



亞洲商業銀行
ASIA COMMERCIAL BANK

| Annual Report 2005 |

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Board of Directors

Robin Yau-Hing CHAN (*Chairman*)
Stephen TAN
Bernard Charnwut CHAN
Ernesto Tang-Fai NG
Karen Sog-Yee KO
Lit-Man LIU
Song-Hin NG
Ki-Chit LAU
Hing-Ching LAM
Choedchu SOPHONPANICH
Wai-Pat WONG
Andrew Chiu-Cheung MA
Anna Suk-Han CHOW
Wing-Man KO
Ching-Fai NG
Albert Saychuan CHEOK
Wu-Beng NA
Takashi MURAOKA
Kosuke FURUKAWA
(*Alternate director to Takashi MURAOKA*)

Management Team

Stephen TAN
Executive Director & Chief Executive Officer

Ernesto Tang-Fai NG
Executive Director & General Manager

Karen Sog-Yee KO
Executive Director & General Manager

Wai-Yin SIU
Senior Deputy General Manager

Company Secretary

Eileen LAM

Auditors

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

Registered Office

Asia Financial Centre
120 Des Voeux Road Central
Hong Kong

Legal Advisers

Siao, Wen and Leung
Deacons

Head Office and Branches

Head Office

Asia Financial Centre
120 Des Voeux Road Central
Hong Kong
Tel : 2541 9222
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Telex : 73085 HKACB
Fax : 2545 2866
Website : www.asia-commercial.com

Hong Kong

Western Branch

68 Bonham Strand West
Hong Kong
Tel: 2858 2220

Wanchai Commercial Centre

Unit A, 9/F
China Overseas Building
139 Hennessy Road
Wanchai
Kong Kong
Tel: 2891 4171

North Point Branch

Shop A, G/F
Yue Yick Building
363-365 King's Road
North Point
Hong Kong
Tel: 2568 5141

Shek Tong Tsui Branch

Shop B1, G/F., Hong Kong Plaza
369-375 Des Voeux Road West
Hong Kong
Tel: 2546 2055

Kowloon**Mongkok Branch**

Shop No. 1, G/F
Ginza Square
565-567 Nathan Road
Kowloon
Tel: 2381 1678

Kowloon City Branch

G/F., 15 Nga Tsin Wai Road
Kowloon City
Kowloon
Tel: 2382 0147

Hung Hom Branch

G/F., Hunghom Commercial Centre
37 Ma Tau Wai Road
Hung Hom
Kowloon
Tel: 2363 9213

Kwun Tong Branch

Unit 2310, Tower 1
Millennium City 1
388 Kwun Tong Road
Kwun Tong
Kowloon
Tel: 2389 9119

New Territories**Yuen Long Branch**

Shop No. 5
Fu Ho Building
3-7 Kau Yuk Road
Yuen Long, New Territories
Tel: 2479 4265

Tsuen Wan Branch

G/F., Victory Court
185-187 Castle Peak Road
Tsuen Wan, New Territories
Tel: 2490 4191

Kwai Fong Branch

Room 809-811
Metroplaza Tower 2
223 Hing Fong Road
Kwai Fong, New Territories
Tel: 2480 8822

Shenzhen Branch

Shop No.1 G/F
Carrianna Friendship Square, Renminnan Road
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Shenyang Representative Office

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7 Zhongshan Road (E1)
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Chairman's Statement

I am pleased to report the operating results of Asia Commercial Bank and its subsidiaries (the "Bank") for the year ended 31st December, 2005.

Asia Commercial Bank saw net profit decline by 17.4% to \$86.6 million in 2005. This was partly because of higher individual impairment allowances. Although collective impairments fell, two particular bad loans, which also affected other banks in Hong Kong, were recorded during the year. The result also reflects a decline in net interest income. Although interest income benefited from an increase in overall market interest rates during 2005, overall funding costs rose faster, reducing our net interest margin from 1.98% in 2004 to 1.71% in 2005.

The Hong Kong banking sector remained extremely competitive during 2005. Asia Commercial Bank felt competitive pressures especially in trade-related loans and other very price-sensitive markets. However, the Bank saw more positive performance in other retail loans products and benefited from a stronger focus on the sale of insurance and investment products.

On 15th February, 2006, Asia Financial Holdings Limited, the holding company of the Bank, announced that it had on 14th February, 2006 entered into an agreement with JCG Holdings Limited (now known as "Public Financial Holdings Limited") in relation to the sale of its entire shareholding in the Bank to JCG Holdings Limited. The sale is expected to be completed in mid-2006.

I would like to take this opportunity to express my gratitude to my fellow directors, management and all the staff of the Bank for their dedication and commitment. I would also like to thank our valued customers and business partners for their continued support of the Bank.

Robin Yau-Hing CHAN

Chairman

Hong Kong
27th March, 2006

The directors present their report and the audited financial statements of the Bank and of the Group for the year ended 31st December, 2005.

Principal activities

The principal activities of the Group have not changed during the year and consisted of the provision of a comprehensive range of banking, financial and related services.

Results and dividends

The Group's profit for the year ended 31st December, 2005 and the state of affairs of the Bank and of the Group at that date are set out in the financial statements on pages 9 to 93.

An interim dividend of HK\$1.90 per ordinary share amounting to HK\$15,390,000 was paid on 9th September, 2005. The directors recommend the payment of a final dividend of HK\$3.95 per ordinary share amounting to HK\$31,995,000 in respect of the year. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

Share capital

There were no movements in either the Bank's authorised or issued share capital during the year.

Reserves

Details of movements in the reserves of the Bank and of the Group during the year are set out in note 32 to the financial statements.

Property, plant and equipment, and investment properties

Details of movements in the property, plant and equipment, and investment properties of the Bank and of the Group during the year are set out in notes 24 and 25 to the financial statements, respectively.

Compliance

The Group has adopted and its financial statements have complied fully with the standards set out in the Supervisory Policy Manual "Financial Disclosure by Locally Incorporated Authorised Institutions" issued by the Hong Kong Monetary Authority.

Directors

The directors of the Bank during the year were:

Robin Yau-Hing CHAN (*Chairman*)

Stephen TAN

Lit-Man LIU

Song-Hin NG

Ki-Chit LAU

Choedchu SOPHONPANICH

Hing-Ching LAM

Bernard Charnwut CHAN

Karen Sog-Yee KO

Wai-Pat WONG

Ching-Fai NG

Anna Suk-Han CHOW

Albert Saychuan CHEOK

Wu-Beng NA

Takashi MURAOKA

Kosuke FURUKAWA

(alternate director to Takashi MURAOKA)

Ernesto Tang-Fai NG

(appointed on 4th January, 2005)

Andrew Chiu-Cheung MA

(appointed on 15th April, 2005)

Wing Man KO

(appointed on 20th June, 2005)

In accordance with Article 105 of the Bank's New Articles of Association, Stephen TAN, Lit-Man LIU and Ki-Chit LAU will retire at the forthcoming Annual General Meeting and, being eligible, will offer themselves for re-election.

Directors' interests

At no time during the year was the Bank, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

Directors' interests in contracts

No director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Bank, its holding company or any of its subsidiaries and fellow subsidiaries was a party during the year.

Donations

During the year, the Group made charitable donations totalling HK\$175,000 (2004: HK\$1,102,000).

Post balance sheet event

Details of the significant post balance sheet event of the Group are set out in note 39 to the financial statements.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Bank will be proposed at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD

Robin Yau-Hing CHAN

Chairman

Hong Kong

27th March, 2006

Report of the Auditors



To the Members

Asia Commercial Bank Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 9 to 93 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Bank and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31st December, 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong
27th March, 2006

Consolidated Income Statement

Year ended 31st December, 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
INTEREST INCOME		614,912	371,013
INTEREST EXPENSE		(375,060)	(125,080)
NET INTEREST INCOME		239,852	245,933
Other operating income	5	75,143	67,607
Operating expenses	6	(159,211)	(171,871)
Impairment losses and allowances	7	(54,852)	–
Charge for bad and doubtful debts	7	–	(26,221)
Provision against a loan to a jointly-controlled entity		–	(2,500)
Write-back of impairment allowance against a loan to a jointly-controlled entity		3,500	4,433
Gain on disposal of a jointly-controlled entity		–	2,990
Gains less losses from disposal of property, plant and equipment		–	2,980
Share of profits and losses of jointly-controlled entities		1,900	2,400
PROFIT BEFORE TAX		106,332	125,751
Tax	9	(19,740)	(20,887)
PROFIT FOR THE YEAR	10	86,592	104,864
Dividends:	11		
Interim		15,390	24,300
Proposed final		31,995	38,070
		47,385	62,370

Consolidated Balance Sheet

31st December, 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
ASSETS			
Cash and short-term funds	12	2,366,638	2,104,039
Placements with banks and other financial institutions maturing between one and twelve months	13	361,675	830,333
Trade bills	14	34,969	53,684
Securities measured at fair value through profit or loss	15	66,020	–
Other investments in securities	15	–	56,523
Derivative receivables	16	47,855	–
Loans and advances and other accounts	17	9,233,938	7,948,934
Investment securities	18	–	8,879
Available-for-sale securities	19	6,804	–
Held-to-maturity securities	20	3,579,051	2,930,292
Loan to a jointly-controlled entity	22	30,000	26,500
Interests in jointly-controlled entities	22	21,100	19,200
Intangible assets	23	599	743
Property, plant and equipment	24	386,468	353,015
Investment properties	25	21,660	15,640
Total assets		16,156,777	14,347,782

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Consolidated Balance Sheet (cont'd)

31st December, 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
LIABILITIES			
Deposits and balances of banks and other financial institutions	26	966,379	592,678
Derivative payables	16	54,524	–
Deposits from customers	27	11,524,909	10,776,743
Certificates of deposit issued	28	1,423,451	1,025,000
Other liabilities	29	270,896	152,020
Tax payable		–	11,306
Deferred tax liabilities	30	43,931	25,833
Total liabilities		14,284,090	12,583,580
EQUITY			
Issued capital	31	810,000	810,000
Reserves	32	509,037	473,039
Retained profits	32	521,655	443,093
Proposed final dividend	11	31,995	38,070
Total equity		1,872,687	1,764,202
Total equity and liabilities		16,156,777	14,347,782

ROBIN YAU-HING CHAN

Chairman

STEPHEN TAN

*Executive Director and
Chief Executive Officer*

KAREN SOG-YEE KO

*Executive Director and
General Manager*

Consolidated Summary Statement of Changes in Equity

Year ended 31st December, 2005

	Notes	2005 HK\$'000	2004 HK\$'000
Total equity at 1st January			
As previously reported		1,764,202	1,659,613
Opening adjustments	2.4(e)	39,355	–
As restated		1,803,557	1,659,613
Surplus on revaluation of leasehold buildings	24, 32	43,424	68,785
Deferred tax debited to equity	30, 32	(7,426)	(10,740)
Net gains not recognised in the income statement		35,998	58,045
Profit for the year		86,592	104,864
Dividends:	11		
Final 2003 dividend declared		–	(34,020)
Interim 2004 dividend		–	(24,300)
Final 2004 dividend declared		(38,070)	–
Interim 2005 dividend		(15,390)	–
Total equity at 31st December		1,872,687	1,764,202

The consolidated shareholders' equity includes the issued share capital and consolidated reserves of HK\$810,000,000 (2004: HK\$810,000,000) and HK\$509,037,000 (2004: HK\$473,039,000) as set out in notes 31 and 32 to the financial statements, respectively, retained profits of HK\$521,655,000 (2004: HK\$443,093,000) and a proposed final dividend amounting to HK\$31,995,000 (2004: HK\$38,070,000).

In accordance with the Hong Kong Monetary Authority's guideline "Impact of the New Hong Kong Accounting Standards on Authorised Institutions' Capital Base and Regulatory Reserve" (the "Guideline"), retained profits of HK\$66,136,000 are earmarked as a regulatory reserve which, together with the Bank's collective impairment allowances, is included as supplementary capital in the Group's capital base at 31st December, 2005 as defined in the Guideline.

Consolidated Cash Flow Statement

Year ended 31st December, 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		106,332	125,751
Adjustments for:			
Dividend income from listed investments	5	(361)	(189)
Dividend income from unlisted investments	5	(999)	(2,315)
Depreciation charges	6	15,697	17,867
Fair value gains on revaluation of leasehold buildings	6	(1,499)	(4,771)
Fair value gains on revaluation of investment properties	6	(6,020)	(1,463)
Write-off of property, plant and equipment	6	20	311
Amortisation of intangible assets	6	56	56
Impairment of intangible assets	6	88	88
Impairment allowances on loans and advances and other accounts	7	55,283	–
Release of impairment allowances on trade bills	7	(431)	(177)
Charge for bad and doubtful debts	7	–	26,398
Gains less losses on disposal of property, plant and equipment		–	(2,980)
Provision against a loan to a jointly-controlled entity		–	2,500
Write-back of impairment allowance against a loan to a jointly-controlled entity		(3,500)	(4,433)
Gain on disposal of a jointly-controlled entity		–	(2,990)
Share of profits and losses of jointly-controlled entities		(1,900)	(2,400)
Operating profit before changes in operating assets and liabilities		162,766	151,253
Decrease/(increase) in operating assets:			
Decrease in money at call and short notice		216,252	108,895
Decrease/(increase) in treasury bills including Exchange Fund Bills		10,417	(19,903)
Decrease/(increase) in placements with banks and other financial institutions		566,411	(14,265)
Decrease in trade bills		19,146	28,913
Increase in securities measured at fair value through profit or loss		(9,497)	(35,236)
Increase in derivative receivables		(47,855)	–
Increase in loans and advances and other accounts		(1,291,480)	(712,496)
Decrease in available-for-sale securities		2,075	–
Increase in held-to-maturity securities		(526,968)	(761,386)
Increase/(decrease) in operating liabilities:			
Increase in deposits and balances of banks and other financial institutions		373,701	285,601
Increase in deposits from customers		748,166	1,105,789
Increase/(decrease) in certificates of deposit issued		398,423	(168,000)
Increase/(decrease) in other liabilities		118,876	(40,807)
Increase in derivative payables		54,524	–
Net cash generated from/(used in) operating activities before tax		794,957	(71,642)

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Consolidated Cash Flow Statement (cont'd)

Year ended 31st December, 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
Net cash generated from/(used in) operating activities before tax		794,957	(71,642)
Hong Kong profits tax paid		(30,420)	(13,841)
Overseas tax paid		(1,025)	(950)
Net cash generated from/(used in) operating activities		763,512	(86,433)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	24	(4,247)	(11,062)
Proceeds from disposal of a jointly-controlled entity		–	3,990
Proceeds from disposal of property, plant and equipment		–	9,419
Dividends received from investments		1,360	2,504
Repayment of a loan to a jointly-controlled entity		–	630
Net cash generated from/(used in) investing activities		(2,887)	5,481
CASH FLOWS FROM FINANCING ACTIVITY			
Dividends paid		(53,460)	(58,320)
Net cash used in financing activity		(53,460)	(58,320)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		707,165	(139,272)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
– as previously reported		1,836,092	1,975,364
– opening adjustment upon the adoption of HKAS 39 for held-to-maturity securities with original maturity of 3 months of less		472	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,543,729	1,836,092
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and balances with banks and other financial institutions		204,882	321,304
Money at call and short notice with original maturity within three months		1,941,198	1,335,508
Placements with banks and other financial institutions with original maturity within three months		145,020	47,267
Held-to-maturity securities with original maturity within three months		252,629	132,013
		2,543,729	1,836,092

Balance Sheet

31st December, 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
ASSETS			
Cash and short-term funds	12	2,365,624	2,094,825
Placements with banks and other financial institutions maturing between one and twelve months	13	361,675	830,333
Trade bills	14	34,969	53,684
Securities measured at fair value through profit or loss	15	66,020	–
Other investment in securities	15	–	56,523
Derivative receivables	16	47,855	–
Loans and advances and other accounts	17	9,247,172	7,960,145
Investment securities	18	–	8,879
Available-for-sale securities	19	6,804	–
Held-to-maturity securities	20	3,579,051	2,930,292
Investments in subsidiaries	21	66,952	66,952
Interests in jointly-controlled entities	22	39,000	39,000
Loan to a jointly-controlled entity	22	30,000	26,500
Property, plant and equipment	24	340,487	309,714
Investment properties	25	21,660	15,640
Total assets		16,207,269	14,392,487
LIABILITIES			
Deposits and balances of banks and other financial institutions	26	966,379	592,678
Derivative payables	16	54,524	–
Deposits from customers	27	11,612,973	10,856,460
Certificates of deposit issued	28	1,423,451	1,025,000
Other liabilities	29	373,509	245,973
Tax payable		–	11,234
Deferred tax liabilities	30	37,068	19,618
Total liabilities		14,467,904	12,750,963
EQUITY			
Issued capital	31	810,000	810,000
Reserves	32	457,955	425,014
Retained profits	32	439,415	368,440
Proposed final dividend	11	31,995	38,070
Total equity		1,739,365	1,641,524
Total equity and liabilities		16,207,269	14,392,487

ROBIN YAU-HING CHAN

Chairman

STEPHEN TAN

*Executive Director and
Chief Executive Officer*

KAREN SOG-YEE KO

*Executive Director and
General Manager*

1. CORPORATE INFORMATION

The nature of operations of the Group and its principal activities have not changed during the year and consisted of the provision of a comprehensive range of banking, financial and related services.

The Bank is a wholly-owned subsidiary of Asia Financial Holdings Limited (“AFH”). In the opinion of the directors, the parent and the ultimate holding of the Group is AFH, which was incorporated in Bermuda.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, buildings, derivative financial instruments, securities measured at fair value through profit or loss and available-for-sale securities, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK\$’000) except when otherwise indicated.

Basis of consolidation

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 7, 8, 10, 12, 16, 21, 27, 30, 31, 37, 38 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Bank and the methods of computation in the Group's and the Bank's financial statements.

In prior periods, the Group's share of tax attributable to jointly-controlled entities was presented as a component of the Group's total tax charge/(credit) in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of jointly-controlled entities is presented net of the Group's share of tax attributable to jointly-controlled entities.

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

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

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

(a) HKAS 17 – Leases

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

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

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

(b) HKAS 32 and HKAS 39 – Financial Instruments

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

- Dated debt securities that the Bank has the ability and intention to hold to maturity were classified as held-to-maturity securities; securities which are intended to be held on a continuing basis or for an identified long-term purpose were classified as investment securities; and other investments in securities which are not classified as held-to-maturity securities or investment securities.
- Interest income on loans and advances and debt securities and interest expense on deposits and debt instruments were recognised on an accrual basis using the relative contract or coupon interest rates. The interest accrued on non-performing loans were not taken as income but credited to a suspense account, which was offset against the appropriate items in the balance sheet.

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

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

- General provisions on loans and advances were determined at a level deemed appropriate to absorb expected losses for loans in future. Specific provisions on loans and advances were determined to absorb expected losses from individual borrowers after taking into account the value of the collateral held.
- Fees on loan origination are recognised except when such fees are interest in nature. In such case, the fees are recognised on an appropriate basis over the relevant period. Costs associated with loan origination or acquisition are charged as operating expenses or offset against interest income when incurred. Premiums or discounts of debt securities held, or debt securities in issue, are amortised over the period from the date of purchase or issue to the date of maturity, as part of interest income or interest expense.

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

- Securities measured at fair value through profit or loss

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

- Held-to-maturity securities

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

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

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

- Loans and advances

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

- Available-for-sale securities

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

(iii) Revenue recognition

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

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

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

(iv) Impairment allowances for advances

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

- Individual impairment allowance applies to loans and advances that are individually significant and have objective evidence of impairment. In assessing for impairment the management estimates the present value of future cash flows which are expected to be received, taking into account the borrower's financial situation, the net realisable value of the underlying collateral or guarantees in favour of the Bank. Each impaired asset is assessed on its merits and impairment allowance is measured as the difference between the loan's carrying value and the present value of the estimated future cash flows discounted at the loan's original effective interest rate.
- Collective impairment allowances cover credit losses inherent in portfolios of loans and advances and other accounts with similar economic and risk characteristics where objective evidence for individual impaired items cannot yet be identified. In assessing the collective impairment allowance, management makes assumptions both to define the way the Bank assesses inherent losses and to determine the required input parameters, based on historical loss experience and current economic conditions.

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

(c) HKAS 40 – Investment Property

In prior years, changes in the fair values of investment properties were dealt with as movements in the asset revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged. On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the income statement. Moreover, the Group classified its property, plant and equipment, which were let to and occupied by its holding company as fixed assets, which were stated at cost or valuation less accumulated depreciation and any impairment losses.

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

(c) HKAS 40 – Investment Property (cont'd)

Upon the adoption of HKAS 40, leased properties are classified as investment properties if they are held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes. Therefore, the properties leased to its holding company are now also classified as investment properties in accordance with HKAS 40.

The gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. The comparative amounts for the prior year have been restated to reflect the reclassification of owner-used properties as investment properties. The revaluation gain of the said properties was credited to the consolidated income statement for the current year. The effects of the above changes are summarised in note 2.4 to the financial statements.

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

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

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

The effects of the above changes are summarised in note 2.4 to the financial statements.

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

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

HKAS 1 Amendment	Capital Disclosures
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

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

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

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

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

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

- (a) The effects of adopting new accounting policies on the consolidated balance sheet as at 31st December, 2004 and 1st January, 2005 are as follows:

Group and Bank

At 31st December, 2004	HK\$'000
– HKAS 40	
Assets	
Decrease in property, plant and equipment	(9,620)
Increase in investment properties	9,620
	<hr/>
Total effect	–
	<hr/>
At 1st January, 2005	HK\$'000
– HKAS 39	
Assets	
Increase in derivative receivables	59,087
Increase in loans and advances and other accounts	44,562
Increase in held-to-maturity securities	1,647
Liabilities	
Increase in derivative payables	(57,669)
Increase in certificates of deposit issued	(28)
Increase in deferred tax on collective impairment allowances	(8,244)
	<hr/>
Total effect	39,355
	<hr/>

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

- (b) The estimated effects of adopting new accounting policies on the consolidated balance sheet as at 31st December, 2005 are as follows:

At 31st December, 2005	HK\$'000
– HKAS 39	
Assets	
Increase in derivative receivables	47,855
Increase in loans and advances and other accounts	70,957
Increase in held-to-maturity securities	5,952
Liabilities	
Increase in derivative payables	(54,524)
Increase in certificates of deposit issued	(399)
Decrease in other liabilities	6,669
Increase in deferred tax liabilities on collective impairment allowances	(11,505)
– HKAS 40	
Liabilities	
Increase in deferred tax liabilities	(1,054)
Total estimated effect on consolidated balance sheet at 31st December, 2005	63,951

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

- (c) The effects of adopting new accounting policies on the consolidated income statement for the year ended 31st December, 2004 are as follows:

	Group HK\$'000	Bank HK\$'000
Year ended 31st December, 2004		
– HKAS 1		
Decrease in share of profits and losses of a jointly-controlled entity	(295)	–
Decrease in tax	295	–
	<hr/>	<hr/>
	–	–
– HKAS 40		
Decrease in fair value gains on revaluation of leasehold buildings	(513)	(513)
Increase in fair value gains on revaluation of investment properties	513	513
	<hr/>	<hr/>
	–	–
	<hr/>	<hr/>
Total increase in profit	–	–
	<hr/>	<hr/>

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

- (d) The estimated effects of adopting new accounting policies on the consolidated income statement for the year ended 31st December, 2005 are as follows:

Year ended 31st December, 2005	Group HK\$'000	Bank HK\$'000
– HKAS 1		
Decrease in share of profits and losses of a jointly-controlled entity	(332)	–
Decrease in tax	332	–
	–	–
– HKAS 39		
Increase in interest income	11,627	11,627
Increase in interest expense	(371)	(371)
Decrease in fees and commission income	(1,881)	(1,881)
Decrease in operating expenses	7,852	7,852
Decrease in impairment losses and allowances	11,684	11,684
Increase in deferred tax charge	(3,261)	(3,261)
	25,650	25,650
– HKAS 40		
Increase in fair value gains on revaluation of investment properties	540	540
Increase in deferred tax charge	(1,054)	(1,054)
	(514)	(514)
Total increase in profit	25,136	25,136

- (e) An opening adjustment of HK\$39,355,000 (note 32) has been credited to the Group's and Bank's retained profits upon the adoption of new accounting policies as at 1st January, 2005.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is a company, other than a jointly-controlled entity, in which the Bank, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

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

Joint venture companies

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

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

A joint venture is treated as:

- (a) a subsidiary, if the Bank, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors,
- (b) a jointly-controlled entity, if the Bank does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Bank does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Bank holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of jointly-controlled entities are included in the Bank's income statement to the extent of dividends received and receivable. The Bank's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Impairment of assets

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Impairment of assets (cont'd)**

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is related party of the Group.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property, plant and equipment, and depreciation

Property, plant and equipment, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Property, plant and equipment, and depreciation (cont'd)**

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

Investment properties

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

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

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

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

Intangible assets

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Intangible assets (cont'd)

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

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

Leases

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Leases (cont'd)**

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and building elements as finance lease in property, plant and equipment.

Investments and other financial assets***Applicable to the year ended 31st December, 2004:***

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investments and other financial assets (cont'd)

Applicable to the year ended 31st December, 2004: (cont'd)

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

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

Applicable to the year ended 31st December, 2005:

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

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

Securities measured at fair value through profit or loss

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Investments and other financial assets (cont'd)*****Applicable to the year ended 31st December, 2005: (cont'd)****Held-to-maturity securities*

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

Loans and advances

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

Available-for-sale securities

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investments and other financial assets (cont'd)

Applicable to the year ended 31st December, 2005: (cont'd)

Fair value

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

Impairment of financial assets

Applicable to the year ended 31st December, 2005:

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

Assets carried at amortised cost

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of financial assets (cont'd)

Applicable to the year ended 31st December, 2005: (cont'd)

Assets carried at amortised cost (cont'd)

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

Assets carried at cost

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

Available-for-sale securities

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Derecognition of financial assets

Applicable to the year ended 31st December, 2005:

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Bad and doubtful debts

Applicable to the year ended 31st December, 2004:

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

Reposessed assets

Collateral assets for loans and advances and other accounts 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 accounts at the predetermined value with a corresponding reduction in the related advances. The reposessed assets included under other accounts are measured at fair value. Individual impairment allowance is made on the shortfall between the expected net realisable value of reposessed assets and the outstanding advances.

Interest-bearing loans and borrowings

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Derivative financial instruments

Applicable to the year ended 31st December, 2005:

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

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

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

Cash and cash equivalents

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Income tax

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

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

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

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

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Income tax (cont'd)

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

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

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

Revenue recognition

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

- (i) interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial assets;
- (ii) fees and commission income are recognised when services are rendered;
- (iii) interest income on finance leases is recognised on the basis as set out above under the heading of "Leases";
- (iv) rental income is recognised on an accrual basis; and
- (v) dividend income is recognised when the Group's right to receive payment has been established.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Staff retirement schemes**

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

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.

Dividends

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

Interim dividends are simultaneously proposed and declared, because the Bank's memorandum and New Articles of Association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Foreign currencies

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Held-to-maturity securities

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (cont'd)

Estimation uncertainty

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

Impairment allowances on loans and advances and other accounts

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

4. CORPORATE AFFILIATION

A portion of the Group's business is represented by transactions to which other members of the AFH Group are parties and these financial statements reflect the effect of these transactions which were conducted on bases determined within the AFH Group.

Included in the following balance sheet captions are balances with other members of the AFH Group:

	Group		Bank	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Advances and other accounts:				
Ultimate holding	2,075	–	2,075	–
Fellow subsidiaries	3,808	8,183	3,808	8,183
Subsidiaries	–	–	14,156	13,967
	5,883	8,183	20,039	22,150
Deposits from customers:				
Ultimate holding	1,333	1,231	1,333	1,231
Fellow subsidiaries	354,431	554,553	354,431	554,553
Subsidiaries	–	–	88,063	79,717
	355,764	555,784	443,827	635,501
Other liabilities:				
Ultimate holding	–	4,500	–	4,500
Fellow subsidiaries	3,998	3,640	3,998	3,640
Subsidiaries	–	–	123,549	113,290
	3,998	8,140	127,547	121,430
	359,762	563,924	571,374	756,931

5. OTHER OPERATING INCOME

	Group	
	2005 HK\$'000	2004 HK\$'000 (Restated)
Fees and commission income:		
Retail and commercial banking	33,832	35,898
Securities	13,641	13,482
	47,473	49,380
Fees and commission expenses	(1,595)	(1,434)
Net fees and commission income	45,878	47,946
Gains less losses arising from dealing in foreign currencies	11,365	8,877
Dividend income from listed investments	361	189
Dividend income from unlisted investments	999	2,315
Gain on disposal of securities measured at fair value through profit or loss	9,280	2,933
Fair value gains on securities measured at fair value through profit or loss	2,438	159
Gross rental income	3,505	3,026
Less: Direct operating expenses	(15)	(15)
Net rental income	3,490	3,011
Others	1,332	2,177
	75,143	67,607

During the year ended 31st December, 2005, certain fee income of HK\$1,881,000, which would have been classified under other operating income under the previous accounting policies, has now been included in the calculation of interest income under the effective interest method upon the prospective adoption of HKAS 39.

6. OPERATING EXPENSES

	Notes	Group	
		2005 HK\$'000	2004 HK\$'000 (Restated)
Staff costs (including directors' remuneration, note 8):			
Salaries and other staff costs		92,265	89,053
Provident fund contributions		4,042	3,031
Buildings and equipment expenses:			
Minimum lease payments under operating leases in respect of leasehold buildings		4,941	7,802
Others		12,489	14,059
Auditors' remuneration		1,210	1,150
Amortisation of intangible assets	23	56	56
Impairment loss of intangible assets	23	88	88
Depreciation charges	24	15,697	17,867
Write-off of property, plant and equipment	24	20	311
Fair value gains on revaluation of leasehold buildings	24	(1,499)	(4,771)
Fair value gains on revaluation of investment properties	25	(6,020)	(1,463)
Others		35,922	44,688
		159,211	171,871

7. IMPAIRMENT LOSSES AND ALLOWANCES/CHARGE FOR BAD AND DOUBTFUL DEBTS

	Group	
	2005 HK\$'000	2004 HK\$'000
Impairment/(write-back of impairment) against:		
– Loans and advances	27,380	26,326
– Accrued interest and other accounts	27,903	72
	55,283	26,398
– Trade bills	(431)	(177)
	54,852	26,221
Net charge of impairment losses and allowances		
– Individually assessed on loans and advances and other accounts	61,634	–
– Collectively assessed on loans and advances and other accounts	(6,351)	–
– Collectively assessed on trade bills	(431)	–
Net charge of bad and doubtful debts		
– Specific provision on loans and advances and other accounts	–	20,558
– General provision on loans and advances and other accounts	–	5,840
– General provision on trade bills	–	(177)
	54,852	26,221
Of which		
– new allowances (including any amount directly written off in the year)	99,966	46,310
– releases	(45,114)	(20,089)
Net charge to income statement	54,852	26,221

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Companies Ordinance is as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Fees	745	647
Other emoluments	10,290	7,383
	11,035	8,030

9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2005	2004
	HK\$'000	HK\$'000 (Restated)
Current tax charge for the year:		
Hong Kong	17,334	20,815
Elsewhere	1,521	876
Deferred tax charge/(credit), net (note 30)	2,428	(804)
Overprovision of current tax in respect of prior years	(1,543)	–
	19,740	20,887

9. TAX (cont'd)

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

Group – 2005

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	111,107		(4,775)		106,332	
Tax at the statutory tax rate	19,444	17.5	(716)	15.0	18,728	17.5
Share of profits and losses attributable to jointly-controlled entities	(332)	(0.3)	–	–	(332)	(0.3)
Income not subject to tax	(3,939)	(3.5)	–	–	(3,939)	(3.7)
Expenses not deductible for tax	4,857	4.4	2,237	(46.8)	7,094	6.7
Tax losses not recognised	(268)	(0.3)	–	–	(268)	(0.2)
Adjustments in respect of current tax of previous periods	(1,543)	(1.4)	–	–	(1,543)	(1.4)
Tax charge at the Group's effective rate	18,219	16.4	1,521	(31.8)	19,740	18.6

Group – 2004

	Hong Kong		Mainland China		Total	
	HK\$'000 (Restated)	%	HK\$'000	%	HK\$'000 (Restated)	%
Profit/(loss) before tax	128,752		(3,001)		125,751	
Tax at the statutory tax rate	22,532	17.5	(450)	15.0	22,082	17.5
Share of profits and losses attributable to jointly-controlled entities	(295)	(0.2)	–	–	(295)	(0.2)
Income not subject to tax	(6,048)	(4.7)	–	–	(6,048)	(4.8)
Expenses not deductible for tax	3,914	3.0	1,326	(44.2)	5,240	4.2
Tax losses utilised from previous periods	(165)	(0.1)	–	–	(165)	(0.1)
Tax losses not recognised	73	–	–	–	73	–
Tax charge at the Group's effective rate	20,011	15.5	876	(29.2)	20,887	16.6

9. TAX (cont'd)

The share of tax attributable to jointly-controlled entities amounting to HK\$332,000 (2004: HK\$295,000) is included in "Share of profits and losses of jointly-controlled entities" on the face of the consolidated income statement.

10. NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit attributable to equity holders of the parent dealt with in the financial statements of the Bank for the year ended 31st December, 2005 was HK\$79,005,000 (2004: HK\$98,643,000) (note 32).

11. DIVIDENDS

	2005	2004
	HK\$'000	HK\$'000
Interim dividend	15,390	24,300
Proposed final dividend – HK\$3.95 (2004: HK\$4.70) per ordinary share	31,995	38,070
	47,385	62,370

The proposed final dividend is subject to the approval of the Bank's shareholders at the forthcoming Annual General Meeting.

12. CASH AND SHORT-TERM FUNDS

	Group		Bank	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash in hand	53,058	63,422	53,058	63,422
Placement with banks and other financial institutions	151,824	257,882	150,810	256,868
Money at call and short notice	2,062,385	1,672,947	2,062,385	1,664,747
Treasury bills including Exchange Fund Bills*	99,371	109,788	99,371	109,788
	2,366,638	2,104,039	2,365,624	2,094,825

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

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

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

13. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS MATURING BETWEEN ONE AND TWELVE MONTHS

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

	Group and Bank	
	2005 HK\$'000	2004 HK\$'000
With a residual maturity of:		
Three months or less	270,944	602,537
One year or less but over three months	90,731	227,796
	361,675	830,333

14. TRADE BILLS

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

15. SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS/OTHER INVESTMENTS IN SECURITIES

	Group and Bank	
	2005 HK\$'000	2004 HK\$'000
Listed equity securities, at market value:		
– in Hong Kong	27,922	2,964
– outside Hong Kong	11,847	–
	39,769	2,964
Unlisted debt securities, at quoted market price	–	6,070
Unlisted investment funds, at quoted market price	26,251	16,667
Equity-linked notes, at amortised cost	–	30,822
	26,251	53,559
Total	66,020	56,523

The above equity investments at 31st December, 2004 were classified as held for trading.

16. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses the following derivative instruments:

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

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

16. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

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

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

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

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

17. LOANS AND ADVANCES AND OTHER ACCOUNTS

	Group		Bank	
	2005 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000	2004 HK\$'000 (Restated)
Loans and advances	9,075,903	7,871,709	9,075,903	7,871,239
Accrued interest and other accounts	248,732	200,949	261,961	212,361
Gross loans and advances and other accounts	9,324,635	8,072,658	9,337,864	8,083,600
Less: Impairment allowances for loans and advances				
– Individually assessed	(41,452)	–	(41,452)	–
– Collectively assessed	(24,887)	–	(24,887)	–
– Specific provision	–	(44,530)	–	(44,259)
– General provision	–	(78,346)	–	(78,346)
	(66,339)	(122,876)	(66,339)	(122,605)
Less: Impairment allowances for accrued interest and other accounts				
– Individually assessed	(27,187)	–	(27,187)	–
– Specific provision	–	(850)	–	(850)
Tax recoverable	2,829	2	2,834	–
Loans and advances and other accounts	9,233,938	7,948,934	9,247,172	7,960,145

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

The amounts due from subsidiaries included in the Bank's other accounts are unsecured, interest-free and have no fixed terms of repayment.

The carrying amounts of the Group's and the Bank's accrued interest and other accounts approximate their fair values.

17. LOANS AND ADVANCES AND OTHER ACCOUNTS (cont'd)

	Group		Bank	
	2005 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000	2004 HK\$'000 (Restated)
Impaired loans/non-performing loans are analysed as follows:				
Impaired loans:				
Trade bills	–	–	–	–
Loans and advances	138,194	–	138,194	–
	138,194	–	138,194	–
Non-performing loans:				
Trade bills	–	1,148	–	1,148
Loans and advances	–	161,898	–	161,428
	–	163,046	–	162,576

	Group		Bank	
	2005 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000	2004 HK\$'000 (Restated)
Gross impaired loans (Note a)	138,194	–	138,194	–
Impairment allowances made in respect of such loans	(41,452)	–	(41,452)	–
As a percentage of total loans and advances	1.52%	–	1.52%	–
Non-performing loans	–	163,046	–	162,576
Specific provisions made in respect of such advances	–	(44,530)	–	(44,259)
As a percentage of total loans and advances	–	2.07%	–	2.07%
Amount of interest in suspense	–	21,914	–	21,914

17. LOANS AND ADVANCES AND OTHER ACCOUNTS (cont'd)

Note:

- (a) *Impaired loans are defined as those loans having objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated future cash flows of the loans that can be reliably estimated.*

The above loan impairment allowances/specific provisions were made after taking into account the value of collateral in respect of such advances.

Movements in impairment allowances on loans and advances and other accounts:

Group

	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000	Total HK\$'000
At 1st January, 2005	45,380	78,346	123,726
Opening adjustment on retained profits upon adoption of HKAS 39	23,046	(47,108)	(24,062)
At 1st January, 2005, as restated	68,426	31,238	99,664
Amounts written off	(64,892)	–	(64,892)
Impairment losses charged to the income statement	99,966	–	99,966
Impairment losses released to the income statement	(38,332)	(6,351)	(44,683)
Net charge of loan impairment losses	61,634	(6,351)	55,283
Loan recovered	3,471	–	3,471
At 31st December, 2005	68,639	24,887	93,526
Deducted from:			
Loans and advances	41,452	24,887	66,339
Accrued interest and other accounts	27,187	–	27,187
	68,639	24,887	93,526

17. LOANS AND ADVANCES AND OTHER ACCOUNTS (cont'd)

Movements in impairment allowances on loans and advances and other accounts:

Bank

	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000	Total HK\$'000
At 1st January, 2005	45,109	78,346	123,455
Opening adjustment on retained profits upon adoption of HKAS 39	23,046	(47,108)	(24,062)
At 1st January, 2005, as restated	68,155	31,238	99,393
Amounts written off	(64,892)	–	(64,892)
Impairment losses charged to the income statement	99,966	–	99,966
Impairment losses released to the income statement	(37,805)	(6,351)	(44,156)
Net charge of loan impairment losses	62,161	(6,351)	55,810
Loans recovered	3,215	–	3,215
At 31st December, 2005	68,639	24,887	93,526
Deducted from:			
Loans and advances	41,452	24,887	66,339
Accrued interest and other accounts	27,187	–	27,187
	68,639	24,887	93,526

17. LOANS AND ADVANCES AND OTHER ACCOUNTS (cont'd)

Movements in provisions for bad and doubtful debts on loans and advances and other accounts:

Group

	Specific	General	Total	Suspended interest
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2004, as restated	102,989	72,506	175,495	51,079
Amounts written-off	(85,634)	–	(85,634)	(42,071)
New provisions charged to the income statement	35,388	10,745	46,133	–
Provisions released to the income statement	(14,830)	(4,905)	(19,735)	–
Net charge to the income statement	20,558	5,840	26,398	–
Loans recovered	7,467	–	7,467	–
Interest suspended during the year	–	–	–	13,796
Suspended interest recovered	–	–	–	(890)
At 31st December, 2004	45,380	78,346	123,726	21,914
Representing provisions against:				
Advances to customers excluding trade bills	44,530	78,346	122,876	
Other accounts	850	–	850	
	45,380	78,346	123,726	

17. LOANS AND ADVANCES AND OTHER ACCOUNTS (cont'd)

Movements in provisions for bad and doubtful debts on loans and advances and other accounts:

Bank

	Specific	General	Total	Suspended
	HK\$'000	HK\$'000	HK\$'000	interest
				HK\$'000
At 1st January, 2004, as restated	87,820	72,683	160,503	51,079
Amounts written-off	(70,558)	–	(70,558)	(42,071)
New provisions charged to the income statement	34,413	10,745	45,158	–
Provisions released to the income statement	(13,713)	(5,082)	(18,795)	–
Net charge to the income statement	20,700	5,663	26,363	–
Loan recovered	7,147	–	7,147	–
Interest suspended during the year	–	–	–	13,796
Suspended interest recovered	–	–	–	(890)
At 31st December, 2004	45,109	78,346	123,455	21,914
Representing provisions against:				
Advances to customers excluding trade bills	44,259	78,346	122,605	
Other accounts	850	–	850	
	45,109	78,346	123,455	

17. LOANS AND ADVANCES AND OTHER ACCOUNTS (cont'd)**Finance lease receivables**

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

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

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

17. LOANS AND ADVANCES AND OTHER ACCOUNTS (cont'd)

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

	Group		Bank	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Repayable on demand	639,043	631,164	639,043	631,164
With a residual maturity of:				
Three months or less	1,490,372	1,238,398	1,490,372	1,238,398
One year or less but over three months	1,048,761	1,103,732	1,048,761	1,103,732
Five years or less but over one year	2,645,647	2,543,395	2,645,647	2,543,395
Over five years	3,192,361	2,188,907	3,192,361	2,188,907
Undated	59,719	166,113	59,719	165,643
	9,075,903	7,871,709	9,075,903	7,871,239

18. INVESTMENT SECURITIES

	Group and Bank	
	2005 HK\$'000	2004 HK\$'000
Unlisted equity, at cost	–	8,879

The investment securities as at 31st December, 2004 were all issued by corporate entities.

19. AVAILABLE-FOR-SALE SECURITIES

	Group and Bank
	2005 HK\$'000
Unlisted equity	6,804
The movement in available-for-sale securities is as follows:	
At 1st January, 2005	8,879
Disposal to the holding company	(2,075)
At 31st December, 2005	6,804

Upon the adoption of HKAS 39 on 1st January, 2005, the Bank reclassified all its investment securities as available-for-sale securities.

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

The fair values of unlisted available-for-sale equity investments have been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates.

20. HELD-TO-MATURITY SECURITIES

	Group and Bank	
	2005	2004
	HK\$'000	HK\$'000
Debt securities, at amortised cost:		
– listed in Hong Kong	19,978	19,977
– listed outside Hong Kong	85,734	39,991
– unlisted*	3,473,339	2,870,324
	3,579,051	2,930,292
Market value of listed held-to-maturity securities	103,306	59,700

* Included certificate of deposits held of HK\$572,321,000 (2004: HK\$989,974,000).

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

	Group and Bank	
	2005	2004
	HK\$'000	HK\$'000
Public sector entities	23,262	48,323
Banks and other financial institutions	3,171,573	2,641,686
Corporate entities	384,216	240,283
	3,579,051	2,930,292

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

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

	Group and Bank	
	2005	2004
	HK\$'000	HK\$'000
With a residual maturity of:		
Three months or less	638,372	763,317
One year or less but over three months	388,698	540,920
Five years or less but over one year	2,409,797	1,568,156
Over five years	142,184	57,899
	3,579,051	2,930,292

21. INVESTMENTS IN SUBSIDIARIES

	Bank	
	2005	2004
	HK\$'000	HK\$'000
Unlisted shares, at cost	66,952	75,135
Impairment	–	(8,183)
	66,952	66,952

The amounts due from and to subsidiaries included in the Bank's assets and liabilities set out in note 4 are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from/to subsidiaries approximate their fair values.

21. INVESTMENTS IN SUBSIDIARIES (cont'd)

Particulars of the Bank's subsidiaries, which are all incorporated and operate in Hong Kong, are as follows:

Name	Nominal value of issued ordinary share capital HK\$'000	Percentage of equity directly attributable to the Bank		Nature of business
		2005	2004	
Asia Commercial Bank (Nominees) Limited	100	100	100	Provision of nominee services
Asia Commercial Bank (Trustee) Limited	10,000	100	100	Provision of trustee services
ACB Finance Limited	25,000	100	100	Dormant
Hocomban Investments Limited	5,000	100	100	Property investment
Hocomban Realty Limited	100	100	100	Dormant
AFH Credit Limited	5,000	100	100	Dormant
Asia Financial (Futures) Limited	20,000	100	100	Dormant
Asia Financial Pacific (Securities) Limited	12,000	100	100	Dormant
Asia Financial (Securities) Limited	15,000	100	100	Securities brokerage

22. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group		Bank	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	–	–	39,000	39,000
Share of net assets other than goodwill	21,100	19,200	–	–
	21,100	19,200	39,000	39,000
Loan to a jointly-controlled entity	31,000	31,000	31,000	31,000
Less: Impairment	(1,000)	(4,500)	(1,000)	(4,500)
	30,000	26,500	30,000	26,500

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

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

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

Name	Business structure	Place of incorporation and operations	Percentage of		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
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	8.3	1 out of 12 [#]	Provision of writing of long term insurance business

* 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 JOINTLY-CONTROLLED ENTITIES (cont'd)

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

	2005	2004
	HK\$'000	HK\$'000
Share of the jointly-controlled entities' assets and liabilities:		
Assets	154,741	116,306
Liabilities	(135,910)	(70,798)
Net assets	18,831	45,508
Share of the jointly-controlled entities profits and losses		
Turnover	53,807	44,820
Other revenue	3,587	2,868
Total revenue	57,394	47,688
Total expenses	(55,162)	(44,993)
Tax	(332)	(295)
Profit after tax	1,900	2,400

23. INTANGIBLE ASSETS

	Group
	HK\$'000
Cost and carry value:	
At 1st January, 2005 and 31st December, 2005	1,437
Accumulated amortisation and impairment:	
At 1st January, 2005	694
Amortisation provided during the year (note 6)	56
Impairment during the year recognised in the income statement (note 6)	88
At 31st December, 2005	838
Net book value:	
At 31st December, 2005	599
At 31st December, 2004	743

23. INTANGIBLE ASSETS (cont'd)

The intangible assets represent three units of Stock Exchange Trading Right and one unit of Futures Exchange Trading Right in Hong Kong Exchanges and Clearing Limited. During the year, the Futures Exchange Trading Right retired from active use and was held for disposal and was carried at its carrying amount of HK\$367,000 at the date when it retired from active use.

24. PROPERTY, PLANT AND EQUIPMENT

	Group Furniture, fixtures, equipment and motor			Bank Furniture, fixtures, equipment and motor		
	Buildings HK\$'000	vehicles HK\$'000	Total HK\$'000	Buildings HK\$'000	vehicles HK\$'000	Total HK\$'000
Cost or valuation:						
At 1st January, 2005	335,111	171,208	506,319	291,929	162,448	454,377
Additions	–	4,247	4,247	–	4,247	4,247
Write-off	–	(24)	(24)	–	(24)	(24)
Surplus on revaluation	37,759	–	37,759	34,970	–	34,970
At 31st December, 2005	372,870	175,431	548,301	326,899	166,671	493,570
Accumulated depreciation:						
At 1st January, 2005	–	153,304	153,304	–	144,663	144,663
Charge for the year (note 6)	7,164	8,533	15,697	6,248	8,424	14,672
Write-off	–	(4)	(4)	–	(4)	(4)
Write-back on revaluation	(7,164)	–	(7,164)	(6,248)	–	(6,248)
	–	161,833	161,833	–	153,083	153,083
Net book value:						
As at 31st December, 2005	372,870	13,598	386,468	326,899	13,588	340,487
As at 31st December, 2004	335,111	17,904	353,015	291,929	17,785	309,714
Analysis of cost or valuation:						
At cost	–	13,598	13,598	–	13,588	13,588
At 31st December, 2005 valuation	372,870	–	372,870	326,899	–	326,899
	372,870	13,598	386,468	326,899	13,588	340,487

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

	Group			Bank		
	Buildings HK\$'000	Furniture, fixtures, equipment and motor vehicles HK\$'000	Total HK\$'000	Buildings HK\$'000	Furniture, fixtures, equipment and motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:						
At 1st January, 2004						
– as previously stated	289,063	164,609	453,672	254,413	155,857	410,270
– prior year reclassification	(9,107)	–	(9,107)	(9,107)	–	(9,107)
– as restated	279,956	164,609	444,565	245,306	155,857	401,163
Additions	–	11,062	11,062	–	11,054	11,054
Disposals	(6,600)	(241)	(6,841)	(6,600)	(241)	(6,841)
Write-off	–	(4,222)	(4,222)	–	(4,222)	(4,222)
Surplus on revaluation	61,755	–	61,755	53,223	–	53,223
At 31st December, 2004	335,111	171,208	506,319	291,929	162,448	454,377
Accumulated depreciation:						
At 1st January, 2004	6,065	145,486	151,551	5,344	137,444	142,788
Charge for the year (note 6)	5,933	11,934	17,867	5,213	11,335	16,548
Disposal	(197)	(205)	(402)	(197)	(205)	(402)
Write-off	–	(3,911)	(3,911)	–	(3,911)	(3,911)
Write-back on revaluation	(11,801)	–	(11,801)	(10,360)	–	(10,360)
	–	153,304	153,304	–	144,663	144,663
Net book value:						
As at 31st December, 2004 (as restated)	335,111	17,904	353,015	291,929	17,785	309,714
Analysis of cost or valuation:						
At cost	–	17,904	17,904	–	17,785	17,785
At 31st December, 2004 valuation	335,111	–	335,111	291,929	–	291,929
	335,111	17,904	353,015	291,929	17,785	309,714

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

All of the Group's and the Bank's buildings were revalued as at 31st December, 2005 by A.G. Wilkinson & Associates, independent professionally qualified valuers, at an open market value, based on their existing use. The revaluation surpluses of HK\$43,424,000 (2004: HK\$68,785,000) and HK\$39,719,000 (2004: HK\$58,812,000) of the Group and the Bank respectively, have been credited to the asset revaluation reserve (note 32), while a surplus of HK\$1,499,000 (2004 (restated): HK\$4,771,000) has been credited to the respective income statement (note 6). The net book value of the buildings comprises:

	Group		Bank	
	2005 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000	2004 HK\$'000 (Restated)
Long term leases in Hong Kong	256,441	244,292	226,470	216,110
Medium term leases in Hong Kong	87,600	63,580	71,600	48,580
Medium term leases outside Hong Kong	28,829	27,239	28,829	27,239
	372,870	335,111	326,899	291,929

Had the Group's and the Bank's revalued buildings been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK\$147,682,000 (2004: HK\$151,001,000 (restated)) and HK\$132,985,000 (2004: HK\$135,989,000 (restated)), respectively.

25. INVESTMENT PROPERTIES

	Group and Bank	
	2005 HK\$'000	2004 HK\$'000 (Restated)
Carrying amount at 1st January	15,640	14,177
Net profit from a fair value adjustment (note 6)	6,020	1,463
Carrying amount at 31st December	21,660	15,640

25. INVESTMENT PROPERTIES (cont'd)

The investment properties were revalued at 31st December, 2005 by independent professionally qualified valuers, A.G. Wilkinson & Associates, at HK\$21,660,000 on an open market value, existing use basis. The investment properties are leased to third parties and to the holding company under operating lease, further summary details of which are included in note 35(a) to the financial statements.

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

26. DEPOSITS AND BALANCES OF BANKS AND OTHER FINANCIAL INSTITUTIONS

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

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

27. DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Demand deposits and current accounts	588,805	883,523	635,869	923,958
Savings deposits	1,833,032	2,446,080	1,834,532	2,447,762
Time, call and notice deposits	9,103,072	7,447,140	9,142,572	7,484,740
	11,524,909	10,776,743	11,612,973	10,856,460

27. DEPOSITS FROM CUSTOMERS (cont'd)

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

	Group		Bank	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Repayable on demand	2,421,837	3,329,603	2,470,401	3,371,720
With a residual maturity of:				
Three months or less	8,682,477	6,655,433	8,721,977	6,693,033
One year or less but over three months	405,616	613,957	405,616	613,957
Five years or less but over one year	14,979	177,750	14,979	177,750
	11,524,909	10,776,743	11,612,973	10,856,460

28. CERTIFICATES OF DEPOSIT ISSUED

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

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

29. OTHER LIABILITIES

	Group		Bank	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Accrued interest payable	64,013	16,825	64,024	16,828
Bills payable	50,481	35,739	50,481	35,739
Creditors, accruals and others	156,402	99,456	135,455	80,116
Due to subsidiaries	–	–	123,549	113,290
	270,896	152,020	373,509	245,973

29. OTHER LIABILITIES (cont'd)

The Group's and the Bank's accrued interest payable and bills payable were current in nature as at 31st December, 2005 and 2004.

The amounts due to subsidiaries included in the Bank's other liabilities are unsecured, interest-free and have no fixed terms of repayment.

The carrying amounts of other liabilities approximate their fair values.

30. DEFERRED TAX

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

Group – 2005**Deferred tax liabilities**

	Accelerated tax depreciation HK\$'000	Revaluation of buildings HK\$'000	Revaluation of investment properties HK\$'000	Total HK\$'000
At 1st January, 2005	1,871	37,092	–	38,963
Deferred tax debited to equity during the year (note 32)	–	7,426	–	7,426
Deferred tax charged to the income statement during the year (note 9)	–	–	1,054	1,054
Gross deferred tax liabilities at 31st December, 2005	1,871	44,518	1,054	47,443

30. DEFERRED TAX (cont'd)**Deferred tax assets**

	Collective impairment allowance HK\$'000
At 1st January, 2005	13,130
Opening balance adjustment to retained profits (note 2.4(a))	(8,244)
Deferred tax charged to the income statement during the year (note 9)	(1,374)
Gross deferred tax assets at 31st December, 2005	3,512
Net deferred tax liabilities at 31st December, 2005	43,931

Bank – 2005**Deferred tax liabilities**

	Accelerated tax depreciation HK\$'000	Revaluation of buildings HK\$'000	Revaluation of investment properties HK\$'000	Total HK\$'000
At 1st January, 2005	1,799	30,949	–	32,748
Deferred tax debited to equity during the year (note 32)	–	6,778	–	6,778
Deferred tax charged to the income statement during the year (note 9)	–	–	1,054	1,054
Gross deferred tax liabilities at 31st December, 2005	1,799	37,727	1,054	40,580

30. DEFERRED TAX (cont'd)**Deferred tax assets**

	Collective impairment allowance HK\$'000
At 1st January, 2005	13,130
Opening balance adjustment to retained profits (note 2.4(a))	(8,244)
Deferred tax charged to the income statement during the year (note 9)	(1,374)
Gross deferred tax assets at 31st December, 2005	3,512
Net deferred tax liabilities at 31st December, 2005	37,068

Group – 2004**Deferred tax liabilities**

	Accelerated tax depreciation HK\$'000	Revaluation of buildings HK\$'000	Total HK\$'000
At 1st January, 2004	1,871	26,352	28,223
Deferred tax debited to equity during the year (note 32)	–	10,740	10,740
Gross deferred tax liabilities at 31st December, 2004	1,871	37,092	38,963

Deferred tax assets

	General provision HK\$'000
At 1st January, 2004	12,326
Deferred tax credited to the income statement during the year (note 9)	804
Gross deferred tax assets at 31st December, 2004	13,130
Net deferred tax liabilities at 31st December, 2004	25,833

30. DEFERRED TAX (cont'd)**Bank – 2004****Deferred tax liabilities**

	Accelerated tax depreciation HK\$'000	Revaluation of buildings HK\$'000	Total HK\$'000
At 1st January, 2004	1,799	21,954	23,753
Deferred tax debited to equity during the year (note 32)	–	8,995	8,995
Gross deferred tax liabilities at 31st December, 2004	1,799	30,949	32,748

Deferred tax assets

At 1st January, 2004	12,326
Deferred tax credited to the income statement during the year	804
Gross deferred tax assets at 31st December, 2004	13,130
Net deferred tax liabilities at 31st December, 2004	19,618

The Group has tax losses arising in Hong Kong of HK\$36,390,000 (2004: HK\$37,512,000) 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 Bank to its shareholders.

31. SHARE CAPITAL

	2005	2004
	HK\$'000	HK\$'000
Authorised:		
10,000,000 ordinary shares of HK\$100 each	1,000,000	1,000,000
Issued and fully paid:		
8,100,000 ordinary shares of HK\$100 each	810,000	810,000

32. RESERVES AND RETAINED PROFITS

	Notes	Group		Bank	
		2005	2004	2005	2004
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Share premium:					
At beginning of year and balance sheet date		43,935	43,935	43,935	43,935
Group reconstruction reserve:					
At beginning of year and balance sheet date		3,065	3,065	–	–
General reserve:					
At beginning of year and balance sheet date		232,640	232,640	230,640	230,640
Capital reserve:					
At beginning of year and balance sheet date		17,660	17,660	3,660	3,660
Asset revaluation reserve:					
At beginning of year		175,739	124,659	146,779	103,927
Surplus on revaluation	24	43,424	68,785	39,719	58,812
Revaluation reserve released on disposal of buildings		–	(6,965)	–	(6,965)
Deferred tax charge	30	(7,426)	(10,740)	(6,778)	(8,995)
At balance sheet date		211,737	175,739	179,720	146,779
Total at beginning of year		473,039	421,959	425,014	382,162
Total at balance sheet date		509,037	473,039	457,955	425,014

32. RESERVES AND RETAINED PROFITS (cont'd)

The Group's reserves are all retained by the Bank and its subsidiaries.

	Notes	Group		Bank	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Retained profits:					
At beginning of year		443,093	393,634	368,440	325,202
Opening adjustments upon the adoption of new accounting policies	2.4(e)	39,355	–	39,355	–
Net profit for the year		86,592	104,864	79,005	98,643
Revaluation reserve released on disposal of buildings		–	6,965	–	6,965
Interim dividend	11	(15,390)	(24,300)	(15,390)	(24,300)
Proposed final dividend	11	(31,995)	(38,070)	(31,995)	(38,070)
At balance sheet date		521,655	443,093	439,415	368,440

33. LOANS TO DIRECTORS AND OFFICERS

Loans granted by the Group to directors and officers, disclosed pursuant to Section 161B(9) of the Hong Kong Companies Ordinance, are as follows:

	2005 HK\$'000	2004 HK\$'000
Aggregate amount of principal and interest outstanding at end of year	740	3,349
Maximum aggregate amount of principal and interest outstanding during the year	6,183	14,362

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

Included in the above balance was a loan granted by the Group to an officer, which was secured by a property at a fair value of HK\$350,000 as at 31st December, 2005.

34. OFF-BALANCE SHEET EXPOSURE**(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 and of the Bank outstanding at the balance sheet date:

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

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

Group and Bank

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

34. OFF-BALANCE SHEET EXPOSURE (cont'd)**(b)** (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.

(c) Capital commitments

The Group's and the Bank's capital commitments in respect of purchases of fixed assets as at the balance sheet date were as follows:

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

35. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases its investment properties (note 25) 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, 2005, the Group and the Bank had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group and Bank	
	2005	2004
	HK\$'000	HK\$'000
Within one year	1,191	724
In the second to fifth years, inclusive	88	321
	1,279	1,045

(b) As lessee

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

At 31st December, 2005, the Group and the Bank had total future minimum lease payments under non-cancellable operating leases falling due as follows:

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

36. RELATED-PARTY TRANSACTIONS

The Group is controlled by AFH which owns 100% of the ordinary shares of the Bank.

The Bank has entered into a number of banking transactions with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. In addition to those disclosed elsewhere in the financial statements, the details of related party transactions, related expenses and income for the year and outstanding balances as at year end are as follows:

	Notes	Group 2005 HK\$'000	2004 HK\$'000
Related party transactions included in the income statement:			
Management fees to the ultimate holding company	(a)	–	4,500
Rental income from the ultimate holding company	(b)	291	169
Interest paid to the ultimate holding company	(c)	75	–
Interest paid to fellow subsidiaries	(c)	4,018	904
Interest paid to key management personnel	(c)	2,575	735
Interest income from key management personnel	(d)	104	78
Commission income from fellow subsidiaries	(e)	2,843	2,517

Details of compensation for key management personnel, which are the directors of the Group, and post-employment benefits of the Group are included in note 8 to the financial statements.

	Notes	Group 2005 HK\$'000	2004 HK\$'000
Related party transactions included in the assets and liabilities of the Group:			
Deposit from the ultimate holding company	(c)	1,333	1,231
Deposits from fellow subsidiaries	(c)	354,431	554,553
Loan to key management personal	(d)	321	2,637
Interest payable to fellow subsidiaries	(c)	577	219
Interest receivable from key management personnel	(d)	11	2
Customer deposits from key management personnel	(c)	102,171	80,982
Amount payable to the ultimate holding company	(f)	2,059	4,750
Amounts payable to fellow subsidiaries	(f)	3,421	3,421
Amount receivable from the ultimate holding company	(g)	2,075	–
Amounts receivable from fellow subsidiaries	(f)	3,808	8,183

36. RELATED-PARTY TRANSACTIONS (cont'd)

Notes:

- (a) *The management fees arose from administrative services provided by the ultimate holding company to the Group in 2004. They were charged based on cost incurred by the ultimate holding company during the year. Management of the ultimate holding company decided not to charge the Group the management fees for the year 2005.*
- (b) *The rental income was derived from properties rented to the ultimate holding company as its office. The related lease arrangement was renewed on 1st January, 2005 for a term of two years at a monthly rental of approximately HK\$25,000.*
- (c) *The ultimate holding company, fellow subsidiaries, and key management personnel placed deposits with the Group at the prevailing market rates. Interest expense/payables were paid by the Group for the year in respect of the placements. The balances were included in customer deposits in the balance sheet.*
- (d) *Interest income was received for mortgage loan was granted to one of the directors of the Group.*
- (e) *The commission income was received from Asia Insurance Company, Limited, for referral of insurance business for the year.*
- (f) *The balances represented accounts receivable from/accounts payables to the ultimate holding company and fellow subsidiaries for the sale/purchase of debt/equity investments, respectively, during the year.*
- (g) *The balance represented accounts receivable from the ultimate holding company for the transfer of an unlisted available-for-sale security to the ultimate holding company during the year.*

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, convertible bonds, other interest-bearing loans, finance leases, and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets such as trade bills, held-to-maturity securities, loans and advances, available-for-sale securities and securities measured at fair value through profit and loss, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

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

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk, foreign currency risk and market risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.5 to the financial statements.

Risk Management

The Group has established policies and procedures for the control and monitoring of credit, liquidity, capital, foreign currency, interest rate and market risks, which are reviewed regularly by the Group's management, Credit Committee and Asset and Liability Management Committee. The internal auditors of the Group also perform regular audits to ensure compliance with the policies and procedures.

Interest Rate Risk Management

Interest rate risk is the risk that the Group's position may be adversely affected by a change of market interest rates. The Group's interest rate risk arises primarily from the timing difference in the maturity and the repricing of the Group's interest bearing assets, liabilities and off-balance sheet commitments. The primary objective of interest rate risk management is to limit the potential adverse effects of interest rate movements in net interest income by closely monitoring the net repricing gap of the Group's assets and liabilities. The interest rate risk is managed by the Group's treasury department and monitored by management under limits approved by the directors.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)**Interest Rate Risk Management (cont'd)**

The carrying amounts of financial instruments exposed to interest rate risk based on maturity or repricing as at 31 December 2005 and 2004 are detailed as follows:

2005

	One year or less	Over 1 year but less than 2 years	Over 2 years but less than 3 years	Over 3 years but less than 4 years	Over 5 years	Non- interest bearing	Total
<u>Fixed rate financial assets</u>							
Cash and short-term funds	2,161,576	-	-	-	-	205,062	2,366,638
Derivative receivables	46,525	1,330	-	-	-	-	47,855
Placements with banks and other financial institutions maturing between one and twelve months	361,675	-	-	-	-	-	361,675
Loans and advances and other accounts	438,981	137,923	72,429	30,123	22,336	8,876	710,668
Available-for-sale securities	-	-	-	-	-	6,804	6,804
Certificates of deposit held	235,463	117,352	-	-	19,388	-	372,203
Held-to-maturity securities	589,545	320,888	140,985	181,094	530,037	-	1,762,549
	3,833,765	577,493	213,414	211,217	571,761	220,742	5,628,392
<u>Floating rate financial assets</u>							
Loans and advances and other accounts	8,271,622	-	-	-	-	342,345	8,613,967
Trade bills	35,056	-	-	-	-	-	35,056
Certificates of deposit held	200,118	-	-	-	-	-	200,118
Held-to-maturity securities	1,244,181	-	-	-	-	-	1,244,181
	9,750,977	-	-	-	-	342,345	10,093,322
Less:							
<u>Liabilities</u>							
<u>Fixed rate financial liabilities</u>							
Deposits and balances of banks and other financial institutions	966,379	-	-	-	-	-	966,379
Derivative payables	52,928	-	-	-	-	-	52,928
Deposits from customers	11,509,930	14,861	118	-	-	-	11,524,909
Certificates of deposit issued	-	149,997	-	-	-	-	149,997
	12,529,237	164,858	118	-	-	-	12,694,213
<u>Floating rate liabilities</u>							
Derivative payables	1,596	-	-	-	-	-	1,596
Certificates of deposit issued	1,273,454	-	-	-	-	-	1,273,454
	1,275,050	-	-	-	-	-	1,275,050
Total interest sensitivity gap	(219,545)	412,635	213,296	211,217	571,761	563,087	1,752,451

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)**Interest Rate Risk Management (cont'd)****2004**

	One year or less	Over 1 year but less than 2 years	Over 2 years but less than 3 years	Over 3 years but less than 4 years	Over 5 years	Non- interest bearing	Total
<u>Fixed rate financial assets</u>							
Cash and short-term funds	1,944,410	-	-	-	-	159,629	2,104,039
Placements with banks and other financial institutions maturing between one and twelve months	830,333	-	-	-	-	-	830,333
Loans and advances and other accounts	494,607	139,791	74,503	32,488	71,066	3,992	816,447
Available-for-sale securities	-	-	-	-	-	8,879	8,879
Certificates of deposit held	436,897	171,289	78,000	-	-	-	686,186
Held-to-maturity securities	674,056	116,838	413,137	-	240,560	-	1,444,591
	4,380,303	427,918	565,640	32,488	311,626	172,500	5,890,475
<u>Floating rate financial assets</u>							
Loans and advances and other accounts	7,055,260	-	-	-	-	200,951	7,256,211
Trade bills	54,202	-	-	-	-	-	54,202
Certificates of deposit held	303,788	-	-	-	-	-	303,788
Held-to-maturity securities	495,727	-	-	-	-	-	495,727
	7,908,977	-	-	-	-	200,951	8,109,928
Less:							
<u>Liabilities</u>							
<u>Fixed rate financial liabilities</u>							
Deposits and balances of banks and other financial institutions	579,790	-	-	-	-	12,888	592,678
Deposits from customers	10,598,993	177,667	83	-	-	-	10,776,743
	11,178,783	177,667	83	-	-	12,888	11,369,421
<u>Floating and variable rate liabilities</u>							
Certificates of deposit issued	1,025,000	-	-	-	-	-	1,025,000
Total interest sensitivity gap	85,497	250,251	565,557	32,488	311,626	360,563	1,605,982

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)**Interest Rate Risk Management (cont'd)**

The table below summarises the effective average interest rates at 31st December for monetary financial instruments:

	2005	2004
	Rate (%)	Rate (%)
Assets		
Placements with banks and other financial institutions	3.79	2.50
Loans and advances (including trade bills)	4.38	3.30
Held-to-maturity securities	3.23	2.13
Liabilities		
Deposits and balances of banks and other financial institutions	3.03	1.12
Deposits from customers	2.61	1.11
Certificates of deposits issued	3.08	0.85

Credit Risk Management

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

The Group has a credit risk management process to measure, monitor and control credit risk. Its Credit Policy Manual defines the credit extension and measurement criteria, the credit review, approval and monitoring processes, and the loan classification and provisioning systems. It has a hierarchy of credit authority which approves credit in compliance with the Group's credit policy; exposures are monitored against credit limits and other control limits (such as large exposures and concentration limits); segregation of duties in key credit functions is in place to ensure separate credit control and monitoring; management and recovery of problem credits is handled by an independent work-out team.

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

Credit and compliance audits are periodically held to evaluate the effectiveness of the credit review, approval and monitoring processes and to test the compliance of the established credit policies and procedures.

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

Liquidity Risk Management

Liquidity risk is the risk that the Group cannot meet its current obligation. To manage liquidity risk, the Group has established the liquidity management policy which is reviewed by management and approved by the directors. The Group measures the liquidity of the Group using the statutory liquidity ratio, loan-to-deposit ratio and maturity mismatch portfolio.

The Asset and Liability Management Committee of the Group closely monitors the liquidity of the Group on a periodic basis to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding needs and that the statutory liquidity ratio is always complied with.

Standby facilities are maintained to provide strategic liquidity to meet unexpected, material cash outflows in the ordinary course of business.

Capital Management

The Group's policy is to maintain a strong capital base to support the development of the Group's businesses and to meet the statutory capital adequacy ratio and other regulatory capital requirements. Capital is allocated to the various activities of the Group depending on the risk taken by each business division and in accordance with the requirements of relevant regulatory bodies.

Foreign Currency Risk Management

Foreign currency risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group's foreign exchange risk positions arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures. All foreign exchange positions are managed by the Group's treasury department within limits approved by the directors.

Market Risk Management

Market risk is the risk to the Group's earnings and capital due to changes in the market level of interest rates, securities, foreign exchange and equities as well as the volatilities of those prices.

The Group monitors market risk principally by limits established for transactions and open positions. These limits are reviewed and approved by the directors and are monitored on a daily basis.

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

Market Risk Management (cont'd)

The Group does not actively trade in financial instruments and in the opinion of the directors, the market risk related to trading activities to which the Group is exposed is not material. Accordingly, no quantitative market risk disclosures have been prepared.

Fair value measurement principles

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

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

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

Use of derivatives

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

38. PENDING LITIGATION

A claim for approximately HK\$16 million was brought against a subsidiary of the Bank in 2000 by a client alleging that the subsidiary is liable for compensation on a loss of profit suffered by the client in a transaction happened in 1997. The Group's legal advisors had reviewed the evidence submitted by the plaintiff and advised that the Bank has grounds to defend against the claim. Currently, the Bank is making attempts to achieve an out-of-court settlement. In this endeavour, a reliable estimate as to the outcome of the claim is unable to be made.

The directors do not expect the above litigation to have any significant impact on the Group as, following the transfer of the entire equity interests in the subsidiary from a fellow subsidiary (the "Former Holding Company") to the Bank during the year ended 31st December, 2002, the Former Holding Company has given a guarantee to the Bank on the above litigation to the extent of HK\$16 million.

39. POST BALANCE SHEET EVENT

In addition to those events disclosed elsewhere in these financial statements, the Group had the following significant post balance sheet event:

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

40. COMPARATIVE AMOUNTS

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

41. APPROVAL OF THE FINANCIAL STATEMENTS

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

The following information does not form part of the financial statements on which the audit opinion is issued.

Segment information

(a) By geographical area

The Group operates predominantly in Hong Kong. The geographical analysis is based on the location of the principal operations of the Bank, its subsidiaries and branches which are responsible for reporting the results or booking the assets.

For the years 2005 and 2004, over 90% of the Group's total operating income (net of interest expense), profit before tax, total assets, total liabilities, contingent liabilities and commitments were derived from the operation of the Group's banking business in Hong Kong.

In addition, over 90% of the Group's gross advance to customers, overdue and impaired loans and other types of credit exposures, including those arising from off-balance sheet transactions, as at 31st December, 2005 and 31st December, 2004 were located in Hong Kong, after taking into account the transfer of risk in respect of such advances, where appropriate.

(b) By class of business

The Group has the following main business segments:

The retail and commercial banking segment comprises the provision of deposit account services, wealth management services, the extension of mortgages and consumer lending, hire purchase and leasing, provision of services and financing activities for customers in trading, manufacturing and various business sectors.

The treasury and other activities segment comprises treasury business, securities trading and stockbroking. Treasury business includes foreign exchange activities, centralised cash management for deposit taking and lending, interest rate risk management, management of investment in securities and the overall funding management of the Group.

The corporate segment items mainly comprise the central management unit, bank buildings and any items which cannot be reasonably allocated to specific business segments.

Segment information (cont'd)
(b) By class of business (cont'd)
Year 2005

	Retail and commercial banking HK\$'000	Treasury and other activities HK\$'000	Corporate HK\$'000	Consolidated HK\$'000
Interest income from				
– external customers	370,889	244,023	–	614,912
– other segments	261,680	27,078	463,988	752,746
	632,569	271,101	463,988	1,367,658
Interest expense to				
– external customers	(264,073)	(75,048)	(35,939)	(375,060)
– other segments	(274,007)	(189,981)	(288,758)	(752,746)
	(538,080)	(265,029)	(324,697)	(1,127,806)
Net interest income	94,489	6,072	139,291	239,852
Other operating income	31,248	40,405	3,490	75,143
Operating expenses	(72,352)	(9,408)	(77,451)	(159,211)
Impairment losses and allowances	(62,156)	522	6,782	(54,852)
Write-back of impairment allowance against a loan to a jointly-controlled entity	–	–	3,500	3,500
Share of profits and losses of a jointly-controlled entity	–	–	1,900	1,900
Profit/(loss) before tax	(8,771)	37,591	77,512	106,332

Segment information (cont'd)
(b) By class of business (cont'd)

Year 2004

	Retail and commercial banking HK\$'000	Treasury and other activities HK\$'000	Corporate HK\$'000	Consolidated HK\$'000
Interest income from				
– external customers	240,355	130,658	–	371,013
– other segments	103,094	8,083	135,349	246,526
	<u>343,449</u>	<u>138,741</u>	<u>135,349</u>	<u>617,539</u>
Interest expense to				
– external customers	(98,994)	(16,281)	(9,805)	(125,080)
– other segments	(54,123)	(81,226)	(111,177)	(246,526)
	<u>(153,117)</u>	<u>(97,507)</u>	<u>(120,982)</u>	<u>(371,606)</u>
Net interest income	190,332	41,234	14,367	245,933
Other operating income	34,464	30,132	3,011	67,607
Operating expenses	(81,988)	(9,932)	(79,951)	(171,871)
Credit/(charge) for bad and doubtful debts	(20,700)	142	(5,663)	(26,221)
Provision against loan to a jointly-controlled entity	–	–	(2,500)	(2,500)
Write-back of impairment allowance against a loan to a jointly-controlled entity	–	–	4,433	4,433
Gain on disposal of a jointly-controlled entity	–	–	2,990	2,990
Gains less losses from disposal of property, plant and equipment	–	–	2,980	2,980
Share of profits and losses of a jointly-controlled entity	–	–	2,400	2,400
Profit/(loss) before tax	<u>122,108</u>	<u>61,576</u>	<u>(57,933)</u>	<u>125,751</u>

Segment information (cont'd)
(c) By industry sector

An analysis of the gross amount of advances to customers by industry sector classified in accordance with the industry categories contained in the "Quarterly Analysis of Loans and Advances and Provisions" (MA(BS)2A) issued by the Hong Kong Monetary Authority is as follows:

	2005	2004
	HK\$'000	HK\$'000 (Restated)
Loans for use in Hong Kong		
Industrial, commercial and financial:		
Property development	204,435	149,293
Property investment	1,468,818	1,133,008
Financial concerns	171,008	138,788
Stockbrokers	59,564	13,238
Wholesale and retail trade	29,446	19,574
Manufacturing	675,978	513,814
Transport and transport equipment	521,219	499,675
Others	1,312,841	1,167,192
Individuals:		
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	287,042	342,564
Loans for the purchase of other residential properties	2,653,803	2,049,628
Credit card advances	14,399	16,172
Others	300,660	343,176
Trade finance	859,754	1,019,526
Loans for use outside Hong Kong	516,936	466,061
	9,075,903	7,871,709

Cross-border claims

The following table illustrates the geographical disclosure of the Group's cross-border claims by type of counterparties on which the ultimate risk lies, and is shown according to the location of the counterparties after taking into account the transfer of risk. An individual country or geographical area is reported if it constitutes 10% or more of the aggregate cross-border claims and was prepared in accordance with the completion instructions contained in the "Return of External Position" (MA(BS)9A) issued by the Hong Kong Monetary Authority.

	Banks and other financial institutions HK\$'million	Public sector entities HK\$'million	Others HK\$'million	Total HK\$'million
As at 31st December, 2005				
1. Asia Pacific excluding Hong Kong	1,701	–	109	1,810
of which:				
Australia	841	–	45	886
2. Western Europe	3,277	–	333	3,610
of which:				
Germany	741	–	4	745
United Kingdom	828	–	15	843
As at 31st December, 2004				
1. Asia Pacific excluding Hong Kong	2,190	2	197	2,389
of which:				
Australia	727	–	47	774
2. Western Europe	2,363	–	176	2,539
of which:				
Germany	539	–	1	540
United Kingdom	522	–	53	575

Currency risk

The following foreign currency exposures are prepared in accordance with the completion instructions contained in the "Return of Foreign Currency Position" (MA(BS)6) issued by the Hong Kong Monetary Authority. Foreign currency exposures with a net position (regardless of sign) constituting 10% or more of the total net position in all foreign currencies of the Group are as follows:

Group

	At 31st December, 2005		
	(in HK\$'million)		
	US Dollars	Others	Total
Spot assets	3,396	1,690	5,086
Spot liabilities	(4,131)	(1,959)	(6,090)
Forward purchases	4,699	977	5,676
Forward sales	(3,863)	(518)	(4,381)
Net long position	101	190	291
			Renminbi
Net structural long position (in HK\$ million)			192

	At 31st December, 2004		
	(in HK\$'million)		
	US Dollars	Others	Total
Spot assets	3,409	1,143	4,552
Spot liabilities	(3,521)	(1,394)	(4,915)
Forward purchases	2,173	1,578	3,751
Forward sales	(1,990)	(1,230)	(3,220)
Net long position	71	97	168
			Renminbi
Net structural long position (in HK\$ million)			94

Overdue and rescheduled loans

The gross amount of the Group's and the Bank's overdue and rescheduled loans included in loans and advances and other accounts as at 31st December, 2005 and 2004, analysed by overdue period is as follows:

Group

	2005		2004	
	Gross amount (net of suspended interest) HK\$'000	Percentage of total loans and advances	Gross amount (net of suspended interest) HK\$'000	Percentage of total loans and advances
Loans overdue for:				
Six months or less but over three months	37,999	0.42	2,227	0.03
One year or less but over six months	2,557	0.03	13,619	0.17
Over one year	69,101	0.76	94,026	1.19
	109,657	1.21	109,872	1.39
Rescheduled loans	12,691	0.14	10,422	0.13
	122,348	1.35	120,294	1.52

Note: Rescheduled loans which have been overdue for over three months are included in the overdue loans as disclosed above.

Overdue and rescheduled loans (cont'd)

As at 31st December, 2005, the total value of the repossessed assets of the Group amounted to HK\$40 million (2004: HK\$79 million).

Bank

	2005		2004	
	Gross amount (net of suspended interest) HK\$'000	Percentage of total loans and advances	Gross amount (net of suspended interest) HK\$'000	Percentage of total loans and advances
Loans overdue for:				
Six months or less but over three months	37,999	0.42	2,227	0.03
One year or less but over six months	2,557	0.03	13,619	0.17
Over one year	69,101	0.76	93,556	1.18
	109,657	1.21	109,402	1.38
Rescheduled loans	12,691	0.14	10,422	0.13
	122,348	1.35	119,824	1.51

Note: Rescheduled loans which have been overdue for over three months are included in the overdue loans as disclosed above.

Capital adequacy ratios

	2005	2004
Adjusted capital adequacy ratio at 31st December	16.70%	17.92%
Unadjusted capital adequacy ratio at 31st December	17.15%	18.11%

The unadjusted capital adequacy ratio was computed in accordance with the Third Schedule of the Banking Ordinance.

The unadjusted capital adequacy ratios as at 31st December, 2005 and 31st December, 2004 were computed on a consolidated basis and include the Bank and four of its subsidiaries, namely Hocomban Investments Limited, AFH Credit Limited, Asia Commercial Bank (Trustee) Limited and Asia Commercial Bank (Nominees) Limited.

Capital adequacy ratios (cont'd)

The adjusted capital adequacy ratio which takes into account market risk was computed in accordance with the Guideline "Maintenance of Adequate Capital Against Market Risks" issued by the Hong Kong Monetary Authority and on the same consolidated basis as for the unadjusted capital adequacy ratio.

The components of the total capital base as at the balance sheet date after deductions as reported under Part I of the "Capital Adequacy Return" (MA(BS)3) are set out below:

	2005 HK\$'000	2004 HK\$'000
Core capital:		
Paid-up ordinary share capital	810,000	810,000
Share premium	43,935	43,935
Reserves (eligible for inclusion in core capital)	706,217	609,064
Eligible supplementary capital:		
Reserves on revaluation of land and interests in land	134,967	123,016
Collective impairment allowances for impaired assets and regulatory reserve	91,110	–
General provisions for doubtful debts	–	78,864
Total capital base before deductions	1,786,229	1,664,879
Deductions from total capital base	(111,757)	(114,540)
Total capital base after deductions	1,674,472	1,550,339

Liquidity ratio

	2005	2004
Average liquidity ratio for the year ended 31st December	47.12%	45.42%

The average liquidity ratio was computed in accordance with the Fourth Schedule of the Banking Ordinance.

The average liquidity ratio is the simple average of calendar months' average liquidity ratios, which was computed on a non-consolidated basis and includes only the Head Office and branches of the Bank operating in Hong Kong.

Corporate Governance

The Group is committed to high standards of corporate governance. To accomplish this, the Group exercises corporate governance through the following Committees:

1. Executive Committee

The Executive Committee consists of executive directors and is responsible for the management of the businesses of the Group in all aspects and the implementation of strategic business plans and policies approved and formulated by the Directors.

2. Audit Committee

The Audit Committee is authorised by the directors to investigate any activity within its terms of reference. Its main duties include discussion with external auditors about the nature and scope of the audit, to review the Group's financial statements before submission to the directors and to review the Group's internal audit programme, internal control and compliance systems. The Audit Committee comprises Non-executive directors appointed by the directors, and a majority of them are independent non-executive directors.

3. Credit Committee

The Credit Committee is responsible for making decisions on application for all types of credit facilities within its limits set out in the Credit Policy and in particular, to monitor the lending portfolio for managing the overall credit risk of the Group. It comprises the Chief Executive Officer, General Manager(s), and the Heads of marketing divisions.

4. Asset and Liability Management Committee

The Asset and Liability Management Committee reviews and assesses the risk profile and balance sheet structure of the Group, sets out the objective for the asset and liability management function and implements relevant risk management strategy. This is monitored and managed within a framework of approved policies and limits, and is reported regularly to the Executive Committee. The Asset and Liability Management Committee comprises the Chief Executive Officer, General Manager(s), Treasurer, Financial Controller, Risk Manager and the Heads of major business divisions.

Corporate Governance (cont'd)

5. Investment Committee

The Investment Committee formulates, reviews and approves policies and strategies regarding the Group's investment portfolio and management of funds. It comprises the Chief Executive Officer, the General Manager(s), the Treasurer, Financial Controller, Risk Manager and the Heads of major business divisions.

6. Special Assets Unit ("SAU") Steering Committee

The SAU Steering Committee is responsible for the formulation and implementation of strategies for problem accounts. It also provides guidance and directions for the execution of problem assets through the SAU. The Committee comprises the General Manager(s), Heads of marketing divisions, Credit Manager and the Head of SAU.

7. IT Steering Committee

The IT Steering Committee is responsible for establishing policies and strategies for the computerisation of the Group, recommending to management on major acquisitions of computer hardware and software, and monitoring the progress of the implementation of all information technology related projects. The Committee comprises the Chief Executive Officer, General Manager(s), Heads of marketing divisions, Head of Internal Audit, Head of Operations, Financial Controller and the Head of Information Technology.