



The On-going Transactions have been reviewed by the Directors (including the independent Non-Executive Directors), and the independent Non-Executive Directors of the Company have confirmed that they consider that the above transactions were conducted:-

- (a) in the ordinary and usual course of business of the Company;
- (b) on normal commercial terms or on terms no less favourable than terms available to or from independent third parties; and
- (c) on a fair and reasonable basis so far as the shareholders of the Company are concerned.

The Auditors of the Company have confirmed to the Directors in writing in respect of the On-going Transactions that the relevant transactions have received the approval of the Board of Directors, and that they consider that the relevant transactions have been entered into on normal commercial terms or have been entered into in accordance with the terms of the agreement relating to the transaction in question or, where there is no such agreement, on terms no less favourable than terms available to or from independent third parties.

PROVISION OF FINANCIAL ASSISTANCE TO NON WHOLLY-OWNED SUBSIDIARY

On 21st January, 1999, the Company executed a Guarantee (the "Guarantee") in favour of The Bank of East Asia, Limited (the "Bank"), an independent third party, as part of the security to guarantee the entire amount outstanding under the HK\$200 million revolving loan facility (the "Facility") from the Bank to the Company's 80%-owned construction arm, Chatwin Engineering

Limited ("Chatwin"). Chatwin is the direct wholly-owned subsidiary of Polarfine Inc which is owned as to 80% by the Company indirectly and 20% by Double Bliss Limited, an associate of Mr. Kwan Chi Ping ("Mr. Kwan"), the Managing Director of Chatwin.

Apart from the Guarantee, the said loan facility was also secured by a charge over cash deposits in specified loan to deposit ratio placed with the Bank by Chatwin (the "Charge Over Cash Deposits").

In connection with the additional liabilities assumed by the Company under the Guarantee:

- (a) A Deed of Counter-Indemnity dated 21st January, 1999 was executed by Mr. Kwan in favour of the Company, whereby Mr. Kwan undertakes to counter-indemnify the Company from and against 20% of the Company's obligations and liabilities under the Guarantee (the "Indemnity"); and
- (b) A Share Mortgage dated 21st January, 1999 over the 20% shareholding interests in Polarfine Inc (the "Share Mortgage") was executed by Double Bliss Limited in favour of the Company as security for the obligations of Mr. Kwan under the Indemnity.

The amount of the Facility was increased to HK\$212.5 million on 22nd October, 1999 and subsequently, on 17th August, 2000, such amount was revised to HK\$160 million. The revised Facility is continued to be secured by the Guarantee and the Charge over Cash Deposits, and the Indemnity and the Share Mortgage continue to secure the obligations assumed by the Company under the Guarantee for the revised Facility.

The aforesaid transaction is disclosed in this annual report in accordance with Rule 14.25(2)(a) of the Listing Rules.

DISCLOSURE PURSUANT TO PRACTICE NOTE 19

The following disclosure is made by the Company in compliance with the continuing disclosure requirements under Practice Note 19 ("PN19") of the Listing Rules.

Advances to an Entity (Paragraph 3.2.1 of PN19)

Details of the advances made to Chest Gain Development Limited ("Chest Gain"), a jointly controlled entity owned as to 40% by the Company, 30% by RHIHL and 30% by China Overseas Land & Investments Limited, which is independent of, and not connected with the Company and RHIHL, the respective directors, chief executive and substantial shareholders of the Company and RHIHL and any of their respective subsidiaries or any of their respective associates (as defined in the Listing Rules), by the PHL Group and the RHIHL Group as at 31st December, 2000 are set out below:

Advances	PHL Group (HK\$'million)	RHIHL Group (HK\$'million)	PHL/RHIHL Group (HK\$'million)
(A) Principal Amount of Advances	1,512.3	1,134.2	2,646.5
(B) Interest Receivable	216.7	162.5	379.2
(C) Several Guarantees for:			
(a) Principal Amount of Bank Facilities	1,320.0	990.0	2,310.0
(b) Amount of Bank Facilities Drawdown	1,004.4	753.3	1,757.7
Total: (A)+(B)+(C)(a)	<u>3,049.0</u>	<u>2,286.7</u>	<u>5,335.7</u>
(A)+(B)+(C)(b)	<u>2,733.4</u>	<u>2,050.0</u>	<u>4,783.4</u>

The above advances to Chest Gain, including interest receivable thereon, in an aggregate sum of HK\$1,729.0 million (before a provision of HK\$933.3 million representing the PHL Group's attributable share of the provision for foreseeable loss in respect of the property development at the Stanley Site (as referred to below) of Chest Gain) were provided by the PHL Group. The above advances to Chest Gain, including interest receivable thereon, in an aggregate sum of HK\$1,296.7 million (before a provision of HK\$700.0 million representing the RHIHL Group's attributable share of the provision for foreseeable loss in respect of the property development at the Stanley Site of Chest Gain) were provided by the RHIHL Group. Such contribution of funds to Chest Gain are provided in the form of shareholders' loans in proportion to the respective shareholding interests of the shareholders of Chest Gain. The advances are unsecured and have no fixed term of repayment, and related interest is being accrued at prime rate. The provision of financial assistance to Chest Gain is for the purpose of facilitating Chest Gain in the development of its property project at Rural Building Lot No.1138, Wong Ma Kok Road, Stanley, Hong Kong (the "Stanley Site"). The Stanley Site was acquired by Chest Gain at the government land auction held on 3rd June, 1997. The above guarantees were provided by the Company and RHIHL on 28th October, 1997 on a several



basis in proportion to their respective shareholding interests in Chest Gain and were given in respect of the bank loan facilities of HK\$3,300.0 million made available to Chest Gain for the purposes of refinancing part of the consideration for the acquisition of the Stanley Site and financing the estimated construction costs required for the luxury residential development at the Stanley Site.

Calculated on the basis shown above, the aggregate of advances and other financial assistance as at 31st December, 2000 provided by the PHL/RHIHL Group to Chest Gain in the respective sums of (a) HK\$5,335.7 million (based on the total available amount of the bank facilities) and (b) HK\$4,783.4 million (based on the amount of bank facilities drawdown) represented (a) 115.9% and (b) 103.9% of the consolidated net tangible assets of the Company of HK\$4,601.8 million (the "Paliburg NTA"), by reference to its latest audited financial statements for the year ended 31st December, 2000.

Financial Assistance provided to and Guarantees given for Affiliated Companies (Paragraph 3.3 of PN19)

Details of the financial assistance provided to and guarantees given for affiliated companies (including Chest Gain) by the PHL Group and the RHIHL Group as at 31st December, 2000 are set out below:

Name of Affiliated Companies	Principal Amount of Advances (HK\$'million)	Interest Receivable (HK\$'million)	Guarantee given for Bank Facilities	
			(i) Principal Amount of Bank Facilities (HK\$'million)	(ii) Amount of Bank Facilities Drawdown (HK\$'million)
Chest Gain	(A) 2,646.5	(B) 379.2	(C)(i) 2,310.0	(C)(ii) 1,757.7
Cheerjoy Development Limited	(D) 126.4 (Interest Rate: Prime Rate)	(E) 11.6	Nil	Nil
Talent Faith Investments Ltd.	(F) 78.6	-	Nil	Nil
Century King Investment Limited	(G) 2.9 (Interest Rate: 10% p.a.)	(H) 0.6	Nil	Nil
8D International (BVI) Limited	(I) 18.1	-	Nil	Nil
8D Matrix Limited	(J) 0.8	-	Nil	Nil
			Total: (A)+(B)+(C)(i)+(D)to(J)	
			<u>5,574.7</u>	
			(A)+(B)+(C)(ii)+(D)to(J)	
			<u>5,022.4</u>	



Relevant details in respect of the financial assistance provided to and guarantees given for Chest Gain are disclosed above under Paragraph 3.2.1 of PN19 of the Listing Rules.

Cheerjoy Development Limited ("Cheerjoy") was a wholly owned subsidiary of the Company and became a 30% owned associate of the Company during 1999. Cheerjoy owns the development property at Ap Lei Chau Inland Lot No.129, Ap Lei Chau East, Hong Kong. The remaining 70% shareholding interest in Cheerjoy is owned by a third party, which is independent of, and not connected with the Company, the Directors, chief executive and substantial shareholders of the Company and any of its subsidiary companies or any of their respective associates (as defined in the Listing Rules). The advances were provided by the PHL Group in the form of shareholder's loans and, according to the terms of the shareholders' agreement in respect of this joint venture, would not be in proportion to the Company's shareholding interest in Cheerjoy. The advances were provided for the purpose of funding the working capital requirements of Cheerjoy, are unsecured and have no fixed term of repayment.

Talent Faith Investments Ltd. ("Talent Faith"), previously a wholly owned subsidiary company of the Company owning 65% interest in a joint venture company, which in turn owns 70% interest in an equity joint venture in Beijing, the People's Republic of China involved in property development activity, became a 50% owned associate of the Company during the year. The remaining 50% shareholding interest in Talent Faith is owned by a third party, which is independent of, and not connected with the Company, the Directors, chief executive and substantial shareholders of the Company and any of its subsidiary companies or any of their respective associates (as defined in the Listing Rules). The advances were provided by the PHL Group in the form of shareholder's loans in accordance with the terms in the sale and purchase agreement entered into with the said third party in relation to the disposal of the Group's 50% interest in Talent Faith, for the purpose of funding the working capital requirements of Talent Faith. The advances are unsecured, interest free and have no fixed terms of repayment.

Century King Investment Limited ("Century King") is a 50% owned associate of RHIHL, which is engaged in the operation of a Japanese restaurant. The remaining 50% shareholding interest in Century King is owned by a third party, which is independent of, and not connected with RHIHL, the directors, chief executive and substantial shareholders of RHIHL and any of its subsidiary companies or any of their respective associates (as defined in the Listing Rules). The advances were provided by the RHIHL Group in the form of shareholder's loans in proportion to RHIHL's shareholding interest in Century King, for the purpose of funding the capital requirements of Century King. The advances are unsecured and have no fixed term of repayment.

8D International (BVI) Limited ("8D-BVI") is a 30% owned associate of RHIHL, which is involved in information technology business in connection with broadband national railway fibre optic network in the People's Republic of China. The remaining shareholding interests in 8D-BVI are indirectly owned as to 10% by CCIHL and 60% by Mr. Lo Yuk Sui. The advances were provided by the RHIHL Group in the form of shareholder's loans in proportion to RHIHL's shareholding interest in 8D-BVI, for the purpose of financing the working capital of 8D-BVI. The advances are unsecured, interest free and have no fixed term of repayment.

8D Matrix Limited ("8D Matrix") is a 30% owned associate of RHIHL, which is involved in promotions, communications and information technology businesses. The remaining shareholding interest in 8D Matrix are owned as to 10% indirectly by CCIHL, 30% indirectly by Mr. Lo Yuk Sui and 30% by an associate (as defined in the Listing Rules) of Mr. Jimmy Lo Chun To, which is jointly owned by his sister. The advances were provided by the RHIHL



Group in the form of shareholder's loans in proportion to RHIHL's shareholding interest in 8D Matrix, for the purpose of financing the working capital of 8D Matrix. The advances are unsecured, interest free and have no fixed term of repayment.

Calculated on the basis shown above, as at 31st December, 2000, the aggregate amount of financial assistance provided to and guarantees given for affiliated companies by the PHL/RHIHL Group in the respective sums of (a) HK\$5,574.7 million (based on the total available amount of the bank facilities to Chest Gain) and (b) HK\$5,022.4 million (based on the drawdown amount of bank facilities to Chest Gain) represented (a) 121.1% and (b) 109.1% of the Paliburg NTA.

A pro-forma combined balance sheet of the abovenamed affiliated companies and the Group's attributable interest in these affiliated companies are presented below:

	Pro-forma combined balance sheet (HK\$'million)	Group's attributable interest (HK\$'million)
Non-current assets	5,076.0	2,908.8
Current assets	10.9	2.8
Current liabilities	(111.0)	(61.9)
Non-current liabilities	(8,223.3)	(4,904.5)
Net liabilities	<u>(3,247.4)</u>	<u>(2,054.8)</u>

Loan agreements with covenants relating to specific performance obligation of the controlling shareholders (Paragraphs 3.7.1 and 3.7.2 of PN19)

Paragraph 3.7.1 of PN19

The agreements for the following loans to the RHIHL Group impose specific performance obligations on the controlling shareholders of the Company and RHIHL:

		Outstanding Balance of Bank Facilities as at 31st December, 2000 (HK\$'million)	Final Maturity of Bank Facilities	Specific Performance Obligations
RHIHL Group	(a)	1,072.0	July 2007	Note (i)
	(b)	<u>3,822.1</u>	September 2004	Note (ii)
Total:		<u>4,894.1</u>		

Notes:

- (i) Mr. Lo Yuk Sui, the Chairman and the controlling shareholder of CCIHL which owns a 59.2% shareholding interest in the Company (which in turn owns a 72.8% shareholding interest in RHIHL), and/or members of his immediate family or a trust or trusts under which they are beneficially interested (collectively, "Mr. Lo") shall not cease to maintain controlling interest (directly or indirectly) in respect of shareholding (as defined under the Listing Rules) and management control in RHIHL.
- (ii) Mr. Lo shall not cease to maintain controlling interest (whether directly or indirectly) in RHIHL.

Breach of the above specific performance obligations will constitute events of default of the bank facilities. As a result, the bank facilities may become immediately due and payable on demand by the relevant lenders according to the respective terms and conditions of the bank facilities.

Paragraph 3.7.2 of PN19

Details of breach of the terms of the above loan agreements are set out in note 2 to the financial statements.

CORPORATE GOVERNANCE

The Company has during the year complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the independent Non-Executive Directors of the Company were not appointed for specific terms. However, they were appointed to their offices for such terms and subject to retirement in accordance with the provisions of the By-laws of the Company.

In compliance with the requirement in the Code of Best Practice of the Listing Rules in respect of the establishment of an audit committee, the Company has formed an Audit Committee comprising Dr. Alex Wu Shu Chih (Chairman of the Committee), Mr. Francis Gonzalez Estrada and Mr. Ng Siu Chan, all of whom are independent Non-Executive Director of the Company. The Audit Committee is established with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, there was no purchase, sale or redemption by the Company, or any of its subsidiary companies, of the listed securities of the Company.

PRE-EMPTIVE RIGHTS

No pre-emptive rights exist in Bermuda being the jurisdiction in which the Company is incorporated.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentage of purchases attributable to the Group's 5 largest suppliers and the percentage of turnover or sales attributable to the Group's 5 largest customers combined in respect of good and services was in each case less than 30% of the total amount involved.

FIXED ASSETS

The details of movements in fixed assets during the year are set out in note 15 to the financial statements.

PROPERTIES UNDER DEVELOPMENT

The details of movements in properties under development during the year are set out in note 16 to the financial statements.

PROPERTIES HELD FOR FUTURE DEVELOPMENT

The details of movements in properties held for future development during the year are set out in note 17 to the financial statements.

BORROWINGS

The details of the Group's borrowings at the balance sheet date are set out in notes 27 to 29 to the financial statements.



SHARE CAPITAL AND SHARE OPTIONS

The details of movements in the share capital and share options of the Company during the year are set out in note 33 to the financial statements.

SHARE PREMIUM ACCOUNT

The details of movements in the share premium account during the year are set out in note 35 to the financial statements.

CAPITAL REDEMPTION RESERVE

The details of movements in the capital redemption reserve account during the year are set out in note 36 to the financial statements.

CAPITAL RESERVE

The details of movements in the capital reserve account during the year are set out in note 37 to the financial statements.

REVALUATION RESERVES

The details of movements in the revaluation reserve account during the year are set out in note 38 to the financial statements.

EXCHANGE EQUALISATION RESERVE

The details of movements in the exchange equalisation reserve account during the year are set out in note 39 to the financial statements.

SUBSIDIARY COMPANIES

Particulars of the Company's principal subsidiary companies are set out in note 40 to the financial statements.

JOINTLY CONTROLLED ENTITY AND ASSOCIATES

Particulars of the Group's interests in jointly controlled entity and associates are set out

in notes 18 and 19 to the financial statements, respectively.

CONTRIBUTED SURPLUS

The details of movements in the contributed surplus account during the year are set out in note 41 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31st December, 2000, the Company's reserves available for distribution calculated in accordance with The Companies Act 1981 of Bermuda amounted to HK\$26.1 million.

In addition, the Company's share premium may be distributed in the form of fully paid bonus shares.

INTEREST CAPITALISED

Interest expenses in the amount of HK\$34.8 million were capitalised during the year in respect of the Group's property development projects and construction contracts.

POST BALANCE SHEET EVENTS

Details of the significant events which occurred subsequent to the balance sheet date are set out in note 48 to the financial statements.

AUDITORS

Ernst & Young retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

LO YUK SUI

Chairman

Hong Kong

17th April, 2001