

**DAO HENG BANK GROUP LIMITED**  
(Incorporated in Bermuda with limited liability)

**DIRECTORS' REPORT AND ACCOUNTS**

**FOR THE 18 MONTH PERIOD ENDED**

**31ST DECEMBER 2001**

**DAO HENG BANK GROUP LIMITED**  
(Incorporated in Bermuda with limited liability)

**REPORT OF THE DIRECTORS**

The directors of Dao Heng Bank Group Limited (the “Company”) submit their report together with the audited accounts of the Company and the Group for the 18 month period (the “period”) ended 31st December 2001.

**Principal activities**

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are shown in Note 22 to the accounts.

**Change of financial year end date**

The Company became a subsidiary of DBS Group Holdings Limited (“DBSH”) on 29th June 2001. As the financial year end date of DBSH is 31st December the Board of Directors of the Company resolved to change the financial year end date from 30th June to 31st December to facilitate the preparation of group consolidated accounts. The accounts of the Company were thus prepared for a period of 18 months from 1st July 2000 to 31st December 2001.

**Results and appropriations**

The results of the Group for the period ended 31st December 2001 are set out in the consolidated profit and loss account on page 6.

For the 18 months ended 31st December 2001 an interim dividend of HK\$0.4 (year ended 30th June 2000: HK\$0.30) per share totalling HK\$278,801,000 (year ended 30th June 2000: HK\$208,306,000) was paid on 17th April 2001 and a second interim dividend of HK\$0.484 per share totalling HK\$344,544,000 was paid on 12th September 2001 (year ended 30th June 2000: Nil).

As of the date of this report, the directors have not yet recommended a final dividend in respect of the 18 month period ended 31st December 2001. The directors will propose a final dividend in respect of the six months ended 31st December 2001 in accordance with the Composite Offer and Response Document relating to the voluntary conditional offer by DBS Diamond Holdings Ltd to acquire the whole of the issued share capital of the Company, and will be recognised as an appropriation of retained earnings in the accounts for the year ending 31st December 2002.

**Reserves**

Details of the movements in the reserves of the Company and the Group during the period are set out in Note 29 to the accounts.

**Donations**

Donations made by the Group during the period amounted to HK\$1,312,000 (year ended 30th June 2000: HK\$675,000).

**Share capital**

Details of the movements in share capital of the Company are set out in Note 28 to the accounts.

**Fixed assets**

Details of the movements in fixed assets during the period are set out in Note 23 to the accounts.

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**Directors**

The directors during the financial period and up to the date of this report were:-

Philippe Paillart – Chairman	(appointed on 29th June 2001)
Kwek Leng Hai	
Randolph Gordon Sullivan - Chief Executive	
Jackson Peter Tai	(appointed on 29th June 2001)
Ng Kee Choe	(appointed on 29th June 2001 and resigned on 27th July 2001)
Fock Siew Wah	(appointed on 29th June 2001)
Leung Chun Ying	(appointed on 21st July 2001)
Fung Kwok King, Victor	(appointed on 21st July 2001)
Cheng Wai Chee, Christopher	(appointed on 21st July 2001)
Chan Tak Kin	(appointed on 27th July 2001)
Wong Kwong Shing, Frank	(appointed on 29th June 2001)
Quek Leng Chan - Chairman	(resigned on 29th June 2001)
Sat Pal Khattar	(resigned on 21st July 2001)
Kwek Leng San	(resigned on 29th June 2001)
Tung Hsi Hui, Frank	(resigned on 21st July 2001)
Mishal Abdulah Abdulaziz Al Masad	(resigned on 10th November 2000)
Peter Anthony Wakefield	(appointed on 15th December 2000 and resigned on 29th June 2001)
Sir Jack Cater	(resigned on 31st March 2001)
Harry Richard Wilkinson	(resigned on 29th June 2001)
Jamal Al-Babtain	(resigned on 29th June 2001)

In accordance with Clause 102(B) of the Company's Bye-Laws, Messrs. Philippe Paillart, Jackson Peter Tai, Wong Kwong Shing, Frank, Fock Siew Wah, Leung Chun Ying, Fung Kwok King, Victor, Cheng Wai Chee, Christopher and Chan Tak Kin retire at the forthcoming annual general meeting and, being eligible, offers themselves for re-election.

**Interests in contracts**

Under a services agreement entered into in 1982 with Hong Leong Overseas (H.K.) Limited ("HLO"), Dao Heng Bank Limited ("DHB"), a subsidiary of the Company, pays to HLO an annual fee equal to three per cent of the consolidated profit before tax of DHB for the provision of certain senior executives and other management services by HLO to DHB. Either party may terminate the agreement by giving not less than six months' notice in writing. Messrs. Quek Leng Chan, Kwek Leng Hai and Kwek Leng San are directors of HLO and are interested in this agreement as shareholders of Hong Leong Company (Malaysia) Berhad ("HLCM"), the indirect holding company of HLO. Mr. Kwek Leng Hai, who had been the Chief Executive of DHB during the period, is also entitled to receive a salary together with benefits as an executive director during the period. To facilitate transition on change of control, the services agreement has been extended until 31st December 2002 on the same terms.

DHB entered into a services agreement in 1993 with Guoco Management Company Limited ("GMCL"), a wholly owned subsidiary of Guoco Group Limited ("Guoco"), the former ultimate holding company, for the provision of various management, administrative, financial and legal services to companies in the Guoco group on a cost reimbursement basis. Either party may terminate the agreement by giving not less than three months' notice in writing.

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On 27th January 2000, a service agreement (the “Service Agreement”) was entered into between Dao Heng Bank, Inc. (“DHBI”), which was formerly 60% owned by DHB, and DHB pursuant to which DHB agreed to engage the services of the IT Systems Development Center (“IT Center”) of DHBI on the basis of reimbursement of the actual and allocated expenses incurred by the IT Center plus a 50% mark-up. The Service Agreement was terminated with effect from 1st April 2001.

The Group provides a number of services to Guoco and subsidiaries of, and companies related to, HLCM in the ordinary course of its banking business including, inter alia, loan advances, deposits, cheque clearing, remittance, the provision of account services in a variety of currencies, nominee and custodian services and occasionally short term credit accommodation. All services provided by the Group are in the ordinary course of business and on normal commercial terms.

Certain companies in the Guoco group regularly conduct banking, investment, insurance, stockbroking and other activities in the ordinary course of business and on normal commercial terms with subsidiaries of, and companies related to, HLCM. Messrs. Quek Leng Chan, Kwek Leng Hai and Kwek Leng San are directors of Guoco and are interested in such transactions as shareholders of HLCM.

Apart from the above, no contract of significance, to which the Company or any of its subsidiaries or its holding companies or any fellow subsidiaries was a party and in which a director of the Company had a material interest, subsisted at the end of the period or at any time during the period.

**Arrangements to acquire shares**

Guoco operates an Executive Share Option Scheme (“Guoco Scheme”) enabling eligible employees, including former and present directors of the Company, to acquire shares in Guoco. In December 1999, Messrs. Quek Leng Chan, Kwek Leng Hai, Randolph Gordon Sullivan, Sat Pal Khattar, Kwek Leng San and Harry Richard Wilkinson were granted options to subscribe for shares in Guoco pursuant to the Guoco Scheme. Up to the end of the financial period or date of resignation, whichever is the earlier, Mr. Kwek Leng Hai, Mr. Randolph Gordon Sullivan and Mr. Harry Richard Wilkinson had exercised their share options in Guoco.

A Share Option Scheme was maintained by the Company during the period, under which eligible employees (including directors) of the Group were entitled to the grant of share options for subscription of shares in the Company. Details of share options granted and exercised are set out in Note 28 to the accounts.

The DBSH Share Option Scheme (the “Option Scheme”) was adopted by the shareholders of DBS Group Holdings Limited (“DBSH”), the Company’s ultimate holding company, at an Extraordinary General Meeting held on 18th September 1999, to replace the DBS Bank Share Option Scheme (“DBS Bank Option Scheme”) implemented by The Development Bank of Singapore Ltd (“DBS Bank”) following the restructuring of DBS Bank as a wholly-owned subsidiary of DBSH. The Option Scheme was terminated on 18th October 1999 and the outstanding existing DBSH options will continue to remain valid until the date of expiration of the relevant DBS Bank options which they respectively replaced.

The DBSH Share Option Plan (the “DBSH Option Plan”) was adopted by the shareholders of DBSH at an Extraordinary General Meeting held on 18th September 1999 to replace the DBS Bank Share Option Plan (the “DBS Bank Option Plan”) implemented by DBS Bank. The DBS Bank Option Plan had, in turn, been adopted by the shareholders of DBS Bank at an Extraordinary General Meeting of DBS Bank held on 19th June 1999 to replace the DBS Bank Option Scheme.

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During the period, options to subscribe for a total of 905,000 shares in DBSH were granted to Messrs. Philippe Paillart, Randolph Gordon Sullivan, Jackson Peter Tai, Wong Kwong Shing, Frank, Ng Kee Choe and Chan Tak Kin pursuant to the above DBSH option arrangements. None of the directors had acquired shares in DBSH by exercising options granted pursuant to the DBSH option arrangements during the period under review.

Apart from the above, at no time during the period was the Company or any of its subsidiaries or its holding companies or any fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

**Compliance with the guideline on “Financial Disclosure by Locally Incorporated Authorized Institution”**

The Group has fully complied with the requirements set out in the guideline on “Financial Disclosure by Locally Incorporated Authorized Institutions” issued by the Hong Kong Monetary Authority.

**Auditors**

PricewaterhouseCoopers were appointed as auditors of the Company by the directors to fill the casual vacancy occasioned by the resignation of KPMG during the period. A resolution for the re-appointment of PricewaterhouseCoopers as auditors of the Company to hold office until the conclusion of the next annual general meeting will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Director

Hong Kong, 7th February 2002

**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
DAO HENG BANK GROUP LIMITED**  
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We have audited the accounts set out on pages 6 to 43 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of directors and auditors**

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts 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 accounts and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the company 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 accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the company and the Group as at 31st December 2001 and of the Group's profit and cash flows for the period then ended, and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 7th February 2002

**DAO HENG BANK GROUP LIMITED**  
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**CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE 18 MONTH PERIOD ENDED 31ST DECEMBER 2001**

	Note	18 months ended 31st December 2001 HK\$'000	12 months ended 30th June 2000 HK\$'000
Interest income	3	13,206,146	9,694,698
Interest expense	4	<u>(8,862,702)</u>	<u>(6,544,097)</u>
Net interest income		4,343,444	3,150,601
Other operating income	5	<u>1,466,914</u>	<u>773,486</u>
Operating income		5,810,358	3,924,087
Operating expenses	6	(2,755,858)	(1,571,395)
Restructuring charges	7	<u>(255,999)</u>	<u>-</u>
Operating profit before provisions		2,798,501	2,352,692
Charge for bad and doubtful debts	8	<u>(983,037)</u>	<u>(365,910)</u>
Operating profit		1,815,464	1,986,782
Profit / (loss) on disposal of fixed assets		13,938	(33,701)
Net gain on disposal of investment securities and held-to-maturity securities	9	<u>112,823</u>	<u>6,442</u>
Share of profit of a jointly controlled entity		<u>1,942,225</u>	<u>1,959,523</u>
		58,472	31,250
Profit before taxation		2,000,697	1,990,773
Taxation	11	<u>(218,716)</u>	<u>(267,644)</u>
Profit after taxation		1,781,981	1,723,129
Minority interests		<u>1,183</u>	<u>6,955</u>
Profit attributable to shareholders	12	1,783,164	1,730,084
Dividends	13	<u>(624,560)</u>	<u>(833,951)</u>
Retained earnings for the period		<u>1,158,604</u>	<u>896,133</u>

**DAO HENG BANK GROUP LIMITED**  
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**CONSOLIDATED BALANCE SHEET  
AS AT 31ST DECEMBER 2001**

	Note	31st December 2001 HK\$'000	30th June 2000 HK\$'000
<b>Assets</b>			
Cash and short-term funds	14	26,637,890	30,886,869
Placements with banks and other financial institutions maturing between one and twelve months		9,599,383	10,654,760
Certificates of deposit held	15	707,085	588,417
Other investments in securities	16	1,999,701	1,797,041
Held-to-maturity securities	17	16,757,853	25,250,803
Advances to customers less provisions	18	71,580,844	65,337,115
Investment securities	20	254,960	109,247
Interest in a jointly controlled entity	21	68,980	35,973
Fixed assets	23	4,669,509	5,032,880
Other assets	24	2,921,037	2,293,324
Total assets		<u>135,197,242</u>	<u>141,986,429</u>
<b>Liabilities</b>			
Deposits and balances of banks and other financial institutions		4,058,391	4,415,026
Current, fixed, savings and other deposits of customers		92,537,823	101,759,435
Certificates of deposit issued		3,679,615	7,060,751
Other accounts and provisions	27	18,121,644	13,406,959
Amount due to a jointly controlled entity	21	786,745	591,358
7.75% fixed rate subordinated notes	25	2,039,995	2,039,459
Total liabilities		<u>121,224,213</u>	<u>129,272,988</u>
<b>Capital resources</b>			
Minority interests		<u>-</u>	<u>170,872</u>
Shareholders' funds			
Share capital	28	2,750,125	2,683,890
Reserves	29	11,222,904	9,858,679
		<u>13,973,029</u>	<u>12,542,569</u>
Total capital resources		<u>13,973,029</u>	<u>12,713,441</u>
Total liabilities and capital resources		<u>135,197,242</u>	<u>141,986,429</u>

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**BALANCE SHEET**  
**AS AT 31ST DECEMBER 2001**

	Note	31st December 2001 HK\$'000	30th June 2000 HK\$'000
<b>Assets</b>			
Cash and short-term funds			
- deposits with a subsidiary bank	14	381,473	102,140
Other investments in securities	16	8,929	9,116
Investments in subsidiaries	22	230,885	80,885
Amounts due from subsidiaries		5,076,231	5,757,843
Other assets	24	684	681
Total assets		<u>5,698,202</u>	<u>5,950,665</u>
<b>Liabilities</b>			
Other accounts and provisions		2,416	1,206
Proposed dividend		-	625,611
Total liabilities		<u>2,416</u>	<u>626,817</u>
<b>Shareholders' funds</b>			
Share capital	28	2,750,125	2,683,890
Reserves	29	2,945,661	2,639,958
Shareholders' funds		<u>5,695,786</u>	<u>5,323,848</u>
Total liabilities and shareholders' funds		<u>5,698,202</u>	<u>5,950,665</u>

**DAO HENG BANK GROUP LIMITED**  
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**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE 18 MONTH PERIOD ENDED 31ST DECEMBER 2001**

	Note	18 months ended 31st December 2001 HK\$'000	12 months ended 30th June 2000 HK\$'000
<b>Net cash outflow from operating activities</b>	34(a)	<u>(8,655,514)</u>	<u>(4,042,506)</u>
<b>Returns on investments and servicing of finance</b>			
Dividends paid		(1,250,171)	(659,460)
Interest paid for certificates of deposit issued		(669,403)	(499,119)
Interest paid for 7.75% fixed rate subordinated notes		(239,487)	(162,216)
Dividends received on equity investments		24,756	3,185
		<u>(2,134,305)</u>	<u>(1,317,610)</u>
<b>Net cash outflow from returns on investments and servicing of finance</b>			
<b>Taxation</b>			
Hong Kong profits tax paid		(165,202)	(70,714)
Overseas tax paid		(7,909)	(9,354)
		<u>(173,111)</u>	<u>(80,068)</u>
<b>Tax paid</b>			
<b>Investing activities</b>			
Repayment of loan capital from a jointly controlled entity		15,000	-
Placements from a jointly controlled entity		195,387	89,522
Purchase of fixed assets		(204,801)	(696,054)
Proceeds from disposal of fixed assets		29,668	157,689
Disposal of subsidiary	34(d)	(30,820)	-
		<u>4,434</u>	<u>(448,843)</u>
<b>Net cash inflow / (outflow) from investing activities</b>			
<b>Net cash outflow before financing</b>			
		<u>(10,958,496)</u>	<u>(5,889,027)</u>
<b>Financing</b>			
Issue of certificates of deposit		2,474,391	5,885,000
Issue of share capital		374,034	31,281
Redemption of certificates of deposit		(5,855,797)	(6,298,096)
Redemption of 7.75% fixed rate subordinated notes		-	(50,313)
		<u>(3,007,372)</u>	<u>(432,128)</u>
<b>Net cash outflow from financing</b>			
<b>Decrease in cash and cash equivalents</b>			
		<u>(13,965,868)</u>	<u>(6,321,155)</u>
<b>Cash and cash equivalents at 1st July</b>			
		31,384,177	37,721,524
<b>Effect of foreign exchange movements</b>			
		<u>(26,663)</u>	<u>(16,192)</u>
<b>Cash and cash equivalents at period end</b>			
	34(c)	<u>17,391,646</u>	<u>31,384,177</u>

**DAO HENG BANK GROUP LIMITED**  
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**CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES  
FOR THE 18 MONTH PERIOD ENDED 31ST DECEMBER 2001**

	Note	18 months ended 31st December 2001 HK\$'000	12 months ended 30th June 2000 HK\$'000
Gains and losses recognised directly in equity			
Impairment loss on premises	29(c)	(46,950)	-
Exchange differences arising on translation of net investments in overseas branches and subsidiary companies	29(e)	(55,228)	(41,678)
Profit attributable to shareholders for the period		<u>1,783,164</u>	<u>1,730,084</u>
<b>Total recognised gains for the period</b>		<u>1,680,986</u>	<u>1,688,406</u>

**NOTES TO THE ACCOUNTS**

**1 Principal activities**

The principal activities of the Company and its subsidiaries (the “Group”) are the provision of banking and related financial services.

**2 Principal accounting policies**

**(a) Basis of preparation**

The accounts have been prepared under the historical cost convention modified by the revaluation of certain fixed assets and investments in securities, and in accordance with accounting principles generally accepted in Hong Kong and comply with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants (“HKSA”).

In the current period, the Group has adopted Statement of Standard Accounting Practice No. 14 (revised) “Leases” issued by the HKSA which is effective for accounting periods commencing on or after 1st July 2000.

The Company became a subsidiary of DBS Group Holdings Limited (“DBS Group”) on 29th June 2001. As the financial year end date of DBS Group is 31st December, the financial year end date of the Company was thus changed from 30th June to 31st December to facilitate the preparation of group consolidated accounts.

The accounts of the Group were prepared for a period of 18 months (“the period”) from 1st July 2000 to 31st December 2001. As a result of this change, the comparative amounts for the profit and loss account, changes in equity, cash flow statement and related notes will not be comparable.

**(b) Basis of consolidation**

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31st December. Subsidiaries are those entities in which the group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital. The results of any subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intra-group transactions and balances within the Group are eliminated upon consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the net proceeds of the sale and the Groups’ share of its net assets, excluding any goodwill previously taken to reserves on acquisition and related accumulated foreign currency exchange gains or losses recognised directly in reserves.

**(c) Goodwill**

Goodwill arising on consolidation represents the excess of the cost of investment over the fair value of the Group’s share of the net assets of the subsidiaries, jointly controlled entities and associated companies acquired. The treatment of goodwill arising on each acquisition is determined by the directors according to the particular circumstances of that transaction. However, the practice of the Group is to eliminate goodwill arising on acquisition of subsidiaries, jointly controlled entities and associated companies against reserves in the year of acquisition.

**NOTES TO THE ACCOUNTS**

**2 Principal accounting policies (Continued)**

**(d) *Subsidiary companies***

Investments in subsidiaries are stated in the Company's balance sheet at cost less provision for diminution in value which is other than temporary as determined by the directors. The results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable.

**(e) *Investments in jointly controlled entities***

A joint venture is an entity which operates under a contractual agreement whereby the Group or Company and at least one other party undertake an economic activity which is subject to joint control and none of the parties involved has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the post acquisition results of its jointly controlled entities for the period. In the consolidated balance sheet, investments in jointly controlled entities are accounted for under the equity method and are stated at cost less goodwill and adjusted for the post acquisition change in the Group's share of jointly controlled entities' net assets.

**(f) *Revenue recognition***

- (i) Interest income is recognised in the profit and loss account as it accrues, except in the case of doubtful debts where interest is credited to a suspense account which is netted off against the relevant balances.
- (ii) Fees and commission income are recognised when earned or incurred except where the fees are charged to cover the costs of a continuing service to, or risk borne for, the customer, or are interest in nature. In these cases, the fees are recognised on an appropriate basis over the relevant period.
- (iii) Dividend income is recognised when the right to receive payment is established.
- (iv) Cash rebates granted in relation to residential mortgage loans are capitalised and amortised on a straight-line basis over the prepayment penalty period not exceeding three years.

**(g) *Provisions for bad and doubtful debts***

Provisions are made against specific loans and advances as and when the Group has doubt on the ultimate recoverability of principal or interest in full. Specific provision is made to reduce the carrying value of the asset, taking into account available collateral, to the expected net realisable value based on the Group's assessment of the potential losses on those identified loans and advances on a case-by-case basis. Where it is not possible to estimate the loss realistically, the Group applies pre-determined provisioning levels to the unsecured portion of loans and advances based on the classification of the respective loans and advances.

The Group internally classifies loans and advances into pass, special mention, substandard, doubtful and loss. The classification of loans and advances is largely based on the assessment of the borrower's capacity to repay and on the degree of doubt about the collectibility of interest and/or principal. The periods that payments of interest and/or principal have been overdue are also taken into account when classifying the loans and advances. A specific provision is made against loans and advances where there is doubt about the collectibility of interest and/or principal.

**NOTES TO THE ACCOUNTS**

**2 Principal accounting policies (Continued)**

**(g) Provisions for bad and doubtful debts (Continued)**

In addition, amounts have been set aside as a general provision for bad and doubtful debts. Both specific and general provisions are deducted from "Advances to customers" in the balance sheet.

When there is no realistic prospect of recovery, the outstanding debt is written off.

**(h) Restructuring provision**

The Group provides for costs related to restructuring of the Group's operations which are subject to detailed formal plans that are under implementation or have been communicated to those affected by the plans. Provision is made when it is probable that an outflow of economic resources will arise and the amounts can be reliably estimated. Such provision is recognised in the profit and loss account as "Restructuring charges".

**(i) Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies and the accounts of overseas branches, subsidiaries and associated companies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Share capital is translated at the historical rates of exchange ruling at the respective transaction dates.

Exchange differences on foreign currency translation are dealt with in the profit and loss account with the exception of those arising on the translation of foreign currency accounts of overseas branches, subsidiaries and associated companies which are dealt with in reserves.

**(j) Fixed assets and depreciation**

**(i) Premises**

Premises represents those properties held for own use and are stated at cost or valuation less accumulated impairment losses and depreciation calculated to write off the assets over their estimated useful lives as follows:

- Freehold land is not depreciated.
- Land held on lease is depreciated over the unexpired terms of the leases on a straight line basis.
- Buildings are depreciated at the higher of 2% per annum or over the unexpired terms of the leases on a straight line basis.
- Improvements are depreciated over the lesser of 8 years and the period of the lease.

In preparing these accounts, advantage has been taken of the transitional provisions set out in paragraph 72 of Statement of Standard Accounting Practice No. 17 "Property, plant and equipment" issued by the HKSA, with the effect that premises have not been revalued to fair value at the balance sheet date.

Some of the Group's premises are included at directors' valuation made having regard to independent professional valuations carried out in 1993. The surplus arising on revaluation is credited to the revaluation reserve. Additions to revalued premises made subsequent to the revaluation are included at cost. Premises which have not been the subject of a revaluation are included at cost.

**NOTES TO THE ACCOUNTS**

**2 Principal accounting policies (Continued)**

**(j) Fixed assets and depreciation (Continued)**

On disposal of premises, the profit or loss is determined as the difference between the net sale proceeds and the carrying amount. Any related revaluation surplus is transferred from the revaluation reserve to retained earnings.

(ii) Furniture, fixtures and equipment

Furniture, fixtures and equipment are stated at cost less depreciation calculated on a straight line basis to write off the assets over their estimated useful lives, taken as being between 3 to 15 years.

(iii) Impairment

The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an impairment loss in the profit and loss account, unless it reverses a previous revaluation increase in which case it is charged directly against any related revaluation reserve to the extent that the reduction does not exceed the amount held in the revaluation reserve in respect of the same item.

**(k) Investments in securities**

(i) Held-to-maturity securities

Held-to-maturity securities are dated debt securities which the Group has the expressed intention and ability to hold to maturity. These securities are stated at cost adjusted for the amortisation of premiums or discounts arising on acquisition over the periods to maturity, less provision for diminution in their value which is other than temporary. Provisions are made for the amount of the carrying value which the Group does not expect to recover and are recognised as an expense in the profit and loss account as they arise.

The amortisation of premiums and discounts arising on acquisition of dated debt securities is included as part of interest income. Profits or losses on realisation of held-to-maturity securities are accounted for in the profit and loss account as they arise.

(ii) Investment securities

Securities which are intended to be held on a continuing basis for an identified long term purpose at the time of acquisition, are stated in the balance sheet at cost less any provisions for diminution in value which is other than temporary.

The carrying amounts of investment securities are reviewed as at the balance sheet date in order to assess whether the fair values have declined below the carrying amounts. When such a decline has occurred, the carrying amount is reduced to the fair value unless there is evidence that the decline is temporary. The amount of the reduction is recognised as an expense in the profit and loss account.

Fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

**NOTES TO THE ACCOUNTS**

**2 Principal accounting policies (Continued)**

**(k) Investments in securities (Continued)**

(iii) Other investments in securities

All other investments in securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise. Securities which were acquired principally for the purpose of generating profit from short-term fluctuations in price are classified as “Trading Securities”, all others are classified as “Non-Trading Securities”.

Provisions against the carrying value of held to maturity securities and investment securities are written back when the circumstances and events that led to the write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. The amount written back is limited to the amount of the write-downs or write-offs.

**(l) Deferred taxation**

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or asset is expected to be payable or receivable in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

**(m) Hire purchase contracts and finance leases**

Where the Group is a lessor under finance leases and hire purchase transactions, the amounts due under the leases net of unearned finance income, are recognised as a receivable and are included in “Advances to customers”. Finance income implicit in rentals receivable is credited to the profit and loss account over the lease period so as to produce an approximately constant periodic rate of return on the net investment outstanding for each accounting period. Dealer commissions paid for hire purchase contracts or lease financing loans are included in “Other assets” and are amortised against interest income over the life of the contract or lease term on an effective yield basis.

**(n) Operating leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases net of any incentives received from the lessor are charged to the profit and loss account on a straight line basis over the lease term.

**(o) Sale and repurchase agreements**

Securities sold under sale and repurchase agreements are considered to be, in substance, secured loans. Therefore the securities are maintained on the balance sheet at cost or market value depending on their classification as held to maturity securities, investment securities or other investments in securities and the proceeds of the sale are included in “Current, fixed, savings and other deposits of customers” or “Deposits and balance of banks and other financial institutions” depending on the identity of the counterparty. The difference between the sale price and the repurchase price is amortised to interest expense on an effective yield basis over the period from the date of sale to the date of repurchase.

**NOTES TO THE ACCOUNTS**

**2 Principal accounting policies (Continued)**

**(o) Sale and repurchase agreements (Continued)**

Conversely, securities purchased under agreements to resell are not recognised on the balance sheet and the purchase cost is recorded as “Advances to customers” or “Placements with banks and other financial institutions” depending on the identity of the counterparty. The difference between the purchase price and resale price is amortised to interest income on an effective yield basis over the period from the date of purchase to the date of resale.

**(p) Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition including cash, balance with banks and other financial institutions, treasury bills, other eligible bills and certificates of deposit.

**(q) Off-balance sheet financial instruments**

Off-balance sheet financial instruments arise from futures, forward, swap and option transactions undertaken by the Group in the foreign exchange, interest rate and equity markets. The accounting for these instruments is dependent upon whether the transactions are undertaken for trading purposes or to hedge risk.

Transactions undertaken for trading purposes are carried at fair value and the gain or loss arising is recognised in the profit and loss account. Transactions designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging. Any profit or loss is recognised on the same basis as that arising from the related assets, liabilities or net positions.

Unrealised gains on transactions which are held at fair value are included in “Other assets” in the balance sheet. Unrealised losses on transactions which are held at fair value are included in “Other accounts and provisions”.

**(r) Related party transactions**

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

**3 Interest income**

	18 months ended 31st December 2001 HK\$'000	12 months ended 30th June 2000 HK\$'000
Interest income on listed investments	1,176,273	736,249
Interest income on unlisted investments	2,234,665	1,490,039
Other interest income	9,795,208	7,468,410
	<u>13,206,146</u>	<u>9,694,698</u>

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**4 Interest expense**

Interest expense includes interest on the 7.75% fixed rate subordinated notes amounting to HK\$239,505,000 (12 months ended 30th June 2000: HK\$160,717,000).

**5 Other operating income**

	18 months ended 31st December 2001 HK\$'000	12 months ended 30th June 2000 HK\$'000
Net fee and commission income	1,132,205	653,871
Net income from foreign exchange operations	133,544	63,045
Dividend income from listed investments	18,908	-
Dividend income from unlisted investments	5,848	3,185
Rental income less outgoings	4,901	4,412
Net profits from other dealing activities		
Realised and unrealised gain on other investments	15,668	1,190
Profit from other dealing activities	138,470	31,681
Others	17,370	16,102
	<u>1,466,914</u>	<u>773,486</u>

**6 Operating expenses**

	18 months ended 31st December 2001 HK\$'000	12 months ended 30th June 2000 HK\$'000
Staff costs		
Salaries and other costs	1,452,872	816,133
Pension costs	50,149	57,459
Premises and equipment expenses excluding depreciation		
Rental of premises	76,341	54,977
Utility expenses, repairs and maintenance and others	223,090	133,933
Depreciation	349,542	175,764
Management fees	63,906	61,172
Auditors' remuneration	6,562	6,164
Other operating expenses	533,396	265,793
	<u>2,755,858</u>	<u>1,571,395</u>

The costs above include staff costs and other operating expenses of HK\$79 million relating to retention packages for certain key staff of the Group and other costs incurred as a result of the reorganisation of the Group.

**7 Restructuring charges**

The restructuring charges are related to initiatives to streamline the Group's operating functions and realign certain business activities following the acquisition of the Group by DBS Group. These costs principally comprise severance costs and impairment charges on fixed assets in connection with the planned rationalisation of the Group's branches and replacement of computer systems.

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**NOTES TO THE ACCOUNTS**

**8 Charge for bad and doubtful debts**

	18 months ended 31st December 2001 HK\$'000	12 months ended 30th June 2000 HK\$'000
Advances to customers		
Specific provisions		
New provisions	1,430,948	588,007
Releases	(281,518)	(136,318)
Recoveries	(100,525)	(91,161)
General provisions	(65,868)	5,382
	<u>983,037</u>	<u>365,910</u>

**9 Net gain on disposal of investment securities and held-to-maturity securities**

	18 months ended 31st December 2001 HK\$'000	12 months ended 30th June 2000 HK\$'000
Net (loss) / gain on disposal of investment securities	(431)	1,529
Net gain on disposal of held-to-maturity securities	113,254	4,913
	<u>112,823</u>	<u>6,442</u>

During the period, securities classified as held-to-maturity amounting to HK\$8,560,877,000 (12 months ended 30th June 2000: HK\$3,035,022,000) were sold due to the restructuring of the Group's portfolio following the acquisition of the Group by DBS Group.

**10 Directors' emoluments**

The aggregate amounts of emoluments payable to directors of the Company during the period are as follows:

	18 months ended 31st December 2001 HK\$'000	12 months ended 30th June 2000 HK\$'000
Fees	1,380	1,062
Pension benefit	716	551
Salaries, housing and other allowances and benefits in kind	<u>15,790</u>	<u>15,351</u>
	<u>17,886</u>	<u>16,964</u>

In addition to the above emoluments, certain directors who were granted share options under the Company's Share Option Scheme exercised their share options during the period. The details of these benefits are disclosed in Note 28.

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**11 Taxation**

(a) Taxation in the consolidated profit and loss account represents:

	The Group	
	18 months ended 31st December 2001 HK\$'000	12 months ended 30th June 2000 HK\$'000
Hong Kong profits tax on estimated assessable profit for the year	224,491	308,260
Attributable share of estimated Hong Kong profits tax losses arising from investments in partnerships	<u>(119,475)</u>	<u>(210,516)</u>
	105,016	97,744
Investments in limited partnerships written off	<u>97,735</u>	<u>158,227</u>
	202,751	255,971
Hong Kong profits tax	5,500	6,361
Overseas taxation	<u>208,251</u>	<u>262,332</u>
	10,465	5,312
Share of a jointly controlled entity's taxation	<u>218,716</u>	<u>267,644</u>

The provision for Hong Kong profits tax is calculated at 16% (12 months ended 30th June 2000: 16%) of the estimated assessable profits for the period. Taxation for overseas subsidiaries and branches is charged at the appropriate current rates of taxation ruling in the countries in which they operate.

The Group has entered into a number of aircraft leasing transactions involving special purpose partnerships in which the Group is the only general partner. As at the period end, the Group's investment in such partnerships, which is included in "Other assets" in the balance sheet amounted to HK\$353,793,000 (30th June 2000: HK\$204,115,000). The Group's investments in limited partnerships are amortised over the life of the partnership in proportion to the taxation benefits resulting from those investments. The total assets and liabilities of such partnerships are HK\$2,077 million and HK\$1,442 million respectively, at the period end (30th June 2000: HK\$1,339 million and HK\$878 million, respectively).

(b) Taxation in the balance sheet which is included in "Other accounts and provisions" represents:

	The Group	
	31st December 2001 HK\$'000	30th June 2000 HK\$'000
Hong Kong profits tax payable	92,105	152,291
Overseas taxation payable	<u>1,150</u>	<u>4,180</u>
	<u>93,255</u>	<u>156,471</u>

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**11 Taxation (Continued)**

- (c) No deferred taxation has been provided as there are no material timing differences which would result in a liability payable or an asset receivable in the foreseeable future.

Net deferred taxation assets that have not been recognised in the balance sheet comprise:

	The Group	
	31st December 2001 HK\$'000	30th June 2000 HK\$'000
Depreciation allowances in excess of depreciation charges	(38,810)	(43,705)
General provisions for bad and doubtful debts	116,958	127,610
Tax losses	-	17,740
	<u>78,148</u>	<u>101,645</u>

The surplus arising on the revaluation of premises does not constitute a timing difference as the disposal of these assets at their carrying value would result in capital gains which are not subject to tax.

**12 Profit attributable to shareholders**

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$622,464,000 (12 months ended 30th June 2000: HK\$834,770,000).

**13 Dividends**

	18 months Ended 31st December 2001 HK\$'000	12 months ended 30th June 2000 HK\$'000
Final dividend paid in respect of the previous financial year on shares issued under the share option scheme subsequent to the balance sheet date and before the closure of the Register of Members of the Company	1,215	34
1st Interim dividend paid of HK\$0.4 per share (31st December 1999: HK\$0.30 per share)	278,801	208,306
2nd Interim dividend paid of HK\$0.484 per share	344,544	-
Final dividend paid for 2000 of HK\$0.90 per share	-	625,611
	<u>624,560</u>	<u>833,951</u>

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**14 Cash and short-term funds**

	The Group		The Company	
	31st December 2001 HK\$'000	30th June 2000 HK\$'000	31st December 2001 HK\$'000	30th June 2000 HK\$'000
Cash and balances with banks and other financial institutions	931,180	1,158,961	2,412	182
Money at call and short notice	9,252,527	14,803,890	379,061	101,958
Treasury bills (including Exchange Fund Bills)	16,454,183	14,924,018	-	-
	<u>26,637,890</u>	<u>30,886,869</u>	<u>381,473</u>	<u>102,140</u>

The analysis of treasury bills (including Exchange Fund Bills) is as follows:

	The Group	
	31st December 2001 HK\$'000	30th June 2000 HK\$'000
<b>Held-to-maturity securities, at amortised cost</b>		
Listed outside Hong Kong	-	2,413,818
Unlisted	<u>2,859,596</u>	<u>3,654,192</u>
	<u>2,859,596</u>	<u>6,068,010</u>
<b>Other investments in securities, unlisted, at fair value</b>		
Trading	8,807,008	3,236,563
Non-trading	<u>4,787,579</u>	<u>5,619,445</u>
	<u>13,594,587</u>	<u>8,856,008</u>
	<u>16,454,183</u>	<u>14,924,018</u>

The market value of listed treasury bills as at 30th June 2000 amounted to HK\$2,413,713,000.

**15 Certificates of deposit held**

	The Group	
	31st December 2001 HK\$'000	30th June 2000 HK\$'000
<b>Held to maturity securities, at amortised cost</b>		
Unlisted	<u>660,000</u>	<u>231,182</u>
<b>Trading securities, at fair value</b>		
Listed outside Hong Kong	47,085	47,066
Unlisted	<u>-</u>	<u>310,169</u>
	<u>47,085</u>	<u>357,235</u>
	<u>707,085</u>	<u>588,417</u>

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**16 Other investments in securities**

	The Group	
	31st December 2001 HK\$'000	30th June 2000 HK\$'000
<b>Debt securities</b>		
Listed, trading, at fair value		
- in Hong Kong	1,159,461	445,612
- outside Hong Kong	248,697	-
	1,408,158	445,612
Unlisted, at fair value		
- Trading	336,635	1,049,426
- Non-trading	-	191,596
	1,744,793	1,686,634
<b>Equity securities</b>		
Listed, trading, at fair value		
- in Hong Kong	245,401	96,734
- outside Hong Kong	7,007	12,166
	252,408	108,900
Unlisted, trading, at fair value	2,500	1,507
	254,908	110,407
	1,999,701	1,797,041

Other investments in securities are analysed by issuer as follows:

	31st December 2001 HK\$'000	30th June 2000 HK\$'000
- Central governments and central banks	1,064,268	229,193
- Public sector entities	406,162	961,304
- Banks and other financial institutions	487,530	558,074
- Corporate entities	41,741	48,470
	1,999,701	1,797,041

The other investments in securities held by the Company comprise listed equity securities issued by corporate entities and are at their fair value.

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**17 Held-to-maturity securities**

	The Group	
	31st December 2001 HK\$'000	30th June 2000 HK\$'000
Balance as at 1st July	25,250,803	9,687,622
Amortisation of discount / premium	476,054	299,676
Additions	17,823,658	21,185,670
Amortised cost of securities redeemed	(18,171,862)	(4,993,978)
Amortised cost of securities sold during the period	(8,560,877)	(921,221)
Exchange differences	(59,923)	(6,966)
	<u>16,757,853</u>	<u>25,250,803</u>
Balance as at 31st December 2001 / 30th June 2000		
Listed		
- in Hong Kong	1,450,209	1,841,392
- outside Hong Kong	6,511,667	11,148,305
	<u>7,961,876</u>	<u>12,989,697</u>
Unlisted	8,795,977	12,261,106
	<u>16,757,853</u>	<u>25,250,803</u>
Market value of listed securities	<u>8,009,830</u>	<u>12,983,363</u>
Held-to-maturity securities are analysed by issuer as follows:		
- Central governments and central banks	349,230	4,469,235
- Public sector entities	4,542,605	4,260,444
- Banks and other financial institutions	11,005,242	16,125,090
- Corporate entities	860,776	396,034
	<u>16,757,853</u>	<u>25,250,803</u>

**18 Advances to customers less provisions**

	The Group	
	31st December 2001 HK\$'000	30th June 2000 HK\$'000
Advances to customers	73,226,739	66,877,100
Provisions for bad and doubtful loans and advances (Note 19)		
General	(747,380)	(821,012)
Specific	(898,515)	(718,973)
	<u>71,580,844</u>	<u>65,337,115</u>
Included in advances to customers are:		
Trade bills	665,707	651,198
General provisions	(6,663)	(6,421)
	<u>659,044</u>	<u>644,777</u>

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**NOTES TO THE ACCOUNTS**

**18 Advances to customers less provisions (Continued)**

**(a) Non-performing advances to customers and provisions**

The gross amount of non-performing loans, net of suspended interest, which represent advances on which interest is being placed in suspense or on which interest accrual has ceased, and specific provisions attributable to such loans are as follows:

	The Group			
	31st December 2001		30th June 2000	
	HK\$'000	% of total advances	HK\$'000	% of total advances
Gross non-performing loans	2,092,584	2.86	2,612,377	3.91
Specific provisions made in respect of such advances	<u>(836,617)</u>		<u>(664,264)</u>	
	<u>1,255,967</u>		<u>1,948,113</u>	
Suspended interest	<u>377,820</u>		<u>387,906</u>	

The specific provisions were made after taking into account the value of collateral in respect of such advances.

**(b) Advances to customers include finance lease receivables and hire purchase contracts and are analysed as follows:**

	The Group	
	31st December 2001	30th June 2000
	HK\$'000	HK\$'000
Gross investment in finance leases and hire purchase contracts, receivable :		
Not later than one year	698,038	829,558
Later than one year and not later than five years	2,018,738	2,114,336
Later than five years	<u>4,958,719</u>	<u>3,604,893</u>
Unearned future finance income	<u>7,675,495</u> <u>(205,395)</u>	<u>6,548,787</u> <u>(1,310,012)</u>
Net investment in finance leases and hire purchase contracts	<u>7,470,100</u>	<u>5,238,775</u>

The net investment in finance leases and hire purchase contracts are analysed as follows:

Not later than one year	634,073	539,094
Later than one year and not later than five years	1,908,154	1,600,621
Later than five years	<u>4,927,873</u>	<u>3,099,060</u>
	<u>7,470,100</u>	<u>5,238,775</u>

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**18 Advances to customers less provisions (Continued)**

The unguaranteed residual values included in the gross investment in finance leases and hire purchase contracts as at 31st December 2001 and 30th June 2000 are not considered to be material.

The allowance for uncollectable finance lease receivables and hire purchase contracts included in the provision for bad and doubtful debts amounted to HK\$3,042,000 as at 31st December 2001 (30th June 2000: HK\$51,369,000).

**19 Provisions for bad and doubtful debts**

**31st December 2001**

	The Group			Suspended interest HK\$'000
	Specific HK\$'000	General HK\$'000	Total HK\$'000	
At 1st July 2000	718,973	821,012	1,539,985	387,906
Amounts written off	(919,982)	-	(919,982)	(336,388)
Recoveries of advances written off in previous years	100,525	-	100,525	-
Net charge / (release) to profit and loss account (Note 8)	1,048,905	(65,868)	983,037	-
Interest suspended during the period	-	-	-	403,058
Suspended interest recovered	-	-	-	(75,441)
Exchange differences	(8,084)	(1,504)	(9,588)	(1,315)
Disposal of subsidiary	(41,822)	(6,260)	(48,082)	-
At 31st December 2001	<u>898,515</u>	<u>747,380</u>	<u>1,645,895</u>	<u>377,820</u>

**30th June 2000**

	The Group			Suspended Interest HK\$'000
	Specific HK\$'000	General HK\$'000	Total HK\$'000	
At 1st July 1999	664,694	816,482	1,481,176	301,343
Amounts written off	(392,271)	-	(392,271)	(65,620)
Recoveries of advances written off in previous years	91,161	-	91,161	-
Net charge to profit and loss account (Note 8)	360,528	5,382	365,910	-
Interest suspended during the year	-	-	-	185,394
Suspended interest recovered	-	-	-	(32,742)
Exchange differences	(5,139)	(852)	(5,991)	(469)
At 30th June 2000	<u>718,973</u>	<u>821,012</u>	<u>1,539,985</u>	<u>387,906</u>

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**20 Investment securities**

	The Group	
	31st December 2001 HK\$'000	30th June 2000 HK\$'000
<b>Debt securities</b>		
Listed outside Hong Kong	-	43,559
Unlisted	4,170	51,626
	4,170	95,185
<b>Equity securities</b>		
Listed outside Hong Kong	133	133
Unlisted	250,657	13,929
	250,790	14,062
	254,960	109,247
Market value of listed securities:		
Debt securities	-	43,559
Equity securities	12,349	13,949
Investment securities are analysed by issuer as follows:		
- Central governments and central banks	-	56,571
- Banks and other financial institutions	238,403	15,657
- Corporate entities	12,387	32,480
- Others	4,170	4,539
	254,960	109,247

**21 Interest in a jointly controlled entity**

	The Group	
	31st December 2001 HK\$'000	30th June 2000 HK\$'000
Share of net assets	68,980	35,973
Amount due to a jointly controlled entity	786,745	591,358

Details of the jointly controlled entity are as follows:

<u>Name of Company</u>	<u>Country of incorporation</u>	<u>Principal place of operation</u>	<u>Issued and paid up ordinary shares</u>	<u>Percentage of ordinary shares held by the Group</u>	<u>Principal Activities</u>
Hutchison Dao Heng Card Limited	British Virgin Islands	Hong Kong	1,000,000 shares of HK\$1 each	50	Provision of credit card services

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**22 Investments in subsidiaries**

	The Company	
	31st December 2001 HK\$'000	30th June 2000 HK\$'000
Unlisted shares, at cost	230,885	80,885

Details of the principal subsidiaries incorporated and operating in Hong Kong are as follows:

<u>Name of Company</u>	<u>Issued and paid up ordinary share capital</u>	Percentage held		<u>Principal activities</u>
		by the Company	Group	
DHB Limited	5,000,000 shares of HK\$100 each	100	-	Investment holding
Dao Heng Assurance Limited	150,000,000 shares of HK\$1 each	100	-	Insurance
Dao Heng Bank Limited	5,200,000,000 shares of HK\$1 each	-	100	Banking
Dao Heng Finance Limited	250,000 shares of HK\$100 each	-	100	Finance
Dao Heng Bank Trustee Limited	30,000 shares of HK\$100 each	-	100	Trustee services
Dao Heng Corporate Services Limited	500,000 shares of HK\$1 each	-	100	Investment holding and corporate services
Ting Hong Nominees Limited	10,000 shares of HK\$1 each	-	100	Nominee services
Hang Lung Bank (Nominee) Limited	100 shares of HK\$100 each	-	100	Nominee services
Hang Lung Godown Company, Limited	3,500,000 shares of HK\$1 each	-	100	Property holding
OTB Card Company Limited	700,000 shares of HK\$100 each	-	100	Property investment
Overseas Trust Bank, Limited	2,000,000,000 shares of HK\$1 each	-	100	Banking
EFI Nominees Limited	2 shares of HK\$1 each	-	100	Nominee services
Overseas Trust Bank Nominees Limited	50,000 shares of HK\$1 each	-	100	Nominee services

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**22 Investments in subsidiaries (Continued)**

Name of Company	Issued and paid up ordinary share capital	Percentage held by the		Principal activities
		Company	Group	
O.T.B. Investment Limited	50,000 shares of HK\$1 each	-	100	Share and property Investment
OTB Property Management Limited	10,000 shares of HK\$1 each	-	100	Property Management

(b) Details of the principal subsidiaries incorporated and operating outside Hong Kong are as follows:

Name of Company	Country of incorporation and operation	Issued and paid up ordinary share capital	Percentage held by the		Principal activities
			Company	Group	
Dao Heng Bank (London) Plc	United Kingdom	20,000,000 shares of £1 each	-	100	Banking
Dao Heng Nominees Limited	United Kingdom	2 shares of £1 each	-	100	Nominee services
Dao Heng Bank Trustee (BVI) Limited	British Virgin Islands	250,000 shares of US\$1 each	-	100	Trustee services
Dao Heng Trustee (Jersey) Limited	Jersey	100,000 shares of £1 each	-	100	Corporate services
Dransfield Resources Limited	British Virgin Islands	1 share of US\$1 each	-	100	Property investment

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**NOTES TO THE ACCOUNTS**

**23 Fixed assets**

The Group	Premises HK\$'000	Furniture, Fixtures and Equipment HK\$'000	Total HK\$'000
Cost or valuation			
As at 1st July 2000	4,998,652	750,668	5,749,320
Additions	49,191	155,610	204,801
Disposals	(25,608)	(43,716)	(69,324)
Transfers	(14,739)	14,739	-
Exchange differences	(2,249)	(4,425)	(6,674)
As at 31st December 2001	<u>5,005,247</u>	<u>872,876</u>	<u>5,878,123</u>
Accumulated depreciation			
As at 1st July 2000	292,475	423,965	716,440
Charge for the period	164,036	185,506	349,542
Written back on disposals	(10,527)	(32,084)	(42,611)
Transfers	(485)	485	-
Impairment loss (note)	109,050	79,520	188,570
Exchange differences	(994)	(2,333)	(3,327)
As at 31st December 2001	<u>553,555</u>	<u>655,059</u>	<u>1,208,614</u>
Net book value			
As at 31st December 2001	<u>4,451,692</u>	<u>217,817</u>	<u>4,669,509</u>
As at 30th June 2000	<u>4,706,177</u>	<u>326,703</u>	<u>5,032,880</u>

Note

The impairment loss is in respect of closure of certain branches and write-downs of certain furniture, fixtures and equipment primarily in connection with the Group's restructuring as described in Note 7. Of the total impairment loss, HK\$46,950,000 has been taken against available revaluation reserves and HK\$141,620,000 (Note 34(a)) has been charged against the profit and loss account.

The analysis of net book value of premises is as follows:

	31st December 2001 HK\$'000	30th June 2000 HK\$'000
In Hong Kong		
- Leasehold with over 50 years unexpired	1,427,706	1,434,548
- Leasehold with 10 to 50 years unexpired	2,853,547	3,116,539
- Leasehold with less than 10 years unexpired	20,435	17,394
Outside Hong Kong		
- Freehold	89,583	67,433
- Leasehold with over 50 years unexpired	-	2,598
- Leasehold with 10 to 50 years unexpired	60,421	67,665
	<u>4,451,692</u>	<u>4,706,177</u>

The analysis of cost and valuation of premises is as follows:

	31st December 2001 HK\$'000	30th June 2000 HK\$'000
At cost	2,724,185	2,705,390
At directors' valuation in October 1993	2,281,062	2,293,262
	<u>5,005,247</u>	<u>4,998,652</u>

All other fixed assets are stated at cost.

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**NOTES TO THE ACCOUNTS**

**23 Fixed assets (Continued)**

Included within Premises are properties with a total net book value of HK\$29,098,000 (30th June 2000: HK\$21,338,000) which is leased to third parties, which would qualify to be treated as investment properties. Management have reviewed the carrying value of the properties against their open market value and have concluded that the net book value is not materially different from the open market value.

**24 Other assets**

	The Group		The Company	
	31st December 2001 HK\$'000	30th June 2000 HK\$'000	31st December 2001 HK\$'000	30th June 2000 HK\$'000
Accrued interest	714,748	1,092,033	314	314
Other accounts	2,206,289	1,201,291	370	367
	<u>2,921,037</u>	<u>2,293,324</u>	<u>684</u>	<u>681</u>

**25 7.75% Fixed rate subordinated notes**

The 7.75% fixed rate subordinated notes ("Notes") with an aggregate principal amount of US\$350 million were issued by a subsidiary, Dao Heng Bank Limited ("DHB") on 24th January 1997. The Notes will mature on 24th January 2007. Interest is payable on 24th January and 24th July of each year.

**26 Maturity profile**

31st December 2001	The Group						
	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
<b>Assets</b>							
- Cash and short-term funds	931,179	18,607,707	7,099,004	-	-	-	26,637,890
- Placements with banks and other financial institutions maturing between one and Twelve months	-	3,619,598	5,979,785	-	-	-	9,599,383
- Certificates of deposit held	-	-	247,085	460,000	-	-	707,085
- Other investments in securities - debt Securities	-	60,311	677,462	607,955	399,065	-	1,744,793
- Advances to customers (excluding provisions)	4,358,340	8,755,232	5,748,912	19,139,684	32,882,647	2,341,924	73,226,739
- Held to maturity securities	-	1,185,135	3,406,119	11,638,253	528,346	-	16,757,853
- Investment securities - debt securities	-	-	-	-	-	4,170	4,170
	<u>5,289,519</u>	<u>32,227,983</u>	<u>23,158,367</u>	<u>31,845,892</u>	<u>33,810,058</u>	<u>2,346,094</u>	<u>128,677,913</u>
<b>Liabilities</b>							
- Deposits and balances of banks and other financial institutions	184,058	3,523,343	350,990	-	-	-	4,058,391
- Current, fixed, savings and other deposits of customers	15,604,649	71,738,722	5,139,168	55,284	-	-	92,537,823
- Certificates of deposit issued	-	722,000	1,131,392	1,726,223	100,000	-	3,679,615
- 7.75% Fixed rate subordinated notes	-	-	-	-	2,039,995	-	2,039,995
	<u>15,788,707</u>	<u>75,984,065</u>	<u>6,621,550</u>	<u>1,781,507</u>	<u>2,139,995</u>	<u>-</u>	<u>102,315,824</u>

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**NOTES TO THE ACCOUNTS**

**26 Maturity profile (Continued)**

30th June 2000	The Group						
	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
<b>Assets</b>							
- Cash and short-term funds	1,279,805	21,886,686	7,720,378	-	-	-	30,886,869
- Placements with banks and other financial institutions maturing between one and twelve months	-	9,364,758	1,290,002	-	-	-	10,654,760
- Certificates of deposit held	-	360,102	-	228,315	-	-	588,417
- Other investments in securities - debt securities	-	173,457	292,281	759,868	460,248	780	1,686,634
- Advances to customers (excluding provisions)	4,706,986	7,421,886	5,027,911	14,899,292	31,863,502	2,957,523	66,877,100
- Held to maturity securities	-	2,075,723	6,908,781	15,449,518	816,781	-	25,250,803
- Investment securities - debt securities	-	-	182	79,986	8,657	6,360	95,185
	<u>5,986,791</u>	<u>41,282,612</u>	<u>21,239,535</u>	<u>31,416,979</u>	<u>33,149,188</u>	<u>2,964,663</u>	<u>136,039,768</u>
<b>Liabilities</b>							
- Deposits and balances of banks and other financial institutions	170,859	4,244,167	-	-	-	-	4,415,026
- Current, fixed, savings and other deposits of customers	11,469,891	77,613,491	8,152,389	4,495,941	20,512	7,211	101,759,435
- Certificates of deposit issued	-	230,000	2,807,751	3,923,000	100,000	-	7,060,751
- 7.75% Fixed rate subordinated notes	-	-	-	-	2,039,459	-	2,039,459
	<u>11,640,750</u>	<u>82,087,658</u>	<u>10,960,140</u>	<u>8,418,941</u>	<u>2,159,971</u>	<u>7,211</u>	<u>115,274,671</u>

**27 Other accounts and provisions**

	The Group	
	31st December 2001 HK\$'000	30th June 2000 HK\$'000
Proposed dividend	-	625,611
Short positions in securities	15,261,355	9,709,298
Others	2,860,289	3,072,050
	<u>18,121,644</u>	<u>13,406,959</u>

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**NOTES TO THE ACCOUNTS**

**28 Share capital**

	The Company	
	31st December 2001 HK\$'000	30th June 2000 HK\$'000
Authorised:		
2,000,000,000 shares of US\$0.50 each	<u>7,724,500</u>	<u>7,724,500</u>
Issued and fully paid:		
711,868,000 (30th June 2000: 694,723,200) shares of US\$0.50 each	<u>2,750,125</u>	<u>2,683,890</u>

During the period, the Company did not repurchase any of its own shares.

Share Option Scheme:

A Share Option Scheme (“Scheme”) was adopted by the Company on 22nd November 1993 under which eligible employees (including directors) of the Group are entitled to the grant of share options for subscription of shares in the Company.

Former and present directors of the Company, Messrs. Quek Leng Chan, Kwek Leng Hai, Randolph Gordon Sullivan, Sat Pal Khattar, Kwek Leng San, Tung Hsi Hui, Frank and Harry Richard Wilkinson, were granted options to subscribe for shares in the Company pursuant to the Scheme. Up to the end of the financial period or date of resignation, whichever is the earlier, Mr. Kwek Leng Hai, Randolph Gordon Sullivan, Sat Pal Khattar, Tung Hsi Hui, Frank and Harry Richard Wilkinson had exercised their share options in the Company.

Options were granted in respect of a total of 20,135,000 ordinary shares under the Scheme to various directors and executives of the Company. Such options are exercisable at the subscription price of HK\$21.82 per share during the period from 15th April 1998 to 15th July 2002.

During the period, 17,144,800 (12 months ended 30th June 2000: 1,435,000) share options were exercised to subscribe for 17,144,800 (12 months ended 30th June 2000: 1,435,000) shares in the Company at a consideration (net of charges) of HK\$374,034,158 (12 months ended 30th June 2000: HK\$31,280,847) of which HK\$66,234,697 (12 months ended 30th June 2000: HK\$5,543,765) was credited to share capital and the balance of HK\$307,799,461 (12 months ended 30th June 2000: HK\$25,737,082) was credited to the share premium account. Pursuant to the rules of the Scheme and the offer made by DBS Diamond Holdings Ltd, a subsidiary of DBS Group, a total of 280,000 share options lapsed or were cancelled during the period. At 31st December 2001, no share options were outstanding (30th June 2000: 17,424,800).

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**NOTES TO THE ACCOUNTS**

**29 Reserves**

	The Group		The Company	
	31st December 2001 HK\$'000	30th June 2000 HK\$'000	31st December 2001 HK\$'000	30th June 2000 HK\$'000
(a) Share premium				
As at 1st July	2,412,794	2,387,057	2,415,794	2,390,057
Shares issued under Share Option Scheme	<u>307,799</u>	<u>25,737</u>	<u>307,799</u>	<u>25,737</u>
As at 31st December 2001/ 30th June 2000	<u>2,720,593</u>	<u>2,412,794</u>	<u>2,723,593</u>	<u>2,415,794</u>
(b) General reserve				
As at 1st July and 31st December 2001/ 30th June 2000	<u>828,039</u>	<u>828,039</u>	<u>-</u>	<u>-</u>
(c) Revaluation reserve (undistributable)				
As at 1st July	633,660	633,660	-	-
Amount realised upon disposals	(6,509)	-	-	-
Impairment loss (Note 23)	<u>(46,950)</u>	<u>-</u>	<u>-</u>	<u>-</u>
As at 31st December 2001/ 30th June 2000	<u>580,201</u>	<u>633,660</u>	<u>-</u>	<u>-</u>
(d) Contributed surplus				
As at 1st July and 31st December 2001/ 30th June 2000	<u>149,981</u>	<u>149,981</u>	<u>150,581</u>	<u>150,581</u>
(e) Retained earnings				
As at 1st July	5,834,205	4,979,750	73,583	72,764
Retained earnings/(loss) for the period	1,158,604	896,133	(2,096)	819
Revaluation reserve realised on disposal of properties	6,509	-	-	-
Translation of net investments in overseas branches and subsidiary companies	<u>(55,228)</u>	<u>(41,678)</u>	<u>-</u>	<u>-</u>
As at 31st December 2001/30th June 2000	<u>6,944,090</u>	<u>5,834,205</u>	<u>71,487</u>	<u>73,583</u>
	<u>11,222,904</u>	<u>9,858,679</u>	<u>2,945,661</u>	<u>2,639,958</u>

The application of the share premium account is governed by Section 40 of the Companies Act 1981 of Bermuda.

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**NOTES TO THE ACCOUNTS**

**29 Reserves (Continued)**

The contributed surplus is governed by Section 54 of the Companies Act 1981 of Bermuda. The contributed surplus is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The revaluation reserve does not represent realised profits and is not available for distribution.

The general reserve is comprised of transfer from the previous years' retained earnings and is distributable.

The Company's banking subsidiaries operate under regulatory jurisdictions which require the maintenance of minimum capital adequacy ratios and which could therefore potentially restrict the amount of retained earnings which can be distributed to shareholders.

**30 Balances with Group companies**

- (a) Included in the following balance sheet captions are balances with the ultimate holding company as at 31st December 2001 detailed as follows:

	The Group HK\$'000	The Company HK\$'000
Cash and short-term funds	409,363	-
Other assets	707	-
	<u>410,070</u>	<u>-</u>
Deposits and balances of banks and other financial institutions	5,124	-
Other accounts and provisions	55,523	-
	<u>60,647</u>	<u>-</u>

- (a) Included in the following balance sheet captions are balances due to the former ultimate holding company as at 30th June 2000 detailed as follows:

	The Group HK\$'000	The Company HK\$'000
Current, fixed, savings and other deposits of customers	63,615	-
Other accounts and provisions	117	-
	<u>63,732</u>	<u>-</u>

- (a) Included in the following balance sheet captions are balances due from and due to fellow subsidiaries as at 31st December 2001 detailed as follows:

	The Group HK\$'000	The Company HK\$'000
Cash and short-term funds	185	-
Other assets	1,792	-
	<u>1,977</u>	<u>-</u>
Other accounts and provisions	912	-

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**NOTES TO THE ACCOUNTS**

**30 Balances with Group companies (Continued)**

Included in the following balance sheet captions are balances due from and due to former fellow subsidiaries as at 30th June 2000 detailed as follows:

	The Group HK\$'000	The Company HK\$'000
Other assets	9,471	-
Current, fixed, savings and other deposits of customers	180,646	-
Other accounts and provisions	1,138	-
	<u>181,784</u>	<u>-</u>

**31 Material related party transactions**

(a) Transactions with ultimate holding company and fellow subsidiaries

As part of the Group's normal course of business, it entered into various transactions with its current and former ultimate holding company and fellow subsidiaries on normal commercial terms. These transactions includes interbank placements, taking of deposits and foreign exchange and derivatives.

Information relating to income and expenses from these transactions during the period and balances outstanding at the balance sheet date are set out below:

(i) Income and expenses for the 6 months ended 31st December 2001 with ultimate holding company

	6 months ended 31st December 2001 HK\$'000
Interest income	723
Interest expense	9
Other income	9,298
Other expenses	<u>10,497</u>

(ii) Income and expenses for the period/year ended 30th June with the former ultimate holding company and fellow subsidiaries

	12 months ended 30th June 2001 HK\$'000	12 months Ended 30th June 2000 HK\$'000
Interest income	47	94
Interest expense	31,558	24,167
Other income	10,800	-
Other expenses	<u>66,230</u>	<u>15,085</u>

**NOTES TO THE ACCOUNTS**

**31 Material related party transactions (Continued)**

(ii) Balances as at 31st December

Details of balances due from and due to the ultimate holding company and fellow subsidiaries are set out in Note 30 "Amounts due from and due to the ultimate holding company and fellow subsidiaries".

(iii) Mandatory provident fund scheme

The Group's former fellow subsidiary is the investment manager of its Mandatory Provident Fund Scheme. During the 12 month period ended 30th June 2001, the Group made a total contribution of HK\$48.4 million (12 months ended 30th June 2000: HK\$60.6 million) to the scheme.

(b) Transactions with companies in the Hong Leong Company (Malaysia) Berhad Group ("HLCM")

(i) Banking transactions

During the 12 month period ended 30th June 2001, the Group entered into a number of transactions in the normal course of business with companies in the HLCM Group, including deposit and correspondent banking transactions. Messrs. Quek Leng Chan, Kwek Leng Hai and Kwek Leng San, present and former directors of the Group, are shareholders of HLCM. The contracts were priced based on relevant market rates at the time of each transaction, and were under the same terms as those available to the independent counterparties and customers of the Group.

Interest expenses incurred from these transactions during the 12 month period ended 30th June 2001 were HK\$1,625,000 (12 months ended 30th June 2000: HK\$2,512,000)

(ii) Management fee

Dao Heng Bank Limited, a subsidiary of the Company, has entered into management services agreements, which may be terminated by either party giving six months' notice in writing, with Hong Leong Overseas (H.K.) Limited ("HLO"), a subsidiary of HLCM, for the provision of certain senior executives and other management services to the Group by HLO. Total management fees (mainly an annual fee equal to three percent of the consolidated profit before tax of the Group) paid and payable to HLO for the 18 month period ended 31st December 2001 amounted to HK\$63.9 million (12 months ended 30th June 2000: HK\$61.2 million).

(c) Transactions with a jointly controlled entity

Under the Joint Venture Agreement (the "Agreement") between the Dao Heng Bank Limited ("DHBL"), a subsidiary of the Company, Whampoa Limited and Hutchison Dao Heng Card Limited ("HDHCL"), DHBL issues and services credit cards under the Compass brand. The Compass credit card receivable balances are included under "Advances to customers" in the Group's balance sheet. Under the Agreement, loan losses on the Compass cards are borne by HDHCL and accordingly, no provisions have been made in the Group accounts for these balances. The revenues and expenses (including interest income and expense, fee income and loan losses) associated with the Compass cards are recognised by the Group through its 50% share of net profits of HDHCL in the "Share of profit of a jointly controlled entity" line in the Group's consolidated accounts.

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**31 Material related party transactions (Continued)**

(c) Transactions with a jointly controlled entity (Continued)

DHBL provided an interest free shareholders' loan to the jointly controlled entity, Hutchison Dao Heng Card Limited ("HDHCL") during the period. The loan balance of HK\$15 million was fully repaid during the period ended 31st December 2001.

Deposits taken from the jointly controlled entity amounted to HK\$545 million as at 31st December 2001 (30th June 2000: HK\$450 million). Interest expense for the period ended 31st December 2001 payable to HDHCL amounted to HK\$51million (12 months ended 30th June 2000: HK\$35 million). The transactions were priced based on relevant market rates at the time of each transaction and were under normal commercial terms. Gross service fee income from HDHCL to the Group for the period ended 31st December 2001 amounted to HK\$183 million (12 months ended 30th June 2000: HK\$98 million).

(d) Transactions with key management personnel

Loans and credit card advances as at 31st December 2001 for key management personnel of the Group amounted to HK\$17 million (30th June 2000: HK\$34 million). All interest rates in connection with the credit facilities extended are under terms and conditions normally applicable to customers of comparable standing. The interest income from key management personnel receivable by the Group for the period ended 31st December 2001 amounted to HK\$1 million (12 months ended 30th June 2000: HK\$1 million).

**32 Off-balance sheet exposures**

(a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment:

	The Group	
	31st December 2001 HK\$'000	30th June 2000 HK\$'000
Direct credit substitutes	668,077	606,011
Transaction-related contingencies	258,338	206,611
Trade-related contingencies	2,201,223	2,203,314
Other commitments with an original maturity of under 1 year or which are unconditionally cancellable	36,707,871	27,045,777
	39,835,509	30,061,713

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**32 Off-balance sheet exposures (Continued)**

(b) Derivatives

The following is an analysis of the aggregate notional amount of each significant type of derivative:

	31st December 2001			30th June 2000		
	Trading HK\$'000	Others HK\$'000	Total HK\$'000	Trading HK\$'000	Others HK\$'000	Total HK\$'000
Exchange rate contracts						
Spot and forwards	423,419	2,461,501	2,884,920	140,312	4,117,927	4,258,239
Swaps	81,776,031	2,726,443	84,502,474	22,054,972	7,294,510	29,349,482
Options purchased	507,015	-	507,015	93,874	-	93,874
Options written	525,530	-	525,530	30,198	-	30,198
Interest rate contracts						
Forwards and futures	8,451,780	-	8,451,780	4,000,131	-	4,000,131
Swaps	47,614,352	1,931,662	49,546,014	17,756,625	6,891,243	24,647,868
Options purchased	-	38,988	38,988	-	38,978	38,978
Equity contracts						
Options purchased	-	654,653	654,653	-	131,547	131,547
Options written	-	654,653	654,653	-	131,547	131,547
	<u>139,298,127</u>	<u>8,467,900</u>	<u>147,766,027</u>	<u>44,076,112</u>	<u>18,605,752</u>	<u>62,681,864</u>

Other transactions refer to transactions which are not entered into for trading purposes. These transactions include those which are initiated in response to customer demand and are done on a back to back basis and those entered into for the hedging of risk.

(c) Contract amounts, credit risk-weighted amounts and replacement costs

The contract amounts, credit risk-weighted amounts and replacement costs of the above off-balance sheet exposures are as follows:

The following amounts are shown on a gross basis without taking into account the effect of bilateral netting arrangements.

	31st December 2001			30th June 2000		
	Contact amount HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Contact amount HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000
Contingent liabilities and commitments	39,835,509	1,078,537	-	30,061,713	1,050,339	-
Derivatives						
- Exchange rate contracts	88,419,939	214,860	118,012	33,731,793	112,686	112,007
- Interest rate contracts	58,036,782	112,992	483,399	28,686,977	65,611	250,663
- Equity contracts	1,309,306	26,703	4,221	263,094	7,668	1,228
	<u>187,601,536</u>	<u>1,433,092</u>	<u>605,632</u>	<u>92,743,577</u>	<u>1,236,304</u>	<u>363,898</u>

The contract amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date; they do not represent amounts at risk.

**NOTES TO THE ACCOUNTS**

**32 Off-balance sheet exposures (Continued)**

(c) Contract amounts, credit risk-weighted amounts and replacement costs (Continued)

The credit risk-weighted amounts are the amounts which have been 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 of each type of contract.

Replacement cost is the cost of replacing all contracts which have a positive value when marked to market (should the counterparty default on its obligations) and is obtained by marking to market contracts with a positive value. Replacement cost is a close approximation of the credit risk for these contracts at the balance sheet date.

**33 Capital and lease commitments**

(a) Capital commitments

Capital commitments outstanding at the balance sheet date not provided for in the accounts are as follows:

	The Group	
	31st December 2001 HK\$'000	30th June 2000 HK\$'000
Expenditure authorised and not provided for	32,070	54,959
Expenditure authorised but not contracted for	117,375	39,849
	149,445	94,808

**33 Capital and lease commitments (Continued)**

(b) Lease commitments

At the balance sheet date, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group			
	31st December 2001		30th June 2000	
	Properties HK\$'000	Others HK\$'000	Properties HK\$'000	Others HK\$'000
Within 1 year	40,552	4,052	40,610	12,520
After 1 year but within 5 years	24,762	710	42,376	435
After 5 years	-	-	4,560	-
	65,314	4,762	87,546	12,955

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**NOTES TO THE ACCOUNTS**

**34 Reconciliation for cash flow statement**

**(a) Reconciliation of operating profit to net cash outflow from operating activities**

	18 months ended 31st December 2001 HK\$'000	12 months ended 30th June 2000 HK\$'000
Operating profit	1,815,464	1,986,782
Net gain on disposal of investment securities and held-to-maturity securities	112,823	6,442
Charge for bad and doubtful debts	983,037	365,910
Impairment losses on fixed assets	141,620	-
Depreciation	349,542	175,764
Advances written off net of recoveries	(819,457)	(301,110)
Profit on disposal of the 7.75% fixed rate subordinated notes	-	(3,989)
Dividend income from equity investments	(24,756)	(3,185)
Interest expense for certificates of deposit issued	649,728	504,285
Interest expense for the 7.75% fixed rate subordinated notes	239,505	160,717
Net cash inflow from trading activities	3,447,506	2,891,616
Net increase in money at call and short notice (repayable beyond three months)	(1,272,541)	(2,831)
Net increase in treasury bills (repayable beyond three months)	(2,113,172)	(2,798,360)
Net (increase)/decrease in placements with banks and other financial institutions (repayable beyond three months)	(5,309,836)	2,056,537
Net (increase)/decrease in certificates of deposits	(118,668)	1,134,443
Net (increase)/decrease in other investments	(202,660)	460,069
Net decrease/(increase) in held-to-maturity securities	8,492,950	(15,832,889)
Net increase in advances to customers	(6,876,411)	(454,461)
Net (increase)/decrease in investment securities	18,426	33,462
Net increase in other assets	(640,003)	(751,333)
Net decrease in deposits and balances of bank and other financial institutions	(355,581)	(22,622)
Net (decrease)/increase in current, fixed, saving and other deposits of customers	(8,962,691)	8,687,973
Net increase in other accounts and provisions	5,346,465	557,953
Exchange differences and other adjustments	(109,298)	(2,063)
Net cash outflow from operating activities	<u>(8,655,514)</u>	<u>(4,042,506)</u>

**DAO HENG BANK GROUP LIMITED**  
(Incorporated in Bermuda with limited liability)

**NOTES TO THE ACCOUNTS**

**34 Reconciliation for cash flow statement (Continued)**

**(b) Analysis of changes in financing during the period**

	Share capital including share premium HK\$'000	Certificates of deposit issued HK\$'000	7.75% Fixed rate Subordinated Notes HK\$'000	Minority interests HK\$'000
Balance as at 1st July 1999	5,065,403	7,469,173	2,083,820	166,956
Cash inflow from financing	31,281	5,885,000	-	-
Cash outflow from financing	-	(6,298,096)	(50,313)	-
Minority interests' share of loss	-	-	-	(6,955)
Profit upon early redemption	-	-	(3,989)	-
Effect of foreign exchange movements	-	4,674	9,941	10,871
Balance as at 1st July 2000	5,096,684	7,060,751	2,039,459	170,872
Cash inflow from financing	374,034	2,474,391	-	-
Cash outflow from financing	-	(5,855,797)	-	-
Minority interests' share of loss	-	-	-	(1,183)
Effect of foreign exchange movements	-	270	536	(27,075)
Disposal of a subsidiary	-	-	-	(142,614)
Balance as at 31st December 2001	5,470,718	3,679,615	2,039,995	-

**(c) Analysis of the balances of cash and cash equivalents**

	31st December 2001 HK\$'000	30th June 2000 HK\$'000
Cash and balances with banks and other financial institutions	931,180	1,158,961
Money at call and short notice repayable with original maturity within three months	7,950,392	14,774,296
Placements with banks and other financial institutions repayable with original maturity within three months	2,999,545	9,364,758
Treasury bills repayable with original maturity within three months	5,510,529	6,086,162
	<u>17,391,646</u>	<u>31,384,177</u>

**DAO HENG BANK GROUP LIMITED**  
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**NOTES TO THE ACCOUNTS**

**34 Reconciliation for cash flow statement (Continued)**

**(d) Disposal of subsidiary**

During the period, the Group disposed of its interest in Dao Heng Bank Inc., a subsidiary of the Group. The fair value of the assets and liabilities disposed of were as follows:

	HK\$'000
Cash and balances with banks and other financial institutions	25,519
Advances to customers	526,772
Other assets	12,290
Treasury bills	12,675
Investment securities	48,828
Fixed assets	10,983
Deposits and balance of banks and other financial institutions	(1,054)
Current, fixed and savings deposits of customers	(258,921)
Other accounts and provisions	(21,511)
	<u>355,581</u>
Less: Minority interests	<u>(142,614)</u>
	<u>212,967</u>
Satisfied by the fair value of equity securities received	<u>(212,967)</u>
Analysis of net cash outflow in respect of disposal of subsidiary:	HK\$'000
Cash consideration received	-
Cash and cash equivalents disposed	<u>(30,820)</u>
Net cash outflow in respect of disposal of subsidiary	<u>(30,820)</u>

The consideration received comprised an equity interest in Banco de Oro Universal Bank ("BDO"), a bank in the Philippines which is included in Investment Securities in Note 20.

**35 Loans to officers**

Particulars of relevant loans disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance:

	Aggregate amount of relevant loans outstanding at period/year end		Maximum aggregate amount of relevant loans outstanding during the period/year	
	31st December 2001 HK\$'000	30th June 2000 HK\$'000	31st December 2001 HK\$'000	30th June 2000 HK\$'000
Relevant loans made by subsidiary banks	<u>-</u>	<u>1,381</u>	<u>15,564</u>	<u>5,032</u>

**DAO HENG BANK GROUP LIMITED**  
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**NOTES TO THE ACCOUNTS**

**36 Assets pledged as security**

The aggregate amount of secured liabilities and the nature and carrying values of the assets pledged as security are as follows:

	The Group	
	31st December 2001 HK\$'000	30th June 2000 HK\$'000
Secured liabilities	<u>15,261,355</u>	<u>16,367,288</u>
Assets pledged as security		
- Treasury bills	13,537,170	11,734,000
- Other securities	<u>2,755,047</u>	<u>5,366,787</u>
	<u>16,292,217</u>	<u>17,100,787</u>

**37 Comparative figures**

Interest income and expense from dealing activities which were previously classified as trading profit and loss and were disclosed as "Net profits from other dealing activities" are now included in "Interest income" and "Interest expense". The corresponding comparative amounts have also been adjusted accordingly.

Certain other comparative amounts in the accounts have been reclassified to conform to the current year presentation.

**38 Ultimate holding company**

The ultimate holding company at 31st December 2001 is DBS Group Holdings Ltd, a listed company incorporated in Singapore.

**39 Approval of accounts**

The accounts were approved by the board of directors on 7th February 2002.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

The following information is disclosed as part of the accompanying information to the accounts and does not form part of the audited accounts

### 1 Capital adequacy and liquidity ratios

	31st December 2001	30th June 2000
Capital adequacy ratio	<u>22.89%</u>	<u>22.62%</u>
Adjusted capital adequacy ratio	<u>22.61%</u>	<u>22.18%</u>
Average liquidity ratio for the 18 month / 12 month period	<u>47.15%</u>	<u>49.02%</u>

The capital adequacy ratio represents the consolidated ratio of Dao Heng Bank Limited Group as required by the Hong Kong Monetary Authority for its regulatory purposes, and is computed in accordance with the Third Schedule of the Banking Ordinance.

The adjusted capital adequacy ratio represents the capital adequacy ratio adjusted to take into account market risk as at the balance sheet date computed in accordance with the guideline "Maintenance of Adequate Capital against Market Risks" issued by the Hong Kong Monetary Authority.

The average liquidity ratio is the simple average of each calendar month's average liquidity ratio for the relevant period calculated for Hong Kong offices of Dao Heng Bank Limited, and is in accordance with the Fourth Schedule of the Banking Ordinance.

### 2 Components of capital base after deductions

The capital base after deductions used in the calculation of the above capital adequacy ratios as at the period end and reported to the Hong Kong Monetary Authority is analysed as follows:

	31st December 2001 HK\$'000	30th June 2000 HK\$'000
Core capital		
Paid up ordinary share capital	5,200,000	5,200,000
Share premium	31,351	31,351
Reserves (eligible for inclusion in core capital)	7,518,588	6,456,568
Minority interests	-	170,872
	<u>12,749,939</u>	<u>11,858,791</u>
Supplementary capital		
Reserve on revaluation of land and interests in land	395,207	437,398
General provisions for doubtful debts	747,380	821,012
Term subordinated debt	2,039,995	2,039,459
	<u>3,182,582</u>	<u>3,297,869</u>
Gross and eligible value of supplementary capital		
	<u>3,182,582</u>	<u>3,297,869</u>
Total capital base before deductions	15,932,521	15,156,660
Deductions from total capital base	<u>(545,222)</u>	<u>(106,984)</u>
Total capital base after deductions	<u>15,387,299</u>	<u>15,049,676</u>

The capital base represents the consolidated capital base of Dao Heng Bank Limited Group as at the period end computed in accordance with the Third Schedule of the Banking Ordinance.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 3 Currency concentrations

HK\$' million	The Group		
	US\$	Others	Total
<b>At 31st December 2001</b>			
Hong Kong dollar equivalents			
Spot assets	30,587	8,975	39,562
Spot liabilities	(29,795)	(8,767)	(38,562)
Forward purchases	44,280	2,296	46,576
Forward sales	(42,858)	(2,465)	(45,323)
Net options position	18	-	18
Net long non-structural position	2,232	39	2,271
Net structural position	-	238	238
<b>At 30th June 2000</b>			
Hong Kong dollar equivalents			
Spot assets	35,939	7,610	43,549
Spot liabilities	(36,173)	(7,689)	(43,862)
Forward purchases	18,664	5,113	23,777
Forward sales	(15,828)	(4,954)	(20,782)
Net long non-structural position	2,602	80	2,682
Net structural position	-	628	628

The net options position is calculated using the worst case approach and the net structural position represents the Group's investment in the Philippines.

### 4 Segmental information

#### (a) By geographical area

Over 90% of the Group's operating income, profit before taxation, total assets, total liabilities, contingent liabilities and commitments arise from or are booked in Hong Kong.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

4 Segmental information (Continued)

(b) By class of business

	The Group			Total HK\$'000
	Commercial and retail banking HK\$'000	Treasury HK\$'000	Overseas branches and subsidiaries HK\$'000	
<b>18 months ended 31st December 2001</b>				
Total operating income (net of interest expense)	<u>4,903,859</u>	<u>680,100</u>	<u>226,399</u>	<u>5,810,358</u>
Profit before charge for Bad and doubtful debts	<u>2,252,922</u>	<u>482,700</u>	<u>62,879</u>	<u>2,798,501</u>
Profit after charge for bad And doubtful debts	<u>1,317,958</u>	<u>482,700</u>	<u>14,806</u>	<u>1,815,464</u>
Profit on ordinary Activities before tax	<u>1,503,222</u>	<u>482,700</u>	<u>14,775</u>	<u>2,000,697</u>
<b>12 months ended 30th June 2000</b>				
Total operating income (net of interest expense)	<u>3,340,824</u>	<u>399,800</u>	<u>183,463</u>	<u>3,924,087</u>
Profit before charge for Bad and doubtful debts	<u>2,006,889</u>	<u>283,900</u>	<u>61,903</u>	<u>2,352,692</u>
Profit after charge for bad And doubtful debts	<u>1,666,464</u>	<u>283,900</u>	<u>36,418</u>	<u>1,986,782</u>
Profit on ordinary Activities before tax	<u>1,670,452</u>	<u>283,900</u>	<u>36,421</u>	<u>1,990,773</u>

Commercial and retail banking business mainly comprises deposit account services, residential mortgage and other consumer lending, credit card services, corporate lending, trade finance and international banking.

Treasury activities are mainly the provision of foreign exchange services and centralised cash management for deposit taking and lending, trading activities and management of investment securities and the overall funding of the Banking Group.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 4 Segmental information (Continued)

#### (c) Advances to customers

##### (i) By industry sectors

The information concerning gross advances to customers by industry sectors has been classified according to the usage of the loan and is stated gross of any provisions.

	The Group	
	31st December 2001 HK\$'000	30th June 2000 HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
- Property development	256,327	234,701
- Property investment	7,067,743	7,158,136
- Financial concerns	757,613	417,826
- Stockbrokers	27,331	75,374
- Wholesale and retail trade	1,495,117	1,705,808
- Manufacturing	2,479,655	2,246,998
- Transport and transport equipment	7,541,679	5,646,859
- Others	2,769,627	2,587,422
Individuals		
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	4,397,677	4,496,430
- Loans for the purchase of other residential properties	30,727,938	27,247,698
- Credit card advances	4,739,554	3,646,333
- Others	3,260,177	3,129,058
	65,520,438	58,592,643
Trade finance	6,281,523	5,476,979
Loans for use outside Hong Kong	1,424,778	2,807,478
	<u>73,226,739</u>	<u>66,877,100</u>

##### (ii) By geographical areas

Over 90% of the gross advances to customers and the related non-performing loans and overdue advances were located in Hong Kong after taking into account the transfer of risks. In general, transfer of risks applies when an advance is guaranteed by a party in a country which is different from that of the counterparty.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

4 Segmental information (Continued)

(d) Cross-border claims

HK\$' million	The Group			Total
	Banks and other financial institutions	Public sector entities	Others	
<b>At 31st December 2001</b>				
Asia Pacific excluding Hong Kong	5,102	68	743	5,913
North and South America	4,999	210	3,117	8,326
Europe	17,343	42	219	17,604
Others	13	-	193	206
	<u>27,457</u>	<u>320</u>	<u>4,272</u>	<u>32,049</u>
<b>At 30th June 2000</b>				
Asia Pacific excluding Hong Kong	4,690	324	1,677	6,691
North and South America	6,587	6,758	1,941	15,286
Europe	26,548	117	721	27,386
Others	8	-	193	201
	<u>37,833</u>	<u>7,199</u>	<u>4,532</u>	<u>49,564</u>

5 Overdue and rescheduled advances to customers

(a) Overdue advances to customers

The gross amount of advances, net of accrued interest that has been capitalised but accrued to a suspense account, which have been overdue for:

	The Group		The Group	
	31st December 2001		30th June 2000	
	HK\$'000	% of total advances	HK\$'000	% of total advances
Six months or less but over three months	448,295	0.61	482,630	0.72
One year or less but over six months	511,915	0.70	576,335	0.86
Over one year	906,834	1.24	1,348,089	2.02
	<u>1,867,044</u>	<u>2.55</u>	<u>2,407,054</u>	<u>3.60</u>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 5 Overdue and rescheduled advances to customers (Continued)

#### (b) Rescheduled advances

The rescheduled advances (net of those which have been overdue for over three months and reported in item (a) above):

	The Group			
	31st December 2001		30th June 2000	
	HK\$'000	% of total advances	HK\$'000	% of total advances
Performing loans	234,295		476,779	
Non-performing loans	109,180		350,860	
Rescheduled advances	<u>343,475</u>	0.47	<u>827,639</u>	1.24

#### (c) Reconciliation of overdue advances to non-performing loans:

	The Group	
	31st December 2001	30th June 2000
	HK\$'000	HK\$'000
Overdue advances to customers as per (a) above	1,867,044	2,407,054
Less: Advances which are overdue for more than three months and on which interest is still being accrued	(249,340)	(345,146)
Add: Advances which are overdue for three months or less, or which are not yet overdue, and on which interest is being placed in suspense or on which interest accrual has ceased		
- included in rescheduled advances	109,180	350,860
- others	365,700	199,609
Non-performing loans	<u>2,092,584</u>	<u>2,612,377</u>

### 6 Risk management

The Board and the Senior Management of the Group believes that the ability to develop and maintain top-class risk management skills in measuring, monitoring, interpreting and forecasting the Group's risk profile is a critical internal capability.

The Group has developed and maintained a sound framework of policies and controls for identifying, evaluating, monitoring and controlling key risks pertaining to the Group's business. Key risks inherent in the Group's business include capital management, credit, liquidity, interest rate, market and operational risks where committees, policies, procedures and limits are established to manage them. A stringent product review and approval process is also in place for managing risks in new products and activities. All approval authorities are delegated by the Board and the Senior Management of the Group taking into account the experience of the relevant officers.

Risk related policies and controls are subject to regular review by the relevant business units, Risk Management, Senior Management and committees based on changing customer needs and business conditions. The internal auditors reporting directly to the Board also conduct independent reviews on the adequacy and effectiveness of these key policies and controls and ensure that the Group is operating within the established policies, procedures and limits.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 6 Risk management (Continued)

#### (i) Capital management

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

The Group's consolidated capital adequacy ratio of 22.89% as at 31st December 2001 was well above the statutory minimum ratio of 8%.

#### (ii) Credit Risk Management

Credit risk is the risk of loss due to the inability or unwillingness of a customer or counterparty to meet its payment obligations.

The Group's Credit Policies and Procedures Manual defines the credit extension and measurement criteria, the credit review, approval and monitoring processes and the system of loan classification and provision. Credit applications are guided by a set of credit principles which all extensions of credit must adhere to and these applications are subject to regular independent review. Business units, credit units and approvers all have the responsibility to ensure that credits are properly assessed and classified and all crucial information is included in the application for the purpose of assessment and approval.

The Group adopts a multi-level credit approval process requiring loan approval at successively higher levels and/or committees (as delegated) depending on, among other things, the size and nature of the proposed transactions.

Credit exposure is represented by the notional or principal value of on and off -balance sheet financial instruments and derivatives. Exposures are monitored against credit limits and other control limits (such as large exposures and concentration limits) by independent credit control units at both the transaction and portfolio levels.

These credit policies and limits are established taking into account factors such as prevailing business and economic conditions, the Group's risk appetite to a single customer, or particular industries or sectors and regulatory requirements.

#### (iii) Liquidity management

Liquidity risk is the risk that the Group cannot meet its current obligations as and when they fall due and arises from the difference between the maturity profile of the Group's assets and liabilities. The Group's objective is to ensure that the Group can meet obligations at all times as they fall due and to maintain an adequate stock of high quality assets to provide the Group with sufficient resources for contingency purposes.

The Group measures and monitors its liquidity across all classes of assets and liabilities through maintenance of prudent ratios (such as liquidity, maturity mismatch and loan to deposit ratios) and funding policies approved by the Asset and Liability Committee ("ALCO") and Senior Management. ALCO also directs management to prepare contingency plans to meet the liquidity requirement in unexpected circumstances. A prudent level of realizable liquid assets is also maintained by the Group to meet unexpected and material cash requirements.

The Group's average liquidity ratio for the period ended 31st December 2001 was 47.15% which was well above the statutory minimum ratio of 25%.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 6 Risk management (Continued)

#### (iv) Interest rate risk management

Interest rate risk is the risk that the Group's position may be adversely affected by a change in market interest rates. The Group's interest rate open positions arise from investments and other normal banking activities.

The risk primarily results from the re-pricing gapping of interest-bearing assets and liabilities. Interest rates offered by the Group on lending and deposits are approved by Senior Management. The Group manages its interest rate risk by way of entering into on and off-balance sheet interest rate hedging instruments to hedge the interest rate risk exposure based on market and economic conditions. The interest rate risk exposure is managed by the Group's Treasury & Markets Division subject to the limits approved by the Senior Management and ALCO. The exposure is independently monitored by Risk Management and reviewed by the Senior Management and ALCO regularly.

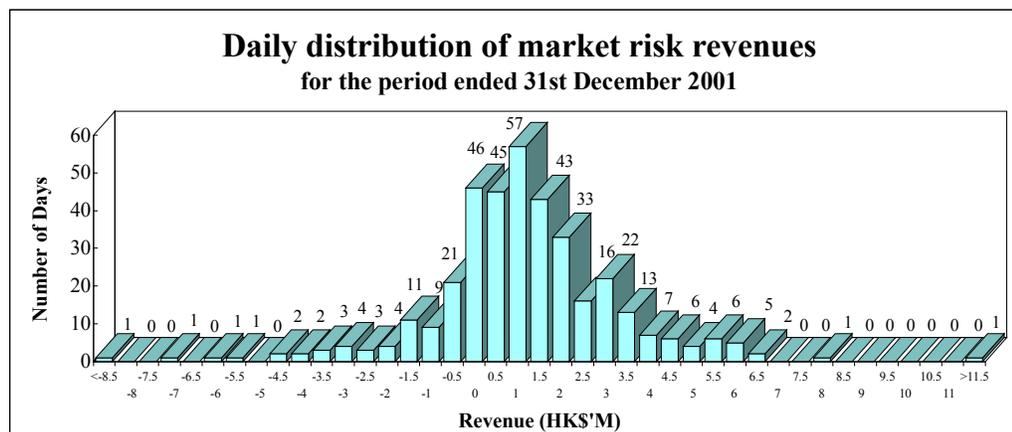
#### (v) Market Risk Management

Market risk arises from the net effect of changes in interest rates, foreign exchange rates, securities, equities and commodity prices as well as in their correlations and volatility levels in the markets in which the Group operates. It arises primarily from its holdings in the trading book of foreign exchange contracts, debt securities, derivatives and other financial contracts.

The Group's market risk limits of the different activities are approved by the Executive Committee. Exposures are measured and controlled by various market risk limits (such as stop loss and time bucket concentration limits). All trading activities are subject to the mark-to-market valuation to reflect the current market value of the trading portfolios and their profit and loss. Market risk exposures are monitored independently by Risk Management. Exceptions are reviewed and approved by the appropriate level of Senior Management and the Executive Committee.

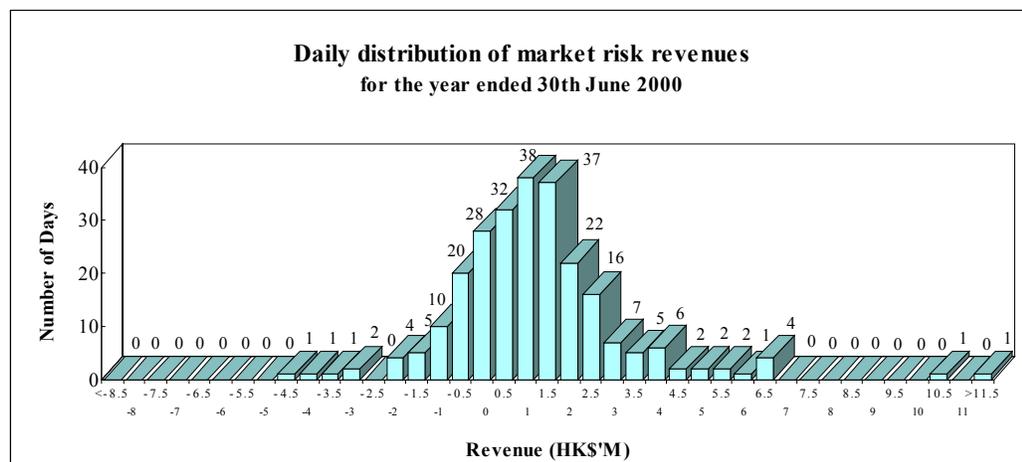
The average daily revenue arising from the Group's market risk related treasury activities for the period ended 31st December 2001 was HK\$0.883 million (12 months ended 30th June 2000: HK\$0.902million) and the standard deviation for such daily revenue was HK\$2.194 million (12 months ended 30th June 2000: HK\$1.909 million). An analysis of the daily distribution of market risk revenues is as follows:

2001



UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

2000



(vi) Operational risk

Operational risk is the risk of loss attributable to human or procedural errors, systems failures, frauds, inadequate internal controls and procedures or other external event risks.

The Group manages operational risk by maintaining a comprehensive system of internal controls, establishing systems and procedures to monitor transactions, positions and documentation, maintaining key backup procedures and undertaking regular contingency planning. Insurance cover is also taken to minimize losses in business operations and holdings of fixed assets.