1. CORPORATE INFORMATION

Asia Financial Holdings Limited is a limited liability company incorporated in Bermuda. The principal office of the Company is located at 7th Floor, Asia Financial Centre, 120 Des Voeux Road Central, Hong Kong.

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.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 investment properties, derivative financial instruments, securities measured at fair value through profit or loss and available-for-sale securities, which have been measured at fair value and certain building, which were carried at 1990 valuation. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December, 2005. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 3	Business Combinations
HKFRS 4	Insurance Contracts
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 7, 8, 10, 12, 14, 16, 19, 21, 27, 28, 30, 31, 33, 36, 37, 38, HKFRSs 3, 5 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (cont'd)

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior periods, the Group's share of tax attributable to associates and jointly-controlled entities was presented as a component of the Group's total tax charge in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates and jointly-controlled entities is presented net of the Group's share of tax attributable to associates and jointly-controlled entities.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

HKFRS 4 prescribes the definition of insurance contracts. The adoption has been reflected in the disclosures with respect to insurance contracts issued and reinsurance contracts held. The Group continues to apply the same accounting policies for the recognition and measurement of obligations arising from insurance contracts that it issues and reinsurance contracts that it holds.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at cost or valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The leasehold land is classified as an operating lease, because the title of the land is not expected to pass to an enterprise by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

The directors consider that no reliable source of such allocation of lease payments could be obtained, and accordingly, the land and building elements have not been separated. The adoption of HKAS 17 has no material effect on the consolidated income statement and retained profits of the Group.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (cont'd)

(b) HKAS 32 and HKAS 39 – Financial Instruments

(i) In prior years, the accounting policies for certain financial instruments were as follows:

- Dated debt securities that the Group has the ability and intention to hold to maturity were classified as held-to-maturity securities; securities which are intended to be held on a continuing basis or for an identified long-term purpose were classified as investment securities; and other investments in securities are not classified as held-to-maturity securities or investment securities.

- Interest income on loans and advances and debt securities, and interest expense on deposits and debt instruments were recognised on an accrual basis using the relative contract or coupon interest rates. The interest accrued on non-performing loans were not taken as income but credited to a suspense account, and was offset against the appropriate items in the balance sheet.

- General provisions on loans and advances were determined at a level deemed appropriate to absorb expected losses for loans in future. Specific provisions on loans and advances were determined to absorb expected losses from individual borrower after taking into account the value of the collateral held.

- Fees on loan origination are recognised except when such fees are interest in nature. In such case, the fees are recognised on an appropriate basis over the relevant period. Costs associated with loan origination or acquisition are charged as operating expenses or netted off against interest income when incurred. Premiums or discounts of debt securities held, or debt securities in issue, are amortised over the period from the date of purchase or issue to the date of maturity, as part of interest income or interest expense.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (cont'd)

(b) HKAS 32 and HKAS 39 – Financial Instruments (cont'd)

(ii) From 1st January, 2005, the Group has adopted HKAS 32 and HKAS 39 and classified financial instruments under the following categories:

- Securities measured at fair value through profit or loss

  This category comprises securities held for trading and those that are measured at fair value through profit or loss at inception. Financial assets under this category are carried at fair value. Unrealised gains and losses arising from changes in the fair value are included in the income statement in the period in which they arise.

- Held-to-maturity securities

  This category comprises non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. Held-to-maturity securities are carried at amortised cost using the effective interest method less provision for impairment, if any.

- Loans and advances

  Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are carried at amortised cost using the effective interest method, less provision for impairment, if any. The related interest and impairment are accounted for in the income statement.

- Available-for-sale securities

  This category comprises non-derivative financial assets that are designated as available-for-sale securities or are not classified as securities measured at fair value through profit or loss, held-to-maturity securities or loans and advances. Unrealised gains and losses arising from changes in the fair value of available-for-sale securities are recognised in the available-for-sale investment reserve. In the case where the available-for-sale securities do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are carried at cost.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (cont'd)

(b) HKAS 32 and HKAS 39 – Financial Instruments (cont'd)

(iii) Revenue recognition

Interest income and expense are recognised using the effective interest method. According to the effective interest method, interest is allocated over the expected life of the relevant financial assets and liabilities using the effective interest rate that exactly discounts estimated future cash payments and receipts through the expected life of the relevant financial assets and liabilities. The calculation of effective interest rates includes all fees, commissions and costs on loans and advances and premium and discounts on held-to-maturity securities. Interest will continue to be accrued for impaired financial assets using the effective rate to discount the future cash flows for the purpose of measuring the impairment loss.

(iv) Impairment allowances for advances

Impairment allowances can be made on an individual assessed basis and a collective portfolio basis.

- Individual impairment allowance applies to loans and advances that are individually significant and have objective evidence of impairment. In assessing for impairment the management estimates the present value of future cash flows which are expected to be received, taking into account the borrower's financial situation, the net realisable value of the underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its merits and impairment allowance is measured as the difference between the loan's carrying value and the present value of the estimated future cash flows discounted at the loan's original effective interest rate.

- Collective impairment allowances cover credit losses inherent in portfolios of loans and advances and other assets with similar economic and risk characteristics where objective evidence for individual impaired items cannot yet be identified. In assessing the collective impairment allowance, management makes assumptions both to define the way the Group assesses inherent losses and to determine the required input parameters, based on historical loss experience and current economic conditions.

The effect of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (cont'd)

(c) HKAS 40 – Investment Property

In prior years, changes in the fair values of investment properties were dealt with as movements in the asset revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. In addition, the Group has restated the comparative amounts to reflect the reclassification of certain properties to investment properties retrospectively for the earliest period presented in the financial statements. The effects of the above change are summarised in note 2.4 to the financial statements.

(d) HKFRS 3 "Business Combinations" and HKAS 36 "Impairment of Assets"

In prior years, goodwill arising on acquisitions was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

The transitional provisions of HKFRS 3 required the Group to eliminate at 1st January, 2005 the carrying amount of accumulated amortisation with a corresponding adjustment to the cost of goodwill.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (cont'd)

(e) HK(SIC)-Int 21 – Income Taxes – Recovery of Revalued Non-depreciable Assets

In prior periods, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.

Upon the adoption of HK(SIC)-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that its investment properties will be recovered through use, and accordingly, the profits tax rate has been applied to the calculation of deferred tax.

The effects of the above changes are summarised in note 2.4 to the financial statements. The changes have been adopted retrospectively from the earliest period presented and comparative amounts have been restated accordingly.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, to these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1st January, 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1st January, 2007. The revised standard will affect the disclosures about qualitative information in relation to the Group's objective, policies and processes for managing capital; quantitative data about what the Group regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (cont'd)

HKFRS 7 will replace HKAS 30 and modify the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1st January, 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37, and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheets at 31st December 2004, 1st January, 2005 and 31st December, 2005

			Effect of adopting				
Effect of new policies (Increase/(decrease))	HKAS 39 Reclassification of derivative instruments HK$'000	HKAS 39 Impact on financial instruments HK$'000	HKAS 39 Revaluation of available-for-sale securities HK$'000	HKAS 40 and HK(SIC)-Int 21 HK$'000	HKFRS 3 Discontinuation of amortisation of goodwill HK$'000	HKFRS 4 Reclassification of insurance assets and liabilities HK$'000	Total HK$'000
At 31st December, 2004							
Assets							
Property, plant and equipment	–	–	–	(12,466)	–	–	(12,466)#
Investment properties	–	–	–	9,220	–	–	9,220#
Insurance receivables	–	–	–	–	–	11,683	11,683#
Receivables from reinsurance companies	–	–	–	–	–	(24,653)	(24,653)#
Reinsurance assets	–	–	–	–	–	372,936	372,936#
							356,720
Liabilities/equity							
Insurance contract liabilities	–	–	–	–	–	359,966	359,966#
Retained profits	–	–	–	(3,246)	–	–	(3,246)#
							356,720

\# *Presentation taken effect retrospectively*

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (cont'd)

(a) Effect on the consolidated balance sheet at 31st December, 2004, 1st January, 2005 and 31st December, 2005 (cont'd)

Effect of new policies (Increase/(decrease))	HKAS 39 Reclassification of derivative instruments HK$'000	HKAS 39 Impact on financial instruments HK$'000	Effect of adopting HKAS 39 Revaluation of available-for-sale securities HK$'000	HKAS 40 and HK(SIC)-Int 21 HK$'000	HKFRS 3 Discontinuation of amortisation of goodwill HK$'000	HKFRS 4 Reclassification of insurance assets and liabilities HK$'000	Total HK$'000
At 1st January, 2005							
Assets							
Securities measured at fair value through profit or loss	–	548	–	–	–	–	548*
Derivative receivables	59,087	–	–	–	–	–	59,087*
Loans and advances and other assets	(1,418)	45,980	–	–	–	–	44,562*
Available-for-sale securities	–	–	148,742	–	–	–	148,742*
Held-to-maturity securities	–	3,648	–	–	–	–	3,648*
							256,587
Liabilities/equity							
Certificates of deposit issued	–	28	–	–	–	–	28*
Derivative payables	57,669	–	–	–	–	–	57,669*
Deferred tax liabilities	–	8,244	–	–	–	–	8,244*
Available-for-sale investment reserve	–	–	148,742	–	–	–	148,742*
Retained profits	–	41,904	–	–	–	–	41,904*
							256,587

* *Adjustments taken effect prospectively from 1st January, 2005*

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (cont'd)

(a) Effect on the consolidated balance sheet at 31st December, 2004, 1st January, 2005 and 31st December, 2005 (cont'd)

Effect of new policies (Increase/(decrease))	Effect of adopting HKAS 39 Reclassification of derivative instruments HK$'000	HKAS 39 Impact on financial instruments HK$'000	HKAS 39 Revaluation of available-for-sale securities HK$'000	HKAS 40 and HK(SIC)-Int 21 HK$'000	HKFRS 3 Discontinuation of amortisation of goodwill HK$'000	HKFRS 4 Reclassification of insurance assets and liabilities HK$'000	Total HK$'000
At 31st December, 2005							
Assets							
Insurance receivables	–	–	–	–	–	7,649	7,649
Receivables from reinsurance companies	–	–	–	–	–	(26,768)	(26,768)
Reinsurance assets	–	–	–	–	–	411,889	411,889
Securities measured at fair value through profit or loss	–	854	–	–	–	–	854
Derivative receivables	47,855	–	–	–	–	–	47,855
Loans and advances and other assets	–	70,957	–	–	–	–	70,957
Available-for-sale securities	–	–	129,012	–	–	–	129,012
Held-to-maturity securities	–	8,872	–	–	–	–	8,872
Interests in associates	–	–	–	–	301	–	301
Investment properties	–	–	–	(2,246)	–	–	(2,246)
							648,375
Liabilities/equity							
Certificates of deposit issued	–	399	–	–	–	–	399
Derivative payables	54,524	–	–	–	–	–	54,524
Insurance contract liabilities	–	–	–	–	–	392,770	392,770
Other liabilities	(6,669)	–	–	–	–	–	(6,669)
Deferred tax liabilities	–	11,505	–	1,037	–	–	12,542
Available-for-sale investment reserve	–	–	129,012	–	–	–	129,012
Retained profits	–	68,779	–	(3,283)	301	–	65,797
							648,375

The adoption of new accounting policies has no impact on the Company's balance sheet as at 1st January, 2005.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (cont'd)

(b) Effect on the consolidated balances of equity at 1st January, 2005

Effect of new policies (Increase/(decrease))	Effect of adopting HKAS 39 Amortisation of held-to-maturity investments HK$'000	HKAS 39 Revaluation of available-for-sale securities HK$'000	HKAS 39 Impact on other financial instruments HK$'000	Total HK$'000
1st January, 2005				
Available-for-sale investment reserve	–	148,742	–	148,742
Retained profits	3,648	–	38,256	41,904
				190,646*

* *Adjustments taken effect prospectively from 1st January, 2005 and have no effect on the consolidated balances of equity at 1st January, 2004.*

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (cont'd)

(c) Effect on the consolidated income statement for the years ended 31st December, 2005 and 2004

	Effect of adopting				
Effect of new policies	HKAS 1 Reclassification of tax of jointly-controlled entities and associates	HKAS 39 Impact on financial instruments	HKAS 40 and HK(SIC)-Int 21	HKFRS 3 Discontinuation of amortisation of goodwill	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31st December, 2005					
Increase in other income	–	–	644	–	644
Increase in interest income	–	12,852	–	–	12,852
Increase in interest expense	–	(371)	–	–	(371)
Decrease in fees and commission income	–	(1,881)	–	–	(1,881)
Decrease in operating expense	–	7,852	–	–	7,852
Decrease in impairment allowance	–	11,684	–	–	11,684
Increase in deferred tax charge	–	(3,261)	(1,037)	–	(4,298)
Decrease in share of profits and losses of jointly-controlled entities	(962)	–	–	–	(962)
Decrease in share of profits and losses of associates	(783)	–	–	–	(783)
Decrease in amortisation of goodwill on acquisition of an associate	–	–	–	301	301
Decrease in tax	1,745	–	–	–	1,745
Total increase/(decrease) in profit	–	26,875	(393)	301	26,783
Year ended 31st December, 2004					
Decrease in share of profits and losses of jointly-controlled entities	(1,148)	–	–	–	(1,148)
Decrease in share of profits and losses of associates	(121)	–	–	–	(121)
Decrease in tax	1,269	–	–	–	1,269
Total increase/(decrease) in profit	–	–	–	–	–

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial assets;

(ii) fees and commission income are recognised when services are rendered;

(iii) premiums from direct underwriting and reinsurance business are recorded based on insurance policy contracts incepted and advices received from the cedants during the financial year, respectively, and are recognised as income when risk coverage is provided to the insured or the cedants.

(iv) interest income on finance leases is recognised on the basis as set out below under the heading of "Leases";

(v) rental income is recognised on an accrual basis; and

(vi) dividend income is recognised when the Group's right to receive payment has been established.

Commission expenses and other acquisition costs

Commission expenses and other acquisition costs relating to the underwriting business are not deferred and are charged to the revenue account as incurred.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Joint ventures companies

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture 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, 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. The profits and losses from the joint venture'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 is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, 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 income statement 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Associates

An associate is an entity, 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 its associates is included in the consolidated income statement 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. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets acquired, liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisition for which the agreement date is on or after 1st January, 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates and jointly-controlled entities, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and is not larger than a segment based on the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Goodwill (cont'd)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets, reinsurance assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of assets (cont'd)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that 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 such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Investments and other financial assets

Applicable to the year ended 31st December, 2004:

(i) 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) Where the circumstances and events which led to the write-downs or write-offs of investment securities, certificates of deposit and other held-to-maturity securities cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the appreciation in fair value is credited to the income statement, on an individual investment basis, to the extent of the amount previously charged to the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investments and other financial assets (cont'd)

(iv) 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 certain 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 the cumulative amortisation of the difference between their purchase price and the Nominal Value at the maturity date. Where a loss on redemption is anticipated due to the quoted market price of the particular reference equity at the balance sheet date having fallen below the Strike Price, provisions are made for any portion of the notes' carrying value which is not expected to be recoverable. The net gains or losses so arising are credited or charged to the income statement for the period in which they arise.

(v) Investments other than investment securities, certificates of deposit, held-to-maturity securities and equity-linked notes are classified as other investments and are stated at their fair values, based on their market values or quoted market prices, on an individual investment basis. The gains or losses arising from changes in their respective fair values are credited or charged to the income statement for the period in which they arise.

Applicable to the year ended 31st December, 2005:

Financial assets in the scope of HKAS 39 are classified as either securities measured at fair value through profit or loss, held-to-maturity securities, loans and advances, and available-for-sale securities, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not measured at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investments and other financial assets (cont'd)

Securities measured at fair value through profit or loss

Financial assets classified as held for trading are included in the category "Securities measured at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

Held-to-maturity securities

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity securities when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long term investments that are intended to be held to maturity, such as bonds, are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and advances are derecognised or impaired, as well as through the amortisation process.

Available-for-sale securities

Available-for-sale securities are those non-derivative financial assets in listed and unlisted securities that are designated as available-for-sale or are not classified in any of the other three categories. After initial recognition, available-for-sale securities are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investments and other financial assets (cont'd)

Available-for-sale securities (cont'd)

When the fair value of unlisted securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

Applicable to the year ended 31st December, 2005:

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and advances and other accounts or held-to-maturity securities carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of financial assets (cont'd)

Assets carried at amortised cost (cont'd)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is also collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale securities

If an available-for-sale securities is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through income statement.

Impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Derecognition of financial assets

Applicable to the year ended 31st December, 2005:

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Bad and doubtful debts

Applicable to the year ended 31st December, 2004:

Provision is made against advances and other accounts as and when they are considered doubtful. In addition, an amount has been set aside as general provision for doubtful debts. These provisions are deducted from advances and other accounts. The advances are written off when recovery is not expected.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Repossessed assets

Collateral assets for loans and advances and other accounts are repossessed by the Group when the borrowers are unable to service their repayments, and would be realised in satisfaction of outstanding debts. Advances with repossessed collateral assets will continue to be accounted for as customer advances, except for those where the Group has taken the legal title of the repossessed collateral assets, in which cases, the repossessed assets are shown under other accounts at the predetermined value with a corresponding reduction in the related advances. The repossessed assets included under other accounts are measured at fair value. Individual impairment allowance is made on the shortfall between the expected net realisable value of repossessed assets and the outstanding advances.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derivative financial instruments

Applicable to the year ended 31st December, 2005:

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to mitigate its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

Provisions

A provision 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 amount arising from the passage of time is included in finance costs in the income statement.

Product classification – Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contracts, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependant on both the probability of an insured event and the magnitude of its potential effect.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the rest of its lifetime, even if the insurance risk reduces significantly during this period.

Insurance contract liabilities

Life insurance contract liabilities

The provision for life insurance contracts consists of outstanding claims and life reserve.

Life reserve

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Insurance contract liabilities (cont'd)

General insurance contract liabilities

General insurance contract liabilities consists of outstanding claims which is based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs. Significant delays can be experienced in the notification and settlement of certain type of general insurance claims, therefore the ultimate cost of which cannot be known with certainty at the balance sheet date.

Outstanding claims

Full provision has been made for outstanding claims including those incurred but not reported and incurred but not enough reported until after the balance sheet date, and also related claims handling expenses estimated to be necessarily and directly incurred in the claims settlement process. This provision, although not a precise assessment, has been made in 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 adjustment are admitted until confirmed as necessary.

Contingency reserve

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

Unearned premiums

Unearned premiums represent that portion of premiums written which is 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 the 1/24th basis.

Unexpired risk

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Reinsurance assets

The Group assumes and/or cedes reinsurance in the normal course of business. Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance arrangements. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract and that this can be measured reliably.

Intangible assets

Intangible assets, representing the eligibility rights (the "Trading Rights") to trade on or through The Stock Exchange of Hong Kong Limited and the Hong Kong Futures Exchange Limited, are stated at cost less accumulated amortisation or carried at their carrying amounts at the date when the assets are retired from active use, less any impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

The Trading Rights are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each balance sheet date.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property, plant and equipment, and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Advantage has been taken of the transitional provision set out in paragraph 80A of HKAS16 , "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.

Leasehold buildings with residual lease periods of not more than 50 years are depreciated in equal annual instalments over the terms of lease excluding any renewal period. Leasehold buildings with residual lease periods of more than 50 years are depreciated on a 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.

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sale 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

The amounts due from the lessees under finance leases are recorded in the balance sheet as advances to customers. The amount comprises 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.

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 investment properties and rentals receivable under the operating leases are credited to the income statement 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 income statement on the straight-line basis over the lease terms.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Income tax (cont'd)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is related party of the Group.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits and/or contributed surplus within the equity's section of 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

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 income statement as incurred. The amount of contributions by the Group is based on a specified percentage of the monthly relevant income 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.

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 Hong Kong 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 Hong Kong Employment Ordinance.

A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Held-to-maturity securities

The Group follows the guidance of HKAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances, it is required to reclassify the entire class of held-to-maturity securities to other appropriate classes of financial assets. The investments would therefore be measured at fair value and not at amortised cost.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment allowances on loans and advances and other assets

The Group reviews its loan portfolios to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. No further geographical segment information is presented as over 90% of the Group's revenue, assets and liabilities are derived from operations carried out in Hong Kong.

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 the 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; and

(c) the corporate segment engages in the business of securities trading and holding.

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

4. SEGMENT INFORMATION (cont'd)

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31st December, 2005 and 2004.

Group	Banking 2005 HK$'000	Banking 2004 HK$'000 (Restated)	Insurance 2005 HK$'000	Insurance 2004 HK$'000 (Restated)	Corporate 2005 HK$'000	Corporate 2004 HK$'000	Eliminations 2005 HK$'000	Eliminations 2004 HK$'000	Consolidated 2005 HK$'000	Consolidated 2004 HK$'000 (Restated)
Segment revenue:										
External customers	**315,954**	311,758	**792,503**	747,033	**–**	–	**–**	–	**1,108,457**	1,058,791
Other revenue	**–**	–	**106,002**	98,710	**14,588**	16,487	**–**	–	**120,590**	115,197
Intersegment	**(959)**	1,782	**4,675**	2,645	**1,451**	340	**(5,167)**	(4,767)	**–**	–
Total	**314,995**	313,540	**903,180**	848,388	**16,039**	16,827	**(5,167)**	(4,767)	**1,229,047**	1,173,988
Segment results	**101,237**	116,366	**87,466**	120,238	**14,751**	28,194	**–**	–	**203,454**	264,798
Share of profits and losses of:										
Jointly-controlled entities	**1,900**	2,400	**4,489**	6,074	**–**	–	**–**	–	**6,389**	8,474
Associates	**–**	–	**3,969**	2,594	**–**	–	**–**	–	**3,969**	2,594
Profit before tax									**213,812**	275,866
Tax	**(19,740)**	(20,887)	**(8,288)**	(14,996)	**–**	115	**–**	–	**(28,028)**	(35,768)
Profit for the year									**185,784**	240,098

4. SEGMENT INFORMATION (cont'd)

Business segments (cont'd)

Group	Banking 2005 HK$'000	Banking 2004 HK$'000	Insurance 2005 HK$'000	Insurance 2004 HK$'000	Corporate 2005 HK$'000	Corporate 2004 HK$'000	Eliminations 2005 HK$'000	Eliminations 2004 HK$'000	Consolidated 2005 HK$'000	Consolidated 2004 HK$'000
Segment assets	**16,000,606**	14,235,771	**2,368,547**	2,152,437	**765,600**	673,558	**(369,367)**	(574,740)	**18,765,386**	16,487,026
Interests in jointly-controlled entities	**21,100**	19,200	**47,588**	44,149	**–**	–	**–**	–	**68,688**	63,349
Interests in associates	–	–	**71,279**	69,750	**–**	–	**–**	–	**71,279**	69,750
Total assets	**16,021,706**	14,254,971	**2,487,414**	2,266,336	**765,600**	673,558	**(369,367)**	(574,740)	**18,905,353**	16,620,125
Segment liabilities	**14,247,681**	12,560,471	**1,304,828**	1,168,234	**33,761**	32,161	**(369,367)**	(574,740)	**15,216,903**	13,186,126
Other segment information:										
Depreciation charges	**16,298**	19,567	**4,108**	3,872	**870**	656	**–**	–	**21,276**	24,095
Fair value gain on revaluation of investment properties	**(4,924)**	(950)	**(1,000)**	–	**–**	–	**–**	–	**(5,924)**	(950)
Amortisation of goodwill on acquisition of an associate	**–**	–	**–**	301	**–**	–	**–**	–	**–**	301
Provision against a loan to a jointly-controlled entity	**–**	2,500	**–**	–	**–**	–	**–**	–	**–**	2,500
Write-back of provision against a loan to a jointly-controlled entity	**(3,500)**	(4,433)	**–**	–	**–**	–	**–**	–	**(3,500)**	(4,433)
Gain on disposal of a jointly-controlled entity	**–**	(2,990)	**–**	–	**–**	–	**–**	–	**–**	(2,990)
Write-off of property, plant and equipment	**20**	311	**–**	–	**–**	–	**–**	–	**20**	311
Gain on disposal of property, plant and equipment	**–**	(2,980)	**–**	(20)	**–**	(50)	**–**	–	**–**	(3,050)
Amortisation of intangible assets	**56**	56	**–**	–	**–**	–	**–**	–	**56**	56
Impairment loss of intangible assets	**88**	88	**–**	–	**–**	–	**–**	–	**88**	88
Impairment allowances on loans and advances and other assets and/(release of impairment allowance) trade bills, net	**54,833**	26,221	**2,848**	(6)	**–**	–	**–**	–	**57,681**	26,215
Impairment of available-for-sale securities, held-to-maturity securities and investment securities	**–**	–	**8,612**	473	**1,586**	78	**–**	–	**10,198**	551
Capital expenditure	**4,248**	11,062	**10,108**	2,890	**405**	3,734	**–**	–	**14,761**	17,686

5. TURNOVER

The Group's turnover represents the aggregate of gross premiums net of discounts from direct and reinsurance business, underwritten from the Group's insurance business; and net interest income, commissions, fees, investment income and other revenue earned from the Group's banking business.

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

	2005 HK$'000	2004 HK$'000
Banking:		
Interest income	**614,912**	371,013
Interest expense	**(370,967)**	(124,176)
Net fees and commission income	**42,744**	45,260
Gains less losses arising from dealing in foreign currencies	**11,365**	8,877
Other operating income	**17,900**	10,784
	315,954	311,758
Insurance:		
Gross premiums written	**792,503**	747,033
Turnover	**1,108,457**	1,058,791
Reinsurance commission income	**57,420**	53,092
Interest income, excluding that relating to the banking business	**34,749**	35,735
Dividend income (excluding that relating to the banking business) from:		
Listed investments	**20,607**	13,023
Unlisted investments	**4,697**	3,780
	25,304	16,803
Others	**3,117**	9,567
Other revenue	**120,590**	115,197
	1,229,047	1,173,988

5. TURNOVER (cont'd)

The other net income/(expense) of the Group is analysed as follows:

	2005 HK$'000	2004 HK$'000
Increase in unearned premiums	(41,457)	(6,693)
Increase in life and contingency reserves	(3,384)	(2,384)
Gain on disposal of securities measured at fair value through profit or loss, net	22,361	–
Gain on disposal of other investments in securities, net	–	40,652
Fair value gains on securities measured at fair value through profit or loss, net	8,722	–
Fair value gains on other investments in securities, net	–	31,530
Fair value gains on transfer of investment securities to other investment securities	–	7,428
Gains less losses on disposal of available-for-sale securities	1,843	–
Gains less losses on disposal of investment securities	–	(12,343)
Gain on disposal or retirement of held-to-maturity securities	1,883	1,966
Impairment loss of available-for-sale securities	(10,198)	–
Impairment loss of held-to-maturity securities and investment securities	–	(551)
Guarantor's fee from a retirement scheme	–	1,866
Gain on disposal of a jointly-controlled entity	–	2,990
Gain on disposal of property, plant and equipment	–	3,050
	(20,230)	67,511

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Group 2005 HK$'000	Group 2004 HK$'000
Reinsurance premiums ceded		**300,203**	303,959
Commission expenses for insurance business		**157,755**	152,388
Net claims after deducting recoveries from reinsurers		**256,231**	231,277
Auditors' remuneration		**2,600**	2,325
Depreciation charges	26	**21,276**	24,095
Fair value gains on revaluation of investment properties	27	**(5,924)**	(950)
Amortisation of goodwill on acquisition of an associate		**–**	301
Provision against loan to a jointly-controlled entity		**–**	2,500
Write-back of provision against loan to a jointly-controlled entity		**(3,500)**	(4,433)
Write-off of property, plant and equipment	26	**20**	311
Amortisation of intangible assets	25	**56**	56
Impairment loss of intangible assets	25	**88**	88
Staff costs (including directors' remuneration, note 7):			
Wages and salaries		**137,586**	135,909
Pension scheme contributions		**6,094**	5,562
Less: Forfeited contributions		**(207)**	(843)
Net pension scheme contributions		**5,887**	4,719
Total staff costs		**143,473**	140,628
Minimum lease payments under operating leases in respect of land and buildings		**5,891**	8,445
Impairment allowances on loans and advances and other assets		**58,112**	26,392
Release of impairment allowances on trade bills		**(431)**	(177)

7. DIRECTORS' REMUNERATION AND EMOLUMENTS OF THE FIVE HIGHEST PAID INDIVIDUALS

Directors' remuneration for the year, 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

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2005					
Executive directors:					
Robin Yau Hing Chan	120	1,864	3,100	54	5,138
Lau Ki Chit	100	972	900	–	1,972
Bernard C. Chan	142	2,092	1,400	100	3,734
	362	4,928	5,400	154	10,844
Non-executive directors:					
Tan Sri Frank W.K. Tsao	60	–	–	–	60
Choedchu Sophonpanich	100	12	80	–	192
Ng Song Hin	105	–	–	–	105
Tan Eng Heng	60	–	80	–	140
Philip Yu Hong Wong	60	–	–	–	60
Leo Lee Tung Hai	40	–	–	–	40
Kenneth Chi Lam Siao	60		–	–	60
Na Wu Beng	80	–	–	–	80
Yoshitaka Sawamura#	–	–	–	–	–
Takashi Muraoka	80	–	–	–	80
	645	12	160	–	817
Independent non-executive directors:					
Andrew Chiu Cheung Ma	168	–	–	–	168
Anna Suk Han Chow	180	–	–	–	180
Ko Wing Man	170	–	–	–	170
	518	–	–	–	518
	1,525	4,940	5,560	154	12,179

\# *Waived director fee*

Except for the non-executive director mentioned above, there was no arrangement under which a director waived or agreed to waive any remuneration for the year ended 31st December, 2005

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

Group

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2004					
Executive directors:					
Robin Yau Hing Chan	120	1,968	3,300	55	5,443
Lau Ki Chit	100	1,052	1,100	–	2,252
Bernard C. Chan	100	1,442	1,698	68	3,308
	320	4,462	6,098	123	11,003
Non-executive directors:					
Tan Sri Frank W.K. Tsao	60	–	–	–	60
Choedchu Sophonpanich	100	12	80	–	192
Ng Song Hin	100	–	–	–	100
Tan Eng Heng	60	–	80	–	140
Chatri Sophonpanich**	40	–	–	–	40
Na Wu Beng	74	–	–	–	74
Yoshitaka Sawamura#	–	–	–	–	–
Katsuya Kimura#	–	–	–	–	–
Takeshi Ogasawara	60	–	–	–	60
Takashi Muraoka	20	–	–	–	20
	514	12	160	–	686
Independent non-executive directors:					
Andrew Chiu Cheung Ma	20	–	–	–	20
Anna Suk Han Chow	80	–	–	–	80
Philip Yu Hong Wong*	74	–	–	–	74
Leo Lee Tung Hai*	40	–	–	–	40
Kenneth Chi Lam Siao*	50	–	–	–	50
	264	–	–	–	264
	1,098	4,474	6,258	123	11,953

Waived director fee

* *Philip Yu Hong Wong, Leo Lee Tung Hai, and Kenneth Chi Lam Siao were re-designated as non-executive directors on 3rd, 27th and 30th, September 2004, respectively.*

** *Chatri Sophonpanich resigned as a non-executive director on 15th January, 2005 and no director's remuneration was received thereafter.*

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

Except for the non-executive directors mentioned above, there was no arrangement under which a director waived or agreed to waive any remuneration for the year ended 31st December, 2004.

The five highest paid individuals during the year included two (2004: three) directors, detail of whose remuneration are set out above. Details of the remuneration of the remaining three (2004: two) non-directors, highest paid individuals for the year are as follows:

	2005	2004
	HK$'000	HK$'000
Basic salaries, housing, other allowances and benefits in kind	**4,590**	2,692
Pension scheme contributions	**349**	130
Bonuses paid and payable	**4,275**	2,775
	9,214	5,597

The number of the remaining three (2004: two) non-director, highest paid individuals whose remuneration fell within the following bands is as follows:

	Number of employees	
	2005	2004
HK$2,000,001 – HK$2,500,000	**1**	1
HK$2,500,001 – HK$3,000,000	**–**	–
HK$3,000,001 – HK$3,500,000	**1**	1
HK$3,500,001 – HK$4,000,000	**1**	–
HK$4,000,001 – HK$4,500,000	**–**	–
	3	2

8. TAX

Hong Kong profits tax for the Group has been provided at the rate of 17.5% (2004: 17.5%) 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	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Current tax charge for the year:		
Hong Kong	**25,050**	35,496
Elsewhere	**2,540**	1,261
Deferred tax charge/(credit), net (note 33)	**2,411**	(804)
Overprovision of current tax in respect of prior years	**(1,973)**	(185)
	28,028	35,768

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the region in which the Company and the majority of its subsidiaries, jointly-controlled entities and associates are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2005

	Hong Kong		Mainland China		Macau		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	212,099		(4,775)		6,488		213,812	
Tax at the statutory tax rate	37,117	17.5	(716)	15.0	779	12.0	37,180	17.4
Share of profits and losses attributable to jointly-controlled entities and associates	(1,745)	(0.8)	–	–	–	–	(1,745)	(0.8)
Adjustments in respect of current tax of previous periods	(1,973)	(0.9)	–	–	–	–	(1,973)	(0.9)
Income not subject to tax	(14,653)	(6.9)	–	–	–	–	(14,653)	(6.9)
Expenses not deductible for tax	8,260	3.8	2,237	(46.9)	33	0.5	10,530	4.9
Tax losses utilised from previous periods	(1,130)	(0.5)	–	–	–	–	(1,130)	(0.5)
Tax losses not recognised	(264)	(0.1)	–	–	–	–	(264)	(0.1)
Others	(124)	(0.1)	–	–	207	3.2	83	–
Tax charge at the Group's effective rate	25,488	12.0	1,521	(31.9)	1,019	15.7	28,028	13.1

8. TAX (cont'd)

Group – 2004

	Hong Kong HK$'000 (Restated)	%	Mainland China HK$'000	%	Macau HK$'000	%	Total HK$'000 (Restated)	%
Profit before tax	276,995		(3,001)		1,872		275,866	
Tax at the statutory tax rate	48,474	17.5	(450)	15.0	295	15.8	48,319	17.5
Share of profits and losses attributable to jointly-controlled entities and associates	(1,269)	(0.4)	–	–	–	–	(1,269)	(0.4)
Adjustments in respect of current tax of previous periods	(185)	(0.1)	–	–	–	–	(185)	(0.1)
Income not subject to tax	(18,283)	(6.6)	–	–	–	–	(18,283)	(6.6)
Expenses not deductible for tax	7,566	2.7	1,326	(44.2)	90	4.8	8,982	3.2
Tax losses utilised from previous periods	(2,221)	(0.8)	–	–	–	–	(2,221)	(0.8)
Tax losses not recognised	425	0.2	–	–	–	–	425	0.2
Tax charge at the Group's effective rate	34,507	12.5	876	(29.2)	385	20.6	35,768	13.0

The share of tax attributable to jointly-controlled entities and associates amounting to HK$962,000 (2004: HK$1,148,000) and HK$783,000 (2004:HK$121,000), respectively, and are included in "Share of profits and losses of jointly-controlled entities and associates" on the face of the consolidated income statement.

9. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The profit for the year attributable to equity holders of the parent for the year ended 31st December, 2005 dealt with in the financial statements of the Company was HK$197,240,000 (2004: HK$119,410,000) (note 35).

10. DIVIDENDS

	2005 HK$'000	2004 HK$'000
Interim dividend paid:		
HK2.2 cents (2004: HK2.5 cents) per ordinary share	**23,276**	26,451
Proposed final dividend:		
HK7.8 cents (2004: HK7.5 cents) per ordinary share	**82,527**	79,352
	105,803	105,803

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 ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of HK$184,583,000 (2004: HK$240,108,000) and the 1,058,021,428 (2004: 1,058,021,428) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31st December, 2005 and 2004 have not been disclosed as no diluting events existed during these years.

12. CASH AND SHORT-TERM FUNDS

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Cash in hand and balances with banks and other financial institutions	**246,263**	361,749	**2**	2
Money at call and short notice *	**2,101,718**	1,710,596	**–**	–
Treasury bills, including Exchange Fund Bills #	**99,371**	109,788	**–**	–
	2,447,352	2,182,133	**2**	2

* *Included in the Group's money at call and short notice were deposits of approximately HK$2,589,000 (2004: HK$2,589,000) pledged in favour of Autoridade Monetaria e Cambial de Macau as security for the outstanding claim provision and unearned premium reserve as required under the applicable laws in Macau.*

12. CASH AND SHORT-TERM FUNDS (cont'd)

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 was as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
With a residual maturity of:		
Three months or less	**69,705**	89,913
One year or less but over three months	**29,666**	19,875
	99,371	109,788

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 was as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
With a residual maturity of:		
Three months or less	**295,058**	644,885
One year or less but over three months	**128,621**	257,364
	423,679	902,249

Included in the Group's placements with banks and other financial institutions were deposits of approximately HK$26,417,000 (2004: HK$23,019,000) 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 applicable laws in Macau.

14. TRADE BILLS

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Trade bills	**35,056**	54,202
Less:		
– Collective impairment allowance	**(87)**	–
– General provision	**–**	(518)
	34,969	53,684

15. INSURANCE RECEIVABLES

	Group	
	2005	2004
	HK$'000	HK$'000
Amounts due in respect of:		
Direct underwriting	**121,523**	125,241
Reinsurance accepted	**7,649**	11,683
	129,172	136,924

The Group grants credit terms of less than 12 months to all its customers and cedants. Past settlement history of these receivables indicates that certain debtors settle in arrears subsequent to the credit period, or even settlement subsequent to the 12 months period from the balance sheet date.

Since the Group's insurance receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Insurance receivables are non-interest-bearing.

16. SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS/OTHER INVESTMENT IN SECURITIES

	Group	
	2005	2004
	HK$'000	HK$'000
Debt securities:		
– listed outside Hong Kong, at market value	**50,890**	68,087
– unlisted, at quoted market price	**87,109**	60,328
– equity-linked notes, at amortised cost	**–**	82,013
	137,999	210,428
Equity securities at market value:		
– listed in Hong Kong	**525,916**	175,918
– listed outside Hong Kong	**246,434**	135,782
	772,350	311,700
Investment funds:		
– listed outside Hong Kong, at market value	**9,640**	32,588
– unlisted, at quoted market price	**173,697**	184,456
	183,337	217,044
Total	**1,093,686**	739,172

The securities measured at fair value through profit or loss/other investment in securities as at the balance sheet dates, analysed by the sector of the issuers, are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Public sector entities	**101,544**	59,575
Banks and other financial institutions	**315,799**	250,492
Corporate	**676,343**	429,105
	1,093,686	739,172

17. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses the following derivative instruments:

Currency forwards represent commitments to purchase foreign and domestic currencies, including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an exchange of interest rates (for example, fixed rate or floating rate). No exchange of principal takes place. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligations. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and an over-the-counter customer. The Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

17. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.

Group

	Contract/notional amount HK$'000	Fair values Assets HK'000	Fair values Liabilities HK$'000
Derivatives held for trading			
Foreign exchange rate contracts	8,672,575	46,525	52,928
Interest rate swap	150,000	1,330	1,596
	8,822,575	47,855	54,524

	Credit risk weighted amount 2005 HK$'000	Credit risk weighted amount 2004 HK$'000
Foreign exchange rate contracts	**17,557**	8,976
Interest rate swap	**150**	–
	17,707	8,976

18. LOANS AND ADVANCES AND OTHER ASSETS

	Group 2005 HK$'000	Group 2004 HK$'000 (Restated)	Company 2005 HK$'000	Company 2004 HK$'000
Loans and advances	**9,136,181**	7,965,500	**–**	–
Accrued interest and other assets	**264,180**	217,011	**7,184**	7,080
Gross loans and advances and other accounts	**9,400,361**	8,182,511	**7,184**	7,080
Less: Impairment allowances for loans and advances				
– Individually assessed	**(41,452)**	–	**–**	–
– Collectively assessed	**(24,887)**	–	**–**	–
– Specific provision	**–**	(44,530)	**–**	–
– General provision	**–**	(78,498)	**–**	–
	(66,339)	(123,028)	**–**	–
Less: Impairment allowances for accrued interest and other assets				
– Individually assessed	**(27,650)**	–	**–**	–
– Specific provision	**–**	(1,313)	**–**	–
Tax recoverable	**2,829**	2	**–**	–
Loans and advances and other assets	**9,309,201**	8,058,172	**7,184**	7,080

The Group's and the Company's accrued interest and other assets were current in nature as at 31st December, 2005 and 2004.

The carrying amounts of accrued interest and other assets approximate their fair values.

18. LOANS AND ADVANCES AND OTHER ASSETS (cont'd)

The maturity profile of the loans and advances as at the balance sheet date is as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000
Repayable on demand	**639,097**	631,296	**–**	–
With a residual maturity of:				
Three months or less	**1,492,275**	1,241,173	**–**	–
One year or less but over three months	**1,054,389**	1,111,686	**–**	–
Five years or less but over one year	**2,667,472**	2,581,752	**–**	–
Over five years	**3,223,228**	2,233,480	**–**	–
Undated	**59,720**	166,113	**–**	–
	9,136,181	7,965,500	**–**	–

Included in loans and advances and other accounts of the Group are receivables in respect of assets leased under finance leases as set out below:

	Minimum lease payments 2005 HK$'000	Minimum lease payments 2004 HK$'000	**Present value of minimum lease payments 2005 HK$'000**	Present value of minimum lease payments 2004 HK$'000
Amounts receivable under finance leases:				
Within one year	**237,382**	200,672	**206,021**	177,625
In the second to fifth years, inclusive	**327,957**	276,866	**282,110**	252,573
Over five years	**148,477**	95,415	**104,890**	81,149
	713,816	572,953	**593,021**	511,347
Less: Unearned finance income	**(120,795)**	(61,606)		
Present value of minimum lease payments receivable	**593,021**	511,347		

The Group has entered into finance lease 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. AVAILABLE-FOR-SALE SECURITIES

	Group 2005 HK$'000	Company 2005 HK$'000
Listed equity outside Hong Kong, at market value	411,606	–
Unlisted equity, at cost	138,232	96,087
Less: Impairment allowance	(11,895)	–
	126,337	96,087
Unlisted debt, at cost	22,516	–
Less: Impairment allowance	(2,900)	–
	19,616	–
	557,559	96,087

The available-for-sale securities as at the balance sheet date, analysed by the sector of the issuers, are as follows:

	Group 2005 HK$'000	Company 2005 HK$'000
Banks and other financial institutions	505,618	94,012
Corporate entities	51,941	2,075
	557,559	96,087

Upon the adoption of HKAS 39 on 1st January, 2005, the Group has reclassified all investment securities (note 20) as available-for-sale securities.

Included in the unlisted investments are certain companies of which the percentage of equity attributable to the Group exceeds 20%. These investments, however, are not equity accounted for in accordance with HKAS 28 "Investment in 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 income statement to the extent of dividends received from these companies.

19. AVAILABLE-FOR-SALE SECURITIES (cont'd)

The particulars of these companies are as follows:

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

20. INVESTMENT SECURITIES

	Group	
	2005	2004
	HK$'000	HK$'000
Listed equity outside Hong Kong, at cost	–	293,667
Provision for impairment	–	(11,073)
	–	282,594
Unlisted		
– equity	–	43,980
– debt	–	19,520
	–	63,500
Total	–	346,094
Market value of listed investment securities	–	431,336

The investment securities as at 31st December, 2004, analysed by the sector of the issuers, are as follows:

	Group
	2004
	HK$'000
Bank and other financial institutions	282,594
Corporate entities	63,500
	346,094

20. INVESTMENT SECURITIES (cont'd)

The maturity profile of the debt securities included in investment securities as at 31st December, 2004 was as follows:

	Group 2004 HK$'000
Undated	19,520

21. HELD-TO-MATURITY SECURITIES

	Group 2005 HK$'000	Group 2004 HK$'000 (Restated)
Debt securities:		
– listed in Hong Kong	**30,673**	30,685
– listed outside Hong Kong	**251,457**	208,694
– unlisted *	**3,622,127**	3,041,992
	3,904,257	3,281,371
Market value of listed held-to-maturity securities	**276,180**	239,563

* *Included certificates of deposit of HK$572,321,000 (2004: HK$989,974,000).*

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

	Group 2005 HK$'000	Group 2004 HK$'000 (Restated)
Public sector entities	**56,998**	82,033
Banks and other financial institutions	**3,405,362**	2,900,930
Corporate entities	**441,897**	298,408
	3,904,257	3,281,371

21. HELD-TO-MATURITY SECURITIES (cont'd)

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

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
With a residual maturity of:		
Three months or less	**638,372**	763,317
One year or less but over three months	**389,979**	550,580
Five years or less but over one year	**2,515,981**	1,673,570
Over five years	**359,925**	293,904
	3,904,257	3,281,371

22. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**1,629,859**	1,629,859
Impairment	**(18,800)**	(26,533)
	1,611,059	1,603,326

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the balances with subsidiaries approximate to their fair values.

22. INVESTMENTS IN SUBSIDIARIES (cont'd)

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

Company	Place of incorporation	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Nominal value of issued share capital	Principal activities
Asia Insurance Company, Limited	Hong Kong	100	–	HK$800,000,000	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
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	

22. INVESTMENTS IN SUBSIDIARIES (cont'd)

Company	Place of incorporation	Percentage of equity attributable to the Company Direct	Indirect	Nominal value of issued share capital	Principal activities
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
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
Asia Insurance (Investments) Limited	Hong Kong	–	57	HK$53,000,000	Investment holding

The above table lists the subsidiaries of the Company as at 31st December, 2005 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 other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

The principal places of operations of the principal 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.

23. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2005	2004
	HK$'000	HK$'000
Share of net assets other than goodwill	**68,688**	63,349
Loan to a jointly-controlled entity	**31,000**	31,000
Impairment	**(1,000)**	(4,500)
	30,000	26,500

Loan to a jointly-controlled entity as at 31st December, 2005 and 2004 was unsecured, interest-free and repayable by 29th December, 2008. The carrying amount of the loan approximate to its fair value.

Particulars of the jointly-controlled entities of the Group as at 31st December, 2005 are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership interest and profit sharing	Voting power	Principal activities
Bank Consortium Holding Limited *	Corporate	Hong Kong	13.3	1 out of 7#	Provision of mandatory provident fund scheme 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.*

23. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (cont'd)

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2005 HK$'000	2004 HK$'000
Share of the jointly-controlled entities' assets and liabilities of:		
Assets	**322,813**	242,712
Liabilities	**(256,394)**	(153,055)
Net assets	**66,419**	89,657
Share of the jointly-controlled entities' profits and losses		
Turnover	**56,351**	46,295
Other revenue	**6,309**	8,448
Total revenue	**62,660**	54,743
Total expenses	**(55,309)**	(45,122)
Tax	**(962)**	(1,147)
Profit after tax	**6,389**	8,474

24. INTERESTS IN ASSOCIATES

	Group	
	2005 HK$'000	2004 HK$'000
Share of net assets	**65,550**	64,021
Goodwill on acquisition	**5,729**	5,729
	71,279	69,750

24. INTERESTS IN ASSOCIATES (cont'd)

Particulars of the principal associates of the Group as at 31st December, 2005, which are all corporate entities, are as follows:

Company	Place of incorporation	Percentage of interest held by the Group	Nominal value of issued ordinary share capital	Principal activities
Asia Investments International Limited ("AIIL")	British Virgin Islands	20 #	US$1,472,500	Investment holding
APIC Holdings, Inc. *	Philippines	50	Peso23,241,700	Investment holding
Asian Insurance International (Holding) Limited ("AIIHL")	Bermuda	25	US$5,740,000	Investment holding
Professional Liability Underwriting Services Limited	Hong Kong	27	HK$3,000,000	Insurance agent
The People's Insurance Company of China (Hong Kong), Ltd.	Hong Kong	14.25	HK$200,000,000	Insurance

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

\# *The Group also indirectly holds another 10% equity interest in AIIL. Such interest is held via AIIHL, a 25%-owned associate of the Group, which holds 40% equity interest in AIIL.*

The Group received dividend income amounted to HK$2,986,000 (2004: HK$324,000) from the associates during the year.

24. INTERESTS IN ASSOCIATES (cont'd)

The amounts due from associates are unsecured, interest-free and have no fixed term of repayment.

As the amounts due from associates arose from advance to these investee companies for the purpose of operational financing, other than the circumstances when it is considered that these investee companies have more than adequate working capital for financing its operation, the directors of the subsidiary making the advances do not intend to demand settlement of the amounts involved within the 12 months period from the balance sheet date. The carrying amounts of the amounts due from associates approximate their fair values.

The amount of goodwill included as part of the Group's interests in associates, arising from the acquisition of an associate in prior years is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
At 1st January:		
Cost as previously reported	**6,030**	6,030
Effect of adopting HKFRS 3	**(301)**	–
Cost as restated	**5,729**	6,030
Accumulated amortisation as previously reported	**301**	–
Effect of adopting HKFRS 3	**(301)**	–
Accumulated amortisation as restated	**–**	–
Net carrying amount	**5,729**	6,030
Cost at 1st January	**5,729**	6,030
Amortisation provided during the year	**–**	(301)
At 31st December	**5,729**	5,729
At 31st December:		
Cost	**5,729**	6,030
Accumulated amortisation	**–**	(301)
Net carrying amount	**5,729**	5,729

24. INTERESTS IN ASSOCIATES (cont'd)

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2005 HK$'000	2004 HK$'000
Assets	473,462	404,061
Liabilities	(190,766)	(127,821)
Revenues	23,855	14,884
Profit	15,527	10,272

25. INTANGIBLE ASSETS

	Group HK$'000
Cost:	
At beginning of year and at 31st December, 2005	1,437
Accumulated amortisation and impairment:	
At beginning of year	694
Amortisation during the year (note 6)	56
Impairment loss during the year (note 6)	88
At 31st December, 2005	838
Net book value:	
At 31st December, 2005	599
At 31st December, 2004	743

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. During the year, the Futures Exchange Trading Right was retired from active use and was then held for disposal. It was carried at its carrying amount of HK$367,000 (2004: HK$455,000) at the date when it was retired from active use.

26. PROPERTY, PLANT AND EQUIPMENT

	Group			Company
	Buildings HK$'000	Furniture, fixtures, equipment and motor vehicles HK$'000	Total HK$'000	Furniture and fixtures HK$'000
Cost or valuation:				
At beginning of year	460,942	207,151	668,093	5,862
Additions	7,667	7,094	14,761	405
Disposals	–	(700)	(700)	–
Write-off (note 6)	–	(108)	(108)	–
Transfer to investment properties (note 27)	(5,169)	–	(5,169)	–
At 31st December, 2005	463,440	213,437	676,877	6,267
Accumulated depreciation:				
At beginning of year	127,737	180,512	308,249	2,571
Charge for the year	9,829	11,447	21,276	870
Disposals	–	(519)	(519)	–
Write-off (note 6)	–	(88)	(88)	–
Transfer to investment properties (note 27)	(1,113)	–	(1,113)	–
At 31st December, 2005	136,453	191,352	327,805	3,441
Net book value:				
At 31st December, 2005	326,987	22,085	349,072	2,826
At 31st December, 2004	333,205	26,639	359,844	3,291

26. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Group			Company
	Buildings HK$'000	Furniture, fixtures, equipment and motor vehicles HK$'000	Total HK$'000	Furniture and fixtures HK$'000
Cost or valuation:				
At beginning of year				
– as previously reported	482,743	195,633	678,376	2,127
– reclassification	(15,201)	–	(15,201)	–
– as restated	467,542	195,633	663,175	2,127
Additions	–	17,686	17,686	3,735
Disposals	(6,600)	(1,946)	(8,546)	–
Write-off (note 6)	–	(4,222)	(4,222)	–
At 31st December, 2004	460,942	207,151	668,093	5,862
Accumulated depreciation:				
At beginning of year				
– as previously reported	121,122	171,785	292,907	1,915
– reclassification	(2,735)	–	(2,735)	–
– as restated	118,387	171,785	290,172	1,915
Charge for the year	9,547	14,548	24,095	656
Disposals	(197)	(1,910)	(2,107)	–
Write-off (note 6)	–	(3,911)	(3,911)	–
At 31st December, 2004	127,737	180,512	308,249	2,571
Net book value:				
At 31st December, 2004	333,205	26,639	359,844	3,291

26. PROPERTY, PLANT AND EQUIPMENT (cont'd)

The cost or valuation of the buildings comprises:

	2005 HK$'000	2004 HK$'000
At 1990 valuation	351,651	351,651
At cost	111,789	109,291
	463,440	460,942

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

	2005 HK$'000	2004 HK$'000
Long term leases in Hong Kong	246,761	253,664
Long term leases outside Hong Kong	7,122	–
Medium term leases in Hong Kong	40,783	46,248
Medium term leases outside Hong Kong	32,321	33,191
Short term leases outside Hong Kong	–	102
	326,987	333,205

The furniture, fixtures, equipment and motor vehicles are stated at cost less accumulated depreciation.

Had the revalued buildings of the Group been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK$87,354,000 (2004: HK$90,019,000).

27. INVESTMENT PROPERTIES

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Carrying amount at 1st January		
– as previously reported	**15,240**	5,070
– prior year adjustment	**–**	9,220
– as restated	**15,240**	14,290
Fair value gain on revaluation (note 6)	**5,924**	950
Transfer from property, plant and equipment (note 26)	**4,056**	–
Carrying amount at 31st December	**25,220**	15,240

The investment properties were revalued at 31st December, 2005 by A.G. Wilkinson & Associate, Memfus Wong Surveyors Limited, and AA Property Services Limited, independent and professionally qualified valuers, at HK$25,220,000 on an open market value, based on their existing use. The investment properties are leased to third parties under operating leases.

The Group's investment properties are situated in Hong Kong and held under medium term lease.

28. 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 was as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Repayable on demand	**81,169**	12,888
With a residual maturity of:		
Three months or less	**832,836**	563,822
One year or less but over three months	**52,374**	15,968
	966,379	592,678

29. DEPOSITS FROM CUSTOMERS

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

	Group	
	2005	2004
	HK$'000	HK$'000
Repayable on demand	**2,280,716**	3,142,531
With a residual maturity of:		
Three months or less	**8,473,831**	6,290,557
One year or less but over three months	**405,416**	613,957
Five years or less but over one year	**14,979**	177,750
	11,174,942	10,224,795

30. CERTIFICATES OF DEPOSIT ISSUED

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

	Group	
	2005	2004
	HK$'000	HK$'000
With a residual maturity of:		
Three months or less	**99,992**	300,000
One year or less but over three months	**404,726**	320,000
Five years or less but over one year	**918,733**	405,000
	1,423,451	1,025,000

31. OTHER LIABILITIES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accrued interest payables	**64,013**	16,825	**–**	–
Bills payable	**50,481**	35,739	**–**	–
Creditors, accruals and others	**232,685**	168,830	**5,075**	5,268
	347,179	221,394	**5,075**	5,268

The Group's and Company's other liabilities were current in nature as at 31st December, 2005 and 2004.

The carrying amounts of other liabilities approximate their fair values.

32. INSURANCE CONTRACTS LIABILITIES

Group

		2005			2004		
	Notes	**Insurance contracts liabilities**	**Reinsurers' share of liabilities**	**Net**	Insurance contracts liabilities	Reinsurers' share of liabilities	Net
		HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
Life insurance contracts	(a)	**14,521**	**–**	**14,521**	13,358	–	13,358
General insurance contracts	(b)	**1,046,926**	**(411,889)**	**635,037**	905,883	(372,936)	532,947
Total insurance contracts liabilities		**1,061,447**	**(411,889)**	**649,558**	919,241	(372,936)	546,305

32. INSURANCE CONTRACTS LIABILITIES (cont'd)

(a) Life insurance contract liabilities are analysed as follows:

	Notes	2005 Insurance contracts liabilities HK$'000	2005 Reinsurers' share of liabilities HK$'000	2005 Net HK$'000	2004 Insurance contracts liabilities HK$'000	2004 Reinsurers' share of liabilities HK$'000	2004 Net HK$'000
Life reserve	(1)	**14,131**	**–**	**14,131**	13,258	–	13,258
Provision for claims	(2)	**390**	**–**	**390**	100	–	100
		14,521	**–**	**14,521**	13,358	–	13,358

(1) Life reserve is analysed as follows:

	2005 HK$'000	2004 HK$'000
At 1st January	**13,258**	12,387
Increase in the year	**873**	871
At 31st December	**14,131**	13,258

(2) The provision for claims of life insurance contracts is analysed as follows:

	2005 Insurance contracts liabilities HK$'000	2005 Reinsurers' share of liabilities HK$'000	2005 Net HK$'000	2004 Insurance contracts liabilities HK$'000	2004 Reinsurers' share of liabilities HK$'000	2004 Net HK$'000
At 1st January	**100**	**–**	**100**	250	–	250
Claims incurred during the year	**1,096**	**–**	**1,096**	875	–	875
Claims paid during the year	**(806)**	**–**	**(806)**	(1,025)	–	(1,025)
At 31st December	**390**	**–**	**390**	100	–	100

32. INSURANCE CONTRACTS LIABILITIES (cont'd)

(b) General insurance contracts liabilities are analysed as follows:

	Notes	2005 Insurance contracts liabilities HK$'000	2005 Reinsurers' share of liabilities HK$'000	2005 Net HK$'000	2004 Insurance contracts liabilities HK$'000	2004 Reinsurers' share of liabilities HK$'000	2004 Net HK$'000
Provision for claims reported by policyholders		344,858	(135,410)	209,448	278,080	(102,828)	175,252
Provision for claims incurred but not reported ("IBNR")		279,035	(105,469)	173,566	252,011	(102,345)	149,666
Total claims reported and IBNR	(1)	623,893	(240,879)	383,014	530,091	(205,173)	324,918
Provision for unearned premiums	(2)	411,893	(165,997)	245,896	369,219	(164,805)	204,414
Contingency reserve	(3)	11,140	(5,013)	6,127	6,573	(2,958)	3,615
Total general insurance contracts liabilities		1,046,926	(411,889)	635,037	905,883	(372,936)	532,947

(1) The provision for claims reported by policyholders and IBNR is analysed as follows:

	2005 Insurance contracts liabilities HK$'000	2005 Reinsurers' share of liabilities HK$'000	2005 Net HK$'000	2004 Insurance contracts liabilities HK$'000	2004 Reinsurers' share of liabilities HK$'000	2004 Net HK$'000
At 1st January	530,091	(205,173)	324,918	408,151	(186,128)	222,023
Claims incurred during the year	340,347	(85,055)	255,292	348,443	(118,041)	230,402
Claims paid during the year	(246,545)	49,349	(197,196)	(226,503)	98,996	(127,507)
At 31st December	623,893	(240,879)	383,014	530,091	(205,173)	324,918

32. INSURANCE CONTRACTS LIABILITIES (cont'd)

(b) General insurance contracts liabilities are analysed as follows: (cont'd)

(2) The provision for unearned premiums is analysed as follows:

	2005 Insurance contracts liabilities HK$'000	2005 Reinsurers' share of liabilities HK$'000	2005 Net HK$'000	2004 Insurance contracts liabilities HK$'000	2004 Reinsurers' share of liabilities HK$'000	2004 Net HK$'000
At 1st January	369,219	(164,805)	204,414	349,701	(151,980)	197,721
Premiums written during the year	792,266	(299,459)	492,807	747,255	(303,472)	443,783
Premiums earned during the year	(749,592)	298,267	(451,325)	(727,737)	290,647	(437,090)
At 31st December	411,893	(165,997)	245,896	369,219	(164,805)	204,414

(3) The contingency reserve is analysed as follows:

	2005 Insurance contracts liabilities HK$'000	2005 Reinsurers' share of liabilities HK$'000	2005 Net HK$'000	2004 Insurance contracts liabilities HK$'000	2004 Reinsurers' share of liabilities HK$'000	2004 Net HK$'000
At 1st January	6,573	(2,958)	3,615	4,671	(2,569)	2,102
Increase during the year	4,567	(2,055)	2,512	1,902	(389)	1,513
At 31st December	11,140	(5,013)	6,127	6,573	(2,958)	3,615

33. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Group – 2005

Deferred tax liabilities

	Accelerated tax depreciation HK$'000	Revaluation of buildings HK$'000	Revaluation of investment properties HK$'000	Total HK$'000
At 1st January, 2005	2,893	27,916	–	30,809
Deferred tax charged to the income statement during the year (note 8)	–	–	1,037	1,037
Gross deferred tax liabilities at 31st December, 2005	2,893	27,916	1,037	31,846

Deferred tax assets

	Collective impairment allowance HK$'000
At 1st January, 2005	13,130
Opening adjustment to the opening retained profits (note 2.4(a))	(8,244)
Deferred tax charged to the income statement during the year (note 8)	(1,374)
Gross deferred tax assets at 31st December, 2005	3,512
Net deferred tax liabilities at 31st December, 2005	28,334

33. DEFERRED TAX (cont'd)

Group – 2004

Deferred tax liabilities

	Accelerated tax depreciation HK$'000	Revaluation of buildings HK$'000	Total HK$'000
At 1st January, 2004	2,893	28,865	31,758
Deferred tax released upon disposal of a building (note 35)	–	(949)	(949)
Gross deferred tax liabilities at 31st December, 2004	2,893	27,916	30,809

Deferred tax assets

	General provision HK$'000
At 1st January, 2004	12,326
Deferred tax credited to the income statement during the year (note 8)	804
Gross deferred tax assets at 31st December, 2004	13,130
Net deferred tax liabilities at 31st December, 2004	17,679

The Group has tax losses arising in Hong Kong of HK$82,999,000 (2004: HK$86,911,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

34. SHARE CAPITAL

	2005 HK$'000	2004 HK$'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

35. RESERVES

Group

	Notes	Share premium account HK$'000	General reserve HK$'000	Available-for-sale investment reserve HK$'000	Asset revaluation reserve HK$'000	Exchange reserve HK'000	Statutory reserve HK'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January, 2005										
As previously reported		560,531	359,883	–	131,606	–	2,427	313,240	904,814	2,272,501
Prior year adjustment		–	–	–	–	–	–	–	(3,246)	(3,246)
Opening adjustments		–	–	148,742	–	–	–	–	41,904	190,646
Profit attributable to equity holders of the parent for the year		–	–	–	–	–	–	–	184,583	184,583
Dividends	10	–	–	–	–	–	–	–	(105,803)	(105,803)
Change in fair value of available-for-sale securities		–	–	(19,730)	–	–	–	–	–	(19,730)
Capitalisation of general reserve		–	(200,000)	–	–	–	–	200,000	–	–
Exchange re-alignment		–	–	–	–	379	–	–	–	379
At 31st December, 2005		560,531	159,883	129,012	131,606	379	2,427	513,240	1,022,252	2,519,330
Reserves retained by:										
Company and subsidiaries		560,531	159,883	129,012	131,606	379	2,427	513,240	1,044,746	2,541,824
Jointly-controlled entities		–	–	–	–	–	–	–	(7,762)	(7,762)
Associates		–	–	–	–	–	–	–	(14,732)	(14,732)
31st December, 2005		560,531	159,883	129,012	131,606	379	2,427	513,240	1,022,252	2,519,330

35. RESERVES (cont'd)

Group

	Notes	Share premium account HK$'000	General reserve HK$'000	Asset revaluation reserve HK$'000	Exchange reserve HK'000	Statutory reserve HK'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January, 2004									
As previously reported		560,531	359,883	136,078	–	2,427	313,240	765,088	2,137,247
Prior year adjustment		–	–	–	–	–	–	(3,246)	(3,246)
Profit attributable to equity holders of the parent for the year		–	–	–	–	–	–	240,108	240,108
Dividends	10	–	–	–	–	–	–	(105,803)	(105,803)
Asset revaluation reserve released on disposal of a building		–	–	(5,421)	–	–	–	5,421	–
Deferred tax credited	33	–	–	949	–	–	–	–	949
At 31st December, 2004		560,531	359,883	131,606	–	2,427	313,240	901,568	2,269,255
Reserves retained by:									
Company and subsidiaries		560,531	359,639	131,606	–	2,427	313,240	934,420	2,301,863
Jointly-controlled entities		–	–	–	–	–	–	(14,151)	(14,151)
Associates		–	244	–	–	–	–	(18,701)	(18,457)
31st December, 2004		560,531	359,883	131,606	–	2,427	313,240	901,568	2,269,225

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

In accordance with the Macau Commercial Codes, 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 offsetting against accumulated losses, if any, arising under certain specified circumstances.

35. RESERVES (cont'd)

Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January, 2004		560,531	169,613	210,280	64,227	1,004,651
Profit for the year	9	–	–	–	119,410	119,410
Interim 2004 dividend	10	–	(26,451)	–	–	(26,451)
Proposed final 2004 dividend	10	–	(79,352)	–	–	(79,352)
At 31st December, 2004 and at 1st January, 2005		560,531	63,810	210,280	183,637	1,018,258
Profit for the year	9	–	–	–	197,240	197,240
Interim 2005 dividend	10	–	(23,276)	–	–	(23,276)
Proposed final 2005 dividend	10	–	(40,534)	–	(41,993)	(82,527)
At 31st December, 2005		560,531	–	210,280	338,884	1,109,695

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

Under the Bermuda Companies Act 1981, the Company's contributed surplus is distributable to shareholders.

36. LOANS TO DIRECTORS AND OFFICERS

Loans to directors and officers of the Company and its subsidiaries, disclosed pursuant to Section 161B (10) of the Hong Kong Companies Ordinance, are as follows:

	2005	2004
	HK$'000	HK$'000
Aggregate amount of relevant loans outstanding at the balance sheet date	**37,840**	24,792
Maximum aggregate amount of relevant loans outstanding during the year	**65,435**	69,395

The loans granted to directors and officers are carried out on essentially the same terms with other customers and/or at prevailing market rates and have no fixed terms of repayment, apart from the loan to an officer as below, which is repayable on 25th December, 2016.

Included in the above balances was a loan granted by the Company's banking group to an officer, which was secured by a property at a fair value of HK$350,000 as at 31st December, 2005.

37. 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:

	2005	2004
	HK$'000	HK$'000
Direct credit substitutes	**62,226**	91,523
Transaction-related contingencies	**1,629**	3,094
Trade-related contingencies	**210,134**	167,587
Forward forward deposits placed	**123,948**	70,893
Forward asset purchases	**13,029**	37,839
Other commitments with an original maturity of:		
Under one year or which are unconditionally cancellable	**3,195,382**	3,620,359
One year and over	**223,496**	201,277
	3,829,844	4,192,572

37. OFF-BALANCE SHEET EXPOSURES (cont'd)

(b) The aggregate replacement costs and credit risk weighted amounts of the above off-balance sheet exposures are:

Group

	Replacement costs 2005 HK$'000	Replacement costs 2004 HK$'000	Credit risk weighted amount 2005 HK$'000	Credit risk weighted amount 2004 HK$'000
Direct credit substitutes	–	–	46,209	67,748
Transaction-related contingencies	–	–	–	942
Trade-related contingencies	–	–	38,965	29,456
Forward forward deposits placed	–	–	24,790	14,179
Forward asset purchases	–	–	2,606	28,564
Other commitments with an original maturity of one year and over	–	–	111,748	100,639
Foreign exchange rate contracts	4,775	9,622	17,557	8,976
Interest rate swap	–	–	150	–
	4,775	9,622	242,025	250,504

The Group had not entered into any bilateral netting arrangements and accordingly the above amounts are shown on a gross basis. The credit risk weighted amounts are calculated in accordance with the Third Schedule of the Banking Ordinance and guidelines issued by the Hong Kong Monetary Authority. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments and from 0% to 50% for exchange rate contracts. Replacement cost represents the cost of replacing all contracts which have a positive value when marked to market.

38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 27) 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 the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2005	2004
	HK$'000	HK$'000
Within one year	**822**	415
In the second to fifth years, inclusive	**–**	12
	822	427

(b) As lessee

The Group leases certain of its branch buildings under operating lease arrangements. Leases for buildings 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, 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2005	2004
	HK$'000	HK$'000
Within one year	**4,613**	4,703
In the second to fifth years, inclusive	**3,132**	2,713
	7,745	7,416

39. OTHER COMMITMENTS

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

	2005	2004
	HK$'000	HK$'000
Contracted, but not provided for	**1,072**	569
Authorised, but not contracted for	**9,008**	5,485
	10,080	6,054

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

40. RELATED PARTY TRANSACTIONS

(a) Group

	2005		2004	
	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	**7,648**	**50,720**	8,132	42,014
Interest income received and receivable	**293**	**681**	399	374
Deposits received:				
Aggregate balance at balance sheet date	**69,551**	**547,028**	45,059	405,178
Interest expense paid and payable	**1,654**	**14,172**	652	3,703
Interbank activities:				
Deposits placed	**–**	**92,557**	–	231,023
Deposits received	**–**	**11,674**	–	75,597
Interest income	**–**	**6,142**	–	5,287
Interest expense	**–**	**2,455**	–	465
Standby credit facilities available to the Group	**–**	**387,755**	–	388,710
Premium income:				
Gross premiums written	**168**	**1,130**	158	944
Commission expenses, net	**–**	**878**	–	771
Rental expenses	**–**	**780**	–	780

40. RELATED PARTY TRANSACTIONS (cont'd)

(b) The Group had the following transactions with jointly-controlled entities during the year:

	2005 HK$'000	2004 HK$'000
Loans and advances granted	**31,000**	31,000
Deposits received:		
Aggregate balance at the balance sheet date	**70,808**	110,817
Interest expense paid and payable	**1,073**	348
Reinsurance premium ceded	**5**	5
Service fees paid	**5,753**	6,150

(c) The Group had the following transaction with an associate during the year:

	2005 HK$'000	2004 HK$'000
Commission expense paid	**14,797**	5,678

(d) Details of the Group's advances to its jointly-controlled entities and associates as at the balance sheet date are included in notes 23 and 24 to the financial statements, respectively.

(e) Details of compensation for key management personnel, who are the directors of the Company, and post employment benefits of the Group, are included in notes 6 and 7 to the financial statements.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has established policies and procedures for identifying, evaluating, monitoring and controlling the various types of risks pertaining to the Group's businesses. The key risks include credit risk, liquidity risk, capital management risk, market risk, interest rate risk, foreign exchange risk, insurance risk and operational risk.

The overall internal control environment and the management policies for the major types of risks are as follows:

(1) *Internal control environment*

The internal control framework of the Group comprises comprehensive control policies and standards. The areas of responsibilities of each business and operational unit are clearly defined. Internal control procedures have been established based on the risk inherent in the individual business unit.

The internal audit department plays an important role in the Group's internal control framework. It monitors the effectiveness of the internal control procedures and ensures compliance with the policies and standards across the whole Group. A direct reporting line to the audit committee under the board of directors safeguards its independence. The audit committee meets periodically to review and discuss financial performance, internal control and compliance issues and matters raised by the external auditors to ensure that all audit recommendations are implemented.

(2) *Credit risk management*

Credit risk is the risk that a customer or counterparty in a transaction may default. It arises from the lending, trade finance, treasury and other activities undertaken by the Group.

The Group has a credit risk management process to measure, monitor and control credit risks. The Credit Policy Manual of the Group defines the credit extension and measurement criteria, the credit review, approval and monitoring processes, and the loan classification and provisioning systems.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(2) Credit risk management (cont'd)

The Group has a hierarchy of credit authority which approves credit in compliance with the Group's credit policy; exposures are monitored against credit limits and other control limits (such as large exposures and concentration limits); segregation of duties in key credit functions is in place to ensure separate credit control and monitoring; and management and recovery of problem credits are handled by an independent work-out team.

The Group manages its credit risk within a conservative framework. Its credit policy is regularly revised, taking into account factors such as prevailing business and economic conditions, regulatory requirements and the Group's capital resources.

Credit and compliance audits are periodically performed to evaluate the effectiveness of the credit process and to test the compliance of the established credit policies and procedures.

(3) Liquidity risk management

Liquidity risk is the risk that the Group cannot meet its current obligations as they fall due. To manage liquidity risk, the Group has established liquidity management policies that are pertinent to the operations of the major business units. The policies are reviewed by the Asset and Liability Management Committee (the "ALCO") of the business unit and are approved by its directors.

The Group measures and monitors its liquidity through the maintenance of prudent ratios and limits that are laid down in the liquidity policies. These include the liquidity structure of the Group's assets, liabilities and commitments, statutory liquidity ratios, loan-to-deposit ratios, interest rate gaps, maturity mismatch positions and net asset positions.

The Group also maintains a prudent level of high quality liquid assets to ensure the availability of sufficient cash flows to meet any unexpected and material cash requirements in the course of ordinary business. In addition, standby facilities are established to provide contingency liquidity support.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(4) *Capital management risk*

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to meet the statutory capital or solvency margin requirements. Capital is allocated to the various activities of the Group depending on the risk reward criteria and regulatory capital requirements.

The Group's banking subsidiary is required to maintain minimum capital subject to the Hong Kong Monetary Authority's capital requirements, regulations and supervision process. The Group's securities and investment services subsidiaries are regulated by the Securities and Futures Commission (the "SFC") and are required to comply with certain minimum capital requirements according to the rules of the SFC.

(5) *Market risk management*

Market risk is the risk to the Group's earnings and capital due to changes in the market level of interest rates, foreign exchange rates, securities and equities as well as the volatilities of those prices. The Group's market risk arises from customer-related business, structural positions and investment portfolios.

The Group monitors market risk principally by establishing limits for transactions and open positions. These limits are approved by the ALCO and the directors and are monitored on a daily basis. The daily risk monitoring process measures the actual risk exposures against approved limits and triggers specific actions to ensure that the overall market risk is managed within an acceptable level.

(6) *Interest rate risk management*

Interest rate risk is the risk that the Group's position may be adversely affected by a change of market interest rates. The Group's interest rate risk arises primarily from timing differences in the maturity and repricing of the Group's interest-bearing assets, liabilities and off-balance sheet commitments.

The Group manages interest rate risk by limiting the potentially adverse effects of interest rate movements on net interest income by closely monitoring the net repricing gap of its assets and liabilities. Interest rate sensitive positions are managed by the Treasury Department of each business unit within the limits approved by the ALCO and the directors.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(7) *Foreign exchange risk management*

Foreign exchange risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group's foreign exchange risk primarily arises from foreign exchange dealing, commercial banking operations and structural foreign currency exposures.

Foreign exchange positions are managed by the Treasury Department of each business unit within the limits approved by the ALCO and the directors. Limit excesses, if any, are reported to the ALCO for necessary actions.

(8) *Insurance risk management*

The business of the Group comprises both life and general insurance contracts, and general insurance contracts represents more than 95% of its total gross premium written.

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Group faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated and subsequent development of long tail claims.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio, as well as unexpected outcomes.

The variability of risks is also improved by careful selection and implementation of underwriting strategies, arrangements of reinsurance, strict claim review policies to assess all new and on going claims as well as the investigation of possible fraudulent claims. The Group also enforces a policy of actively managing and promptly pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group.

The majority of reinsurance business ceded is placed on both proportional and excess of loss basis with retention limits vary by product line. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the balance sheet as reinsurance assets.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(8) Insurance risk management (cont'd)

Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurers is unable to meet its obligations assumed under such reinsurance agreements.

The Group's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single reinsurance contract. The Group also considers the underlying security and long-established business relationship with the reinsurers.

The Group also has limited its exposure to the level by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events, such as hurricanes, earthquakes and flood damages. The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a pre-determined maximum amount based on the Group's risk appetite as decided by management. For a single realistic catastrophic event this maximum amount is less than 5% of shareholders' equity on a net basis. In the event of such a catastrophe, counterparty exposure to a single reinsurer is estimated not to exceed 5% of shareholders' equity.

(9) Operational risk management

Operational risk is the financial loss resulting from procedural errors, system failures, frauds and other event risks.

The Group manages operational risk by maintaining adequate documentation of its operating procedures to facilitate training and quality performance. A proper internal control system is incorporated in the operation workflow to minimise the risk of losses caused by human error. To reduce the interruptions to business activities caused by system failures or natural disasters, back-up systems and contingency business resumption plans are in place for critical business and back-office functions. Detailed recovery procedures are properly documented, with periodic drills conducted to ensure that the procedures are current and correct.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(10) Fair value measurement principles

The fair values of financial instruments are based on their quoted market prices at the balance sheet date, or date close to balance sheet date, without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices unless the position is immaterial. In such case, mid rate will be applied for both long and short positions.

If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques, including use of recent arm's-length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates, and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

(11) Use of derivatives

The Group will employ derivatives during the course of running its banking businesses. These derivatives can be either exchange-traded or over-the-counter including interest rate futures, interest rate swaps and options. Before engaging in any such products and instruments, the Group will conduct thorough study and evaluation on both its risk and necessity affecting the Group's operation. In this respect, the Group will consider those over-the-counter derivatives, e.g., options and interest rate swaps, as solely for hedging purposes. While for the exchange-traded instruments, the Group will impose appropriate trading limits together with a daily mark-to-market revaluation process. The Group will monitor closely these derivative positions in order to achieve a stable and commensurable contribution to the Group's revenue.

42. PENDING LITIGATION

A claim for approximately HK$16 million was brought against a subsidiary in 1997 by a client alleging that the subsidiary is liable for compensation on a loss of profit suffered by the client. The Group's legal counsel had reviewed the evidence submitted by the plaintiff and advised that the subsidiary has grounds to defend against the claim. Currently, the subsidiary is making attempts to achieve an out-of-court settlement. In this endeavour, a reliable estimate as to the outcome of the claim is unable to be made. Notwithstanding that the directors believe the Group has grounds to defend against the claim, a legal fees provision has been made and the directors consider that the amount is fair and adequate.

43. POST BALANCE SHEET EVENT

Save as disclosed elsewhere in these financial statements, the Group also had the following significant post balance sheet event:

On 14th February, 2006, a share purchase agreement (the "Share Purchase Agreement") was entered into between the Company and JCG Holdings Limited ("JCG"), a company incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited and an independent third party to the Group. Pursuant to the Share Purchase Agreement, the Company shall dispose of and JCG shall acquire the entire 8,100,000 issued and fully paid ordinary shares of HK$100 each in the share capital of Asia Commercial Bank Limited, a wholly-owned subsidiary of the Company, at a cash consideration of approximately HK$4,499,550,000 (the "Disposal") upon the completion of the agreement, which is still pending at the date of the financial statements. Further details of the Disposal is set out in joint announcement made by the Company and JCG on 16th February, 2006.

44. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs 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 opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27th March, 2006.