

1. Corporate Information

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. Impact of a New and Revised Hong Kong Statement of Standard Accounting Practice

The revised Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 12 "Income taxes" is effective for the first time for the current year's financial statements.

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- a deferred tax liability has been recognised on the revaluation of the Group's premises; and
- a deferred tax asset has been recognised on the general provision made against advances which is not deductible for tax purposes.

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

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 8 and 25 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 25 to the financial statements.

3. Summary of Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties, premises and other investments as further explained in the accounting policies below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December, 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Revenue recognition

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

- (i) interest income on advances to customers is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;

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

Revenue recognition (cont'd)

- (ii) interest income on finance leases is recognised on the basis set out below, under the heading "Finance leases";
- (iii) fees and commission income from the banking business are recognised when earned or accrued;
- (iv) premiums from direct underwriting and the reinsurance business are recorded based on insurance policy contracts inception and advices received from the ceding companies during the financial year, respectively, and are recognised as income when risk coverage is provided to the insured or the ceding companies;
- (v) dividend income is recognised when the Group's right to receive payment has been established;
- (vi) profits or losses arising on the sale of investments are recognised when the buyer takes title; and
- (vii) rental income is recognised on an accrual basis.

Subsidiaries

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

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

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

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

Joint venture companies (cont'd)

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

A joint venture company is treated as:

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

Jointly-controlled entities

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

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

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

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

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 and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

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

Impairment of assets

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

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

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Investments

- (i) Certificates of deposit and held-to-maturity securities are redeemable at fixed dates, intended to be held to maturity and are stated at amortised cost less any impairment losses, on an individual investment basis. Amortised cost is cost plus or minus the cumulative amortisation of the difference between the purchase price and the maturity amount.
- (ii) Investment securities are securities which are intended to be held on a continuing basis and are stated at cost less any impairment losses that are considered by the directors to be other than temporary, on an individual investment basis.
- (iii) In situations where the circumstances and events which led to an impairment of investment securities, certificates of deposit or other held-to-maturity securities cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the reversal of the impairment is credited to the profit and loss account, on an individual investment basis, to the extent of the amount previously charged.

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

Investments (cont'd)

- (iv) 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 Nominal Value, provision is 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 profit and loss account 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 quoted market price, on an individual investment basis. The gains or losses arising from changes in their respective fair values are credited or charged to the profit and loss account for the period in which they arise.

Advances and other assets

Advances to customers, banks and other financial institutions, and accrued interest and other assets are recognised when cash is advanced, and are stated in the balance sheet net of provisions for bad and doubtful debts.

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

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

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

Advances and other assets (cont'd)

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

Bad and doubtful debts

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

Reposessed assets

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

Unearned premiums

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

Life reserve

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

Contingency reserve

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

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

Commission expenses and other acquisition costs

Commission expenses and other acquisition costs relating to the underwriting of general and life insurance are not deferred and are charged to the profit and loss account as incurred.

Outstanding claims

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

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

Unexpired risk

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

Premium receivables and receivables from reinsurance companies

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

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

Intangible assets

Intangible assets, representing the eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited ("Stock Exchange Trading Rights") and the Hong Kong Futures Exchange Limited ("Futures Exchange Trading Rights"), are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis to write off the cost of the trading rights over their estimated useful life of 10 years.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. Surpluses arising on revaluation are credited directly to the asset revaluation reserve.

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

Advantage has been taken of the transitional provision set out in paragraph 80 of SSAP 17, "Property, plant and equipment", which grants exemption from the requirement to continue making revaluations of the premises of the Group subsequent to 1995 and, accordingly, no revaluation of these fixed assets has been carried out since then.

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

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

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

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

Fixed assets and depreciation (cont'd)

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

Investment properties

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

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

Finance leases

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

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

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.

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

Operating leases

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

Income tax

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

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 and interests in joint ventures and associates, except 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 assets 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 assets 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

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

Income tax (cont'd)

- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures and associates, 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.

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 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.

Provisions

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

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

Related parties

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

3. 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.

Dividends

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

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

Foreign currencies

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

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

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.

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

Off-balance sheet financial instruments

Off-balance sheet financial instruments arise from forward and swap transactions undertaken by the Group in the foreign exchange market. Netting is applied where a legal right of set-off exists. Mark-to-market assets and liabilities are presented gross, with netting shown separately.

Transactions undertaken for trading purposes are marked to market value and the gain or loss arising is recognised in the profit and loss account. Off-balance sheet trading transactions are valued with reference to an independent liquid price where this is available. For those transactions where there are no readily quoted prices, which predominately relates to over the counter transactions, market values are determined by reference to independently sourced rates, using valuation models.

Transactions designated as hedges are revalued on an equivalent basis to the assets, liabilities or net positions that they hedge. Any profit or loss arising from the revaluation is recognised in the profit and loss account on the basis as that arising from the corresponding assets, liabilities or net positions. To qualify as a hedge, a derivative must effectively reduce the price or interest rate risk of the asset, liability or anticipated transaction to which it is linked and be designated as a hedge at the inception of the derivative contract. Accordingly, changes in the market value of the derivative must be highly correlated with changes in the market value of the underlying hedged item at the inception of the hedge and over the life of the hedge contract.

Any gain or loss arising on the termination of a qualifying derivative is deferred and amortised to earnings over the original life of the terminated contract. Where the underlying asset, liability or position is sold or terminated, the qualifying derivative is immediately marked-to-market and any profit or loss arising is taken to the profit and loss account.

Staff retirement schemes

The Group operates a defined contribution provident fund (the "Fund") and a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for its employees. Contributions to the Fund and the MPF Scheme are charged to the profit and loss account as incurred. The amount of contributions by the Group is based on a specified percentage of the monthly 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.

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

Employment Ordinance long service payments

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

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

4. Segment Information

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the assets. 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.

Notes to Financial Statements (cont'd)

31st December, 2003

4. Segment Information (cont'd)

Business segments

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

Group	Banking		Insurance		Corporate		Eliminations		Consolidated	
	2003 HK\$'000	2002 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000 (Restated)
Segment revenue:										
External customers	283,199	311,963	734,501	566,499	-	-	-	-	1,017,700	878,462
Other revenue	-	787	89,794	76,783	11,847	7,966	-	-	101,641	85,536
Intersegment	1,079	(3,430)	2,889	2,942	987	5,638	(4,955)	(5,150)	-	-
Total	284,278	309,320	827,184	646,224	12,834	13,604	(4,955)	(5,150)	1,119,341	963,998
Segment results	68,149	45,544	136,326	37,621	25,617	(21,100)	(2,900)	(1,755)	227,192	60,310
Share of results of:										
Jointly-controlled entities	-	(2,107)	2,665	(718)	-	-	-	-	2,665	(2,825)
Associates	-	-	334	48	(2)	1,572	-	-	332	1,620
Profit before tax									230,189	59,105
Tax	(12,149)	(10,402)	(15,483)	(4,978)	-	-	-	-	(27,632)	(15,380)
Profit before minority interests									202,557	43,725
Minority interests									647	77
Net profit from ordinary activities attributable to shareholders									203,204	43,802

Notes to Financial Statements (cont'd)

31st December, 2003

4. Segment Information (cont'd)

Business segments (cont'd)

Group	Banking		Insurance		Corporate		Eliminations		Consolidated	
	2003 HK\$'000	2002 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000 (Restated)
Segment assets	13,025,974	13,189,260	1,614,575	1,415,812	591,920	558,735	(224,906)	(492,267)	15,007,563	14,671,540
Interests in jointly-controlled entities	17,800	17,800	38,075	35,722	-	-	-	-	55,875	53,522
Interests in associates	-	-	67,373	6,018	-	1,717	-	-	67,373	7,735
Total assets	13,043,774	13,207,060	1,720,023	1,457,552	591,920	560,452	(224,906)	(492,267)	15,130,811	14,732,797
Segment liabilities	11,384,161	11,583,812	696,723	547,884	21,566	25,009	(270,466)	(543,240)	11,831,984	11,613,465
Other segment information:										
Depreciation charges	19,940	23,282	1,954	1,700	142	346	2,900	2,100	24,936	27,428
Revaluation deficit on investment properties	-	3,659	-	-	-	-	-	(2,716)	-	943
Provision against advances to jointly-controlled entities	8,340	5,593	-	-	-	-	-	-	8,340	5,593
Fixed assets written off	79	1,155	-	77	-	160	-	-	79	1,392
Amortisation of intangible assets	144	143	-	-	-	-	-	-	144	143
Impairment/(reversal of impairment) of other assets	-	(880)	-	-	-	400	-	-	-	(480)
Provision/(write back of provision) for bad and doubtful debts	21,500	46,015	3,148	2,139	63	6,398	-	-	24,711	54,552
Impairment/(reversal of impairment) of held-to-maturity securities and investment securities	-	-	803	2,212	(668)	(1,121)	-	-	135	1,091
Capital expenditure	9,818	11,432	2,701	637	39	260	-	-	12,558	12,329

Notes to Financial Statements (cont'd)

31st December, 2003

5. Turnover and Revenue

Turnover represents the aggregate of gross premiums on fire, marine, general accident and life insurance; and net interest income, commissions, fees, investment income and other revenue earned from the banking business.

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

	2003	2002
	HK\$'000	HK\$'000
Banking:		
Interest income	359,964	418,101
Interest expense	(132,022)	(178,741)
Net fees and commission income	40,913	59,977
Gains less losses arising from dealing in foreign currencies	7,190	6,527
Other operating income	7,154	6,099
	283,199	311,963
Insurance:		
Gross premiums written	734,501	566,499
Turnover	1,017,700	878,462
Reinsurance commission income	47,634	38,365
Dividend income (excluding that relating to the banking business) from:		
Listed investments	7,136	2,819
Unlisted investments	4,558	4,664
Interest income, excluding that relating to the banking business	38,491	31,778
Others	3,822	7,910
Other revenue	101,641	85,536
	1,119,341	963,998

5. Turnover and Revenue (cont'd)

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

	Notes	2003 HK\$'000	2002 HK\$'000
Increase in unearned premiums	31	(29,159)	(37,511)
Increase in life and contingency reserves	32	(1,789)	(1,464)
Gain on disposal of other investments, net		28,355	88
Unrealised gains/(losses) on other investments, net		53,926	(19,530)
Gains less losses on disposal of investment securities		9,749	437
Impairment of held-to-maturity securities and investment securities		(135)	(1,091)
Gain on disposal of held-to-maturity securities		3,036	7,455
Guaranteed return to a retirement scheme		–	(1,800)
Gain on disposal of subsidiaries		–	441
Loss on disposal of fixed assets		(5)	(24)
		63,978	(52,999)

Notes to Financial Statements (cont'd)

31st December, 2003

6. Profit from Operating Activities

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

	Notes	Group	
		2003 HK\$'000	2002 HK\$'000
Reinsurance premiums ceded		305,317	228,039
Commission expenses for insurance business		143,250	123,291
Net claims after deducting recoveries from reinsurers		202,859	149,354
Auditors' remuneration		2,200	2,200
Depreciation charges	24	24,936	27,428
Revaluation deficit on investment properties		–	943
Provisions against loans to jointly-controlled entities	21	8,340	5,593
Fixed assets written off	24	79	1,392
Amortisation of intangible assets	23	144	143
Staff costs (including directors' remuneration, note 7):			
Wages and salaries		142,346	154,531
Pension scheme contributions		5,824	6,016
Less: Forfeited contributions		(714)	(1,256)
Net pension scheme contributions		5,110	4,760
Total staff costs		147,456	159,291
Minimum lease payments under operating leases			
in respect of land and buildings		11,779	14,188
Reversal of impairment of other assets		–	(480)
Provision for bad and doubtful debts, net		24,711	54,552

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 (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Fees:		
Executive directors	320	320
Independent non-executive directors	140	140
Other non-executive directors	502	592
	962	1,052
Other emoluments of executive directors:		
Basic salaries, housing, other allowances and benefits in kind	5,268	4,784
Pension scheme contributions	170	164
Bonuses paid and payable	5,770	984
	11,208	5,932
Other emoluments of independent non-executive directors:		
Basic salaries, housing, other allowances and benefits in kind	30	30
Other emoluments of other non-executive directors:		
Basic salaries, housing, other allowances and benefits in kind	32	32
Bonuses paid and payable	160	80
	192	112
	12,392	7,126

Notes to Financial Statements (cont'd)

31st December, 2003

7. Directors' Remuneration and Emoluments of the Five Highest Paid Individuals (cont'd)

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

	Number of directors	
	2003	2002
Nil – HK\$1,000,000	13	16
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$2,000,001 – HK\$2,500,000	–	2
HK\$2,500,001 – HK\$3,000,000	1	–
HK\$3,500,001 – HK\$4,000,000	1	–
HK\$5,000,001 – HK\$5,500,000	1	–
	16	19

Mr. Katsuya Kimura, a non-executive director, has waived his director's fee for the year ended 31st December, 2003 in the amount of HK\$40,000 (2002: HK\$30,137) in aggregate. Save as aforesaid, there was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The five highest paid individuals during the year included three (2002: three) directors, details of whose remuneration are set out above. The remuneration of the remaining two (2002: two) non-director, highest paid individuals for the year is analysed below:

	Group	
	2003 HK\$'000	2002 HK\$'000
Basic salaries, housing, other allowances and benefits in kind	2,711	2,006
Pension scheme contributions	122	152
Bonuses paid and payable	2,000	368
Compensation for loss of office	–	10,900
	4,833	13,426

7. Directors' Remuneration and Emoluments of the Five Highest Paid Individuals (cont'd)

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

	Number of employees	
	2003	2002
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,500,001 – HK\$3,000,000	1	–
HK\$11,500,001 – HK\$12,000,000	–	1
	2	2

8. Tax

Hong Kong profits tax for the Group has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31st December, 2003. 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	
	2003 HK\$'000	2002 HK\$'000 (Restated)
Current tax charge for the year:		
Hong Kong	28,347	16,652
Elsewhere	1,300	1,823
Deferred tax charge/(credit) – note 25	288	(1,547)
Overprovision of current tax in respect of prior years	(2,585)	(1,548)
	27,350	15,380
Share of tax charge/(credit) attributable to:		
Jointly-controlled entities	312	–
Associates	(30)	–
	282	–
Total tax charge for the year	27,632	15,380

Notes to Financial Statements (cont'd)

31st December, 2003

8. Tax (cont'd)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the Company and its subsidiaries, jointly-controlled entities and associates 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 – 2003

	Hong Kong		Mainland China		Macau		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	220,193		6,257		3,739		230,189	
Tax at the statutory tax rate	38,534	17.5	939	15.0	589	15.75	40,062	17.4
Effect on opening deferred tax of increase in rates	(850)	(0.4)	-	-	-	-	(850)	(0.4)
Adjustments in respect of current tax of previous periods	(2,585)	(1.2)	-	-	-	-	(2,585)	(1.1)
Income not subject to tax	(19,679)	(8.9)	(306)	(4.9)	-	-	(19,985)	(8.7)
Expenses not deductible for tax	10,912	5.0	-	-	78	2.1	10,990	4.8
Tax charge at the Group's effective rate	26,332	12.0	633	10.1	667	17.85	27,632	12.0

Group – 2002

	Hong Kong		Mainland China		Macau		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	50,681		3,595		4,829		59,105	
Tax at the statutory tax rate	8,109	16.0	539	15.0	761	15.75	9,409	15.9
Adjustments in respect of current tax of previous periods	(1,548)	(3.0)	-	-	-	-	(1,548)	(2.6)
Income not subject to tax	(15,686)	(31.0)	-	-	(64)	(1.3)	(15,750)	(26.7)
Expenses not deductible for tax	23,014	45.4	255	7.1	-	-	23,269	39.4
Tax charge at the Group's effective rate	13,889	27.4	794	22.1	697	14.45	15,380	26.0

9. Net Profit from Ordinary Activities Attributable to Shareholders

The net profit from ordinary activities attributable to shareholders for the year ended 31st December, 2003 dealt with in the financial statements of the Company was HK\$43,977,000 (2002: HK\$3,278,000) (note 27).

10. DIVIDENDS

	2003	2002
	HK\$'000	HK\$'000
Interim dividend paid:		
HK1.8 cents (2002: HK1.2 cents) per ordinary share	19,044	12,696
Proposed final dividend:		
HK7.2 cents (2002: HK2.3 cents) per ordinary share	76,178	24,334
	95,222	37,030

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

11. Earnings per Share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders of HK\$203,204,000 (2002: HK\$43,802,000 (restated)) and the 1,058,021,428 (2002: 1,058,021,428) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31st December, 2003 and 2002 have not been disclosed as no diluting events existed during these years.

Notes to Financial Statements (cont'd)

31st December, 2003

12. Cash and Short Term Funds

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash in hand and balances with banks and other financial institutions	454,846	145,950	285	285
Money at call and short notice *	1,911,744	2,944,941	–	–
Treasury bills, including Exchange Fund Bills #	89,885	145,305	–	–
	2,456,475	3,236,196	285	285

* Included in the Group's money at call and short notice were deposits of approximately HK\$1,511,000 (2002: HK\$1,510,000) pledged in favour of Autoridade Monetária e Cambial de Macau as security for the outstanding claim provision and unearned premium reserve as required under the laws of Macau.

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

	Group	
	2003 HK\$'000	2002 HK\$'000
With a residual maturity of:		
Three months or less	59,962	69,814
One year or less but over three months	29,923	75,491
	89,885	145,305

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

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
With a residual maturity of:		
Three months or less	534,942	651,280
One year or less but over three months	346,431	153,845
	881,373	805,125

Included in the Group's placements with banks and other financial institutions were deposits of approximately HK\$21,248,000 (2002: HK\$18,686,000) pledged in favour of Autoridade Monetaria e Cambial de Macau as security for the outstanding claims provision and unearned premium reserve as required under the laws of Macau.

14. Premium Receivables

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

	2003	2002
	HK\$'000	HK\$'000
Three months or less	104,009	83,447
Six months or less but over three months	32,063	16,362
One year or less but over six months	3,076	3,436
Over one year	2,875	2,671
	142,023	105,916
Less: Provision for bad and doubtful debts	(4,828)	(6,367)
	137,195	99,549

Notes to Financial Statements (cont'd)

31st December, 2003

15. Other Investments

	Group	
	2003 HK\$'000	2002 HK\$'000
Listed equity, at market value		
– in Hong Kong	157,125	121,857
– outside Hong Kong	72,988	16,894
	230,113	138,751
Debt		
– listed outside Hong Kong, at market value	48,925	24,860
– unlisted, at quoted market price	56,232	–
	105,157	24,860
Investment funds		
– listed in Hong Kong, at market value	–	4,512
– listed outside Hong Kong, at market value	22,670	12,374
– unlisted, at quoted market price	146,650	100,653
	169,320	117,539
Equity-linked notes, at amortised cost	43,075	–
	547,665	281,150

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Public sector entities	103,564	34,530
Banks and other financial institutions	118,152	37,529
Corporate entities	325,949	209,091
	547,665	281,150

16. Certificates of Deposit Held

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

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
With a residual maturity of:		
Three months or less	153,009	20,010
One year or less but over three months	112,147	55,606
Five years or less but over one year	453,216	208,970
	718,372	284,586

17. Held-to-maturity Securities

	Group	
	2003	2002
	HK\$'000	HK\$'000
Listed debt		
– in Hong Kong	10,734	5,421
– outside Hong Kong	339,036	309,576
	349,770	314,997
Unlisted debt	1,536,002	1,007,075
	1,885,772	1,322,072
Market value of listed held-to-maturity securities	349,309	314,466

During the year, a subsidiary of the Company transferred its entire held-to-maturity portfolio in the amount of HK\$123,366,000 to other investments, with a fair value of HK\$124,976,000 at the time of transfer, to restructure the investment portfolio for more effective interest rate risk and market risk management. The unrealised holding gain as a result of that transfer, amounting to HK\$1,610,000, has been recognised in the profit and loss account.

Notes to Financial Statements (cont'd)

31st December, 2003

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

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Public sector entities	45,123	28,334
Banks and other financial institutions	1,639,839	1,072,130
Corporate entities	200,810	221,608
	1,885,772	1,322,072

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

	Group	
	2003 HK\$'000	2002 HK\$'000
With a residual maturity of:		
Three months or less	240,228	341,478
One year or less but over three months	398,786	252,055
Five years or less but over one year	853,954	497,169
Over five years	392,804	231,370
	1,885,772	1,322,072

18. Advances and Other Assets

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Advances to customers	7,479,772	7,923,665	–	–
Provision for bad and doubtful debts	(181,728)	(189,133)	–	–
	7,298,044	7,734,532	–	–
Accrued interest and other assets	199,633	181,607	6,935	6,632
Provision for bad and doubtful debts	(581)	(485)	–	–
Provision for impairment	(660)	(660)	–	–
	198,392	180,462	6,935	6,632
Tax recoverable	–	176	–	–
Total	7,496,436	7,915,170	6,935	6,632

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

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

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Repayable on demand	587,881	666,494	–	–
With a residual maturity of:				
Three months or less	1,065,868	1,172,873	–	–
One year or less but over three months	862,893	752,598	–	–
Five years or less but over one year	2,353,667	2,432,094	–	–
Over five years	2,331,109	2,619,779	–	–
Undated	278,354	279,827	–	–
	7,479,772	7,923,665	–	–

Notes to Financial Statements (cont'd)

31st December, 2003

18. Advances and Other Assets (cont'd)

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

	Minimum lease payments 2003 HK\$'000	Minimum lease payments 2002 HK\$'000	Present value of minimum lease payments 2003 HK\$'000	Present value of minimum lease payments 2002 HK\$'000
Amounts receivable under finance leases:				
Within one year	168,335	135,192	144,575	113,986
In the second to fifth years, inclusive	246,854	210,156	216,387	183,270
Over five years	127,361	98,081	101,414	77,074
	542,550	443,429	462,376	374,330
Less: Unearned finance income	(80,174)	(69,099)		
Present value of minimum lease payments receivable	462,376	374,330		

The Group enters 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. Investment Securities

	Group	
	2003	2002
	HK\$'000	HK\$'000
Listed equity outside Hong Kong, at cost	383,653	195,861
Provision for impairment	(25,073)	(26,331)
	358,580	169,530
Unlisted		
– equity	43,772	37,624
– debt	19,940	15,579
	63,712	53,203
Total	422,292	222,733
Market value of listed investment securities	516,608	131,332

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Bank and other financial institutions	358,580	169,530
Corporate entities	63,712	53,203
	422,292	222,733

Notes to Financial Statements (cont'd)

31st December, 2003

19. Investment Securities (cont'd)

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Undated	19,940	15,579

Included in the unlisted investment securities are equity interests in certain companies amounting to HK\$20,000 (2002: HK\$20,000) in which the percentage of equity attributable to the Group amounts to over 20%. These investments, however, are not equity accounted for in accordance with SSAP 10 "Accounting for associates", as the directors consider that the Group is not in a position to exercise significant influence over their operations. The results of these companies are dealt with in the consolidated profit and loss account of the Group to the extent of dividends received from these companies.

The particulars of these companies are as follows:

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

20. Investments in Subsidiaries

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	1,629,859	1,629,869
Provision for impairment	(10,233)	(10,243)
	1,619,626	1,619,626

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

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

Company	Place of incorporation	Percentage of equity attributable to the Company		Nominal value of issued share capital	Principal activities
		Direct	Indirect		
Asia Insurance Company, Limited	Hong Kong	100	–	HK\$600,000,000	Insurance
Asia Commercial Bank Limited	Hong Kong	100	–	HK\$810,000,000	Banking
Asia Investment Services Limited	British Virgin Islands	100	–	HK\$10,000,000	Investment holding
AFH Investments (BVI) Limited	British Virgin Islands	100	–	US\$1,000,000	Investment holding
Asia Insurance (Finance) Limited	Hong Kong	–	100	HK\$25,000,000	Mortgage loan financing
Asia Insurance (Pensions Fund) Limited	Hong Kong	–	100	HK\$10,000,000	Pension fund management and investment holding

Notes to Financial Statements (cont'd)

31st December, 2003

20. Investments in Subsidiaries (cont'd)

Company	Place of incorporation	Percentage of equity attributable to the Company		Nominal value of issued share capital	Principal activities
		Direct	Indirect		
Chamberlain Investment Limited	Republic of Liberia	–	100	US\$100	Investment holding
Progressive Investment Company Limited	Hong Kong	–	100	HK\$10,000,000	Property investment
Bedales Investment Limited	Republic of Liberia	–	100	Ordinary US\$100	Investment holding
		–	100	Preference US\$3,000,000	
Asia 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 Financial Pacific (Securities) Limited	Hong Kong	–	100	HK\$12,000,000	Securities brokerage

20. Investments in Subsidiaries (cont'd)

Company	Place of incorporation	Percentage of equity attributable to the Company		Nominal value of issued share capital	Principal activities
		Direct	Indirect		
AFH Credit Limited	Hong Kong	–	100	HK\$5,000,000	Provision of loan financing
Asia Insurance (Investments) Limited ("All")	Hong Kong	–	57	HK\$53,000,000	Investment holding

The above table lists the subsidiaries of the Company as at 31st December, 2003 which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the assets and/or liabilities of the Group. To give details of the other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

21. Interests in Jointly-controlled Entities

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets other than goodwill	54,385	51,796
Share of goodwill	1,490	1,726
	55,875	53,522
Loans to jointly-controlled entities	39,130	39,925
Provision	(13,933)	(5,593)
	25,197	34,332

The loans to jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment, except for the amount of HK\$31,000,000 (2002: HK\$31,000,000), which is repayable by 29th December, 2008.

Notes to Financial Statements (cont'd)

31st December, 2003

21. Interests in Jointly-controlled Entities (cont'd)

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

Name	Business structure	Place of incorporation and operations	Percentage of		Principal activities
			Ownership interest and profit sharing	Voting power	
Bank Consortium Holding Limited *	Corporate	Hong Kong	13.3	1 out of 7#	Provision of mandatory provident fund scheme services
Card Alliance Company Limited	Corporate	Hong Kong	33.3	2 out of 6#	Provision of credit card support services
Net Alliance Co. Limited	Corporate	Hong Kong	15	2 out of 10#	Provision of electronic banking support services
Hong Kong Life Insurance Limited*	Corporate	Hong Kong	16.6	2 out of 12#	Provision of writing of long term insurance business
BC Reinsurance Limited	Corporate	Hong Kong	21	2 out of 10#	Reinsurance underwriting

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

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

22. Interests in Associates

	Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	61,343	7,735
Goodwill on acquisition	6,030	–
	67,373	7,735

The goodwill of HK\$6,030,000 recognised in the consolidated balance sheet arose from the acquisition of equity interests in The People's Insurance Company of China (Hong Kong), Ltd., an associate, during the year.

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

As the amounts due from associates arose from advances 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.

Particulars of the principal associates of the Group, which are all corporate entities, are as follows:

Company	Place of incorporation	Percentage of interest held by the Group	Nominal value of issued share capital	Principal activities
Asia Investments International Limited *	British Virgin Islands	30	US\$860,000	Investment holding
APIC Holdings, Inc. *	Philippines	50	Peso23,241,700	Investment holding
Asian Insurance International (Holding) Limited *	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. ("PICC") * #	Hong Kong	14.25	HK\$200,000,000	Insurance

Notes to Financial Statements (cont'd)

31st December, 2003

22. Interests in Associates (cont'd)

The Group previously had a 10% interest in the issued share capital of PICC which was then held as an investment security. In August 2003, the Group increased its interest in PICC through the subscription of 415,000 new shares issued by PICC at a consideration of HK\$41,500,000 via All, a 57%-owned subsidiary. Upon the completion of such subscription, All holds 25% of the issued share capital of PICC. Such deemed acquisition gave rise to goodwill of HK\$6,030,000.

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

The above table lists the associates of the Group as at 31st December, 2003 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 associates would, in the opinion of the directors, result in particulars of excessive length.

23. Intangible Assets

	Group HK\$'000
Cost:	
At beginning of year and at 31st December, 2003	1,437
Accumulated amortisation:	
At beginning of year	406
Provided during the year	144
At 31st December, 2003	550
Net book value:	
At 31st December, 2003	887
At 31st December, 2002	1,031

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.

24. Fixed Assets**Group**

	Investment properties	Premises	Furniture, fixtures, equipment and motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:				
At beginning of year	5,070	480,451	186,287	671,808
Additions	–	2,292	10,266	12,558
Disposals	–	–	(256)	(256)
Written off	–	–	(664)	(664)
At 31st December, 2003	5,070	482,743	195,633	683,446
Accumulated depreciation:				
At beginning of year	–	111,442	157,275	268,717
Charge for the year	–	9,680	15,256	24,936
Disposals	–	–	(161)	(161)
Written off	–	–	(585)	(585)
At 31st December, 2003	–	121,122	171,785	292,907
Net book value:				
At 31st December, 2003	5,070	361,621	23,848	390,539
At 31st December, 2002	5,070	369,009	29,012	403,091

Notes to Financial Statements (cont'd)

31st December, 2003

24. Fixed Assets (cont'd)

The cost or valuation of the premises comprises:

	2003	2002
	HK\$'000	HK\$'000
At 1991 valuation	360,843	360,843
At cost	121,900	119,608
	482,743	480,451

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

	2003	2002
	HK\$'000	HK\$'000
Long term leases in Hong Kong	265,243	270,604
Medium term leases in Hong Kong	61,111	61,163
Medium term leases outside Hong Kong	34,669	36,148
Short term leases outside Hong Kong	598	1,094
	361,621	369,009

Had the revalued premises of the Group been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK\$93,900,000 (2002: HK\$95,930,000).

The investment properties of the Group are stated at 2002 valuation and furniture, fixtures, equipment and motor vehicles are stated at cost less accumulated depreciation.

The valuation of the Group's investment properties as estimated by independent professionally qualified valuers as at 31st December, 2003 was not materially different from their carrying value.

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

The gross rental income earned from the leasing of the Group's investment properties amounted to HK\$725,000 for the year ended 31st December, 2003 (2002: HK\$563,000).

24. Fixed Assets (cont'd)

Company	Furniture and fixtures HK\$'000
Cost:	
At beginning of year	2,106
Additions	39
Disposals	(18)
At 31st December, 2003	<u>2,127</u>
Accumulated depreciation:	
At beginning of year	1,790
Charge for the year	142
Disposals	(17)
At 31st December, 2003	<u>1,915</u>
Net book value:	
At 31st December, 2003	<u>212</u>
At 31st December, 2002	<u>316</u>

Notes to Financial Statements (cont'd)

31st December, 2003

25. Deferred Tax

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

Deferred tax liabilities

Group – 2003

	Accelerated tax depreciation HK\$'000	Revaluation of properties HK\$'000	Total HK\$'000
At 1st January, 2003			
As previously reported	2,204	–	2,204
Prior year adjustment:			
SSAP 12 – restatement of deferred tax	–	26,391	26,391
As restated	2,204	26,391	28,595
Deferred tax charged to the profit and loss account during the year, including a charge of HK\$207,000 due to the effect of a change in tax rate – note 8	689	–	689
Deferred tax debited to equity during the year due to the effect of a change in tax rate	–	2,474	2,474
Gross deferred tax liabilities at 31st December, 2003	2,893	28,865	31,758

Deferred tax assets

Group – 2003

	General provision HK\$'000
At 1st January, 2003	
As previously reported	–
Prior year adjustment:	
SSAP 12 – restatement of deferred tax	11,925
As restated	11,925
Deferred tax credited to the profit and loss account during the year, including a credit of HK\$1,057,000 due to the effect of a change in tax rate – note 8	401
Gross deferred tax assets at 31st December, 2003	12,326
Net deferred tax liabilities at 31st December, 2003	19,432

25. Deferred Tax (cont'd)

Deferred tax liabilities

Group – 2002

	Accelerated tax depreciation HK\$'000	Revaluation of properties HK\$'000	Total HK\$'000
At 1st January, 2002			
As previously reported	3,258	–	3,258
Prior year adjustment:			
SSAP 12 – restatement of deferred tax	–	26,391	26,391
As restated	3,258	26,391	29,649
Deferred tax credited to the profit and loss account during the year – note 8	(1,054)	–	(1,054)
Gross deferred tax liabilities at 31st December, 2002	2,204	26,391	28,595

Deferred tax assets

Group – 2002

	General provision HK\$'000
At 1st January, 2002	
As previously reported	–
Prior year adjustment:	
SSAP 12 – restatement of deferred tax	11,432
As restated	11,432
Deferred tax credited to the profit and loss account during the year – note 8	493
Gross deferred tax assets at 31st December, 2002	11,925
Net deferred tax liabilities at 31st December, 2002	16,670

Notes to Financial Statements (cont'd)

31st December, 2003

25. Deferred Tax (cont'd)

The Group has tax losses arising in Hong Kong of HK\$45,068,000 (2002: HK\$50,932,000) 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.

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's net deferred tax liability as at 31st December, 2003 by HK\$16,539,000 (2002: HK\$14,466,000). As a consequence, the consolidated net profit attributable to shareholders for the years ended 31st December, 2003 and 2002 have been increased by HK\$401,000 and HK\$493,000, respectively. The retained profits of the Group at 1st January, 2003 have been increased by HK\$11,925,000 (2002: HK\$11,432,000). Details of changes in the reserves of the Group as a result of the adoption of revised SSAP 12 are set out in note 27 to the financial statements.

26. Share Capital

	2003 HK\$'000	2002 HK\$'000
Authorised:		
1,500,000,000 ordinary shares of HK\$1 each	1,500,000	1,500,000
Issued and fully paid:		
1,058,021,428 ordinary shares of HK\$1 each	1,058,021	1,058,021

Notes to Financial Statements (cont'd)

31st December, 2003

27. Reserves

Group

Notes	Share premium account HK\$'000	General reserve HK\$'000	Contributed surplus HK\$'000	Asset revaluation reserve HK\$'000 (Restated)	Investment property revaluation reserve HK\$'000	Statutory reserve HK'000	Capital reserve HK\$'000	Retained profits HK\$'000 (Restated)	Total HK\$'000 (Restated)
At 1st January, 2002:									
As previously reported	560,531	359,883	88,562	164,943	2,169	2,427	317,490	546,090	2,042,095
Prior year adjustments									
– restatement of deferred tax	25	-	-	(26,391)	-	-	-	11,432	(14,959)
As restated	560,531	359,883	88,562	138,552	2,169	2,427	317,490	557,522	2,027,136
Revaluation deficit	-	-	-	-	(2,169)	-	-	-	(2,169)
Net profit for the year	-	-	-	-	-	-	-	43,802	43,802
Disposal of a subsidiary	-	-	-	-	-	-	(4,250)	4,250	-
Dividends	10	-	(37,030)	-	-	-	-	-	(37,030)
At 31st December, 2002	560,531	359,883	51,532	138,552	-	2,427	313,240	605,574	2,031,739
Reserves retained by:									
Company and subsidiaries	560,531	359,639	51,532	138,552	-	2,427	313,240	650,117	2,076,038
Jointly-controlled entities	-	-	-	-	-	-	-	(24,978)	(24,978)
Associates	-	244	-	-	-	-	-	(19,565)	(19,321)
31st December, 2002	560,531	359,883	51,532	138,552	-	2,427	313,240	605,574	2,031,739
At 1st January, 2003:									
As previously reported	560,531	359,883	51,532	164,943	-	2,427	313,240	593,649	2,046,205
Prior year adjustments									
– restatement of deferred tax	25	-	-	(26,391)	-	-	-	11,925	(14,466)
As restated	560,531	359,883	51,532	138,552	-	2,427	313,240	605,574	2,031,739
Net profit for the year	-	-	-	-	-	-	-	203,204	203,204
Dividends	10	-	(51,532)	-	-	-	-	(43,690)	(95,222)
Deferred tax charged	25	-	-	(2,474)	-	-	-	-	(2,474)
At 31st December, 2003	560,531	359,883	-	136,078	-	2,427	313,240	765,088	2,137,247
Reserves retained by:									
Company and subsidiaries	560,531	359,639	-	136,078	-	2,427	313,240	808,684	2,180,599
Jointly-controlled entities	-	-	-	-	-	-	-	(22,625)	(22,625)
Associates	-	244	-	-	-	-	-	(20,971)	(20,727)
31st December, 2003	560,531	359,883	-	136,078	-	2,427	313,240	765,088	2,137,247

Notes to Financial Statements (cont'd)

31st December, 2003

27. Reserves (cont'd)

Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 2002	560,531	301,865	210,280	16,972	1,089,648
Net profit for the year	–	–	–	3,278	3,278
Interim 2002 dividend (note 10)	–	(12,696)	–	–	(12,696)
Proposed final 2002 dividend (note 10)	–	(24,334)	–	–	(24,334)
At 31st December, 2002 and at 1st January, 2003	560,531	264,835	210,280	20,250	1,055,896
Net profit for the year	–	–	–	43,977	43,977
Interim 2003 dividend (note 10)	–	(19,044)	–	–	(19,044)
Proposed final 2003 dividend (note 10)	–	(76,178)	–	–	(76,178)
At 31st December, 2003	560,531	169,613	210,280	64,227	1,004,651

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

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

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

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

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

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 is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Repayable on demand	14,391	30,871
With a residual maturity of three months or less	292,686	384,957
	307,077	415,828

29. Deposits from Customers

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Repayable on demand	2,861,146	1,273,920
With a residual maturity of:		
Three months or less	5,848,036	7,522,473
One year or less but over three months	499,657	505,769
Five years or less but over one year	213,697	1,933
	9,422,536	9,304,095

30. Certificates of Deposit Issued

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
With a residual maturity of:		
Three months or less	–	75,000
One year or less but over three months	588,000	600,000
Five years or less but over one year	605,000	500,000
	1,193,000	1,175,000

Notes to Financial Statements (cont'd)

31st December, 2003

31. Unearned Premiums

	Fire insurance HK\$'000	Marine insurance HK\$'000	General accident and other insurance HK\$'000	Total HK\$'000
Group				
At 1st January, 2003	29,844	6,472	132,246	168,562
Increase in unearned premiums (note 5)	2,691	331	26,137	29,159
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2003	32,535	6,803	158,383	197,721
Represented by:				
Unearned premiums in respect of direct and reinsurance inwards business	56,829	15,862	277,010	349,701
Less: Reinsurance outwards	(24,294)	(9,059)	(118,627)	(151,980)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2003	32,535	6,803	158,383	197,721
At 1st January, 2002	27,039	7,448	96,564	131,051
Increase/(decrease) in unearned premiums (note 5)	2,805	(976)	35,682	37,511
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2002	29,844	6,472	132,246	168,562
Represented by:				
Unearned premiums in respect of direct and reinsurance inwards business	55,460	14,746	212,227	282,433
Less: Reinsurance outwards	(25,616)	(8,274)	(79,981)	(113,871)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2002	29,844	6,472	132,246	168,562

32. Life and Contingency Reserves

Group	Life	Contingency	Total
	reserve	reserve	
	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2002	10,632	604	11,236
Increase in reserve (note 5)	833	631	1,464
At 31st December, 2002 and 1st January, 2003	11,465	1,235	12,700
Increase in reserve (note 5)	922	867	1,789
At 31st December, 2003	12,387	2,102	14,489

33. Provisions for Outstanding Claims

Provisions for outstanding claims are recorded net of recoveries from reinsurers. The gross claim provisions before reinsurance recoveries amounted to HK\$408,401,000 (2002: HK\$283,161,000) at the balance sheet date. Included in the total provisions is HK\$9,711,000 (2002: HK\$6,338,000) specifically made in respect of expenses for settling claims at the balance sheet date. In addition, included in the total provisions is HK\$104,766,000 (2002: HK\$55,714,000) specifically made in respect of claims incurred but not reported and claims incurred but not enough reported at the balance sheet date.

34. Loans to Officers

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

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

Name of borrower	1st January,	31st December,	Maximum
	2003	2003	amount
	HK\$'000	HK\$'000	outstanding
			during the year
			HK\$'000
Lau Ki Chit	1,077	828	1,077

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

Notes to Financial Statements (cont'd)

31st December, 2003

34. Loans to Officers (cont'd)

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

	2003	2002
	HK\$'000	HK\$'000
Aggregate amount of relevant loans outstanding at the balance sheet date	55,522	64,778
Maximum aggregate amount of relevant loans outstanding during the year	78,215	69,214

35. Notes to the Consolidated Cash Flow Statement

Disposal of subsidiaries

	2003	2002
	HK\$'000	HK\$'000
Net assets disposed of:		
Fixed assets	–	225
Cash and bank balances	–	22,085
Advances to customers and other assets	–	580
Interest in an associate	–	52
Other payables	–	(578)
Tax payable	–	(30)
Minority interests	–	(3,263)
	–	19,071
Gain on disposal of subsidiaries (note 5)	–	441
	–	19,512
Satisfied by:		
Cash	–	19,512

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

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

	2003	2002
	HK\$'000	HK\$'000
Cash consideration	–	19,512
Cash and bank balances disposed of	–	(22,085)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	–	(2,573)

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

36. Off-balance Sheet Exposures**(a) Contingent liabilities and commitments**

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

	2003	2002
	HK\$'000	HK\$'000
Direct credit substitutes	110,699	50,414
Transaction-related contingencies	533	9,449
Trade-related contingencies	242,958	230,501
Forward forward deposits placed	43,190	134,356
Forward asset purchases	89,373	–
Other commitments with an original maturity of:		
Under one year or which are unconditionally cancellable	3,284,135	3,306,643
One year and over	284,690	408,942
	4,055,578	4,140,305

Notes to Financial Statements (cont'd)

31st December, 2003

36. Off-balance Sheet Exposures (cont'd)

(b) Derivatives

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

	2003 HK\$'000	2002 HK\$'000
Forward foreign exchange contracts – hedging:		
Swaps	2,592,104	1,748,863
Others	203,435	77,823
	2,795,539	1,826,686

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

Group

	Replacement cost 2003 HK\$'000	Replacement cost 2002 HK\$'000	Credit risk weighted amount 2003 HK\$'000	Credit risk weighted amount 2002 HK\$'000
Direct credit substitutes	–	–	38,843	37,462
Transaction-related contingencies	–	–	267	88
Trade-related contingencies	–	–	39,961	40,456
Forward forward deposits placed	–	–	8,638	26,871
Forward asset purchases	–	–	9,768	–
Other commitments with an original maturity of one year and over	–	–	142,345	204,471
Exchange rate contracts	8,026	1,992	5,738	3,704
	8,026	1,992	245,560	313,052

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

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

At 31st December, 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2003	2002
	HK\$'000	HK\$'000
Within one year	829	739
In the second to fifth years, inclusive	271	759
	1,100	1,498

(b) As lessee

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

At 31st December, 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2003	2002
	HK\$'000	HK\$'000
Within one year	7,280	10,611
In the second to fifth years, inclusive	4,794	5,960
	12,074	16,571

Notes to Financial Statements (cont'd)

31st December, 2003

38. Other Commitments

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

	2003	2002
	HK\$'000	HK\$'000
Contracted, but not provided for	1,473	5,786
Authorised, but not contracted for	2,655	32,825
	4,128	38,611

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

39. Pending Litigation

- (a) A claim for approximately HK\$16 million was brought against a subsidiary of the Bank 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 is currently reviewing the evidence submitted by the plaintiff during the year. In this endeavour, a reliable estimate as to the outcome of the claim is unable to be made. Notwithstanding that, the directors believe that the Group has meritorious defences against the claim as they consider that the Group owed no duty to secure the completion of the transaction and there is no documentary evidence that the transaction was actually contracted and executed.
- (b) A claim was also brought against another subsidiary by an overseas broker in 1999 alleging that the subsidiary did not settle a trade transaction which caused a loss of approximately MYR9 million (equivalent to approximately HK\$18.5 million) to the overseas broker. Having considered the legal counsel's advice, the directors believe that the Group has a very good case to defend the claim. Accordingly, the directors consider that a provision for the claim is not necessary.
- (c) The Securities and Futures Commission (the "SFC") has conducted an investigation against Asia Financial (Assets Management) Limited ("AFAM"), a subsidiary of the Company, in respect of a breach of the Code on Takeovers and Mergers. In the prior year, the Takeovers and Mergers Panel (the "Panel") publicly censured AFAM and imposed a "cold shoulder order" against the former chief executive and director of AFAM. In addition, the Panel has reported the case to the SFC and other relevant regulatory authorities for their further investigations. Up to the date of this report, there has not been any conclusion from the investigations of the SFC and the other authorities or any legal claims filed against AFAM.

40. Contingency

A subsidiary of the Company is a guarantor to the Bank Consortium Pooled Retirement Scheme (formerly known as the Asia Insurance Pooled Provident and Retirement Scheme) (the "Scheme"), of which the manager of the Scheme is another subsidiary of the Company. The Scheme is a pooling arrangement to provide benefits on retirement, termination of employment, death or total permanent disability of employees of participating employers. As a guarantor, the subsidiary of the Company guarantees an annual return of not less than 3% on certain designated portions of the Scheme's assets, and is entitled to retain 50% of the surplus in excess of the guaranteed return as the guarantor's fee. Starting from the financial year ending 31st December, 2004, the guaranteed annual return rate has been adjusted to 1% (2003: 3%).

41. Connected Transactions and Related Party Transactions

Group

	2003		2002	
	Directors and key management personnel HK\$'000	Enterprises and individuals related to directors and key management personnel HK\$'000	Directors and key management personnel HK\$'000	Enterprises and individuals related to directors and key management personnel HK\$'000
Loans and advances granted:				
Aggregate balance at balance sheet date	14,667	48,606	14,305	58,654
Interest income received and receivable	403	586	431	293
Deposits received:				
Aggregate balance at balance sheet date	29,733	394,731	40,944	479,087
Interest expense paid and payable	256	7,653	436	5,179
Interbank activities:				
Deposits placed	–	317,850	–	236,744
Deposits received	–	3,102	–	36,486
Interest income	–	5,561	–	4,746
Interest expense	–	518	–	176
Standby credit facilities available to the Group	–	388,155	–	311,956
Premium income:				
Gross premiums written	159	4,202	81	2,046
Reinsurance premium ceded	–	59,163	–	31,126
Commission income, net	–	12,256	42	3,790
Rental expenses	–	1,104	–	1,104

Notes to Financial Statements (cont'd)

31st December, 2003

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

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

	2003	2002
	HK\$'000	HK\$'000
Loans and advances granted	39,130	39,925
Deposits received:		
Aggregate balance at the balance sheet date	234,461	176,208
Interest expense paid and payable	2,599	2,665
Service fees paid	7,417	8,340

On 31st July, 2003, Asia Insurance Company, Limited, a wholly-owned subsidiary of the Company, agreed to sell to Asia Insurance (Investments) Limited, a 57% indirect non-wholly-owned subsidiary of the Company, its entire shareholding in People's Insurance at a consideration of HK\$10,730,449 (the "Disposal"). As the Disposal was entered into between a wholly-owned subsidiary and a non-wholly-owned subsidiary of the Company, the Disposal constituted a connected transaction for the Company under the Listing Rules. Further details of the terms and conditions of the transactions are set out in the Company's announcement dated 31st July, 2003.

42. Comparative Amounts

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 12 during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

43. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 23rd March, 2004.