Gerald Holdings Limited

Report and consolidated financial statements

30 April 2003

Registered No: 2000458

Directors
L Lander
F Calia
C Potts

Secretary
D M Rabagliati

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Registered Office
3 Cloth Street
Barbican
London EC1A 7LD

Directors' report

The directors present their report and the group financial statements for the year ended 30 April 2003.

Results and dividends

The consolidated profit for the group for the year after taxation amounts to $1,098,000 (2002 - $1,000,000).

Principal activities and review of business developments

The company's principal activity is that of a holding company. The group's principal activity is operation of a bank.

In December 2002, a wholly owned subsidiary of the company purchased a 66% interest in the Trade and Development Bank of Mongolia, a commercial banking institution, in an effort to provide the company with additional access to customers in the Far East.

The results of operations for TDB are included in the consolidated financial statements from the date of acquisition. Trade and Development Bank, "TDB", is a regulated banking entity in Mongolia and as such the assets of TDB are not available to the creditors of the company.

Subsequent events

A dividend of $1.8m and $1.4m relating to previous years was paid to Gerald Holdings Limited (the immediate parent undertaking) out of the accumulated profit of Gerald UK Limited, on 16 May 2003 and 11 November 2003 respectively.

Directors and their interests

The directors of the company during the year and up to the approval of the financial statements were:

G L Lennard (Chairman) (resigned 16 May 2003)
L Lander (appointed 15 May 2003)
F Calia (appointed 15 May 2003)
C Potts

The directors have no disclosable interest in the shares of group companies.

Employment of disabled persons

The group supports the employment of disabled people where possible in recruitment, by retention of those who become disabled during their employment, and generally through training, career development and promotion.

Employee involvement

The group pays particular regard to the involvement of employees generally in the group's activities and achievements. Employees are kept aware of particular developments by means of a regular circulation of copies of press notices, memoranda and a separate employee report.

Donations

The group made charitable donations of $8,000 during the year (2002 - £nil). No political donations were made during the year.

Directors' report

Creditors' payment policy

The group is committed to establishing mutually beneficial relationships with its suppliers and it is the policy to pay them within 30 days of the invoice date, or as otherwise agreed. The aggregate amount owed to creditors at 30 April 2003 represented one day of purchases (based on the aggregate amount invoiced by suppliers during the financial year).

Auditors

A resolution to reappoint Ernst & Young LLP as the auditors will be put to the members at the Annual General Meeting.

On behalf of the board

Director

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume *that the group will continue in business.*

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Gerald Holdings Limited

We have audited the group financial statements for the year ended 30 April 2003 which comprise Consolidated Profit and Loss Account, Consolidated Balance Sheet, Balance Sheet, Consolidated Statement of Total Recognised Gains and Losses and the related notes 1 to 27. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, 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 that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 30 April 2003 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London
Date 30 July 2004

Consolidated profit and loss account

for the year ended 30 April 2003

	Notes	2003 US$000	2003 US$000	2002 US$000
Interest receivable	5			
Continuing operations		839		1,278
Acquisitions		3,380		–
			4,219	1,278
Interest payable				
Continuing operations		(85)		(33)
Acquisitions		(1,093)		–
			(1,178)	(33)
Net interest income				
Continuing operations		754		1,245
Acquisitions		2,287		–
			3,041	1,245
Dealing profit				
Continuing operations			53	4
Fees and commissions				
Acquisitions			870	–
Other income				
Continuing operations		148		4
Acquisitions		192		–
			340	–
Other operating income				
Continuing operations		201		1,249
Acquisitions		1,062		–
			1,263	1,249
Total operating income			4,304	1,249
Administrative expenses	6			
Continuing operations		(91)		(82)
Acquisitions		(1,600)		–
			(1,691)	(82)
Provisions				
Acquisitions	11		(626)	–
Amortisation of goodwill	2		(80)	–
Profit on ordinary activities before taxation			1,907	1,167
Tax on profit on ordinary activities	9		(809)	(167)
Profit on ordinary activities after taxation			1,098	1,000
Minority interest			(198)	–
Profit for the financial year attributable to the members of the parent company			900	1,000

Consolidated statement of total recognised gains and losses

for the year ended 30 April 2003

	Note	*2003* *£000*	*2002* *£000*
Profit for the financial year		900	1,000
Exchange difference on retranslation of the net assets of subsidiary undertaking		(100)	–
Total recognised gains for the year	21	800	1,000

Consolidated balance sheet

at 30 April 2003

	Notes	2003 US$000	2002 US$000
Assets			
Cash and bank balances		22,704	959
Loans and advances to banks	10	38,156	–
Loans and advances to customers	11	79,575	–
Accounts receivable	12	1,553	31,122
Debt securities	15	11,500	–
Commodity stock	1	–	14,220
Tangible fixed assets	16	7,051	–
Intangible assets	2	4,055	–
Other assets		2,879	49
Total assets		167,473	46,350
Liabilities			
Deposits by banks	17	3,264	–
Customer accounts	18	102,723	–
Loans from financial institutions	19	4,615	–
Other liabilities	13	6,894	669
Minority equity interests		3,496	–
		120,992	669
Called up share capital	20	774	774
Profit and loss account	21	45,420	44,620
Other reserves		287	287
Shareholders' funds		46,481	45,681
Total liabilities and shareholders' funds		167,473	46,350
Memorandum items			
Contingent liabilities	22	114,168	–
Commitments		–	–

Approved by the board of directors on JULY 22 and signed on its behalf by:

Director

FABIO CALIA

Balance sheet
at 30 April 2003

	Notes	2003 US$000	2002 US$000
Assets			
Cash and bank balances		–	5
Accounts receivable	12	2,767	2,763
Investment in subsidiaries	14	6,379	6,379
Total assets		9,146	9,147
Called up share capital	20	774	774
Profit and loss account	21	8,372	8,373
Shareholders' funds		9,146	9,147

Approved by the board of directors on July 22 .... and signed on its behalf by:

Director

Fabio Calia

Notes to the consolidated financial statements

at 30 April 2003

1. Accounting policies

Accounting convention

The financial statements are prepared on the historical cost basis of accounting. They have been drawn up in accordance with applicable accounting standards in the United Kingdom. The financial statements are prepared in accordance with current British Banking Association's Statement of Recommended Practices covering Advances, Securities, Derivatives, Contingent Liabilities and Commitments and Segmental Reporting, and are prepared in accordance with Schedule 9 of the Companies Act 1985.

Basis of consolidation and preparation

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings for the year ended 30 April 2003.

In December 2002, the company purchased a 66% interest in the Trade and Development Bank of Mongolia, ("TDB") a commercial banking institution, in an effort to provide the company with additional access to customers in the Far East. TDB commenced operations in 1991 and conducts all of its business in Mongolia. The financial information included for TDB was based on audited information as of 30 April 2003. The results of operations for TDB are included in the consolidated financial statements from the date of acquisition.

Commodity stock

Commodity stock consists of aluminium valued at the lower of cost and net realisable value at the balance sheet date.

Net interest income

Net interest income comprises income from banking activities, namely interest receivable on loans, advances, deposits placed and investment securities less interest payable on deposits taken.

Customer accounts, deposits and placements

For depositors maintaining a balance above a prescribed limit, interest is paid at annual rates of approximately 1% and 3% for foreign currency, other than the Mongolian Togrog, and local currency customer accounts, respectively.

Foreign currency saving deposits bear interest at an annual rate of approximately 1.8%, while local currency saving deposits bear interest at an annual rate of approximately 6.2%.

Interest rates for time deposits vary for different types of accounts. Foreign currency time deposits bear interest at an annual rate ranging from approximately 3.7% to 5.4%, while local currency time deposits bear interest at an annual rate ranging from approximately 14.0% to 15.4%.

Interest is paid on foreign currency demand deposits placed by local commercial banks above a prescribed limit at an annual rate of 1%.

Debt securities

The investments in debt securities are comprised of non-interest bearing short-term bills with maturities of less than one month, which are issued at a discount to the fair value of the securities upon maturity. Government securities are issued by the Ministry of Finance and Economy of Mongolia, with maturities of generally one to three months (annual interest rates for period ended April 30, 2003 are in the range of 4.1% to 15.8%). The other securities are issued by local Mongolian companies with maturities of between 1 to 3 months. All securities are recorded at cost, which approximates fair value, and are held to maturity.

Notes to the consolidated financial statements

at 30 April 2003

1. Accounting policies (continued)

Financial instruments

Financial instruments other than debt securities are reflected in the accompanying consolidated financial statements at fair market value. The estimated fair market value of amounts reported in the consolidated financial statements have been determined using available market information and appropriate valuation methodologies.

Shares in group undertakings

The carrying value of the investments in subsidiary undertakings is stated at historical cost less any provisions for impairment.

Loans and advances and related provisions

Loans and advances are valued at cost less any amount written off and specific or general provisions.

Provision for loan loss in TDB are made as necessary having regard to both specific and general factors. In determining the need for provisions, management considers, among other things, the financial position of the borrowers, the value of any collateral, guarantees received, industry performance, current economic conditions and past experiences. Provisions made during the year are charged against the income statement.

Interest rate on loans and advances issued by TDB ranges from 10.3% to 48% per annum.

Foreign currencies

Assets and liabilities in foreign currencies are expressed in United States dollars at the rate of exchange ruling at the balance sheet date. Share capital denominated in foreign currencies is stated in United States dollars at the rates ruling on the dates at which the transactions were originally recorded. The results for the year are expressed in United States dollars using rates of exchange ruling at the date of the transactions.

All differences arising from translation are dealt with in the profit and loss account.

Foreign subsidiaries assets and liabilities in foreign currencies are translated into USD at the rate of exchange prevailing at the balance sheet date. Foreign subsidiaries' income and expenditures are translated into USD using the average balance sheet rate for the timeframe of the financial information.

Fees and commissions

Fees and commissions are recognised on an accruals basis.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less tax.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the consolidated financial statements

at 30 April 2003

1. Accounting policies (continued)

Tangible fixed assets

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold buildings	-	40 years
Computers	-	5 years
Furniture, fixtures and vehicles	-	10 years

Goodwill

Goodwill arising on acquisition is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Pension plans

The subsidiary in Mongolia sponsors a defined contribution scheme for all of its qualified employees. In accordance with the scheme, defined contributions are made to a government pension scheme. These contributions are determined as a percentage of each of the covered employee's salary and are recognised as an operating expense in the income statement as incurred. In addition, contributions are made towards the Social Security and Health fund, which are charged to the income statement as incurred.

There are no pension plans for other subsidiaries.

Impairment

Fixed assets and intangible assets are subject to impairment review in accordance with FRS 11 if there are events or changes in circumstances that indicate that the carrying amount of the fixed asset or intangible assets may not be fully recoverable. The impairment review comprises a comparison of the carrying amount of the fixed asset or intangible assets with its recoverable amount, which is the higher of net realisable value and value in use.

Net realisable value is calculated by reference to the amount at which the asset could be disposed of. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the assets continued use, including those resulting from its ultimate disposal, at a market based discount rate on a pre-tax basis. The carrying values of fixed assets and intangible assets are written down by the amount of any impairment and this loss is recognised in the profit and loss account in the period in which it occurs.

Leases

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term.

Related party transactions

The directors have taken advantage of the exemption in paragraph 3(c) of Financial Reporting Standard 8 from disclosing details of transactions with related parties.

Cash flow statement

The directors have taken advantage of the exemption in paragraph 5(a) of Financial Reporting Standard 1 (revised) from producing a cash flow statement.

Notes to the consolidated financial statements

at 30 April 2003

2. Acquisition of interest in TDB and intangible asset

On 11 December 2002, through a consortium with Banca Commerciale Lugano ("BCL"), the company and BCL purchased 1,520,000 shares of TDB, under a Mongolian state government approved "Privatisation Program", for $12.2 million. The purchased shares represent 76% of the outstanding stock of TDB (of which the company's interest is 66% and BCL's is 10%). The company's purchase price for the investment was $10.6 million.

Thirty per cent of the total shares (456,000 shares) purchased were placed in escrow following the closing until the "Future Investment Obligation" has been fulfilled, at which time shares will be released to the consortium.

The Share Sale and Purchase Agreement between the Mongolian Government and the BCL/Gerald consortium outlines a Future Investment Obligation which requires the consortium to invest in TDB, within twenty-four months following the closing, an amount in cash and/or assets having an aggregate value of at least $28 million. The aggregate value is made up of a minimum investment in year one of $6 million and an additional minimum investment in year two of $22 million. The investments can include capital contributions into TDB in the form of assets, subordinated debt, new capital contributions, from the consortium or any third party brought in by the consortium, in the form of either new shares to be issued or through the increase in reserves; increase in capital through the retention of earnings of TDB, contribution of professional management time, resources, training programmes, technology transfer and intellectual property. Following year one, should the BCL/Gerald consortium fail to fulfil the Future Investment Obligation, the company's loss, excluding BCL's loss, will be limited to 198,360 shares which will be released from the escrow account and revert back to the Mongolian Government as the registered owner. Following year two, the company's loss would be limited to an additional 198,360 shares which will revert back to the Mongolian Government as the registered owner.

There is no material difference between the book value and fair value of the net assets of TDB Mongolia on the date of acquisition, the details of which are given below:

	US$000
Assets	
Cash and bank balances	14,905
Loans and advances to banks	30,951
Loans and advances to customers	41,189
Investments in securities	19,641
Tangible fixed assets	7,193
Other assets	1,477
Total assets	115,356

Notes to the consolidated financial statements

at 30 April 2003

2. Acquisition of interest in TDB and intangible asset (continued)

	US$000
Liabilities	
Deposits by banks	3,092
Customer accounts	97,064
Loans from financial institutions	4,974
Other liabilities	400
Net assets	9,826
66% share of net assets	6,485
Goodwill	4,135
Total consideration	10,620

The company has allocated the purchase price to the assets acquired and liabilities assumed based on their respective fair values at the date of acquisition. Such allocation resulted in the cost being in excess of fair value by approximately $4.1 million which is amortised on a straight-line basis over 20 years, based on management's preliminary estimate of its economic life.

The movement in intangible assets is explained below:

	US$000
Goodwill on acquisition of TDB Mongolia	4,135
Amortised during the period	(80)
Net book value at 30 April 2003	4,055

3. Segment analysis

The disclosure of income by different geographical regions and segments has been omitted as the directors consider that it would be seriously prejudicial to disclose this information.

4. Dealing profits

Dealing profit represents net income on the purchase and sale of metal.

Other income primarily relates to the rental income received by TDB on the portion of premises sublet to a third party and the recovery of certain old debts written off in prior years.

Notes to the consolidated financial statements

at 30 April 2003

5. Interest receivable

Included within interest receivable and interest payable are the following amounts:

	Group 2003 US$000	*Group 2002 US$000*
Interest receivable:		
Interest and similar income arising from debt securities	559	1,246
Other interest and similar income	3,660	32
	4,219	1,278

6. Administrative expenses

	2003 US$000	*2002 US$000*
Staff costs:		
Wages and salaries	540	–
Social security costs	113	–
Pension costs	84	–
Other staff costs	68	–
Other administrative expenses	886	82
	1,691	82

The average number of employees during the year was 391 (2002 – Nil).

7. Emoluments of directors

The directors did not receive any emoluments or pension contributions in respect of their services to any of the group companies.

8. Profit on ordinary activities before taxation

This is stated after charging/(crediting):

	Group 2003 US$000	*Group 2002 US$000*
Auditors' remuneration - audit	60.9	10.5
- non audit	9.4	9.0
Foreign exchange (gains)/losses	(5.1)	(16.0)
Depreciation and impairment	211.0	–

Notes to the consolidated financial statements

at 30 April 2003

9. Taxation

a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2003	*2002*
	US$000	*US$000*
UK corporation tax	199	154
Mongolian corporation tax	491	–
Tax under provided in previous years	119	13
Total current tax	809	167

b) Factors affecting current tax charge

The current taxation charge for the year is different to the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2003	*2002*
	US$000	*US$000*
Theoretical tax at UK corporation tax rate of 30% (2002 – 30%)	596	350
Capital allowances in excess of depreciation (at 30%)	(22)	(18)
Reversal of timing differences in previous years	–	(177)
Adjustments in respect of prior years	119	13
Differences in overseas tax rate	100	–
Other	16	(1)
Actual current tax charge	809	167

10. Loans and advances to banks

	Group
	2003
	US$000
Repayable on demand	7,612
Repayable within one year or less	30,544
	38,156

Notes to the consolidated financial statements

at 30 April 2003

11. Loans and advances to customers

	Group 2003 US$000	Group 2002 US$000
Remaining maturity:		
1 year or less	82,993	–
Over 1 year	3,613	–
Provisions for bad and doubtful debts	(7,031)	–
	79,575	–

The movement in the general and specific provision is explained below:

	General	US$000 Specific	Total
Opening provision at the date of acquisition	453	4,201	4,654
Movement during the period	(72)	2,449	2,377
Closing provision	381	6,650	7,031

12. Accounts receivable

	Group 2003 US$000	Company 2003 US$000	Group 2002 US$000	Company 2002 US$000
Amounts owed by group undertakings	794	2,767	31,122	2,763
Corporation tax receivable	759	–	–	–
	1,553	2,767	31,122	2,763

13. Other liabilities

	Group 2003 US$000	Group 2002 US$000
Amounts due to group undertakings	1,919	72
Trade creditors	3,500	–
Sundry creditors and accruals	1,335	597
Mongolian income tax payable	140	–
	6,894	669

Notes to the consolidated financial statements

at 30 April 2003

14. Investments in subsidiaries

	Company 2003 US$000	*Company 2002 US$000*
Subsidiary undertakings:		
Cost at 30 April 2002	6,585	6,585
Provision for diminution in value	(206)	(206)
Cost at 30 April 2003	6,379	6,379

Investment	*Proportion of voting rights and shares held*	*Nature of business*
Gerald Metals Limited (2)(1)	100%	Commodity merchant and broker
Gerald Limited (2)(1)	100%	Commodity merchant and broker
Gerald UK Limited (2)	100%	Commodity merchant and broker
GloBull Investment and Development Management S.A. (3)	100%	Investment holding
GloBull Investment and Development S.C.A. (3)	87%	Investment holding
Trade Development Bank of Mongolia (4)	66%	Investment holding

(1) Held directly by Gerald Holdings Limited. Other subsidiaries owned indirectly

(2) The abovementioned subsidiaries are incorporated in the UK

(3) The abovementioned subsidiaries are incorporated in Luxembourg

(4) The abovementioned subsidiary is incorporated in Mongolia

15. Debt securities

Investment in securities largely represents Treasury Bills and other Mongolian government securities. All securities are recorded at cost, which approximates fair value and are held to maturity.

Notes to the consolidated financial statements

at 30 April 2003

16. Tangible fixed assets

All tangible fixed assets in the group relate to the fixed assets of TDB Mongolia, the net book values of which as at 30 April 2003 are detailed below:

	Freehold buildings US$000	*Furniture, fixtures and vehicles US$000*	*Computers, plant and machinery US$000*	*Total US$000*
Cost or valuation:				
Acquisition of subsidiary undertaking	5,066	825	1,302	7,193
Deficit on foreign currency revaluation	(75)	(12)	(20)	(107)
Additions	2	2	172	176
At 30 April 2003	4,993	815	1,454	7,262
Depreciation:				
Provided during the period	(41)	(47)	(123)	(211)
At 30 April 2003	(41)	(47)	(123)	(211)
Net book value at 30 April 2003	4,952	768	1,331	7,051

17. Deposits by banks

	Group 2003 US$000
Repayable on demand	3,264

18. Customer accounts

	Group 2003 US$000
Repayable on demand	10,892
Other short term deposits	91,831
	102,723

Notes to the consolidated financial statements

at 30 April 2003

19. Loans from financial institutions

This comprises the following loans relating to TDB:

(a) Loan of $2,611,000 from the German Government Bank (KfW). Interest is paid on the loan at a rate of 1.75% per annum. The loan is used to provide financing to various customers at preferential interest rates. Principal payments on this loan commenced in December 2001, and the final date of repayment is in December 2007.

(b) Loan of $1,248,000 from the World Bank which is channelled to various borrowers under the Private Sector Development Credit programme. Variable interest is paid on the loan at six months US Libor rate plus 3% per annum.

(c) Loan of $578,000 obtained from the International Development Association (IDA) to finance the Twinning Agreement with Norwegian Banking Resources Ltd ("NBR"), whereby, NBR will transfer operational knowledge and technical skills to the Bank. Interest is paid on the loan at a rate of 0.75%. The disbursement amount in USD has not changed since 1999 and the principal repayment is due from August 2007 and the final repayment is in February 2037.

(d) Loan of $179,000 obtained from Asian Development Bank in 2002 which is interest free and is being repaid over 30 years, commencing in 2002.

20. Share capital

	Group 2003 US$000	*Group 2002 US$000*
Authorised, issued and fully paid		
500,000 ordinary shares of £1 each	774	774

21. Profit and loss account

	Group 2003 US$000	*Group 2002 US$000*
Opening balance	44,620	43,620
Retained profit for the financial year	800	1,000
	45,420	44,620

In accordance with the exemption allowed by Section 230(3) of the Companies Act 1985, the company has not published its own profit and loss account. The loss for the financial year of the company was US$1,000 (2002 - US$1,000).

Notes to the consolidated financial statements

at 30 April 2003

22. Memorandum items

At the year end the contract amounts of contingent liabilities and commitments were:

Contingent liabilities

	Group 2003 US$000	*Company 2003 US$000*	*Group 2002 US$000*	*Company 2002 US$000*
Guarantees and irrevocable letters of credit	6,638	–	–	
Assets pledged as collateral security	107,530	–	–	–
	114,168	–	–	–
Commitments	–	–	–	–

23. Risk Management

Management of risks is fundamental to the banking business and is an essential element of TDB's operations. The main risk inherent to TDB's operations are those related to credit risk, foreign exchange rates, liquidity and market movements in interest rates. A description of TDB's risk management policies in relation to those risks are as follows:

Credit risk

TDB is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by borrower and product are approved regularly by the Bank's management team.

Exposure to credit risk is managed through regular analysis of the ability of the borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral on and corporate and personal guarantees.

TDB is holding loan collateral amounting to $81.3 million as an off balance sheet item. Other off balance sheet items include written off loans amounting to $5.4 million, outstanding letters of credit of $4.5 million, notes worth $2.8 million, and guarantees totalling $1.4 million.

Currency risk

TDB is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Management sets limits on the level of exposure by currencies (primarily US Dollar). These limits also comply with the minimum requirements of Bank of Mongolia.

Notes to the consolidated financial statements

at 30 April 2003

23. Risk Management (continued)

Interest rate risk

TDB is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. Interest rate risk is managed by increasing or decreasing positions within limits specified by TDB's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest sensitive assets and liabilities.

TDB's interest rate policies are reviewed on a regular interval basis.

Liquidity risk

Liquidity risk is the risk that TDB will encounter difficulty in realising assets or otherwise raising funds to meet commitments. TDB monitors expected cash inflow and outflow for the following year. Its policy throughout the year has been at all times to maintain sufficient high quality liquid assets to cover the expected net cash outflow.

The customer deposit base represents a stable source of funding due to the number and diversity of depositors. Liquidity is managed through dealings in the money markets.

24. Derivative contracts

At 30 April 2003, the notional principal amounts and maturity profile of instruments held by the bank were as follows:

	One year or less US$000	*Total 2003 US$000*	*Total 2002 US$000*
Foreign exchange rate contracts	5,500	–	–

25. Assets and liabilities in foreign currencies

Currency risk disclosures

The Group's main overseas operations are in Mongolia. The main operating (or 'functional') currency of its operations is therefore Mongolian Togrog. As the currency in which the Group prepares its consolidated financial statements is US Dollars, it follows that the Group's consolidated balance sheet is affected by movements in the exchange rates between the functional currencies and US Dollar. These currency exposures are referred to as structural currency exposures. Translation gains and losses arising from these exposures are recognised in the statement of total recognised gains and losses.

The Group mitigates the effect of these exposures by financing a significant proportion of its net investment in its overseas operations with borrowings in the same currencies as the functional currency involved.

Notes to the consolidated financial statements
at 30 April 2003

25. Assets and liabilities in foreign currencies (continued)

The Group's main structural currency exposures as at 30 April 2003 was as follows:

Functional currency of the operation involved	*Net investments in overseas operations* *$000*
Mongolian Togrog	6,565

All other foreign currency exposures are immaterial.

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at 30 April 2003

26. Interest rate risk

The table below provides an indication of the re-pricing mismatch in TDB's non-trading book. Items are allocated to time bands by reference to the earlier of the next interest re-pricing date and the maturity date.

Interest rate risk profile as at 30 April 2003

	Within 3 months US$000	*3-6 months US$000*	*6-12 months US$000*	*1-5 years US$000*	*Over 5 years US$000*	*Non-interest bearing US$000*	*Total US$000*
Assets							
Cash and short term funds	256	–	–	–	–	22,448	22,704
Deposits and placements with other financial institutions	38,144	–	–	–	–	12	38,156
Accounts receivable	339	–	–	–	–	1,214	1,553
Investment in securities	9,298	1,185	820	100	11	86	11,500
Loans and advances	48,692	11,188	7,424	6,425	5,095	751	79,575
Intangible assets	–	–	–	–	–	4,055	4,055
Other assets	–	–	–	–	–	2,119	2,119
Tax receivable	760	–	–	–	–	–	760
Property, plant and equipment	–	–	–	–	–	7,051	7,051
Total assets	97,489	12,373	8,244	6,525	5,106	37,736	167,473
Liabilities and capital funds							
Deposits from customers	90,637	6,544	5,542	–	–	–	102,723
Deposits and placements of other financial institutions	3,264	–	–	–	–	–	3,264
Loans from foreign financial institutions	230	1,156	140	2,032	1,048	9	4,615
Shareholder funds	–	–	–	–	–	46,481	46,481
Other liabilities	–	–	–	–	–	10,390	10,390
Total liabilities	94,131	7,700	5,682	2,032	1,048	56,880	167,473

27. Ultimate holding company

The parent undertaking of the largest and smallest group of undertakings for which group financial statements are drawn up and of which the company is a member is Gerald Metals Inc., incorporated in the USA.

Copies of the financial statements of Gerald Metals Inc. may be requested in writing from Six High Ridge Park, Stamford, Connecticut, 06905, USA.