial (Assets Management) Limited ("AFAM") in respect of a breach of the Code on Takeovers and Mergers and may have a potential breach of the Securities Ordinance. In the opinion of the directors, the potential liabilities in relation to AFAM cannot be measured with sufficient reliability before the conclusion of this matter. Accordingly, no provision has been made in the financial statements.

42. Other Contingent Liabilities

- (a) As at 31st December, 2001, a corporate guarantee of HK\$355 million in aggregate was executed by the Company for banking facilities made available to the Group, which was utilised to the extent of HK\$60,000 at the balance sheet date (note 27).
- (b) An indemnity to the extent of HK\$600 million was executed by the Company in favour of a securities trading client of one of its subsidiary (the "Client") against any losses incurred by the Client, relating to that subsidiary not fulfilling its obligation to the Client or not complying with the Client's instructions in relation to certain particular securities trading transactions. As at 31st December, 2001, the Group had no transactions executed for the Client which are subject to the indemnity abovementioned.



Notes to Financial Statements (cont'd)

31st December, 2001

43. Related Party Transactions

Group

| | 2001 | | 2000 | |
|---|---|--|---|--|
| | 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 | 11,954 | 20,576 | 12,271 | 26,949 |
| Interest income received and receivable | 585 | 1,308 | 878 | 2,242 |
| Deposits received: | | | | |
| Aggregate balance at balance sheet date | 110,184 | 300,411 | 104,649 | 297,341 |
| Interest expenses paid and payable | 4,110 | 11,437 | 6,264 | 17,831 |
| Interbank activities: | | | | |
| Deposits placed | – | 339,866 | – | 433,705 |
| Deposits received | – | 1,282 | – | 2,480 |
| Interest income | – | 8,234 | – | 20,758 |
| Interest expenses | – | 834 | – | 156 |
| Standby credit facilities available to the Group | – | 623,784 | – | 623,976 |
| Premium income: | | | | |
| Gross premiums written | 136 | 2,772 | 41 | 7,441 |
| Reinsurance premium ceded | – | 1,776 | – | 13,629 |
| Commission income, net | – | 2,950 | 10 | 3,564 |
| Fees and commission: | | | | |
| Income | 27 | – | 27 | 52 |
| Expenses | – | – | – | 617 |
| Rental expenses | – | 1,104 | – | 1,104 |

43. Related Party Transactions (cont'd)

In addition, the Group had the following transactions with jointly-controlled entities during the year:

| | 2001 | 2000 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Loans and advances granted: | | |
| Aggregate balance at balance sheet date | 16,880 | 9,800 |
| Interest income received and receivable | 580 | 84 |
| Deposits received: | | |
| Aggregate balance at balance sheet date | 137,813 | 96,642 |
| Interest expenses paid and payable | 4,824 | 2,860 |
| Reinsurance premiums ceded | 1,681 | – |
| Service fees paid | 7,519 | 1,600 |

All the above transactions were carried out within the scope of the 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.

44. Comparative Amounts

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

45. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 25th March, 2002.

