

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 Hong Kong Statements of Standard Accounting Practice

The following new and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"

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 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact on these financial statements of the revision to this SSAP is the presentation of a statement of changes in equity instead of a statement of recognised gains and losses as previously disclosed.

SSAP 11 prescribes the basis for the translation of foreign currency transactions in the financial statements. The principal impact of the revision to this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated at weighted average exchange rates for the year, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously required. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details regarding this SSAP are described in the accounting policy for foreign currencies in note 3 below.

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

SSAP 15 prescribes the format for the cash flow statement. The principal impact of the revision of this SSAP is that cash flows are now presented under three headings, that is, cash flows from operating, investing and financing activities, rather than the five headings as previously required. The format of the consolidated cash flow statement set out on pages 28 to 29 of the financial statements and the notes thereto have been revised in accordance with the new requirements. In addition, the cash flows of the Group's overseas subsidiaries are now translated using the exchange rates at the dates of the cash flows or, if applicable, at the weighted average exchange rates, whereas previously, they were translated at the applicable rates of exchange ruling at the balance sheet date. However, this change has had no material effect on the financial statements.

3. Summary of Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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";

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

Revenue recognition (cont'd)

- (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 has been established;
- (vi) profits or losses arising on the sale of investments are recognised when the buyer takes title;
- (vii) commission and trading revenue are recognised on a trade date basis;
- (viii) service fee income from the provision of investment advisory services is accounted for in the period in which it is earned;
- (ix) corporate advisory service 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 an 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.

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

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.

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 together 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 Group holds less than 20% of the joint venture company's share/registered capital, and has neither joint control of, 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.

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

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.

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.

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

Investments

- (i) Certificates of deposit and held-to-maturity securities are redeemable at fixed dates, intended to be held to maturity and are stated at amortised cost less 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.
- (iv) Investments other than investment securities, certificates of deposit and held-to-maturity securities are classified as other investments and are stated at their fair values on an individual investment basis. The gains or losses arising from changes in their respective fair values are credited or charged to the profit and loss account for the period in which they arise.

Advances and other 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.

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

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

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. The advances are written off when recovery is not expected.

Reposessed assets

Collateral assets for loans and advances are reposessed by the Group when the borrowers are unable to service their repayments, and would be realised for the settlement of the outstanding debts. Advances with reposessed collateral assets will continue to be accounted for as customer advances and specific provision is made on the shortfall between the expected net realisable value of reposessed assets and the outstanding advances.

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 is 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 claim losses arising from the default in mortgage repayment can be assessed with reasonable accuracy.

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

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.

Outstanding claims

Full provision has been made for outstanding claims including those incurred but not reported and those incurred but not enough 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 the 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 enough 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.

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

Intangible assets

Intangible assets, representing the eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited ("Stock Exchange Trading Rights") 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.

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 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 asset, the expenditure is capitalised as an additional cost of that fixed asset.

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 has been carried out since then.

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.

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

Fixed assets and depreciation (cont'd)

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.

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.

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

Finance leases (cont'd)

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.

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.

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

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 and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and short term highly liquid investments, including treasury bills and other debt securities, which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits and/or contributed surplus 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.

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, while their balance sheets are translated into Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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

Foreign currencies (cont'd)

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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 on the same basis as that arising from the corresponding assets, liabilities or net positions.

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. 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 the contributions 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 independently administered funds.

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

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

Provision has to be recognised in respect of probable future long service payments based on the best estimate the probable future outflow of resources which has been earned by the employees from their services to the Group at the balance sheet date.

4. Segment Information

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 segment engages in the business of securities trading and holding.

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.

Intersegment transactions are conducted with reference to the terms used for transactions with third parties.

Notes to Financial Statements (cont'd)

31st December, 2002

4. Segment Information (cont'd)

(a) 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		Eliminations		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:												
External customers	291,136	333,040	566,499	446,517	20,827	73,960	-	-	-	-	878,462	853,517
Other revenue	780	-	76,783	89,242	934	2,775	7,039	2,348	-	-	85,536	94,365
Intersegment	(3,430)	(9,625)	2,942	5,562	557	3,127	5,081	11,632	(5,150)	(10,696)	-	-
Total	288,486	323,415	646,224	541,321	22,318	79,862	12,120	13,980	(5,150)	(10,696)	963,998	947,882
Segment results	44,681	68,402	37,621	24,881	(15,811)	(8,238)	(4,426)	(26,477)	(1,755)	1,773	60,310	60,341
Share of results of:												
Jointly-controlled entities	(2,107)	(12,671)	(718)	(2,031)	-	-	-	-	-	-	(2,825)	(14,702)
Associates	-	-	48	-	1	6	1,571	-	-	-	1,620	6
Profit before tax											59,105	45,645
Tax	(10,528)	(13,009)	(4,978)	(1,684)	(367)	(247)	-	(376)	-	-	(15,873)	(15,316)
Profit before minority interests											43,232	30,329
Minority interests											77	(221)
Net profit from ordinary activities attributable to shareholders											43,309	30,108

Notes to Financial Statements (cont'd)

31st December, 2002

4. Segment Information (cont'd)

(a) Business segments (cont'd)

Group	Banking		Insurance		Investment services		Corporate		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	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	13,075,355	13,446,830	1,415,812	1,257,487	137,515	281,761	534,470	455,213	(492,267)	(394,168)	14,670,885	15,047,123
Interests in jointly-controlled entities	17,800	19,907	35,722	36,440	-	-	-	-	-	-	53,522	56,347
Interests in associates	-	-	6,018	6,060	-	351	1,717	19,690	-	-	7,735	26,101
Total assets	13,093,155	13,466,737	1,457,552	1,299,987	137,515	282,112	536,187	474,903	(492,267)	(394,168)	14,732,142	15,129,571
Segment liabilities	11,528,920	11,915,931	547,884	410,604	47,636	83,869	17,144	20,929	(543,240)	(422,724)	11,598,344	12,008,609
Other segment information:												
Depreciation charges	25,382	20,363	1,700	1,610	89	1,673	257	266	-	10	27,428	23,922
Revaluation deficit on investment properties	943	-	-	-	-	-	-	-	-	-	943	-
Provision against a loan to a jointly-controlled entity	5,593	-	-	-	-	-	-	-	-	-	5,593	-
Fixed assets written off	1,155	36	77	-	160	852	-	-	-	-	1,392	888
Amortisation of intangible assets	-	-	-	-	143	143	-	-	-	-	143	143
Impairment/(reversal of impairment) of other assets	(880)	1,140	-	-	400	-	-	-	-	-	(480)	1,140
Provision/(write back of provision) for bad and doubtful debts	50,595	49,834	2,139	6,433	1,818	19,383	-	(3,500)	-	-	54,552	72,150
Impairment/(reversal of impairment) of held-to-maturity securities and investment securities	-	3,897	2,212	14,537	-	-	(1,121)	13,256	-	-	1,091	31,690
Capital expenditure	11,365	20,092	637	1,112	319	2,952	8	345	-	-	12,329	24,501

(b) 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.

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:

	2002	2001
	HK\$'000	HK\$'000
Banking:		
Interest income relating to banking business	414,858	720,747
Interest expense relating to banking business	(178,518)	(439,080)
Net fees and commission income relating to banking business	42,170	39,694
Gains less losses arising from dealing in foreign currencies	6,527	6,737
Other operating income from banking business	6,099	4,942
	291,136	333,040
Insurance:		
Gross premiums written	566,499	446,517
Investment services:		
Brokerage commission income	17,807	58,108
Interest income relating to provision of margin finance business	3,243	16,655
Interest expense relating to provision of margin finance business	(223)	(803)
	20,827	73,960
Turnover	878,462	853,517
Reinsurance commission income	38,365	40,196
Dividend income from:		
Listed investments	2,819	2,791
Unlisted investments*	4,664	4,378
Interest income, excluding that relating to the banking and provision of margin finance businesses	31,778	39,567
Others	7,910	7,433
Other revenue	85,536	94,365
	963,998	947,882

* Excluding those related to the banking business which are included in turnover.

Notes to Financial Statements (cont'd)

31st December, 2002

5. Turnover and Revenue (cont'd)

The other net expenses of the Group are analysed as follows:

	2002 HK\$'000	2001 HK\$'000
Increase in unearned premiums – note 30	(37,511)	(27,985)
Decrease/(increase) in life and contingency reserves – note 31	(1,464)	1,217
Gains/(losses) on disposal of other investments, net	88	(11,512)
Unrealised losses on other investments, net	(19,530)	(31,270)
Gains less losses on disposal of investment securities	437	11,865
Impairment of held-to-maturity securities and investment securities	(1,091)	(31,690)
Gains on disposal of held-to-maturity securities	7,455	4,441
Guaranteed return to a retirement scheme – note 40	(1,800)	–
Gains on disposal of subsidiaries – note 35(b)	441	–
Loss on disposal of fixed assets, net	(24)	(851)
	(52,999)	(85,785)

6. Profit from Operating Activities

The Group's profit from operating activities is arrived at after charging/(crediting):

	Group	
	2002	2001
	HK\$'000	HK\$'000
Reinsurance premiums ceded	228,039	175,784
Commission expenses for insurance business	123,291	100,996
Net claims after deducting recoveries from reinsurers	149,354	130,942
Auditors' remuneration	2,200	2,200
Depreciation charges – note 24	27,428	23,922
Revaluation deficit on investment properties	943	–
Provision againsts loan to a jointly-controlled entity	5,593	–
Fixed assets written off	1,392	888
Amortisation of intangible assets – note 23	143	143
Staff costs (including directors' remuneration, note 7):		
Wages and salaries	154,531	159,150
Pension scheme contributions	6,016	6,835
Less: Forfeited contributions	(1,256)	(879)
Net pension contributions	4,760	5,956
	159,291	165,106
Minimum lease payments under operating leases in respect of land and buildings	14,188	12,986
Impairment/(reversal of impairment) of other assets	(480)	1,140
Provision against bad and doubtful debts, net	54,552	72,150

Notes to Financial Statements (cont'd)

31st December, 2002

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

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Fees:		
Executive directors	320	370
Independent non-executive directors	140	140
Other non-executive directors	592	593
	1,052	1,103
Other emoluments of executive directors:		
Basic salaries, housing, other allowances and benefits in kind	4,784	4,924
Pension scheme contributions	164	185
Bonuses paid and payable	984	918
	5,932	6,027
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	32
Bonuses paid and payable	80	80
	112	112
	7,126	7,272

7. Directors' Remuneration and Emoluments of the 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	
	2002	2001
Nil – HK\$1,000,000	16	16
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,000,001 – HK\$2,500,000	2	2
	19	19

Mr. Koji Fukuda, a non-executive director, who resigned with effect from 1st April, 2002, has waived his director's fee for the year of HK\$9,863 in aggregate. In addition, Mr. Katsuya Kimura, who was appointed as a non-executive director on 1st April, 2002, has waived his director's fee with effect from his date of appointment in the amount of HK\$30,137 in aggregate. Save as aforesaid, there was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The five highest paid individuals during the year included three (2001: three) directors, details of whose remuneration are set out above. The remuneration of the remaining two (2001: two) non-director, highest paid individuals is analysed below:

	Group	
	2002 HK\$'000	2001 HK\$'000
Basic salaries, housing, other allowances and benefits in kind	2,006	4,283
Pension scheme contributions	152	339
Bonuses paid and payable	368	–
Compensation for loss of office	10,900	–
	13,426	4,622

Notes to Financial Statements (cont'd)

31st December, 2002

7. DIRECTORS' REMUNERATION AND EMOLUMENTS OF THE 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	
	2002	2001
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$2,000,001 – HK\$2,500,000	–	2
HK\$11,500,001 – HK\$12,000,000	1	–
	2	2

8. Tax

Hong Kong profits tax for the Group has been provided at the rate of 16% (2001: 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	
	2002 HK\$'000	2001 HK\$'000
Current year provision:		
Hong Kong	16,652	13,948
Elsewhere	1,823	1,964
Overprovision in prior years	(1,548)	(1,175)
	16,927	14,737
Share of tax charge attributable to a jointly-controlled entity	–	58
Deferred tax charge/(credit) – note 33	(1,054)	521
Tax charge for the year	15,873	15,316

9. Net Profit from Ordinary Activities Attributable to Shareholders

The net profit from ordinary activities attributable to shareholders for the year ended 31st December, 2002 dealt with in the financial statements of the Company was HK\$3,278,000 (2001: HK\$6,739,000).

10. Dividends

	2002 HK\$'000	2001 HK\$'000
Interim dividend paid:		
HK1.2 cents (2001: HK1.8 cents) per ordinary share	12,696	19,027
Proposed final dividend:		
HK2.3 cents (2001: HK1.0 cent) per ordinary share	24,334	10,580
	37,030	29,607

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.

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\$43,309,000 (2001: HK\$30,108,000) and the weighted average of 1,058,021,428 (2001: 1,047,823,429) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31st December, 2002 and 2001 have not been disclosed as no diluting events existed during these years.

Notes to Financial Statements (cont'd)

31st December, 2002

12. Cash and Short Term Funds

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cash in hand and balances with banks and other financial institutions	145,950	183,603	285	283
Money at call and short notice*	2,944,941	3,370,327	–	–
Treasury bills, including Exchange Fund Bills [#]	145,305	169,371	–	–
	3,236,196	3,723,301	285	283

* Included in the Group's money at call and short notice were deposits of approximately HK\$1,510,000 (2001: Nil) 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.

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	
	2002 HK\$'000	2001 HK\$'000
With a residual maturity of:		
Three months or less	69,814	99,806
One year or less but over three months	75,491	69,565
	145,305	169,371

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

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

	Group	
	2002 HK\$'000	2001 HK\$'000
With a residual maturity of:		
Three months or less	651,280	558,400
One year or less but over three months	153,845	123,563
	805,125	681,963

Included in the Group's placements with banks and other financial institutions were deposits of approximately HK\$18,686,000 (2001: HK\$16,192,000) 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

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

	2002 HK\$'000	2001 HK\$'000
Three months or less	83,447	65,526
Six months or less but over three months	16,362	16,204
One year or less but over six months	3,436	4,393
Over one year	2,671	2,473
	105,916	88,596
Less: Provision for bad and doubtful debts	(6,367)	(5,555)
	99,549	83,041

Notes to Financial Statements (cont'd)

31st December, 2002

15. Other Investments

	Group	
	2002	2001
	HK\$'000	HK\$'000
Listed equity, at market value		
– in Hong Kong	121,857	58,467
– outside Hong Kong	16,894	17,602
	138,751	76,069
Debt listed outside Hong Kong, at market value	24,860	16,685
Investment funds		
– listed in Hong Kong, at market value	4,512	2,978
– listed outside Hong Kong, at market value	12,374	3,289
– unlisted	100,653	135,920
	117,539	142,187
Equity-linked notes, at amortised cost	–	7,945
	281,150	242,886

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Public sector entities	34,530	29,388
Banks and other financial institutions	37,529	6,218
Corporate entities	209,091	207,280
	281,150	242,886

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	
	2002	2001
	HK\$'000	HK\$'000
With a residual maturity of:		
Three months or less	20,010	40,005
One year or less but over three months	55,606	104,915
Five years or less but over one year	208,970	78,900
	284,586	223,820

17. Held-to-maturity Securities

	Group	
	2002	2001
	HK\$'000	HK\$'000
Listed debt		
– in Hong Kong	5,421	55,875
– outside Hong Kong	309,576	175,132
	314,997	231,007
Unlisted debt	1,007,075	954,338
	1,322,072	1,185,345
Market value of listed held-to-maturity securities	314,466	236,269

During the year, held-to-maturity securities with an aggregate amortised cost of HK\$89,215,000 were disposed of with a profit of HK\$7,455,000 being recognised in the profit or loss account. The major reason for the disposal of these held-to-maturity securities was to restructure the investment portfolio to allow for more effective interest rate risk management.

Notes to Financial Statements (cont'd)

31st December, 2002

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	
	2002	2001
	HK\$'000	HK\$'000
Public sector entities	28,334	7,448
Banks and other financial institutions	1,072,130	231,672
Corporate entities	221,608	946,225
	1,322,072	1,185,345

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
With a residual maturity of:		
Three months or less	341,478	816,711
One year or less but over three months	252,055	8,020
Five years or less but over one year	497,169	227,256
Over five years	231,370	133,358
	1,322,072	1,185,345

Notes to Financial Statements (cont'd)

31st December, 2002

18. Advances and Other Assets

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Advances to customers	7,923,665	8,177,405	–	–
Provisions for bad and doubtful debts	(189,133)	(218,263)	–	–
	7,734,532	7,959,142	–	–
Accrued interest and other assets	181,607	209,409	6,632	1,704
Provisions for bad and doubtful debts	(485)	(1,355)	–	–
Provision for impairment	(660)	(1,140)	–	–
	180,462	206,914	6,632	1,704
Tax recoverable	176	2,975	–	–
Total	7,915,170	8,169,031	6,632	1,704

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

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Repayable on demand	666,494	801,055	–	–
With a residual maturity of:				
Three months or less	1,172,873	920,509	–	–
One year or less but over three months	752,598	660,355	–	–
Five years or less but over one year	2,432,094	2,352,671	–	–
Over five years	2,619,779	3,182,987	–	–
Undated	279,827	259,828	–	–
	7,923,665	8,177,405	–	–

Notes to Financial Statements (cont'd)

31st December, 2002

18. Advances and Other Assets (cont'd)

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

	Minimum lease payments 2002 HK\$'000	Minimum lease payments 2001 HK\$'000	Present value of minimum lease payments 2002 HK\$'000	Present value of minimum lease payments 2001 HK\$'000
Amounts receivable under finance leases:				
Within one year	135,192	79,070	113,986	65,876
In the second to fifth years, inclusive	210,156	112,030	183,270	102,122
Over five years	98,081	26,202	77,074	22,038
	443,429	217,302	374,330	190,036
Less: Unearned finance income	(69,099)	(27,266)		
Present value of minimum lease payments receivable	374,330	190,036		

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

19. Investment Securities

	Group	
	2002	2001
	HK\$'000	HK\$'000
Listed equity outside Hong Kong, at cost	195,861	204,005
Provision for impairment	(26,331)	(27,256)
	169,530	176,749
Unlisted		
– equity	37,624	41,149
– debt	15,579	19,174
	53,203	60,323
Total	222,733	237,072
Market value of listed investment securities	131,332	108,550

The directors are of the opinion that the decline in market value of the listed investment securities as at the balance sheet date is temporary in nature and, accordingly, 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	
	2002	2001
	HK\$'000	HK\$'000
Bank and other financial institutions	169,530	176,749
Corporate entities	53,203	57,448
Others	–	2,875
	222,733	237,072

Notes to Financial Statements (cont'd)

31st December, 2002

19. Investment Securities (cont'd)

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

	Group	
	2002 HK\$'000	2001 HK\$'000
With a residual maturity of five years or less but over one year	–	2,876
Undated	15,579	16,298
	15,579	19,174

Included in the unlisted investment securities are equity interests in certain companies amounting to HK\$20,000 (2001: HK\$20,000) 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, 2002

20. Investments in Subsidiaries

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	1,629,869	1,701,378
Provision for impairment	(10,243)	(7,743)
	1,619,626	1,693,635

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\$810,000,000	Banking
Asia Investment Services Limited	British Virgin Islands	100	–	HK\$10,000,000	Investment holding
AFH Investments (BVI) Limited	British Virgin Islands	100	–	US\$1,000,000	Investment holding
Asia Insurance (Finance) Limited	Hong Kong	–	100	HK\$25,000,000	Mortgage loan financing
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, 2002

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	Provision of nominee services
Asia Commercial Bank (Trustee) Limited	Hong Kong	–	100	HK\$10,000,000	Provision of trustee services
ACB Finance Limited	Hong Kong	–	100	HK\$25,000,000	Deposit-taking and provision of finance lease and hire purchase loans

Notes to Financial Statements (cont'd)

31st December, 2002

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		
Hocomban Investments Limited	Hong Kong	–	100	HK\$5,000,000	Property investment
Asia Investment Services (HK) Limited	Hong Kong	–	100	HK\$10,000	Investment holding
Asia Financial (Securities) Limited	Hong Kong	–	100	HK\$15,000,000	Securities brokerage and provision of margin finance
Asia Financial Pacific (Securities) Limited	Hong Kong	–	100	HK\$12,000,000	Securities brokerage
AFH Credit Limited	Hong Kong	–	100	HK\$5,000,000	Provision of loan financing
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)	
Asia Financial (Futures) Limited	Hong Kong	–	100	HK\$20,000,000	Futures and options brokerage

Notes to Financial Statements (cont'd)

31st December, 2002

20. Investments in Subsidiaries (cont'd)

During the year, Asia Insurance Agency Inc., a subsidiary incorporated in the United States of America, was put into members' voluntary liquidation by the Group. Asia Insurance Agency Inc. did not have significant contribution to the Group's turnover or net profit for the year.

Note: The "A" Shares of AFAM carry the right to dividends and the holders 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.

The above table lists the subsidiaries of the Company as at 31st December, 2002 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 Asia Investment Services Limited, AFH Investments (BVI) Limited, Chamberlain Investment Limited and Bedales Investment Limited which operate mainly in Hong Kong.

21. Interests in Jointly-controlled Entities

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets other than goodwill	51,796	54,385
Share of goodwill	1,726	1,962
	53,522	56,347
Loans to jointly-controlled entities	39,925	37,050
Provision	(5,593)	—
	34,332	37,050

The loans to jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment, except for the amount of HK\$31,000,000 (2001: 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, 2002

22. Interests in Associates

	Group	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets	7,735	26,101

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\$280,000	Investment holding
Professional Liability Underwriting Services Limited	Hong Kong	27	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, 2002 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, 2002	1,437
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Accumulated amortisation:

At beginning of year	263
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Provided during the year	143
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At 31st December, 2002	406
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Net book value:

At 31st December, 2002	1,031
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At 31st December, 2001	1,174
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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, 2002

24. Fixed Assets

Group

	Investment properties HK\$'000	Premises HK\$'000	Furniture, fixtures, equipment and motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:				
At beginning of year	9,530	476,638	181,974	668,142
Additions	–	3,234	9,095	12,329
Disposals	–	–	(1,219)	(1,219)
Written off	–	–	(2,827)	(2,827)
Disposal of subsidiaries	–	–	(736)	(736)
Transfer from investment properties to premises	(6,990)	6,990	–	–
Transfer from premises to investment properties	6,411	(6,411)	–	–
Revaluation deficit	(3,881)	–	–	(3,881)
At 31st December, 2002	5,070	480,451	186,287	671,808
Accumulated depreciation:				
At beginning of year	–	102,596	142,027	244,623
Charge for the year	–	9,615	17,813	27,428
Disposals	–	–	(619)	(619)
Written off	–	–	(1,435)	(1,435)
Disposal of subsidiaries	–	–	(511)	(511)
Transfer from premises to investment properties	769	(769)	–	–
Reversal of accumulated depreciation upon revaluation	(769)	–	–	(769)
At 31st December, 2002	–	111,442	157,275	268,717
Net book value:				
At 31st December, 2002	5,070	369,009	29,012	403,091
At 31st December, 2001	9,530	374,042	39,947	423,519

24. Fixed Assets (cont'd)

The cost or valuation of the premises comprises:

	2002	2001
	HK\$'000	HK\$'000
At 1991 valuation	360,843	360,843
At cost	119,608	115,795
	480,451	476,638

The investment properties of the Group are stated at 2002 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:

	2002	2001
	HK\$'000	HK\$'000
Long term leases in Hong Kong	270,604	272,893
Medium term leases in Hong Kong	61,163	62,262
Medium term leases outside Hong Kong	36,148	37,421
Short term leases outside Hong Kong	1,094	1,466
	369,009	374,042

All of the Group's investment properties were revalued at 31st December, 2002 on an open market existing use basis by A.G.Wilkinson & Associates, an independent firm of professionally qualified valuers.

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\$95,930,000 (2001: HK\$97,913,000).

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

The gross rental income earned from the leasing of the Group's investment properties amounted to HK\$563,000 for the year ended 31st December, 2002 (2001: HK\$241,000).

Notes to Financial Statements (cont'd)

31st December, 2002

24. Fixed Assets (cont'd)

Company	Furniture and fixtures HK\$'000
Cost:	
At beginning of year	2,098
Additions	8
At 31st December, 2002	2,106
Accumulated depreciation:	
At beginning of year	1,533
Charge for the year	257
At 31st December, 2002	1,790
Net book value:	
At 31st December, 2002	316
At 31st December, 2001	565

25. Share Capital

	2002 HK\$'000	2001 HK\$'000
Authorised:		
1,500,000,000 ordinary shares of HK\$1 each	1,500,000	1,500,000
Issued and fully paid:		
1,058,021,428 ordinary shares of HK\$1 each	1,058,021	1,058,021

Notes to Financial Statements (cont'd)

31st December, 2002

26. Reserves

Group

	Share premium account HK\$'000	General reserve HK\$'000	Contributed surplus HK\$'000	Investment Asset revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Statutory reserve HK\$'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 2001	553,078	359,883	88,562	164,943	–	–	313,240	552,266	2,031,972
Issue of shares	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 (note 10)	–	–	–	–	–	–	–	(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)
31st December, 2001	560,531	359,883	88,562	164,943	2,169	2,427	317,490	546,090	2,042,095
At 1st January, 2002	560,531	359,883	88,562	164,943	2,169	2,427	317,490	546,090	2,042,095
Revaluation deficit	–	–	–	–	(2,169)	–	–	–	(2,169)
Net profit for the year	–	–	–	–	–	–	–	43,309	43,309
Disposal of a subsidiary	–	–	–	–	–	–	(4,250)	4,250	–
Dividends (note 10)	–	–	(37,030)	–	–	–	–	–	(37,030)
At 31st December, 2002	560,531	359,883	51,532	164,943	–	2,427	313,240	593,649	2,046,205
Reserves retained by:									
Company and subsidiaries	560,531	359,639	51,532	164,943	–	2,427	313,240	638,192	2,090,504
Jointly-controlled entities	–	–	–	–	–	–	–	(24,978)	(24,978)
Associates	–	244	–	–	–	–	–	(19,565)	(19,321)
31st December, 2002	560,531	359,883	51,532	164,943	–	2,427	313,240	593,649	2,046,205

Notes to Financial Statements (cont'd)

31st December, 2002

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, 2001	553,078	301,865	210,280	39,840	1,105,063
Issue of shares	7,453	–	–	–	7,453
Net profit for the year	–	–	–	6,739	6,739
Interim 2001 dividend (note 10)	–	–	–	(19,027)	(19,027)
Proposed final 2001 dividend (note 10)	–	–	–	(10,580)	(10,580)
At 31st December, 2001 and at 1st January, 2002	560,531	301,865	210,280	16,972	1,089,648
Net profit for the year	–	–	–	3,278	3,278
Interim 2002 dividend (note 10)	–	(12,696)	–	–	(12,696)
Proposed final 2002 dividend (note 10)	–	(24,334)	–	–	(24,334)
At 31st December, 2002	560,531	264,835	210,280	20,250	1,055,896

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 a branch (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.

26. Reserves (cont'd)

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\$285,085,000 (2001: HK\$318,837,000).

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.

27. 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	
	2002 HK\$'000	2001 HK\$'000
Repayable on demand	30,871	16,967
With a residual maturity of three months or less	384,957	237,561
	415,828	254,528

Notes to Financial Statements (cont'd)

31st December, 2002

28. Deposits from Customers

The maturity profile of the deposits from customers as at the balance sheet date is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Repayable on demand	1,273,920	1,648,107
With a residual maturity of:		
Three months or less	7,522,473	7,940,639
One year or less but over three months	505,769	345,337
Five years or less but over one year	1,933	10,438
	9,304,095	9,944,521

29. Certificates of Deposit Issued

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
With a residual maturity of:		
Three months or less	75,000	—
One year or less but over three months	600,000	600,000
Five years or less but over one year	500,000	600,000
	1,175,000	1,200,000

30. Unearned Premiums

	Fire insurance HK\$'000	Marine insurance HK\$'000	General accident and other insurance HK\$'000	Total HK\$'000
Group				
At 1st January, 2002	27,039	7,448	96,564	131,051
Increase/(decrease) in unearned premiums (note 5)	2,805	(976)	35,682	37,511
At 31st December, 2002	29,844	6,472	132,246	168,562
Represented by:				
Unearned premiums in respect of direct and reinsurance inwards business	55,460	14,746	212,227	282,433
Less: Reinsurance outwards	(25,616)	(8,274)	(79,981)	(113,871)
At 31st December, 2002	29,844	6,472	132,246	168,562
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

Notes to Financial Statements (cont'd)

31st December, 2002

31. Life and Contingency Reserves

Group	Life reserve HK\$'000	Contingency reserve HK\$'000	Total HK\$'000
At 1st January, 2001	12,255	198	12,453
Increase/(decrease) in reserve (note 5)	(1,623)	406	(1,217)
At 31st December, 2001 and 1st January, 2002	10,632	604	11,236
Increase in reserve (note 5)	833	631	1,464
At 31st December, 2002	11,465	1,235	12,700

32. Provisions for Outstanding Claims

Provisions for outstanding claims are recorded net of recoveries from reinsurers. The gross claim provisions before reinsurance recoveries amounted to HK\$283,161,000 (2001: HK\$270,934,000) at the balance sheet date. Included in the total provisions is HK\$6,338,000 (2001: HK\$6,586,000) specifically made in respect of expenses for settling claims at the balance sheet date. In addition, included in the total provisions is HK\$55,714,000 (2001: HK\$47,500,000) specifically made in respect of claims incurred but not reported and claims incurred but not enough reported at the balance sheet date.

33. Deferred Tax

	Group	
	2002 HK\$'000	2001 HK\$'000
At beginning of year	3,258	2,737
Charge/(credit) for the year – note 8	(1,054)	521
At balance sheet date	2,204	3,258

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	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Accelerated capital allowances	2,204	2,493	(5)	–
Tax losses carried forward	–	–	(13,657)	(14,272)
Others	–	765	–	(24)
	2,204	3,258	(13,662)	(14,296)

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

Notes to Financial Statements (cont'd)

31st December, 2002

34. 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, 2002 HK\$'000	31st December, 2002 HK\$'000	Maximum amount outstanding during the year HK\$'000
Lau Ki-Chit	1,318	1,077	1,318

The loan is secured by a property. Interest is charged at the Hong Kong dollar best lending rate less 2.5% per annum, capped at 4% per annum, and the loan is repayable by monthly instalments.

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

	2002 HK\$'000	2001 HK\$'000
Aggregate amount of relevant loans outstanding at the balance sheet date	64,778	37,854
Maximum aggregate amount of relevant loans outstanding during the year	69,214	42,831

35. Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of profit before tax to net cash used in operating activities

	Notes	2002 HK\$'000	2001 HK\$'000
Profit before tax		59,105	45,645
Adjustments for:			
Interest income, excluding that related to the banking and provision of margin finance business	5	(31,778)	(39,567)
Dividends received from equity investments	5	(7,483)	(7,169)
Gains/(losses) on disposal of other investments, net	5	(88)	11,512
Unrealised loss on other investments, net	5	19,530	31,270
Gains less losses on disposal of investment securities	5	(437)	(11,865)
Impairment of held-to maturity securities and investment securities	5	1,091	31,690
Gain on disposal of held-to-maturity securities	5	(7,455)	(4,441)
Guaranteed return to a retirement scheme	5	1,800	–
Gain on disposal of subsidiaries	5	(441)	–
Loss on disposal of fixed assets, net	5	24	851
Depreciation charges	6	27,428	23,922
Revaluation deficit on investment properties	6	943	–
Provision against a loan to a jointly-controlled entity	6	5,593	–
Fixed assets written off	6	1,392	888
Amortisation of intangible assets	6	143	143
Impairment/(reversal of impairment) of other assets	6	(480)	1,140
Provision against bad and doubtful debts	6	54,552	72,150
Share of results of jointly-controlled entities		2,825	14,702
Share of results of associates		(1,620)	(6)
Operating profit before changes in operating assets and liabilities		124,644	170,865

Notes to Financial Statements (cont'd)

31st December, 2002

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

(a) Reconciliation of profit before tax to net cash used in operating activities (cont'd)

	Notes	2002 HK\$'000	2001 HK\$'000
Operating profit before changes in operating assets and liabilities		124,644	170,865
Decrease/(increase) in operating assets:			
Decrease/(increase) in money at call and short notice with original maturity of over three months		(456,882)	181,689
Decrease/(increase) in treasury bills including Exchange Fund Bills with original maturity of over three months		(25,876)	38,021
Decrease/(increase) in placements with banks and other financial institutions with original maturity of over three months		(18,799)	172,583
Increase in bank deposits maturing over twelve months		(10,000)	—
Decrease/(increase) in amounts due from reinsurance companies		(17,286)	6,732
Increase in premium receivables		(17,320)	(28,955)
Decrease/(increase) in amounts due from associates		357	(223)
Increase in certificates of deposit held with original maturity of over three months		(60,766)	(15,662)
Increase in held-to-maturity securities with original maturity of over three months		(135,725)	(185,663)
Decrease in advances to customers		169,735	71,978
Decrease in accrued interest and other assets		27,487	39,624
Increase/(decrease) in operating liabilities:			
Increase/(decrease) in deposits and balances of banks and other financial institutions		161,300	(29,930)
Decrease in deposits from customers		(640,426)	(721,018)
Increase/(decrease) in certificates of deposit issued		(25,000)	250,000
Increase/(decrease) in accrued liabilities and other payables		13,382	(143,919)
Increase in amounts due to reinsurance companies		31,668	22,656
Increase in unearned premiums		37,511	27,985
Increase/(decrease) in life and contingency reserves		1,464	(1,217)
Increase in provisions for outstanding claims		21,988	12,456
Net cash used in operating activities before tax		(818,544)	(131,998)
Hong Kong profits tax paid		(7,643)	(22,319)
Overseas tax paid		(1,834)	(2,774)
Net cash used in operating activities		(828,021)	(157,091)

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

(b) Disposal of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Fixed assets	225	—
Cash and bank balances	22,085	—
Advances to customers and other assets	580	—
Interests in an associate	52	—
Other payables	(578)	—
Tax payable	(30)	—
Minority interests	(3,263)	—
	19,071	—
Gain on disposal of subsidiaries (note 5)	441	—
	19,512	—
Satisfied by:		
Cash	19,512	—

Notes to Financial Statements (cont'd)

31st December, 2002

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

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2002 HK\$'000	2001 HK\$'000
Cash consideration	19,512	—
Cash and bank balances disposed of	(22,085)	—
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(2,573)	—

The results of the subsidiaries disposed of in the year ended 31 December 2002 had no significant impact on the Group's consolidated turnover or profit after tax for the year.

(c) Major non-cash transaction

During the year, the issued and paid-up share capital of an associate was reduced from US\$10,050,000 divided into 10,050,000 shares of US\$1 each to US\$280,000 divided into 280,000 shares of US\$1 each by the redemption and cancellation of 9,770,000 ordinary shares of US\$1 each. An amount of HK\$18,569,000 arising therefrom attributable to the Group was utilised to settle the amount due to the associate by the Group.

36. Off-balance Sheet Exposures

(a) Contingent liabilities and commitments

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

	2002 HK\$'000	2001 HK\$'000
Direct credit substitutes	50,414	35,952
Transaction-related contingencies	9,449	9,076
Trade-related contingencies	230,501	175,820
Forward forward deposits placed	134,356	–
Other commitments with an original maturity of under one year or which are unconditionally cancellable	3,306,643	3,077,444
Other commitments with an original maturity of one year and over	408,942	325,534
	4,140,305	3,623,826

(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:

	2002 HK\$'000	2001 HK\$'000
Forward foreign exchange contracts – hedging:		
Swaps	1,748,863	2,614,594
Others	77,823	221,692
	1,826,686	2,836,286

Notes to Financial Statements (cont'd)

31st December, 2002

36. 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 2002 HK\$'000	Replacement cost 2001 HK\$'000	Credit risk weighted amount 2002 HK\$'000	Credit risk weighted amount 2001 HK\$'000
Direct credit substitutes	–	–	37,462	25,735
Transaction-related contingencies	–	–	88	–
Trade-related contingencies	–	–	40,456	29,021
Forward forward deposits paid	–	–	26,871	–
Other commitments with an original maturity of one year and over	–	–	204,471	162,767
Exchange rate contracts	1,992	6,330	3,704	5,683
	1,992	6,330	313,052	223,206

37. 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 one to two years. The terms of the leases generally also require the tenants to pay security deposits.

At 31st December, 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2002 HK\$'000	2001 HK\$'000
Within one year	739	147
In the second to fifth years, inclusive	759	–
	1,498	147

37. 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 two to three years. The terms of the leases generally require the Group to pay security deposits.

At 31st December, 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2002	2001
	HK\$'000	HK\$'000
Within one year	10,611	6,950
In the second to fifth years, inclusive	5,960	4,597
	16,571	11,547

38. Other Commitments

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

	2002	2001
	HK\$'000	HK\$'000
Contracted, but not provided for	5,786	6,044
Authorised, but not contracted for	32,825	—
	38,611	6,044

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

39. Pending Litigation

- (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 (the "SFC") has conducted an investigation against Asia Financial (Assets Management) Limited ("AFAM") in respect of a breach of the Code on Takeovers and Mergers. During the year, the Takeovers and Mergers Panel (the "Panel") has publicly censured AFAM and imposed a "cold shoulder order" against the former chief executive and director of AFAM. In addition, the Panel has reported the case to the SFC and other relevant regulatory authorities for their further investigations. Up to the date of this report, there has not been any conclusion from the investigations of the SFC and the other authorities or any legal claims filed against AFAM. In the opinion of the directors, the potential liabilities in relation to AFAM, if any, cannot be measured with sufficient reliability before the aforesaid investigations are completed. Accordingly, no provision has been made in the financial statements.

40. Contingencies

A subsidiary of the Company is a guarantor to Bank Consortium Pooled Retirement Scheme (formerly known as Asia Insurance Pooled Provident and Retirement Scheme) (the "Scheme"), of which the manager of the Scheme is another subsidiary of the Company. The Scheme is a pooling arrangement to provide benefits on retirement, termination of employment, death or total permanent disability of employees of participating employers. As a guarantor, the subsidiary of the Company guarantees an annual return of not less than 5% on certain designated portions of the Scheme's assets, and is entitled to retain 50% of the surplus in excess of the guaranteed return as the guarantor's fee. Starting from the financial year ending 31 December 2003, the guaranteed annual return rate will be adjusted to 3%.

Notes to Financial Statements (cont'd)

31st December, 2002

41. Connected Transactions and Related Party Transactions

Group

	2002		2001	
	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	14,305	58,654	11,954	20,576
Interest income received and receivable	431	293	585	1,308
Deposits received:				
Aggregate balance at balance sheet date	40,944	479,087	110,184	300,411
Interest expense paid and payable	436	5,179	4,110	11,437
Interbank activities:				
Deposits placed	–	236,744	–	339,866
Deposits received	–	36,486	–	1,282
Interest income	–	4,746	–	8,234
Interest expense	–	176	–	834
Standby credit facilities available to the Group	–	311,956	–	623,784
Premium income:				
Gross premiums written	81	2,046	136	2,772
Reinsurance premium ceded	–	31,126	–	1,776
Commission income, net	42	3,790	–	2,950
Commission income	–	–	27	–
Rental expenses	–	1,104	–	1,104

Notes to Financial Statements (cont'd)

31st December, 2002

41. Connected Transactions and Related Party Transactions (cont'd)

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

	2002 HK\$'000	2001 HK\$'000
Loans and advances granted:		
Aggregate balance at balance sheet date	39,925	16,880
Interest income received and receivable	–	580
Deposits received:		
Aggregate balance at balance sheet date	176,208	137,813
Interest expense paid and payable	2,665	4,824
Reinsurance premiums ceded	–	1,681
Service fees paid	8,340	7,519

During the year, Asia Investment Services Limited ("AISL"), a wholly-owned subsidiary of the Company, entered into two agreements with each of Skokie Limited and Kannach Limited (the "Purchasers") in respect of the disposal of its entire interests in two subsidiaries, Asia Financial Capital Limited ("AFCL") and Asia Financial International Limited ("AFIL"), to the Purchasers for cash consideration of HK\$17.9 million and HK\$1 million, respectively. The consideration was determined with reference to the net tangible assets of AFCL and AFIL as at 31st December, 2001. Further details of the terms and conditions of the transactions are set out in the Company's announcement dated 7th May, 2002.

42. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 28th March, 2003.