

1. CORPORATE INFORMATION

The Company and its subsidiaries are principally engaged in investment holding, the provision of mortgage finance and other related services and treasury investments.

In the opinion of the Directors, the ultimate holding company of the Company is Lippo Cayman Limited which is incorporated in the Cayman Islands.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the revaluation of certain investments as further explained below.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31st December, 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

(c) Subsidiaries

A subsidiary is a company other than a jointly controlled entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated in the Company's balance sheet at cost unless, in the opinion of the Directors, there have been diminutions in values, when they are written down to values determined by the Directors.

(d) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of that asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Fixed assets and depreciation *(continued)*

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Depreciation of fixed assets is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rate used for this purpose is $33\frac{1}{3}$ per cent.

(e) Investment securities

Investment securities are securities which are intended to be held for a continuing strategic or long term purpose. Investment securities are included in the balance sheet at cost less provisions for impairments in values deemed necessary by the Directors, other than those considered to be temporary in nature, on an individual investment basis. When such impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as determined by the Directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

(f) Other investments in securities

Other investments in securities are those securities which are not classified as investment securities nor as held-to-maturity securities, and are stated at fair value at the balance sheet date. Unrealised holding gains or losses arising on revaluation of securities to fair value are dealt with in the profit and loss account.

(g) Mortgage loans

Mortgage loans are reported on the balance sheet at the total of principal amount outstanding and accrued interest receivables net of provisions for doubtful debts.

(h) Provisions for doubtful debts

Provision is made for doubtful debts as and when they are so considered by the Directors. In addition, an amount has been set aside as a general provision. These provisions are deducted from "Mortgage loans" in the balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***(i) Recognition of revenue**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) interest income, in proportion to time, taking into account the principal outstanding and the effective interest rate applicable; and
- (ii) dealings in securities and disposals of investments, on the transaction dates when the relevant contract notes are exchanged.

(j) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

(k) Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

(l) Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

(m) Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

(n) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial or operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

3. TURNOVER

Turnover represents total interest income on mortgage loans and bank deposits after elimination of all significant intra-group transactions.

An analysis of the turnover of the Group is as follows:

	Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on mortgage loans	83,144	143,408
Interest on bank deposits	7,926	10,639
	91,070	154,047

4. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities is arrived at after crediting/(charging):

	Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Staff costs (including Directors' remuneration disclosed in <i>Note 5</i>)		
Wages and salaries	(5,464)	(4,509)
Retirement benefit costs – <i>Note 6</i>	(266)	(382)
Total staff costs	(5,730)	(4,891)
Depreciation	(299)	(403)
Auditors' remuneration	(150)	(321)
Operating lease rentals in respect of land and buildings	(636)	(1,008)
Provision for doubtful debts – <i>Note 14</i>		
– general	–	(5,679)
– specific	(10,000)	(4,321)
Exchange losses, net	(118)	–
Gain on disposal of other investments in securities	434	–
Dividend income from listed investments	11	–
Gain on disposal of fixed assets	–	35

5. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Directors' emoluments disclosed pursuant to Section 161 of the Companies Ordinance are as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Executive Directors:		
Directors' fees	130	119
Basic salaries, housing and other allowances and benefits in kind	1,495	1,734
Bonus paid and payable	425	75
	2,050	1,928
Non-executive Directors:		
Directors' fees	70	70
	2,120	1,998

The number of Directors whose emoluments fell within designated bands is as follows:

Emoluments bands (HK\$)	Group	
	2000	1999
	Number of Directors	Number of Directors
Nil – 1,000,000	13	9
1,000,001 – 1,500,000	–	1
1,500,001 – 2,000,000	1	–
	14	10

Emoluments paid to independent non-executive Directors amounted to HK\$70,000 (1999 – HK\$70,000) during the year.

There were no arrangements under which a Director waived or agreed to waive any emoluments.

5. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(continued)*

The five highest paid individuals included one Director (1999 – one), details of whose emoluments are set out above. The emoluments of the remaining four non-directors (1999 – four) disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited are analysed by amount and designated band as set out below.

	Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries, housing and other allowances and benefits in kind	1,235	1,229
Retirement benefit costs	128	184
	<u>1,363</u>	<u>1,413</u>

	Group	
	2000	1999
Emoluments band (HK\$)	Number of individuals	Number of individuals
Nil – 1,000,000	<u>4</u>	<u>4</u>

6. RETIREMENT BENEFIT COSTS

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the Scheme. The Scheme became effective from 1st December, 2000. Contributions are made based on a percentage of the employees' relevant income and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme except for the Group's employer voluntary contributions forfeited when the employees leave employment prior to fully vesting in such contributions, which can be used to reduce the amount of future employer contributions, in accordance with the rules of the Scheme.

Prior to the Scheme being effective, the Group operated a defined contribution retirement benefit scheme for those employees who were eligible to participate in the scheme. Employee contribution to this scheme is at a rate of 5 per cent. of basic salaries, while employer contribution is between 5 per cent. to 10 per cent. of basic salaries. Forfeited contributions (by employer in respect of employees who leave the scheme prior to fully vesting in such contribution) can be used to reduce the amount of future employer contribution. With effect from 1st December, 2000, this scheme was terminated.

6. RETIREMENT BENEFIT COSTS *(continued)*

Prior to 1st October, 2000, the Group operated a defined benefit retirement scheme which had been valued using the following principal assumptions: average annual investment return of 9 per cent. and average annual increase in salary of 8 per cent. The latest actuarial valuation (interim) was completed on 30th June, 1997 by Mr. Calvin Wu, Fellow member of the Society of Actuaries (USA), of HSBC Life (International) Limited using the Individual Entry Age Normal Cost Method. This actuarial valuation showed that the scheme's assets, which had a market value of approximately HK\$3,931,000 at 30th June, 1997, covered 144 per cent. of the benefits, allowing for future increases in earnings, which had accrued to members. It was considered that this level of funding was not excessively high. The contribution of the Group would, therefore, remain at 15 per cent. of members' earnings. This scheme was terminated on 30th September, 2000.

During the year, no forfeited voluntary contributions were utilised to reduce the amount of employer contributions (1999 – Nil). The amount of forfeited voluntary contributions available to offset future employer contributions to the Scheme was not material at the year end. The retirement benefit costs charged to the profit and loss account represent contributions paid and payable by the Group to the schemes and amounted to HK\$266,000 (1999 – HK\$382,000) in respect of the defined benefit retirement scheme which entirely consisted of regular costs and HK\$2,000 (1999 – Nil) in respect of the defined contribution scheme.

7. FINANCE COSTS

The balance represents interest on bank loans wholly repayable within five years of HK\$39,567,000 (1999 – HK\$77,442,000).

8. TAX

	Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax, net of rebate	–	8,762
Overprovision for prior year	–	(631)
Deferred tax written back	(386)	(827)
Tax charge/(credit) for the year	(386)	7,304

No provision for Hong Kong profits tax has been made as the Group had no assessable profits during the year. Hong Kong profits tax in prior year had been provided for at the rate of 16 per cent. on the estimated assessable profits arising in Hong Kong during that year.

8. TAX (continued)

As at 1st January, 2000, provision for deferred tax in respect of timing differences on financing expenses amounted to HK\$386,000 (1999 – HK\$1,213,000). As at 31st December, 2000, no provision for deferred tax was required because the net effect of timing differences was not material. Accordingly, the deferred tax liability brought forward from 1999 of HK\$386,000 (1999 – HK\$827,000) was credited to the consolidated profit and loss account.

9. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders includes the loss for the year dealt with in the financial statements of the Company amounting HK\$24,309,000 (1999 – profit of HK\$48,038,000).

10. DIVIDENDS

	Group and Company	
	2000	1999
	HK\$'000	HK\$'000
Interim: Nil (1999 – 3.5 cents) per share, paid	–	7,875
Final: 2 cents (1999 – 8 cents) per share, proposed	4,500	18,000
Special: 18 cents (1999 – Nil) per share, proposed	40,500	–
	45,000	25,875

11. EARNINGS/(LOSS) PER SHARE**(a) Basic earnings/(loss) per share**

Basic earnings/(loss) per share is calculated based on (i) the net loss from ordinary activities attributable to shareholders of HK\$24,313,000 (1999 – net profit of HK\$48,038,000); and (ii) the number of 225,000,000 shares (1999 – 225,000,000 shares) in issue during the year.

(b) Diluted earnings/(loss) per share

No diluted earnings/(loss) per share is presented for the years ended 31st December, 2000 and 1999 as there were no dilutive potential ordinary shares.

12. FIXED ASSETS

	Group and Company		
	Motor vehicle	Furniture and equipment	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:			
At 1st January, 2000	160	1,291	1,451
Additions during the year	–	205	205
Disposals during the year	(160)	(1,226)	(1,386)
At 31st December, 2000	–	270	270
Accumulated depreciation:			
At 1st January, 2000	53	744	797
Provision for the year	49	250	299
Disposals during the year	(102)	(838)	(940)
At 31st December, 2000	–	156	156
Net book value:			
At 31st December, 2000	–	114	114
At 31st December, 1999	107	547	654

13. MORTGAGE LOANS

	Group and Company	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total mortgage loan balances	39,534	1,159,836
<i>Less: Provision for doubtful debts – Note 14</i>		
– General	(1,157)	(16,122)
– Specific	–	(9,786)
Amounts due within one year classified as current assets	38,377	1,133,928
	(6,414)	(105,200)
Non-current portion	31,963	1,028,728

13. MORTGAGE LOANS *(continued)*

Included above are loans due from officers of the Company. Details of the loans disclosed pursuant to Section 161B of the Companies Ordinance are as follows:

(a) Name of borrower: Mr. Chan Wai Lam

Position: Director

Date granted	Balance outstanding			Terms of loan	
	As at 1.1.2000 HK\$'000	As at 31.12.2000 HK\$'000	Maximum outstanding during the year HK\$'000	Interest rate	Repayment
30.11.1998 (Staff Home Loan)	2,701	Nil	2,701	5% p.a.	15 years

Security for the loan up until the date of repayment was mortgage on principal residence.

Amount of interest due but unpaid at 31st December, 2000 – Nil (1999 – Nil).

Provision at 31st December, 2000 – Nil (1999 – Nil).

(b) Name of borrower: Mr. Jack Pang Kwong Shun

Position: EDP Manager

Date granted	Balance outstanding			Terms of loans	
	As at 1.1.2000 HK\$'000	As at 31.12.2000 HK\$'000	Maximum outstanding during the year HK\$'000	Interest rate	Repayment
30.11.1998 (Staff Home Loan)	931	Nil	931	5% p.a.	12 years
30.11.1998 (Normal Loan)	92	Nil	92	8.5% p.a.	3 years

Security for the loans up until the date of repayment was mortgage on principal residence.

Amount of interest due but unpaid at 31st December, 2000 – Nil (1999 – Nil).

Provision at 31st December, 2000 – Nil (1999 – Nil).

14. PROVISION FOR DOUBTFUL DEBTS

	Group and Company		
	Specific	General	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January, 1999	7,380	12,000	19,380
Recoveries of advances written-off in previous years	–	14	14
Charge to profit and loss account – <i>Note 4</i>	4,321	5,679	10,000
Transfer	1,571	(1,571)	–
Amounts written-off	(3,486)	–	(3,486)
At 31st December, 1999 and 1st January, 2000	9,786	16,122	25,908
Recoveries of advances written-off in previous years	–	63	63
Charge to profit and loss account – <i>Note 4</i>	10,000	–	10,000
Transfer	835	(835)	–
Amounts written-off	(14,255)	–	(14,255)
Disposals during the year	(6,366)	(14,193)	(20,559)
At 31st December, 2000	–	1,157	1,157

15. INVESTMENT SECURITIES

	Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted investment, at cost	<u>3,120</u>	–

16. OTHER INVESTMENTS IN SECURITIES

	Group and Company	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed equity investments in Hong Kong, at market value	<u>17,776</u>	–

17. DEBTORS, PREPAYMENTS AND DEPOSITS

Included in the balance of the Group was a payment of US\$3,000,000 (equivalent to approximately HK\$23,317,000) made to an asset management company and was managed by an investment advisor registered under the Securities Ordinance for setting up a discretionary investment account. As at the balance sheet date, no investment has been made by the asset management company.

18. SHARE CAPITAL

	Group and Company	
	2000	1999
	HK\$'000	HK\$'000
Authorised:		
300,000,000 shares of HK\$1.00 each	300,000	300,000
Issued and fully paid:		
225,000,000 shares of HK\$1.00 each	225,000	225,000

19. RESERVES

	Group Retained profits HK\$'000
At 1st January, 1999	76,676
Profit for the year	48,038
Dividends – <i>Note 10</i>	(25,875)
At 31st December, 1999 and 1st January, 2000	98,839
Loss for the year	(24,313)
Dividends – <i>Note 10</i>	(45,000)
At 31st December, 2000	<u>29,526</u>
	Company Retained profits HK\$'000
At 1st January, 1999	76,676
Profit for the year	48,038
Dividends – <i>Note 10</i>	(25,875)
At 31st December, 1999 and 1st January, 2000	98,839
Loss for the year	(24,309)
Dividends – <i>Note 10</i>	(45,000)
At 31st December, 2000	<u>29,530</u>

As at 31st December, 2000, the Company's reserves available for distribution, calculated in accordance with Section 79B of the Companies Ordinance, amounted to HK\$29,530,000 (1999 – HK\$98,839,000).

20. INTERESTS IN SUBSIDIARIES

	Company	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares, at cost	1	–
Due from subsidiaries	27,336	–
	27,337	–

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries as at 31st December, 2000 are as follows:

Name of company	Place of incorporation and operations	Issued and fully paid ordinary share capital	Percentage of equity attributable to the Company/Group		Principal activities
Sunshine Asia Limited	British Virgin Islands	US\$1	100	100	Securities investment
Galawin Limited	British Virgin Islands	US\$1	100	100	Securities investment

The above table includes the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of all subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

21. SYNDICATED BANK LOAN

The loan balance as at 31st December, 1999 carried interest at 1, 2 or 3 months Hong Kong Inter-bank Offered Rate plus 1.5 per cent. per annum and was secured by way of fixed charges on mortgage loans of HK\$1,029,156,000 as at 31st December, 1999 made by the Company. The loan was fully repaid during the year.

22. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) before tax to net cash inflow from operating activities

	Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(Loss) before tax	(24,699)	55,342
Gain on disposal of fixed assets	–	(35)
Interest expenses	39,567	77,442
Disposal of mortgage loan assets	945,455	–
Depreciation	299	403
Decrease in mortgage loans	150,096	166,159
Decrease/(Increase) in debtors, prepayments and deposits	(20,581)	3,966
Decrease in creditors and accruals	(1,069)	(989)
Increase in other investments in securities	(17,776)	–
Net cash inflow from operating activities	<u>1,071,292</u>	<u>302,288</u>

(b) Purchase of subsidiaries

	Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets acquired:		
Debtors, prepayments and deposits	<u>900</u>	–
Satisfied by:		
Cash	<u>900</u>	–
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>900</u>	–

The subsidiaries acquired during the year made no significant impact on the Group's cash flows, turnover and contribution.

22. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)***(c) Analysis of changes in financing**

	Group
	Bank loans
	<i>HK\$'000</i>
At 1st January, 1999	1,082,500
Net cash outflow from financing	(100,000)
At 31st December, 1999 and 1st January, 2000	982,500
Net cash outflow from financing	(982,500)
At 31st December, 2000	—

23. COMMITMENTS

	Group and Company	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
(a) Outstanding loan commitments to be advanced	—	7,280
(b) Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring within one year	—	636

24. CONNECTED AND RELATED PARTY TRANSACTIONS

Listed out below are connected transactions disclosed in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and related party transactions disclosed in accordance with the Statement of Standard Accounting Practice No. 2.120 "Related Party Disclosures".

- (a) (1) On 9th May, 2000, the following agreements were entered into by the Company:
- (i) an agreement made between (1) the Company and (2) The Hongkong Chinese Bank, Limited ("HKCB"), the then holding company of the Company, pursuant to which the Company disposed of certain mortgages to HKCB. The agreement was subsequently completed on 14th August, 2000; and

24. CONNECTED AND RELATED PARTY TRANSACTIONS *(continued)*

- (ii) an agreement made between (1) HKCB, (2) Lippo China Resources Limited (“LCR”), the intermediate holding company of each of the Company and HKCB, and (3) the Company, pursuant to which LCR acquired from HKCB the entire issued share capital of HKCB Corporation Limited (“HKCB Corporation”), the immediate holding company of the Company, for a total consideration of approximately HK\$176 million. The agreement was subsequently completed on 14th August, 2000. Immediately following the completion of the above agreement, the principal asset of HKCB Corporation was its interest in approximately 58.6 per cent. of the issued share capital of the Company.
- (2) Pursuant to the above agreements, mortgages with an aggregate principal amount before provisions of approximately HK\$966 million (after provisions of approximately HK\$945 million) were disposed of, resulting in a loss of approximately HK\$42 million as included in the consolidated profit and loss account of the Company.
- (b) On 9th June, 2000, the Company entered into a loan agreement with HKCB and other banks and financial institutions for a bridging loan facility for the purpose of financing the repayment of the syndicated bank loan, pursuant to which the Company paid to HKCB a total of HK\$10.7 million in respect of the interest and other charges on the bridging loan, which were determined by reference to the prevailing market lending rates. The loan was fully repaid on 14th August, 2000.
- (c) During the year and as at 31st December, 2000, the Group had cash balances with HKCB and received interests from HKCB. The Directors are of the opinion that these transactions were undertaken on terms similar to those offered to unrelated customers in the ordinary course of business of the relevant companies.
- (d) Subsequent to the balance sheet date, on 2nd March, 2001, a tenancy agreement was entered into between (1) Prime Power Investment Limited (“Prime Power”), a wholly-owned subsidiary of LCR, and (2) the Company, pursuant to which Prime Power agreed to let to the Company a portion of Room 2301, 23rd Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong with a net floor area of 2,321 square feet for a term of two years from 1st February, 2001 to 31st January, 2003, both days inclusive, at a monthly rental of HK\$107,927, exclusive of rates, service charges and all other outgoings, for office use. A deposit of one month’s rental was paid to Prime Power by the Company. The rental was determined by reference to open market rentals.

The transactions referred to in items (a), (b) and (c) above are related party transactions and those referred to in items (a), (c) and (d) above constitute connected transactions disclosed under the Listing Rules.

25. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 21st March, 2001.