

31. OFF-BALANCE SHEET EXPOSURES *(continued)*

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

The table above gives the contractual amounts, replacement cost 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.

Off-balance sheet financial instruments arise from forward and swap transactions undertaken by the Group and the Bank in the foreign exchange and interest rate markets. The contractual amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

The above financial instruments represent transactions that are substantially all initiated in response to customer demands and no significant positions are maintained by the Group or the Bank.

32. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	The Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation	275,526	21,840
Interest expense on floating rate certificates of deposit	55,577	92,634
Depreciation	41,841	34,487
(Profit)/Loss on disposal of fixed assets	(2,275)	53
Profit from realisation of held-to-maturity debt securities and non-trading equities	(43,800)	0
Profit on disposal of a subsidiary	0	(1,679)
Dividends received from listed investments	(621)	0
Dividends received from unlisted investments	(1,300)	(1,319)
Amortisation of discount of held to maturity securities	(13,140)	(10,192)
Amortisation of premium of held to maturity securities	6,357	6,335
Specific provision written off during the year	(221,099)	(247,843)
Charge for bad doubtful debts	194,214	373,833
Decrease/(Increase) in short-term funds with original maturity of over three months	145,040	(94,040)
Increase in placements maturing between one and twelve months	(261,043)	(192,305)
Increase in trade bills and certificates of deposit	(262,035)	(133,095)
(Increase)/Decrease in advances to customers	(3,885,407)	2,282,537
Increase in accrued interest and other accounts	(73,077)	(416,028)
Increase in customer deposits	4,460,607	276,307
(Decrease)/Increase in other accounts and provisions	(129,107)	210,515
	<u>286,258</u>	<u>2,202,040</u>
Net cash inflow from operating activities	<u>286,258</u>	<u>2,202,040</u>

33. NET CASH OUTFLOW FROM FINANCING ACTIVITIES

	2000	1999
	HK\$'000	HK\$'000
Floating rate certificates of deposits in issue at 1 January	900,085	1,996,838
Floating rate certificates of deposits issued during the year	1,150,000	0
Floating rate certificates of deposits redeemed during the year	(888,386)	(1,096,753)
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Floating rate certificates of deposits in issue at 31 December	<u>1,161,699</u>	<u>900,085</u>

34. SALE OF SUBSIDIARY

	1999
	HK\$'000
(a) Net assets disposed of	
Fixed assets	1,327
Cash at bank and in hand	605
Investment	36,017
Net current asset	25,546
Profit on disposal	1,679
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	<u>65,174</u>
(b) Net cash inflow from disposal of a subsidiary	
Cash net of related expenses	65,174
Less: Cash at bank and in hand	(605)
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	<u>64,569</u>
(c) Satisfied by:	
Cash net of related expenses	<u>65,174</u>