

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 RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice (“SSAPs”) 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 the periodic remeasurement of investment properties, premises and certain investments as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December, 2004. 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 have been eliminated on consolidation.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue recognition

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

- (i) interest income on advances to customers is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (ii) interest income on finance leases is recognised on the basis set out below, under the heading "Finance leases";
- (iii) fees and commission income from the banking business are recognised when earned or accrued;
- (iv) premiums from direct underwriting and the reinsurance business are recorded based on insurance policy contracts 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Joint venture companies

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

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

A joint venture company is treated as:

- (a) a subsidiary, if the Group has unilateral control, 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, 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 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 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, 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.

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 and its net selling price.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of assets (cont'd)

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) Where the circumstances and events which led to the write-downs or write-offs 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 appreciation in fair value is credited to the profit and loss account, on an individual investment basis, to the extent of the amount previously charged to the profit and loss account.

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 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 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 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 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 stated in the balance sheet net of provisions for bad and doubtful debts. Advances are recognised when cash is advanced.

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 and 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 early redemption 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 has been set aside as a general provision for doubtful debts. These provisions are deducted from advances and other assets. The advances are written off when recovery is not expected.

Reposessed assets

Collateral assets for loans and advances are reposessed by the Group when the borrowers are unable to service their repayments, and would be realised in satisfaction of outstanding debts. Advances with reposessed collateral assets will continue to be accounted for as customer advances, except for those where the Group has taken the legal title of the reposessed collateral assets, in which cases, the reposessed assets are shown under other assets at the predetermined value with a corresponding reduction in the related advances. The reposessed assets included under other assets are valued at fair value. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Premium receivables and receivables from reinsurance companies

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

Intangible assets

Intangible assets, representing the eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited ("Stock Exchange Trading Rights") and the Hong Kong Futures Exchange Limited ("Futures Exchange Trading Rights"), are stated at cost less accumulated amortisation or carried at its carrying amount at the date when the asset is retired from active use, 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 directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Fixed assets and depreciation (cont'd)

Leasehold premises with residual lease periods of not more than 50 years are depreciated 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 depreciated on the reducing balance basis at 2% per annum.

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

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Finance leases (cont'd)

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

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

Operating leases

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Income tax (cont'd)

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
- 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Related parties

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

Cash and cash equivalents

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

Dividends

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

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

Foreign currencies

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Foreign currencies (cont'd)

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

Off-balance sheet financial instruments

Off-balance sheet financial instruments arise from forward and swap transactions undertaken by the Group in the foreign exchange market. 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.

3. 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 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.

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.

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.

4. SEGMENT INFORMATION (cont'd)

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, 2004

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.

Group	Banking		Insurance		Corporate		Eliminations		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment revenue:										
External customers	311,758	283,199	747,033	734,501	-	-	-	-	1,058,791	1,017,700
Other revenue	-	-	98,710	89,794	16,487	11,847	-	-	115,197	101,641
Intersegment	1,782	1,079	2,645	2,889	340	987	(4,767)	(4,955)	-	-
Total	313,540	284,278	848,388	827,184	16,827	12,834	(4,767)	(4,955)	1,173,988	1,119,341
Segment results	116,366	66,449	120,238	135,126	28,194	25,617	-	-	264,798	227,192
Share of results of:										
Jointly-controlled entities	2,695	-	6,927	2,665	-	-	-	-	9,622	2,665
Associates	-	-	2,715	334	-	(2)	-	-	2,715	332
Profit before tax									277,135	230,189
Tax	(21,182)	(12,149)	(15,970)	(15,483)	115	-	-	-	(37,037)	(27,632)
Profit before minority interests									240,098	202,557
Minority interests									10	647
Net profit from ordinary activities attributable to shareholders									240,108	203,204

Notes to Financial Statements (cont'd)

31st December, 2004

4. SEGMENT INFORMATION (cont'd)

Business segments (cont'd)

Group	Banking		Insurance		Corporate		Eliminations		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment assets	14,235,771	13,012,091	1,795,717	1,666,425	673,558	591,963	(574,740)	(262,916)	16,130,306	15,007,563
Interests in jointly-controlled entities	19,200	17,800	44,149	38,075	-	-	-	-	63,349	55,875
Interests in associates	-	-	69,750	67,373	-	-	-	-	69,750	67,373
Total assets	14,254,971	13,029,891	1,909,616	1,771,873	673,558	591,963	(574,740)	(262,916)	16,263,405	15,130,811
Segment liabilities	12,560,471	11,375,899	808,268	697,435	32,161	21,566	(574,740)	(262,916)	12,826,160	11,831,984
Other segment information:										
Depreciation charges	19,567	21,640	3,872	3,154	656	142	-	-	24,095	24,936
Surplus on revaluation of investment properties	(950)	-	-	-	-	-	-	-	(950)	-
Amortisation of goodwill on acquisition of an associate	-	-	301	-	-	-	-	-	301	-
Provision against loans to jointly-controlled entities	2,500	8,340	-	-	-	-	-	-	2,500	8,340
Write-back of provision against loans to a jointly-controlled entity	(4,433)	-	-	-	-	-	-	-	(4,433)	-
Gain on disposal of a jointly-controlled entity	(2,990)	-	-	-	-	-	-	-	(2,990)	-
Fixed assets written off	311	79	-	-	-	-	-	-	311	79
Loss/(gain) from disposal of fixed assets	(2,980)	-	(20)	7	(50)	(2)	-	-	(3,050)	5
Amortisation of intangible assets	56	144	-	-	-	-	-	-	56	144
Impairment of intangible assets	88	-	-	-	-	-	-	-	88	-
Provision for bad and doubtful debts, net	26,221	21,500	(6)	3,148	-	63	-	-	26,215	24,711
Impairment of held-to-maturity securities and investment securities	-	-	473	803	78	(668)	-	-	551	135
Capital expenditure	11,062	9,818	2,890	2,701	3,734	39	-	-	17,686	12,558

Notes to Financial Statements (cont'd)

31st December, 2004

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 Group's banking business.

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

	2004	2003
	HK\$'000	HK\$'000
Banking:		
Interest income	371,013	359,964
Interest expense	(124,176)	(132,022)
Net fees and commission income	45,260	40,913
Gains less losses arising from dealing in foreign currencies	8,877	7,190
Other operating income	10,784	7,154
	311,758	283,199
Insurance:		
Gross premiums written	747,033	734,501
Turnover	1,058,791	1,017,700
Reinsurance commission income	53,092	47,634
Interest income, excluding that relating to the banking business	35,735	38,491
Dividend income (excluding that relating to the banking business) from:		
Listed investments	13,023	7,136
Unlisted investments	3,780	4,558
	16,803	11,694
Others	9,567	3,822
Other revenue	115,197	101,641
	1,173,988	1,119,341

5. TURNOVER AND REVENUE (cont'd)

The other net income of the Group is analysed as follows:

	Notes	2004 HK\$'000	2003 HK\$'000
Increase in unearned premiums	31	(6,693)	(29,159)
Increase in life and contingency reserves	32	(2,384)	(1,789)
Gain on disposal of other investments, net		40,652	28,355
Unrealised gains on other investments, net		31,530	53,926
Unrealised gains on transfer of investment securities to other investments		7,428	–
Gains less losses on disposal of investment securities		(12,343)	9,749
Impairment of held-to-maturity securities and investment securities		(551)	(135)
Gain on disposal of held-to-maturity securities		1,966	3,036
Guarantor's fee from a retirement scheme		1,866	–
Gain on disposal of a jointly-controlled entity	21	2,990	–
Gain/(loss) on disposal of fixed assets		3,050	(5)
		67,511	63,978

Notes to Financial Statements (cont'd)

31st December, 2004

6. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	Group	
		2004 HK\$'000	2003 HK\$'000
Reinsurance premiums ceded		303,959	305,317
Commission expenses for insurance business		152,388	143,250
Net claims after deducting recoveries from reinsurers		231,277	202,859
Auditors' remuneration		2,325	2,200
Depreciation charges	24	24,095	24,936
Surplus on revaluation of investment properties	24	(950)	–
Amortisation of goodwill on acquisition of an associate		301	–
Provision against loans to jointly-controlled entities	21	2,500	8,340
Write-back of provision against loans to a jointly-controlled entity		(4,433)	–
Fixed assets written off		311	79
Amortisation of intangible assets	23	56	144
Impairment of intangible assets	23	88	–
Staff costs (including directors' remuneration, note 7):			
Wages and salaries		135,909	142,346
Pension scheme contributions		5,562	5,824
Less: Forfeited contributions		(843)	(714)
Net pension scheme contributions		4,719	5,110
Total staff costs		140,628	147,456
Minimum lease payments under operating leases in respect of land and buildings		8,445	11,779
Provision for bad and doubtful debts, net		26,215	24,711

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

Details of 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, are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Fees:		
Executive directors	320	320
Independent non-executive directors	83	140
Other non-executive directors	634	502
	1,037	962
Other emoluments of executive directors:		
Basic salaries, housing, other allowances and benefits in kind	4,397	5,268
Pension scheme contributions	123	170
Bonuses paid and payable	6,163	5,770
	10,683	11,208
Other emoluments of independent non-executive directors:		
Basic salaries, housing, other allowances and benefits in kind	17	30
Other emoluments of other non-executive directors:		
Basic salaries, housing, other allowances and benefits in kind	56	32
Bonuses paid and payable	160	160
	216	192
	11,953	12,392

Notes to Financial Statements (cont'd)

31st December, 2004

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	
	2004	2003
Nil – HK\$1,000,000	17	13
HK\$2,000,001 – HK\$2,500,000	1	–
HK\$2,500,001 – HK\$3,000,000	–	1
HK\$3,000,001 – HK\$3,500,000	1	–
HK\$3,500,001 – HK\$4,000,000	–	1
HK\$5,000,001 – HK\$5,500,000	1	1
	20	16

Mr. Katsuya Kimura, a non-executive director who resigned on 1st July, 2004 and Mr. Yoshitaka Sawamura, a non-executive director who was appointed on the same day, have waived their respective director's fee of HK\$20,000 each for the year ended 31st December, 2004. For the year ended 31st December, 2003, Mr. Katsuya Kimura waived his director's fee of HK\$40,000. Save as aforesaid, there was no arrangement under which a director waived or agreed to waive any remuneration.

The five highest paid individuals during the year included three (2003: three) directors, details of whose remuneration are set out above. The remuneration of the remaining two (2003: two) non-director, highest paid individuals for the year is analysed below:

	Group	
	2004 HK\$'000	2003 HK\$'000
Basic salaries, housing, other allowances and benefits in kind	2,692	2,711
Pension scheme contributions	130	122
Bonuses paid and payable	2,775	2,000
	5,597	4,833

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	
	2004	2003
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$2,000,001 – HK\$2,500,000	1	–
HK\$2,500,001 – HK\$3,000,000	–	1
HK\$3,000,001 – HK\$3,500,000	1	–
	2	2

8. TAX

Hong Kong profits tax for the Group has been provided at the rate of 17.5% (2003: 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	
	2004 HK\$'000	2003 HK\$'000
Current tax charge for the year:		
Hong Kong	35,496	28,347
Elsewhere	1,261	1,300
Deferred tax charge/(credit) – note 25	(804)	288
Overprovision of current tax in respect of prior years	(185)	(2,585)
	35,768	27,350
Share of tax charge/(credit) attributable to:		
Jointly-controlled entities	1,148	312
Associates	121	(30)
	1,269	282
Total tax charge for the year	37,037	27,632

Notes to Financial Statements (cont'd)

31st December, 2004

8. TAX (cont'd)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the Company and the majority of 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 – 2004

	Hong Kong		Mainland China		Macau		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	278,264		(3,001)		1,872		277,135	
Tax at the statutory tax rate	48,696	17.5	(450)	15.0	295	15.75	48,541	17.5
Adjustments in respect of current tax of previous periods	(185)	(0.1)	-	-	-	-	(185)	(0.1)
Income not subject to tax	(18,505)	(6.7)	-	-	-	-	(18,505)	(6.7)
Expenses not deductible for tax	7,566	2.7	1,326	(44.2)	90	4.81	8,982	3.3
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	35,776	12.8	876	(29.2)	385	20.56	37,037	13.4

8. TAX (cont'd)

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	2.09	10,990	4.8
Tax charge at the Group's effective rate	26,332	12.0	633	10.1	667	17.84	27,632	12.0

9. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31st December, 2004 dealt with in the financial statements of the Company was HK\$119,410,000 (2003: HK\$43,977,000) (note 27).

Notes to Financial Statements (cont'd)

31st December, 2004

10. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim dividend paid:		
HK2.5 cents (2003: HK1.8 cents) per ordinary share	26,451	19,044
Proposed final dividend:		
HK7.5 cents (2003: HK7.2 cents) per ordinary share	79,352	76,178
	105,803	95,222

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\$240,108,000 (2003: HK\$203,204,000) and the 1,058,021,428 (2003: 1,058,021,428) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31st December, 2004 and 2003 have not been disclosed as no diluting events existed during these years.

12. CASH AND SHORT TERM FUNDS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash in hand and balances with banks and other financial institutions	361,749	454,846	2	285
Money at call and short notice *	1,710,596	1,911,744	–	–
Treasury bills, including Exchange Fund Bills #	109,788	89,885	–	–
	2,182,133	2,456,475	2	285

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

* Included in the Group's money at call and short notice were deposits of approximately HK\$2,589,000 (2003: HK\$1,511,000) 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.

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	
	2004	2003
	HK\$'000	HK\$'000
With a residual maturity of:		
Three months or less	89,913	59,962
One year or less but over three months	19,875	29,923
	109,788	89,885

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	
	2004	2003
	HK\$'000	HK\$'000
With a residual maturity of:		
Three months or less	644,885	534,942
One year or less but over three months	257,364	346,431
	902,249	881,373

Included in the Group's placements with banks and other financial institutions were deposits of approximately HK\$23,019,000 (2003: HK\$21,248,000) 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.

Notes to Financial Statements (cont'd)

31st December, 2004

14. PREMIUM RECEIVABLES

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Three months or less	103,334	104,009
Six months or less but over three months	10,629	32,063
One year or less but over six months	15,229	3,076
Over one year	1,011	2,875
	130,203	142,023
Less: Provision for bad and doubtful debts	(4,962)	(4,828)
	125,241	137,195

15. OTHER INVESTMENT IN SECURITIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Listed equity, at market value		
– in Hong Kong	175,918	157,125
– outside Hong Kong	135,782	72,988
	311,700	230,113
Debt		
– listed outside Hong Kong, at market value	68,087	48,925
– unlisted, at quoted market price	60,328	56,232
	128,415	105,157
Investment funds		
– listed outside Hong Kong, at market value	32,588	22,670
– unlisted, at quoted market price	184,456	146,650
	217,044	169,320
Equity-linked notes, at amortised cost	82,013	43,075
	739,172	547,665

15. OTHER INVESTMENT IN SECURITIES (cont'd)

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Public sector entities	59,575	103,564
Banks and other financial institutions	250,492	118,152
Corporate entities	429,105	325,949
	739,172	547,665

16. CERTIFICATES OF DEPOSIT HELD

The certificates of deposit held are all unlisted debt securities.

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
With a residual maturity of:		
Three months or less	188,839	153,009
One year or less but over three months	368,039	112,147
Five years or less but over one year	433,096	453,216
	989,974	718,372

Notes to Financial Statements (cont'd)

31st December, 2004

17. HELD-TO-MATURITY SECURITIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Listed debts		
– in Hong Kong	30,685	10,734
– outside Hong Kong	208,694	339,036
	239,379	349,770
Unlisted debts	2,052,018	1,536,002
	2,291,397	1,885,772
Market value of listed held-to-maturity securities	239,563	349,309

During the year, in order to restructure the investment portfolio within the Group for more effective market risk management, a subsidiary of the Company disposed of a held-to-maturity security of approximately HK\$7,600,000, resulting in a gain of HK\$207,000, and then transferred its entire held-to-maturity portfolio in the amount of HK\$65,600,000 to other investments, with a fair value of HK\$65,900,000 at the time of transfer. The unrealised holding gain as a result of that transfer, amounting to HK\$300,000, has been recognised in the profit and loss account. Subsequent to the transfer and up to the balance sheet date, that subsidiary has not carried any held-to-maturity securities portfolio.

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Public sector entities	82,033	45,123
Banks and other financial institutions	1,910,956	1,639,839
Corporate entities	298,408	200,810
	2,291,397	1,885,772

17. 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	
	2004 HK\$'000	2003 HK\$'000
With a residual maturity of:		
Three months or less	574,478	240,228
One year or less but over three months	182,541	398,786
Five years or less but over one year	1,240,474	853,954
Over five years	293,904	392,804
	2,291,397	1,885,772

18. ADVANCES AND OTHER ASSETS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Advances to customers	8,019,702	7,479,772	–	–
Provision for bad and doubtful debts	(123,546)	(181,728)	–	–
	7,896,156	7,298,044	–	–
Accrued interest and other assets	217,011	199,633	7,080	6,935
Provision for bad and doubtful debts	(653)	(581)	–	–
Provision for impairment	(660)	(660)	–	–
	215,698	198,392	7,080	6,935
Tax recoverable	2	–	–	–
Total	8,111,856	7,496,436	7,080	6,935

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.

Notes to Financial Statements (cont'd)

31st December, 2004

18. ADVANCES AND OTHER ASSETS (cont'd)

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

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Repayable on demand	633,872	587,881	–	–
With a residual maturity of:				
Three months or less	1,288,429	1,065,868	–	–
One year or less but over three months	1,116,056	862,893	–	–
Five years or less but over one year	2,581,752	2,353,667	–	–
Over five years	2,233,480	2,331,109	–	–
Undated	166,113	278,354	–	–
	8,019,702	7,479,772	–	–

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 2004 HK\$'000	Minimum lease payments 2003 HK\$'000	Present value of minimum lease payments 2004 HK\$'000	Present value of minimum lease payments 2003 HK\$'000
Amounts receivable under finance leases:				
Within one year	200,672	168,335	177,625	144,575
In the second to fifth years, inclusive	276,866	246,854	252,573	216,387
Over five years	95,415	127,361	81,149	101,414
	572,953	542,550	511,347	462,376
Less: Unearned finance income	(61,606)	(80,174)		
Present value of minimum lease payments receivable	511,347	462,376		

18. ADVANCES AND OTHER ASSETS (cont'd)

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. INVESTMENT SECURITIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Listed equity outside Hong Kong, at cost	293,667	383,653
Provision for impairment	(11,073)	(25,073)
	282,594	358,580
Unlisted		
– equity	43,980	43,772
– debt	19,520	19,940
	63,500	63,712
Total	346,094	422,292
Market value of listed investment securities	431,336	516,608

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Bank and other financial institutions	282,594	358,580
Corporate entities	63,500	63,712
	346,094	422,292

Notes to Financial Statements (cont'd)

31st December, 2004

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	
	2004 HK\$'000	2003 HK\$'000
Undated	19,520	19,940

Included in the unlisted investment securities are equity interests in certain companies amounting to HK\$20,000 (2003: 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 investments 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 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	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	1,629,859	1,629,859
Provision for impairment	(26,533)	(10,233)
	1,603,326	1,619,626

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

20. 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		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
Chamberlain Investment Limited	Republic of Liberia	–	100	US\$100	Investment holding
Progressive Investment Company Limited	Hong Kong	–	100	HK\$10,000,000	Property investment

Notes to Financial Statements (cont'd)

31st December, 2004

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		
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
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

20. INVESTMENTS IN SUBSIDIARIES (cont'd)

The above table lists the subsidiaries of the Company as at 31st December, 2004 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 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	
	2004 HK\$'000	2003 HK\$'000
Share of net assets other than goodwill	63,349	54,385
Share of goodwill	–	1,490
	63,349	55,875
Loans to jointly-controlled entities	31,000	39,130
Provision	(4,500)	(13,933)
	26,500	25,197

During the year, the Group disposed of its 33.3% equity interest in Card Alliance Company Limited at a consideration of HK\$3,990,000, resulting in a gain on disposal of HK\$2,990,000 being charged to the Group's profit and loss account. In addition, the loan to Card Alliance Company Limited of HK\$2,500,000 (net of provision of HK\$5,000,000) has been fully provided for during the year.

Loans to a jointly-controlled entity as at 31st December, 2004 are unsecured, interest-free and repayable by 29th December, 2008.

Loans to jointly-controlled entities as at 31st December, 2003 were unsecured, interest-free and had no fixed terms of repayment, except for the amount of HK\$31,000,000, which would be repayable by 29th December, 2008.

Notes to Financial Statements (cont'd)

31st December, 2004

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

Particulars of the jointly-controlled entities of the Group as at 31st December, 2004 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.

22. INTERESTS IN ASSOCIATES

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	64,021	61,343
Goodwill on acquisition	5,729	6,030
	69,750	67,373

22. INTERESTS IN ASSOCIATES (cont'd)

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 as at 31st December, 2004, 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 ("AII")	British Virgin Islands	20#	US\$1,122,500	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. ("PICC")	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 AII. Such interest is held via AIIHL, a 25%-owned associate of the Group, which holds 40% equity interest in AII.

Notes to Financial Statements (cont'd)

31st December, 2004

22. INTERESTS IN ASSOCIATES (cont'd)

The shareholdings in the associates all comprise equity shares held by Asia Insurance Company, Limited, except in relation to PICC, the shareholding in which is held through All, a 57%-owned subsidiary.

The above table lists the associates of the Group as at 31st December, 2004 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, 2004	1,437
Accumulated amortisation and impairment:	
At beginning of year	550
Amortisation provided during the year	56
Impairment during the year recognised in the profit and loss account	88
At 31st December, 2004	694
Net book value:	
At 31st December, 2004	743
At 31st December, 2003	887

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 held for disposal and is carried at its carrying amount at the date when it was retired from active use of HK\$455,000.

24. FIXED ASSETS

Group	Investment	Premises	Furniture, fixtures, equipment and motor vehicles	Total
	properties HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:				
At beginning of year	5,070	482,743	195,633	683,446
Additions	–	–	17,686	17,686
Disposals	–	(6,600)	(1,946)	(8,546)
Write-off	–	–	(4,222)	(4,222)
Surplus on revaluation	950	–	–	950
At 31st December, 2004	6,020	476,143	207,151	689,314
Accumulated depreciation:				
At beginning of year	–	121,122	171,785	292,907
Charge for the year	–	9,547	14,548	24,095
Disposals	–	(197)	(1,910)	(2,107)
Write-off	–	–	(3,911)	(3,911)
At 31st December, 2004	–	130,472	180,512	310,984
Net book value:				
At 31st December, 2004	6,020	345,671	26,639	378,330
At 31st December, 2003	5,070	361,621	23,848	390,539

The cost or valuation of the premises comprises:

	2004 HK\$'000	2003 HK\$'000
At 1990 valuation	354,243	360,843
At cost	121,900	121,900
	476,143	482,743

Notes to Financial Statements (cont'd)

31st December, 2004

24. FIXED ASSETS (cont'd)

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

	2004	2003
	HK\$'000	HK\$'000
Long term leases in Hong Kong	253,664	265,243
Medium term leases in Hong Kong	58,714	61,111
Medium term leases outside Hong Kong	33,191	34,669
Short term leases outside Hong Kong	102	598
	345,671	361,621

The Group's investment properties were revalued on 31st December, 2004 by A.G. Wilkinson & Associates, independent professionally qualified valuers, at HK\$6,020,000 on an open market, existing use basis. The furniture, fixtures, equipment and motor vehicles are stated at cost less accumulated depreciation.

For the Group's investment properties, a revaluation surplus of HK\$950,000 (note 6) has been credited to the profit and loss account.

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\$90,019,000 (2003: HK\$92,552,000).

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

The gross rental income earned from the leasing of the Group's investment properties amounted to HK\$706,000 for the year ended 31st December, 2004 (2003: HK\$725,000). The investment properties are leased to third parties under operating leases, further summary details of which are included in note 37(a) to the financial statements.

24. FIXED ASSETS (cont'd)

Company	Furniture and fixtures HK\$'000
Cost:	
At beginning of year	2,127
Additions	3,735
At 31st December, 2004	5,862
Accumulated depreciation:	
At beginning of year	1,915
Charge for the year	656
At 31st December, 2004	2,571
Net book value:	
At 31st December, 2004	3,291
At 31st December, 2003	212

25. DEFERRED TAX

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

Group – 2004

Deferred tax liabilities

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

Notes to Financial Statements (cont'd)

31st December, 2004

25. DEFERRED TAX (cont'd)

Group – 2004 (cont'd)

Deferred tax assets

	General provision HK\$'000
At 1st January, 2004	12,326
Deferred tax credited to the profit and loss account 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

Group – 2003

Deferred tax liabilities

	Accelerated tax depreciation HK\$'000	Revaluation of premises HK\$'000	Total HK\$'000
At 1st January, 2003	2,204	26,391	28,595
Deferred tax charged to the profit and loss account during the year (note 8)	689	–	689
Deferred tax debited to equity during the year (note 27)	–	2,474	2,474
Gross deferred tax liabilities at 31st December, 2003	2,893	28,865	31,758

25. DEFERRED TAX (cont'd)

Group – 2003 (cont'd)

Deferred tax assets

	General provision HK\$'000
At 1st January, 2003	11,925
Deferred tax credited to the profit and loss account during the year (note 8)	<u>401</u>
Gross deferred tax assets at 31st December, 2003	<u>12,326</u>
Net deferred tax liabilities at 31st December, 2003	<u>19,432</u>

The Group has tax losses arising in Hong Kong of HK\$86,911,000 (2003: HK\$92,573,000) 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.

26. SHARE CAPITAL

	2004 HK\$'000	2003 HK\$'000
Authorised:		
1,500,000,000 ordinary shares of HK\$1 each	<u>1,500,000</u>	1,500,000
Issued and fully paid:		
1,058,021,428 ordinary shares of HK\$1 each	<u>1,058,021</u>	1,058,021

Notes to Financial Statements (cont'd)

31st December, 2004

27. RESERVES

Group

	Notes	Share premium account HK\$'000	General reserve HK\$'000	Contributed surplus HK\$'000	Asset revaluation reserve HK\$'000	Statutory reserve HK'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 2003		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
At 1st January, 2004		560,531	359,883	-	136,078	2,427	313,240	765,088	2,137,247
Net profit for the year		-	-	-	-	-	-	240,108	240,108
Dividends	10	-	-	-	-	-	-	(105,803)	(105,803)
Asset revaluation reserve released on disposal of premises		-	-	-	(5,421)	-	-	5,421	-
Deferred tax credited	25	-	-	-	949	-	-	-	949
At 31st December, 2004		560,531	359,883	-	131,606	2,427	313,240	904,814	2,272,501
Reserves retained by:									
Company and subsidiaries		560,531	359,639	-	131,606	2,427	313,240	937,666	2,305,109
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	904,814	2,272,501

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

27. RESERVES (cont'd)

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.

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 offsetting against accumulated losses, if any, arising under certain specified circumstances.

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, 2003		560,531	264,835	210,280	20,250	1,055,896
Net profit for the year	9	–	–	–	43,977	43,977
Interim 2003 dividend	10	–	(19,044)	–	–	(19,044)
Proposed final 2003 dividend	10	–	(76,178)	–	–	(76,178)
At 31st December, 2003 and at 1st January, 2004		560,531	169,613	210,280	64,227	1,004,651
Net 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		560,531	63,810	210,280	183,637	1,018,258

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

Notes to Financial Statements (cont'd)

31st December, 2004

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	
	2004	2003
	HK\$'000	HK\$'000
Repayable on demand	12,888	14,391
With a residual maturity of:		
Three months or less	563,822	292,686
One year or less but over three months	15,968	–
	592,678	307,077

29. DEPOSITS FROM CUSTOMERS

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Repayable on demand	3,142,531	2,861,146
With a residual maturity of:		
Three months or less	6,290,557	5,848,036
One year or less but over three months	613,957	499,657
Five years or less but over one year	177,750	213,697
	10,224,795	9,422,536

30. CERTIFICATES OF DEPOSIT ISSUED

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

	Group	
	2004 HK\$'000	2003 HK\$'000
With a residual maturity of:		
Three months or less	300,000	–
One year or less but over three months	320,000	588,000
Five years or less but over one year	405,000	605,000
	1,025,000	1,193,000

31. UNEARNED PREMIUMS

Group

	Fire insurance HK\$'000	Marine insurance HK\$'000	General accident and other insurance HK\$'000	Total HK\$'000
At 1st January, 2004	32,535	6,803	158,383	197,721
Increase in unearned premiums (note 5)	907	2,275	3,511	6,693
At 31st December, 2004	33,442	9,078	161,894	204,414
Represented by:				
Unearned premiums in respect of direct and reinsurance inwards business	64,581	16,835	287,803	369,219
Less: Reinsurance outwards	(31,139)	(7,757)	(125,909)	(164,805)
At 31st December, 2004	33,442	9,078	161,894	204,414
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
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)
At 31st December, 2003	32,535	6,803	158,383	197,721

Notes to Financial Statements (cont'd)

31st December, 2004

32. LIFE AND CONTINGENCY RESERVES

Group

	Life reserve HK\$'000	Contingency reserve HK\$'000	Total HK\$'000
At 1st January, 2003	11,465	1,235	12,700
Increase in reserve (note 5)	922	867	1,789
At 31st December, 2003 and 1st January, 2004	12,387	2,102	14,489
Increase in reserve (note 5)	871	1,513	2,384
At 31st December, 2004	13,258	3,615	16,873

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\$530,190,000 (2003: HK\$408,401,000) at the balance sheet date. In addition, included in the total provisions is an amount of HK\$149,666,000 (2003: HK\$104,766,000) 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, 2004 HK\$'000	31st December, 2004 HK\$'000	Maximum amount outstanding during the year HK\$'000
Lau Ki Chit	828	—	828

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

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:

	2004	2003
	HK\$'000	HK\$'000
Aggregate amount of relevant loans outstanding at the balance sheet date	24,792	55,522
Maximum aggregate amount of relevant loans outstanding during the year	69,395	78,215

35. 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:

	2004	2003
	HK\$'000	HK\$'000
Direct credit substitutes	91,523	110,699
Transaction-related contingencies	3,094	533
Trade-related contingencies	167,587	242,958
Forward forward deposits placed	70,893	43,190
Forward asset purchases	37,839	89,373
Other commitments with an original maturity of:		
Under one year or which are unconditionally cancellable	3,620,359	3,284,135
One year and over	201,277	284,690
	4,192,572	4,055,578

Notes to Financial Statements (cont'd)

31st December, 2004

35. 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:

	2004 HK\$'000	2003 HK\$'000
Forward foreign exchange contracts – hedging:		
Swaps	3,500,302	2,592,104
Others	852,014	203,435
	4,352,316	2,795,539

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

Group

	Replacement cost 2004 HK\$'000	Replacement cost 2003 HK\$'000	Credit risk weighted amount 2004 HK\$'000	Credit risk weighted amount 2003 HK\$'000
Direct credit substitutes	–	–	67,748	38,843
Transaction-related contingencies	–	–	942	267
Trade-related contingencies	–	–	29,456	39,961
Forward forward deposits placed	–	–	14,179	8,638
Forward asset purchases	–	–	28,564	9,768
Other commitments with an original maturity of one year and over	–	–	100,639	142,345
Exchange rate contracts	9,622	8,026	8,976	5,738
	9,622	8,026	250,504	245,560

35. OFF-BALANCE SHEET EXPOSURES (cont'd)**(b) Derivatives (cont'd)**

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.

36. 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, 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2004	2003
	HK\$'000	HK\$'000
Within one year	415	829
In the second to fifth years, inclusive	12	271
	427	1,100

Notes to Financial Statements (cont'd)

31st December, 2004

36. OPERATING LEASE ARRANGEMENTS (cont'd)

(b) As lessee

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

At 31st December, 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	4,703	7,280
In the second to fifth years, inclusive	2,713	4,794
	7,416	12,074

37. OTHER COMMITMENTS

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

	2004 HK\$'000	2003 HK\$'000
Contracted, but not provided for	569	1,473
Authorised, but not contracted for	5,485	2,655
	6,054	4,128

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

38. PENDING LITIGATIONS

- (a) 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 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.
- (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 to the overseas broker. Subsequent to the balance sheet date, the claim was settled out of court, with MYR4 million (equivalent to approximately HK\$8.2 million) payable by the subsidiary (including related legal costs). Such amount has been properly accrued in the Group's financial statements.
- (c) The Securities and Futures Commission (the "SFC") has conducted an investigation against Asia Financial (Assets Management) Limited ("AFAM"), a subsidiary, in respect of a breach of the Code on Takeovers and Mergers. In 2002, 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.

39. 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 guarantees an annual return of not less than 1% (2003: 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.

Notes to Financial Statements (cont'd)

31st December, 2004

40. RELATED PARTY TRANSACTIONS

(a) Group

	2004		2003	
	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	8,132	42,014	14,667	48,606
Interest income received and receivable	399	374	403	586
Deposits received:				
Aggregate balance at balance sheet date	45,059	405,178	29,733	394,731
Interest expense paid and payable	652	3,703	256	7,653
Interbank activities:				
Deposits placed	–	231,023	–	317,850
Deposits received	–	75,597	–	3,102
Interest income	–	5,287	–	5,561
Interest expense	–	465	–	518
Standby credit facilities available to the Group	–	388,710	–	388,155
Premium income:				
Gross premiums written	158	3,915	159	4,202
Reinsurance premium ceded	–	63,529	–	59,163
Commission income, net	–	2,472	–	12,256
Rental expenses	–	780	–	1,104

40. RELATED PARTY TRANSACTIONS (cont'd)

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

	2004	2003
	HK\$'000	HK\$'000
Loans and advances granted	31,000	39,130
Deposits received:		
Aggregate balance at the balance sheet date	110,817	234,461
Interest expense paid and payable	348	2,599
Reinsurance premium ceded	5	–
Service fees paid	6,150	7,417

- (c) Details of the Group's advances to its jointly-controlled entities and associates as at the balance sheet date are included in notes 21 and 22 to the financial statements, respectively.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21st March, 2005.