

PRACTICE NOTE 19 TO THE LISTING RULES

The Company itself and through its subsidiaries have entered into contractual joint venture agreements with several joint venture members and have undertaken substantial investments for development of certain properties and infrastructure projects, and construction works. Pursuant to these agreements, investments were made to joint venture companies in the form of capital and advances in proportion to the respective joint venture members' capital contribution ratios or in accordance with the terms of the joint venture agreements. These investments were classified under the headings "Interest in jointly controlled entities" and "Interest in associates" in the consolidated balance sheet of the Company and its subsidiaries (the "Group"). Details of such investments as at 30th June, 2001 are disclosed below:–

Affiliated companies	% interest attributable to the Group	Loans granted to affiliated companies <i>HK\$ Million</i>	Amounts due from affiliated companies <i>HK\$ Million</i>	Guarantee given for facilities utilized by affiliated companies <i>HK\$ Million</i>	Annual interest rate on advances
Karboony Investment Ltd	40%	–	917.4	118.9	Interest free
Hong Kong Construction SMC Development Ltd	40%	–	79.9	–	Interest free
Hainan Yangpu Land Development Co. Ltd	30%	–	2.1	–	Interest free
Hainan Yangpu Merchant Co Ltd	25%	–	27.7	–	Interest free
Hong Kong Construction Kam Lung Ltd	50%	–	459.5	–	Interest free
Right Choice International Ltd	27.5%	243.1	0.1	–	Interest free
Dorboy Investment Ltd	35%	–	373.8	–	Interest free
Quick Wealth Investments Ltd	50%	284.9	142.8	–	Partial interest free/Partial bearing interest at HK\$ prime rate
Greenway Venture Ltd	20%	–	27.9	–	Interest free
First Choice International Development Ltd	25%	–	121.3	–	Interest free
Forsum Ltd	36.25%	–	5.3	–	Interest free
AMEC-Hong Kong Construction Joint Venture	45%	–	0.8	–	Interest free

Affiliated companies	% interest attributable to the Group	Loans granted to affiliated companies HK\$ Million	Amounts due from affiliated companies HK\$ Million	Guarantee given for facilities utilized by affiliated companies HK\$ Million	Annual interest rate on advances
Hainan Zhong-gu Property Co Ltd	50%	–	159.6	–	Interest bearing at 10% per annum
Hong Kong Construction-AMEC Joint Venture	55%	–	61.4	–	Interest free
Hong Kong Construction-Maeda-CRABC Joint Venture	34%	–	37.7	–	Interest free
HK ACE Joint Venture	30%	–	27.2	–	Interest free
AMEC-Hong Kong Construction CC-202 Joint Venture	35%	–	1.5	–	Interest free
上海泰和越江工程項目公司	25%	–	2.8	–	Interest free
上海國際博覽中心工程聯合體	49%	–	2.9	–	Interest free
國家大劇院項目聯合體	35%	–	2.0	–	Interest free
		<u>528.0</u>	<u>2,453.7</u>	<u>118.9</u>	

Notes:

- The advances are unsecured, without fixed repayment terms and are repayable in cash out of the net cash surplus from operation of the affiliated companies.
- The advances made were funded by internal resources and by bank borrowings for general working capital purposes.
- There is no committed capital injection and committed amount to be advanced to the affiliated companies by the Group.
- Save for those mentioned above, no guarantee has been given by the Group for facilities granted to the above mentioned affiliated companies.

As at 30th June, 2001, total committed capital injections, advances made, committed advances to be made to affiliated companies and guarantees given by the Group for facilities utilized by affiliated companies, in aggregate, amounted to approximately \$3,100.6 million which represented approximately 170.3% of the net asset value of the Group as at 30th June, 2001.

As the circumstances giving rise to this disclosure will probably continue to exist, the board will ensure that the required details will be disclosed in the subsequent annual reports and interim reports providing adequate and sufficient information to allow investors to make an informed assessment of the financial position of the Group.

A proforma combined balance sheet of the affiliated companies as at 30th June, 2001 is presented below:

	Combined total	
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Fixed assets		
Investment properties		3,502.3
Hotel properties		732.7
Others		40.7
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		4,275.7
Land and properties under development		2,206.2
Interest in jointly controlled entities		1,172.2
Other non-current assets		1,325.3
Current assets		
– Properties held for sale	1,199.5	
– Other current assets	1,163.3	
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		2,362.8
Total assets		<u>11,342.2</u>
Share capital	1,333.6	
Reserves	(770.8)	562.8
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Non-current liabilities		
– Advances from shareholders	6,359.6	
– Bank and other loans	1,321.2	
– Other non-current liabilities	3.7	
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		7,684.5
Current liabilities		
– Amounts due to shareholders/joint venturers	537.2	
– Current portion of bank loans	312.1	
– Other current liabilities	2,245.6	
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		3,094.9
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		<u>11,342.2</u>

Attributable interest of the affiliated companies to the Group as at 30th June, 2001 amounted to \$36.0 million.

The Company had also entered into certain loan agreements with banks that included conditions imposing specific performance obligations on the Company's controlling shareholder either:– (A) to maintain a minimum holding of 35% of the issued share capital of the Company or (B) to maintain a minimum holding of 20.98% of the issued share capital of the Company or/and (C) to remain the single largest shareholder of the Company. Breach of such obligations will cause a default in respect of such loans which are significant to the operations of the Company.

Details of specific performance obligations imposed on China Everbright International Ltd, the then controlling shareholder of the Company, in relation to certain loan agreements of the Company outstanding as at 30th June, 2001 are as follows:

Type of loan (Requirement A, B or C)	Loan facility <i>HK\$ Million</i>	Drawdown amount <i>HK\$ Million</i>	Drawdown date
B and C	150.0	115.0	19th June, 1998
A and C	150.0	150.0	19th May, 1999
A and C	203.2	123.8	12th October, 1999
C	50.0	27.2	20th May, 1999
C	130.0	82.2	23rd August, 1999
A	185.0	170.0	27th March, 2000
A	150.0	0.5	29th September, 2000
	1,018.2	668.7	

Requirement A denotes China Everbright International Ltd is required to retain a minimum equity interest of 35% in the issued share capital of the Company.

Requirement B denotes China Everbright International Ltd is required to retain a minimum equity interest of 20.98% in the issued share capital of the Company.

Requirement C denotes China Everbright International Ltd is required to remain as the single largest shareholder of the Company.

The aggregate level of all the facilities indicated above represented 55.9% of the Company's net asset value of \$1,820.4 million as at 30th June, 2001.

As the Group was in default of all its bank borrowings under the terms of the bank facility agreements, the specific performance obligations on the Company's controlling shareholder and the original maturity dates as specified in the bank facility agreements are no longer applicable. All the above bank borrowings have been classified under current liabilities in the interim financial report.