

NANYANG COMMERCIAL BANK, LIMITED

DIRECTORS' REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31ST DECEMBER 2001

NANYANG COMMERCIAL BANK, LIMITED

REPORT OF THE DIRECTORS

The directors are pleased to present their report together with the audit consolidated accounts of Nanyang Commercial Bank, Limited (hereinafter as the “Bank”) and its subsidiaries (together with the Bank hereinafter as the “Group”) for the year ended 31st December 2001.

Principal activities

The Bank is a licensed bank authorised under the Hong Kong Banking Ordinance. The principal activities of the Bank are the provision of banking and related financial services in Hong Kong. The principal activities of the Bank's subsidiaries are shown in note 19 to the accounts.

Results and appropriations

The results of the Group for the year ended 31st December 2001 are set out in the consolidated profit and loss account on page 4.

The directors have declared a special dividend of HK\$680 per ordinary share, totalling HK\$4,080,000,000 which was paid on 30th November and 18th December 2001.

The directors recommend the payment of a final dividend of HK\$61.5 per ordinary share, totalling HK\$369,000,000.

Reserves

Movements in the reserves of the Group and the Bank during the year are set out in note 24 to the accounts.

Donations

Charitable and other donations made by the Group during the year amounted to HK\$135,000.

Fixed assets

Details of the movements in fixed assets of the Group and the Bank are set out in note 21 to the accounts.

Directors

The directors during the year and up to the date of this report are:

Honorary Chairman: Chuang Shih Ping

Board of Directors

Chairman:	Liu Jinbao	(appointed as director on 12th September 2001 and as chairman on 5th March 2002)
Vice Chairman:	Li Ji Wen	
Directors:	Ho Shiu Chuen	(appointed on 28th February 2002)
	Jao Yu Ching	(appointed on 23rd April 2002)
	Lan Hong Tsung, David	(appointed on 23rd April 2002)
	Lau Hon Chuen, Ambrose	(appointed on 23rd April 2002)
	Law Man Wah	
	Mao Xiaowei	(appointed on 23rd April 2002)
	Yuen Wai Keung	(appointed on 23rd April 2002)
	Zhang Hong Yi	(resigned on 23rd April 2002)
	Shu Tse Wong	(resigned on 23rd April 2002)

Directors (Continued)

Chen Hung	(resigned on 23rd April 2002)
Sung Wen Ming	(resigned on 23rd April 2002)
Shung Jih Chong	(resigned on 23rd April 2002)
Wong Man Kee	(resigned on 23rd April 2002)
Yiu Shue Sing	(resigned on 23rd April 2002)

In accordance with Article 81 of the Bank's Articles of Association, all directors retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors' interests in contracts

No contracts of significance in relation to the Group's business to which the Bank or any of its holding companies, subsidiaries or fellow subsidiaries was a party and in which any of the Bank's directors or members of its management had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' interests in equity or debt securities

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

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Bank were entered into or existed during the year.

Supervisory Policy Manual on "Financial Disclosure by Locally Incorporated Authorized Institutions"

The Bank has fully complied with the guideline on "Financial Disclosure by Locally Incorporated Authorized Institutions" under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority in November 2001.

Auditors

PricewaterhouseCoopers were appointed as auditors of the Bank by the directors to fill the casual vacancy occasioned by the resignation of Arthur Andersen & Co on 8th April 2002. A resolution for the re-appointment of PricewaterhouseCoopers as auditors of the Bank to hold office until the conclusion of the next annual general meeting will be proposed at the forthcoming annual general meeting.

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Liu Jinbao
Chairman

Hong Kong, 29th May 2002

**AUDITORS' REPORT TO THE SHAREHOLDER OF
NANYANG COMMERCIAL BANK, LIMITED**
(incorporated in Hong Kong with limited liability)

We have audited the accounts set out on pages 4 to 47 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Bank and 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 Bank and of the Group as at 31st December 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29th May 2002

NANYANG COMMERCIAL BANK, LIMITED

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER 2001**

	Note	2001 HK\$'000	2000 HK\$'000
Interest income	3	4,307,071	6,006,943
Interest expense		(2,317,731)	(3,686,717)
Net interest income		1,989,340	2,320,226
Other operating income	4	434,217	528,704
Operating income		2,423,557	2,848,930
Operating expenses	5	(675,443)	(660,071)
Operating profit before provisions		1,748,114	2,188,859
Charge for bad and doubtful debts	6	(298,622)	(831,631)
Operating profit		1,449,492	1,357,228
Gain on disposal of an associate	20	3,000	-
Net (loss)/gain on disposal of fixed assets		(2,321)	3,533
Loss on revaluation of bank premises		(19,667)	-
Provision written back/(made) for impairment losses on held-to-maturity securities		7,686	(2,046)
Provision for impairment losses on investment securities		(6,595)	-
Net gain on disposal of investment securities		16,866	-
		<u>1,448,461</u>	<u>1,358,715</u>
Share of losses of associates		-	(45,105)
Profit before taxation		1,448,461	1,313,610
Taxation	8	(195,575)	(316,392)
Profit attributable to shareholder	9, 24	<u>1,252,886</u>	<u>997,218</u>
Dividends	10	<u>4,449,000</u>	<u>300,000</u>

NANYANG COMMERCIAL BANK, LIMITED

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

	Note	2001 HK\$'000	2000 HK\$'000
Assets			
Cash and short-term funds	11	18,569,571	27,159,069
Placements with banks and other financial institutions maturing between one and twelve months	29	11,675,530	8,209,050
Trade bills	12	436,979	415,156
Certificates of deposit held	13,29	1,361,543	1,290,380
Other investments in securities	14	3,948	3,914
Advances and other accounts	15	35,173,628	36,496,563
Held-to-maturity securities	17	16,295,835	10,954,057
Investment securities	18	39,753	102,118
Investment in an associate	20	-	-
Fixed assets	21	1,928,310	478,845
		<u>85,485,097</u>	<u>85,109,152</u>
Liabilities			
Deposits and balances of banks and other financial institutions	29	1,550,591	1,328,495
Current, fixed, savings and other deposits of customers	29	73,153,260	70,416,953
Other accounts and provisions	22	1,458,043	2,389,044
Dividends payable	10	369,000	-
		<u>76,530,894</u>	<u>74,134,492</u>
Capital resources			
Share capital	23	600,000	600,000
Reserves (2000: stated before dividend proposed after year end of HK\$300,000,000)	24	8,354,203	10,374,660
		<u>8,954,203</u>	<u>10,974,660</u>
Shareholder's funds		<u>8,954,203</u>	<u>10,974,660</u>
Total liabilities and capital resources		<u>85,485,097</u>	<u>85,109,152</u>

Approved by the Board of Directors on 29th May 2002 and signed on behalf of the Board by:

.....
Liu Jinbao
Chairman

.....
Li Ji Wen
Vice Chairman and Chief Executive Officer

.....
Lau Hon Chuen, Ambrose
Director

.....
Leung Ka Chun
Secretary

NANYANG COMMERCIAL BANK, LIMITED

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

	Note	2001 HK\$'000	2000 HK\$'000
Assets			
Cash and short-term funds	11	18,569,570	27,159,069
Placements with banks and other financial institutions maturing between one and twelve months	29	11,675,530	8,209,050
Trade bills	12	436,979	415,156
Certificates of deposit held	13,29	1,361,543	1,290,380
Other investments in securities	14	3,948	3,914
Advances and other accounts	15	35,144,396	36,464,525
Held-to-maturity securities	17	16,295,835	10,954,057
Investment securities	18	39,753	99,958
Investments in subsidiaries	19	70,049	79,449
Investment in an associate	20	-	-
Fixed assets	21	1,818,767	431,767
		<u>85,416,370</u>	<u>85,107,325</u>
Total assets		<u><u>85,416,370</u></u>	<u><u>85,107,325</u></u>
Liabilities			
Deposits and balances of banks and other financial institutions	29	1,550,591	1,328,495
Current, fixed, savings and other deposits of customers	29	73,322,390	70,875,899
Other accounts and provisions	22	1,333,639	1,968,955
Dividends payable	10	369,000	-
		<u>76,575,620</u>	<u>74,173,349</u>
Total liabilities		<u><u>76,575,620</u></u>	<u><u>74,173,349</u></u>
Capital resources			
Share capital	23	600,000	600,000
Reserves (2000: stated before dividend proposed after year end of HK\$300,000,000)	24	8,240,750	10,333,976
		<u>8,840,750</u>	<u>10,933,976</u>
Shareholder's funds		<u><u>8,840,750</u></u>	<u><u>10,933,976</u></u>
Total liabilities and capital resources		<u><u>85,416,370</u></u>	<u><u>85,107,325</u></u>

Approved by the Board of Directors on 29th May 2002 and signed on behalf of the Board by:

.....
Liu Jinbao
Chairman

.....
Li Ji Wen
Vice Chairman and Chief Executive Officer

.....
Lau Hon Chuen, Ambrose
Director

.....
Leung Ka Chun
Secretary

NANYANG COMMERCIAL BANK, LIMITED

**CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31ST DECEMBER 2001**

	Note	2001 HK\$'000	2000 HK\$'000
Gains and losses recognised directly in equity			
Surplus on revaluation of bank premises	24	1,250,476	-
Surplus on revaluation of investment properties	24	225,186	-
Exchange differences arising on translation of accounts of overseas operations		(5)	805
Net gains not recognised in the consolidated profit and loss account		1,475,657	805
Profit attributable to shareholder		1,252,886	997,218
Total consolidated recognised gains for the year		<u>2,728,543</u>	<u>998,023</u>

NANYANG COMMERCIAL BANK, LIMITED

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2001**

	Note	2001 HK\$'000	2000 HK\$'000
Net cash outflow from operating activities	26(a)	<u>(1,349,919)</u>	<u>(1,544,075)</u>
Returns on investments and servicing of finance			
Interest received from held-to-maturity securities		200,872	172,982
Dividends received from unlisted investments in securities		9,080	9,050
Dividends paid on ordinary shares		<u>(4,380,000)</u>	<u>(180,000)</u>
Net cash (outflow)/inflow from returns on investments and servicing of finance		<u>(4,170,048)</u>	<u>2,032</u>
Taxation			
Hong Kong profits tax paid		(80,377)	(102,454)
Overseas tax paid		<u>(17,524)</u>	<u>(27,569)</u>
Total tax paid		<u>(97,901)</u>	<u>(130,023)</u>
Investing activities			
Purchase of held-to-maturity securities		(41,601,138)	(28,762,891)
Proceeds from redemption of held-to-maturity securities		36,701,165	28,788,009
Proceeds from disposal of investment securities		72,636	616
Proceeds from disposal of an associate		3,000	-
Purchase of fixed assets		<u>(26,413)</u>	<u>(13,831)</u>
Proceeds from disposal of fixed assets		18	16,569
Net cash (outflow)/inflow from investing activities		<u>(4,850,732)</u>	<u>28,472</u>
Net cash outflow before financing		(10,468,600)	(1,643,594)
Financing			
Certificates of deposit redeemed	26(b)	-	<u>(777,250)</u>
Net cash outflow from financing		-	<u>(777,250)</u>
Decrease in cash and cash equivalents		(10,468,600)	(2,420,844)
Cash and cash equivalents at 1st January		<u>31,378,448</u>	<u>33,799,292</u>
Cash and cash equivalents at 31st December	26(c)	<u><u>20,909,848</u></u>	<u><u>31,378,448</u></u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

1 Organisation and operations

Nanyang Commercial Bank, Limited (hereinafter as the “Bank”) and its subsidiaries (together with the Bank hereinafter as the “Group”) were incorporated in Hong Kong. The Bank is a licensed bank authorised under the Hong Kong Banking Ordinance.

The principal activities of the Bank are the provision of banking and related financial services in Hong Kong. The principal activities of the Bank’s subsidiaries are shown in note 19 to the accounts.

Pursuant to the enactment of the Bank of China (Hong Kong) Limited (Merger) Ordinance, Bank of China (Hong Kong) Limited took over the entire equity interests in the Bank on 1st October 2001. After the group reorganisation, the directors consider Bank of China (Hong Kong) Limited, a bank incorporated in Hong Kong, to be the immediate holding company, and Bank of China, a wholly state-owned commercial bank incorporated in the People’s Republic of China (the “PRC”), as being the ultimate holding company.

2 Principal accounting policies

The Group has adopted the following principal accounting policies when preparing the consolidated accounts.

(a) Basis of preparation

The consolidated accounts have been prepared under the historical cost convention as modified by the revaluation of certain investments in securities, off balance sheet instruments, bank premises and investment properties, and in accordance with accounting principles generally accepted in Hong Kong and comply with the Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants (“HKSA”). In addition, these accounts comply fully with the guideline on “Financial Disclosure by Locally Incorporated Authorized Institutions” under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority in November 2001.

(b) Basis of consolidation

The consolidated accounts include the accounts of the Bank and its subsidiaries made up to 31st December 2001. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

In the Bank’s balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Bank on the basis of dividends received and receivable.

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(c) Associate

An associate is a company, not being a subsidiary, in which an equity interest is held for the long term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of an associate for the year. The consolidated balance sheet includes the Group's share of the net assets of the associate plus goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

In the Bank's balance sheet the investment in an associate is stated at cost less provision for impairment in value. The results of the associate is accounted for by the Bank on the basis of dividends received and receivable.

(d) Revenue recognition

Interest income is recognised as it accrues, except in the case of doubtful debts where interest is credited to a suspense account which is netted in the balance sheet against the relevant balances.

Fees and commission income are recognised when earned, unless they relate to transactions involving an interest rate risk or other risks which extend beyond the current period, in which case they are amortised over the relevant period.

Dividend income is recognised when the right to receive payment is established.

Rental income under operating leases is recognised on a straight-line basis over the period of the lease, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

(e) Advances

Advances to customers, banks and other financial institutions are reported on the balance sheet at the principal amount outstanding net of provisions for bad and doubtful debts. Advances to banks and other financial institutions include placements with banks and other financial institutions of more than one year.

All advances are recognised when cash is advanced to borrowers.

(f) Provisions for bad and doubtful debts

The Group internally classifies loans and advances into pass, special mention, substandard, doubtful and loss. The classification of loans and advances is based primarily on the status of overdue payments of interest and/or principal and whether the loans and advances are fully collateralised. In addition, an assessment of the borrower's capacity to repay and of the degree of doubt about the collectibility of interest and/or principal is made and factored into the classification process.

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(f) Provisions for bad and doubtful debts (Continued)

Provisions are made against specific loans and advances as and when the Group has doubt on the ultimate recoverability of principal or interest in full. Specific provision is made to reduce the carrying value of the asset, taking into account available collateral, to the expected net realisable value based on the Group's assessment of the potential losses on those identified loans and advances on a case-by-case basis. In most cases, the Group applies pre-determined provisioning levels to the unsecured portion of loans and advances based on the classification of the respective loans and advances.

In addition, amounts have been set aside as a general provision for bad and doubtful debts. General provision is not specifically earmarked against any individual loan and is provided based on predetermined percentage of the loan book. Both specific and general provisions are deducted from "Advances to customers" and "Trade bills" in the balance sheet.

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

(g) Fixed assets

(i) Bank premises

Bank premises are stated at cost or valuation less accumulated impairment losses and accumulated depreciation calculated to write off the assets over their estimated useful lives on a straight line basis as follows:

Leasehold land	Over the remaining period of the lease
Buildings	Over the shorter of the remaining period of the lease and 50 years

Bank premises were stated at cost less accumulated depreciation and accumulated impairment losses prior to 1st October 2001. As from 1st October 2001, bank premises are stated at valuation. The purpose of the change in accounting policy is to enable the Group's premises to be stated at approximate fair value. The effect of the valuation was to increase the Group's bank premises revaluation reserve by approximately HK\$1,250,476,000 as at 31st December 2001 and charge to the consolidated profit and loss account of approximately HK\$19,667,000 for the year ended 31st December 2001 in respect of bank premises where the year end valuation had fallen below historical cost less accumulated depreciation.

Independent valuations are performed every five years. In the intervening years, management review the carrying value of individual properties and adjustment is made where in the management's opinion there has been a material change in value. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. Increases in valuation are credited to the bank premises revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations in respect of the same individual asset and thereafter are debited to the profit and loss account. Any subsequent increases are credited to profit and loss account up to the amount previously debited, and then to the bank premises revaluation reserve. Upon disposal of bank premises, the relevant portion of the bank premises revaluation reserve realised in respect of previous valuations is released and transferred from the bank premises revaluation reserve to retained earnings.

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(g) Fixed assets (Continued)

(ii) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are valued at intervals of not more than three years by independent valuers; in each of the intervening years valuations are undertaken by professionally qualified executives of the Group. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to the profit and loss account. Any subsequent increases in valuation are credited to the profit and loss account up to the amount previously debited, and then to the investment properties revaluation reserve.

Investment properties were stated at cost less accumulated depreciation and accumulated impairment losses prior to 1st October 2001 as the Group was exempted from annual open market valuation given the aggregate estimated open market value of the investment properties was less than 15% of the carrying value of its total assets and the Group was unlisted. The purpose of the change in accounting policy is to enable the Group's investment properties to be stated at approximate fair value. The effect of the valuation was to increase the Group's investment properties revaluation reserve by approximately HK\$225,186,000 as at 31st December 2001.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining terms of the leases.

Upon the disposal of an investment property, the relevant portion of the investment properties revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(iii) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation on other fixed assets is calculated to write off the assets on a straight-line basis over their estimated useful lives as follows:

Furniture, fixtures and equipment 3 to 7 years

The gain or loss on disposal of other fixed assets is recognised in the profit and loss account.

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(g) Fixed assets (Continued)

(iv) Impairment

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that bank premises and other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

(h) Investments in securities

(i) Held-to-maturity securities

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

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

(ii) Investment securities

Securities which are intended to be held on a continuing basis for an identified long term purpose at the time of acquisition (for example for strategic purposes), 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.

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(h) Investments in securities (Continued)

(iii) Other investments in securities

All other investments in securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise.

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-downs 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.

(i) Operating leases

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

Where the Group is the lessor, rental income from operating leases is recognised on a straight-line basis over the lease term. Initial direct costs incurred specifically to earn revenue from an operating lease are recognised as an expense in the profit and loss account in the period in which they are incurred.

(j) Provisions

A provision is recognised when the Group has a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

(k) Deferred taxation

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

(l) Foreign currency translation

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries and the associate expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate for the period. Exchange differences are dealt with as a movement in reserves.

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(m) Retirement benefit costs

The Group contributes to defined contribution retirement schemes under either recognised occupation retirement scheme (“ORSO scheme”) or mandatory provident fund (“MPF”) scheme which are available to all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees’ basic salaries for the ORSO scheme and in accordance with the MPF rules for MPF scheme. The retirement benefit scheme costs are charged to the profit and loss account as incurred and represent contributions payable by the Group to the schemes. Forfeited contributions by those employees who leave the ORSO scheme prior to the full vesting of their contributions are used by the Group to reduce the existing level of contributions or to meet its expenses under the trust deed of the ORSO scheme.

The assets of the schemes are held separately from those of the Group in independently administered funds.

(n) Off-balance sheet financial instruments

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

Transactions undertaken for trading purposes are marked to market and the gain or loss arising is recognised in the profit and loss account as “Net gain from foreign exchange activities”. Transactions designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging. Any profit or loss is recognised in the profit and loss account on the same basis as that arising from the related assets, liabilities or net positions.

Unrealised gains on transactions which are marked to market are included in "Advances and other accounts". Unrealised losses on transactions which are marked to market are included in "Other accounts and provisions".

(o) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(p) Cash and cash equivalents

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

(q) Dividends

Under SSAP 9 (revised), dividends proposed or declared after the balance sheet date are disclosed as a post balance sheet event and are not recognised as a liability at the balance sheet date.

As detailed in note 10, this change in accounting policy is applied retrospectively and has resulted in a decrease in total liabilities of the Group and the Bank as at 31st December 2000 by HK\$300,000,000 and an increase in the shareholder's funds of the Group and the Bank by the same amount.

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

3 Interest income

	2001 HK\$'000	2000 HK\$'000
Interest income from listed investments	163,672	122,435
Interest income from unlisted investments	584,885	688,790
Other interest income	3,558,514	5,195,718
	<u>4,307,071</u>	<u>6,006,943</u>

4 Other operating income

	2001 HK\$'000	2000 HK\$'000
Fees and commission income	342,936	448,498
Less: Fees and commission expense	(93,210)	(91,588)
	<u>249,726</u>	<u>356,910</u>
Net fees and commission income	249,726	356,910
Dividend income from unlisted investments in securities	9,080	9,050
Net gain from foreign exchange activities	68,558	74,866
Gross rental income from investment properties	32,031	30,741
Others	74,822	57,137
	<u>434,217</u>	<u>528,704</u>

5 Operating expenses

	2001 HK\$'000	2000 HK\$'000
Staff costs including directors' emoluments	423,083	414,402
Premises and equipment expense excluding depreciation		
- rental of premises	26,293	23,250
- computer equipment and service expenses	78,420	64,164
- utilities, repair and maintenance and others	19,188	23,124
Depreciation	30,604	35,919
Outgoing in respect of investment properties	824	12
Others	97,031	99,200
	<u>675,443</u>	<u>660,071</u>

Auditors' remuneration for the current and prior year was borne by the immediate holding company.

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

6 Charge for bad and doubtful debts

	2001 HK\$'000	2000 HK\$'000
Net charge for bad and doubtful debts		
Specific provisions		
- new provisions	676,091	610,327
- releases	(196,485)	(173,150)
- recoveries	(75,984)	(15,666)
	<u>403,622</u>	<u>421,511</u>
General provisions	(105,000)	410,120
	<u>298,622</u>	<u>831,631</u>
Net charge to consolidated profit and loss account (note 16)	<u>298,622</u>	<u>831,631</u>

7 Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Bank during the year are as follows:

	2001 HK\$'000	2000 HK\$'000
Fees	-	-
Other emoluments	4,326	3,946
	<u>4,326</u>	<u>3,946</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

8 Taxation

The amount of taxation charged to the consolidated profit and loss account represents:

	2001 HK\$'000	2000 HK\$'000
Bank and subsidiaries		
Hong Kong profits tax on estimated assessable profit for the year	231,490	322,033
Attributable share of estimated Hong Kong profits tax losses arising from investments in partnerships	(228,527)	(127,228)
	<u>2,963</u>	<u>194,805</u>
Investments in partnerships written off	172,634	99,171
	<u>175,597</u>	<u>293,976</u>
Hong Kong profits tax	19,978	22,345
Overseas taxation	-	71
Share of tax attributable to associates	-	-
	<u>195,575</u>	<u>316,392</u>

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The Bank has entered into certain aircraft leasing and coupon strip transactions involving special purpose partnerships in which the Bank is one of the general partners. As at 31st December 2001, the Bank's investment in such partnerships, which is included in "Advances and other accounts" in the balance sheet amounted to approximately HK\$514,038,000 (2000: HK\$505,132,000). The Bank's investments in these partnerships are amortised over the life of the partnership in proportion to the taxation benefits resulting from these investments. The total assets and liabilities of partnerships where the Bank is the majority general partner are as follows:

	2001 HK\$'000	2000 HK\$'000
Assets	<u>1,617,488</u>	<u>2,136,248</u>
Liabilities	<u>1,056,385</u>	<u>1,619,941</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

8 Taxation (Continued)

Deferred taxation for the year has not been provided in respect of the following:

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Accelerated depreciation allowances	(14,978)	(14,908)	(13,616)	(12,294)
Tax losses	3,895	6	3,888	-
General provision for bad and doubtful debts	254,028	270,828	243,482	260,282
Others	(6,542)	(2,763)	(6,542)	(2,763)
	<u>236,403</u>	<u>253,163</u>	<u>227,212</u>	<u>245,225</u>

No provision for deferred tax asset is made as it is not certain that the amount will be recoverable in the foreseeable future.

9 Profit attributable to shareholder

The profit attributable to shareholder is dealt with in the accounts of the Bank to the extent of approximately HK\$1,250,488,000 (2000: HK\$975,724,000).

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

10 Dividends

	The Group and the Bank	
	2001 HK\$'000	2000 HK\$'000
Appropriations from retained profits		
- Final, proposed of HK\$61.5 per ordinary share before year end	369,000	-
- Final, proposed of HK\$50 per ordinary share after year end	-	300,000
	<u>369,000</u>	<u>300,000</u>
Appropriations from general reserve		
- Special, paid of HK\$680 per ordinary share (note ii)	4,080,000	-
	<u>4,449,000</u>	<u>300,000</u>

Note (i): The previously recorded final dividends proposed after the balance sheet date but accrued in the accounts for the years ended 31st December 1999 and 2000 were HK\$180,000,000 and HK\$300,000,000 respectively. Under the Group's new accounting policy as described in note 2(q), these amounts have been written back against opening reserves as at 1st January 2000 and 2001 respectively (note 24) and are now charged in the period in which they were declared.

Note (ii): Pursuant to a board resolution passed on 1st October 2001, a special dividend of HK\$680 per ordinary share (2000: Nil) was declared from general reserve to the shareholder of the Bank on that date.

11 Cash and short-term funds

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Cash	344,721	315,181	344,721	315,181
Balances with banks and other financial institutions	6,991,431	9,225,153	6,991,431	9,225,153
Money at call and short notice maturing within one month	10,480,679	16,774,310	10,480,678	16,774,310
Treasury bills (including Exchange Fund Bills)	752,740	844,425	752,740	844,425
	<u>18,569,571</u>	<u>27,159,069</u>	<u>18,569,570</u>	<u>27,159,069</u>

Treasury bills held (including Exchange Fund Bills) are unlisted, held-to-maturity and stated at amortised cost.

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

12 Trade bills

	<u>The Group and the Bank</u>	
	2001	2000
	HK\$'000	HK\$'000
Trade bills	436,979	415,156
Less: provisions	-	-
	<u>436,979</u>	<u>415,156</u>

13 Certificates of deposit held

	<u>The Group and the Bank</u>	
	2001	2000
	HK\$'000	HK\$'000
Unlisted, held-to-maturity, at amortised cost	1,361,543	1,290,380
	<u>1,361,543</u>	<u>1,290,380</u>

14 Other investments in securities

	<u>The Group and the Bank</u>	
	2001	2000
	HK\$'000	HK\$'000
Equity securities, at fair value, issued by corporate entities		
- Listed in Hong Kong	521	1,023
- Unlisted	3,427	2,891
	<u>3,948</u>	<u>3,914</u>
Market value of listed equity securities	<u>521</u>	<u>1,023</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

15 Advances and other accounts

(a) Advances and other accounts

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Advances to customers	36,355,847	37,579,702	36,224,618	37,427,999
Accrued interest	308,702	418,529	308,362	371,047
	<u>36,664,549</u>	<u>37,998,231</u>	<u>36,532,980</u>	<u>37,799,046</u>
Provision for bad and doubtful debts (note 16)				
- Specific	(718,139)	(1,046,669)	(710,349)	(1,036,619)
- General	(1,587,670)	(1,692,670)	(1,521,760)	(1,626,760)
	<u>34,358,740</u>	<u>35,258,892</u>	<u>34,300,871</u>	<u>35,135,667</u>
Other accounts	814,888	1,237,671	843,525	1,328,858
	<u>35,173,628</u>	<u>36,496,563</u>	<u>35,144,396</u>	<u>36,464,525</u>

At 31st December 2001 and 31st December 2000, there were no advances to banks and other financial institutions.

(b) Non-performing loans

Non-performing loans are analysed as follows:

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Non-performing loans	1,835,250	2,553,741	1,810,332	2,529,493
As a percentage to total advances to customers	5.05%	6.80%	5.00%	6.76%
Specific provisions made in respect of such loans	704,820	1,028,850	697,030	1,018,930
Amount of interest in suspense (note 16)	6,782	34,704	6,782	34,704
	<u>1,835,250</u>	<u>2,553,741</u>	<u>1,810,332</u>	<u>2,529,493</u>

Non-performing loans are defined as loan and advances to customers on which interest is being placed in suspense or on which interest accrual has ceased. The above specific provisions were made after taking into account the value of collateral in respect of such advances.

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

16 Provisions for bad and doubtful debts

	The Group			Suspended interest HK\$'000
	2001			
	Specific HK\$'000	General HK\$'000	Total HK\$'000	
Balance as at 1st January 2001	1,046,669	1,692,670	2,739,339	34,704
Charge/(credit) to profit and loss account (note 6)	403,622	(105,000)	298,622	-
Amounts written off	(808,136)	-	(808,136)	(8,471)
Recoveries of advances written off in previous years (note 6)	75,984	-	75,984	-
Interest suspended during the year	-	-	-	5,794
Suspended interest recovered	-	-	-	(25,245)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31st December 2001	<u>718,139</u>	<u>1,587,670</u>	<u>2,305,809</u>	<u>6,782</u>

	The Bank			Suspended interest HK\$'000
	2001			
	Specific HK\$'000	General HK\$'000	Total HK\$'000	
Balance as at 1st January 2001	1,036,619	1,626,760	2,663,379	34,704
Charge/(credit) to profit and loss account	402,877	(105,000)	297,877	-
Amounts written off	(805,131)	-	(805,131)	(8,471)
Recoveries of advances written off in previous years	75,984	-	75,984	-
Interest suspended during the year	-	-	-	5,794
Suspended interest recovered	-	-	-	(25,245)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31st December 2001	<u>710,349</u>	<u>1,521,760</u>	<u>2,232,109</u>	<u>6,782</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

16 Provisions for bad and doubtful debts (Continued)

	The Group			Suspended interest HK\$'000
	2000			
	Specific HK\$'000	General HK\$'000	Total HK\$'000	
Balance as at 1st January 2000	1,528,438	1,282,533	2,810,971	12,011
Charge to profit and loss account (note 6)	421,511	410,120	831,631	-
Amounts written off	(918,952)	-	(918,952)	(16,263)
Recoveries of advances written off in previous years (note 6)	15,666	-	15,666	-
Interest suspended during the year	-	-	-	40,622
Suspended interest recovered	-	-	-	(1,666)
Exchange adjustments	6	17	23	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31st December 2000	<u>1,046,669</u>	<u>1,692,670</u>	<u>2,739,339</u>	<u>34,704</u>

	The Bank			Suspended interest HK\$'000
	2000			
	Specific HK\$'000	General HK\$'000	Total HK\$'000	
Balance as at 1st January 2000	1,521,868	1,217,313	2,739,181	12,011
Charge to profit and loss account	418,007	409,430	827,437	-
Amounts written off	(918,840)	-	(918,840)	(16,263)
Recoveries of advances written off in previous years	15,578	-	15,578	-
Interest suspended during the year	-	-	-	40,622
Suspended interest recovered	-	-	-	(1,666)
Exchange adjustments	6	17	23	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31st December 2000	<u>1,036,619</u>	<u>1,626,760</u>	<u>2,663,379</u>	<u>34,704</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

17 Held-to-maturity securities

	<u>The Group and the Bank</u>	
	2001 HK\$'000	2000 HK\$'000
Listed, at amortised cost		
- Listed in Hong Kong	167,780	295,716
- Listed outside Hong Kong	4,220,976	1,975,049
	<u>4,388,756</u>	<u>2,270,765</u>
Unlisted, at amortised cost	11,907,079	8,690,978
	<u>16,295,835</u>	<u>10,961,743</u>
Less: provision for impairment in value	-	(7,686)
	<u>16,295,835</u>	<u>10,954,057</u>
Market value of listed securities	<u>4,413,833</u>	<u>2,263,090</u>

The held-to-maturity securities are analysed by issuer as follows:

	<u>The Group and the Bank</u>	
	2001 HK\$'000	2000 HK\$'000
Central governments and central banks	544,088	421,270
Public sector entities	4,701,897	1,929,603
Banks and other financial institutions	8,294,778	7,143,133
Corporate entities	1,756,367	874,879
Others	998,705	585,172
	<u>16,295,835</u>	<u>10,954,057</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

18 Investment securities

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Unlisted equity securities, at cost	42,855	98,025	42,855	95,865
Less: provision for impairment in value	(6,595)	-	(6,595)	-
	<u>36,260</u>	<u>98,025</u>	<u>36,260</u>	<u>95,865</u>
Unlisted debt securities, at cost				
Club debenture	2,493	3,093	2,493	3,093
Other	1,000	1,000	1,000	1,000
	<u>3,493</u>	<u>4,093</u>	<u>3,493</u>	<u>4,093</u>
	<u>39,753</u>	<u>102,118</u>	<u>39,753</u>	<u>99,958</u>

Investment securities are analysed by issuer as follows:

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Corporate entities	36,260	98,025	36,260	95,865
Others	3,493	4,093	3,493	4,093
	<u>39,753</u>	<u>102,118</u>	<u>39,753</u>	<u>99,958</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

19 Investments in subsidiaries

	The Bank	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	70,049	70,049
Amounts due from subsidiaries	-	9,400
	70,049	79,449
	70,049	79,449

Amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

In addition to the amounts due from subsidiaries, there are other balances with subsidiaries which are set out in note 28 to the accounts.

Details of the subsidiaries as at 31st December 2001 are set out below:

Name	Place of incorporation/ operation	Particulars of issued and paid up ordinary share capital	Equity interest held by the Bank		Principal activities
			Directly	Indirectly	
Nanyang Finance Company Limited	Hong Kong	500,000 shares of HK\$100 each	100%	-	Financial services
Nanyang Commercial Bank Trustee Limited	Hong Kong	300,000 shares of HK\$10 each	100%	-	Trustee services
Kwong Li Nam Investment Agency Limited	Hong Kong	30,500 shares of HK\$100 each	98%	2%	Investment agency
Nan Song Company Limited	Hong Kong	100 shares of HK\$10,000 each	100%	-	Property investment and investment holding
Nanyang Commercial Bank (Nominees) Limited	Hong Kong	500 shares of HK\$100 each	100%	-	Nominee services
Patson (H.K.) Limited	Hong Kong	10,000 shares of HK\$100 each	100%	-	Property investment

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

20 Investment in an associate

	The Group	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	-	-
	<u> </u>	<u> </u>

	The Bank	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	63,004	78,617
Less: provision for impairment in value	(63,004)	(78,617)
	<u> </u>	<u> </u>
	-	-
	<u> </u>	<u> </u>

Other balances with the associate are set out in note 28 to the accounts.

Details of the associate as at 31st December 2001 are set out below:

Name	Place of incorporation/ operation	Equity interest held by the Bank		Principal activities
		Directly	Indirectly	
Zhejiang Commercial Bank Limited	Ningbo City, the PRC	25%	-	Banking and related financial services

During the year, the Group disposed of its shareholding interest in an associate, namely Dragon Hotel Limited, to a related party for a consideration of HK\$3,000,000.

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

21 Fixed assets

	The Group			Total HK\$'000
	Investment properties HK\$'000	Bank premises HK\$'000	Furniture, fixtures and equipment HK\$'000	
Cost or valuation				
At 1st January 2001	225,510	515,864	281,452	1,022,826
Additions	2,417	1,180	22,816	26,413
Revaluation	223,252	803,175	-	1,026,427
Reclassifications	753	127,442	(128,195)	-
Disposals	-	-	(39,400)	(39,400)
At 31st December 2001	<u>451,932</u>	<u>1,447,661</u>	<u>136,673</u>	<u>2,036,266</u>
Accumulated depreciation				
At 1st January 2001	1,208	301,288	241,485	543,981
Charge for the year	158	12,705	17,741	30,604
Write back on revaluation	(1,934)	(427,634)	-	(429,568)
Reclassifications	568	113,641	(114,209)	-
Disposals	-	-	(37,061)	(37,061)
At 31st December 2001	<u>-</u>	<u>-</u>	<u>107,956</u>	<u>107,956</u>
Net book value				
At 31st December 2001	<u>451,932</u>	<u>1,447,661</u>	<u>28,717</u>	<u>1,928,310</u>
At 31st December 2000	<u>224,302</u>	<u>214,576</u>	<u>39,967</u>	<u>478,845</u>
The analysis of cost or valuation of the above assets is as follows:				
At 31st December 2001				
At cost	-	-	136,673	136,673
At valuation 2001	451,932	1,447,661	-	1,899,593
	<u>451,932</u>	<u>1,447,661</u>	<u>136,673</u>	<u>2,036,266</u>
At 31st December 2000				
At cost	225,510	515,864	281,452	1,022,826

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

21 Fixed assets (Continued)

The net book value of investment properties and bank premises are analysed as follows:

	The Group			
	Investment properties		Bank premises	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
In Hong Kong, held on:				
- Long-term leases (over 50 years)	417,720	196,552	1,025,453	92,328
- Medium-term leases (10 to 50 years)	30,234	25,084	341,210	56,592
Outside Hong Kong, held on:				
- Long-term leases (over 50 years)	-	-	25,172	29,691
- Medium-term leases (10 to 50 years)	3,978	2,666	55,229	34,977
- Short-term leases (less than 10 years)	-	-	597	988
	<u>451,932</u>	<u>224,302</u>	<u>1,447,661</u>	<u>214,576</u>
	The Bank			
	Investment properties HK\$'000	Bank premises HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost or valuation				
At 1st January 2001	198,002	491,729	281,130	970,861
Additions	2,417	1,180	22,816	26,413
Revaluation	195,706	772,851	-	968,557
Reclassifications	753	127,412	(128,165)	-
Disposals	-	-	(39,125)	(39,125)
At 31st December 2001	<u>396,878</u>	<u>1,393,172</u>	<u>136,656</u>	<u>1,926,706</u>
Accumulated depreciation				
At 1st January 2001	1,208	296,691	241,195	539,094
Charge for the year	158	12,138	17,720	30,016
Write back on revaluation	(1,934)	(422,440)	-	(424,374)
Reclassifications	568	113,611	(114,179)	-
Disposals	-	-	(36,797)	(36,797)
At 31st December 2001	<u>-</u>	<u>-</u>	<u>107,939</u>	<u>107,939</u>
Net book value				
At 31st December 2001	<u>396,878</u>	<u>1,393,172</u>	<u>28,717</u>	<u>1,818,767</u>
At 31st December 2000	<u>196,794</u>	<u>195,038</u>	<u>39,935</u>	<u>431,767</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

21 Fixed assets (Continued)

The analysis of cost or valuation of the above assets is as follows:

	The Bank			Total HK\$'000
	Investment properties HK\$'000	Bank premises HK\$'000	Furniture, fixtures and equipment HK\$'000	
At 31st December 2001				
At cost	-	-	136,656	136,656
At valuation 2001	396,878	1,393,172	-	1,790,050
	<u>396,878</u>	<u>1,393,172</u>	<u>136,656</u>	<u>1,926,706</u>
At 31st December 2000				
At cost	198,002	491,729	281,130	970,861
	<u>198,002</u>	<u>491,729</u>	<u>281,130</u>	<u>970,861</u>

The net book value of investment properties and bank premises are analysed as follows:

	The Bank			
	Investment properties		Bank premises	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
In Hong Kong, held on:				
- Long-term leases (over 50 years)	380,162	187,871	996,263	90,143
- Medium-term leases (10 to 50 years)	12,738	6,257	315,911	39,239
Outside Hong Kong, held on:				
- Long-term leases (over 50 years)	-	-	25,172	29,691
- Medium-term leases (10 to 50 years)	3,978	2,666	55,229	34,977
- Short-term leases (less than 10 years)	-	-	597	988
	<u>396,878</u>	<u>196,794</u>	<u>1,393,172</u>	<u>195,038</u>

The Group's and the Bank's investment properties and bank premises were appraised by Chesterton Petty Limited, independent professional valuer, on 31st August 2001. As at 31st December 2001, the investment properties and bank premises were stated at management's valuation having regard to the independent professional valuations carried out by Chesterton Petty Limited. As a result of management's valuation, approximately HK\$1,475,662,000 was credited to the Group's investment properties and bank premises revaluation reserves and approximately HK\$1,405,291,000 was credited to the Bank's investment properties and bank premises revaluation reserves respectively as at 31st December 2001. Approximately HK\$19,667,000 was charged to the consolidated profit and loss account in respect of the bank premises where the year end valuation had fallen below historical cost less accumulated depreciation.

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

21 Fixed assets (Continued)

As at 31st December, the carrying amount of bank premises that would have been included in the accounts had the bank premises been carried at cost less accumulated depreciation and impairment losses are as follows:

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank premises	205,302	214,576	186,248	195,038

22 Other accounts and provisions

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Interest payable	171,380	375,884	171,398	376,819
Current taxation (note (a))	56,184	131,144	55,523	130,045
Accruals and other payables	1,230,479	1,882,016	1,106,718	1,462,091
	<u>1,458,043</u>	<u>2,389,044</u>	<u>1,333,639</u>	<u>1,968,955</u>

(a) Current taxation represents:

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Hong Kong profits tax	40,043	117,457	39,382	116,358
Overseas taxation	16,141	13,687	16,141	13,687
	<u>56,184</u>	<u>131,144</u>	<u>55,523</u>	<u>130,045</u>

23 Share capital

	The Group and the Bank	
	2001 HK\$'000	2000 HK\$'000
Authorised, issued and fully paid: 6,000,000 (2000: 6,000,000) ordinary shares of HK\$100 each	<u>600,000</u>	<u>600,000</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

24 Reserves

	The Group						
	Capital reserve HK\$'000	General reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Bank premises revaluation reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2001							
- As previously reported	605	10,036,766	-	-	(9,601)	46,890	10,074,660
- Effect of adopting SSAP 9 (revised) (note 2(q))	-	-	-	-	-	300,000	300,000
- As restated	605	10,036,766	-	-	(9,601)	346,890	10,374,660
Profit for the year	-	-	-	-	-	1,252,886	1,252,886
Surplus on revaluation	-	-	225,186	1,250,476	-	-	1,475,662
Transfer of general reserve to retained earnings for payment of special dividend	-	(4,080,000)	-	-	-	4,080,000	-
2001 Final dividend proposed (note 10)	-	-	-	-	-	(369,000)	(369,000)
2000 Final dividend paid (note 10)	-	-	-	-	-	(300,000)	(300,000)
Special dividend paid (note 10)	-	-	-	-	-	(4,080,000)	(4,080,000)
Exchange adjustments	-	-	-	-	(5)	-	(5)
At 31st December 2001	605	5,956,766	225,186	1,250,476	(9,606)	930,776	8,354,203
Representing:-							
Bank and subsidiaries	605	5,956,766	225,186	1,250,476	(9,606)	930,776	8,354,203
At 1st January 2000							
- As previously reported	605	9,316,766	-	-	(10,406)	69,672	9,376,637
- Effect of adopting of SSAP 9 (revised) (note 2(q))	-	-	-	-	-	180,000	180,000
- As restated	605	9,316,766	-	-	(10,406)	249,672	9,556,637
Profit for the year	-	-	-	-	-	997,218	997,218
Transfer of retained earnings to general reserve	-	720,000	-	-	-	(720,000)	-
1999 Final dividend paid	-	-	-	-	-	(180,000)	(180,000)
Exchange adjustments	-	-	-	-	805	-	805
At 31st December 2000	605	10,036,766	-	-	(9,601)	346,890	10,374,660
Representing:-							
Bank and subsidiaries	605	10,036,766	-	-	(9,601)	346,890	10,374,660

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

24 Reserves (Continued)

	The Bank						
	Capital reserve HK\$'000	General reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Bank premises revaluation reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2001							
- As previously reported	-	10,016,000	-	-	317	17,659	10,033,976
- Effect of adopting of SSAP 9 (revised) (note 2(q))	-	-	-	-	-	300,000	300,000
	<u>-</u>	<u>10,016,000</u>	<u>-</u>	<u>-</u>	<u>317</u>	<u>317,659</u>	<u>10,333,976</u>
- As restated	-	10,016,000	-	-	317	317,659	10,333,976
Profit for the year (note 9)	-	-	-	-	-	1,250,488	1,250,488
Surplus on revaluation	-	-	197,639	1,207,652	-	-	1,405,291
Transfer of general reserve to retained earnings for payment of special dividend	-	(4,080,000)	-	-	-	4,080,000	-
2001 Final dividend proposed (note 10)	-	-	-	-	-	(369,000)	(369,000)
2000 Final dividend paid (note 10)	-	-	-	-	-	(300,000)	(300,000)
Special dividend paid (note 10)	-	-	-	-	-	(4,080,000)	(4,080,000)
Exchange adjustments	-	-	-	-	(5)	-	(5)
	<u>-</u>	<u>5,936,000</u>	<u>197,639</u>	<u>1,207,652</u>	<u>312</u>	<u>899,147</u>	<u>8,240,750</u>
At 31st December 2001							
At 1st January 2000							
- As previously reported	-	9,296,000	-	-	-	61,935	9,357,935
- Effect of adopting of SSAP 9 (revised) (note 2(q))	-	-	-	-	-	180,000	180,000
	<u>-</u>	<u>9,296,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>241,935</u>	<u>9,537,935</u>
- As restated	-	9,296,000	-	-	-	241,935	9,537,935
Profit for the year (note 9)	-	-	-	-	-	975,724	975,724
Transfer of retained earnings to general reserve	-	720,000	-	-	-	(720,000)	-
1999 Final dividend paid	-	-	-	-	-	(180,000)	(180,000)
Exchange adjustments	-	-	-	-	317	-	317
	<u>-</u>	<u>10,016,000</u>	<u>-</u>	<u>-</u>	<u>317</u>	<u>317,659</u>	<u>10,333,976</u>
At 31st December 2000							

- (a) The Group's capital reserve was arisen from consolidation.
- (b) The general reserve is comprised of previous years' transfers from retained earnings.
- (c) The capital reserve and the revaluation reserves do not represent realised profits and are not available for distribution.

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

25 Loans to officers

Particulars of loans made to officers and disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	The Group and the Bank	
	2001 HK\$'000	2000 HK\$'000
Aggregate amount of relevant loans outstanding at 31st December	15,787	18,793
Maximum aggregate amount of relevant loans outstanding during the year	19,782	22,960

26 Notes to the consolidated cash flow statement

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

	2001 HK\$'000	2000 HK\$'000
Operating profit	1,449,492	1,357,228
Charge for bad and doubtful debts	298,622	831,631
Advances written off net of recoveries	(732,152)	(903,286)
Amortisation of discount/premium on held-to-maturity securities	(384,975)	(494,976)
Depreciation	30,604	35,919
Dividend income from unlisted investments in securities	(9,080)	(9,050)
Change in treasury bills maturing beyond three months	(125,203)	1,866
Change in placements with banks and other financial institutions maturing beyond three months	(4,929,755)	(177,817)
Change in trade bills	(21,823)	(139,280)
Change in certificates of deposit held repayable beyond three months	(395,144)	(240,456)
Change in interest receivable of held-to-maturity securities	(273,178)	(197,422)
Change in other investments in securities	(34)	(3,914)
Change in advances and other accounts	1,656,137	(928,879)
Change in deposits and balances of banks and other financial institutions repayable beyond three months	255,453	(248,864)
Change in current, fixed, savings and other deposits of customers	2,736,307	(440,583)
Change in other accounts and provisions	(936,474)	(43,031)
Exchange adjustments	31,284	56,839
Net cash outflow from operating activities	<u>(1,349,919)</u>	<u>(1,544,075)</u>

(b) Analysis of changes in financing during the year

	2001 HK\$'000	2000 HK\$'000
Certificates of deposit issued		
At 1st January	-	777,250
Certificates of deposit redeemed	-	(777,250)
At 31st December	<u>-</u>	<u>-</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

26 Notes to the consolidated cash flow statement (Continued)

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

	2001 HK\$'000	2000 HK\$'000
Cash and balances with banks and other financial institutions	7,336,152	9,540,334
Money at call and short notice with original maturity within three months	8,546,374	15,976,340
Treasury bills with original maturity within three months	553,373	770,261
Placements with banks and other financial institutions with original maturity within three months	5,660,708	5,987,648
Certificates of deposit held with original maturity within three months	-	323,981
Deposits and balances of banks and other financial institutions repayable within three months from the date of advance	(1,186,759)	(1,220,116)
	<u>20,909,848</u>	<u>31,378,448</u>

27 Related party transactions

The Group had significant related party transactions which were carried out in the normal course of business. The Group's immediate holding company, Bank of China (Hong Kong) Limited, incorporates the Group into its consolidated accounts. The consolidated accounts of Bank of China (Hong Kong) Limited contains related party disclosures comparable to those required by SSAP 20. Consequently, as permitted by SSAP 20, the Bank has taken advantage of the exemption from disclosing any information on related party transactions in these accounts.

Balances with the ultimate holding company, fellow subsidiaries, subsidiaries and associate of the Group and the Bank are disclosed in note 28 to the accounts to fully comply with the guideline on "Financial Disclosure by Locally Incorporated Authorized Institutions" under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority in November 2001.

28 Balances with group companies and associate

Included in the following balance sheet captions are balances with the ultimate holding company, fellow subsidiaries, subsidiaries and an associate. During the year, the Group and the Bank entered into transactions with the ultimate holding company, certain fellow subsidiaries, subsidiaries and an associate in the ordinary course of their banking business.

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

28 Balances with group companies and associate (Continued)

(a) Ultimate holding company

	The Group and the Bank	
	2001	2000
	HK\$'000	HK\$'000
Assets		
Cash and short-term funds		
Cash and balances with banks and other financial institutions	6,542,563	9,010,910
Money at call and short notice	707,167	1,835,773
Placements with banks and other financial institutions maturing between one and twelve months	792,260	1,468,721
	433,320	40,416
Liabilities		
Deposits and balances of banks and other financial institutions	433,320	40,416

(b) Fellow subsidiaries (including immediate holding company)

	The Group and the Bank	
	2001	2000
	HK\$'000	HK\$'000
Assets		
Cash and short-term funds		
Cash and balances with banks and other financial institutions	327,163	94,647
Money at call and short notice	99,367	985,950
Placements with banks and other financial institutions maturing between one and twelve months	100,000	58,489
Advances and other accounts	550,000	712,962
Investment securities	35,476	97,241
	134,287	139,008
Liabilities		
Deposits and balances of banks and other financial institutions	134,287	139,008
Current, fixed, savings and other deposits of customers	569,046	399,062

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

28 Balances with group companies and associate (Continued)

(c) Subsidiaries

	The Bank	
	2001	2000
	HK\$'000	HK\$'000
Assets		
Advances and other accounts	41,915	80,904
	41,915	80,904
Liabilities		
Current, fixed, savings and other deposits of customers	169,130	458,946
Other accounts and provisions	18	935
	169,148	459,881

(d) Associate

	The Group and the Bank	
	2001	2000
	HK\$'000	HK\$'000
Liabilities		
Deposits and balances of banks and other financial institutions	1,659	705
Current, fixed, savings and other deposits of customers	-	263
	1,659	968

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

29 Maturity profile

The maturity profile of certain major assets and liabilities of the Group and the Bank as at 31st December is analysed as follows:

	The Group						Total HK\$'000
	2001						
	Repayable on demand HK\$'000	Three months or less HK\$'000	One year or less but over three months HK\$'000	Five years or less but over one year HK\$'000	Over five years HK\$'000	Undated HK\$'000	
<u>Assets</u>							
Treasury bills	-	752,740	-	-	-	-	752,740
Placements with banks and other financial institutions maturing between one and twelve months	-	9,122,704	2,552,826	-	-	-	11,675,530
Certificates of deposits held	-	257,191	627,824	476,528	-	-	1,361,543
Advances to customers	1,582,958	2,133,349	4,366,199	13,399,530	13,012,814	1,860,997	36,355,847
Debt securities included in							
- Held-to-maturity securities	-	5,520,813	8,011,438	2,201,878	561,706	-	16,295,835
- Investment securities	-	-	-	-	-	3,493	3,493
<u>Liabilities</u>							
Deposits and balances of banks and other financial institutions	455,438	960,969	134,184	-	-	-	1,550,591
Current, fixed, savings and other deposits of customers	24,776,643	41,609,803	6,655,245	111,569	-	-	73,153,260

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

29 Maturity profile (Continued)

	The Bank						
	2001						
	Repayable on demand HK\$'000	Three months or less HK\$'000	One year or less but over three months HK\$'000	Five years or less but over one year HK\$'000	Over five years HK\$'000	Undated HK\$'000	Total HK\$'000
<u>Assets</u>							
Treasury bills	-	752,740	-	-	-	-	752,740
Placements with banks and other financial institutions maturing between one and twelve months	-	9,122,704	2,552,826	-	-	-	11,675,530
Certificates of deposits held	-	257,191	627,824	476,528	-	-	1,361,543
Advances to customers	1,582,773	2,130,733	4,359,122	13,367,384	12,948,527	1,836,079	36,224,618
Debt securities included in							
- Held-to-maturity securities	-	5,520,813	8,011,438	2,201,878	561,706	-	16,295,835
- Investment securities	-	-	-	-	-	3,493	3,493
	=====	=====	=====	=====	=====	=====	=====
<u>Liabilities</u>							
Deposits and balances of banks and other financial institutions	455,438	960,969	134,184	-	-	-	1,550,591
Current, fixed, savings and other deposits of customers	24,780,870	41,774,706	6,655,245	111,569	-	-	73,322,390
	=====	=====	=====	=====	=====	=====	=====

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

29 Maturity profile (Continued)

	The Group						Total HK\$'000
	2000						
	Repayable on demand HK\$'000	Three months or less HK\$'000	One year or less but over three months HK\$'000	Five years or less but over one year HK\$'000	Over five years HK\$'000	Undated HK\$'000	
<u>Assets</u>							
Treasury bills	-	770,261	74,164	-	-	-	844,425
Placements with banks and other financial institutions maturing between one and twelve months	-	7,705,869	503,181	-	-	-	8,209,050
Certificates of deposits held	-	393,976	422,362	474,042	-	-	1,290,380
Advances to customers	2,561,702	3,771,759	3,219,162	11,672,082	14,485,061	1,869,936	37,579,702
Debt securities included in							
- Held-to-maturity securities	-	6,663,376	2,527,638	1,770,479	250	-	10,961,743
- Investment securities	-	-	-	-	-	4,093	4,093
	=====	=====	=====	=====	=====	=====	=====
<u>Liabilities</u>							
Deposits and balances of banks and other financial institutions	236,102	997,491	94,902	-	-	-	1,328,495
Current, fixed, savings and other deposits of customers	20,436,689	46,371,356	3,431,550	177,358	-	-	70,416,953
	=====	=====	=====	=====	=====	=====	=====

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

29 Maturity profile (Continued)

	The Bank						Total
	2000						
	Repayable on demand	Three months or less	One year or less but over three months	Five years or less but over one year	Over five years	Undated	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<u>Assets</u>							
Treasury bills	-	770,261	74,164	-	-	-	844,425
Placements with banks and other financial institutions maturing between one and twelve months	-	7,705,869	503,181	-	-	-	8,209,050
Certificates of deposits held	-	393,976	422,362	474,042	-	-	1,290,380
Advances to customers	2,561,405	3,791,098	3,210,675	11,632,716	14,366,417	1,865,688	37,427,999
Debt securities included in							
- Held-to-maturity securities	-	6,663,376	2,527,638	1,770,479	250	-	10,961,743
- Investment securities	-	-	-	-	-	4,093	4,093
<u>Liabilities</u>							
Deposits and balances of banks and other financial institutions	236,102	997,491	94,902	-	-	-	1,328,495
Current, fixed, savings and other deposits of customers	20,441,280	46,825,711	3,431,550	177,358	-	-	70,875,899

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

30 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 and the Bank	
	2001 HK\$'000	2000 HK\$'000
Direct credit substitutes	288,247	295,748
Transaction-related contingencies	93,750	91,348
Trade-related contingencies	1,876,359	1,937,509
Other commitments with original maturity of:		
- under one year or which are unconditionally cancellable	3,356,674	2,942,436
- one year and over	2,710,947	2,054,980
	<u>8,325,977</u>	<u>7,322,021</u>

(b) Derivatives

The following is a summary of the aggregate notional contract amounts of each significant type of derivatives:

	The Group and the Bank					
	2001			2000		
	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000
Exchange rate contracts						
Spot and forwards	382,045	-	382,045	198,568	-	198,568
Cross-currency interest rate swaps	-	253,789	253,789	-	27,283	27,283
Foreign exchange swaps	3,228,622	-	3,228,622	2,468,028	-	2,468,028
Foreign exchange option contracts						
- currency options purchased	80,040	-	80,040	14,421	-	14,421
- currency options written	80,040	-	80,040	14,421	-	14,421
Interest rate contracts						
Interest rate swaps	-	1,223,157	1,223,157	-	412,500	412,500
	<u>3,770,747</u>	<u>1,476,946</u>	<u>5,247,693</u>	<u>2,695,438</u>	<u>439,783</u>	<u>3,135,221</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

30 Off-balance sheet exposures (Continued)

The replacement costs and credit risk weighted amounts of the above off-balance sheet exposures which do not take into account the effects of bilateral netting arrangements that the Group and the Bank entered into, are as follows:

	The Group and the Bank			
	2001		2000	
	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Contingent liabilities and commitments	-	1,943,510	-	1,595,120
Exchange rate contracts	30,419	21,248	45,099	15,592
Interest rate contracts	41,454	26,938	16,652	9,671
	<u>71,873</u>	<u>1,991,696</u>	<u>61,751</u>	<u>1,620,383</u>

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

The credit risk weighted amounts are the amounts which have been valued in accordance with the Third Schedule of the Hong Kong Banking Ordinance and guidelines issued by the Hong Kong Monetary Authority. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

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

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

31 Capital and lease commitments

(a) Capital commitments

There were no significant capital commitments as at 31st December 2001 (2000: nil).

(b) Operating lease commitments

As lessee

At 31st December, the Group and the Bank have commitments to make the following future minimum lease payments under non-cancellable operating leases:

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Leasehold land and buildings				
Not later than one year	11,457	14,481	17,145	20,685
Later than one year but not later than five years	2,220	8,674	2,220	8,674
	<u>13,677</u>	<u>23,155</u>	<u>19,365</u>	<u>29,359</u>

As lessor

At 31st December, the Group and the Bank have following future minimum lease payments receivables under non-cancellable operating leases:

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Leasehold land and buildings				
No later than one year	22,042	23,396	18,755	20,733
Later than one year but not later than five years	4,289	8,512	3,289	7,573
	<u>26,331</u>	<u>31,908</u>	<u>22,044</u>	<u>28,306</u>

NANYANG COMMERCIAL BANK, LIMITED

NOTES TO THE ACCOUNTS

32 Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

33 Ultimate holding company

The directors regard Bank of China, a wholly state-owned commercial bank incorporated in the PRC, as being the ultimate holding company.

34 Approval of accounts

The accounts were approved by the Board of Directors on 29th May 2002.

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

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

(A) Segmental information

(i) By geographic area

The following information is presented based on the principal places of operations of the subsidiaries, or in the case of the Bank, on the locations of the branches responsible for reporting the results or booking the assets:

	The Group				
	2001				
	Operating income	Profit/(loss) before taxation	Total assets	Total liabilities	Contingent liabilities and commitments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	2,230,765	1,567,534	82,375,154	74,497,883	7,657,891
Mainland China	170,563	(133,917)	2,494,544	1,375,315	586,319
Americas	22,229	14,844	615,399	657,696	81,767
Total	2,423,557	1,448,461	85,485,097	76,530,894	8,325,977

	The Group				
	2000				
	Operating income	Profit/(loss) before taxation	Total assets	Total Liabilities	Contingent liabilities and commitments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	2,645,251	1,482,728	81,244,950	72,194,950	6,660,910
Mainland China	176,592	(188,505)	3,314,839	1,386,160	479,581
Americas	27,087	19,387	549,363	553,382	181,530
Total	2,848,930	1,313,610	85,109,152	74,134,492	7,322,021

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(A) Segmental information (Continued)

(ii) By class of business

	The Group	
	2001 HK\$'000	2000 HK\$'000
Commercial and retail banking	1,941,098	2,394,439
Merchant banking	96,978	64,280
Treasury activities	260,074	270,648
Other business activities	125,407	119,563
Operating income	<u>2,423,557</u>	<u>2,848,930</u>

Commercial and retail banking business includes deposit-taking services, provision of loans and trade finance, international banking services, credit card services, securities services and investment services.

Merchant banking business encompasses syndicated loans and project finance.

Treasury activities include mainly inter-bank lending, management of investment securities such as Exchange Fund Bills, government bonds and commercial papers, and the provision of foreign exchange services.

Other business activities include property leasing services and services provided by the Bank's subsidiaries and associate.

(iii) Advances to customers

Gross advances to customers by industry sector:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
- Property development	715,927	795,497
- Property investment	4,391,481	4,383,775
- Financial concerns	808,067	1,042,862
- Stockbrokers	1	-
- Wholesale and retail trade	1,639,023	1,769,269
- Manufacturing	697,762	799,494
- Transport and transport equipment	532,517	398,482
- Others	5,464,313	4,758,975
Individuals		
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	3,815,473	2,974,826
- Loans for the purchase of other residential properties	12,434,269	13,109,083
- Others	1,303,089	1,843,014
Trade finance	696,204	931,585
Loans for use outside Hong Kong	<u>3,857,721</u>	<u>4,772,840</u>
	<u>36,355,847</u>	<u>37,579,702</u>

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(A) Segmental information (Continued)

Advances to customers, advances overdue for over three months and non-performing advances by geographical areas are classified by the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when an advance is guaranteed by a party in an area which is different from that of the counterparty.

Gross advances to customers by geographical areas:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Hong Kong	33,803,192	33,941,053
Mainland China	1,603,326	2,221,231
Others	949,329	1,417,418
	<u>36,355,847</u>	<u>37,579,702</u>

Loans overdue for over three months by geographical areas:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Hong Kong	1,061,891	1,543,495
Mainland China	407,330	604,687
Others	63,755	193,358
	<u>1,532,976</u>	<u>2,341,540</u>

Non-performing loans by geographical areas:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Hong Kong	1,171,564	1,499,291
Mainland China	541,323	768,246
Others	122,363	286,204
	<u>1,835,250</u>	<u>2,553,741</u>

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(B) Overdue and rescheduled assets

(i) Advances to customers

		The Group			
		2001		2000	
		Amount HK\$'000	% of total advances to customers	Amount HK\$'000	% of total advances to customers
(a)	Gross advances to customers which have been overdue for:				
	- six months or less but over three months	298,501	0.82%	340,637	0.91%
	- one year or less but over six months	209,638	0.58%	694,572	1.85%
	- over one year	1,024,837	2.82%	1,306,331	3.47%
		<u>1,532,976</u>	<u>4.22%</u>	<u>2,341,540</u>	<u>6.23%</u>
(b)	Overdue advances are reconciled to non-performing loans as follows:				
	Advances overdue for more than three months	1,532,976	4.22%	2,341,540	6.23%
	Less: advances which are overdue for more than three months and on which interest is still being accrued	(92,564)	(0.25%)	(409,383)	(1.09%)
	Add: advances overdue for three months or less and on which interest is being placed in suspense or on which interest accrual has ceased				
	- included in rescheduled advances	201,534	0.55%	482,944	1.29%
	- others	193,304	0.53%	138,640	0.37%
	Non-performing loans	<u>1,835,250</u>	<u>5.05%</u>	<u>2,553,741</u>	<u>6.80%</u>

(ii) Other assets

		The Group	
		2001 HK\$'000	2000 HK\$'000
	Accrued interests which have been overdue for:		
	- six months or less but over three months	1,879	17,265
	- one year or less but over six months	1,152	13,707
	- over one year	3,863	344
		<u>6,894</u>	<u>31,316</u>

NANYANG COMMERCIAL BANK, LIMITED**UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION****(B) Overdue and rescheduled assets (Continued)**

(iii) Rescheduled advances to customers net of amounts included in overdue advances

	The Group			
	2001		2000	
	Amount HK\$'000	% of total advances to customers	Amount HK\$'000	% of total advances to customers
Rescheduled advances to customers	<u>268,552</u>	<u>0.74%</u>	<u>666,347</u>	<u>1.77%</u>

There were no advances to banks and other financial institutions which were overdue for more than 3 months or rescheduled as at 31st December 2001 and 31st December 2000.

(C) Capital adequacy and liquidity ratios

	2001	2000
Unadjusted capital adequacy ratio as at 31st December	<u>20.10%</u>	<u>28.96%</u>
Adjusted capital adequacy ratio as at 31st December	<u>20.07%</u>	<u>28.91%</u>
Average liquidity ratio for the year	<u>63.07%</u>	<u>66.49%</u>

The unadjusted capital adequacy ratio represents the consolidated ratio of the Bank and a subsidiary as specified by the Hong Kong Monetary Authority as at 31st December computed in accordance with the Third Schedule of the Hong Kong Banking Ordinance.

The adjusted capital adequacy ratio represents the consolidated ratio of the Bank and a subsidiary as specified by the Hong Kong Monetary Authority as at 31st December computed in accordance with the guideline of "Maintenance of Adequate Capital Against Market Risks" under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority taking into account both credit risk and market risk.

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(C) Capital adequacy and liquidity ratios (Continued)

The average liquidity ratio for the year is calculated as the simple average of each calendar month's average liquidity ratio for the twelve months of the financial year of the Bank's Hong Kong offices computed in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance.

(D) Components of capital base after deductions

The capital base after deductions used in the calculation of the above capital adequacy ratios as at 31st December and reported to the Hong Kong Monetary Authority is analysed as follows:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Core capital:		
Paid up ordinary share capital	600,000	600,000
Reserves	5,977,231	9,381,158
Profit and loss account	881,806	976,170
	<hr/>	<hr/>
Total core capital	7,459,037	10,957,328
	<hr/>	<hr/>
Supplementary capital:		
General provisions for bad and doubtful debts	520,419	504,865
	<hr/>	<hr/>
Eligible value of supplementary capital	520,419	504,865
	<hr/>	<hr/>
Total capital base before deductions	7,979,456	11,462,193
	<hr/>	<hr/>
Deductions from total capital base	(106,670)	(108,318)
	<hr/>	<hr/>
Total capital base after deductions	<u>7,872,786</u>	<u>11,353,875</u>

(E) Cross-border claims

	The Group			
	2001			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Australia	3,358,255	3,804,737	899	7,163,891
Mainland China	9,018,228	755,577	2,095,493	11,869,298
Other Asia Pacific countries	4,326,991	50,168	415,815	4,792,974
North America	3,304,185	497,965	377,225	4,179,375
Western Europe	16,906,647	498,972	576,284	17,981,903
	<hr/>	<hr/>	<hr/>	<hr/>

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(E) Cross-border claims (Continued)

	The Group			
	2000			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Australia	3,550,423	1,695,781	20	5,246,224
Mainland China	13,365,788	381,505	2,458,163	16,205,456
Other Asia Pacific countries	3,286,426	144,116	1,280,047	4,710,589
North America	6,055,380	309,698	356,488	6,721,566
Western Europe	14,305,202	389,516	1,232,331	15,927,049

Cross border claims include receivables and loans and advances, balance due from banks and holdings of certificate of deposits, bills and other negotiable debt instruments and also include accrued interest and overdue interest on these assets classified according to the location of the counterparties after taking into account any transfer of risk. In general, transfer of risk from one country to another is recognised if the claims against a counterparty are guaranteed by another party in a different country or if the claims are on an overseas branch of a bank whose head office is located in a different country. Only regions constituting 10% or more of the aggregate cross-border claims are disclosed.

(F) Currency concentration

The currencies where the net position constitutes 10% or more of the total net position in all foreign currencies are as follows:

	The Group			
	2001		2000	
Equivalent in HK\$'000	US Dollars	Renminbi	US Dollars	Renminbi
Spot assets	20,472,739	564,291	20,176,667	425,327
Spot liabilities	(18,850,428)	(497,212)	(19,475,823)	(382,300)
Forward purchases	1,907,161	-	1,565,725	-
Forward sales	(3,674,031)	-	(2,425,021)	-
Net long/(short) position	(144,559)	67,079	(158,452)	43,027
Net structural position	199	-	461	-

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(G) Capital management

The Group's policy is to maintain a strong capital base to support the development of the Group's business over a long time horizon and to meet the statutory capital adequacy ratio requirement. As disclosed in note (C) above, both the Group's adjusted capital adequacy ratio incorporating market risk of 20.07% and the unadjusted ratio of 20.10% as at 31st December 2001 were well above the statutory minimum ratio.

Capital is allocated to the various activities of the Group depending on the risk taken by each business division. Where the subsidiaries or offshore branches are directly regulated by other regulators, they are required to maintain minimum capital according to the respective regulatory requirements.

(H) Management of risks

The Group's risk management goal is to maximize its risk-adjusted return on capital while maintaining risk exposure within acceptable parameters. The Group has established policies and procedures for identifying, measuring, monitoring, and controlling various risks inherent to the Group's business such as credit, liquidity, market, interest rate, foreign exchange and operational risks.

Risk related policies and controls are regularly reviewed by relevant departments and several management committees chaired by the Chief Executive Officer based on changing market conditions. The internal auditors also conduct independent reviews on the adequacy and effectiveness of these key policies and controls and ensure that the Group is operating within the established policies, procedures and limits.

(i) Credit risk management

Credit risk arises from the possibility that borrowing customers or counterparties in a transaction may default on their payment obligations. It arises principally from lending, trade finance, treasury, derivatives and other activities undertaken by the Group.

The Group's Credit and Loans Management Committee establishes credit policies that define the credit extension criteria, the credit approval, the reviewing and monitoring processes, the loan classification system and the provisioning policy. It also takes into account the requirements of the Hong Kong Banking Ordinance and the guidelines issued by the Hong Kong Monetary Authority with respect to large exposures and provisioning requirements.

The Group manages its credit risk within a conservative framework by evaluating the creditworthiness of counterparties, setting credit limits for counterparties, countries and industry sectors, and obtaining collateral where appropriate. The credit limits depends on criteria such as prevailing market conditions, the Group's risk appetite to particular industry sectors and countries, and the regulatory requirements. Actual credit exposures and limits and asset quality are regularly monitored and controlled by management.

The Group adopts a multi-level credit approval process that requires credit applications be approved at various level depending on factors such as the size and nature of the credit applied for. To avoid any potential conflict of interest, the credit applications are reviewed by the Credit Department that is independent of credit initiating units. All credit initiating units, the Credit Department and approvers should assess and classify the credits properly and ensure the applications include all information necessary for assessment and approval.

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(H) Management of risks (Continued)

(ii) Liquidity risk management

Liquidity risk is the risk that the Group cannot meet its current obligations as and when they fall due. It arises in the funding of lending, trading and investment activities and in the management of trading positions. It includes both the risk of unexpected increase in the cost of funding of the Group's asset portfolio at appropriate maturities and the risk of being unable to liquidate a position in a timely manner and/or at a reasonable price.

The Group's objective is to manage the liquidity structure of its assets, liabilities and commitments so as to ensure that the Group is able, even under adverse market conditions, to meet all its repayment obligations on time and fund all of its investment opportunities on a timely basis. As disclosed in note (C) above, the Group's average liquidity ratio of 63.07% for the year of 2001 was well above the statutory minimum ratio of 25%.

The Board of Directors has formulated liquidity management policy, which aims at maintaining a stock of high quality liquid assets and a diversified and stable deposit base. The Asset and Liability Management Committee sets up procedures and systems to monitor and control liquidity on a regular basis.

(iii) Market risk management

Market risk is the risk of losses in on- and off-balance sheet positions arising from changes in interest rates, foreign exchange rates and equity prices, on the Group's assets, liabilities and commitments, thus causing profits and losses.

The Group's market risk originates from its holding in the trading book of foreign exchange, debt securities and derivatives. The Group does not engage in proprietary trading in foreign exchange and equities. The Group's trading activities on foreign exchange and derivative instruments mainly arise from the execution of trade orders from customers and positions taken in order to hedge other elements of the trading book.

The Group's maximum market risk exposures in different activities are set by the management. Exposures are measured and monitored on the basis of principal (or notional) amount, outstanding position and stop-loss limit, and are controlled within the limits approved by the management for each business unit, business type and in aggregate. The Group considers that the market risk arising from its trading book is not material.

The average daily revenue earned from the Group's market risk-related treasury trading activities in 2001 was HK\$2,000 (2000: HK\$2,000). The standard deviation of these daily revenues was HK\$23,000 (2000: HK\$7,000).

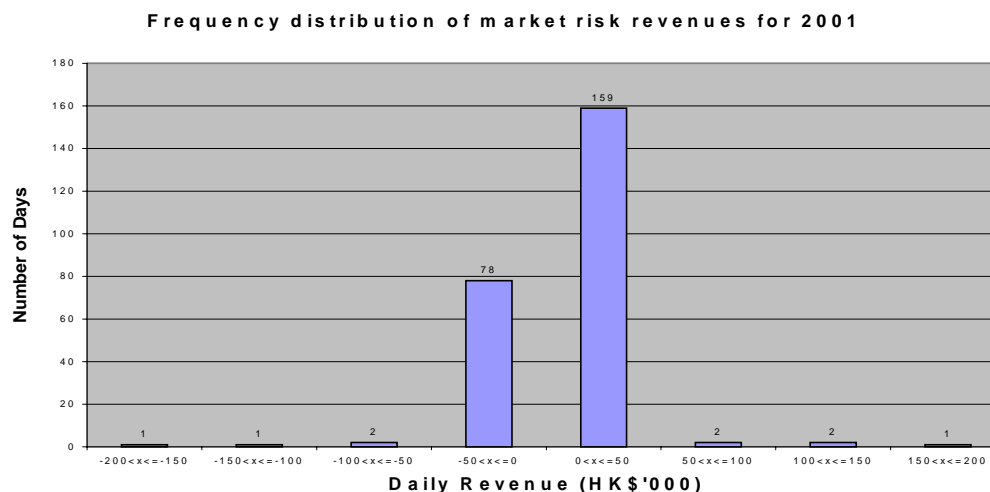
An analysis of the frequency distribution of the Group's market risk-related treasury trading revenues is shown below. This shows a maximum daily loss of HK\$155,000 and the next maximum daily loss of HK\$120,000, with 82 out of 246 days showing losses. The most frequent results were a daily revenue of between HK\$0 and HK\$50,000 with 159 occurrences. The highest daily revenue during the year was HK\$168,000 (2000: HK\$48,000).

NANYANG COMMERCIAL BANK, LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(H) Management of risks (Continued)

(iii) Market risk management (Continued)



Interest rate risk management

Interest rate risk is the risk arising from the changes in interest rates on the Group's assets, liabilities and commitments, thus causing profits or losses.

Interest rate risk management is to limit potential adverse effects of interest rate movements on net interest income. The Asset and Liability Management Committee sets up strict internal guideline to monitor and control interest rate exposures. The Treasury Management Committee formulates strategies to manage the Group's money market operations, investment in bills, commercial papers, certificates of deposit and notes. Only small interest rate positions may be taken for yield enhancement within the risk limits.

Foreign exchange risk management

Foreign exchange risk is the risk arising from changes in foreign exchange rates on the Group's assets, liabilities and commitments, thus causing profits or losses.

The Group's exchange exposures mainly comprise currency exposures originated by its commercial banking business. It is the Group's policy to square foreign exchange positions at the end of a business day. The Settlement Department ensures that all foreign currency transactions are conducted in accordance with the guidelines established by management.

(iv) Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal process, people and systems or from external events.

As one of the major risks exposed to the Group, specific strategies and policies are established. Internal control systems are strengthened to control these risks and contingency facilities are also enhanced to support operations in the event of disasters.

In the coming years, the Group will further enhance its management methodologies in identifying, measuring, monitoring, and controlling operational risk, to be in line with international best practices.