

Notes on the Accounts

34. RESERVES (CONT'D)

	The Group		The Company	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
(h) Retained profits				
As at 1 July	878,329	814,890	106,318	85,640
Amortisation of restated goodwill (Note 4(b))	(91,119)	(82,934)	–	–
Final dividend receivable restated	–	–	(64,289)	(44,855)
Proposed final dividend restated (Note 4(a))	30,100	27,498	30,100	27,498
As restated	817,310	759,454	72,129	68,283
Transfer to capital reserve by subsidiaries and associates	(9,072)	(4,220)	–	–
Transfer from other property revaluation reserve on disposal of fixed assets	–	9,468	–	–
Retained profit for the year	2,685,218	52,608	3,315,185	3,846
As at 30 June	3,493,456	817,310	3,387,314	72,129
Total reserves	3,903,282	1,276,462	3,714,887	405,476

	The Group	
	2001 \$'000	2000 \$'000
Retained in		
– Company and subsidiaries	3,864,279	1,227,105
– Associates	39,601	46,916
– Jointly controlled entities	(598)	2,441
	3,903,282	1,276,462

Notes:

(i) The contributed surplus is governed by Section 54 of the Companies Act 1981 of Bermuda.

The contributed surplus is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

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

(iii) The capital and other reserves, the exchange difference account, the investment property revaluation reserve and the other property revaluation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for foreign currency translation and the revaluation of investment properties and land and buildings held for own use.

(iv) Distributable reserves of the Company as at 30 June 2001 amounted to \$3,478,795,000 (2000: \$170,354,000).

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	The Group	
	2001 \$'000	2000 \$'000 Restated
Operating profit on ordinary activities	2,790,398	212,056
Finance cost for non-banking operations	57,295	51,222
Interest income from non-banking operations	(7,675)	(8,740)
Dividend income	(6,225)	(1,740)
Depreciation	32,681	24,652
Provision for bad and doubtful loans and advances	65,013	46,939
Advances written off net of recoveries	(54,674)	(38,626)
Amortisation of goodwill	3,260	8,185
Provision for diminution in value of properties	6,540	8,246
Provision/(write back) for investment in subsidiaries, associates and jointly controlled entities	325,485	(1,866)
Profit on disposal of subsidiaries	(2,901,384)	–
Net profit on disposal of investment properties	–	(31,620)
Net (profit)/loss on disposal of fixed assets	(2,022)	4,347
Loss on deemed disposal of a subsidiary's property portfolio	–	38,091
Write back on provision for diminution in value of investments	–	(11,050)
Gain on disposal of investment securities	(7,770)	(9,069)
Amortisation of discount of held-to-maturity securities and investment securities	(56,188)	(89,714)
Profit on early redemption of long term notes and bonds	–	(512)
Net cash inflow from trading activities	<u>244,734</u>	<u>200,801</u>
Increase in advances to customers and other accounts	(597,447)	(99,979)
Decrease in certificates of deposit	22,593	159,589
(Increase)/decrease in other investments in securities	(121,489)	58,165
Increase in trade bills	(1,805)	(1,774)
Decrease/(increase) in development properties	40,293	(19,924)
Decrease in properties held for resale	51,042	–
Increase in other payables and provision	775,794	102,140
Increase/(decrease) in insurance funds	102	(335)
Increase in current, fixed, savings and other deposits	540,392	1,082,382
Increase/(decrease) in deposits and balances of other banks	137,736	(5,690)
Net cash inflow from operating activities	<u><u>1,091,945</u></u>	<u><u>1,475,375</u></u>

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(b) Analysis of changes in financing during the year

	The Group					Total \$'000
	Certificates of deposit \$'000	Short term bank loans \$'000	Long term bank loans \$'000	Long term notes and bonds \$'000	Other borrowings \$'000	
Balance as at 1 July 2000	905,747	71,187	732,912	582,913	118,986	2,411,745
Redemption of certificates of deposit	(389,472)	–	–	–	–	(389,472)
Issuance of certificates of deposit	308,920	–	–	–	–	308,920
Short term bank loans	–	188,755	–	–	–	188,755
Long term bank loans repayable within 5 years	–	–	(17,471)	–	–	(17,471)
Long term notes and bonds	–	–	–	71,311	–	71,311
Transfer	–	180,000	(180,000)	(262,281)	262,281	–
Other short term borrowings	–	–	–	–	(117,155)	(117,155)
Relating to disposal of subsidiary	(824,718)	–	–	(261,620)	–	(1,086,338)
Effect of foreign exchange difference	(477)	(3,055)	(18,361)	(6,901)	(1,831)	(30,625)
Balance as at 30 June 2001	<u>–</u>	<u>436,887</u>	<u>517,080</u>	<u>123,422</u>	<u>262,281</u>	<u>1,339,670</u>
Balance as at 1 July 1999	962,832	140,246	682,114	618,097	85,631	2,488,920
Redemption of certificates of deposit	(807,914)	–	–	–	–	(807,914)
Issuance of certificates of deposit	754,923	–	–	–	–	754,923
Short term bank loans	–	(67,893)	–	–	–	(67,893)
Long term bank loans repayable within 5 years	–	–	56,904	–	–	56,904
Long term notes and bonds	–	–	–	47,821	–	47,821
Transfer	–	–	–	(81,500)	81,500	–
Other short term borrowings	–	–	–	–	(47,029)	(47,029)
Effect of foreign exchange difference	(4,094)	(1,166)	(6,106)	(1,505)	(1,116)	(13,987)
Balance as at 30 June 2000	<u>905,747</u>	<u>71,187</u>	<u>732,912</u>	<u>582,913</u>	<u>118,986</u>	<u>2,411,745</u>

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(c) Analysis of the balances of cash and cash equivalents as shown in the consolidated balance sheet

	The Group	
	2001 \$'000	2000 \$'000
Cash and short term funds	2,993,808	4,139,820
Placements with banks	–	1,366,783
Bank loans and overdrafts	–	(86,215)
	2,993,808	5,420,388

(d) Disposal of subsidiaries

	2001 \$'000
Net assets disposed:	
Fixed assets	634,188
Interest in jointly controlled entity	10,273
Other assets	363,578
Advances to customers less provision	8,804,018
Trade bills	84,471
Other investments in securities	293,310
Held-to-maturity securities and investment securities	2,581,100
Certificates of deposit held	52,847
Cash and cash equivalents	6,850,878
Other payables and provision	(2,482,545)
Taxation	(27,428)
Deposits and balances of banks and other financial institutions	(703,783)
Current, fixed, savings and other deposits of customers	(13,562,750)
Certificates of deposits issued	(824,718)
Long term notes and bonds	(261,620)
Minority interests	(541,861)
	1,269,958
General reserve	(54,887)
Other property revaluation reserve	(41,108)
Contributed surplus	(17,704)
Exchange reserve	21,640
Capital reserve	(145,066)
Profit on disposal	2,901,384
	3,934,217
Satisfied by:	
Cash consideration	2,747,609
Other investments in securities	1,219,208
Accrued expenses	(32,600)
	3,934,217

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

(e) Analysis of net outflow of cash and cash equivalents in respect of the disposal of subsidiaries

	2001 \$'000
Cash consideration received	(2,747,609)
Cash and cash equivalents disposed	6,850,878
	<u>4,103,269</u>

(f) Acquisition of subsidiaries

	2001 \$'000
Net assets acquired:	
Interest in jointly controlled entities	16,515
Other payables and provision	(2,090)
	<u>14,425</u>
Discharged by:	
Cash paid	<u>14,425</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>14,425</u>

36. STAFF RETIREMENT SCHEME

The Group operated a non-contributory defined contribution provident fund scheme (the "Scheme") for its wholly owned subsidiaries incorporated in Hong Kong under which benefits were paid on retirement or on leaving employment. Contributions to the defined contribution scheme were charged to the profit and loss account for the year. The assets of the Scheme were held separately from those of the Group in independently administered funds. The contributions were made by the Group based on 10 percent of employees' monthly salaries.

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

The Group's contributions to the Scheme and MPF were reduced by contributions forfeited by those employees who left the Scheme/MPF prior to vesting fully in the contributions and other reserves balance in the Scheme upon the winding up of the Scheme. The amount so utilised in the course of the year ended 30 June 2001 was \$6,223,000 (2000: \$513,000) and the amount available for such use as at 30 June 2001 was \$Nil (2000: \$2,631,000).

37. POST BALANCE SHEET EVENT

The Company announced on 8 September 2001 that a conditional cash offer will be made to repurchase up to 43,000,000 shares, representing approximately 10% of the total issued share capital of the Company, subject to certain conditions. The directors will have the power to increase the maximum number of shares to be repurchased from 43,000,000 up to 107,000,000 shares (representing approximately 25% of the total issued share capital of the Company).

Under the offer, tenders will be invited in the range of HK\$46 to HK\$51 per share. If fully subscribed, it will result in the Company paying between HK\$1,978 million and HK\$5,457 million to the accepting shareholders. The offer will be conditional upon approval of the independent shareholders voting at the special general meeting and the Whitewash Waiver being granted by the Securities and Futures Commission.

38. CONTINGENT LIABILITIES

	The Group	
	2001	2000
	\$'000	\$'000
Contingent liabilities relating to bank operations		
Direct credit substitutes	–	77,739
Transaction-related contingencies	–	26,504
Trade-related contingencies	–	282,639
Other commitments with an original maturity of under 1 year or which are unconditionally cancellable	–	3,469,409
	<u>–</u>	<u>3,856,291</u>
	<u>–</u>	<u>3,856,291</u>

As at 30 June 2001, there were contingent liabilities in respect of guarantees given to bankers by the Group to secure banking facilities to the extent of \$41,087,000 (2000: \$21,073,000) granted to certain investee companies of the Group.

As at 30 June 2001, there were contingent liabilities in respect of guarantees given to bankers by the Company to secure banking facilities to the extent of \$381,155,000 (2000: \$361,158,000) granted to group companies.

As at 30 June 2001, there were three put option agreements entered into by the Company whereby imGO Limited (“imGO”) was granted the right (“Options”) to require the Company to purchase all (but not part) of imGO’s interest in the shares in each of the property holding companies at an aggregate consideration of about \$77,795,000. The Options are exercisable during the period from 30 May 2001 to 29 November 2001.

39. COMMITMENTS

(a) As at 30 June 2001, the Group had capital commitments as follows:

	2001 \$'000	2000 \$'000
Authorised and contracted for	3,116	7,050
Authorised but not contracted for	–	5,112
	<u>3,116</u>	<u>12,162</u>

(b) As at 30 June 2001, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group			
	2001		2000	
	Properties \$'000	Others \$'000	Properties \$'000	Others \$'000
Within 1 year	1,257	–	6,141	1,606
After 1 year but within 5 years	889	–	5,450	56
After 5 years	–	–	585	–
	<u>2,146</u>	<u>–</u>	<u>12,176</u>	<u>1,662</u>

(c) There were also commitments in respect of foreign exchange contracts and interest rate swaps relating to the normal operations as at 30 June 2001.

40. MATERIAL RELATED PARTY TRANSACTIONS

(a) Management fee

Certain companies in the Group have entered into management services agreements, determinable by either party giving six months' notice, with Hong Leong Overseas (H.K.) Limited ("HLO"), a subsidiary of the Company's substantial shareholder, for provision of general management services to the companies by HLO. Total management fees (mainly an annual fee equal to three percent of the consolidated profit before tax of the companies) paid and payable to HLO for the year ended 30 June 2001 amounted to \$7.5 million (2000: \$8.2 million).

(b) Mandatory Provident Fund Scheme

The Group maintains a Mandatory Provident Fund Scheme in which the investment manager and the service provider is a subsidiary of the Company. During the year ended 30 June 2001, the Group made a total contribution of \$8.9 million to the scheme (2000: \$8.2 million).

41. HONG KONG DOLLAR AMOUNTS

The Hong Kong dollar figures shown in the consolidated profit and loss account and the balance sheets are for information only. They are translated from United States dollars at the rates ruling at the respective financial year ends.