

1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. Its subsidiaries and associates are principally engaged in investment holding, property investment and development, estate management, food businesses, fund management, underwriting, securities broking, securities trading and treasury investments and the provision of commercial banking, consumer finance, mortgage finance, insurance and other related financial services.

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 investment properties and certain fixed assets and equity 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. With the exception of the balances referred to in Note 35(a) to the financial statements, 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 impairments in values, when they are written down to values determined by the Directors.

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

(d) Associates

An associate is a company, not being a subsidiary or a jointly controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. All significant unrealised profits or losses on transactions with associates have been eliminated in proportion to the Group's attributable interest in associates. The Group's interests in associates are stated at cost less any provisions for impairments in values other than those considered to be temporary in nature deemed necessary by the Directors.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are stated in the Company's balance sheet at cost less any provisions for impairments in values other than those considered to be temporary in nature deemed necessary by the Directors.

(e) Jointly controlled entity

Joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Joint venture agreements which involve the establishment of separate entity in which the Group and other parties have an interest are referred to as jointly controlled entities.

The Group's share of the post-acquisition results of the jointly controlled entity is included in the consolidated profit and loss account. The Group's interests in a jointly controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for impairments in values other than those considered to be temporary in nature deemed necessary by the Directors.

(f) Capital reserve on consolidation

Capital reserve on consolidation of subsidiaries and on acquisition of associates represents the excess of the fair values ascribed to their underlying net assets at the dates of acquisition over the purchase considerations paid for such subsidiaries and associates.

Upon disposal of such subsidiaries or associates, the relevant portion of the attributable amount of capital reserve is released and accounted for in determining the gain or loss on disposal of the investments.

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

(g) Goodwill arising on consolidation

Goodwill arising on consolidation of subsidiaries and on acquisition of associates represents the excess of the purchase considerations paid for such subsidiaries and associates over the fair values ascribed to their underlying net assets at the dates of acquisition. Goodwill is eliminated against reserves in the year in which it arises.

Upon disposal of such subsidiaries or associates, the relevant portion of the attributable goodwill previously eliminated against reserves is realised and accounted for in determining the gain or loss on disposal of the investments.

(h) Fixed assets and depreciation

Fixed assets, other than investment properties, 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 situation 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.

The gain or loss on disposal or retirement of a fixed asset, other than investment properties, 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 rates used for this purpose are as follows:

Freehold land	Nil
Long term and medium term leasehold land	Over the remaining lease terms
Leasehold land and buildings	1% to 2%
Leasehold improvements	20%
Furniture, fixtures, plant and equipment	10% to 33 $\frac{1}{3}$ %
Motor vehicles	20%

When an asset is reclassified from investment properties to leasehold land and buildings or vice versa, the asset is stated at the carrying amount as at the date of reclassification and the revaluation reserve attributable to that asset is reclassified from the investment property revaluation reserve to the other asset revaluation reserve or vice versa, as the case may be. Depreciation of such reclassified fixed assets is calculated based on that carrying amount and the portion of the depreciation charge attributable to the related revaluation surplus is transferred from the other asset revaluation reserve to retained profits. On disposal or retirement, the attributable revaluation surplus not previously dealt with in retained profits is transferred directly to retained profits.

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

(i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential. Such properties are stated at their open market values on the basis of annual professional valuations and are not depreciated except where the unexpired terms of the leases are 20 years or less, in which case the then carrying amounts are amortised on the straight-line basis over the respective remaining lease terms. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

(j) Properties under development

Properties under development intended to be held as investment properties are stated at valuation on the basis of professional valuations. Properties under development intended for sale are stated at the lower of cost and net realisable value, which is determined by reference to prevailing market prices, on an individual property basis. Other properties under development are stated at cost unless, in the opinion of the Directors, there have been impairments in values, when they are written down to values determined by the Directors.

Changes in the values of properties under development which have been revalued are dealt with as movements in the other asset revaluation reserve. If this reserve is insufficient to cover a deficit, on an individual property basis, the excess of the deficit is charged to the profit and loss account.

Upon disposal of properties under development which have been revalued, the gain or loss on disposal is calculated by reference to the revalued amounts of the properties. The relevant portion of the other asset revaluation reserve realised in respect of previous valuations is released to retained profits.

(k) Capitalised borrowing costs

Interest incurred on borrowings to finance the construction and development of properties under development is capitalised and is included in the carrying value of these assets. Interest is capitalised at the interest rate applicable to specific development borrowings.

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

(l) Investment securities

Investment securities are investments in equity securities, debt securities and investment funds intended to be held for a continuing strategic or long term purpose and are stated at cost less any 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 estimated 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.

(m) Held-to-maturity securities

Held-to-maturity securities are investments in dated debt securities which the Group has the expressed intention and ability to hold to maturity, and are stated at cost adjusted for the amortisation of premiums or discounts arising on acquisition, less any provisions for impairments in values which reflect their credit risk.

(n) 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.

(o) Properties for sale

Properties for sale are stated at the lower of cost and net realisable value, which is determined by reference to prevailing market prices, on an individual property basis.

(p) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads whereas net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

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

(q) 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) rental income, in the period in which the properties are let and on the straight-line basis over the lease terms;
- (ii) income on the sale of completed properties, on the exchange of legally binding unconditional sales contracts;
- (iii) sales from food businesses, on despatch of goods to customers;
- (iv) dealings in securities and sale of investments, on the transaction dates when the relevant contract notes are exchanged;
- (v) interest income, in proportion to time, taking into account the principal outstanding and the effective interest rate applicable;
- (vi) dividend income, when the shareholders' right to receive payment is established; and
- (vii) commission income is accounted for, in the period when receivable, unless it is charged to cover the costs of a continuing service to, or risk borne for, customers, or is interest income in nature. In this case, the commission income is recognised on a pro-rata basis over the relevant period.

(r) 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.

(s) 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.

On consolidation, the financial statements of overseas subsidiaries and associates denominated in foreign currencies are translated at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange equalisation reserve.

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

(t) 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.

(u) 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.

(v) 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.

(w) Accounting for banking operations

Banking operations represent operations carried out through The HKCB Bank Holding Company Limited and its subsidiaries. The principal accounting policies which are specific to the banking operations are described below.

(i) Advances to customers, banks and other financial institutions

Advances to customers are reported in 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.

Provisions are made against specific loans and advances as and when they are considered necessary by the Directors. In addition, amounts have been set aside as general provision for doubtful debts. The specific element relates to individual accounts and is made taking into account the value of collaterals held, while the general element relates to other exposures not separately identified but known from experience to exist in any loan portfolio. When there is no longer any realistic prospect of recovery, the outstanding loan is written off.

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

(w) Accounting for banking operations *(continued)*

(ii) Finance leases and hire purchase contracts

The amounts due from customers in respect of finance leases and hire purchase contracts are included in the balance sheet at net investment which represents the total rentals receivable under finance leases and hire purchase contracts less unearned income. Finance income implicit in the rentals receivable is credited to the profit and loss account over the lease period so as to produce an approximately constant periodic rate of return on the net cash investment for each accounting period.

(iii) Off-balance sheet financial instruments

Off-balance sheet financial instruments arise from forward and swap transactions undertaken by the banking operations in the foreign exchange, interest rate and equity 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. 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 and losses on transactions which are marked to market are included under assets and liabilities respectively in the balance sheet.

3. TURNOVER

Turnover represents the aggregate of gross rental income, gross proceeds from sales of properties and investments, gross income from fund management, underwriting and securities broking, interest and dividend income, sales income from food businesses, gross premiums from insurance business and net interest income, commissions, dealing income and other revenues from a banking subsidiary, after elimination of all significant intra-group transactions.

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

	Group	
	2000	1999
	HK\$'000	HK\$'000
Sale of properties	320,623	351,342
Rental income	101,470	92,522
Sale of investments	75,380	198,268
Food businesses	524,468	651,425
Interest income	354,441	291,562
Fund management and securities broking	121,170	93,360
Banking businesses	544,153	452,097
Other	31,386	59,957
	2,073,091	2,190,533

Turnover attributable to banking businesses represents turnover generated from a banking subsidiary and is analysed as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Interest income	1,509,172	1,586,477
Interest expenses	(1,060,109)	(1,237,063)
Commission income	61,178	78,083
Commission expenses	(6,857)	(6,295)
Net dealing income and other revenues	40,769	30,895
	544,153	452,097

4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Group	
	2000	1999
	HK\$'000	HK\$'000
Gross rental income	101,470	92,522
Less: Outgoings	(20,019)	(15,656)
Net rental income	81,451	76,866
Staff costs – <i>Note (a)</i> :		
Wages and salaries	(365,499)	(329,635)
Retirement benefit costs	(17,116)	(16,472)
Less: Forfeited contributions	1,705	7,977
Net retirement benefit costs	(15,411)	(8,495)
Total staff costs	(380,910)	(338,130)
Interest income – <i>Note (b)</i>	97,854	101,853
Dividend income from listed investments	1,408	1,435
Net realised gain/(loss) on disposal of investment securities:		
Listed	–	16
Unlisted	–	(13,748)
Net unrealised holding loss on investment securities:		
Listed	(192,654)	(4,820)
Unlisted	(176,672)	(70,465)
Net realised and unrealised holding gain/(loss) on other investments in securities:		
Listed	37,854	30,926
Unlisted	(1,638)	9,801
Unrealised holding loss on listed held-to-maturity securities	(10,515)	(900)
Depreciation:		
Banking operations	(44,007)	(43,465)
Other	(32,611)	(45,326)
Loss on disposal of fixed assets:		
Banking operations	(1,652)	(3,039)
Other	(10,518)	(588)
Gain/(Loss) on sale of properties	(126,667)	58,639
Exchange gains/(losses) – net	(18,122)	2,269
Cost of inventories sold	(362,620)	(476,426)
Cost of properties for sale sold	(3,460)	(133,654)
Auditors' remuneration	(6,412)	(5,259)
Provisions for bad and doubtful debts relating to non-banking operations	(33,593)	(39,809)
Operating lease rentals in respect of land and buildings	(15,050)	(33,115)

4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES *(continued)*

Note:

- (a) The amounts include the Directors' emoluments disclosed in Note 5 to the financial statements.
- (b) The amount excludes that relating to banking operations of the Group.
- (c) Loss from operating activities for the year includes a loss on disposal of subsidiaries of HK\$40.6 million to an associate of a shareholder of an intermediate holding company of the Company.

5. DIRECTORS' 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	50	–
Basic salaries, housing and other allowances and benefits in kind	11,300	10,434
Bonuses paid and payable	5,720	943
	17,070	11,377
Non-executive Directors:		
Directors' fees	480	600
	17,550	11,977

5. DIRECTORS' EMOLUMENTS *(continued)*

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

Emoluments bands (HK\$)	Group	
	2000	1999
	Number of	Number of
	Directors	Directors
Nil – 1,000,000	6	9
1,000,001 – 1,500,000	–	3
1,500,001 – 2,000,000	2	1
2,000,001 – 2,500,000	1	–
3,000,001 – 3,500,000	1	–
4,500,001 – 5,000,000	–	1
8,000,001 – 8,500,000	1	–
	11	14

Emoluments paid to independent non-executive Directors amounted to HK\$450,000 (1999 – HK\$570,000) during the year.

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

6. SENIOR EXECUTIVES' EMOLUMENTS

The five highest paid individuals included two Directors (1999 – one), details of whose emoluments are set out in Note 5 to the financial statements. The emoluments of the remaining three 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 bands as set out below.

	Group	
	2000	1999
	HK\$'000	HK\$'000
Basic salaries, housing and other allowances		
and benefits in kind	14,997	12,714
Bonuses paid and payable	5,325	1,272
Retirement benefit costs	755	789
	21,077	14,775

	Group	
	2000	1999
Emoluments bands (HK\$)	Number of individuals	Number of individuals
2,500,001 – 3,000,000	–	1
4,000,001 – 4,500,000	–	3
4,500,001 – 5,000,000	1	–
5,000,001 – 5,500,000	1	–
10,500,001 – 11,000,000	1	–
	3	4

7. RETIREMENT BENEFIT COSTS

During the year, the Group operated several defined contribution schemes pursuant to the Occupational Retirement Schemes Ordinance (the “ORSO”). Some of these schemes were replaced by the Mandatory Provident Fund schemes (the “MPF schemes”) in December 2000 when the Mandatory Provident Funds Ordinance became effective. Some of these schemes are MPF exempted ORSO retirement benefit schemes (the “ORSO schemes”). The Group also operated a defined benefit scheme which was terminated during the year. The assets of these schemes are held separately from those of the Group in independently administered funds.

7. RETIREMENT BENEFIT COSTS *(continued)*

Contributions made to the MPF schemes are 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 schemes. The Group's employer contributions vest fully with the employees when contributed into the schemes 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 or to set off against future administration expenses, in accordance with the rules of the schemes. Prior to the MPF schemes becoming effective, the Group operated defined contribution retirement benefit schemes for those employees who were eligible to participate in the schemes. Employee contribution to these schemes was at a rate of 5 per cent. of basic salaries, while employer contribution was 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 contributions) could be used to reduce the amount of future employer contributions. With effect from 1st December, 2000, such schemes were terminated.

Employee contributions to the ORSO schemes are at the rate of 5 per cent. of basic salaries, while employer contributions are at rates of between 5 per cent. to 10 per cent. of basic salaries depending on the length of service of individual employee. Forfeited employer contributions (in respect of employees who leave the schemes prior to fully vesting in such contributions) can be used to reduce the amount of future employer contributions or, in one of the schemes, to set off against future administration expenses.

Prior to 1st October, 2000, the Group also 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 HK\$3,931,000 at 30th June, 1997, covered 144 per cent. of the benefits, allowing for future increase in earnings, which had accrued to members. It was considered that this level of funding was not excessively high. The contributions of the Group would, therefore, remain at 15 per cent. of members' earnings. This scheme was terminated on 30th September, 2000.

During the year, the amount of forfeited employer contributions under the ORSO schemes and the MPF schemes utilised to reduce the amount of employer contributions amounted to HK\$1,705,000 (1999 – HK\$7,977,000). The amounts of forfeited voluntary contributions available to offset future employer contributions to the above schemes were not material at the year end. The retirement benefit scheme costs charged to the profit and loss account represent contributions paid and payable by the Group to the schemes and amounted to HK\$15,145,000 (1999 – HK\$8,113,000) in respect of defined contribution schemes and HK\$266,000 (1999 – HK\$382,000) in respect of the defined benefit retirement scheme which entirely consisted of regular costs.

8. FINANCE COSTS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Interest on bank loans and other borrowing		
wholly repayable within five years	190,695	214,267
Interest on bank loans wholly repayable after five years	13,240	–
Less: Interest capitalised	(122)	(16,839)
	203,813	197,428

Note: The above amounts exclude interest expenses relating to a banking subsidiary of the Group.

9. TAX

	Group	
	2000	1999
	HK\$'000	HK\$'000
The Company and its subsidiaries:		
Provision for the year:		
Hong Kong	13,665	14,533
Overseas	7,938	15,831
	21,603	30,364
Under/(Over) provisions for prior years:		
Hong Kong	5,170	11,935
Overseas	(15,100)	(16,949)
	(9,930)	(5,014)
	11,673	25,350
Associates:		
Provision for the year:		
Hong Kong	–	20
Overseas	1,928	4,855
	1,928	4,875
Tax charge for the year	13,601	30,225

9. TAX (continued)

Hong Kong profits tax has been provided for at the rate of 16 per cent. (1999 – 16 per cent.) on the estimated assessable profits arising in Hong Kong for the year. Overseas tax has been calculated on the estimated assessable profits for the year at the tax rates prevailing in the countries in which the Group operates. No tax provision was required for the jointly controlled entity of the Group as it did not earn any assessable profit for the year (1999 – Nil).

No provision for deferred tax has been made because the net effect of timing differences is not material (1999 – Nil). As at 31st December, 2000, the Group had unrecognised deferred tax assets of HK\$72,391,000 (1999 – HK\$92,921,000) in respect of tax losses and unabsorbed capital allowances.

10. NET 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 to HK\$640,410,000 (1999 – HK\$340,871,000).

11. LOSS ACCUMULATED FOR THE YEAR

	Group	
	2000	1999
	HK\$'000	HK\$'000
Loss accumulated for the year by:		
The Company and its subsidiaries	635,630	256,365
Associates	693	42,693
	636,323	299,058

12. LOSS PER SHARE**(a) Basic loss per share**

Basic loss per share is calculated based on (i) the net loss from ordinary activities attributable to shareholders of HK\$636,323,000 (1999 – HK\$299,058,000); and (ii) the weighted average number of 6,636,843,000 shares (1999 – 4,598,588,000 shares) in issue during the year.

(b) Diluted loss per share

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

13. FIXED ASSETS

Group

	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Furniture, fixtures, plant and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:					
At 1st January, 2000	829,708	35,630	69,470	9,959	944,767
Additions during the year	20,998	27	23,275	753	45,053
Disposals during the year	(12,752)	(4,414)	(14,315)	(824)	(32,305)
Reclassification from properties under development – <i>Note 15</i>	3,205	–	–	–	3,205
Exchange adjustments	(5,684)	(67)	(2,786)	(122)	(8,659)
At 31st December, 2000	835,475	31,176	75,644	9,766	952,061
Accumulated depreciation:					
At 1st January, 2000	39,720	31,385	29,380	8,565	109,050
Provision for the year	17,627	1,129	13,579	276	32,611
Disposals during the year	(2,072)	(2,128)	(12,780)	(650)	(17,630)
Exchange adjustments	(1,496)	(67)	(1,399)	(45)	(3,007)
At 31st December, 2000	53,779	30,319	28,780	8,146	121,024
Net book value:					
At 31st December, 2000	781,696	857	46,864	1,620	831,037
At 31st December, 1999	789,988	4,245	40,090	1,394	835,717

13. FIXED ASSETS *(continued)***Company**

	Leasehold improve- ments <i>HK\$'000</i>	Furniture, fixtures, plant and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At 1st January, 2000	2,192	4,712	6,450	13,354
Addition during the year	27	–	–	27
At 31st December, 2000	2,219	4,712	6,450	13,381
Accumulated depreciation:				
At 1st January, 2000	2,192	4,712	6,450	13,354
Provision for the year	5	–	–	5
At 31st December, 2000	2,197	4,712	6,450	13,359
Net book value:				
At 31st December, 2000	22	–	–	22
At 31st December, 1999	–	–	–	–

The net book value of leasehold land and buildings comprises:

	Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Long term leasehold land and buildings situated in Hong Kong	676,711	691,114
Leasehold land and buildings situated outside Hong Kong:		
Freehold	–	1,749
Medium term	84,096	97,125
Long term	20,889	–
	104,985	98,874
Total	781,696	789,988

Certain leasehold land and buildings have been mortgaged to secure banking facilities made available to the Group as set out in Note 27 to the financial statements.

14. INVESTMENT PROPERTIES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Long term leasehold land and buildings situated in Hong Kong:		
Balance at beginning of the year	683,120	765,340
Reclassification from fixed assets	–	54,248
Disposals during the year	–	(163,854)
Surplus on revaluation	20,419	27,386
Balance at end of the year	703,539	683,120
Leasehold land and buildings situated outside Hong Kong:		
Balance at beginning of the year	1,470,420	395,419
Additions during the year	630	1,759
Reclassification from properties under development – Note 15	–	1,112,894
Disposal during the year	(314,958)	–
Deficit on revaluation	(48,150)	(37,874)
Exchange adjustments	(11,039)	(1,778)
Balance at end of the year	1,096,903	1,470,420
Total	1,800,442	2,153,540

The investment properties situated outside Hong Kong comprise the following:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Leasehold land and buildings:		
Long term	–	326,543
Medium term	1,096,903	1,143,877
	1,096,903	1,470,420

14. INVESTMENT PROPERTIES *(continued)*

Based on professional valuations as at 31st December, 2000 made by Mr. Jonathan Miles Foxall, chartered surveyor and a Director of certain subsidiaries of the Company, the investment properties in Hong Kong were valued on an open market, existing use basis at HK\$703,539,000.

Based on professional valuations as at 31st December, 2000 made by the Putian City Shen Xin Certified Public Accountants, RHL Appraisal Ltd. and DTZ Debenham Tie Leung International Property Advisers, the investment properties situated outside Hong Kong were valued on an open market, existing use basis at HK\$1,096,903,000.

The portion of the revaluation deficit attributable to the Group of HK\$28,745,000 (1999 – HK\$15,612,000) has been debited to the investment property revaluation reserve account as set out in Note 26 to the financial statements.

Certain investment properties have been mortgaged to secure banking facilities made available to the Group as set out in Note 27 to the financial statements.

15. PROPERTIES UNDER DEVELOPMENT

	Group	
	2000	1999
	HK\$'000	HK\$'000
Leasehold land and buildings situated outside Hong Kong, at cost:		
Balance at beginning of the year	157,500	1,297,563
Additions during the year	3,553	232,274
Reclassification to properties for sale	–	(109,670)
Reclassification to investment properties – <i>Note 14</i>	–	(1,284,894)
Reclassification to fixed assets – <i>Note 13</i>	(3,205)	–
Disposals during the year	(2,378)	–
Interest capitalised during the year	122	16,839
Exchange adjustments	307	5,388
Balance at end of the year	155,899	157,500
Provisions for impairments in values:		
Balance at beginning of the year	(75,437)	(172,000)
Reclassification to investment properties – <i>Note 14</i>	–	172,000
Provision for the year	(51,273)	(75,437)
Balance at end of the year	(126,710)	(75,437)
Total	29,189	82,063

The lease terms of the properties under development situated outside Hong Kong are determined by their final intended use upon completion and vary from 40 to 70 years.

16. INTERESTS IN ASSOCIATES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Share of net assets in unlisted companies	354,613	374,765
Due from associates	350,137	397,732
Due to associates	(2,020)	(30,976)
	702,730	741,521
Provisions for impairments in values	(50,008)	(16,008)
	652,722	725,513
Share of post-acquisition deficits at the balance sheet date	(181,149)	(172,911)

The share of post-acquisition deficits represents that portion attributable to the Group before minority interests therein.

	Company	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares, at cost	1	300
Due from associates	46,909	79,182
	46,910	79,482

The balances with the associates are unsecured, interest-free and have no fixed terms of repayment except a loan of HK\$22 million included in the balance of the year 1999 due to an associate carrying interest at Hong Kong Dollar prime rate plus 2 per cent. per annum.

Details of the principal associates are set out on pages 92 to 93.

17. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	Group	
	2000	1999
	HK\$'000	HK\$'000
Share of net assets in an unlisted company	1	1
Due from a jointly controlled entity	124,709	177,861
	124,710	177,862
Provisions for impairments in values	(66,938)	(36,163)
	57,772	141,699

The amount due from the jointly controlled entity is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the jointly controlled entity as at 31st December, 2000 are as follows:

Name	Form of business structure	Place of incorporation and operations	Percentage of equity interest attributable to the Group	Principal activity
Cenford Investments Limited	Corporate	Hong Kong	50	Property development

At the balance sheet date, contingencies incurred by the Group in relation to, and its share of capital commitments of, the jointly controlled entity are set out in Notes 32 and 33 to the financial statements, respectively.

18. INVESTMENT SECURITIES

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities, at cost:				
Listed in Hong Kong	45,633	45,633	–	–
Listed outside Hong Kong	1,280,414	1,280,414	4,441	4,441
Unlisted	615,697	474,557	–	–
	1,941,744	1,800,604	4,441	4,441
Provisions for impairments in values	(1,639,266)	(1,274,175)	(3,525)	(3,086)
	302,478	526,429	916	1,355
Unlisted debt securities, at fair value	373,451	7,809	373,451	7,809
Unlisted investment funds, at cost	123,958	124,094	–	–
Provisions for impairments in values	(54,571)	(54,243)	–	–
	69,387	69,851	–	–
Total	745,316	604,089	374,367	9,164
Market value of listed investments at the balance sheet date	36,644	145,636	916	2,989

19. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS

Due to the dissimilar nature of banking and non-banking operations, assets less liabilities attributable to banking operations are shown separately in the consolidated financial statements. The financial information in respect of banking operations shown below is based on the audited consolidated financial statements of The HKCB Bank Holding Company Limited ("HKCB Holding"), a subsidiary of the Company, for the year ended 31st December, 2000.

		Group	
		2000	1999
	Note	HK\$'000	HK\$'000
Cash and short-term funds	(a)	8,739,852	9,040,125
Placements with banks and other financial institutions maturing between one and twelve months		783,432	1,203,362
Certificates of deposit held		606,512	620,288
Other investments in securities	(b)	235,035	288,976
Advances, trade bills and other accounts	(c)	13,257,183	13,406,779
Held-to-maturity securities	(d)	295,395	567,257
Investment securities	(e)	24,943	33,091
Interests in associates		55,515	195,950
Fixed assets		1,298,146	1,301,081
		25,296,013	26,656,909
Deposits and balances of banks and other financial institutions		(324,336)	(129,897)
Loan from a financial institution		(45,000)	–
Syndicated loan from financial institutions		–	(982,500)
Current, fixed, savings and other deposits of customers		(18,438,392)	(18,490,530)
Certificates of deposit issued		(1,048,890)	(1,463,926)
Other accounts and provisions		(876,621)	(1,117,018)
Subordinated floating rate notes issued	(f)	(231,716)	(294,489)
		(20,964,955)	(22,478,360)
		4,331,058	4,178,549

19. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS *(continued)**Note:***(a) Cash and short-term funds**

	Group	
	2000	1999
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	204,544	926,573
Money at call and short notice	7,881,709	6,874,602
Treasury bills	653,599	1,238,950
	8,739,852	9,040,125

(b) Other investments in securities

	Group	
	2000	1999
	HK\$'000	HK\$'000
Debt securities:		
Listed, at market value	18,386	14,106
Unlisted, at fair value	15,801	38,302
	34,187	52,408
Equity securities:		
Listed, at market value	41,930	9,487
Unlisted, at fair value	123,720	125,388
	165,650	134,875
Investment funds, at fair value	35,198	101,693
	235,035	288,976

(c) Advances, trade bills and other accounts

	Group	
	2000	1999
	HK\$'000	HK\$'000
Advances to customers	13,248,632	13,521,878
Advances to banks and other financial institutions	16,707	21,311
Trade bills	151,736	122,415
Other accounts	217,355	216,718
Accrued interest	133,986	232,068
Provisions for bad and doubtful debts	(511,233)	(707,611)
	13,257,183	13,406,779

19. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS *(continued)***(c) Advances, trade bills and other accounts** *(continued)*

Included in advances to customers are assets leased under finance leases and hire purchase contracts having the characteristics of finance leases. The amount of such advances involved is as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Finance leases	268,092	–
Hire purchase contracts	1,097,793	997,852
	1,365,885	997,852

As at 31st December, 2000, the aggregate rentals receivable in respect of finance leases and hire purchase contracts, including capital repayments, amounted to HK\$2,188,866,000 (1999 – HK\$2,059,559,000).

The cost of assets acquired during the year for letting to customers under finance leases and hire purchase contracts amounted to HK\$302,231,000 (1999 – HK\$78,136,000).

Non-performing loans, which represent the gross amount of advances, net of suspended interest, on which interest has been placed in suspense or on which interest has ceased to be accrued, are as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Non-performing loans:		
Gross advances	1,204,109	2,194,275
Less: Specific provisions	(277,348)	(438,878)
	926,761	1,755,397

	Group	
	2000	1999
	HK\$'000	HK\$'000
Secured non-performing loans	694,877	1,406,892
Unsecured non-performing loans	509,232	787,383
	1,204,109	2,194,275
Market value of collateral held	733,555	1,478,461

19. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS *(continued)***(d) Held-to-maturity securities**

	Group	
	2000	1999
	HK\$'000	HK\$'000
Debt securities, at amortised cost:		
Listed	186,970	121,757
Unlisted	140,433	458,826
	327,403	580,583
Less: Provisions for impairments in values	(32,008)	(13,326)
	295,395	567,257
Market value of listed debt securities	158,604	87,001
An analysis of the issuers of the held-to-maturity securities is as follows:		
Central governments and central banks	110,760	319,326
Banks and other financial institutions	7,741	7,742
Corporate entities	207,245	253,515
Others	1,657	–
	327,403	580,583

(e) Investment securities

	Group	
	2000	1999
	HK\$'000	HK\$'000
Unlisted debt securities, at cost	10,690	10,690
Unlisted equity securities, at cost	14,253	22,401
	24,943	33,091
An analysis of the issuers of the investment securities is as follows:		
Club debentures	10,690	10,690
Others	14,253	22,401
	24,943	33,091

19. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS *(continued)*

- (f) In 1997, The Hongkong Chinese Bank, Limited (“HKCB”), a wholly-owned subsidiary of HKCB Holding, issued unsecured subordinated floating rate notes (the “Notes”) amounting to US\$70 million which were recognised by the Hong Kong Monetary Authority (“HKMA”) as supplementary capital for the purpose of calculating the capital adequacy ratio. The Notes are listed on the Luxembourg Stock Exchange, wholly repayable in March 2007 and carry interest at London Interbank Offered Rate (“LIBOR”) plus 1.375 per cent. per annum up to March 2002 and at LIBOR plus 3 per cent. per annum thereafter. HKCB is entitled to redeem the principal amount of the Notes on any interest payment date and the holders of the Notes are entitled to require HKCB to redeem the principal amount of the Notes upon occurrence of certain events relating to changes in the shareholding structure of HKCB. Redemptions of the Notes are subject to the prior approval of the HKMA.

As at 1st January, 2000, the outstanding amount of the Notes amounted to US\$38 million (equivalent to approximately HK\$294,489,000). During the year, HKCB repurchased US\$8.1 million of the Notes, resulting in a gain of HK\$7,870,000 which has been included in the profit and loss account. As at 31st December, 2000, the outstanding amount of the Notes amounted to US\$29.9 million (equivalent to approximately HK\$231,716,000).

- (g) **Supplementary information on banking operations included in the consolidated profit and loss account**

	Group	
	2000	1999
	HK\$'000	HK\$'000
Interest income	1,765,759	1,800,931
Interest expenses	(1,119,261)	(1,326,292)
Net gain on foreign exchange trading	14,381	11,410
Realised and unrealised gains on other investments in securities	70,067	19,709
Net loss from other dealing activities	(1,961)	(581)
Charge for bad and doubtful debts	(261,693)	(291,139)
Net profit on disposal of investment securities	–	215
Provisions (made)/written back on held-to-maturity securities	(18,654)	4,651

- (h) **Total operating income by division**

	Group	
	2000	1999
	Percentage	Percentage
Commercial and retail banking	40.0	54.7
Treasury and investment activities	29.6	34.3
Corporate finance and securities brokerage	7.3	8.4
Other businesses	23.1	2.6
	100.0	100.0

19. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS *(continued)*

(i) Maturity profile of major assets and liabilities

Group

	Repayable on demand <i>HK\$'000</i>	3 months or less <i>HK\$'000</i>	1 year or less but over 3 months <i>HK\$'000</i>	5 years or less but over 1 year <i>HK\$'000</i>	After 5 years <i>HK\$'000</i>	Undated <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31st December, 2000:							
Assets							
Treasury bills (including Exchange Fund Bills)	99,697	99,032	454,870	-	-	-	653,599
Cash and other short-term funds	204,544	7,881,709	-	-	-	-	8,086,253
Placements with banks and other financial institutions maturing between one and twelve months	-	783,432	-	-	-	-	783,432
Certificates of deposit held	-	105,980	385,997	114,535	-	-	606,512
Debt securities:							
Other investments in securities	-	8,013	-	39	-	26,135	34,187
Held-to-maturity securities	-	27,119	86,251	171,463	11,602	30,968	327,403
Investment securities	-	-	-	-	-	10,690	10,690
Advances to customers	1,352,049	1,244,653	932,805	2,939,414	5,310,346	1,469,365	13,248,632
Advances to banks and other financial institutions	8,128	-	-	8,579	-	-	16,707
	1,664,418	10,149,938	1,859,923	3,234,030	5,321,948	1,537,158	23,767,415
Liabilities							
Deposits and balances of							
banks and other financial institutions	236,492	85,504	2,340	-	-	-	324,336
Loan from a financial institution	-	45,000	-	-	-	-	45,000
Current, fixed, savings and other deposits of customers	1,565,663	14,909,844	1,962,795	90	-	-	18,438,392
Certificates of deposit issued	-	-	619,901	428,989	-	-	1,048,890
Subordinated floating rate notes issued	-	-	-	-	231,716	-	231,716
	1,802,155	15,040,348	2,585,036	429,079	231,716	-	20,088,334

19. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS *(continued)***(i) Maturity profile of major assets and liabilities** *(continued)***Group**

	Repayable on demand <i>HK\$'000</i>	3 months or less <i>HK\$'000</i>	1 year or less but over 3 months <i>HK\$'000</i>	5 years or less but over 1 year <i>HK\$'000</i>	After 5 years <i>HK\$'000</i>	Undated <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31st December, 1999:							
Assets							
Treasury bills (including Exchange Fund Bills)	–	997,279	241,671	–	–	–	1,238,950
Cash and other short-term funds	926,573	6,874,602	–	–	–	–	7,801,175
Placements with banks and other financial institutions maturing between one and twelve months	–	1,203,362	–	–	–	–	1,203,362
Certificates of deposit held	–	153,822	346,869	119,597	–	–	620,288
Debt securities:							
Other investments in securities	–	30,530	–	–	–	21,878	52,408
Held-to-maturity securities	–	260,475	166,100	126,936	11,602	15,470	580,583
Investment securities	–	–	–	–	–	10,690	10,690
Advances to customers	1,987,084	1,077,287	989,110	2,439,095	4,501,384	2,527,918	13,521,878
Advances to banks and other financial institutions	8,099	–	13,212	–	–	–	21,311
	2,921,756	10,597,357	1,756,962	2,685,628	4,512,986	2,575,956	25,050,645
Liabilities							
Deposits and balances of banks and other financial institutions	48,190	81,707	–	–	–	–	129,897
Syndicated loan from financial institutions	–	–	982,500	–	–	–	982,500
Current, fixed, savings and other deposits of customers	1,221,203	16,341,626	921,741	5,960	–	–	18,490,530
Certificates of deposit issued	–	150,000	1,313,926	–	–	–	1,463,926
Subordinated floating rate notes issued	–	–	–	–	294,489	–	294,489
	1,269,393	16,573,333	3,218,167	5,960	294,489	–	21,361,342

- (j) Further details of the related off-balance sheet exposures are disclosed in Note 32(b) to the financial statements.

20. PROPERTIES FOR SALE

The properties for sale in the prior year were carried at cost at the balance sheet date. No carrying amount of properties for sale in the prior year was carried at net realisable value.

21. INVENTORIES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Raw materials	346	3,228
Finished goods and goods held for resale	43,514	51,771
	43,860	54,999

The carrying amount of inventories included in the above that is carried at net realisable value amounted to HK\$1,980,000 (1999 – HK\$4,861,000).

22. HELD-TO-MATURITY SECURITIES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Overseas securities, at amortised cost:		
Listed	16,333	24,656
Unlisted	351,327	172,876
	367,660	197,532
Provisions for impairments in values	(10,515)	(900)
	357,145	196,632
Market value of listed securities	8,021	13,368

23. OTHER INVESTMENTS IN SECURITIES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Listed equity securities, at market value:		
Hong Kong	31,205	87,515
Overseas	34,639	4,405
	65,844	91,920

24. DEBTORS, PREPAYMENTS AND DEPOSITS

Included in the balances are trade debtors with ageing analysis as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Outstanding balances with ages:		
Within 30 days	53,978	64,699
Between 31 and 60 days	46,604	49,863
Between 61 and 90 days	28,012	28,002
Between 91 and 180 days	8,816	16,767
Between 181 and 360 days	45	246
Over 360 days	1,365	1,031
	138,820	160,608

Trading terms with customers are either on cash basis or on credit. For those customers who trade on credit, invoices are normally payable within 30-60 days of issuance. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.

25. SHARE CAPITAL**Shares**

	Group and Company	
	2000	1999
	HK\$'000	HK\$'000
Authorised:		
28,000,000,000 (1999 – 28,000,000,000)		
shares of HK\$0.10 each	2,800,000	2,800,000
Issued and fully paid:		
9,201,088,716 (1999 – 6,134,011,144)		
shares of HK\$0.10 each	920,109	613,401

25. SHARE CAPITAL *(continued)*

During the year, the following movements in share capital were recorded:

- (a) A rights issue of one rights share for every two shares held by the then existing shareholders of the Company on 9th October, 2000 (the “Rights Issue”) was made at an issue price of HK\$0.16 per rights share, resulting in the issue of 3,067,029,572 shares of HK\$0.10 each on 2nd November, 2000 for a total consideration, before expenses, of HK\$490,725,000, of which HK\$114,089,000 was received in cash and HK\$376,636,000 was set-off against and deducted from the amounts due under the loan note issued by the Company to Lippo Limited, an intermediate holding company of the Company.
- (b) Warrants carrying an aggregate subscription value of approximately HK\$17,000 were exercised, resulting in the issue of 48,000 new shares of HK\$0.10 each.

A summary of the transactions during the year with reference to the above movements of the Company’s share capital is as follows:

	Number of shares issued	
	<i>’000</i>	<i>HK\$’000</i>
Balance at beginning of the year	6,134,011	613,401
Rights issue (a)	3,067,030	306,703
Exercise of warrants (b)	48	5
Balance at end of the year	<u>9,201,089</u>	<u>920,109</u>

Share options

Pursuant to the Share Option Scheme for Employees of the Company (the “Scheme”) approved and adopted by the shareholders of the Company on 2nd May, 1994, the Directors of the Company may, at their discretion, grant to any employees (including Directors) of the Group options to subscribe for shares in the Company.

As at 1st January, 2000, certain Directors and employees of the Group held a total of 7,000,000 share options under the Scheme. The holder of each option was then entitled to subscribe for four shares of HK\$0.10 each in the Company on or before 23rd June, 2007 at an exercise price of HK\$1.325 per share (subject to adjustment). Due to the Rights Issue, the holder of each option became entitled to subscribe for six shares of HK\$0.10 each in the Company at an exercise price of HK\$0.883 per share (subject to adjustment). During the year, 1,200,000 share options were cancelled and no share options were exercised. The exercise in full of the remaining 5,800,000 share options would, under the capital structure of the Company as at 31st December, 2000, result in the issue of 34,800,000 shares of HK\$0.10 each in the Company and cash proceeds, before expenses, of approximately HK\$30,728,000.

25. SHARE CAPITAL *(continued)***Warrants**

On 20th July, 1999, the Company issued 1,226,798,498 units new warrants with an aggregate subscription value of approximately HK\$429,380,000 pursuant to the rights issue of shares in 1999 in the proportion of two warrants for every five rights shares taken up. The warrants entitle the registered holders to subscribe in cash for up to 1,226,798,498 new shares of HK\$0.10 each in the Company at an initial subscription price of HK\$0.35 per share (subject to adjustment). The warrants are exercisable at any time within a period of three years commencing on and including 23rd July, 1999.

As at 1st January, 2000, there were outstanding warrants in an aggregate subscription value of approximately HK\$429,373,000. During the year, warrants carrying an aggregate subscription value of approximately HK\$17,000 were exercised, resulting in the issue of 48,000 new shares of HK\$0.10 each in the Company. Due to the Rights Issue, the exercise price of the warrants was adjusted to HK\$0.32 per share (subject to adjustment). The exercise in full of the remaining warrants with an aggregate subscription value of approximately HK\$429,356,000 would, under the capital structure of the Company as at 31st December, 2000, result in the issue of 1,341,737,956 shares of HK\$0.10 each in the Company.

26. RESERVES

Group

	Share premium HK\$'000	Capital reserve HK\$'000	Special capital reserve HK\$'000	Investment property revaluation reserve HK\$'000	Other asset revaluation reserve HK\$'000	Exchange equalisation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 1999	–	(51,139)	281,187	54,061	389,399	(129,166)	2,312,912	2,857,254
Rights issue of shares	613,399	–	–	–	–	–	–	613,399
Share issue expenses	(8,450)	–	–	–	–	–	–	(8,450)
Exercise of warrants	5	–	–	–	–	–	–	5
Share capital reduction	–	–	1,226,799	–	–	–	–	1,226,799
Goodwill arising on acquisition of a subsidiary	–	(195)	–	–	–	–	–	(195)
Goodwill arising on acquisition of an associate	–	(2,561)	–	–	–	–	–	(2,561)
Share of exchange deficit of an associate	–	–	–	–	–	(1,567)	–	(1,567)
Released on disposal of associates	–	1,436	–	–	–	–	–	1,436
Reserves (other than retained profits) attributable to banking operations	–	245	–	4,588	–	204	–	5,037
Reclassification of leasehold properties to investment properties	–	–	–	161	(161)	–	–	–
Revaluation deficit on investment properties – <i>Note 14</i>	–	–	–	(15,612)	–	–	–	(15,612)
Released on disposal of investment properties	–	(673)	–	(14,955)	–	–	–	(15,628)
Transfer of portion of depreciation charge on leasehold properties attributable to the related revaluation surplus to retained profits	–	–	–	–	(8,020)	–	8,020	–
Exchange difference on consolidation	–	–	–	–	–	(6,294)	–	(6,294)
Loss for the year	–	–	–	–	–	–	(299,058)	(299,058)
At 31st December, 1999	604,954	(52,887)	1,507,986	28,243	381,218	(136,823)	2,021,874	4,354,565

26. RESERVES (continued)**Group (continued)**

			Investment					
	Share	Capital	Special	property	Other asset	Exchange	Retained	Total
	premium	reserve	capital	revaluation	revaluation	equalisation	profits	
	HK\$'000	HK\$'000	reserve	reserve	reserve	reserve	HK\$'000	HK\$'000
At 1st January, 2000	604,954	(52,887)	1,507,986	28,243	381,218	(136,823)	2,021,874	4,354,565
Rights issue of shares	184,022	-	-	-	-	-	-	184,022
Share issue expenses	(3,731)	-	-	-	-	-	-	(3,731)
Exercise of warrants	12	-	-	-	-	-	-	12
Goodwill arising on increase in interests in subsidiaries	-	(13,391)	-	-	-	-	-	(13,391)
Released on disposal of subsidiaries	-	62,803	-	-	-	-	-	62,803
Released on dilution of shareholding in a listed subsidiary	-	2,024	-	-	-	15	-	2,039
Reserves (other than retained profits) attributable to banking operations	-	(20,372)	-	(662)	-	(234)	-	(21,268)
Revaluation deficit on investment properties - Note 14	-	-	-	(28,745)	-	-	-	(28,745)
Released on disposal of investment properties	-	-	-	13,274	-	22,733	-	36,007
Released on disposal of fixed assets	-	-	-	-	-	688	-	688
Transfer of portion of depreciation charge on leasehold properties attributable to the related revaluation surplus to retained profits	-	-	-	-	(7,994)	-	7,994	-
Exchange difference on consolidation	-	-	-	-	-	(36,124)	-	(36,124)
Loss for the year	-	-	-	-	-	-	(636,323)	(636,323)
At 31st December, 2000	785,257	(21,823)	1,507,986	12,110	373,224	(149,745)	1,393,545	3,900,554

26. RESERVES *(continued)*

Pursuant to a special resolution passed at an extraordinary general meeting of the Company on 2nd December, 1997 and the confirmation by the court on 22nd December, 1997, the entire amount standing to the credit of the share premium account of the Company in the amount of HK\$849,149,000 was cancelled on 23rd December, 1997 (the “Cancellation”).

The credit arising from the Cancellation was transferred to a special capital reserve account. A summary of the terms of the undertaking given by the Company (the “Undertaking”) in respect of the application of the special capital reserve is set out below:

- (1) The reserve is to be used for eliminating goodwill which has already arisen on the acquisition of subsidiaries and associates at the date of the Cancellation and that arising as a result of future acquisitions.
- (2) The reserve (a) shall not be treated as realised profits and (b) shall be treated as an undistributable reserve for so long as there shall remain any outstanding debts or claims which were in existence on the date of the Cancellation provided that:
 - (i) the Company shall be at liberty to apply the reserve for the same purposes as a share premium account may be applied; and
 - (ii) the amount of the reserve may be reduced by the amount of any future increase in the share capital and the share premium account. Any part of the reserve so reduced is released from the terms of the Undertaking and the Company may apply that part so released as a distributable reserve.

Pursuant to a special resolution passed at an extraordinary general meeting of the Company on 23rd December, 1998 and the confirmation by the court on 26th January, 1999, the issued and fully paid-up share capital of the Company was reduced from approximately HK\$1,533,498,000 divided into 3,066,996,246 shares of HK\$0.50 each to approximately HK\$306,700,000 divided into 3,066,996,246 shares of HK\$0.10 each and an amount standing to the credit of the share capital account of the Company of approximately HK\$1,226,799,000 was cancelled and transferred to a special capital reserve account, the application of which is subject to the same conditions as specified in (2)(a) and (2)(b)(ii) of the terms of the above Undertaking.

As at 1st January, 2000, the balance of the special capital reserve subject to the Undertaking amounted to HK\$596,330,000. During the year, the restricted amount was reduced by the subsequent increase in share capital and share premium in a total of HK\$485,136,000 as resulted from the rights issue of shares and exercise of warrants. As at 31st December, 2000, the balance of special capital reserve subject to the Undertaking amounted to HK\$111,194,000.

The other asset revaluation reserve comprises revaluation surplus in respect of leasehold land and buildings which were reclassified from investment properties.

In the opinion of the Directors, the realisation of any revaluation surplus arising on the disposal of the Group’s investment properties and leasehold properties would not result in any material tax liability and, consequently, the amount of potential deferred tax thereon had not been quantified.

26. RESERVES (*continued*)**Company**

	Share premium HK\$'000	Special capital reserve HK\$'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 1999	–	849,149	705	2,006,220	2,856,074
Rights issue of shares	613,399	–	–	–	613,399
Share issue expenses	(8,450)	–	–	–	(8,450)
Exercise of warrants	5	–	–	–	5
Share capital reduction	–	1,226,799	–	–	1,226,799
Loss for the year – <i>Note 10</i>	–	–	–	(340,871)	(340,871)
At 31st December, 1999 and 1st January, 2000	604,954	2,075,948	705	1,665,349	4,346,956
Rights issue of shares	184,022	–	–	–	184,022
Share issue expenses	(5,606)	–	–	–	(5,606)
Exercise of warrants	12	–	–	–	12
Loss for the year – <i>Note 10</i>	–	–	–	(640,410)	(640,410)
At 31st December, 2000	<u>783,382</u>	<u>2,075,948</u>	<u>705</u>	<u>1,024,939</u>	<u>3,884,974</u>

At 31st December, 2000, the Company's reserves available for distribution, calculated in accordance with Section 79B of the Companies Ordinance, amounted to HK\$1,024,939,000 (1999 – HK\$1,665,349,000) and other distributable reserve as arisen from the release of the Undertaking amounted to HK\$1,396,792,000 (1999 – HK\$911,656,000).

27. BANK LOANS AND OTHER BORROWING

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans, secured (<i>Note</i>)	1,157,169	928,387	629,380	214,000
Other borrowing, secured (<i>Note</i>)	–	220,000	–	220,000
	1,157,169	1,148,387	629,380	434,000
Portion due within one year included under current liabilities	(285,225)	(595,317)	(126,400)	(372,000)
Long term portion	871,944	553,070	502,980	62,000
The maturity of other borrowing is as follows:				
Within one year	–	220,000	–	220,000
The maturities of bank loans are as follows:				
Within one year	285,225	375,317	126,400	152,000
In the second year	297,357	328,994	294,980	40,000
In the third to fifth years, inclusive	348,395	224,076	208,000	22,000
After five years	226,192	–	–	–
	1,157,169	1,148,387	629,380	434,000

Note: The bank loans are secured by shares in certain subsidiaries of the Group, first legal mortgages over certain investment properties and leasehold land and buildings of the Group. Other borrowing in the prior year was secured by first legal mortgages over certain investment properties and leasehold land and buildings of the Group.

28. LOAN NOTE

As at 1st January 2000, the Company had an outstanding loan note of HK\$520,000,000 (“Loan Note”) due to Lippo Limited (“Lippo”), an intermediate holding company of the Company. The Loan Note is repayable immediately upon Lippo’s issuing a written notice of not less than 10 days, interest-bearing at Hong Kong Dollar prime rate and the interest thereon is payable monthly.

During the year, the Company redeemed HK\$410,000,000 of the Loan Note, of which HK\$35,000,000 was settled by cash and the remaining balance of HK\$375,000,000 together with part of the interest accrued thereon of HK\$2,050,000 was applied by Lippo to offset its obligation to the Company in respect of the subscription under the Rights Issue as referred to in Note 25 to the financial statements by Skyscraper Realty Limited (“Skyscraper”), an immediate holding company of the Company and a wholly-owned subsidiary of Lippo. Subsequently, the Company issued 2,353,974,653 shares of HK\$0.10 each in the Company at HK\$0.16 per share under the set-off arrangement of the Rights Issue, and refunded approximately HK\$414,000 as excess application money, to Skyscraper.

As at 31st December, 2000, after the above redemption, the Company had an outstanding Loan Note of HK\$110,000,000.

29. CREDITORS, ACCRUALS AND DEPOSITS RECEIVED

Included in the balances are trade creditors with ageing analysis as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Outstanding balances with ages:		
Within 30 days	30,573	38,752
Between 31 and 60 days	23,053	24,736
Between 61 and 90 days	7,409	16,085
Between 91 and 180 days	11,147	11,671
Over 360 days	–	434
	72,182	91,678

30. INTERESTS IN SUBSIDIARIES

	Company	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares, at cost	1,966,933	1,966,933
Due from subsidiaries	6,521,646	5,681,554
Due to subsidiaries	(2,189,512)	(1,518,394)
	6,299,067	6,130,093
Provisions for impairments in values	(1,393,692)	(793,692)
	4,905,375	5,336,401

The balances with subsidiaries are unsecured and have no fixed terms of repayment. Certain balances bear interest at rates reflecting the respective costs of funds within the Group.

Details of the principal subsidiaries are set out on pages 82 to 91.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before tax to net cash outflow from operating activities

	Group	
	2000	1999
	HK\$'000	HK\$'000
Loss before tax	(448,486)	(220,265)
Share of results of associates	(1,235)	37,818
Loss/(Gain) on disposal of:		
Fixed assets	10,518	588
Investment properties	127,724	(53,660)
Investment securities	–	13,947
Associates	–	209
Subsidiaries	40,559	(4,930)
Properties under development	(1,103)	–
Loss on dilution of shareholding in a listed subsidiary	7,877	–
Provisions for impairments in values:		
Properties under development	51,273	75,437
Investment securities	365,419	75,285
Jointly controlled entity	30,775	36,163
Associates	34,000	15,615
Interest expenses	144,661	104,383
Interest income	(97,854)	(101,853)
Dividend income	(925)	(1,231)
Depreciation	32,611	45,326
Decrease in properties for sale	4,063	133,750
Decrease/(Increase) in inventories	11,139	(6,832)
Decrease/(Increase) in other investments in securities	26,076	(76,732)
Increase in held-to-maturity securities	(160,513)	(94,847)
Decrease/(Increase) in loans and advances	29,622	(11,204)
Decrease/(Increase) in debtors, prepayments and deposits	69,728	(52,012)
Increase/(Decrease) in creditors, accruals and deposits received	77,739	(79,129)
	353,668	(164,174)
Profit attributable to banking operations	(394,577)	(51,497)
Net cash outflow from operating activities	(40,909)	(215,671)

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)***(b) Banking operations**

As set out in Note 19 to the financial statements, due to the dissimilar nature of banking and non-banking operations, assets less liabilities attributable to banking operations are shown separately. Accordingly, details of the cash flows in respect of the banking operations are not disclosed in the cash flow statement of the Group. Details of the significant cash flows between the banking operations and the other Group companies are set out below:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Dividend received from banking operations	13,903	–
Receipt on disposal of loans and advances to banking operations	103,739	–
Payment to purchase subsidiaries from banking operations - <i>Note 31(d)</i>	(21,848)	–
Repayment from/(Advances to) banking operations	1,626	(19,523)
	97,420	(19,523)

(c) Disposal of subsidiaries

	Group	
	2000	1999
	HK\$'000	HK\$'000
Net assets disposed of:		
Fixed assets	3,077	–
Cash and bank balances	43,716	–
Loans and advances	143,011	–
Other net current assets/(liabilities)	(82,048)	13,239
Minority interests	–	(4,921)
	107,756	8,318
Gain/(Loss) on disposal	(40,559)	4,930
Release of goodwill on disposal	62,803	–
	130,000	13,248

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)***(c) Disposal of subsidiaries** *(continued)*

The analysis of net inflow of cash and cash equivalents in respect of the disposal is as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Cash consideration received	130,000	13,248
Cash and bank balances disposed of	(43,716)	–
Net inflow of cash and cash equivalents	86,284	13,248

The subsidiaries disposed of during the year contributed HK\$9,802,000 (1999 – HK\$2,001,000) to the Group's net operating cash flows.

(d) Purchase of subsidiaries

	Group	
	2000	1999
	HK\$'000	HK\$'000
Net assets acquired:		
Fixed assets	466	723
Cash and bank balances	154,394	4,870
Loans and advances	162,755	–
Other net current liabilities	(15,732)	(4,366)
Minority interests	(15,094)	–
Minority interests transferred from banking operations	(109,916)	–
	176,873	1,227
Goodwill/(Capital reserve) on acquisition	(631)	195
Share of goodwill by minority interests	–	495
Cash consideration paid	176,242	1,917

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)***(d) Purchase of subsidiaries** *(continued)*

The analysis of net inflow/(outflow) of cash and cash equivalents in respect of the acquisition is as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Cash consideration paid	(176,242)	(1,917)
Cash and bank balances acquired	154,394	4,870
Net inflow/(outflow) of cash and cash equivalents	(21,848)	2,953

The subsidiaries acquired during the year contributed to the Group HK\$101,760,000 (1999 – Nil) in respect of investing activities and utilized HK\$38,645,000 (1999 – Nil) of the Group's net operating cash flows.

(e) Analysis of changes in financing**Group**

	Share capital (including share premium account)	Loans	Convertible notes	Loan note	Minority interests
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 1999	1,533,498	1,019,729	1,460,000	–	3,858,807
Net cash inflow/(outflow) from financing	397,551	127,753	(427,000)	–	25,155
Offset upon rights issue of shares against:					
Principal of convertible notes	513,000	–	(513,000)	–	–
Interest on convertible notes	1,105	–	–	–	–
Transfer	–	–	(520,000)	520,000	–
Share capital reduction	(1,226,799)	–	–	–	–
Share of results for the year	–	–	–	–	48,568
Share of investment property revaluation reserve	–	–	–	–	5,124
Share of exchange equalisation reserve	–	–	–	–	(3,968)
Share of dividends	–	–	–	–	(11,552)
Share of goodwill on acquisition of a subsidiary	–	–	–	–	(495)
Disposal of a subsidiary	–	–	–	–	(4,921)
Share of reserves (other than retained profits) of banking operations	–	–	–	–	12,038
Exchange realignments	–	905	–	–	–
At 31st December, 1999	1,218,355	1,148,387	–	520,000	3,928,756

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)***(e) Analysis of changes in financing** *(continued)***Group**

	Share capital (including share premium account) HK\$'000	Loans HK\$'000	Convertible notes HK\$'000	Loan note HK\$'000	Minority interests HK\$'000
At 1st January, 2000	1,218,355	1,148,387	–	520,000	3,928,756
Net cash inflow/(outflow) from financing	109,961	6,961	–	(35,000)	(6,047)
Offset upon rights issue of shares against:					
Principal of loan note	375,000	–	–	(375,000)	–
Interest on loan note	2,050	–	–	–	–
Share of results for the year	–	–	–	–	174,236
Share of investment property revaluation reserve	–	–	–	–	1,014
Released of revaluation reserve on disposal of investment properties	–	–	–	–	33,631
Released of exchange equalisation reserve on disposal of:					
Investment properties	–	–	–	–	57,596
Fixed assets	–	–	–	–	1,753
Share of exchange equalisation reserve	–	–	–	–	(37,601)
Share of dividends	–	–	–	–	(71,946)
Share of reserves (other than retained profits) of banking operations	–	–	–	–	(51,101)
Shareholder's loan interest written off	–	–	–	–	(42,584)
Share of increase in interests in subsidiaries	–	–	–	–	(37,095)
Acquisition of subsidiaries	–	–	–	–	15,094
Dilution of shareholding in a listed subsidiary	–	–	–	–	13,593
Exchange realignments	–	1,821	–	–	–
At 31st December, 2000	1,705,366	1,157,169	–	110,000	3,979,299

32. CONTINGENT LIABILITIES

At the balance sheet date, the Group and the Company had the following contingent liabilities:

(a) Guarantees in respect of banking facilities

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees provided in respect of banking facilities granted to:				
Subsidiaries	–	–	98,267	573,908
An associate	60,000	–	60,000	–
A jointly controlled entity	–	193,000	–	193,000
Investee companies	602,925	602,915	602,925	602,915
	662,925	795,915	761,192	1,369,823

(b) Details of off-balance sheet exposures related to banking operations

(i) Contingent liabilities and commitments

Summary of the contract amounts of each significant class of contingent liabilities and commitments as at 31st December:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Direct credit substitutes	40,003	147,381
Transaction-related contingencies	33,903	24,502
Trade-related contingencies	214,997	253,423
Forward asset purchases	31,000	–
Forward forward deposits	983,758	–
Sale and repurchase agreements	–	40,992
Other commitments with an original maturity of:		
Under one year or which are unconditionally cancellable	2,809,127	3,227,693
One year and over	20,398	–
	4,133,186	3,693,991

32. CONTINGENT LIABILITIES *(continued)***(b) Details of off-balance sheet exposures related to banking operations** *(continued)**(ii) Derivatives*

The following is a summary of the aggregate notional contract amounts of each significant type of derivatives at 31st December:

	Trading		Group Hedging		Total	
	2000	1999	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts:						
Forward contracts	179,451	142,619	–	–	179,451	142,619
Currency swaps	35,097	77,032	30,885	69,635	65,982	146,667
Interest rate contracts:						
Interest rate swaps	–	–	120,194	69,946	120,194	69,946
	214,548	219,651	151,079	139,581	365,627	359,232

At 31st December, the contract/notional amounts, credit risk weighted amounts, and replacement costs of the above off-balance sheet exposures were as follows:

	Group					
	Contract/ notional amount 2000 HK\$'000	Credit risk weighted amount 2000 HK\$'000	Replace- ment cost 2000 HK\$'000	Contract/ notional amount 1999 HK\$'000	Credit risk weighted amount 1999 HK\$'000	Replace- ment cost 1999 HK\$'000
Contingent liabilities and commitments	4,133,186	259,254	N/A	3,693,991	157,323	N/A
Derivatives:						
Exchange rate contracts	245,433	1,766	5,149	289,286	849	378
Interest rate contracts	120,194	1,217	2,509	69,946	647	2,235
	4,498,813	262,237	7,658	4,053,223	158,819	2,613

33. COMMITMENTS

At the balance sheet date, the Group had the following commitments:

	Group	
	2000	1999
	HK\$'000	HK\$'000
(a) Capital commitments in respect of property, plant and equipment		
Contracted, but not provided for	32,163	24,275
Authorised, but not contracted for	23,090	37,600
	55,253	61,875
Other capital commitments		
Contracted, but not provided for	22,618	–
	77,871	61,875
(b) Share of capital commitments of a jointly controlled entity in respect of property, plant and equipment:		
Contracted, but not provided for	12,867	46,547
(c) Annual commitments payable in the following year under non-cancellable operating leases on land and buildings expiring:		
Within one year	7,505	6,417
In the second to fifth years, inclusive	19,910	15,107
Over five years	20,451	–
	47,866	21,524

The Company did not have any material commitments as at the balance sheet date (1999 – Nil).

34. LOANS TO OFFICERS

The aggregate amounts in respect of advances made by The Hongkong Chinese Bank, Limited to officers disclosed pursuant to Section 161B(4C) of the Companies Ordinance are as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Balance outstanding as at 31st December	3,004	4,116
Maximum balances outstanding during the year	8,481	7,823

35. CONNECTED AND RELATED PARTY TRANSACTIONS

Listed out below are connected transactions disclosed in accordance with the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and related party transactions disclosed in accordance with the Statement of Standard Accounting Practice No. 2.120 “Related Party Disclosures” (“SSAP 20”).

- (a) As at 31st December, 2000, the Group had the following balances with The HKCB Bank Holding Company Limited (“HKCB Holding”), a subsidiary of the Company, and its subsidiaries, which have not been eliminated on consolidation:

	Group	
	2000	1999
	HK\$'000	HK\$'000

Included under the following item as referred to
in Note 19 to the financial statements:

Current, fixed, savings and other deposits of customers	233,976	242,166
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As at 31st December, 2000, connected parties of the Group, including holding companies, fellow subsidiaries and a substantial shareholder of a subsidiary of the Company and their related companies, had the following balances with HKCB Holding and its subsidiaries:

	Group	
	2000	1999
	HK\$'000	HK\$'000

Included under the following item as referred to
in Note 19 to the financial statements:

Current, fixed, savings and other deposits of customers	4,908,320	4,648,512
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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.

As at 31st December, 2000, the Group had balances with its associates and a jointly controlled entity, further details of which are set out in Notes 16 and 17 to the financial statements, respectively.

- (b) During the year, the Group received rental income amounting to HK\$4,920,000 (1999 – HK\$4,920,000) from Lippo Limited (“Lippo”), an intermediate holding company of the Company. The rental was determined by reference to open market rentals.

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

- (c) During the year, the Group paid to Lippo interest of HK\$40,709,000 (1999 – HK\$23,197,000). The interest was paid on the Loan Note due to Lippo as referred to in Note 28 to the financial statements. The interest rate was determined by reference to the then market lending rates.
- (d) (1) On 9th May, 2000, the following agreements were entered into:
- (i) an agreement made between (1) The Hong Kong Building and Loan Agency Limited (“HKBLA”), the then subsidiary of The Hongkong Chinese Bank, Limited (“HKCB”) which in turn is a subsidiary of HKCB Holding, and (2) HKCB, pursuant to which HKBLA disposed of certain mortgages to HKCB. The agreement was subsequently completed on 14th August, 2000; and
 - (ii) an agreement made between (1) HKCB, (2) the Company and (3) HKBLA (the “Share Acquisition Agreement”), pursuant to which the Company acquired from HKCB the entire issued share capital of HKCB Corporation Limited (“HKCB Corporation”), the immediate holding company of HKBLA, for a total consideration of approximately HK\$176.2 million. The Share Acquisition Agreement was subsequently completed on 14th August, 2000. Immediately following the completion of the Share Acquisition Agreement, the principal asset of HKCB Corporation was its interest in approximately 58.6 per cent. of the issued share capital of HKBLA.
- (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.
- (e) Following the completion of the Share Acquisition Agreement as referred to in item (d)(1)(ii) above, HKCB Corporation made an unconditional cash offer (the “Offer”) for all the issued shares of HK\$1.00 each in HKBLA (the “HKBLA Shares”) in accordance with the Hong Kong Code on Takeovers and Mergers. Of the HKBLA Shares assented to the Offer, 17,818,400 HKBLA Shares were from China Resources (Holdings) Company Limited (“CRH”) and its nominee. CRH is the holding company of China Resources Enterprise, Limited, a substantial shareholder of Lippo CRE (Financial Services) Limited which in turn is a 50 per cent. owned subsidiary of the Company. A total payment of approximately HK\$23,796,000 (based on the offer price of HK\$1.337 per HKBLA Share and after netting off stamp duty) was made to CRH and its nominee pursuant to the Offer.

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

- (f) On 6th July, 2000, an underwriting agreement was entered into by, inter alia, Lippo Securities Limited (“Lippo Securities”), a wholly-owned subsidiary of HKCB Holding, in relation to the listing of the shares of AcrossAsia Multimedia Limited (“AAM”), an indirect subsidiary of Lippo Cayman Limited (“Lippo Cayman”) which in turn is the ultimate holding company of the Company, by way of a placing (the “Placing”) on the Growth Enterprise Market of the Stock Exchange. Pursuant to the aforesaid underwriting agreement, Lippo Securities had underwritten not more than 22 per cent. of the number of shares in AAM placed pursuant to the Placing being 180,000,000 new shares of AAM and received underwriting and selling commissions in a total of HK\$7,055,000. The commission income was determined on normal commercial terms.
- (g) During the year, Lippo Development Limited (“LDL”), a wholly-owned subsidiary of the Company, advanced a total amount of HK\$71,400,000 (1999 – HK\$10,400,000) to Tung Chung Station Development Company Limited (“TCSD”) in the form of shareholder’s loan in proportion to LDL’s interest in TCSD for its working capital purposes. The shareholder’s loan is unsecured, carries interest at a rate of 2 per cent. per annum over Hong Kong Interbank Offered Rate and has no fixed terms of repayment.

Napoleon Pte Ltd (“Napoleon”) has a 30 per cent. interest in the issued share capital of TCSD. Napoleon is a wholly-owned subsidiary of Hong Leong Holdings Limited which in turn is a fellow subsidiary of a substantial shareholder of a subsidiary of the Company.

- (h) Subsequent to the balance sheet date, the following tenancy agreements were entered into:
- (i) On 2nd March, 2001, a tenancy agreement was entered into between (1) Superform Investment Limited (“Superform”), a wholly-owned subsidiary of the Company, and (2) Lippo, pursuant to which Superform agreed to let to Lippo a portion of 24th Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong with a net floor area of 7,720 square feet for a period of two years from 1st January, 2001 to 31st December, 2002, both dates inclusive, at a monthly rental of HK\$351,260, exclusive of rates, service charges and all other outgoings, for office use. A deposit of one month’s rental was paid to Superform by Lippo. The rental was determined by reference to open market rentals.
- (ii) On 2nd March, 2001, a tenancy agreement was entered into between (1) Prime Power Investment Limited (“Prime Power”), a wholly-owned subsidiary of the Company, and (2) Lippo Securities Holdings Limited (“Lippo Securities Holdings”), an indirect wholly-owned subsidiary of HKCB Holding, pursuant to which Prime Power agreed to let to Lippo Securities Holdings of Rooms 2302-2306, 23rd Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong with a net floor area of 8,427 square feet for a period of two years from 18th January, 2001 to 17th January, 2003, both dates inclusive, with an option to renew for a further term of two years, at a monthly rental of HK\$383,429, 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 Lippo Securities Holdings. The rental was determined by reference to open market rentals.

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

- (iii) On 2nd March, 2001, a tenancy agreement was entered into between (1) Prime Power and (2) HKBLA, a subsidiary of the Company, pursuant to which Prime Power agreed to let to HKBLA 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 period of two years from 1st February, 2001 to 31st January, 2003, both dates 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 HKBLA. The rental was determined by reference to open market rentals.

The transactions referred to in items (a), (b), (c) and (f) above are related party transactions disclosed under SSAP 20 and those referred to in items (a), (b), (d), (e), (f), (g) and (h) above constitute connected transactions disclosed under the Listing Rules.

In respect of the above transactions, the relationships between the Company, Lippo, HKCB Holding, HKBLA and AAM, all of which are publicly listed companies in Hong Kong and the ultimate holding company of which is Lippo Cayman, are defined, and the Directors' interests therein are separately reported.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 10th April, 2001.