



道亨銀行 DaoHeng Bank

- ec-banking
- Credit Card
- DaoHeng Today
- Your Deposit Needs
- Investment Services
- Life Time Banking Needs
- Insured

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Please visit our website at <http://www.daoheng.com> and click into **DaoHeng Today** and then **Interim/annual Results Announcements** to view our results.

BOARD OF DIRECTORS

Quek Leng Chan — Chairman
Kwek Leng Hai — Managing Director
Randolph Gordon Sullivan
Sat Pal Khattar
Kwek Leng San
Tung Hsi Hui, Frank
Mishal Abdulah Abdulaziz Al Masad
Sir Jack Cater
Harry Richard Wilkinson
Jamal Al-Babtain

COMPANY SECRETARY

Doris W.N. Wong
(E-mail address: doriswong@guoco.com)

AUDITORS

KPMG
Certified Public Accountants

BRANCH SHARE REGISTRARS

Central Registration Hong Kong Limited
Shops 1712-6,
17th Floor, Hopewell Centre,
183 Queen's Road East, Hong Kong

REGISTERED ADDRESS

Cedar House, 41 Cedar Avenue,
Hamilton, HM12, Bermuda

PRINCIPAL OFFICE

11th Floor, The Center,
99 Queen's Road Central,
Hong Kong
Telephone : (852) 2218 8899
Fax : (852) 2285 3899
Internet address : <http://www.daoheng.com>
Telex : HX73345

FINANCIAL CALENDAR

Interim results announcement	24th March, 2000
Closure of Register of Members	11th April, 2000 to 14th April, 2000
Interim dividend of HK\$0.30 per share paid on	17th April, 2000
Annual results announcement	13th October, 2000
Closure of Register of Members	14th November, 2000 to 20th November, 2000
Annual General Meeting	20th November, 2000
Final dividend of HK\$0.90 per share payable on	21st November, 2000

BOARD OF DIRECTORS

Quek Leng Chan, aged 57, is the Executive Chairman of Dao Heng Bank Group Limited (“the Company”). He is the Chairman of Guoco Group Limited (“Guoco”- the Company’s holding company), Dao Heng Bank Limited (“DHB”) and Overseas Trust Bank, Limited (“OTB”). He is also the Executive Chairman of the Hong Leong Group Malaysia. Mr. Quek has a law degree and has extensive business experience in various business sectors, including financial services, manufacturing and real estate. He has been the Chairman of the Guoco Group and DHB since 1982. Mr. Quek is a Director of Guoline Overseas Limited (“GOL”), a substantial shareholder of Guoco. He is a brother of Mr. Kwek Leng Hai and Mr. Kwek Leng San.

Kwek Leng Hai, aged 47, is the Managing Director of the Company and the President and Chief Executive of Guoco. He is also the Chief Executive of DHB and OTB. Mr. Kwek is a qualified chartered accountant. Prior to joining DHB in 1985, he was the Managing Director of Hong Leong Industries Berhad. Mr. Kwek has extensive experience in financial services, manufacturing and property investment. Mr. Kwek is a Director of GOL, a substantial shareholder of Guoco. He is a brother of Mr. Quek Leng Chan and Mr. Kwek Leng San.

Randolph Gordon Sullivan, aged 52, is a Director of the Company and Guoco. He is also the Managing Director and Alternate Chief Executive of DHB and OTB. Mr. Sullivan holds a bachelor of science degree in foreign service from Georgetown University and has done post-graduate work at the Insead executive programme in Fontainebleau, France. He has over 28 years of banking experience. Prior to joining DHB in 1987, he had worked in a major international bank for 16 years and held various positions in North America, Europe and the Middle East. He has been appointed as a member of the Deposit-Taking Companies Advisory Committee since June 1997 and Standing Committee on Company Law Reform since February 2000.

Sat Pal Khattar*, aged 57, is a Director of the Company, Guoco, DHB and OTB. Mr. Khattar obtained a LL.M degree and a LLB(Hons) degree from the University of Singapore. He is a senior partner of Khattar Wong & Partners in Singapore. He is also the Chairman of First Capital Corporation Ltd (“FCC”), a subsidiary of Guoco, in Singapore and other public and private companies in Singapore and elsewhere.

Kwek Leng San*, aged 45, is a Director of the Company, Guoco, DHB and OTB. He is the President and Chief Executive Officer of Hong Leong Industries Berhad, a member of the Hong Leong Group Malaysia. He holds a bachelor of science degree in engineering and a master of science degree in finance. Mr. Kwek is a Director of GOL, a substantial shareholder of Guoco. He is a brother of Mr. Quek Leng Chan and Mr. Kwek Leng Hai.

Tung Hsi Hui, Frank*, aged 79, is a Director of the Company, DHB and OTB. Mr. Tung obtained a bachelor of arts degree from St. John’s University in Shanghai, China in 1945. He has 53 years of banking experience in Hong Kong and is presently the business adviser to DHB.

BOARD OF DIRECTORS (CONT'D)

Mishal Abdulah Abdulaziz Al Masad*, aged 42, is a Director of the Company, Guoco, DHB and OTB. He is a Senior Investment Manager of Kuwait Investment Office, London. He holds an associate student certificate in business studies and a bachelor of arts degree in economics. He has been a Director of Guoco since 1986.

Sir Jack Cater*, aged 78, is a Director of the Company and DHB. He held various senior positions with the Hong Kong Government and was the first Commissioner of the Independent Commission Against Corruption and the Chief Secretary of Hong Kong during the 1970's. He was the Acting Governor and Deputy Governor on several occasions and was also a member of the Legislative Council and the Executive Council. Sir Jack Cater is also a director of ABN AMRO Asia Limited and Television Broadcast Limited.

Harry Richard Wilkinson*, aged 57, is a Director of the Company, Guoco and DHB. He is also a Director and Chief Financial Officer of Orient Overseas (International) Limited. Mr. Wilkinson was previously Managing Director and Regional Manager of Chemical Bank for Hong Kong, China and Taiwan and has considerable experience in shipping and banking. His career began at Manufacturers Hanover Trust Company in New York in 1975, where he held various positions. Manufacturers Hanover Trust Company was the predecessor of Chemical Bank, which was absorbed by merger in 1992. Mr. Wilkinson was a US Navy Officer for five years and was awarded three Military awards. He holds three master degrees from Horace H Rackham School of Graduate Studies, The University of Michigan at Ann Arbor. He was previously on the Banking Advisory Committee to the Government and is currently on the Visiting Committee of the University of Michigan Business School.

Jamal Al-Babtain*, aged 38, is a Director of the Company, Guoco, FCC, Overseas Union Bank Ltd and Grupo Torras SA, Madrid. He is a Vice President of Kuwait Investment Office, London. He holds a bachelor of arts degree in business administration. He has been a Director of Guoco since 1998.

* *Non-executive Director*

SENIOR MANAGEMENT

Leung Kin Hee, aged 52, is an Executive Director of DHB and is responsible for Dao Heng Bank Group's Credit and Risk Management activities. He has a BBA degree and a MBA degree from the Chinese University of Hong Kong and joined DHB in 1973.

Wilson C. Wong, aged 51, is the General Manager of the Commercial and Corporate Banking Division of DHB. He has a bachelor degree in business administration with over 32 years of banking experience. Prior to joining DHB in 1990, he had worked with three international banks in Hong Kong for over 22 years.

Tam Ping Shing, aged 44, is the General Manager of the Dao Heng Markets Division of DHB. He obtained a B.Soc.Sc.(Hons) degree from the University of Hong Kong in 1979 and has over 21 years of experience in global treasury business with major international banks. He was the president of the HK Forex Association from 1992-1996.

Sunny Cheung Yiu Tong, aged 45, is the General Manager of the Consumer Banking Division of DHB. He has a 26-year banking career including a wide range of senior positions in consumer banking and credit card business.

Loretta Liu Lee Kai Fong, aged 54, is the General Manager of the Personal Banking Division of DHB. She holds a bachelor of arts degree. She has 27 years of banking experience and joined DHB in 1991.

Paul Wong Hok Leung, aged 47, is the General Manager of the Mortgage Banking Division of DHB. He holds a bachelor of science degree and is a fellow member of the Association of Chartered Certified Accountants. He has over 23 years of experience in banking, accounting, finance and information technology.

Lincoln Lee Yuk Ling, aged 50, is the General Manager of Trade Finance and Corporate Services Division. He holds a master degree in business administration and is a fellow member of the Chartered Institute of Management Accountants and the Hong Kong Institute of Company Secretaries, and an associate member of the Hong Kong Society of Accountants. He has over 23 years of experience in banking and has 12 years of service with DHB.

Frederick Ho Fat Chuen, aged 49, is the General Manager of Dao Heng Finance Limited. He has a diploma in management studies and has over 22 years of experience in management of project investment and finance. He joined DHB in 1989.

Steve Wong Ho Sing, aged 47, is the Controller, Finance and Operations Division of DHB. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants. He is also an associate member of the Hong Kong Institute of Company Secretaries. He has over 23 years of experience in banking.

On behalf of the Board of Directors, I am pleased to present the Annual Report and Accounts of Dao Heng Bank Group Limited ("the Group") for the year ended 30th June, 2000.

In the first half of 2000, Hong Kong's economy grew by a more than anticipated 12.5% year-on-year, bolstered by strong growth in external trade, tourism, and offshore financial activities. Unemployment rate has dropped from 6.3% in 1999 and currently stands at a level of 4.9%. Deflation however continues to constrain the economy, primarily due to weak property prices, with the Consumer Price Index forecast to be approximately minus 3.5% for the year 2000. As a consequence, real interest rates continue to be extremely high, thereby acting as a damper on Hong Kong's economic recovery.

The banking industry is experiencing a solid recovery from the lows suffered during the Asian Financial Crisis. Year-on-year improvements in profitability have been reported by most banks, due primarily to significantly lower loan loss provisioning. Loan demand however remains very weak, and therefore continued improvement in the banking industry's performance will depend very much on the prospects for revived credit expansion in the economy.

The Group's loan portfolio grew marginally above last year's level, with consumer loans growing 8.2% while commercial and corporate lending declined by 8.5%. Customer deposits, moreover, showed a healthy growth of 9.3%. High liquidity and low loan demand combined to lower the loans-to-deposits ratio to 57.7% from 61.9% last year.

The Group reported consolidated profit attributable to shareholders of HK\$1,730 million, a 43.8% increase over the previous year. Earnings per share grew 43.1% to HK\$2.49 per share. Total assets increased 7.7% to HK\$142 billion and shareholders' funds continued to expand to HK\$12.5 billion, a 7.6% increase. As a consequence, the bank's capital adequacy ratio has strengthened further to 22.6%.

The Directors will recommend at the forthcoming annual general meeting for approval by shareholders the payment of a final dividend of HK\$0.90 per share, a 38.5% increase over last year. Together with the interim dividend of HK\$0.30 paid during the year, the aggregate dividend will be HK\$1.20 per share totalling HK\$834 million, a 33.6% increase over last year's level.

The strong improvement in net profit was due primarily to an enhanced net interest margin and significantly lower loan loss provisions, reflecting the gradual improvement of the Hong Kong and regional economies. The other key operating indicators of the Group were relatively steady, with the exception of lower non-interest income due to an exceptionally strong performance in the prior fiscal year.

While credit quality has improved across-the-board, active management of the Group's credit portfolio continues to be a key success factor. Non-performing and past due loans have declined to 3.91% and 3.60% respectively of total loans, and rescheduled loans now account for 1.24% of our loan portfolio. Provisions made during the year for bad and doubtful loans and advances reduced by 57.3% to HK\$366 million, almost all of which was applied to specific provisions and loan write-offs. As at 30th June, 2000, the Group's unallocated general loan loss provisions stood at HK\$821 million or 1.23% of total gross loans, well above the Group's target level of 1%.

The Group has completed restructuring its domestic branch network during the past year and is now more focused to pursue its goal of becoming a leading consumer and commercial bank in Hong Kong. This reorganisation repositions the physical branch network to concentrate on community banking for consumers, while all business banking activities are being conducted from two centralised units, one in Kowloon and the other on Hong Kong Island. A key Groupwide marketing initiative this year is the promotion of our Mandatory Provident Fund products which provide a comprehensive package of easy to use financial services for both employers and employees.

Our Global Private Banking and Premier Banking units are stepping up their wealth management capabilities by providing an increasingly wide range of investment and lending products to meet their customers' more sophisticated financial services needs. Dao Heng Card Centre continues to experience good growth in its cardholder base, accounts receivable, and turnover. A focused Mortgage Banking Division was established to build upon the success of our innovative and market leading Mortgage Direct operation. We consider that the specialisation afforded by such a structure will enable Dao Heng to compete effectively in Hong Kong's increasingly challenging residential mortgage market.

Dao Heng Markets has further enhanced its market penetration, and is now the second largest local bank participant in Hong Kong's debt capital markets. On a corporate level, Dao Heng Bank Group is honored to be named as the second best bank in Asia in a survey conducted by Asiamoney and was chosen to be a Hang Seng Index constituent stock effective 6th December, 1999.

Dao Heng Bank Group, in co-operation with its sister company, Dao Heng Securities Ltd., continues to expand the services and channels available to its customers to deliver a comprehensive share trading capability. These channels include mobile phone and internet share trading, as well as our market leading Share Direct product that is delivered through a state of the art Call Centre. Our Group will also be included in the first batch of companies to participate in the forthcoming AMS 3 launched by the Stock Exchange of Hong Kong. In addition, Dao Heng Securities has recently launched in conjunction with White

Pacific Securities, a San Francisco based brokerage company, a reciprocal internet trading alliance which, among other features, provides United States share broking services to our clients in Hong Kong. We are also greatly expanding our range of unit trust and mutual funds to provide a much wider range of investment choices to our customers.

The Group is intensifying its investments in technology, particularly in developing its alternate delivery channels including the internet. One of the first banks in Hong Kong to provide an internet payment gateway with both SSL and SET capability, Dao Heng continues to expand its cyber-merchant base. A full range of internet banking services including an internet enabled virtual credit card has been launched to provide our customers with a comprehensive e-banking and e-commerce platform.

In the area of e-commerce, our Group continues to make significant strides in widening the range of products delivered to our customers through this increasingly important delivery channel. Our B2C product range is among the most comprehensive in our market, and its scope is increasing every month. Among the more recent additions to our product range are an electronic IPO service, in co-operation with JETCO, as well as our soon to be announced online mortgage application as well as web-based retail bond trading. We are likewise heavily involved in developing our B2B business solutions for our customers, the first of which will be launched in the 4th Quarter of the year 2000.

In line with our belief that the mobile phone will grow in importance as a primary channel to access financial services in Hong Kong, both directly and through the internet, Dao Heng is at the forefront in harnessing the power of wireless technology. Among Dao Heng's present capabilities are banking and share trading services through the mobile phone as well as acting as a WAP content provider of up to the minute financial information. Our Group is also in the process of forming new strategic alliances with the technology sector to further enhance next generation e-commerce and e-banking products and services.

To complement the fully automated delivery channels described above, Dao Heng continues to expand its DaoHeng Direct call centre encompassing Mortgage Direct, Share Direct, Insurance Direct and Integrated Account Management. By offering our customers such a wide choice of electronic channels for satisfying their financial service requirements, we believe Dao Heng can provide superior anytime anywhere access to supplement the broad reach of the Group's extensive branch network.

In addition to its channel expansion strategy, our Group continues to invest in and build the supporting information technology systems that will enable Dao Heng to optimise the efficiency, profitability and customer centric potentiality of those channels. Foremost among those investments is the Customer

Relationship Management System, which went live earlier this year. Likewise the Behavioral Scoring System of Dao Heng Card Centre has been implemented for over a year and is proving to be a valuable tool for dynamically responding to and filling customer needs.

The Group continues to maintain five offices in Mainland China, and one office each in Macau and Taipei; new business activity in these markets however continues to be subdued. In London our relocated West End Branch at a more prominent site in Chinatown has been well received by customers. In the Philippines, we are in the process of implementing a major strategic shift by merging our 60% owned subsidiary bank with Banco de Oro Universal Bank, a highly respected domestic bank. Linking up with Banco de Oro Universal Bank as a strong local partner will materially strengthen our competitive position in the Philippines, providing wider access for our extensive range of financial products and services.

The past year has been a challenging one for the banking industry in Hong Kong. Although problem loans appear to have peaked, demand for new credit in the banking system is sluggish with loan spreads under pressure. Consequently both volume and revenue growth have been constrained in many of the Group's business lines. Nonetheless, profitability of the Group is returning to pre-crisis levels, and its capital base remains solid.

Market sentiment is steadily improving with economic recovery now underway in Hong Kong. The launch of MPF and the government's market friendly budget and policy initiatives, together with the expected long term positive impact on Hong Kong due to China's forthcoming entry into WTO, should provide a favorable economic backdrop for financial institutions. I believe Dao Heng Bank Group, with its sound corporate strategy and large scale investments in new technologies, is well positioned to participate in Hong Kong's recovery.

In closing, I would like to thank our customers for their loyalty, our shareholders for their support, and the Board of Directors for its wise counsel. Finally, I thank the Group's management and staff for their dedication and commitment to the Group during this challenging operating environment.

Quek Leng Chan

Chairman

Hong Kong, 13th October, 2000

*Reaching out to
you by delivering
superior services
through the value
chain process.*



FINANCIAL HIGHLIGHTS

RESULTS

The profit attributable to shareholders of the Group for the 1999/2000 fiscal year ended 30th June, 2000 is HK\$1,730 million, which would represent an increase of 43.8% from the previous financial year. Earnings per share were HK\$2.49.

The consolidated financial highlights of the Dao Heng Bank Group are shown below:

	As at 30.6.2000	As at 30.6.1999	Percentage Change
	(HK\$ million)		
Total Assets	141,986	131,876	+7.7
Total Deposits	113,235	104,978	+7.9
Total Advances (net of provisions)	65,337	64,941	+0.6
Shareholders' Funds	12,543	11,657	+7.6
Profit Attributable to Shareholders	1,730	1,203	+43.8
Loan/Deposit Ratio	57.7%	61.9%	
Return on Average Equity	14.3%	10.6%	
Return on Average Assets	1.3%	0.9%	

FINANCIAL POSITION

Total assets increased by HK\$10.1 billion to reach HK\$142.0 billion as at 30th June, 2000. The return on average total assets is 1.3%.

Total deposits grew by HK\$8.3 billion, an increase of 7.9%, to HK\$113.2 billion as at 30th June, 2000. Advances to customers stood at HK\$65.3 billion at fiscal year end, representing a marginal increase over the prior year. The weak loan growth is due to intensive competition in the banking industry and the lack of loan demand.

As at 30th June, 2000, the ratio of loans to deposits was 57.7% (61.9% as at 30th June, 1999).

CAPITAL AND LIQUIDITY

As at 30th June, 2000, Dao Heng Bank Limited's consolidated capital adequacy ratio was 22.6% on a capital base of HK\$15 billion, an increase of 5.4% or HK\$767 million over the previous fiscal year. The average liquidity ratio of Dao Heng Bank Limited for the fiscal year was 49.0%.

REVIEW OF OPERATIONS

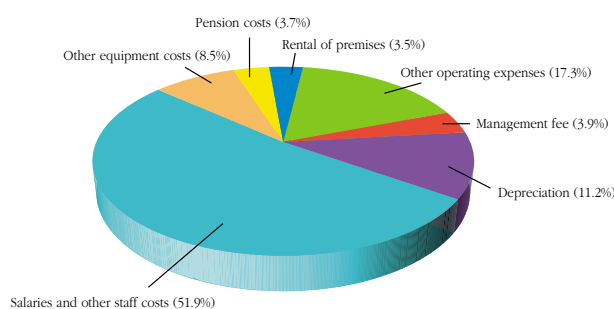
MARKET REVIEW

After experiencing vigorous 14.3% real growth in the first quarter, the Hong Kong economy remained on the road of recovery, growing by 10.8% year-on-year in the second quarter. Robust real GDP growth was partly due to the low base effect, buoyant offshore financial activities, and rapid growth in the tourism industry. More importantly, strong import absorption in the US, Euroland, and Asia supported Hong Kong's impressive external trade performance. Meanwhile, moderate gains in consumption and a surge in investment also reinforced the recovery momentum.

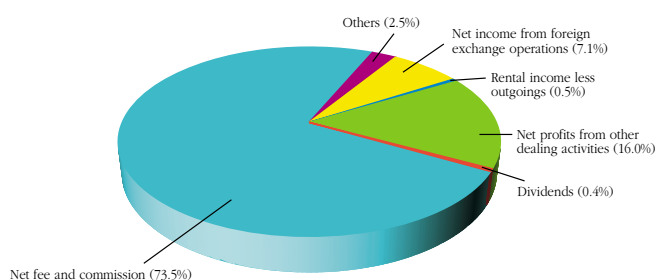
Looking forward, given dissipation of the low base effect and an anticipated soft landing in the US

economy, Hong Kong's economy is expected to slow down in the second half. However, external demand will remain the key driving force due to strong growth in the global economy, despite the temporary ill effects of high oil prices. Besides, amidst the rapid development of knowledge-based economic activities and the forthcoming approval of China's WTO entry, moderate gains in real investment spending in the private sector are likely to continue even in a high real interest rate environment. Taking account of all these diverse factors, in the year 2000 the Hong Kong economy will likely grow by 8.8% with 3.5% deflation, with continued improvement expected in 2001 as inflation will emerge, probably in the second half of next year.

Operating expenses (HK\$ 1,571 million)
For the year ended 30th June, 2000



Other operating income (HK\$ 890 million)
For the year ended 30th June, 2000



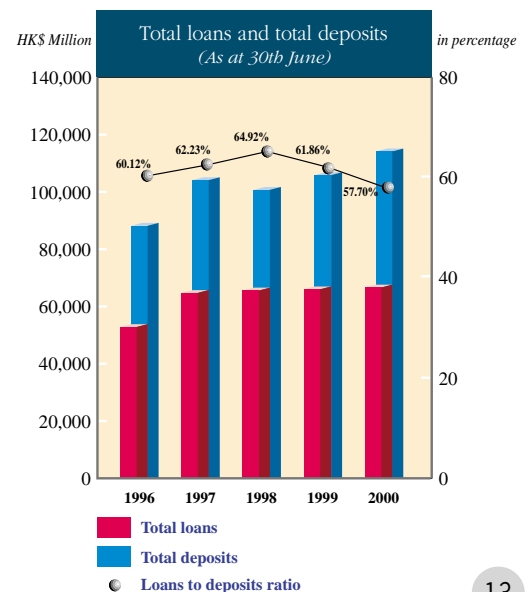
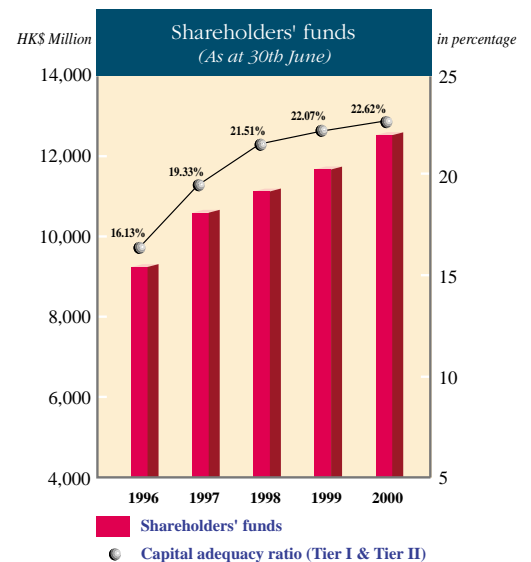
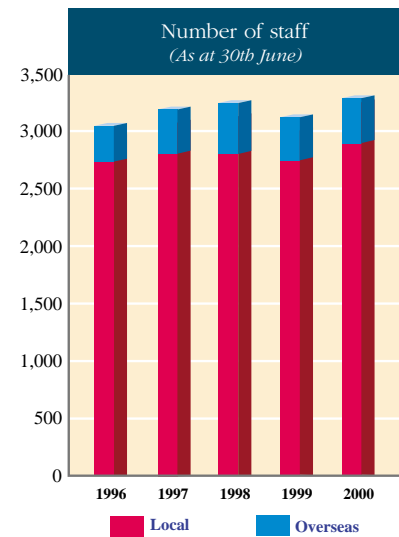
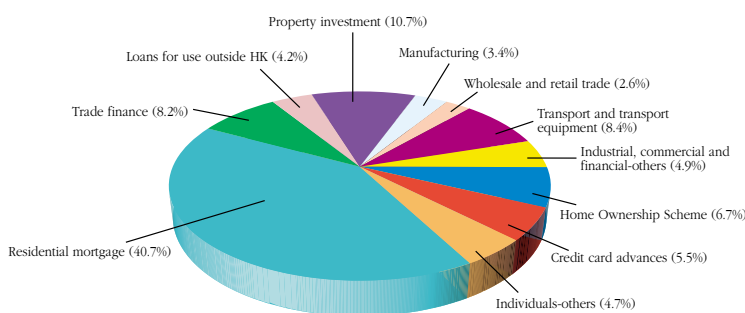
FINANCIAL REVIEW

Operating Results

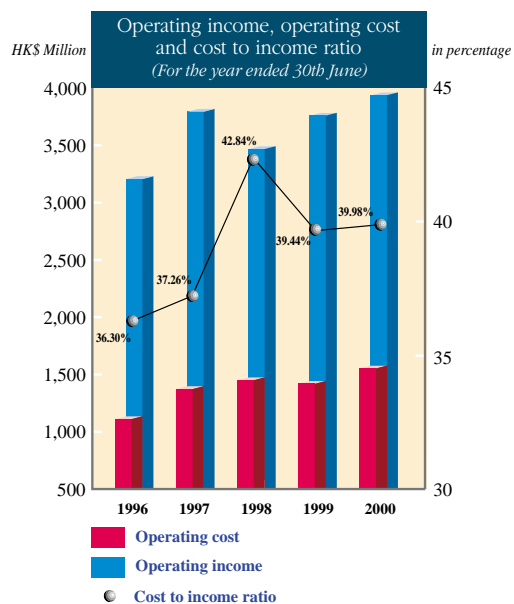
The audited consolidated profit attributable to shareholders of the Group for the 1999/2000 fiscal year is HK\$1,730 million, a growth of 43.8% over the prior year. Earnings per share grew 43.1% to HK\$2.49. Net interest income increased by 17.8%, with the Group benefiting from a wider HK Dollar Prime/Hibor spread. As a result, the net interest margin increased 28 basis points to 2.61% for the year.

Despite strong growth in recurring fees and commissions, which were up 11.7% for the year, overall non-interest income was 21.5% lower at HK\$890 million for the fiscal year. This decrease was primarily due to very strong market related earnings in the prior year comparable period that resulted from unusual levels of market volatility and declining interest rates. By way of example our group registered a one time gain of HK\$181 million in the fall of 1998 from the early redemption of US\$81 million in our fixed rate subordinated notes issue maturing in 2007. With market conditions having stabilised very considerably over the past 18 months, the environment is expected to be more conducive to building up sustainable long term growth in our recurring categories of customer related other operating income such as fees and commissions.

Analysis of advances to customers by industry sectors
As at 30th June, 2000 (HK\$66,877 million)

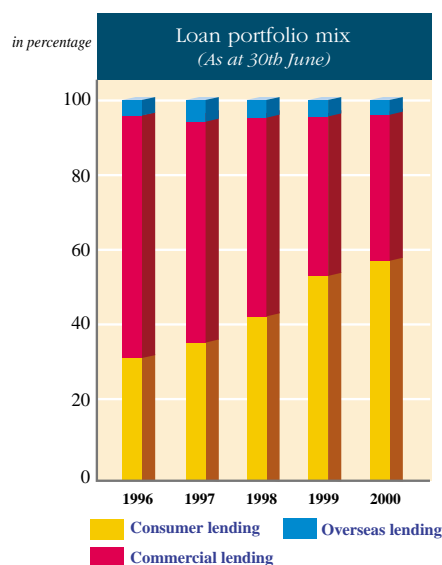


Operational Review



Although domestic demand for financial service products was somewhat subdued for much of the fiscal year, our Group continued to invest in new technologies and developed new product lines in anticipation of Hong Kong's economic rebound. This long term commitment to invest in people, systems, premises, and delivery channels resulted in a 7.3% increase in operating expenses. As a consequence our cost-to-income ratio rose modestly from 39.4% to 40.0%.

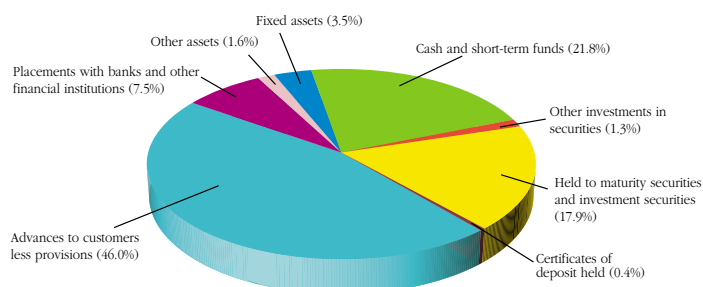
The Group's operating profit benefited significantly from a much lower level of loan loss provisions, which shrunk 57.3% from HK\$857 million last year to HK\$366 million in the year 1999/2000. Combined with the growth in pre-provision operating income, overall operating profit grew 43.1% to HK\$1,993 million.



As at 30th June, 2000, total deposits were HK\$113.2 billion, reflecting a growth rate of 7.9% from the previous year. Total loans grew 0.6% to HK\$65.3 billion, resulting from slack demand for new credit. The Group however did continue its mortgage securitisation and asset sales to The Hong Kong Mortgage Corporation Limited, which totalled HK\$1.1 billion during the year. If these loans had been retained on our balance sheet, loan growth would have been 2.3%. Although there was minimal overall loan growth, the loan mix continued to shift as consumer loans grew 8.2% while commercial and corporate lending declined by 8.5%. The Group's loans to deposits ratio of 57.7% and loans to assets ratio of 46.0% reflect

both the Group's conservative credit policy as well as its ability to generate ample liquidity to fund future asset growth as the economy picks up.

Analysis of total assets
As at 30th June, 2000 (HK\$141,986 million)



Shareholders' funds increased 7.6% to HK\$12.5 billion, with Dao Heng Bank Limited's consolidated capital adequacy ratio at a solid 22.6% (of which the Tier

I ratio was 17.8%). The Group continued to exhibit a highly liquid balance sheet, with 48.4% of total assets held in the form of government securities, interbank placements, and negotiable securities.

Asset Quality

The Group's loan quality continues to improve with non-accrual loans and loans overdue for more than 90 days recorded at 3.9% and 3.6% respectively of total loans at financial year end date. Restructured loans stood at 1.2% and residential mortgage overdues greater than 90 days were 1.3% as of June 2000.



A new range of services to bring forth a revolutionary and contemporary way of banking.

BUSINESS REVIEW

Consumer Banking Division

To better serve customers and build its position for the future evolution of the financial services industry, the Group continues to develop its organisational structure to enhance operational effectiveness and efficiency. The Consumer Banking Division operates two consumer relationship segments, namely Personal Banking and Premier Banking, which are complemented by two consumer product segments, namely Mortgage Banking and Credit Card.

The Consumer Banking Division operates electronic delivery channels and a high-tech Call Centre which provides customers with highly convenient "any time, anywhere" access to their banking and financial services. Its latest delivery channel initiatives include mobile phone and internet banking.



DaoHeng ec-banking incorporates the latest information technology to provide banking services via the internet.



One-stop banking services offered at our Ice House Street Branch in a stylish and cozy environment.



About ec-card



SET/SSL (e-wallet)



Let's go Shopping



Credit Card Services



Cardholder Comments



Help



TM



ec-card[®]

A BRAND NEW STYLE of Internet Shopping

<http://www.daoheng.com/ec-cardindex.htm>

Dao Heng Bank group operates electronic delivery channels to provide customers with highly convenient "any time, anywhere" access to their banking and financial services.

Ec-banking, ec-account and ec-card incorporate the latest information technology in double protection with SET/SSL compliance to provide banking and financial services at your fingertips.



Customers can now perform a wide variety of financial transactions on their mobile phone screens or over the internet, including a sophisticated price-alert capability for monitoring their stock market transactions.

Personal Banking Division manages the Bank's face-to-face delivery channels, including our extensive domestic branch network, as well as a range of offsite ATMs and several high-tech automated banking centres. The domestic branch network has been reconfigured to serve customers better by providing multiple delivery channels and customised sales and service outlets such as community branches, personal financial service centres and 24-hour self service centres.



Total Payroll designed for employees



New products provide greater flexibility/higher utility.

Considerable effort has been made during the year to broaden the range of our personal loan products, in order to provide our customers with more flexible choices

to meet their short term financing requirements. Our redesigned personal tax loan product met with widespread customer acceptance. The combo equity loan has given a new financial flexibility to owners of residential property, by enabling them to tailor their borrowing facility with a combination of an instalment loan as well as a personal revolving credit line. More recently, the Group has launched its online internet based personal loan product, ec-cash, which provides customers with a convenient channel to apply for personal loans. We have also introduced specialised revolving lines of credit for professional practitioners, including doctors, accountants and lawyers.

The Premier Banking Division offers our customers an expanded product range combined with dedicated service outlets. These customised services enable the Bank to better satisfy the increasing demand for sophisticated financial service products from Hong Kong's affluent population base. Included among the more recently launched products are premium deposits, equity linked notes, and other wealth management products.



A glance of our credit cards product range.

Dao Heng Card continues to grow, registering double-digit increases in cards-in-force, accounts receivable, cardholder spending, and merchant sales turnover. Our card product range has continued to expand to include a new business credit card for small businesses as well as our ec-card, which is an innovative virtual credit card tailor made for internet commerce. During the past year, several I.T.-based systems have been introduced or upgraded to position the Credit Card unit for anticipated growth as consumer confidence in Hong Kong improves. As of 30th June, 2000, the total outstanding receivables balance on the Bank's credit cards was HK\$3.6 billion.



Dao Heng Bank signed a landmark agreement with the Hong Kong Mortgage Corporation Limited for the inaugural issue of the Guaranteed Mortgage-Backed Securitisation Programme.



Dao Heng Bank and Hong Kong Mortgage Corporation Limited concluded an agreement for an inaugural HK\$1 billion mortgage and bond asset swap programme.

The Mortgage Banking Division has completed its initial year as a separate Division to enable the Bank to excel in the provision of mortgages, its most important consumer loan product. Based on its call centre technology and an advanced product development and loan fulfilment capability, Mortgage Banking enables the Bank to have a competitive edge in the Hong Kong marketplace. The industry-leading telemarketing capabilities of its call centre are also now being applied to other important consumer products such as insurance and its DaoHeng Direct Club membership base continues to expand with an increasingly wider range of product offerings including Domestic Helper Insurance. In addition, Mortgage Banking Division will soon launch its new online mortgage loan application product, ec-home.



The Call Centre of Mortgage Banking Division is in full operation.



成功之道 明智之選 道亨商務卡

credit card



Dao Heng Card continues to grow, registering double-digit increases in cards-in-force, accounts receivable, cardholder spending, and merchant sales turnover.

Dao Heng Bank is one of the top 5 in the local credit cards market with issuing amount approaching 700,000.

Private Banking Division

The Bank's Global Private Banking Division has been refocused to meet its customers' increasingly sophisticated requirements for personalised and professional investment and other banking services, including services to non-Hong Kong residents in the ASEAN region and the United Kingdom. The Bank is expanding its Global Private Banking business by focusing on the Bank's regional relationships and by offering a broad range of customised products. A wholly owned Jersey-based trust company has been established for the provision of trustee services. A local Hong Kong company was also established to provide corporate services to Private Banking and other customers.



Trust services are provided for our Asian high networth clients

Commercial and Corporate Banking

The Bank has taken advantage of the recent slower market to restructure its Commercial and Corporate Banking Divisions to enable it to offer a wide range of business banking products in a more professional, productive and profitable manner. In order to provide business banking customers with a seamless transition in meeting their changing financial service needs as they grow and evolve, the Commercial and Corporate Banking Divisions have been merged into two centralised units, one on Hong Kong Island and the other in Kowloon, from which industry/sector focus teams provide services to clients.

Another major initiative has been to develop the Trade Finance and Corporate Services Division to improve both the quality and scope of services provided to our business banking and corporate customers. Among these initiatives are the provision of call centre support, centralised trade bill processing, and segmentation of our product offerings to more closely align them with customer requirements.



Dao Heng Bank joined with the Export Credit Insurance Corporation (ECIC) to finance business for Small to Medium Size Enterprises.

Our wholly-owned subsidiary, Dao Heng Finance Ltd., continues to be a market leader in the taxi and public light bus financing market. This line of business, which has seen considerable pressure during the Asian Financial Crisis due to severe asset deflation, exhibited signs of recovery during the latter part of the

fiscal year. Credit quality has improved and it now appears that the market is returning to a more stable environment. In order to supplement the business activities of Dao Heng Finance, it stepped up its involvement in the private car financing market during the past year with considerable success.

Regional Banking

The Group maintains one branch and four offices in China, one branch in Macau and an office in Taipei. New business activity however continues to be subdued as a result of the present economic environment. In London, the West End Branch has been re-located to a more prominent site in Chinatown to serve customers there better, and we are in the process of restructuring our U.K. based operations to better enable us to expand our business activities there, particularly in treasury related products and market operations.



Our Chinatown Branch in UK is open from 11:00 a.m. to 4:00 p.m. every Sunday to provide better services.



Dao Heng Bank Group enters into the new era under the new corporate logo adopted in 1998.

The Group's 60% owned subsidiary in the Philippines, Dao Heng Bank, Inc., completed its fourth year of operations in January 2000. To take advantage of its much larger market footprint and strong domestic customer base, our Group has agreed to merge Dao Heng Bank, Inc. with Banco de Oro Universal Bank through a share swap arrangement where Dao Heng Bank Ltd. will acquire a minority holding of shares in Banco de Oro Universal Bank. Banco de Oro Universal Bank is the strategic financial arm of the SM group. It has a strong foothold in the retail market with over 108 branches. It is a strong and forward-looking bank with a customer-focused and technology-enabled strategy similar to that of Dao Heng Bank. Linking up with Banco de Oro Universal Bank as a strong local partner will

materially strengthen our competitive position in the Philippines, providing wider access for our extensive range of financial products and services.



Dao Heng Markets launched new product with higher yield potential.

Dao Heng Markets

The Group's treasury related activities under Dao Heng Markets ("DHM") have achieved satisfactory results during the year. DHM is one of the most active

market makers in Hong Kong Dollar instruments and has successfully launched the “Dao Heng Government Bonds Master Index”. This new Index has rapidly become the benchmark for measuring performance in Hong Kong Exchange Fund fixed income securities. DHM also continues to be one of the largest arrangers and issuers of Hong Kong Dollar denominated debt instruments.

DHM has taken initiatives to expand its treasury-related business overseas. During the year, the trading operation of the Hong Kong Dollar desk in London was established. Further expansion in DHM’s overseas treasury business is underway including the establishment of an office in London. DHM also arranged the Bank’s participation in the pioneering Guaranteed Mortgage-Backed Pass-Through Securitisation Program of The Hong Kong Mortgage Corporation Limited.



Dao Heng Bank was the pioneer local Hong Kong bank to launch a Medium Term Note Programme worth US\$ 1 billion.

Human Resources and Training

The Group offers extensive in-house and external training courses to its staff members. Training programmes are tailor-made to align with the business activities and strategic direction of the Group. The



Service Excellence Conference of Personal Banking Division to address the importance of quality customer service.



A Sales Conference was held on 25th June, 2000 at which Mr. Kwek Leng Hai unveiled the business direction and strategy on delivering superior service through the value chain process.

Bank has in place both internal and external training programmes aimed at management development and team building. The Bank's training curriculum includes courses on banking operations, product knowledge, compliance, marketing and management skills. "GuocoPost", the Group's internal magazine, serves as a useful communication channel to keep employees abreast of the development of the Group. An annual sales conference was held on 25th June, 2000 at the Convention Centre. Led by senior management with over 300 managers attending, the conference was a useful forum to communicate the mission and business direction of the Group.

Asia's top 15 banks		
Country	Bank	Points
Hong Kong	Hang Seng Bank	499
Hong Kong	Dao Heng Bank	493
Singapore	United Overseas Bank	467
Australia	National Australia Bank	459
Taiwan	Bank of Taiwan	459
Hong Kong	HSBC	458
Australia	Westpac	455
Singapore	OCBC	443
Taiwan	Bank Sinpac	443
Singapore	Keppel TatLee Bank	443
The Philippines	Equitable Bank	443
Australia	ANZ	443
The Philippines	PCI Bank	443
Taiwan	LWCCB	443
Australia	Commonwealth Bank	443

Dao Heng Bank Group is honored to be named as the second best bank in Asia in a survey conducted by Asiamoney.

Information Technology

The Group continued to identify and form strategic alliances with the technology sector to enhance its e-commerce and e-banking products and has expanded its delivery channels through internet and mobile phone. The Customer Relationship Management System has been developed and introduced as a useful tool to facilitate the Group to provide products and services to meet the life stage needs of its customers.

OUTLOOK

The past year has been a challenging one for the banking industry in Hong Kong. Although problem loans appear to have peaked, demand for new credit in the banking system is sluggish with loan spreads under pressure. Consequently both volume and revenue growth have been constrained in many of the Group's business lines. Nonetheless, profitability of the Group is returning to pre-crisis levels, and its capital base remains solid.

Market sentiment is steadily improving with economic recovery now underway in Hong Kong. The launch of MPF and the government's market friendly budget and policy initiatives, together with the expected long term positive impact on Hong Kong due to China's forthcoming entry into WTO, should provide a favorable economic backdrop for financial institutions. We believe Dao Heng Bank Group, with its sound corporate strategy and large scale investments in new technologies, is well positioned to participate in Hong Kong's recovery.

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道亨銀行 DaoHeng Bank

We are ready at Dao Heng to make your MPF easy.

With Dao Heng MPF Master Trust Plan, you can take comfort from our step-by-step guide and support from our experienced professionals.

Ten Year Summary

HK\$'000

Years	Total loans	Total deposits and other accounts (Note 3)	Total assets	Shareholders' funds	Net profit after tax (Note 4)
1991	9,416,232	17,919,575	19,641,593	1,648,018	232,014
1992	11,667,852	23,509,139	25,419,953	1,808,814	320,451
1993	15,722,483	29,724,608	31,854,378	1,949,970	400,857
1994	36,137,714	59,882,012	66,889,359	6,016,680	1,133,977
1995	42,736,049	73,965,778	82,213,503	7,223,192	1,203,113
1996	52,795,266	93,628,836	103,480,286	9,234,417	1,505,811
1997	64,546,650	111,085,903	125,485,256	10,600,880	2,119,708
1998	64,738,305	108,053,498	122,934,242	11,073,988	1,255,314
1999	64,941,463	117,015,748	131,876,313	11,656,833	1,203,301
2000	65,337,115	126,016,560	141,986,429	12,542,569	1,730,084

Notes:

1. The 1991 to 1993 figures relate to the Dao Heng Bank Group Limited group.
2. The 1994 to 2000 figures include Overseas Trust Bank, Limited group.
3. The figures for 1991 to 1994 include the former inner reserves which are restated to general reserve and included under shareholders' funds since 1995.
4. The figures for 1994 to 2000 were before transfer to general reserve while those for 1991 to 1993 were after such transfers.

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The directors have pleasure in presenting their report together with the audited statement of accounts for the year ended 30th June, 2000.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries which materially affected the results or assets of the Group are the provision of banking and related financial services.

Over 90% of the Group's turnover and trading results for the year were attributable to the Group's operations in Hong Kong.

ACCOUNTS

The consolidated profit of the Group for the year ended 30th June, 2000 and the state of affairs of the Company and the Group at that date are set out in the accounts on pages 36 to 73.

MAJOR CUSTOMERS

During the year, the five largest customers of the Group accounted for less than 30% of the total interest income and other operating income of the Group.

CHARITABLE DONATIONS

Donations made by the Group during the year amounted to HK\$675,000 (1999 : HK\$714,000).

DIVIDENDS

An interim dividend of HK\$0.30 (1999 : HK\$0.25) per share totalling HK\$208,306,000 (1999 : HK\$173,155,000) was paid on 17th April, 2000. The directors are recommending the payment of a final dividend in respect of the year ended 30th June, 2000 of HK\$0.90 (1999 : HK\$0.65) per share totalling approximately HK\$625,611,000 (1999 : HK\$451,120,000).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 14th November, 2000 to 20th November, 2000, both days inclusive, during which period no share transfers will be registered.

To qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars in Hong Kong not later than 4:00 p.m. on 13th November, 2000.

FIXED ASSETS

Movements in fixed assets during the year are set out in Note 21 on the accounts.

SHARE OPTION SCHEME

A Share Option Scheme is maintained by the Company, under which eligible employees (including directors) of the Group are entitled to the grant of share options for subscription of shares in the Company. Details of share options granted are set out in Note 26 on the accounts.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in Note 27 on the accounts.

SUBSIDIARIES

Particulars of the principal subsidiaries of the Company are set out in Note 19 on the accounts.

DIRECTORS

The directors during the financial year were:

- Quek Leng Chan - Chairman
- Kwek Leng Hai - Managing Director
- Randolph Gordon Sullivan
- ** Sat Pal Khattar
- * Kwek Leng San
- ** Tung Hsi Hui, Frank
- * Mishal Abdulah Abdulaziz Al Masad
- ** Sir Jack Cater
- ** Harry Richard Wilkinson
- * Jamal Al-Babtain

- * *Non-executive director*
- ** *Independent non-executive director*

In accordance with Clause 99 of the Company's Bye-Laws, Mr. Sat Pal Khattar and Mr. Kwek Leng San retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

None of the directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than normal statutory obligations.

The non-executive directors of the Company were not appointed for a specific term but are subject to retirement by rotation at annual general meetings in accordance with the Bye-Laws of the Company.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th June, 2000, the interests of the directors in the securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) as recorded in the register maintained under Section 29 of SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or as otherwise known to the directors were as follows:

Interests in the shares of the Company

Director	Number of shares				Total Interests
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Quek Leng Chan	11,000	–	496,854,664*	–	496,865,664
Kwek Leng Hai	66,000	–	–	–	66,000
Randolph Gordon Sullivan	50,000	–	–	–	50,000
Sat Pal Khattar	11,000	–	–	–	11,000
Kwek Leng San	7,000	–	–	–	7,000
Tung Hsi Hui, Frank	5,010	–	–	–	5,010
Harry Richard Wilkinson	5,000	–	–	–	5,000

* These shares represented the interest of Guoco Group Limited with respect to which Mr. Quek Leng Chan had a corporate interest pursuant to the SDI Ordinance.

Interests in share options in the Company

Director	Number of share options
Quek Leng Chan	2,000,000
Kwek Leng Hai	4,000,000
Randolph Gordon Sullivan	2,000,000
Sat Pal Khattar	2,000,000
Kwek Leng San	300,000
Tung Hsi Hui, Frank	240,000
Harry Richard Wilkinson	180,000

On 29th April, 1998, the directors were granted share options pursuant to the Share Option Scheme adopted on 22nd November, 1993. Such share options are exercisable at the subscription price of HK\$21.82 during the period from 15th April, 1998 to 15th July, 2002. During the year ended 30th June, 2000, Mr. Tung Hsi Hui, Frank and Mr. Harry Richard Wilkinson had respectively exercised 60,000 and 120,000 share options in the Company.

Interests in the securities of associated corporations

Director	Name of Company	Number of shares				Total Interests
		Personal Interests	Family Interests	Corporate Interests	Other Interests	
Quek Leng Chan	Guoco Group Limited	220,000	–	135,005,740 (Note 1)	–	135,225,740
	First Capital Corporation Ltd	662,261	–	200,079,299 (Note 2)	–	200,741,560
	First Capital Corporation Ltd (NCCPS**)	53,833	–	34,483,489 (Note 2)	–	34,537,322
Kwek Leng Hai	Guoco Group Limited	1,320,000	–	–	–	1,320,000
	First Capital Corporation Ltd	1,180,261	–	–	–	1,180,261
	First Capital Corporation Ltd (NCCPS**)	53,833	–	–	–	53,833
Randolph Gordon Sullivan	Guoco Group Limited	11,000	–	–	–	11,000
Sat Pal Khattar	Guoco Group Limited	582,330	–	–	–	582,330
	First Capital Corporation Ltd	–	–	100,000	–	100,000
	First Capital Corporation Ltd (NCCPS**)	–	–	3,494,908	–	3,494,908
Kwek Leng San	Guoco Group Limited	143,200	–	–	–	143,200
Tung Hsi Hui, Frank	Guoco Group Limited	200	–	–	–	200

Notes :

- These shares represented the interest of Guoline Overseas Limited (133,817,740 shares) and another company (1,188,000 shares) with respect to which Mr. Quek Leng Chan had a corporate interest pursuant to the SDI Ordinance.
- These shares represented the interest of Guoco Group Limited with respect to which Mr. Quek Leng Chan had a corporate interest pursuant to the SDI Ordinance.

** NCCPS – Non-redeemable convertible cumulative preference shares.

Certain directors held qualifying shares in a subsidiary in trust for another subsidiary of the Company.

Interests in share options in Guoco Group Limited

Director	Number of share options
Quek Leng Chan	3,000,000
Kwek Leng Hai	3,000,000
Randolph Gordon Sullivan	100,000
Sat Pal Khattar	300,000
Kwek Leng San	300,000
Harry Richard Wilkinson	300,000

On 6th December, 1999, Guoco Group Limited (“Guoco”), holding company of the Company granted share options to the abovementioned directors who are also directors of Guoco, pursuant to the Executive Share Option Scheme adopted on 30th July, 1991. Such share options are exercisable at a subscription price of HK\$20.33 per share during the period from 12th November, 1999 to 12th February, 2004. During the year ended 30th June, 2000, none of the directors exercised any share options in Guoco.

Apart from the above, as at 30th June, 2000, there was no other interests or rights recorded in the register required to be kept under Section 29 of the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2000, those persons (other than the directors of the Company) having an interest of 10% or more in the Company's issued share capital as recorded in the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance, were as follows :

Name	Number of shares held in the Company	Shareholding
Guoco Group Limited	496,854,664	71.52%

BOARD AUDIT COMMITTEE

The Company established an Audit Committee of the Board of Directors with written terms of reference on 9th October, 1998. The Audit Committee comprises Messrs. Harry Richard Wilkinson, Sir Jack Cater and Tung Hsi Hui, Frank.

The Audit Committee meets regularly to consider the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice adopted by the Company based on the guidelines set out in the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

Tenancy agreements

On 15th January, 1999, a tenancy agreement was entered into between W.C.H. Limited, a fellow subsidiary of the Company prior to 29th May, 2000, and Dao Heng Bank Limited ("DHB"), a wholly-owned subsidiary of the Company, in respect of the letting of the premises at 33rd, 34th and 35th Floors of Wu Chung House, No. 213 Queen's Road East, Hong Kong with a gross floor area of approximately 73,674 sq. ft. to DHB for a term of two years commencing from 15th January, 1999 at a monthly rental of HK\$1,105,110. There was an option to renew the lease for two further years at monthly rental to be agreed between the parties.

On 1st February, 1999, Wanchai Property Investment Limited, a fellow subsidiary of the Company prior to 29th May, 2000, entered into a tenancy agreement with DHB in respect of the letting of the 19th Floor of O.T.B. Building, 160 Gloucester Road, Hong Kong with a gross floor area of approximately 7,344 sq. ft. to DHB for a term of two years commencing from 1st February, 1999 at a monthly rental of HK\$110,160. There was an option to renew the lease for two further years at monthly rental to be agreed between the parties.

Purchase of property

On 27th September, 1999, a conditional sale and purchase agreement was entered into between Supreme Goal Investments Limited ("SGIL"), a fellow subsidiary of the Company prior to 29th May, 2000, and DHB whereby SGIL agreed to sell and DHB agreed to purchase the 16th, 17th and 18th Floors of The Center, 99 Queen's Road Central, Hong Kong for a cash consideration of HK\$481,030,000. The consideration was determined with reference to the valuation of an independent valuer as at 30th June, 1999. It was conditional upon the approval by the independent shareholders of the Company and Guoco Land Limited (presently known as "imGO Limited"). The purchase of property was completed on 29th October, 1999.

Services agreements and banking services arrangements

Under a services agreement entered into in 1982 with Hong Leong Overseas (H.K.) Limited (“HLO”), DHB 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, the chief executive of DHB, is also entitled to receive a salary together with benefits as an executive director.

DHB entered into a services agreement in 1993 with Guoco Management Company Limited, a wholly-owned subsidiary of Guoco Group Limited (“Guoco”), 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.

On 27th January, 2000, a service agreement (the “Service Agreement”) was entered into between Dao Heng Bank, Inc. (“DHBI”), which is 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 actual and allocated expenses incurred by the IT Center plus a 50% mark-up on the top. The contract was retroactively effected in April 1998 and either party may terminate the agreement by giving not less than three months’ notice in writing.

The Group provides a number of services to Guoco and its connected persons as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and subsidiaries of, and companies related to, HLCM in the ordinary course of its banking business including, inter alia, loan advances, deposits, cheque clearing, remittances, 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 company or any subsidiary of its holding company was a party and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

Guoco operates an Executive Share Option Scheme (“Scheme”) enabling eligible employees, including directors of the Company, to acquire shares in Guoco. During the year under review, none of the directors exercised any share options in Guoco.

Apart from the above, at no time during the year was the Company or any of its subsidiaries or its holding company or any subsidiary of its holding company 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.

DIRECTORS’ INTERESTS IN COMPETING BUSINESS

Messrs. Quek Leng Chan, Kwek Leng Hai, Kwek Leng San, Mishal Abdulah Abdulaziz Al Masad, Randolph Gordon Sullivan and Jamal Al-Babtain are also directors of the Company’s holding company, Guoco Group Limited and/or its subsidiaries which are also engaged in financial services, such as dealing of securities and nominee services.

Messrs. Quek Leng Chan, Kwek Leng Hai and Kwek Leng San are also directors of Hong Leong Company (Malaysia) Berhad which is one of the largest conglomerates based in Malaysia and is engaged in a diverse range of business, including financial services, manufacturing, property investment and development.

The above Directors are considered as having interests in business apart from the Group's business, which is likely to compete, directly or indirectly, with the Group's business under paragraph 8.10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the laws of Bermuda.

BEST PRACTICE GUIDE ON FINANCIAL DISCLOSURE BY LOCALLY INCORPORATED AUTHORISED INSTITUTIONS

The accounts of the Group for the year ended 30th June, 2000 fully comply with the recommendations in the Best Practice Guide on Financial Disclosure by Locally Incorporated Authorised Institutions issued by the Hong Kong Monetary Authority.

AUDITORS

A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By Order of the Board

Kwek Leng Hai
Managing Director

Hong Kong, 13th October, 2000



TO THE SHAREHOLDERS OF DAO HENG BANK GROUP LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the accounts on pages 36 to 73 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, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

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 of the Group as at 30th June, 2000 and of the Group's profit and cash flows for the year then ended, and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

Hong Kong, 13th October, 2000

Consolidated Profit and Loss Account

For the year ended 30th June, 2000

	Note	2000 HK\$'000	1999 HK\$'000
Interest income	4	8,640,294	8,550,673
Interest expense	4	(5,599,986)	(5,970,350)
Net interest income		<u>3,040,308</u>	<u>2,580,323</u>
Other operating income	5	<u>890,221</u>	<u>1,134,440</u>
Operating income		<u>3,930,529</u>	<u>3,714,763</u>
Operating expenses	6	<u>(1,571,395)</u>	<u>(1,465,057)</u>
Operating profit before provisions		<u>2,359,134</u>	<u>2,249,706</u>
Provisions for bad and doubtful loans and advances	16(b)	<u>(365,910)</u>	<u>(856,761)</u>
Operating profit		<u>1,993,224</u>	<u>1,392,945</u>
Loss on disposal of fixed assets		(33,701)	(6,691)
Share of profit of a jointly controlled entity		31,250	8,362
Share of profit of an associated company		–	45
Profit before taxation		<u>1,990,773</u>	<u>1,394,661</u>
Taxation	7(a)	<u>(267,644)</u>	<u>(209,073)</u>
Profit after taxation		<u>1,723,129</u>	<u>1,185,588</u>
Minority interests		<u>6,955</u>	<u>17,713</u>
Profit attributable to shareholders	10	<u>1,730,084</u>	<u>1,203,301</u>
Retained earnings brought forward	27	<u>4,979,750</u>	<u>4,394,430</u>
Exchange differences	27	<u>(41,678)</u>	<u>6,294</u>
Dividends	11	<u>(833,951)</u>	<u>(624,275)</u>
Retained earnings carried forward	27	<u><u>5,834,205</u></u>	<u><u>4,979,750</u></u>
Earnings per share			
Basic	12	<u><u>HK\$2.49</u></u>	<u><u>HK\$1.74</u></u>
Diluted	12	<u><u>HK\$2.47</u></u>	<u><u>N/A</u></u>

The notes on pages 41 to 73 form part of these accounts.

Consolidated Statement of Recognised Gains and Losses

For the year ended 30th June, 2000

	Note	2000 HK\$'000	1999 HK\$'000
Net gains/(losses) not recognised in the profit and loss account			
Exchange differences arising on translation of foreign operations	27(e)	(41,678)	6,294
Profit attributable to shareholders for the year		<u>1,730,084</u>	<u>1,203,301</u>
Total recognised gains		<u><u>1,688,406</u></u>	<u><u>1,209,595</u></u>

The notes on pages 41 to 73 form part of these accounts.

Consolidated Balance Sheet

As at 30th June, 2000

	Note	2000 HK\$'000	1999 HK\$'000
ASSETS			
Cash and short-term funds	13	30,886,869	38,766,614
Placements with banks and other financial institutions maturing between one and twelve months		10,654,760	8,098,000
Certificates of deposit held	14	588,417	1,722,860
Other investments in securities	15	1,797,041	2,257,110
Advances to customers less provisions	16	65,337,115	64,941,463
Other assets	17	2,293,324	1,541,991
Held to maturity securities and investment securities	18	25,360,050	9,830,332
Interest in a jointly controlled entity	20	35,973	10,035
Fixed assets	21	5,032,880	4,707,908
		141,986,429	131,876,313
LIABILITIES			
Deposits and balances of banks and other financial institutions		4,415,026	4,437,648
Current, fixed, savings and other deposits of customers		101,759,435	93,071,462
Certificates of deposit issued		7,060,751	7,469,173
Other accounts and provisions		12,781,348	12,037,465
Proposed dividend	11	625,611	451,120
Amount due to a jointly controlled entity	20	591,358	501,836
7.75% Fixed rate subordinated notes	23	2,039,459	2,083,820
		129,272,988	120,052,524
SHAREHOLDERS' FUNDS			
Share capital	26	2,683,890	2,678,346
Reserves	27	9,858,679	8,978,487
Shareholders' funds		12,542,569	11,656,833
MINORITY INTERESTS			
		170,872	166,956
		12,713,441	11,823,789
		141,986,429	131,876,313

Approved by the Board of Directors on 13th October, 2000

Kwek Leng Hai
Randolph Gordon Sullivan
Directors

The notes on pages 41 to 73 form part of these accounts.

Balance Sheet

As at 30th June, 2000

	Note	2000 HK\$'000	1999 HK\$'000
ASSETS			
Cash and short-term funds			
– deposits with a subsidiary bank	13	102,140	78,791
Investments in subsidiaries	19	80,885	80,885
Other investments in securities		9,116	–
Amounts due from subsidiaries		5,757,843	5,583,351
Other assets	17	681	700
		<u>5,950,665</u>	<u>5,743,727</u>
LIABILITIES			
Other accounts and provisions		1,206	859
Proposed dividend	11	625,611	451,120
		<u>626,817</u>	<u>451,979</u>
SHAREHOLDERS' FUNDS			
Share capital	26	2,683,890	2,678,346
Reserves	27	2,639,958	2,613,402
		<u>5,323,848</u>	<u>5,291,748</u>
		<u>5,950,665</u>	<u>5,743,727</u>

Approved by the Board of Directors on 13th October, 2000

Kwek Leng Hai
Randolph Gordon Sullivan
Directors

The notes on pages 41 to 73 form part of these accounts.

Consolidated Cash Flow Statement

For the year ended 30th June, 2000

	Note	2000 HK\$'000	1999 HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	29(a)	9,318,190	7,135,073
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid		(659,460)	(623,357)
Interest paid for certificates of deposit issued		(499,119)	(584,029)
Interest paid for 7.75% fixed rate subordinated notes		(162,216)	(195,206)
Dividends received on equity investments		3,185	3,811
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(1,317,610)	(1,398,781)
TAXATION			
Hong Kong profits tax paid		(228,941)	(36,390)
Overseas tax paid		(9,354)	(14,736)
TAX PAID		(238,295)	(51,126)
INVESTING ACTIVITIES			
Purchase of held to maturity securities		(32,407,694)	(9,771,007)
Purchase of debt securities – investment securities		(57,409)	(35,349)
Purchase of equity investments – investment securities		(11)	(3)
Proceeds from disposal of held to maturity securities		3,039,935	1,037,147
Proceeds from disposal of debt securities – investment securities		63,717	–
Proceeds from redemption of held to maturity securities		16,143,267	1,629,017
Proceeds from redemption of debt securities – investment securities		15,407	76,648
Proceeds from sale of equity investments – investment securities		319	–
Amount due to/(from) a jointly controlled entity		89,522	(12,166)
Purchase of fixed assets		(696,054)	(1,785,158)
Proceeds from disposal of fixed assets		157,689	18,186
Proceeds from liquidation of an associated company		–	2,503
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(13,651,312)	(8,840,182)
NET CASH OUTFLOW BEFORE FINANCING		(5,889,027)	(3,155,016)
FINANCING			
Issue of certificates of deposit	29(b)	5,885,000	5,692,713
Issue of share capital	29(b)	31,281	14,616
Redemption of issued share capital	29(b)	–	(17,091)
Redemption of certificates of deposit	29(b)	(6,298,096)	(5,956,915)
Redemption of 7.75% fixed rate subordinated notes	29(b)	(50,313)	(449,425)
Investment by minority shareholders	29(b)	–	40,590
NET CASH OUTFLOW FROM FINANCING		(432,128)	(675,512)
DECREASE IN CASH AND CASH EQUIVALENTS		(6,321,155)	(3,830,528)
CASH AND CASH EQUIVALENTS AT 1ST JULY	29(c)	37,721,524	41,529,308
EFFECT OF FOREIGN EXCHANGE MOVEMENTS		(16,192)	22,744
CASH AND CASH EQUIVALENTS AT 30TH JUNE	29(c)	31,384,177	37,721,524

The notes on pages 41 to 73 form part of these accounts.

1. BASIS OF PREPARATION

The consolidated accounts incorporate the accounts of the Company and all its subsidiaries made up to 30th June each year. All material intra-group accounts and transactions are eliminated upon consolidation. The Group's results include, in respect of any subsidiaries acquired during the year, their results attributable to the periods since the dates of acquisition and, in the case of subsidiaries disposed of during the year, their results attributable to the periods up to the dates of disposal.

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 usual 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.

Although not required to do so under the Bye-Laws of the Company, the accounts of the Company and the Group are prepared so as to comply with the disclosure requirements of the Hong Kong Companies Ordinance, generally accepted accounting principles in Hong Kong, all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants and the recommendations in the Best Practice Guide on Financial Disclosure by Locally Incorporated Authorised Institutions issued by the Hong Kong Monetary Authority.

The measurement basis used in the preparation of the accounts is historical cost modified by the marking to market of certain investments in securities as explained in the accounting policies set out below.

2. NATURE OF BUSINESS

The Group is engaged primarily in the provision of banking and related financial services.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Revenue recognition

- (i) Interest income and expense are accrued on a time-apportioned basis on the principal outstanding and at the rate applicable, except where the recoverability of the principal outstanding is in doubt.
- (ii) Fee income and expenses are recognised when earned or incurred except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised on an appropriate basis over the relevant period.
- (iii) Dividend income is recognised as follows:
 - dividends from subsidiaries are recognised at the end of the subsidiaries' financial period to which such dividends relate;
 - dividends from listed investments are recognised when the share price of such investments goes ex-dividend; and
 - interim dividends from unlisted investments are recognised when the directors of such investments declare such dividends; final dividends from unlisted investments are recognised when the shareholders of such investments approve the dividends proposed by the directors at the general meeting.

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(b) Investments

(i) Investments in securities

Investments in debt and equity securities, except those held either solely for the purpose of recovering advances or, as investments in subsidiaries, jointly controlled entities or associated companies, are accounted for as follows:

Investments in securities are classified as held to maturity securities, investment securities and other investments in securities, and are recognised as assets from the date on which the Group is bound by the contract which gives rise to them.

Transfer of a security between categories of investments is accounted for at fair value. The profit or loss arising from transfers between categories of investments is accounted for as if the investment had been sold and repurchased at the date of transfer.

The profit or loss on disposal is accounted for in the period in which the disposal occurs as the difference between the sales proceeds and the carrying amount of the investments.

Held to maturity securities

Investment in dated debt securities which the Group has the expressed intention and ability to hold to maturity, are stated in the balance sheet at cost adjusted for the amortisation of premiums or discounts arising on acquisition, less any provisions for diminution in value which is other than temporary.

The carrying amounts of held to maturity securities are reviewed as at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised as an expense in the profit and loss account.

Investment securities

Equity and debt 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.

Other investments

All other investments (whether held for trading or otherwise) are stated in the balance sheets 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". Interest derived from trading and non-trading securities are grouped under profit and loss account as "Net profits from other dealing activities" and "Interest income" respectively.

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(b) Investments (Cont'd)

(i) Investments in securities (Cont'd)

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-down or 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.

(ii) Investments in subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

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.

(iii) 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 control and none of the parties involved unilaterally has 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 year. In the consolidated balance sheet, investments in jointly controlled entities are accounted 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.

(iv) Investments in associated companies

An associated company is a company in which the Group has a long term equity interest and over which the Group is in a position to exercise significant influence, but not control or joint control, in its management, including participation in financial and operating policy decisions.

The consolidated profit and loss account includes the Group's share of the post acquisition results of its associated companies for the year. In the consolidated balance sheet, investments in associated companies are stated at the Group's share of their net assets.

(c) Fixed assets and depreciation

- (i) In preparing these accounts, advantage has been taken of the transitional provisions set out in paragraph 72 of Statement of Standard Accounting Practice 2.117 "Property, plant and equipment" issued by the Hong Kong Society of Accountants, with the effect that premises have not been revalued to fair value at the balance sheet date.

The Group's premises are included at directors' valuation made having regard to independent professional valuations carried out in 1993. 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.

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(c) Fixed assets and depreciation (Cont'd)

- (ii) 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 expense, 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. In determining the recoverable amount, expected future cash flows generated by the fixed assets are not discounted to their present values.

A subsequent increase in the recoverable amount of an asset carried at depreciated cost is written back to the profit and loss account when the circumstances and events that led to the write-down or write-off cease to exist. Any subsequent increase in the recoverable amount of an asset carried at valuation is credited firstly to the profit and loss account to the extent of any deficit previously charged to the profit and loss account in respect of that same asset, and is thereafter taken to the revaluation reserve.

- (iii) Premises are stated at cost or valuation less 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 and improvements thereto are depreciated at the higher of 2% per annum or over the unexpired terms of the leases on a straight line basis.
 - 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.
- (iv) 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 profits.

(d) Finance leases and hire purchase transactions

Amounts due from lessees in respect of finance leases and hire purchase transactions, net of unearned interest, are included in the balance sheet as advances to customers.

Net income on finance leases and hire purchase transactions is allocated to accounting periods over the lease terms in accordance with the investment period method so as to produce an approximately constant periodic rate of return on the net cash investment for each accounting period.

(e) Operating leases

Payments under operating leases are charged to the profit and loss account on a straight line basis over the periods of the respective leases.

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(f) Provisions for bad and doubtful loans and advances

Specific provisions are made for bad and doubtful loans and advances as and when they are so considered by the directors. In addition, amounts have been set aside as general provisions for doubtful loans and advances. The specific element relates to individual accounts; the general element relates to other exposures not separately identified but known from experience to exist in any loan portfolio. These provisions are deducted from the relevant loans and advances. When there is no longer any realistic prospect of recovery, the outstanding loan is written off.

Interest on bad and doubtful loans and advances is credited to a suspense account which is netted off against the relevant balances.

(g) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

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

(h) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies and the accounts of overseas branches, subsidiaries and associated companies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Share capital is translated into Hong Kong dollars at the historical rates of exchange ruling at the respective transaction dates. 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.

(i) 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 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 on an effective yield basis over the period from the date of sale to the date of repurchase.

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 on an effective yield basis over the period from the date of purchase to the date of resale.

(j) Retirement costs

The Group operates a defined contribution scheme and the contributions thereto are charged to the profit and loss account for the year.

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(k) Off-balance sheet financial instruments

Off-balance sheet financial instruments arise from future, 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 dealing purposes, to hedge risk, or as part of the management of asset and liability portfolios.

Transactions undertaken for dealing purposes are marked to market and the net present value of the gain or loss arising is recognised in the profit and loss account as dealing profits/losses, after appropriate deferrals for unearned credit margin and future servicing costs.

Transactions designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions which they are hedging. Any profit or loss is recognised on the same basis as that arising from the related assets, liabilities or net positions.

Interest rate swap transactions undertaken as part of the management of asset and liability portfolios are separately identified and interest income or expense arising therefrom is netted off against the related interest income or expense on the on-balance sheet items these transactions are hedged against.

Unrealised gains on transactions which are marked to market are included in "Other assets" in the balance sheet. Unrealised losses on transactions which are marked to market are included in "Other accounts and provisions".

(l) 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.

4. NET INTEREST INCOME

(a) Interest income

	The Group	
	2000	1999
	HK\$'000	HK\$'000
Interest income on listed investments	639,035	306,931
Interest income on unlisted investments	1,040,915	598,864
Other interest income	6,960,344	7,644,878
	<u>8,640,294</u>	<u>8,550,673</u>

(b) Interest expense

Interest expense included interest on 7.75% fixed rate subordinated notes amounted to HK\$160,717,000 (1999: HK\$174,559,000).

5. OTHER OPERATING INCOME

	The Group	
	2000 HK\$'000	1999 HK\$'000
Net fee and commission income	653,871	585,269
Net income from foreign exchange operations	63,045	104,648
Dividend income from listed investments	–	2
Dividend income from unlisted investments	3,185	3,809
Rental income less outgoings	4,412	5,386
Net profits from other dealing activities		
Realised and unrealised gain on other investments	62,544	144,525
Profit from other dealing activities	80,620	46,162
Others	22,544	244,639
	890,221	1,134,440

Others included an one time gain of HK\$4 million (1999: HK\$181 million) from the early redemption of US\$7 million (1999: US\$81 million) face value of 7.75% fixed rate subordinated notes (Note 23).

6. OPERATING EXPENSES

(a) Items making up the operating expenses are as follows:

	The Group	
	2000 HK\$'000	1999 HK\$'000
Staff costs		
Salaries and other costs	816,133	782,179
Pension costs (Note 31)	57,459	58,545
Premises and equipment		
Rental of premises	54,977	67,873
Depreciation (Note 21)	175,764	147,359
Others	133,933	115,711
Management fee	61,172	44,675
Auditors' remuneration	6,164	5,600
Other operating expenses	265,793	243,115
	1,571,395	1,465,057

6. OPERATING EXPENSES (CONT'D)

(b) The emoluments of the five highest paid individuals:

Among the five highest paid individuals of the Group, two (1999: two) are directors whose remuneration is disclosed in Note 8.

The remuneration of the other three (1999: three) is as follows:

	The Group	
	2000	1999
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	5,660	5,478
Pension contributions	488	473
Discretionary bonuses	1,300	1,130
	<u>7,448</u>	<u>7,081</u>
	2000	1999
	Number of	Number of
	Individuals	Individuals
HK\$		
2,000,001 – 2,500,000	2	3
2,500,001 – 3,000,000	1	–
	<u>3</u>	<u>3</u>

7. TAXATION

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

	The Group	
	2000	1999
	HK\$'000	HK\$'000
Hong Kong profits tax	255,971	197,197
Overseas taxation	6,361	11,684
	<u>262,332</u>	<u>208,881</u>
Share of a jointly controlled entity's taxation	5,312	192
	<u>267,644</u>	<u>209,073</u>

The provision for Hong Kong profits tax is calculated at 16% (1999: 16%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries and branches is charged at the appropriate current rates of taxation ruling in the countries in which they operate.

7. TAXATION (CONT'D)

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

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Payable for Hong Kong profits tax	152,291	125,261	—	—
Overseas taxation payable	4,180	7,173	—	—
	<u>156,471</u>	<u>132,434</u>	<u>—</u>	<u>—</u>

(c) No provision for deferred taxation is required as there are net deferred tax assets for the Group. At the balance sheet date, the major components of the unprovided deferred tax assets are as follows:

	The Group	
	2000 HK\$'000	1999 HK\$'000
Depreciation allowances in excess of depreciation charges	(43,705)	(44,296)
General provisions for bad and doubtful loans and advances	127,610	127,028
Tax losses	17,740	19,738
	<u>101,645</u>	<u>102,470</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.

8. DIRECTORS' REMUNERATION

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

	2000 HK\$'000	1999 HK\$'000
Fees	1,062	685
Salaries, allowances and benefits in kind	10,089	9,963
Pension contributions	551	551
Discretionary bonuses	5,262	1,710
	<u>16,964</u>	<u>12,909</u>

8. DIRECTORS' REMUNERATION (CONT'D)

Included in the above are the following emoluments paid to independent non-executive directors:

	2000 HK\$'000	1999 HK\$'000
Fees	390	280
Salaries, allowances and benefits in kind	720	720
Discretionary bonuses	80	80
	<u>1,190</u>	<u>1,080</u>

In addition to the above emoluments, certain directors were granted share options under the Company's Share Option Scheme. The details of these benefits in kind are disclosed under the paragraph "Directors' interests in securities" in the directors' report.

The number of directors whose remuneration falls within the following bands is:

HK\$	2000 Number of Directors	1999 Number of Directors
0 – 1,000,000	8	8
5,000,001 – 5,500,000	–	1
6,000,001 – 6,500,000	1	1
8,500,001 – 9,000,000	1	–
	<u>10</u>	<u>10</u>

9. 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 30th June		Maximum aggregate amount of relevant loans outstanding during the year	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Relevant loans made by subsidiary banks	<u>1,381</u>	<u>2,634</u>	<u>5,032</u>	<u>26,597</u>

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The Group profit attributable to shareholders includes a profit after taxation of HK\$834,770,000 (1999: HK\$626,209,000) which has been dealt with in the accounts of the Company.

11. DIVIDENDS

	2000 HK\$'000	1999 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 close of Register of Members of the Company	34	–
Interim dividend paid of HK\$0.30 per share (1999: HK\$0.25 per share)	208,306	173,155
Final dividend proposed of HK\$0.90 per share (1999: HK\$0.65 per share)	625,611	451,120
	<u>833,951</u>	<u>624,275</u>

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$1,730,084,000 (1999: HK\$1,203,301,000) and on weighted average number of 694,226,342 shares (1999: 693,106,691 shares) in issue during the year.

The calculation of diluted earnings per share for 2000 is based on profit attributable to shareholders of HK\$1,730,084,000 and on weighted average number of 701,313,909 shares in issue during the year after adjusting for the effect of all dilutive potential shares.

During the year ended 30th June, 1999, there were no dilutive potential shares. Fully diluted earnings per share are not disclosed.

13. CASH AND SHORT-TERM FUNDS

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Cash and balances with banks and other financial institutions	1,158,961	773,680	182	257
Money at call and short notice	14,803,890	20,846,394	101,958	78,534
Treasury bills (including Exchange Fund Bills)	14,924,018	17,146,540	–	–
	<u>30,886,869</u>	<u>38,766,614</u>	<u>102,140</u>	<u>78,791</u>

(a) Money at call and short notice represents deposits of up to a maximum of one month to maturity.

13. CASH AND SHORT-TERM FUNDS (CONT'D)

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

	The Group	
	2000 HK\$'000	1999 HK\$'000
Held to maturity securities		
Listed outside Hong Kong	2,413,818	5,813,075
Unlisted	3,654,192	5,823,374
	<u>6,068,010</u>	<u>11,636,449</u>
Other investments, unlisted		
Trading	3,236,563	5,510,091
Non-trading	5,619,445	–
	<u>8,856,008</u>	<u>5,510,091</u>
	<u><u>14,924,018</u></u>	<u><u>17,146,540</u></u>

Market value of listed treasury bills amounted to HK\$2,413,713,000 (1999: HK\$5,813,843,000).

14. CERTIFICATES OF DEPOSIT HELD

	The Group	
	2000 HK\$'000	1999 HK\$'000
Held to maturity securities		
Unlisted	231,182	130,986
Other investments		
Listed outside Hong Kong, at market value	47,066	203,797
Unlisted, at fair value	310,169	1,388,077
	<u>357,235</u>	<u>1,591,874</u>
	<u><u>588,417</u></u>	<u><u>1,722,860</u></u>

15. OTHER INVESTMENTS IN SECURITIES

	The Group	
	2000	1999
	HK\$'000	HK\$'000
Debt securities		
Listed, at market value		
– in Hong Kong	445,612	246,408
– outside Hong Kong	–	81,841
	<u>445,612</u>	<u>328,249</u>
Unlisted, at fair value		
– Trading	1,049,426	1,891,355
– Non-trading	191,596	–
	<u>1,686,634</u>	<u>2,219,604</u>
Equity securities		
Listed, at market value		
– in Hong Kong	96,734	26,066
– outside Hong Kong	12,166	11,440
	<u>108,900</u>	<u>37,506</u>
Unlisted, at fair value	1,507	–
	<u>110,407</u>	<u>37,506</u>
	<u><u>1,797,041</u></u>	<u><u>2,257,110</u></u>
The Group		
	2000	1999
	HK\$'000	HK\$'000
Issued by:		
– Central governments and central banks	229,193	994,538
– Public sector entities	961,304	320,116
– Banks and other financial institutions	558,074	894,516
– Corporate entities	48,470	47,940
	<u>1,797,041</u>	<u>2,257,110</u>

16. ADVANCES TO CUSTOMERS LESS PROVISIONS

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Advances to customers (Note a)	66,877,100	66,422,639	–	–
Provisions for bad and doubtful loans and advances (Note b)				
General	(821,012)	(816,482)	–	–
Specific	(718,973)	(664,694)	–	–
	<u>65,337,115</u>	<u>64,941,463</u>	<u>–</u>	<u>–</u>
Included in advances to customers are:				
Trade bills	651,198	637,276	–	–
General provisions for bad and doubtful loans and advances	(6,421)	(6,331)	–	–
	<u>644,777</u>	<u>630,945</u>	<u>–</u>	<u>–</u>

(a) Net cash investment in finance lease and hire purchase debtors included in advances to customers are as follows:

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Finance lease debtors	128,035	50,186	–	–
Hire purchase debtors	5,014,057	5,546,368	–	–
	<u>5,142,092</u>	<u>5,596,554</u>	<u>–</u>	<u>–</u>

At 30th June, 2000, the cumulative cost of assets acquired by the Group for the purpose of letting under the above finance leases and hire purchase contracts amounted to approximately HK\$215 million (1999: HK\$118 million) and HK\$5,792 million (1999: HK\$6,207 million) respectively.

The rentals receivable by the Group during the year in respect of finance leases and hire purchase contracts amounted to approximately HK\$97 million (1999: HK\$77 million) and HK\$3,613 million (1999: HK\$2,605 million) respectively.

16. ADVANCES TO CUSTOMERS LESS PROVISIONS (CONT'D)

(b) Provisions for bad and doubtful loans and advances

	The Group 2000			Suspended interest HK\$'000
	Specific HK\$'000	General HK\$'000	Total HK\$'000	
At 1st July	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	–
Charge to profit and loss account	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	<u>718,973</u>	<u>821,012</u>	<u>1,539,985</u>	<u>387,906</u>

	The Group 1999			Suspended interest HK\$'000
	Specific HK\$'000	General HK\$'000	Total HK\$'000	
At 1st July	258,040	875,365	1,133,405	80,585
Amounts written off	(523,615)	–	(523,615)	(40,100)
Recoveries of advances written off in previous years	19,166	–	19,166	–
Charge/(release) to profit and loss account	915,390	(58,629)	856,761	–
Interest suspended during the year	–	–	–	292,819
Suspended interest recovered	–	–	–	(20,379)
Exchange differences	(4,287)	(254)	(4,541)	(11,582)
At 30th June	<u>664,694</u>	<u>816,482</u>	<u>1,481,176</u>	<u>301,343</u>

(c) The total advances, net of suspended interest, on which interest has been placed in suspense or has ceased to accrue are as follows:

	2000		The Group		1999	
	HK\$'000	% of Total advances	HK\$'000	% of Total advances	HK\$'000	% of Total advances
Gross advances	2,612,377	3.91	2,694,094	4.06	2,694,094	4.06
Specific provisions	(664,264)		(580,164)		(580,164)	
	<u>1,948,113</u>		<u>2,113,930</u>		<u>2,113,930</u>	

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

17. OTHER ASSETS

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Accrued interest	1,092,033	503,923	314	337
Other accounts	1,201,291	1,038,068	367	363
	<u>2,293,324</u>	<u>1,541,991</u>	<u>681</u>	<u>700</u>

18. HELD TO MATURITY SECURITIES AND INVESTMENT SECURITIES

	The Group	
	2000 HK\$'000	1999 HK\$'000
Held to maturity securities – debt securities		
Listed		
– in Hong Kong	1,841,392	248,008
– outside Hong Kong	11,148,305	5,370,029
	<u>12,989,697</u>	<u>5,618,037</u>
Unlisted	12,261,106	4,069,585
	<u>25,250,803</u>	<u>9,687,622</u>
Investment securities		
Debt securities		
Listed outside Hong Kong	43,559	25,280
Unlisted	51,626	103,148
	<u>95,185</u>	<u>128,428</u>
Equity securities		
Listed outside Hong Kong	133	133
Unlisted	13,929	14,149
	<u>14,062</u>	<u>14,282</u>
	<u>109,247</u>	<u>142,710</u>
	<u>25,360,050</u>	<u>9,830,332</u>
Market value of listed securities:		
Debt securities	13,026,922	5,734,027
Equity securities	13,949	12,160
	<u>13,040,871</u>	<u>5,746,187</u>

18. HELD TO MATURITY SECURITIES AND INVESTMENT SECURITIES (CONT'D)

	The Group	
	2000 HK\$'000	1999 HK\$'000
Issued by:		
– Central governments and central banks	4,525,806	788,803
– Public sector entities	4,260,444	1,618,090
– Banks and other financial institutions	16,140,747	6,864,422
– Corporate entities	428,514	554,555
– Others	4,539	4,462
	25,360,050	9,830,332

During the year, held to maturity securities shown in Notes 13(b), 14 and 18 with an amortised cost of HK\$3,035,022,000 (1999: HK\$990,222,000) were disposed of at a profit of HK\$4,913,000 (1999: HK\$46,925,000) being recognised in the profit and loss account. One of the major reasons for disposal of these held to maturity securities was to reduce the short term Treasury Bills holdings due to the Year 2000 plan after the Hong Kong Monetary Authority's announcement of Year 2000 arrangement on 6th September, 1999.

19. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	80,885	80,885

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

Name of Company	Issued and paid up ordinary share capital	Percentage held by the		Principal activities
		Company	Group	
DHB Limited	5,000,000 shares of HK\$100 each	100		Investment holding
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
Dao Heng Bullion Limited	5,000 shares of HK\$100 each		100	Bullion broking

19. INVESTMENTS IN SUBSIDIARIES (CONT'D)

(a) Details of the principal subsidiaries incorporated and operating in Hong Kong are as follows: (Cont'd)

Name of Company	Issued and paid up ordinary share capital	Percentage held by the		Principal activities
		Company	Group	
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
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
Benchmark Farm Finance (Four) Limited	United Kingdom	20,000 shares of £1 each		100	Finance
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 Bank, Inc.	Philippines	26,700,000 shares of Peso 100 each		60	Banking

20. INTEREST IN A JOINTLY CONTROLLED ENTITY

	The Group	
	2000	1999
	HK\$'000	HK\$'000
Share of net assets	<u>35,973</u>	<u>10,035</u>
Amount due to a jointly controlled entity	<u>591,358</u>	<u>501,836</u>

Details of the jointly controlled entity are as follows:

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

21. FIXED ASSETS

	Premises	Furniture, fixtures & equipment	Total
	HK\$'000	HK\$'000	HK\$'000
The Group			
Cost or valuation			
As at 1st July, 1999	4,608,803	677,007	5,285,810
Additions	596,395	99,659	696,054
Disposals	(203,351)	(22,972)	(226,323)
Exchange differences	(3,195)	(3,026)	(6,221)
As at 30th June, 2000	<u>4,998,652</u>	<u>750,668</u>	<u>5,749,320</u>
Accumulated depreciation			
As at 1st July, 1999	219,896	358,006	577,902
Charge for the year	88,213	87,551	175,764
Written back on disposal	(14,876)	(20,057)	(34,933)
Exchange differences	(758)	(1,535)	(2,293)
As at 30th June, 2000	<u>292,475</u>	<u>423,965</u>	<u>716,440</u>
Net book value as at 30th June, 2000	<u>4,706,177</u>	<u>326,703</u>	<u>5,032,880</u>
Net book value as at 30th June, 1999	<u>4,388,907</u>	<u>319,001</u>	<u>4,707,908</u>

21. FIXED ASSETS (CONT'D)

	2000 HK\$'000	1999 HK\$'000
The analysis of net book value of premises is as follows:		
In Hong Kong		
- Leasehold with over 50 years unexpired	1,434,548	1,619,202
- Leasehold with 10 years to 50 years unexpired	3,133,933	2,626,654
Outside Hong Kong		
- Freehold	67,433	72,675
- Leasehold with over 50 years unexpired	2,598	2,658
- Leasehold with 10 years to 50 years unexpired	67,665	67,718
	<u>4,706,177</u>	<u>4,388,907</u>

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

At cost	2,705,390	2,154,824
At directors' valuation in October 1993	2,293,262	2,453,979
	<u>4,998,652</u>	<u>4,608,803</u>

All other fixed assets are stated at cost.

22. AMOUNTS DUE FROM AND DUE TO THE ULTIMATE HOLDING COMPANY AND FELLOW SUBSIDIARIES

(a) Included in the following balance sheet captions are balances due to the ultimate holding company detailed as follows:

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Current, fixed, savings and other deposits of customers	63,615	238,916	-	-
Other accounts and provisions	117	289	-	-
	<u>63,732</u>	<u>239,205</u>	<u>-</u>	<u>-</u>

22. AMOUNTS DUE FROM AND DUE TO THE ULTIMATE HOLDING COMPANY AND FELLOW SUBSIDIARIES (CONT'D)

(b) Included in the following balance sheet captions are balances due from and due to fellow subsidiaries detailed as follows:

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Other assets	9,471	10,087	–	–
Held to maturity securities and investment securities	–	9,000	–	–
	<u>9,471</u>	<u>19,087</u>	<u>–</u>	<u>–</u>
Current, fixed, savings and other deposits of customers	180,646	216,811	–	–
Other accounts and provisions	1,138	21,048	–	–
	<u>181,784</u>	<u>237,859</u>	<u>–</u>	<u>–</u>

23. 7.75% FIXED RATE SUBORDINATED NOTES

The 7.75% fixed rate subordinated notes (“Notes”) with 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, commencing 24th July, 1997.

During the year, DHB repurchased US\$7 million (1999: US\$81 million) of the Notes which were subsequently cancelled. The profit on repurchase has been included in the profit and loss account as “Other operating income”. As at 30th June, 2000, the outstanding amount of the Notes issued by DHB is US\$261,620,000 (1999: US\$268,620,000).

24. MATURITY PROFILE

	The Group 2000						Total HK\$'000
	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	
Assets							
- 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	4,706,986	7,575,072	5,131,686	15,206,809	32,521,156	1,735,391	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>41,435,798</u>	<u>21,343,310</u>	<u>31,724,496</u>	<u>33,806,842</u>	<u>1,742,531</u>	<u>136,039,768</u>
Liabilities							
- 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 - 7.75% Fixed rate subordinated notes	-	230,000	2,807,751	3,923,000	100,000	-	7,060,751
	-	-	-	-	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>

24. MATURITY PROFILE (CONT'D)

	The Group 1999						
	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
Assets							
- Cash and short-term funds	773,680	33,347,815	4,645,119	-	-	-	38,766,614
- Placements with banks and other financial institutions maturing between one and twelve months	-	7,258,073	839,927	-	-	-	8,098,000
- Certificates of deposit held	-	-	113,989	1,608,871	-	-	1,722,860
- Other investments in securities - debt securities	-	310,286	443,902	1,427,072	38,344	-	2,219,604
- Advances to customers	4,923,877	6,991,568	4,455,523	14,859,065	33,601,483	1,591,123	66,422,639
- Held to maturity securities	-	710,757	1,355,461	6,276,281	1,345,123	-	9,687,622
- Investment securities - debt securities	-	15,536	-	87,525	19,081	6,286	128,428
	<u>5,697,557</u>	<u>48,634,035</u>	<u>11,853,921</u>	<u>24,258,814</u>	<u>35,004,031</u>	<u>1,597,409</u>	<u>127,045,767</u>
Liabilities							
- Deposits and balances of banks and other financial institutions	222,093	4,099,564	-	115,991	-	-	4,437,648
- Current, fixed, savings and other deposits of customers	11,810,743	73,832,983	7,294,463	133,273	-	-	93,071,462
- Certificates of deposit issued	-	623,273	5,670,568	1,175,332	-	-	7,469,173
- 7.75% Fixed rate subordinated notes	-	-	-	-	2,083,820	-	2,083,820
	<u>12,032,836</u>	<u>78,555,820</u>	<u>12,965,031</u>	<u>1,424,596</u>	<u>2,083,820</u>	<u>-</u>	<u>107,062,103</u>

25. MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with ultimate holding company and fellow subsidiaries

During the year, the Group entered into a number of transactions in the normal course of business with its ultimate holding company and fellow subsidiaries including deposit and correspondent banking transactions. 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.

Information relating to income and expense from these transactions during the year and balances outstanding at the balance sheet date is set out below :

(i) Income and expense for the year ended 30th June

	2000	1999
	HK\$'000	HK\$'000
Interest income	94	85
Interest expense	24,167	48,443
Other income	–	157
Other expenses	15,085	23,897

(ii) Balances as at 30th June

Details of balances due from and due to ultimate holding company and fellow subsidiaries are set out in Note 22 “Amounts due from and due to the ultimate holding company and fellow subsidiaries”.

(iii) Staff retirement benefit scheme

The Group's ultimate holding company, Guoco Group Limited, maintains a staff retirement scheme in which the investment manager is a fellow subsidiary and the administrator is a subsidiary. During the year ended 30th June, 2000, the Group made a total contribution of HK\$60.6 million (1999: HK\$57.5 million) to the scheme.

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

(i) Banking transactions

During the year, the Group entered into a number of transactions in the normal course of business with companies in the HLCM Group, Messrs. Quek Leng Chan, Kwek Leng Hai and Kwek Leng San are shareholders of HLCM, including deposit and correspondent banking transactions. 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.

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

	2000	1999
	HK\$'000	HK\$'000
Income and expense for the year ended 30th June		
Interest expense	2,512	1,717

25. MATERIAL RELATED PARTY TRANSACTIONS (CONT'D)

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

(i) Banking transactions (Cont'd)

	2000 HK\$'000	1999 HK\$'000
Balance as at 30th June		
Current, fixed, savings and other deposit of customers	7,824	12,156

(ii) Management fee

Dao Heng Bank Limited 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 year ended 30th June, 2000 amounted to HK\$61.2 million (1999: HK\$42.3 million).

(c) Transactions with jointly controlled entity

The Group maintains an interest free shareholders' loan to the jointly controlled entity, Hutchison Dao Heng Card Limited ("HDHCL"). The loan balance as at 30th June, 2000 amounted to HK\$15 million (1999: HK\$15 million).

Deposit taken from the jointly controlled entity as at 30th June, 2000 amounted to HK\$450 million (1999: HK\$440 million). Interest expense for the year ended 30th June, 2000 payable to HDHCL amounted to HK\$35 million (1999: HK\$40 million). Gross management fee income from HDHCL to the Group for the year ended 30th June, 2000 amounted to HK\$98 million (1999: HK\$112 million). The transactions were priced based on relevant market rates at the time of each transaction, and were under the normal commercial terms.

(d) Transactions with key management personnel

Transactions with key management personnel of the Group include their close family members and companies controlled or significantly influenced by them. However, an entity having one or more common directors with the Group would not be regarded as a related party of the Group unless these directors would at least be able to significantly influence the policies of the entity and the Group in their mutual dealings.

Loans and credit card advances balances as at 30th June, 2000 for key management personnel of the Group amounted to HK\$34 million (1999: HK\$26 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 year ended 30th June, 2000 amounted to HK\$1 million (1999: HK\$1 million).

26. SHARE CAPITAL

	The Company	
	2000 HK\$'000	1999 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:		
694,723,200 (1999: 693,288,200) shares of US\$0.50 each	<u>2,683,890</u>	<u>2,678,346</u>

During the year, the Company did not repurchase any of its own shares (2,394,500 shares of US\$0.50 each were repurchased in 1999).

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.

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 year, 1,435,000 (1999: 670,200) share options were exercised to subscribe for 1,435,000 (1999: 670,200) shares in the Company at a consideration (net of charges) of HK\$31,280,847 (1999: HK\$14,616,439) of which HK\$5,543,765 (1999: HK\$2,589,151) was credited to share capital and the balance of HK\$25,737,082 (1999: HK\$12,027,288) was credited to the share premium account. Pursuant to the rules of the Scheme, a total of 605,000 share options were lapsed during the year. At 30th June, 2000, 17,424,800 share options were outstanding (1999: 19,464,800).

27. RESERVES

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
(a) Share premium				
As at 1st July	2,387,057	2,382,871	2,390,057	2,385,871
Shares issued under Share Option Scheme	25,737	12,027	25,737	12,027
Repurchase of own shares	–	(7,841)	–	(7,841)
As at 30th June	<u>2,412,794</u>	<u>2,387,057</u>	<u>2,415,794</u>	<u>2,390,057</u>
(b) General reserve				
As at 1st July and 30th June	<u>828,039</u>	<u>828,039</u>	<u>–</u>	<u>–</u>
(c) Revaluation reserve (undistributable)				
As at 1st July and 30th June	<u>633,660</u>	<u>633,660</u>	<u>–</u>	<u>–</u>
(d) Contributed surplus				
As at 1st July and 30th June	<u>149,981</u>	<u>149,981</u>	<u>150,581</u>	<u>150,581</u>
(e) Retained earnings				
As at 1st July	4,979,750	4,394,430	72,764	70,830
Retained profit for the year	896,133	579,026	819	1,934
Exchange differences on translation of net investments in overseas branches, subsidiaries and associated companies	(41,678)	6,294	–	–
As at 30th June	<u>5,834,205</u>	<u>4,979,750</u>	<u>73,583</u>	<u>72,764</u>
	<u>9,858,679</u>	<u>8,978,487</u>	<u>2,639,958</u>	<u>2,613,402</u>

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

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:

- it is, or would after the payment be, unable to pay its liabilities as they become due; or
- 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 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 profits which can be distributed to shareholders.

28. OFF-BALANCE SHEET EXPOSURES

(a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments :

	The Group	
	2000	1999
	HK\$'000	HK\$'000
Direct credit substitutes	606,011	510,484
Transaction-related contingencies	206,611	245,273
Trade-related contingencies	2,203,314	1,962,689
Other commitments with an original maturity of under 1 year or which are unconditionally cancellable	27,045,777	19,683,803
	30,061,713	22,402,249

(b) Financial contracts

Financial contracts represent contracts whose value depends on the value of one or more underlying assets or indices.

The following is a summary of the notional amounts of each significant type of financial contracts entered into by the Group.

	The Group	
	2000	1999
	HK\$'000	HK\$'000
Exchange rate contracts		
Spot and forwards	4,258,239	4,233,897
Swaps	29,349,482	24,489,981
Options purchased	93,874	29,703
Options written	30,198	29,703
Interest rate contracts		
Forwards and futures	4,000,131	1,269,599
Swaps	24,647,868	10,961,582
Options purchased	38,978	-
Others		
Options purchased	131,547	7,830
Options written	131,547	67,334
	62,681,864	41,089,629

28. OFF-BALANCE SHEET EXPOSURES (CONT'D)

(b) Financial contracts (Cont'd)

The above table included the following notional amounts of financial contracts which were made for dealing purposes:

	The Group	
	2000	1999
	HK\$'000	HK\$'000
Exchange rate contracts		
Spot and forwards	140,312	–
Swaps	22,054,972	19,572,000
Options purchased	93,874	–
Options written	30,198	–
Interest rate contracts		
Forwards and futures	4,000,131	–
Swaps	17,756,625	2,680,000
	44,076,112	22,252,000

Other accounts are initiated in response to customer demands. No other significant positions are maintained by the Group.

The replacement costs and credit risk-weighted amounts of the above off-balance sheet exposures are as follows. These amounts do not take into account the effects of bilateral netting arrangements.

	The Group			
	2000		1999	
	Replacement cost	Credit risk-weighted amount	Replacement cost	Credit risk-weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments	–	1,050,339	–	912,877
Exchange rate contracts	112,007	112,686	63,687	81,376
Interest rate contracts	250,663	65,611	36,139	12,509
Equity contracts	1,228	7,668	63	31
	363,898	1,236,304	99,889	1,006,793

The tables above give the contractual or notional amounts, replacement costs and credit risk-weighted amounts of off-balance sheet transactions. These are assessed in accordance with the Hong Kong Monetary Authority's guidelines which implement the Basle agreement on capital adequacy and depend on the status of the counterparty and the maturity characteristics.

The risk weights used range from 0% to 100% for contingent liabilities and commitments, and from 0% to 50% for exchange rate and interest rate contracts. Replacement cost represents the cost of replacing all contracts which have a positive value when marked to market. The credit risk-weighted amount refers to the amount as computed in accordance with the Third Schedule to the Hong Kong Banking Ordinance.

28. OFF-BALANCE SHEET EXPOSURES (CONT'D)

(b) Financial contracts (Cont'd)

Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

Off-balance sheet financial instruments arise from forward, future, swap and option transactions undertaken by the Group in the foreign exchange, interest rate and equity markets.

The notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date. They do not represent amounts at risk.

(c) Capital commitments

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

	The Group	
	2000	1999
	HK\$'000	HK\$'000
Expenditure authorised and contracted for	54,959	75,500
Expenditure authorised but not contracted for	39,849	61,114
	94,808	136,614

(d) Lease commitments

Commitments under non-cancellable operating leases to make payments in the next year are as follows:

	The Group			
	2000		1999	
	Properties	Others	Properties	Others
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Leases expiring				
Within 1 year	19,183	11,247	11,559	8,469
After 1 year but within 5 years	43,718	1,227	36,591	4,116
After 5 years	9,649	178	1,806	39
	72,550	12,652	49,956	12,624

29. RECONCILIATION FOR CASH FLOW STATEMENT

(a) Reconciliation of operating profit on ordinary activities to net cash inflow from operating activities

	2000 HK\$'000	1999 HK\$'000
Operating profit on ordinary activities	1,993,224	1,392,945
Provisions for bad and doubtful loans and advances	365,910	856,761
Depreciation	175,764	147,359
Write-back for diminution in value of investment securities	–	(323)
Advances written off net of recoveries	(301,110)	(504,449)
Profit on disposal of held to maturity securities	(4,913)	(46,925)
Loss on disposal of debt securities - investment securities	(1,331)	–
Amortisation of discount of held to maturity securities	(699,366)	(118,320)
Amortisation of premium of debt securities - investment securities	199	368
Profit on disposal of equity investments - investment securities	(198)	–
Profit on disposal of 7.75% fixed rate subordinated notes	(3,989)	(181,066)
Dividend income from equity investments - investment securities	(3,185)	(3,811)
Interest expense for certificates of deposit issued	504,285	574,690
Interest expense for 7.75% fixed rate subordinated notes	160,717	174,559
Net cash inflow from trading activities	<u>2,186,007</u>	<u>2,291,788</u>
Net (increase)/decrease in money at call and short notice (repayable beyond three months)	(2,831)	268,969
Net increase in treasury bills (repayable beyond three months) - other investments	(4,808,563)	(187,474)
Net decrease/(increase) in placements with banks and other financial institutions (repayable beyond three months)	2,056,537	(2,136,625)
Net decrease/(increase) in certificates of deposit held - other investments	1,234,639	(31,423)
Net decrease/(increase) in other investments in securities	460,069	(1,533,930)
Net increase in advances to customers	(454,461)	(550,929)
Net increase in other assets	(751,333)	(172,921)
Net decrease in deposits and balances of bank and other financial institutions	(22,622)	(2,099,346)
Net increase in current, fixed, savings and other deposits of customers	8,687,973	7,617,046
Net increase in other accounts and provisions	716,180	3,580,882
Exchange and other adjustments	16,595	89,036
Net cash inflow from operating activities	<u><u>9,318,190</u></u>	<u><u>7,135,073</u></u>

29. RECONCILIATION FOR CASH FLOW STATEMENT (CONT'D)

(b) Analysis of changes in financing during the year

	Share capital including share premium HK\$'000	Certificates of deposit issued HK\$'000	7.75% Fixed rate sub- ordinated notes HK\$'000	Minority interests HK\$'000
Balance as at 1st July, 1998	5,067,878	7,733,274	2,711,975	130,576
Cash inflow from financing	14,616	5,692,713	–	40,590
Cash outflow from financing	(17,091)	(5,956,915)	(449,425)	–
Minority interests' share of loss	–	–	–	(17,713)
Profit upon early redemption	–	–	(181,066)	–
Effect of foreign exchange movement	–	101	2,336	13,503
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 movement	–	4,674	9,941	10,871
Balance as at 30th June, 2000	5,096,684	7,060,751	2,039,459	170,872

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

	2000 HK\$'000	1999 HK\$'000
Cash and balances with banks and other financial institutions	1,158,961	773,680
Money at call and short notice repayable within three months	14,774,296	20,819,631
Placements with banks and other financial institutions repayable within three months	9,364,758	4,751,461
Treasury bills repayable within three months	6,086,162	11,107,044
Debt securities repayable within three months	–	269,708
	31,384,177	37,721,524

30. ASSETS SUBJECT TO SALE AND REPURCHASE TRANSACTIONS

	The Group	
	2000 HK\$'000	1999 HK\$'000
Total assets subject to sale and repurchase transactions	17,100,787	16,316,104

The above amount is mainly made up of items included in "Treasury Bills" totalling HK\$11,734 million (1999: HK\$14,468 million).

30. ASSETS SUBJECT TO SALE AND REPURCHASE TRANSACTIONS (CONT'D)

The Group has the following liabilities subject to sale and repurchase transactions:

	The Group	
	2000	1999
	HK\$'000	HK\$'000
Deposits and balance of banks and other financial institutions	2,336,331	1,278,219
Current, fixed, savings and other deposits of customers	4,321,659	4,648,682
Other accounts and provisions	9,709,298	10,224,047
	<u>16,367,288</u>	<u>16,150,948</u>

31. STAFF RETIREMENT SCHEME

The Group operates a non-contributory defined contribution provident fund scheme (the "Scheme") which benefits are paid on retirement or on leaving employment. Contributions to the defined contribution scheme are charged to the profit and loss account for the year. The assets of the Scheme are held separately from those of the Group in independently administered funds. The contributions are made by the Group based on 10% of employees' monthly salaries. The Group's contribution to the Scheme may be reduced by contributions forfeited by those employees who leave the Scheme prior to vesting fully in the contributions. The amount so utilised during the year ended 30th June, 2000 was HK\$4 million (1999: HK\$4 million) and the amount available for such use as at 30th June, 2000 was HK\$19 million (1999: HK\$12 million).

With the introduction of Mandatory Provident Fund ("MPF"), the Group has decided to wind up the Scheme with effect from 1st December, 2000. The Group will set up a MPF scheme and the accrued benefits under the Scheme as at 30th November, 2000 will be transferred to the Employer's Voluntary Contribution account of the Dao Heng MPF Master Trust Plan.

32. COMPARATIVE FIGURES

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

33. POST BALANCE SHEET EVENT

On 21st September, 2000, Dao Heng Bank Limited ("DHB") entered into a conditional agreement with Banco de Oro Universal Bank ("BDO") of the Philippines to exchange its 60% interest in Dao Heng Bank, Inc. ("DHBI") with BDO, in return for the issue to DHB of about 103 million fully paid shares of BDO. Simultaneously, Guoco Holdings (Philippines) Inc, an associated company of Guoco Group Limited sold its 40% interest in DHBI to BDO, for cash. DHBI's banking business will be merged into and absorbed by BDO. Completion of these transactions and the merger will take place simultaneously, subject to various conditions, including obtaining of relevant regulatory approvals. Together with a further acquisition of approximately 12 million BDO shares by DHB at completion for cash, DHB's interest in BDO will be less than 20% of the enlarged issued share capital of BDO.

34. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 30th June, 2000 to be Guoco Group Limited, which is incorporated in Bermuda.

(a) Capital adequacy and liquidity ratios

(i) Capital adequacy ratios

	2000 HK\$'000	1999 HK\$'000
The components of total capital base after deductions		
Core capital (Tier I capital)		
Paid up ordinary share capital	5,200,000	5,200,000
Reserves (eligible for inclusion in core capital)	6,487,919	5,630,856
Minority interests	170,872	166,956
Eligible supplementary capital (Tier II capital)		
Reserve on revaluation of land and interests in land (at 70%)	437,398	437,398
General provisions for doubtful debts	821,012	809,116
Term subordinated debt	2,039,459	2,083,820
Total capital base before deductions	<u>15,156,660</u>	14,328,146
Deductions from total capital base	<u>(106,984)</u>	(45,768)
Total capital base after deductions	<u><u>15,049,676</u></u>	<u><u>14,282,378</u></u>
Total risk-weighted assets	<u><u>66,532,781</u></u>	<u><u>64,721,912</u></u>
Total risk-weighted assets adjusted for market risk	<u><u>67,840,108</u></u>	<u><u>64,807,662</u></u>

Capital adequacy ratios as at 30 June

Before adjusting for market risk

Tier I (%)	<u><u>17.82</u></u>	<u><u>16.99</u></u>
Tier I and Tier II (after deductions) (%)	<u><u>22.62</u></u>	<u><u>22.07</u></u>

After adjusting for market risk

Tier I (%)	<u><u>17.48</u></u>	<u><u>16.97</u></u>
Tier I and Tier II (after deductions) (%)	<u><u>22.18</u></u>	<u><u>22.04</u></u>

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

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

Unaudited Supplementary Financial Information

(a) Capital adequacy and liquidity ratios (Cont'd)

(ii) Liquidity ratios

	2000	1999
Average liquidity ratio for the year (%)	<u>49.02</u>	<u>51.51</u>

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

(b) Segmental information

(i) By geographical area

The information concerning geographical analysis has been classified by the location of the principal operations of the subsidiaries and jointly controlled entity, or in the case of the authorised institution itself, of the location of the branches responsible for reporting the results or booking the assets.

	The Group			
	2000			1999
	Profit before taxation HK\$'000	Total assets HK\$'000	Profit before taxation HK\$'000	Total assets HK\$'000
Hong Kong	1,945,896	136,461,235	1,381,048	126,999,478
United Kingdom	14,125	3,343,301	11,894	2,903,057
Asia Pacific	30,752	2,181,893	1,719	1,973,778
	<u>1,990,773</u>	<u>141,986,429</u>	<u>1,394,661</u>	<u>131,876,313</u>

(ii) By class of business

	The Group			
	2000			1999
	Profit before taxation HK\$'000	Total assets HK\$'000	Profit before taxation HK\$'000	Total assets HK\$'000
Commercial & retail banking	1,661,996	86,308,135	1,024,148	80,805,278
Treasury	283,900	50,153,100	356,900	46,194,200
Overseas branches & subsidiaries	44,877	5,525,194	13,613	4,876,835
	<u>1,990,773</u>	<u>141,986,429</u>	<u>1,394,661</u>	<u>131,876,313</u>

Commercial & retail banking business mainly comprises deposit account services, residential mortgage and other consumer lending, 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, management of investment securities and trading activities and the overall funding of the Banking Group.

Unaudited Supplementary Financial Information

(c) Advances to customers – by industry sectors

The information concerning 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	
	2000	1999
	HK\$'000	HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
– Property development	234,701	252,554
– Property investment	7,158,136	8,380,394
– Financial concerns	417,826	441,113
– Stockbrokers	75,374	30,699
– Wholesale and retail trade	1,705,808	2,154,102
– Manufacturing	2,246,998	2,336,640
– Transport and transport equipment	5,646,859	6,114,306
– Others	2,587,422	2,671,154
Individuals		
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	4,496,430	2,307,003
– Loans for the purchase of other residential properties	27,247,698	27,450,357
– Credit card advances	3,646,333	3,145,170
– Others	3,129,058	2,707,144
	58,592,643	57,990,636
Trade finance	5,476,979	5,557,075
Loans for use outside Hong Kong	2,807,478	2,874,928
	66,877,100	66,422,639

(d) Overdue and rescheduled advances to customers

(i) Overdue advances to customers

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

	2000		The Group		1999	
	HK\$'000	% of Total advances	HK\$'000	% of Total advances	HK\$'000	% of Total advances
Six months or less but over three months	482,630	0.72	638,519	0.96		
One year or less but over six months	576,335	0.86	1,103,992	1.66		
Over one year	1,348,089	2.02	791,055	1.19		
	<u>2,407,054</u>	<u>3.60</u>	<u>2,533,566</u>	<u>3.81</u>		
Market value of securities held against the secured advances	<u>1,979,328</u>		<u>2,281,959</u>			
Secured overdue advances	1,578,012		1,663,960			
Unsecured overdue advances	829,042		869,606			
	<u>2,407,054</u>		<u>2,533,566</u>			
Specific provisions made	<u>572,665</u>		<u>541,540</u>			

(ii) Rescheduled advances to customers

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

	2000		The Group		1999	
	HK\$'000	% of Total advances	HK\$'000	% of Total advances	HK\$'000	% of Total advances
Rescheduled advances	<u>827,639</u>	1.24	<u>1,060,955</u>	1.60		

(d) Overdue and rescheduled advances to customers (Cont'd)

(iii) Reconciliation of overdue advances to non-accrual advances :

	2000	1999
	HK\$'000	HK\$'000
Overdue advances to customers as per above (i)	2,407,054	2,533,566
Less: Advances which are overdue for more than three months and on which interest is still being accrued	(345,146)	(432,847)
Add: Advances which are overdue for three months or less and on which interest is being placed in suspense or on which interest accrual has ceased	215,889	334,651
Add: Advances which are not yet overdue and on which interest is being placed in suspense or on which interest accrual has ceased	334,580	258,724
	<u>2,612,377</u>	<u>2,694,094</u>
Gross non-accrual advances	<u>2,612,377</u>	<u>2,694,094</u>

(e) Risk management

Sound management of risk is fundamental to the business of banking and it is a high priority of the Group.

The Board and the Senior Management of the Group are responsible for establishing and maintaining a sound framework of policies and controls for identifying, evaluating, monitoring and controlling key risks pertaining to the Group's business. The key risks include credit risk, market risk, liquidity risk, capital management risk and operational risk. The management of business units and support functions are responsible for implementing the approved policies and procedures in achieving the Group's mission and objectives.

The risk related policies and controls are subject to regular review by the relevant business units, Risk Management Division and senior management based on changing customer needs and business conditions. Significant issues are reported to the Board and the Executive Committee. The internal and external auditors also conduct their independent reviews on the adequacy and effectiveness of these key policies and controls and report their opinions directly to the senior management and the Board as required.

(i) Credit risk management

Credit risk is the potential financial loss which can result from the failure of a counterparty to settle its financial and contractual obligations to the Group, as and when they are due.

The Group's Credit Policy Manual defines the credit extension criteria, the credit approval and monitoring processes, the loan classification system and provisioning policy. It also takes into account the regulatory requirements in countries in which the Group operates.

The Group manages its credit risk within a prudent framework of lending policy and controls. This includes:

- The staffing of key lending positions by experienced and skilled officers;
- The establishment of comprehensive lending policies and practices as approved by Senior Management;
- A thorough evaluation of the creditworthiness of the counterparties which generally covers the viability of the financing proposals, management, financial condition, quality of security, repayment capacity and industry outlook. Accounts are reviewed at least annually;

(e) Risk management (Cont'd)

(i) Credit risk management (Cont'd)

- The independent review and approval of credit applications by management, the Management Credit Committee, or the Board Credit Committee, are in accordance with the delegated authorities. The Credit Committees also review and, in some cases, approve important changes to the Group's lending policy, exposures, asset quality, problem loans and provisions on a regular basis;
- Daily independent monitoring and control of credit limit excesses by the centralised credit control which enables effective identification and management of existing and potential problem loans;
- Independent and central management of delinquent accounts and workouts by the Special Assets Management Unit;
- Maintenance of a diversified portfolio by industries and borrowers to minimise concentration risk;
- Independent review of credits and processes by specialised Credit Inspection Teams of the Group Internal Audit Division.

(ii) Liquidity management

Liquidity risk arises when the Group's cashflow is insufficient to meet the Group's obligations as they fall due. This shortfall may be due to a shortage of funding, inappropriate mismatching of cashflows, losses, event risk and other factors. The Group measures and monitors its liquidity through maintenance of prudent ratios and funding policies approved by Senior Management and the Asset & Liability Committee ("ALCO"). These include the quality of assets and liabilities, the statutory liquidity ratio, the loan-to-deposit ratio, interest rate gaps, maintenance of diversified deposit sources and management of maturity profiles.

The Hong Kong offices of Dao Heng Bank Limited had an average liquidity ratio of 49.02% for the year ended 30th June, 2000 (1999: 51.51%), which was close to double the statutory minimum ratio of 25%.

A prudent level of realisable liquid assets is also maintained by the Group to meet unexpected and material cash requirements.

(iii) 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 risk reward criteria and regulatory requirements.

Both the Group's adjusted consolidated capital adequacy ratio incorporating market risk of 22.18% (1999: 22.04%) and the unadjusted ratio of 22.62% (1999: 22.07%) as at 30th June, 2000 were well above the statutory minimum ratio of 8%.

(iv) Market risk management

Market risk arises from the net effect of changes in interest rates, foreign exchange rates, securities, equities and commodity prices in the markets in which the Group operates.

The Group's market risks originate from its holdings in the trading book of foreign exchange contracts, debt securities, equities and financial contracts. The Group's trading activities on financial contracts mainly arise from the execution of trade orders from customers and positions taken in order to hedge other elements of the trading book.

(e) Risk management (Cont'd)

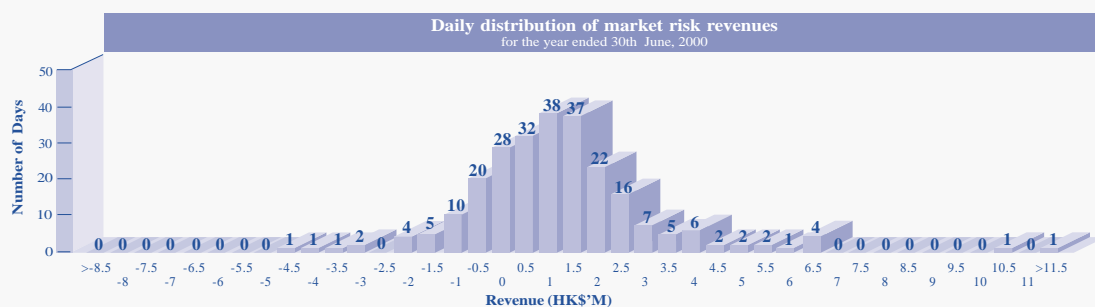
(iv) Market risk management (Cont'd)

The Group's maximum market risk exposures in different activities are set by the Executive Committee and ALCO. Exposures are monitored against established limits and excesses are reported to Senior Management for necessary action. This reporting is independently reviewed by the internal auditors.

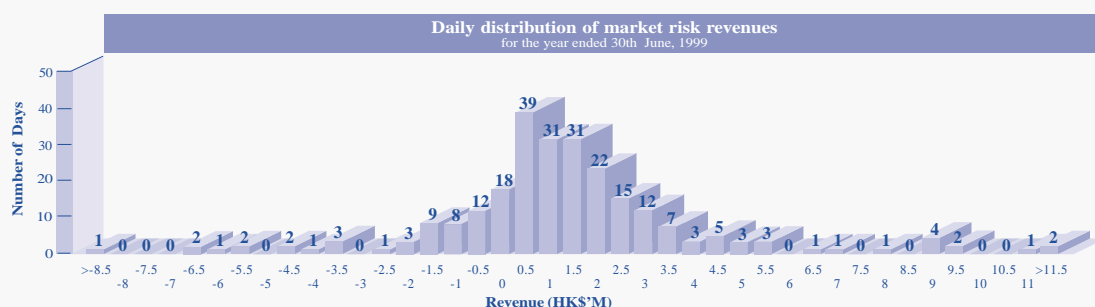
The average daily revenue earned from the Group's market risk related treasury activities for the year ended 30th June, 2000 was HK\$0.902 million (1999: HK\$1.115 million) and the standard deviation for such daily revenue was HK\$1.909 million (1999: HK\$3.75 million).

The frequency distribution of daily revenue analysed by market-risk related treasury activities for the year ended 30th June, 2000 is shown below:

2000



1999



This shows a maximum daily loss of HK\$4.9 million and the next maximum daily loss of HK\$4.23 million, with 72 out of 248 days showing losses. The most frequent result was a daily revenue of between HK\$0.501 million to HK\$1 million with 38 occurrences. The highest daily revenue was HK\$11.1 million (1999: HK\$37.7 million).

(e) Risk management (Cont'd)

(iv) Market risk management (Cont'd)

– Foreign exchange risk management

The Group's foreign exchange risk primarily arises from foreign exchange dealing, banking transactions and investments in the Group's overseas branches and subsidiaries. All foreign exchange positions are centrally managed by the Dao Heng Markets within the limits approved by the Management. Limit excesses, if any, are reported to Senior Management for necessary action.

The average daily foreign exchange trading profit for the year ended 30th June, 2000 was HK\$431,000 (1999: HK\$514,000).

The exchange rate risk of long-term foreign currency funding, to the extent that such funding is used to fund assets denominated in a different currency, is normally hedged by using interest rate and currency swaps or forward exchange agreements.

– Interest rate risk management

The Group's interest rate open positions arise from trading, investments and other normal banking activities. This risk primarily results from the timing differences in the re-pricing of interest-bearing assets and liabilities. It also relates to positions arising from non-interest bearing liabilities including current accounts, as well as from certain fixed rate loans and liabilities. The interest rate sensitive positions are managed by Dao Heng Markets under the limits approved by the Senior Management and ALCO.

The average daily revenue earned from treasury-related interest rate activities for the year ended 30th June, 2000 was HK\$471,000 (1999: HK\$601,000).

(v) Operational risk

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

It is the Group's policy to maintain adequate documentation of its operating procedures to facilitate training and quality performance. The systems and procedures are independently reviewed by internal auditors and approved by Senior Management. Supervisors and management exercise close supervision and control of operational activities to minimize the operational losses.



The Local Distribution Network of the Group

本集團於本港之分佈網絡

HHHHHHHHH	East Rail 九廣東鐵
	East Rail Extension 九廣東鐵支線
—	Light Rail 輕便鐵路線
—	Route 3 三號幹線
—	Western Corridor Railway (Passenger Line) 西部走廊鐵路
—	Island Line 港島線
—	Kwun Tong Line 觀塘線
—	Tseung Kwan O Extension 將軍澳支線
—	Tsuen Wan Line 荃灣線
—	Tung Chung Line 東涌線
—	Airport Express 機場快線
●	KCR Station 火車站
○	MTR Station 地鐵站
○	Western Corridor Railway Station 西部走廊鐵路站
○	MTR Interchange Station 地鐵轉車站

