

Notes to the Financial Statements

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, food businesses, fund management, underwriting, insurance, corporate finance, securities broking, securities investment, treasury investment and money lending. During the year, its subsidiaries and associates were also engaged in the provision of commercial and retail banking 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. DISCONTINUING OPERATIONS

Subsequent to the balance sheet date, the Group disposed of its entire interest in The Hongkong Chinese Bank, Limited ('HKCB'), a banking subsidiary of the Company, to an independent third party with details of the disposal set out in Note 41(a) to the financial statements. HKCB is principally engaged in the businesses of commercial and retail banking and other related financial services. The operations carried out by HKCB was disclosed as discontinuing operations in the financial statements.

Discontinuing operations related to the banking businesses segment were predominantly located in Hong Kong. Details of turnover of the discontinuing operations are set out in Note 6 to the financial statements.

3. IMPACT OF NEW/REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued or revised SSAPs are effective for the first time for the current year's financial statements:

SSAP 9 (Revised)	:	"Events after the balance sheet date"
SSAP 14 (Revised)	:	"Leases"
SSAP 18 (Revised)	:	"Revenue"
SSAP 26	:	"Segment reporting"
SSAP 28	:	"Provisions, contingent liabilities and contingent assets"
SSAP 29	:	"Intangible assets"
SSAP 30	:	"Business combinations"
SSAP 31	:	"Impairment of assets"
SSAP 32	:	"Consolidated financial statements and accounting for investments in subsidiaries"

Notes to the Financial Statements

3. IMPACT OF NEW/REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) *(continued)*

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements, are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend, which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet. This change in accounting policy has been made retrospectively and, accordingly, a portion of the final dividend and special dividend, as the case may be, proposed by certain subsidiaries of the Company for the year ended 31st December, 2000 attributable to minority interests was no longer recognised in the Group's financial statements. Accordingly, as at 31st December, 2000, the assets less liabilities attributable to banking operations and minority interests were increased by HK\$34,819,000 and HK\$56,704,000 respectively, and the creditors, accruals and deposits received were reduced by HK\$21,885,000.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. The disclosure requirements under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are set out in Notes 23(c) and 37, respectively, to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in Note 5 to the financial statements.

SSAP 30 prescribes the accounting treatment for business combinations. Goodwill/Negative goodwill arising on acquisition of subsidiaries and associates was previously eliminated against consolidated reserves and realised and released to the consolidated profit and loss account upon disposal of such subsidiaries or associates.

Following the adoption of SSAP 30, goodwill is capitalised as an asset and amortised over its estimated useful life not exceeding 20 years. Negative goodwill is presented in the consolidated balance sheet as a deduction from assets in the same consolidated balance sheet classification as goodwill and recognised as income by reference to any identifiable future losses and expenses and/or the fair values of the identifiable non-monetary assets acquired. The Group has adopted the transitional provision as permitted under SSAP 30 not to restate any goodwill/negative goodwill arisen in periods prior to 1st January, 2001. However, any impairment losses in respect of such goodwill are recognised retrospectively in the period when such impairment loss occurred in accordance with the requirements of SSAP 31.

Notes to the Financial Statements

3. IMPACT OF NEW/REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) *(continued)*

SSAP 31 prescribes the procedures that an enterprise applies to ensure that its assets are carried at no more than their recoverable amounts. SSAP 31 also specifies when an enterprise should reverse an impairment loss and prescribes certain disclosures for impaired assets.

Following the adoption of SSAP 31, impairment losses of goodwill totalling HK\$38,473,000 were quantified and recognised retrospectively in periods prior to 1st January, 2000, comprising HK\$31,291,000 and HK\$7,182,000 in respect of goodwill arising on acquisition of subsidiaries and associates, respectively. Accordingly, capital reserve as at 1st January, 2000 was restated and increased by HK\$38,473,000 with retained earnings restated and decreased by the same amount. For the year ended 31st December, 2000, impairment losses totalling HK\$7,760,000 were quantified and recognised retrospectively in the consolidated profit and loss account. Accordingly, loss from ordinary activities for that year and capital reserve were restated and increased by the same amount. Therefore, capital reserve as at 1st January, 2001 was restated and increased by HK\$46,233,000 with retained earnings restated and decreased by the same amount. Details of these adjustments are set out in Note 31 to the financial statements.

4. 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 requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement 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, 2001. 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 40(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 less any impairment losses.

Notes to the Financial Statements

4. 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 interests in associates. The Group's interests in associates are stated at cost less any impairment losses.

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 impairment losses.

(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 impairment losses.

(f) Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised over its estimated useful life of not exceeding 20 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset in the consolidated balance sheet.

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1st January, 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

Notes to the Financial Statements

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

(f) Goodwill *(continued)*

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

(g) Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

In prior years, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits negative goodwill on acquisitions which occurred prior to 1st January, 2001, to remain credited to the capital reserve. Negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.

Notes to the Financial Statements

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

(g) Negative goodwill *(continued)*

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

(h) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(i) Fixed assets and depreciation

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

Notes to the Financial Statements

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

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

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% to 30%

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.

(j) 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.

Notes to the Financial Statements

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

(j) Investment properties *(continued)*

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.

(k) Properties under development

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 less any impairment losses.

(l) 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 rates applicable to specific development borrowings.

(m) Investment securities

Investment securities are investments in equity securities, debt securities and investment funds which are intended to be held on a continuing strategic or long term purpose. Investment securities are included in the balance sheet at cost less any impairment losses, on an individual investment basis. When such impairment losses have occurred, the carrying amounts of the securities are reduced to their fair values, as determined by the Directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairment losses 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.

(n) 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 impairment losses which reflect their credit risk.

Notes to the Financial Statements

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

(o) 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 values at the balance sheet date. Unrealised holding gains or losses arising from changes in fair value of securities are dealt with in the profit and loss account in the period in which they arise.

(p) 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.

(q) 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.

(r) 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;

Notes to the Financial Statements

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

(r) Recognition of revenue *(continued)*

- (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, commission income is recognised on a pro-rata basis over the relevant period.

(s) 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.

(t) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

(u) 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.

(v) 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.

Notes to the Financial Statements

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

(w) 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. For the purpose of balance sheet classification, cash and bank balances represent assets which are not restricted as to use.

(x) 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.

(y) Dividends

Final dividends proposed by the Directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in the general meeting. When these dividends are approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the Directors the authority to pay interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

In previous years, certain subsidiaries of the Company recognised its proposed final dividend to shareholders, which was declared and approved after the balance sheet date, as a liability in its balance sheet. The revised accounting treatment for dividends, resulting from the adoption of SSAP 9 (Revised), has given rise to prior year adjustments, further details of which are included in Note 3 to the financial statements.

Notes to the Financial Statements

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

(z) Accounting for banking operations

Banking operations represent operations carried out through Hongkong Chinese Limited (formerly known as 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, banks and other financial institutions 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.

All advances are recognised when cash is advanced to borrowers.

Cash rebates granted in relation to residential mortgage loans are capitalised and amortised to the profit and loss account on a straight line basis over the terms of the loans, or, where relevant, the early prepayment penalty period.

(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 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 gains or losses arising are 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.

Notes to the Financial Statements

5. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in Note 3 to the financial statements. Segment information is presented by way of business segment as the primary reporting format and geographical segment as the secondary reporting format.

The Group's operating businesses are structured and managed separately, according to the nature of their operations. The Group's business segments represent different strategic business units which are subject to risks and returns that are different from other business segments. In respect of geographical segment reporting, turnover is based on the location of customers, and assets and capital expenditure are based on the location of the assets. A description of the business segments are as follows:

- (a) treasury investment segment includes investment in cash market;
- (b) property investment and development segment includes letting of properties and sale of completed properties;
- (c) securities investment segment includes dealings in securities and disposals of investments;
- (d) food businesses segment engages in food manufacturing, wholesale distribution of food and allied fast-moving consumer goods;
- (e) money lending segment includes the provision of finance;
- (f) corporate finance and securities broking segment provides securities and futures brokerage, investment banking, underwriting and other related advisory services;
- (g) banking businesses segment engages in the provision of commercial and retail banking; and
- (h) other segment includes the underwriting of general insurance business, the provision of general insurance agency services and fund management.

Notes to the Financial Statements

5. SEGMENT INFORMATION (continued)

An analysis of the Group's turnover and loss before tax by business segment and geographical segment is set out below:

Business segment**Group**

	2001									
	Treasury	Property investment and development	Securities investment	Food businesses	Money lending	Corporate finance and securities broking	Banking businesses	Corporate and other	Inter- segment elimination	Consoli- dated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue										
External	63,348	113,012	358,291	518,925	211,025	68,916	448,742	60,177	-	1,842,436
Inter-segment	41,127	17,470	-	-	2,465	-	16,678	-	(77,740)	-
Total	104,475	130,482	358,291	518,925	213,490	68,916	465,420	60,177	(77,740)	1,842,436
Segment results	66,266	(14,429)	(183,580)	10,461	20,803	9,460	(31,274)	(79,898)	(18,808)	(220,999)
Unallocated corporate expenses										(122,881)
Loss from operating activities										(343,880)
Finance costs										(71,582)
Share of results of associates	-	(3,230)	-	-	-	-	(31,105)	(111,106)	-	(145,441)
Loss before tax										(560,903)
Tax										(29,771)
Loss before minority interests										(590,674)
Minority interests										255,211
Net loss from ordinary activities attributable to shareholders										(335,463)

Notes to the Financial Statements

5. SEGMENT INFORMATION (continued)

Business segment (continued)

Group

	2001									
	Property investment				Corporate finance and				Inter-segment elimination	Consolidated
	Treasury investment	and development	Securities investment	Food businesses	Money lending	securities broking	Banking businesses	Corporate and other		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Segment assets	1,536,678	1,999,182	676,764	267,296	1,170,075	404,200	3,622,766	25,032	(1,299,890)	8,402,103
Interests in associates	-	40,638	-	-	-	-	67,539	314,801	-	422,978
Unallocated assets										451,526
Total assets										9,276,607
Segment liabilities	-	2,083,648	234,376	110,797	704,153	184,852	756,753	52,999	(3,925,555)	202,023
Unallocated liabilities										1,157,803
Total liabilities										1,359,826
Other information:										
Capital expenditure	(2,239)	(1,469)	-	(6,738)	(2,114)	(1,862)	(15,126)	(20,258)	-	(49,806)
Depreciation	(2,113)	(3,707)	(778)	(14,585)	(3,236)	(1,388)	(44,208)	(8,104)	-	(78,119)
(Provision)/Written back of provision for bad and doubtful debts	-	-	-	6,810	(23,664)	-	-	-	-	(16,854)
Provisions for bad and doubtful debts relating to banking operations	-	-	-	-	(50,247)	(2,376)	(179,883)	-	-	(232,506)
Provisions for impairment losses:										
Investment securities	-	-	(67,438)	-	-	-	-	-	-	(67,438)
Fixed assets	-	-	-	-	-	-	-	(25,116)	-	(25,116)
Jointly controlled entity	-	(3,000)	-	-	-	-	-	-	-	(3,000)
Associates	-	(8,600)	-	-	-	-	-	(40,700)	-	(49,300)
Goodwill	-	-	-	-	(8,703)	-	-	-	-	(8,703)
Revaluation deficit on investment properties	-	(99,573)	-	-	-	-	(4,800)	-	-	(104,373)
Unrealised holding loss on other investments in securities	-	-	(91,617)	-	-	-	-	-	-	(91,617)

Notes to the Financial Statements

5. SEGMENT INFORMATION (continued)

Business segment (continued)

Group

	2000									
	Property investment				Corporate finance and securities				Inter-segment	Consolidated
	Treasury investment	and development	Securities investment	Food businesses	Money lending	securities broking	Banking businesses	Corporate and other	elimination	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue										
External	106,608	417,203	93,831	524,468	248,575	116,157	555,053	36,559	-	2,098,454
Inter-segment	50,508	15,822	-	-	12,931	1,875	39,405	139	(120,680)	-
Total	157,116	433,025	93,831	524,468	261,506	118,032	594,458	36,698	(120,680)	2,098,454
Segment results	62,665	(471,160)	(56,590)	1,550	22,331	47,621	113,141	162,704	(70,324)	(188,062)
Unallocated corporate expenses										(130,737)
Loss from operating activities										(318,799)
Finance costs										(130,146)
Share of results of associates	-	2,684	-	-	-	-	8,536	(11,605)	-	(385)
Loss before tax										(449,330)
Tax										(13,601)
Loss before minority interests										(462,931)
Minority interests										29,352
Net loss from ordinary activities attributable to shareholders										(433,579)

Notes to the Financial Statements

5. SEGMENT INFORMATION (continued)

Business segment (continued)

Group

	2000									
	Property investment		Securities investment	Food businesses	Corporate finance and securities		Banking businesses	Corporate and other	Inter-segment elimination	Consolidated
	Treasury investment	and development			Money lending	broking				
	HK\$'000	HK\$'000			HK\$'000	HK\$'000				
Segment assets	1,535,363	2,115,863	762,516	276,186	1,809,568	471,982	3,915,295	36,650	(2,081,007)	8,842,416
Interests in associates	-	89,071	-	-	-	-	100,676	472,177	-	661,924
Interests in a jointly controlled entity	-	57,772	-	-	-	-	-	-	-	57,772
Unallocated assets										670,293
Total assets										10,232,405
Segment liabilities	-	2,554,390	252,851	88,667	1,414,890	245,932	520,647	75,199	(4,944,338)	208,238
Unallocated liabilities										1,405,250
Total liabilities										1,613,488
Other information:										
Capital expenditure	(1,742)	(21,726)	-	(7,577)	(993)	(2,961)	(36,448)	(14,017)	-	(85,464)
Depreciation	(2,734)	(4,014)	-	(14,722)	(1,937)	(1,186)	(39,080)	(6,169)	-	(69,842)
Provisions for bad and doubtful debts	-	-	-	(5,495)	(28,098)	-	-	-	-	(33,593)
Provisions for bad and doubtful debts relating to banking operations	-	-	-	-	(26,873)	(3,492)	(231,328)	-	-	(261,693)
Provisions for impairments losses:										
Investment securities	-	(314,552)	(51,561)	-	-	-	-	-	-	(366,113)
Properties under development	-	(64,273)	-	-	-	-	-	-	-	(64,273)
Jointly controlled entity	-	(30,775)	-	-	-	-	-	-	-	(30,775)
Associates	-	(6,000)	-	-	-	-	-	(28,000)	-	(34,000)
Goodwill	-	(7,760)	-	-	-	-	-	-	-	(7,760)
Revaluation deficit on investment properties	-	(29,407)	-	-	-	-	-	-	-	(29,407)
Unrealised holding loss on other investments in securities	-	-	(23,261)	-	-	-	-	-	-	(23,261)

Notes to the Financial Statements

5. SEGMENT INFORMATION (continued)

Geographical segment

Group

	2001				
	Hong Kong	Republic of	Mainland	Other	Total
	HK\$'000	Singapore	China	HK\$'000	HK\$'000
Revenue	1,074,658	669,051	61,831	36,896	1,842,436
Segment results	(136,357)	(67,665)	(2,059)	(14,918)	(220,999)
Segment assets	5,975,656	1,193,090	1,263,742	421,141	8,853,629
Interests in associates	41,181	895	298,336	82,566	422,978
Total assets					9,276,607
Capital expenditure	(20,830)	(28,967)	–	(9)	(49,806)

Group

	2000				
	Hong Kong	Republic of	Mainland	Other	Total
	HK\$'000	Singapore	China	HK\$'000	HK\$'000
Revenue	1,148,831	876,744	47,601	25,278	2,098,454
Segment results	204,340	(128,886)	(71,496)	(192,020)	(188,062)
Segment assets	6,414,097	1,377,574	1,239,201	481,837	9,512,709
Interests in associates	99,618	481	445,915	115,910	661,924
Interests in a jointly controlled entity	57,772	–	–	–	57,772
Total assets					10,232,405
Capital expenditure	(41,115)	(29,537)	(742)	(14,070)	(85,464)

Notes to the Financial Statements

6. TURNOVER

Turnover represents the aggregate of gross income on treasury investment which includes interest income on bank deposits, gross rental income, gross proceeds from sales of properties and investments, gross income from underwriting and securities broking, sales income from food businesses, interest income from money lending business, gross income from fund management, gross premiums from insurance business, dividend income 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	
	2001	2000
	HK\$'000	HK\$'000
Continuing operations:		
Treasury investment	63,348	106,608
Property investment and development	99,531	417,203
Securities investment	358,291	93,831
Food businesses	518,925	524,468
Interest income from money leading business	211,025	248,575
Corporate finance and securities broking	68,916	116,157
Other	53,463	36,559
	1,373,499	1,543,401
Discontinuing operations:		
Banking businesses	447,883	547,183
	1,821,382	2,090,584

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

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interest income	1,042,780	1,509,172
Interest expense	(676,017)	(1,057,079)
Commission income	46,147	61,178
Commission expenses	(6,612)	(6,857)
Net dealing income and other revenues	41,585	40,769
	447,883	547,183

Notes to the Financial Statements

7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Group	
	2001	2000
	HK\$'000	HK\$'000
Gross rental income	99,531	96,580
Less: Outgoings	(15,960)	(20,019)
Net rental income	83,571	76,561
Staff costs – Note (a):		
Wages and salaries	(401,227)	(373,238)
Retirement benefit costs	(15,903)	(17,233)
Less: Forfeited contributions	167	1,742
Net retirement benefit costs	(15,736)	(15,491)
Total staff costs	(416,963)	(388,729)
Interest income – Note (b)	53,479	98,596
Dividend income from listed investments	5,266	1,565
Net unrealised holding loss on investment securities:		
Listed	(2,649)	(192,654)
Unlisted	(64,789)	(173,459)
Net realised and unrealised holding gain/(loss) on other investments in securities:		
Listed	(55,548)	37,903
Unlisted	(22,289)	(1,333)
Unrealised holding loss on listed held-to-maturity securities	–	(10,515)
Depreciation:		
Banking operations	(50,075)	(44,007)
Other	(28,044)	(25,835)
Loss on disposal of fixed assets:		
Banking operations	(546)	(1,652)
Other	(4,341)	(13,157)
Gain/(Loss) on sale of properties	274	(79,762)
Exchange gains/(losses) - net	376	(18,494)
Cost of inventories sold	(394,032)	(362,620)
Auditors' remuneration	(5,871)	(7,485)
Provisions for bad and doubtful debts relating to non-banking operations	(16,854)	(33,593)
Provision for loss on guaranteed return arrangement for fund management – Note (c)	(72,242)	(3,218)
Negative goodwill recognised during the year – Note (d)	13,481	–
Minimum lease payments under operating lease rentals in respect of land and buildings	(27,698)	(15,050)

Notes to the Financial Statements

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

Note:

- (a) The amounts include the Directors' emoluments disclosed in Note 8 to the financial statements.
- (b) The amount excludes that relating to banking operations of the Group.
- (c) A subsidiary of the Group has been appointed as an investment manager for a fund. In accordance with the management agreement, such fund was managed on a discretionary basis with a fixed annual return guarantee provided by the Group. During the year, the performance of the fund was adversely affected by the volatile stock markets and such adverse impact was further aggravated by the repercussions of the terrorist attack of 11th September. As a result, a provision has been made for the guarantee arrangement.
- (d) The amount is attributable to negative goodwill arising on the acquisition of subsidiaries during the year. The same amount has been credited to the profit and loss account and included in other revenue.

8. DIRECTORS' EMOLUMENTS

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

	Group	
	2001	2000
	HK\$'000	HK\$'000
Executive Directors:		
Directors' fees	368	56
Basic salaries, housing and other allowances and benefits in kind	13,478	13,502
Bonuses paid and payable	12,250	5,720
Retirement benefit costs	103	78
	26,199	19,356
Non-executive Directors:		
Directors' fees	513	750
	26,712	20,106

Notes to the Financial Statements

8. DIRECTORS' EMOLUMENTS (continued)

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

Emoluments bands (HK\$)	Group	
	2001 Number of Directors	2000 Number of Directors
Nil – 1,000,000	5	6
1,000,001 – 1,500,000	2	1
1,500,001 – 2,000,000	–	1
2,000,001 – 2,500,000	–	1
3,000,001 – 3,500,000	–	1
10,000,001 – 10,500,000	1	1
12,000,001 – 12,500,000	1	–
	9	11

Emoluments paid to independent non-executive Directors amounted to HK\$513,000 (2000 – HK\$750,000) during the year.

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

9. SENIOR EXECUTIVES' EMOLUMENTS

The five highest paid individuals included two Directors (2000 – two), details of whose emoluments are set out in Note 8 to the financial statements. The emoluments of the remaining three non-directors (2000 – three) 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	
	2001 HK\$'000	2000 HK\$'000
Basic salaries, housing and other allowances and benefits in kind	10,716	14,997
Bonuses paid and payable	57,412	5,325
Retirement benefit costs	840	755
	68,968	21,077

Notes to the Financial Statements

9. SENIOR EXECUTIVES' EMOLUMENTS *(continued)*

Emoluments bands (HK\$)	Group	
	2001 Number of individuals	2000 Number of individuals
3,500,001 – 4,000,000	1	–
4,500,001 – 5,000,000	–	1
5,000,001 – 5,500,000	–	1
10,500,001 – 11,000,000	–	1
23,000,001 – 23,500,000	1	–
41,500,001 – 42,000,000	1	–
	3	3

10. RETIREMENT BENEFIT COSTS

The Group operated several defined contribution schemes pursuant to the Occupational Retirement Schemes Ordinance (“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 assets of these schemes are held separately from those of the Group in independently administered funds.

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.

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.

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\$167,000 (2000 – HK\$1,742,000). 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\$15,736,000 in respect of defined contribution schemes (2000 – HK\$15,225,000 in respect of the defined contribution schemes and HK\$266,000 in respect of the defined benefit retirement scheme which entirely consisted of regular costs.)

Notes to the Financial Statements

11. FINANCE COSTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interest on bank loans and other borrowing		
wholly repayable within five years	60,562	162,759
Interest on bank loans wholly repayable after five years	25,185	13,240
Less: Interest capitalised	(4)	(122)
	85,743	175,877

Note: The above amounts exclude interest expenses incurred by a banking subsidiary of the Group.

12. IMPAIRMENT LOSSES OF GOODWILL

The impairment loss incurred for the year was attributable to the acquisition of a listed subsidiary engaged in mortgage finance business and calculated based on the value in use attributable to this operation. Details of impairment losses of goodwill incurred for the year ended 31st December, 2000 and the periods prior to 1st January, 2000 are set out in Note 3 to the financial statements.

13. TAX

	Group	
	2001	2000
	HK\$'000	HK\$'000
The Company and its subsidiaries:		
Provision for the year:		
Hong Kong	13,586	13,665
Overseas	12,669	7,938
	26,255	21,603
Under/(Over) provisions for prior years:		
Hong Kong	4,522	5,170
Overseas	(597)	(15,100)
	3,925	(9,930)
	30,180	11,673
Share of tax attributable to overseas associates	(409)	1,928
Tax charge for the year	29,771	13,601

Notes to the Financial Statements

13. TAX (continued)

Hong Kong profits tax has been provided for at the rate of 16 per cent. (2000 – 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 (2000 – Nil).

No provision for deferred tax has been made because the net effect of timing differences is not material (2000 – Nil). As at 31st December, 2001, the Group had unrecognised deferred tax assets of HK\$98,384,000 (2000 – HK\$72,391,000) in respect of tax losses and unabsorbed capital allowances.

14. 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\$18,774,000 (2000 – profit of HK\$14,720,000).

15. LOSS ACCUMULATED FOR THE YEAR

	Group	
	2001	Restated 2000
	HK\$'000	HK\$'000
Loss accumulated for the year by:		
The Company and its subsidiaries	190,431	431,266
Associates	145,032	2,313
	335,463	433,579

16. 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\$335,463,000 (2000 – HK\$433,579,000, restated to include impairment losses of goodwill with details set out in Note 3 to the financial statements); and (ii) the number of 438,257,000 shares (2000 – 438,257,000 shares) in issue during the year.

(b) Diluted loss per share

No diluted loss per share is presented for the years ended 31st December, 2001 and 2000 as there were no dilutive potential ordinary shares.

Notes to the Financial Statements

17. FIXED ASSETS

Group			
	Leasehold land and buildings	Leasehold improvements, furniture, fixtures, plant, equipment and motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:			
At 1st January, 2001	472,343	116,081	588,424
Additions during the year	19,999	10,693	30,692
Disposals during the year	(28,989)	(6,179)	(35,168)
Reclassification to investment properties – <i>Note 18</i>	(43,074)	–	(43,074)
Reclassification from investment properties – <i>Note 18</i>	15,400	–	15,400
Exchange adjustments	(5,347)	(2,646)	(7,993)
At 31st December, 2001	430,332	117,949	548,281
Accumulated depreciation and impairment losses:			
At 1st January, 2001	38,677	66,013	104,690
Provision for the year	11,356	16,688	28,044
Impairment losses	25,116	–	25,116
Disposals during the year	(1,197)	(5,407)	(6,604)
Reclassification to investment properties – <i>Note 18</i>	(4,707)	–	(4,707)
Exchange adjustments	(339)	(537)	(876)
At 31st December, 2001	68,906	76,757	145,663
Net book value:			
At 31st December, 2001	361,426	41,192	402,618
At 31st December, 2000	433,666	50,068	483,734

Certain leasehold land and buildings have been mortgaged to secure banking facilities made available to the Group as set out in Note 32 to the financial statements.

Notes to the Financial Statements

17. FIXED ASSETS (continued)

Company		Leasehold improvements, furniture, fixtures, equipment and motor vehicles
		<i>HK\$'000</i>
Cost:		
At 1st January, 2001 and 31st December, 2001		2,872
Accumulated depreciation:		
At 1st January, 2001		2,153
Provision for the year		375
At 31st December, 2001		2,528
Net book value:		
At 31st December, 2001		344
At 31st December, 2000		719

The net book value of leasehold land and buildings comprises:

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Long term leasehold land and buildings situated in Hong Kong	266,329	328,681
Leasehold land and buildings situated outside Hong Kong:		
Medium term	75,125	84,096
Long term	19,972	20,889
	95,097	104,985
Total	361,426	433,666

Notes to the Financial Statements

18. INVESTMENT PROPERTIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Long term leasehold land and buildings situated in Hong Kong:		
Balance at beginning of the year	703,539	683,120
Reclassification from fixed assets – Note 17	38,367	–
Reclassification to fixed assets – Note 17	(15,400)	–
(Deficit)/Surplus on revaluation	(111,550)	20,419
Balance at end of the year	614,956	703,539
Medium term leasehold land and buildings situated outside Hong Kong:		
Balance at beginning of the year	1,096,903	1,470,420
Additions during the year	–	630
Disposal during the year	–	(314,958)
Surplus/(Deficit) on revaluation	17,124	(48,150)
Exchange adjustments	8	(11,039)
Balance at end of the year	1,114,035	1,096,903
Total	1,728,991	1,800,442

Based on professional valuations as at 31st December, 2001 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\$614,956,000.

Based on professional valuations as at 31st December, 2001 made by 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\$1,114,035,000.

Certain investment properties have been mortgaged to secure banking facilities made available to the Group as set out in Note 32 to the financial statements.

Notes to the Financial Statements

19. PROPERTIES UNDER DEVELOPMENT

	Group	
	2001	2000
	HK\$'000	HK\$'000
Leasehold land and buildings situated outside Hong Kong, at cost:		
Balance at beginning of the year	188,975	190,096
Additions during the year	396	3,553
Reclassification to fixed assets	–	(3,205)
Disposals during the year	(1,035)	(2,378)
Interest capitalised during the year	4	122
Exchange adjustments	(1,080)	787
Balance at end of the year	187,260	188,975
Provisions for impairment losses:		
Balance at beginning of the year	(145,273)	(81,000)
Provision for the year	–	(64,273)
Balance at end of the year	(145,273)	(145,273)
Total	41,987	43,702

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.

20. INTERESTS IN ASSOCIATES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets in unlisted companies	321,321	347,218
Due from associates	189,133	366,764
Due to associates	(2,168)	(2,050)
	508,286	711,932
Provisions for impairment losses	(85,308)	(50,008)
	422,978	661,924
Share of post-acquisition deficits at the balance sheet date	(178,496)	(188,244)

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

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

Details of the principal associates are set out on pages 99 to 100.

Notes to the Financial Statements

21. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	Group	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets in an unlisted company	1	1
Due from a jointly controlled entity	69,937	124,709
	69,938	124,710
Provisions for impairment losses	(69,938)	(66,938)
	-	57,772

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, 2001 are as follows:

Name	Form of business structure	Place of incorporation and operation	Percentage of equity interest attributable to the Group	Principal activity
Cenford Investments Limited	Corporate	Hong Kong	33.4	Property development

As at 31st December, 2000, the Group's share of capital commitments of the jointly controlled entity are set out in Note 38(b) to the financial statements.

Notes to the Financial Statements

22. INVESTMENT SECURITIES

	Group		Company	
	2001	2000	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity securities, at cost:				
Listed in Hong Kong	52,881	52,881	7,248	7,248
Listed outside Hong Kong	1,256,614	1,280,414	–	–
Unlisted	122,705	624,617	8,920	8,920
	1,432,200	1,957,912	16,168	16,168
Provisions for impairment losses	(1,330,525)	(1,653,569)	(14,974)	(14,303)
	101,675	304,343	1,194	1,865
Unlisted debt securities, at fair value	9,010	374,651	1,200	1,200
Unlisted investment funds, at cost	230,596	131,445	7,487	7,487
Provisions for impairment losses	(73,564)	(54,571)	(5,304)	–
	157,032	76,874	2,183	7,487
Total	267,717	755,868	4,577	10,552
Market value of listed investments at the balance sheet date	74,130	37,957	1,194	1,313

Notes to the Financial Statements

23. 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 Hongkong Chinese Limited ("HKCL", formerly known as The HKCB Bank Holding Company Limited), a listed subsidiary of the Company, for the year ended 31st December, 2001.

	Note	Group	
		2001 HK\$'000	Restated 2000 HK\$'000
Cash and short-term funds	(a)	5,818,886	8,739,852
Placements with banks and other financial institutions maturing between one and twelve months		37,847	783,432
Certificates of deposit held		605,402	606,512
Other investments in securities	(b)	194,146	235,035
Advances, trade bills and other accounts	(c)	12,194,014	13,280,779
Held-to-maturity securities	(d)	465,298	295,395
Investment securities	(e)	25,836	24,943
Interests in associates		55,547	55,515
Fixed assets		1,266,028	1,302,583
		20,663,004	25,324,046
Deposits and balances of banks and other financial institutions		(60,880)	(324,336)
Loan from a financial institution		–	(45,000)
Current, fixed, savings and other deposits of customers		(14,589,883)	(18,438,392)
Certificates of deposit issued		(990,607)	(1,048,890)
Other accounts and provisions		(766,293)	(817,969)
Subordinated floating rate notes issued	(f)	–	(231,716)
		(16,407,663)	(20,906,303)
		4,255,341	4,417,743

Notes to the Financial Statements

23. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS (continued)

Note:

(a) Cash and short-term funds

	Group	
	2001	2000
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	192,823	204,544
Money at call and short notice	5,102,398	7,881,709
Treasury bills	523,665	653,599
	5,818,886	8,739,852

(b) Other investments in securities

	Group	
	2001	2000
	HK\$'000	HK\$'000
Debt securities:		
Listed, at market value	3,199	18,386
Unlisted, at fair value	3,874	15,801
	7,073	34,187
Equity securities:		
Listed, at market value	29,575	41,930
Unlisted, at fair value	123,719	123,720
	153,294	165,650
Unlisted investment funds, at fair value	33,779	35,198
	194,146	235,035

(c) Advances, trade bills and other accounts

	Group	
	2001	2000
	HK\$'000	HK\$'000
Advances to customers	12,347,304	13,248,632
Advances to banks and other financial institutions	42,497	16,707
Trade bills	80,764	151,736
Other accounts	144,417	240,951
Accrued interest	71,714	133,986
Provisions for bad and doubtful debts	(492,682)	(511,233)
	12,194,014	13,280,779

Notes to the Financial Statements

23. 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 balance of such advances involved is analysed as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Gross investment in finance leases and hire purchase contracts, receivable:		
– not later than 1 year	166,412	205,621
– later than 1 year but not later than 5 years	491,532	592,423
– later than 5 years	1,071,298	1,390,822
	1,729,242	2,188,866
Unearned future finance income	(576,500)	(822,981)
Net investment in finance leases and hire purchase contracts	1,152,742	1,365,885
The net investment in finance leases and hire purchase contracts may also be analysed as follows:		
– not later than 1 year	138,717	156,080
– later than 1 year but not later than 5 years	421,587	453,488
– later than 5 years	592,438	756,317
	1,152,742	1,365,885
Allowance for uncollectible finance leases and hire purchase contracts receivable included in the provision for loan losses	36,689	40,880
The cost of assets acquired during the year for letting to customers under finance leases and hire purchase contracts	501,098	302,231
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 accrual has ceased are as follows:		
	Group	
	2001 HK\$'000	2000 HK\$'000
Non-performing loans		
Gross advances	1,014,192	1,204,109
Less: Specific provisions	(348,779)	(277,348)
	665,413	926,761
Secured non-performing loans	517,830	694,877
Unsecured non-performing loans	496,362	509,232
	1,014,192	1,204,109
Market value of collateral held	541,258	733,555
Amount of interest in suspense	478,548	312,179

The above specific provisions were made after taking into account the value of collateral in respect of such advances.

Notes to the Financial Statements

23. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS (continued)

(d) Held-to-maturity securities

	Group	
	2001 HK\$'000	2000 HK\$'000
Debt securities, at amortised cost:		
Listed	207,167	186,970
Unlisted	297,493	140,433
	504,660	327,403
Less: Provisions for impairment in values	(39,362)	(32,008)
	465,298	295,395
Market value of listed debt securities	178,601	158,604
An analysis of the issuers of the held-to maturity securities is as follows:		
Central governments and central banks	150,003	110,760
Public sector entities	4,995	–
Banks and other financial institutions	168,769	7,741
Corporate entities	180,893	207,245
Others	–	1,657
	504,660	327,403

(e) Investment securities

	Group	
	2001 HK\$'000	2000 HK\$'000
Unlisted debt securities, at cost	11,590	10,690
Unlisted equity securities, at cost	14,246	14,253
	25,836	24,943
An analysis of the issuers of the investment securities is as follows:		
Club debentures	11,590	10,690
Others	14,246	14,253
	25,836	24,943

- (f) During the year, the HKCL Group repurchased subordinated floating rate notes in an aggregate principal amount of US\$29.9 million, representing all the outstanding balance of the notes as at 31st December, 2000. These notes were subsequently cancelled and there is no outstanding subordinated floating rate notes in issue as at 31st December, 2001.

Notes to the Financial Statements

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

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

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interest income	1,263,674	1,765,759
Interest expenses	(695,228)	(1,116,231)
Net gain on foreign exchange trading	11,411	14,381
Realised and unrealised gains on other investments in securities	7,948	70,067
Net loss from other dealing activities	(1,464)	(1,961)
Charge for bad and doubtful debts	(232,506)	(261,693)
Provisions made on held-to-maturity securities	(7,320)	(18,654)

(h) Total operating income/(loss) before taxation by segment

	Group	
	2001	2000
	HK\$'000	HK\$'000
Commercial and retail banking	72,172	51,724
Treasury and investment activities	54,925	145,963
Corporate finance and securities brokerage	9,460	47,621
Other businesses	(63,139)	226,890
Unallocated	(255,532)	(92,032)
	(182,114)	380,166

Notes to the Financial Statements

23. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS (continued)

(i) Maturity profile of major assets and liabilities

Group

	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 31st December, 2001:							
Assets							
Treasury bills (including Exchange Fund Bills)	-	69,674	453,991	-	-	-	523,665
Cash and other short-term funds	192,823	5,102,398	-	-	-	-	5,295,221
Placements with banks and other financial institutions maturing between one and twelve months	-	27,819	10,028	-	-	-	37,847
Certificates of deposit held	-	39,997	294,452	270,953	-	-	605,402
Debt securities:							
Other investments in securities	-	-	-	-	-	7,073	7,073
Held-to-maturity securities	-	76,991	185,147	207,684	3,865	30,973	504,660
Investment securities	-	-	-	-	-	11,590	11,590
Advances to customers	1,177,731	1,255,196	1,048,040	2,827,200	4,647,982	1,391,155	12,347,304
Advances to banks and other financial institutions	8,125	-	1,560	32,812	-	-	42,497
	1,378,679	6,572,075	1,993,218	3,338,649	4,651,847	1,440,791	19,375,259
Liabilities							
Deposits and balances of banks and other financial institutions	27,641	33,239	-	-	-	-	60,880
Current, fixed, savings and other deposits of customers	2,257,901	11,018,244	1,313,738	-	-	-	14,589,883
Certificates of deposit issued	-	-	990,607	-	-	-	990,607
	2,285,542	11,051,483	2,304,345	-	-	-	15,641,370

Notes to the Financial Statements

23. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS (continued)

(i) Maturity profile of major assets and liabilities (continued)

Group

	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
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	-	8,013	-	39	-	26,135	34,187
in securities	-	27,119	86,251	171,463	11,602	30,968	327,403
Held-to-maturity securities	-	-	-	-	-	10,690	10,690
Investment securities	1,352,049	1,244,653	932,805	2,939,414	5,310,346	1,469,365	13,248,632
Advances to customers	8,128	-	-	8,579	-	-	16,707
Advances to banks and other financial institutions	-	-	-	-	-	-	-
	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

- (j) Further details of the related off-balance sheet exposure are disclosed in Note 36(c) to the financial statements.

24. LOAN NOTE RECEIVABLE

At as 1st January, 2001, the Company had a loan note receivable of HK\$110,000,000 ("Loan Note") due from Lippo China Resources Limited ("LCR"), a listed subsidiary of the Company. The Loan Note was repayable immediately upon the Company's issuing a written notice of not less than 10 days, interest-bearing at Hong Kong Dollar prime rate and the interest thereon was payable monthly.

During the year, LCR redeemed HK\$36,500,000 of the Loan Note at par in cash. As at 31st December, 2001, after the redemption, the Loan Note receivable amounted to HK\$73,500,000.

Notes to the Financial Statements

25. PROPERTIES FOR SALE

The carrying amount of properties for sale that is carried at net realisable value amounted to HK\$115,500,000 (2000 – Nil).

26. INVENTORIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Raw materials	2,374	346
Finished goods and goods held for resale	60,266	43,514
	62,640	43,860

The carrying amount of inventories included in the above that is carried at net realisable value amounted to HK\$5,237,000 (2000 – HK\$1,980,000).

27. HELD-TO-MATURITY SECURITIES

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Debt securities, at amortised cost:				
Listed	–	16,333	–	–
Unlisted	332,356	367,333	42,887	16,006
	332,356	383,666	42,887	16,006
Provisions for impairment losses	–	(10,515)	–	–
	332,356	373,151	42,887	16,006
Market value of listed securities	–	8,021	–	–

Notes to the Financial Statements

28. OTHER INVESTMENTS IN SECURITIES

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed equity securities, at market value:				
Hong Kong	159,952	65,111	15,584	33,906
Overseas	15,223	34,639	1,420	–
	175,175	99,750	17,004	33,906
Unlisted debt securities, at fair value	261,963	–	–	–
Unlisted investment funds, at fair value	30,504	–	–	–
	467,642	99,750	17,004	33,906

Included in the investment funds is an amount of HK\$5.9 million which represents an investment made by an independent fund manager on a discretionary basis in securities in a fellow subsidiary of the Group.

29. DEBTORS, PREPAYMENTS AND DEPOSITS

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

	Group	
	2001	2000
	HK\$'000	HK\$'000
Outstanding balances with ages:		
Within 30 days	48,298	53,978
Between 31 and 60 days	45,148	46,604
Between 61 and 90 days	27,155	28,012
Between 91 and 180 days	8,067	8,816
Between 181 and 360 days	20	45
Over 360 days	1,214	1,365
	129,902	138,820

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.

Notes to the Financial Statements

30. SHARE CAPITAL

Shares

	Group and Company	
	2001	2000
	HK\$'000	HK\$'000
Authorised:		
30,000,000,000 (2000 – 30,000,000,000)		
shares of HK\$0.10 each	3,000,000	3,000,000
Issued and fully paid:		
438,257,010 (2000 – 438,257,010)		
shares of HK\$0.10 each	43,826	43,826

Share options

Pursuant to the Share Option Scheme of the Company approved and adopted by the shareholders of the Company on 22nd April, 1991, the Directors of the Company may, at their discretion, grant to any Directors or employees of the Group options to subscribe for shares in the Company. The above Share Option Scheme expired on 22nd April, 2001. During the year and as at 31st December, 2001, there were no outstanding options.

Notes to the Financial Statements

31. RESERVES

Group

	Share premium HK\$'000	Special capital reserve HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Other asset revaluation reserve HK\$'000	Exchange equalisation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 2000								
As previously reported	517,794	1,709,202	17,408	(178,500)	83,433	(73,193)	776,147	2,852,291
Prior year adjustment in respect of impairment losses of goodwill previously eliminated against consolidated reserves – <i>Note 3</i>	–	–	–	38,473	–	–	(38,473)	–
As restated	517,794	1,709,202	17,408	(140,027)	83,433	(73,193)	737,674	2,852,291
Capital reserve arising from subscription of rights issue in a listed subsidiary	–	–	–	490,055	–	–	–	490,055
Goodwill arising on increase in interests in subsidiaries	–	–	–	(9,325)	–	–	–	(9,325)
Released on disposal of subsidiaries	–	–	–	34,102	–	–	–	34,102
Released on dilution of shareholding in a listed subsidiary	–	–	–	1,099	–	8	–	1,107
Released on disposal of an associate	–	–	–	1,175	–	–	–	1,175
Reserves (other than retained profits) attributable to banking operations	–	–	–	(11,062)	–	(277)	–	(11,339)
Released on disposal of investment properties	–	–	–	–	–	12,344	–	12,344
Released on disposal of fixed assets	–	–	–	–	–	459	–	459
Transfer of portion of depreciation charge on leasehold properties attributable to the related revaluation surplus to retained profits	–	–	–	–	(718)	–	718	–
Impairment losses of goodwill previously eliminated against consolidated reserves – <i>Note 3</i>	–	–	–	7,760	–	–	–	7,760
Exchange differences on consolidation	–	–	–	–	–	(23,804)	–	(23,804)
Loss for the year	–	–	–	–	–	–	(433,579)	(433,579)
At 31st December, 2000	517,794	1,709,202	17,408	373,777	82,715	(84,463)	304,813	2,921,246

Notes to the Financial Statements

31. RESERVES (continued)

Group								
	Share premium HK\$'000	Special capital reserve HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Other asset revaluation reserve HK\$'000	Exchange equalisation reserve HK\$'000	Retained profits/ (Accumu- lated loss) HK\$'000	Total HK\$'000
At 1st January, 2001								
As previously reported	517,794	1,709,202	17,408	327,544	82,715	(84,463)	351,046	2,921,246
Prior year adjustment in respect of impairment losses of goodwill previously eliminated against consolidated reserves – Note 3	-	-	-	46,233	-	-	(46,233)	-
As restated	517,794	1,709,202	17,408	373,777	82,715	(84,463)	304,813	2,921,246
Transfer of portion of depreciation charge on leasehold properties attributable to the related revaluation surplus to retained profits	-	-	-	-	(716)	-	716	-
Impairment losses of goodwill previously eliminated against consolidated reserves – Note 12	-	-	-	8,703	-	-	-	8,703
Reserves (other than retained profits) attributable to banking operations	-	-	-	-	-	(112)	-	(112)
Exchange differences on consolidation	-	-	-	-	-	(15,746)	-	(15,746)
Loss for the year	-	-	-	-	-	-	(335,463)	(335,463)
At 31st December, 2001	517,794	1,709,202	17,408	382,480	81,999	(100,321)	(29,934)	2,578,628

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 entire amount standing to the credit of the share capital account of the Company in the amount of approximately HK\$1,709,202,000 was cancelled (the “Cancellation”) on 27th January, 1999. 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:

- (a) The reserve shall not be treated as realised profits; and

Notes to the Financial Statements

31. RESERVES (continued)

- (b) The reserve shall be treated as an undistributable reserve for so long as there shall remain any outstanding debts or claims which was in existence on the date of the Cancellation provided that 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.

As at 31st December, 2001 the balance of special capital reserve subject to the Undertaking amounted to HK\$1,709,202,000.

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

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.

Company

	Share premium HK\$'000	Special capital reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 2000	515,637	1,709,202	17,408	318,683	2,560,930
Profit for the year – Note 14	–	–	–	14,720	14,720
At 31st December, 2000 and 1st January, 2001	515,637	1,709,202	17,408	333,403	2,575,650
Loss for the year – Note 14	–	–	–	(18,774)	(18,774)
At 31st December, 2001	515,637	1,709,202	17,408	314,629	2,556,876

At 31st December, 2001, the Company's reserves available for distribution, calculated in accordance with Section 79B of the Companies Ordinance, amounted to HK\$314,629,000 (2000 – HK\$333,403,000).

Notes to the Financial Statements

32. BANK LOANS AND OTHER BORROWING

	Group	
	2001	2000
	HK\$'000	HK\$'000
Bank loans, secured – <i>Note (a)</i>	936,829	1,157,169
Other borrowing:		
Commercial papers – <i>Note (b)</i>	77,976	141,954
	1,014,805	1,299,123
Portion due within one year included under current liabilities	(339,334)	(325,783)
Long term portion	675,471	973,340
The maturities of other borrowing are as follows:		
Within one year	77,976	40,558
In the second year	–	101,396
	77,976	141,954
The maturities of bank loans are as follows:		
Within one year	261,358	285,225
In the second year	284,980	297,357
In the third to fifth years, inclusive	242,337	348,395
After five years	148,154	226,192
	936,829	1,157,169
	1,014,805	1,299,123

Note:

- (a) The bank loans are secured by shares in certain listed subsidiaries of the Group, first legal mortgages over certain investment properties and leasehold land and buildings of the Group.
- (b) In 1997, Lippo Commercial Paper Limited (“LCPL”), a wholly-owned subsidiary of the Company, entered into a commercial paper programme with a number of dealers under which LCPL may issue loan notes guaranteed by the Company up to a principal amount of US\$120 million at any time outstanding for working capital purposes.

During the year, the Company repurchased commercial papers in an aggregate principal amount of US\$8.5 million (equivalent to approximately HK\$66,280,000). As at 31st December, 2001, the Group had outstanding commercial papers issued with an aggregate principal amount of US\$10 million (equivalent to approximately HK\$77,976,000; 2000 - US\$18.2 million, equivalent to approximately HK\$141,954,000) which bear interest at 2.75 per cent. per annum above the London Interbank Offered Rate or at fixed rates.

Notes to the Financial Statements

33. CREDITORS, ACCRUALS AND DEPOSITS RECEIVED

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

	Group	
	2001	2000
	HK\$'000	HK\$'000
Outstanding balances with ages:		
Within 30 days	38,646	30,573
Between 31 and 60 days	29,279	23,053
Between 61 and 90 days	6,865	7,409
Between 91 and 180 days	5,947	11,147
Between 181 and 360 days	3,019	–
	83,756	72,182

34. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	5,000	5,000
Due from subsidiaries	3,098,289	3,110,635
Due to subsidiaries	(471,183)	(481,547)
	2,632,106	2,634,088
Provisions for impairment losses	(192,074)	(200,000)
	2,440,032	2,434,088

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 90 to 98.

Notes to the Financial Statements

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Group	
	2001	Restated 2000
	HK\$'000	HK\$'000
Loss before tax	(560,903)	(449,330)
Share of results of associates	145,441	385
Loss/(Gain) on disposal of:		
Fixed assets	4,341	13,157
Investment properties	–	80,819
Investment securities	240	–
Associates	5,140	–
Subsidiaries	–	40,559
Properties under development	(274)	(1,103)
Loss on dilution of shareholding in a listed subsidiary	–	7,877
Provisions for impairment losses:		
Fixed assets	25,116	–
Investment securities	64,605	362,206
Properties under development	–	64,273
Jointly controlled entity	3,000	30,775
Associates	49,300	34,000
Goodwill	8,703	7,760
Deficit on revaluation of investment properties	99,573	29,407
Negative goodwill recognised as income		
during the year	(13,481)	–
Interest expenses	66,532	116,725
Interest income	(53,479)	(98,596)
Dividend income	(5,266)	(1,082)
Depreciation	28,044	25,835
Decrease/(Increase) in properties for sale	(500)	4,063
Decrease/(Increase) in inventories	(18,780)	11,139
Decrease/(Increase) in held-to-maturity securities	360,664	(161,003)
Increase in other investments in securities	(367,892)	(7,830)
Decrease in loans and advances	39,307	29,622
Decrease in debtors, prepayments and deposits	10,289	82,111
Increase in creditors, accruals and deposits received	25,278	73,613
	(85,002)	295,382
Loss/(Profit) attributable to banking operations	47,133	(384,988)
Net cash outflow from operating activities	(37,869)	(89,606)

Notes to the Financial Statements

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Banking operations

As set out in Note 23 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	
	2001	2000
	HK\$'000	HK\$'000
Dividend received from banking operations	61,568	13,903
Receipt on disposal of loans and advances to banking operations	–	103,739
Payment to purchase subsidiaries from banking operations	–	(21,848)
Repayment from/(Advances to) banking operations	(256)	1,626
	61,312	97,420

(c) Disposal of subsidiaries

	Group	
	2001	2000
	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 liabilities	–	(82,048)
	–	107,756
Loss on disposal	–	(40,559)
Release of goodwill on disposal	–	34,102
Share of goodwill released on disposal by minority interests	–	28,701
Cash consideration received	–	130,000

Notes to the Financial Statements

35. 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	
	2001	2000
	HK\$'000	HK\$'000
Cash consideration received	–	130,000
Cash and bank balances disposed of	–	(43,716)
Net inflow of cash and cash equivalents	–	86,284

The subsidiaries disposed of during the prior year contributed HK\$9,802,000 to the Group's net operating cash flows.

(d) Acquisition of subsidiaries

	Group	
	2001	2000
	HK\$'000	HK\$'000
Net assets acquired:		
Fixed assets	–	466
Properties for sale	115,000	–
Cash and bank balances	2,006	154,394
Loans and advances	–	162,755
Other net current assets/(liabilities)	5,451	(15,732)
Minority interests	(54,894)	(15,094)
Minority interests transferred from banking operations	–	(109,916)
	67,563	176,873
Transferred from investments in associates	(49,082)	–
Negative goodwill arising on acquisition	(13,481)	(342)
Share of negative goodwill by minority interests	–	(289)
Cash consideration paid	5,000	176,242

The analysis of net outflow of cash and cash equivalents in respect of the acquisitions is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Cash consideration paid	(5,000)	(176,242)
Cash and bank balances acquired	2,006	154,394
Net outflow of cash and cash equivalents	(2,994)	(21,848)

Notes to the Financial Statements

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*(d) Acquisition of subsidiaries *(continued)*

The subsidiaries acquired during the year contributed HK\$605,000 to (2000 – utilised HK\$38,645,000) the Group's net operating cash flows and contributed to the Group HK\$72,000 (2000 – Nil) in respect of returns on investments and servicing of finance. In prior year, the subsidiaries acquired also contributed HK\$101,760,000 to the Group in respect of investing activities.

(e) Analysis of changes in financing

Group	Share capital (including share premium account) HK\$'000	Bank loans and other borrowing HK\$'000	Minority interests HK\$'000
At 1st January, 2000			
As previously reported	561,620	1,307,718	6,210,715
Restatement of 1999 final dividend attributable to minority interests	–	–	5,791
As restated	561,620	1,307,718	6,216,506
Net cash outflow from financing	–	(10,773)	(6,047)
Exercise of warrants by minority shareholders of a listed subsidiary	–	–	17
Rights issue of shares by a listed subsidiary	–	–	41,010
Increase in interests in a listed subsidiary	–	–	(490,805)
Share of results for the year	–	–	(29,352)
Share of investment property revaluation reserve	–	–	1,014
Release of exchange equalisation reserve on disposal of:			
Investment properties	–	–	67,985
Fixed assets	–	–	1,982
Share of dividends	–	–	(21,033)
Share of goodwill released on disposal of an associate	–	–	6,158
Share of increase in interests in subsidiaries	–	–	(41,450)
Share of reserves (other than retained profits) of banking operations	–	–	(58,774)
Share of exchange equalisation reserve	–	–	(49,391)
Shareholder's loan interest written off	–	–	(42,584)
Acquisition of subsidiaries	–	–	15,094
Share of negative goodwill on acquisition of subsidiaries	–	–	289
Dilution of shareholding in a listed subsidiary	–	–	14,525
Share of goodwill released on disposal of subsidiaries	–	–	28,701
Exchange realignments	–	2,178	–
At 31st December, 2000	561,620	1,299,123	5,653,845

Notes to the Financial Statements

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

Group	Share capital (including share premium account) HK\$'000	Bank loans and other borrowing HK\$'000	Minority interests HK\$'000
At 1st January, 2001			
As previously reported	561,620	1,299,123	5,597,141
Restatement of 2000 final dividend attributable to minority interests	–	–	56,704
As restated	561,620	1,299,123	5,653,845
Net cash outflow from financing	–	(250,330)	(14,726)
Share of results for the year	–	–	(255,211)
Share of investment property revaluation reserve	–	–	5,147
Share of exchange equalisation reserve	–	–	(63,015)
Share of dividends and distributions	–	–	(85,851)
Share of reserves (other than retained profits) of banking operations	–	–	(458)
Decrease in interests in subsidiaries	–	–	(298)
Acquisition of subsidiaries	–	–	54,894
Exchange realignments	–	(33,988)	–
At 31st December, 2001	561,620	1,014,805	5,294,327

(f) Major non-cash transaction

During the year, investment securities with fair value of HK\$319,869,000 were transferred to held-to-maturity securities.

Notes to the Financial Statements

36. 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	
	2001	2000
	HK\$'000	HK\$'000
Guarantees provided in respect of banking facilities granted to:		
An associate	11,100	60,000
Investee companies	2,924	602,925
	14,024	662,925

- (b) As at 31st December, 2001, the Group has entered into the foreign exchange contracts. Pursuant to the contracts, the Group is committed to sell Japanese Yen with principal sums of HK\$131,177,000 (2000 – Nil), purchase Japanese Yen with principal sums of HK\$15,575,000 (2000 – Nil), sell United States Dollar with principal sums of HK\$15,595,000 (2000 – Nil) and purchase United States Dollar with principal sums of HK\$140,357,000 (2000 – Nil).

(c) Details of the off-balance sheet exposure related to banking operations

(i) Contingent liabilities and commitments

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

	Group	
	2001	2000
	HK\$'000	HK\$'000
Direct credit substitutes	20,882	40,003
Transaction-related contingencies	55,854	33,903
Trade-related contingencies	148,277	214,997
Forward asset purchases	–	31,000
Forward forward deposits	77,852	983,758
Other commitments with an original maturity of:		
Under one year or which are unconditionally cancellable	2,711,893	2,809,127
One year and over	70,853	20,398
	3,085,611	4,133,186

Notes to the Financial Statements

36. CONTINGENT LIABILITIES (continued)

(c) Details of off-balance sheet exposure related to banking operations (continued)

(ii) Derivatives

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

	Group					
	Trading		Hedging		Total	
	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts:						
Forward contracts	425,038	179,451	-	-	425,038	179,451
Currency swaps	63,915	35,097	30,878	30,885	94,793	65,982
Interest rate contracts:						
Interest rate swaps	-	-	173,881	120,194	173,881	120,194
	488,953	214,548	204,759	151,079	693,712	365,627

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					
	Credit			Credit		
	Contract/ notional amount 2001 HK\$'000	risk weighted amount 2001 HK\$'000	Replace- ment cost 2001 HK\$'000	Contract/ notional amount 2000 HK\$'000	risk weighted amount 2000 HK\$'000	Replace- ment cost 2000 HK\$'000
Contingent liabilities and commitments	3,085,611	109,648	N/A	4,133,186	259,254	N/A
Derivatives:						
Exchange rate contracts	519,831	3,988	13,020	245,433	1,766	5,149
Interest rate contracts	173,881	790	1,207	120,194	1,217	2,509
	3,779,323	114,426	14,227	4,498,813	262,237	7,658

Company

At the balance sheet date, guarantees given by the Company in respect of commercial papers issued by a wholly-owned subsidiary of the Company amounted to HK\$101 million (2000 – HK\$142 million).

Notes to the Financial Statements

37. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain properties under lease agreements that are non-cancellable. The leases expire on various dates until 11th May, 2007. Future minimum lease rental receivables under non-cancellable operating leases in respect of land and buildings fall due as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Within one year	89,101	86,349
In the second to fifth years, inclusive	101,467	105,061
After five years	8,287	15,621
	198,855	207,031

(b) As lessee

The Group leases certain properties under lease agreements which are non-cancellable. The leases expire on various dates until 15th December, 2032 and leases for properties contain provision for rental adjustments. Future minimum lease payments under non-cancellable operating leases in respect of land and buildings fall due as follows:

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	17,247	22,622	4,215	1,608
In the second to fifth years, inclusive	14,393	18,753	–	–
After five years	4,862	19,973	–	–
	36,502	61,348	4,215	1,608

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above, have been restated to accord with the current year's presentation.

Notes to the Financial Statements

38. COMMITMENTS

In addition to the operating lease commitments detailed in note 37(b) above, the Group had the following commitments at the balance sheet date:

	Group	
	2001	2000
	HK\$'000	HK\$'000
(a) Capital commitments in respect of property, plant and equipment:		
Contracted, but not provided for	4,151	32,163
Authorised, but not contracted for	–	23,090
	4,151	55,253
Other capital commitments		
Contracted, but not provided for	6,238	22,618
	10,389	77,871
(b) Share of capital commitments of a jointly controlled entity in respect of property, plant and equipment:		
Contracted, but not provided for	–	12,867
(c) The Group has entered into an agreement for the acquisition of shares in Lippo CRE (Financial Services) Limited (“Lippo CRE”) and certain interest in Hongkong Chinese Limited (formerly known as The HKCB Bank Holding Company Limited) at an aggregate consideration of HK\$1,809,196,036. The agreement was completed on 17th January, 2002, details of which is set out in Note 41(c) to the financial statements.		

The Company did not have any material commitments as at the balance sheet date (2000 – Nil).

39. 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	
	2001	2000
	HK\$'000	HK\$'000
Balance outstanding as at 31st December	9,414	10,503
Maximum balances outstanding during the year	14,959	16,580

Notes to the Financial Statements

40. CONNECTED AND RELATED PARTY TRANSACTIONS

Listed 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 and related party transactions disclosed in accordance with the Statement of Standard Accounting Practice 20 "Related Party Disclosures" ("SSAP 20").

- (a) As at 31st December, 2001, the Group had the following balances with Hongkong Chinese Limited ("HKCL", formerly known as The HKCB Bank Holding Company Limited), a subsidiary of the Company, and its subsidiaries, which have not been eliminated on consolidation:

	Group	
	2001	2000
	HK\$'000	HK\$'000

Included under the following items as referred to
in Note 23 to the financial statements:

Current, fixed, savings and other deposits of customers	220,009	245,816
--	----------------	---------

As at 31st December, 2001, 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 HKCL and its subsidiaries:

	Group	
	2001	2000
	HK\$'000	HK\$'000

Included under the following items as referred to
in Note 23 to the financial statements:

Current, fixed, savings and other deposits of customers	2,487,650	4,896,480
--	------------------	-----------

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, 2001, the Group had balances with its associates and a jointly controlled entity, further details of which are set out in Notes 20 and 21 to the financial statements, respectively.

Notes to the Financial Statements

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

- (b) On 2nd March, 2001, the following tenancy agreements were entered into:
- (i) a tenancy agreement was entered into between (1) Superform Investment Limited (“Superform”), a wholly-owned subsidiary of Lippo China Resources Limited (“LCR”) which in turn is a subsidiary of the Company, and (2) the Company, pursuant to which Superform agreed to let to the Company 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 the Company. The rental was determined by reference to open market rentals;
 - (ii) a tenancy agreement was entered into between (1) Prime Power Investment Limited (“Prime Power”), a wholly-owned subsidiary of LCR, and (2) Lippo Securities Holdings Limited (“Lippo Securities Holdings”), an indirect wholly-owned subsidiary of HKCL, 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; and
 - (iii) a tenancy agreement was entered into between (1) Prime Power and (2) The Hong Kong Building and Loan Agency Limited (“HKBLA”), a subsidiary of LCR, 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.
- (c) On 31st October, 2001, a sale and purchase agreement was entered into between (1) China Resources Enterprise, Limited (“CRE”) and (2) LCR, pursuant to which CRE agreed to sell and LCR agreed to purchase 25,000 shares of US\$1.00 each in, representing the remaining 50 per cent. interest in, Lippo CRE (Financial Services) Limited (“Lippo CRE”), and 78,890,000 shares of HK\$1.00 each in, representing approximately 5.8 per cent. interest in, HKCL for an aggregate consideration of HK\$1,809,196,036. The only material asset held by Lippo CRE was its holding of 794,428,440 shares of HK\$1.00 each in, representing approximately 58.8 per cent. of, the issued share capital of HKCL. Lippo CRE was a 50 per cent. owned subsidiary of LCR. CRE owned the remaining 50 per cent. of the issued share capital of Lippo CRE and was therefore a substantial shareholder of a subsidiary of LCR.

The above agreement was subsequently completed on 17th January, 2002.

Notes to the Financial Statements

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

- (d) During the year, Lippo Development Limited ("LDL"), a wholly-owned subsidiary of LCR, advanced a total amount of HK\$37,700,000 (2000 – HK\$71,400,000) to Tung Chung Station Development Company Limited ("TCSD") in form of shareholder's loan in proportion to LDL's interest in TCSD for its working capital purposes. The shareholder's loan was unsecured, carried interest at a rate of 2 per cent. per annum over Hong Kong Interbank Offered Rate and had 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 LCR.

LDL's entire shareholding interest and shareholder's loan in TCSD were subsequently disposed of on 18th September, 2001.

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

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

41. SUBSEQUENT EVENTS

- (a) On 17th January, 2002, Hongkong Chinese Limited ("HKCL", formerly known as The HKCB Bank Holding Company Limited), a subsidiary of the Company, completed the disposal of the entire issued share capital of The Hongkong Chinese Bank, Limited ("HKCB") and its subsidiaries, which are engaged in the businesses of commercial banking, consumer finance, insurance agency and other related financial services, to CITIC Ka Wah Bank Limited ("CITIC Ka Wah") for an aggregate consideration of HK\$4,200,000,000 pursuant to a conditional sale and purchase agreement dated 31st October, 2001 entered into between (1) HKCL and (2) CITIC Ka Wah. No material profit or loss, which will be recognised for the financial year ending 31st December, 2002, is expected to arise from this disposal.
- (b) Following the completion of the conditional sale and purchase agreement mentioned in item (a) above, on 17th January, 2002, the directors of HKCL declared a special interim distribution of HK\$1.45 per share for the year ending 31st December, 2002 totalling HK\$1,959,729,000. Such interim distribution was subsequently paid on 28th January, 2002.
- (c) On 17th January, 2002, Lippo China Resources Limited, a subsidiary of the Company, completed the acquisition of the remaining 50 per cent. interest in Lippo CRE (Financial Services) Limited and approximately 5.8 per cent. interest in HKCL from China Resources Enterprise, Limited ("CRE") for an aggregate consideration of HK\$1,809,196,036 pursuant to a conditional sale and purchase agreement dated 31st October, 2001 made between (1) CRE and (2) LCR. Further details of the transaction are set out in Note 40(c) to the financial statements.

Notes to the Financial Statements

42. COMPARATIVE AMOUNTS

As further explained in Note 3 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been made and certain comparative amounts have been reclassified to confirm with the current year's presentation.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 25th April, 2002.