

Notes to the Financial Statements

For the Year ended 31st December, 2000

6. Other expenses

	2000 HK\$'000	1999 HK\$'000
Unrealised loss on investments in securities	482,656	—
Loss on disposal of investments in securities	260,946	—
Provision for doubtful debts (note a)	57,382	194,863
Provision in respect of inventories	42,277	22,320
Impairment in value of goodwill (note b)	26,724	—
Provision for impairment in value of property, plant and equipment (note c)	—	114,887
Deficit arising on revaluation of investment properties	—	23,000
Provision for crystallisation of guarantee made (note d)	—	15,549
	869,985	370,619

Notes:

- (a) The provision for doubtful debts included an amount of RMB14,962,000 (equivalent to approximately HK\$14,116,000) (1999: RMB34,900,000 (equivalent to approximately HK\$32,138,000)) representing the provision in respect of the loan receivables from a former joint venture partner ("Chongqing Factory").

The loan receivables were previously the capital injected by the Group's subsidiary, China Tire e-commerce.com Limited ("China Tire"), into a joint venture in 1993 which Chongqing Factory and China Tire were the joint venture partners. Following the re-negotiation of the joint venture agreement with Chongqing Factory in 1995, the capital injection was treated as loan to Chongqing Factory.

In 1999, a provision of RMB34,900,000 (equivalent to approximately HK\$32,138,000) was made against the loan receivables following a judgment on the arbitration proceedings which brought against Chongqing Factory by China Tire approving the termination of the joint venture and the amount of damages of RMB15,162,000 (equivalent to approximately HK\$14,296,000) entitled by China Tire was obtained.

A further provision of RMB14,962,000 (equivalent to HK\$14,116,000) was made during the year in view of the uncertainty on the recoverability of the remaining loan receivables.

- (b) The amount represents provision for impairment in value of goodwill relating to the acquisition of an associate in prior years.
- (c) Since 1993, one of the Company's subsidiaries, Double Happiness Tyre Industries Corporation Limited ("DH") has undertaken the construction of a radial tire factory ("the Project"). In 1995, the Project was temporarily suspended and the total costs incurred for the Project up to 31st December, 2000 were approximately RMB257,844,000 (equivalent to approximately HK\$242,107,000). These costs have been included in construction in progress. Managements of DH and China Tire are in the process of formulating and compromising on a financing plan for the Project. A major re-assessment on the capacity and technical specifications for the facility was carried out in 1999 and an appraisal ("the Appraisal") of the replacement costs of the facilities was also conducted by a third party PRC asset appraiser based on an assumption that the construction of the Project will be resumed. In the absence of a definite financing plan, the directors of China Tire also performed an assessment ("the Assessment") of the value of the assets of the Project as of 31st December, 1999.

Based on the results of the Appraisal and the Assessment, an aggregate potential impairment loss provision was made to write down the carrying value of the assets of the Project by approximately RMB122,400,000 (equivalent to approximately HK\$114,887,000) during the year ended 31st December, 1999.

A further assessment ("Second Assessment") on the assets of the Project was performed and a valuation of the fair market value of the assets was conducted by American Appraisal Hongkong Limited, an independent firm of professional valuer. Based on the results of the Second Assessment, the directors considered no further provision is required for the carrying value of the assets of the Project.

Notes to the Financial Statements

For the Year ended 31st December, 2000

6. Other expenses (continued)

- (d) In December 1999, The Pacific Bank, N.A.. ("Pacific Bank") (now known as City National Bank) filed legal proceedings against Orion Tire, a subsidiary of China Tire, for violating the rules set forth in a loan agreement relating to a non-revolving trade finance facility of approximately US\$2,082,000 (equivalent to approximately HK\$15,549,000), and the formal demand for payment of the amount drawdown from such facility and accrued interest of approximately US\$2,085,000. In connection therewith, Pacific Bank also filed legal proceedings against China Tire in the capacity of the guarantor of such facility.

During the year ended 31st December, 2000, an agreed amount of US\$1,981,000 (equivalent to approximately HK\$15,451,000) was paid by China Tire to Pacific Bank as settlement of the amount due to Pacific Bank and the above legal case was settled.

7. Restructuring costs

Pursuant to a business restructuring exercise commenced in 1998, certain business or projects of the Group's former subsidiary, China Online, were disposed of or abandoned and certain operations were relocated outside Hong Kong. Property, plant and equipment and inventories relating to those business or operations could not be further used and employees could not be re-deployed. The analysis of the restructuring cost incurred is as follows:

	2000 HK\$'000	1999 HK\$'000
Provision for impairment in value of property, plant and equipment	—	13,607
Provision in respect of inventories	—	13,284
Redundancy and severance payment, net of forfeited pension scheme contribution	—	14,964
	—	41,855

8. (Loss) profit from operations

	2000 HK\$'000	1999 HK\$'000
(Loss) profit from operations has been arrived at after charging:		
Directors' remuneration: (note a)		
Fees	7,793	13,655
Other emoluments	2,800	8,639
Staff costs (note b)	343,004	266,167
	353,597	288,461
Auditors' remuneration		
Current year	5,908	5,719
(Over provision) Underprovision in prior year	(21)	517
Depreciation and amortisation of property, plant and equipment	110,944	154,766
Amortisation of intangible asset	448	—
Loss on disposal of property, plant and equipment	310	—
Rentals of premises under operating leases	10,091	30,910
and after crediting:		
Gain on disposal of property, plant and equipment	—	447
Net rental income in respect of premises after outgoings of HK\$36,000 (1999: HK\$5,000)	5,384	82

Notes to the Financial Statements

For the Year ended 31st December, 2000

8. (Loss) profit from operations (continued)

Included in staff costs is pension scheme contribution of approximately HK\$38,750,000 (1999: HK\$40,519,000).

Notes:

(a) Directors' Remuneration

	2000 HK\$'000	1999 HK\$'000
Fees		
– Executive directors	7,398	13,433
– Non-executive directors	50	139
– Independent non-executive directors	345	83
	7,793	13,655
Other emoluments		
– Executive directors		
Salaries and other benefits	2,800	3,639
Discretionary bonus	—	5,000
– Independent non-executive directors	—	—
	2,800	8,639
	10,593	22,294

The number of directors whose remuneration fall within the bands set out below is as follows:

HK\$	2000 Number of directors	1999 Number of directors
Nil to 1,000,000	10	5
1,000,001 to 1,500,000	1	—
1,500,001 to 2,000,000	1	2
3,500,001 to 4,000,000	—	1
7,000,001 to 8,000,000	1	—
15,000,001 to 16,000,000	—	1
	13	9

During the year, no emoluments were paid by the Group to any director as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Financial Statements

For the Year ended 31st December, 2000

8. (Loss) profit from operations (continued)

(b) Employees' Remuneration

The five highest paid individuals in the Group included three directors (1999: four directors) of the Company, details of whose remuneration are set out above. The aggregate remuneration of the remaining highest paid individuals, who are employees of the Group, is as follows:

	2000 HK\$'000	1999 HK\$'000
Remuneration, salaries and other benefits	2,948	1,608

HK\$	2000 Number of employees	1999 Number of employees
1,000,001 to 1,500,000	1	—
1,500,001 to 2,000,000	1	1
	2	1

9. Finance costs

	2000 HK\$'000	1999 HK\$'000
Interest on borrowings wholly repayable within five years:		
Bank borrowings	89,709	95,671
Other borrowings	51	1,143
	89,760	96,814
Interest on bank borrowings not wholly repayable within five years	26,728	1,576
	116,488	98,390
Less: Amount capitalised	(28,001)	(1,452)
	88,487	96,938

Notes to the Financial Statements

For the Year ended 31st December, 2000

10. Taxation

	2000 HK\$'000	1999 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Overprovision in prior years	(183)	(623)
	(183)	(623)
Taxation in other jurisdiction	6,791	7,998
	6,608	7,375
Taxation attributable to the Company and its subsidiaries	6,608	7,375
Share of tax credit of associates	—	(1,979)
	6,608	5,396

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. As the Company's PRC subsidiaries are Sino-foreign joint venture enterprises, they are eligible for certain tax holidays and concessions. Accordingly, certain of the PRC subsidiaries were exempted from PRC income tax or subject to tax at reduced rates. PRC income tax is calculated at the applicable rates relevant to the PRC subsidiaries.

Details of deferred taxation are set out in note 30.

11. Net (loss) profit for the year

Of the Group's net loss for the year of HK\$730,682,000 (1999: a profit of HK\$1,047,596,000), a loss of HK\$569,315,000 (1999: a profit of HK\$92,872,000) has been dealt with in the financial statements of the Company.

12. Dividend

	2000 HK\$'000	1999 HK\$'000
Proposed final dividend of HK\$Nil per share (1999: HK\$0.01 per share)	—	46,098

13. (Loss) earnings per share

The calculation of the basic (loss) earnings per share is based on the net loss for the year of HK\$730,682,000 (1999: a profit of HK\$1,047,596,000) and on the weighted average of 4,593,759,557 (1999: 4,478,053,804) ordinary shares in issue during the year.

No disclosure of the diluted loss per share has been calculated for the current year as the exercise of the share options would result in a decrease in loss per share.

The diluted earnings per share for 1999 was based on the net profit for the year of HK\$1,047,596,000 and on the adjusted weighted average of 4,490,004,858 shares in issue for the year, after adjustment for the effect of dilutive potential ordinary shares on unexercised share options.

Notes to the Financial Statements

For the Year ended 31st December, 2000

14. Investment properties

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
VALUATION		
At 1st January	51,954	19,400
Additions	—	74,954
Acquired on acquisition of subsidiaries	71,818	—
Eliminated on disposal of subsidiaries	(51,954)	(19,400)
Deficit arising on revaluation	—	(23,000)
At 31st December	71,818	51,954

The Group's investment properties were revalued at 31st December, 2000 by CB Richard Ellis Limited, an independent firm of professional property valuers, on an open market value basis.

The Group's investment properties are held for rental under operating leases.

The carrying value of the investment properties comprises:

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Properties held under medium-term leases in Hong Kong	14,500	—
Properties held under long-term land use right in the PRC	—	51,954
Properties held under medium-term land use right in the PRC	57,318	—
	71,818	51,954

Notes to the Financial Statements

For the Year ended 31st December, 2000

15. Property, plant and equipment

	Land and buildings	Furniture and fixtures	Machinery and equipment	Motor vehicles	Properties under construction	Toll highway	Construction in progress	Hotel property	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP									
COST OR VALUATION									
At 1st January, 2000	511,052	3,460	1,056,144	52,909	—	—	224,630	—	1,848,195
Currency realignment	1,901	—	4,188	198	—	—	918	—	7,205
Acquired on acquisition of subsidiaries/business	—	17,696	42,508	—	362,650	794,134	—	225,000	1,441,988
Additions	9,638	3,004	21,334	6,848	23,182	103,139	72,373	—	239,518
Transfer	28,041	—	62,781	2,483	—	—	(93,305)	—	—
Disposals	(4,926)	(4,381)	(30,087)	(10,613)	—	—	(3,508)	—	(53,515)
Disposal of subsidiaries	(60,310)	—	(83,487)	(7,314)	—	—	(4,202)	—	(155,313)
At 31st December, 2000	485,396	19,779	1,073,381	44,511	385,832	897,273	196,906	225,000	3,328,078
Comprising:									
At cost	485,396	19,779	1,073,381	44,511	385,832	897,273	196,906	—	3,103,078
At valuation	—	—	—	—	—	—	—	225,000	225,000
	485,396	19,779	1,073,381	44,511	385,832	897,273	196,906	225,000	3,328,078
DEPRECIATION AND AMORTISATION									
At 1st January, 2000	102,325	3,430	398,486	36,097	—	—	—	—	540,338
Currency realignment	410	4	1,588	137	—	—	—	—	2,139
Acquired on acquisition of subsidiaries/business	—	13,563	—	—	—	—	—	—	13,563
Provided for the year	23,241	948	79,831	6,924	—	—	—	—	110,944
Eliminated on disposals	(1,285)	(3,835)	(14,084)	(8,128)	—	—	—	—	(27,332)
Eliminated on disposal of subsidiaries	(8,920)	—	(33,610)	(3,631)	—	—	—	—	(46,161)
At 31st December, 2000	115,771	14,110	432,211	31,399	—	—	—	—	593,491
NET BOOK VALUES									
At 31st December, 2000	369,625	5,669	641,170	13,112	385,832	897,273	196,906	225,000	2,734,587
At 31st December, 1999	408,727	30	657,658	16,812	—	—	224,630	—	1,307,857

- (a) Toll highway represents the Group's interest in a toll highway under construction in Shenzhen ("Shenzhen Highway"). A subsidiary of the Company has been granted the right to operate and manage the Shenzhen Highway for a period of 20 years following the commencement of its operations.
- (b) The Group's hotel property were revalued at 31st December, 2000 by CB Richard Ellis Limited, an independent firm of professional property valuers, on an open market value basis.

The hotel property is situated in the PRC. The Group has been granted the right to operate and manage the hotel for a period from January 1987 to January 2017, and subject to certain conditions to be fulfilled, the operating period may be extended for a further 20 years.