

Report of the Directors

The Directors have pleasure in presenting their report together with the audited financial statements of the Company and the Group for the year ended 31st December, 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of a holding company. The principal activities of the subsidiary companies are property development and investment, property management, construction and construction-related businesses, hotel ownership and management, and other investments.

There have been no significant changes in these activities during the year.

The turnover and contribution to trading results by each principal activity and by geographical location are set out in note 5 to the financial statements.

FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 58 to 154.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Highlights

Following the divestiture of two of the Group's major investment properties upon the closing of the bonds settlement, the Group's significant investments constitute primarily its ownership and operating interests in the five Regal Hotels in Hong Kong. The performance of these hotels during the year under review, their future prospects as well as the commentary on the local hotel industry, changes in general

market conditions and their potential impact on the operating performance of these hotels are contained in the Chairman's Report which precedes this report. A detailed review of the other business operations and outlook of the Group is also contained in the Chairman's Report.

Cash Flow and Capital Structure

Net cash inflow from operating activities during the year under review amounted to HK\$281.3 million (2001 - HK\$339.7 million, as restated). Net interest payment for the year amounted to HK\$305.1 million (2001 - HK\$396.6 million).

As at 31st December, 2002, the Group's gross borrowings net of cash and bank balances amounted to HK\$5,190.2 million, as compared to HK\$9,202.4 million in 2001. Gearing ratio based on total assets of HK\$9,647.6 million (2001 - HK\$14,589.3 million) was 54% (2001 - 63%). The decrease in the Group's gearing ratio was primarily due to the reduction in the Group's borrowings following the closing of the bonds settlement during the year under review.

Details of the Group's pledge of assets and contingent liabilities are shown in notes 50 and 51, respectively, to the financial statements. Details of the maturity profile of the Group's borrowings are set out in notes 31 and 35 to the financial statements.

In October 2002, Regal Hotels International Holdings Limited ("RHIHL"), the listed subsidiary of the Company, completed the acquisition from the Company of an additional 40% interest in the Stanley development project. On 31st December, 2002, the Company completed the Paliburg Acquisition. Details of these acquisitions were set out in the circular to shareholders



dated 26th August, 2002. At present, there are no immediate plans for material investments or capital assets other than the proposed disposal of some of the Group's non-core hotel properties with a view to reduce the overall debt levels.

Funding and Treasury Policy

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. Property development projects are financed partly by internal resources and partly by bank financing. Project financing is normally arranged in local currency to cover a part of the land cost and a major portion or the entire amount of the construction cost, with interest calculated by reference to the interbank offered rates and the loan maturity tied in to the estimated project completion date. Currency and interest rate exposures are hedged where circumstances are considered appropriate.

As the Group's borrowings are mostly denominated in Hong Kong dollar currency, being the same currency in which the Group's major revenues are derived, and with interest determined with reference to Interbank Offered Rates, the use of hedging instruments for currency or interest rates purposes is not considered to be necessary.

Remuneration Policy

The Group employs approximately 2,000 staff in Hong Kong, 300 staff in Canada and 800 staff in The People's Republic of China.

Remuneration packages are generally structured by reference to market terms and individual merits. Salaries are normally reviewed on an annual basis based on

performance appraisals and other relevant factors. Staff benefits plans maintained by the Group include provident fund scheme and medical and life insurance.

The Company and RHIHL, the listed subsidiary company of the Company, each maintains an Executive Share Option Scheme under which share options had been granted to selected eligible executives.

DIVIDENDS

No interim dividend was paid to ordinary shareholders during the year.

The Directors have resolved not to recommend the payment of a final dividend to ordinary shareholders for the year.

DIRECTORS

The Directors of the Company are:

Mr. Lo Yuk Sui
 Mr. Cheng Yuk Lun
 Mr. Donald Fan Tung
 Mrs. Kitty Lo Lee Kit Tai
 Mr. Jimmy Lo Chun To
 Mr. Kenneth Ng Kwai Kai
 Mr. Ng Siu Chan
 Mr. Abraham Shek Lai Him
 Dr. Alex Wu Shu Chih

On 9th July, 2002, Mr. Francis Gonzalez Estrada resigned as an Independent Non-Executive Director. On 10th July, 2002, Mr. Abraham Shek Lai Him was appointed as an Independent Non-Executive Director.

In accordance with Bye-laws 99 and 102 of the Company's Bye-laws, Mr. Jimmy Lo Chun To, Mr. Abraham Shek Lai Him and Dr. Alex Wu Shu Chih retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.



DIRECTORS' INTERESTS IN CONTRACTS

Save as otherwise disclosed, none of the Directors had any beneficial interests, whether direct or indirect, in any significant contract to which the Company, or any of its holding companies, subsidiary companies or fellow subsidiary companies was a party at the balance sheet date or at any time during the year.

None of the Directors had any service contract with the Company or any of its subsidiary companies during the year.

At no time during the year was the Company, or any of its holding companies, subsidiary companies or fellow subsidiary

companies a party to any arrangement whose objects are to enable a Director of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than the Executive Share Option Schemes (the "Schemes") of the Company, pursuant to which options have been granted to certain Directors under the Scheme of the Company.

During the year, none of the Directors exercised options to subscribe for shares under the Scheme of the Company.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31st December, 2002, the interests of the Directors in the share capital of the Company and its associated corporations as recorded in the register kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (which was repealed and replaced by Part XV of the Securities and Futures Ordinance on 1st April, 2003) ("SDIO") were as follows:

(A) Interests in Shares

	Name of Director	Class of Shares Held	Number of Shares Held			Total
			Personal Interests	Family Interests	Corporate Interests	
1. The Company	Mr. Lo Yuk Sui	Ordinary	222,765	-	1,373,024,977 (Notes a & b)	1,373,247,742
		Preference	-	-	3,450,000,000 (Notes a & h (i))	3,450,000,000
	Mr. Cheng Yuk Lun	Ordinary	2,325,000	-	-	2,325,000
	Mr. Donald Fan Tung	Ordinary	2,718	-	-	2,718
	Mrs. Kitty Lo Lee Kit Tai	Ordinary	100,000	-	-	100,000
	Mr. Jimmy Lo Chun To	Ordinary	284,000	-	-	284,000
	Mr. Ng Siu Chan	Ordinary	-	536,500	-	536,500



Name of Associated Corporation	Name of Director	Class of Shares Held	Number of Shares Held			Total
			Personal Interests	Family Interests	Corporate Interests	
2. Century City International Holdings Limited ("CCIHL")	Mr. Lo Yuk Sui	Ordinary	543,344,843	-	1,395,994,246	1,939,339,089
	Mrs. Kitty Lo Lee Kit Tai	Ordinary	2,510,000	-	-	2,510,000
	Mr. Jimmy Lo Chun To	Ordinary	1,659,800	-	-	1,659,800
	Mr. Ng Siu Chan	Ordinary	-	15,453,000	-	15,453,000
3. RHIHL	Mr. Lo Yuk Sui	Ordinary	220,000	-	4,717,070,277 (Notes a & c)	4,717,290,277
		Preference	-	-	3,440 (Note a)	3,440
	Mr. Cheng Yuk Lun	Ordinary	600,000	-	-	600,000
	Mrs. Kitty Lo Lee Kit Tai	Ordinary	2,370,000	-	-	2,370,000
4. 8D International (BVI) Limited ("8D-BVI")	Mr. Lo Yuk Sui	Ordinary	-	-	1,000 (Note d)	1,000
5. 8D Matrix Limited ("8D Matrix")	Mr. Lo Yuk Sui	Ordinary	-	-	2,000,000 (Note e)	2,000,000
6. 8D International Limited ("8D")	Mr. Lo Yuk Sui	Ordinary	-	-	10,000 (Note f)	10,000
7. Almighty International Limited ("Almighty")	Mr. Lo Yuk Sui	Preference	-	-	11,800,000,000 (Notes h(ii) & (iii))	11,800,000,000
8. Argosy Capital Corporation	Mr. Lo Yuk Sui	Ordinary	-	-	1,130,349 (Note a)	1,130,349



Report of the Directors (Cont'd)

	Name of Associated Corporation	Name of Director	Class of Shares Held	Number of Shares Held			Total
				Personal Interests	Family Interests	Corporate Interests	
9.	Century Win Investment Limited	Mr. Lo Yuk Sui	Ordinary	–	–	9,000 (Note a)	9,000
10.	Cheerjoy Development Limited ("Cheerjoy")	Mr. Lo Yuk Sui	Ordinary	–	–	(Note g)	(Note g)
11.	Chest Gain Development Limited	Mr. Lo Yuk Sui	Ordinary	–	–	7,000 (Note a)	7,000
12.	Chinatrend (Holdings) Limited	Mr. Lo Yuk Sui	Ordinary	–	–	7,500 (Note a)	7,500
13.	Chinatrend (Nankai) Limited	Mr. Lo Yuk Sui	Ordinary	–	–	85 (Note a)	85
14.	Hanoi President Hotel Company Limited	Mr. Lo Yuk Sui	Ordinary	–	–	75 (Note a)	75
15.	Rapid Growth Holdings Limited	Mr. Lo Yuk Sui	Ordinary	–	–	25,000 (Note a)	25,000
16.	Talent Faith Investments Ltd.	Mr. Lo Yuk Sui	Ordinary	–	–	50 (Note a)	50
17.	Villawood Developments Limited	Mr. Lo Yuk Sui	Ordinary	–	–	65 (Note a)	65
18.	Wealth Link Investments Limited	Mr. Lo Yuk Sui	Ordinary	–	–	1 (Note a)	1



Notes:

- (a) The shares were held through companies controlled by CCIHL, of which Mr. Lo Yuk Sui is the Chairman and controlling shareholder.
- (b) Including the retained balance, i.e. 6,444,444 shares, (the "Retained Shares") of the consideration shares agreed to be sold at HK\$4.50 per share for the acquisition of the remaining 51% shareholding interest in The New China Hong Kong Financial Services Limited (now known as Century City Financial Services Limited) by a wholly owned subsidiary company of CCIHL from a wholly owned subsidiary company of The New China Hong Kong Group Limited (the "NCHK Company") pursuant to the conditional agreement dated 7th September, 1998 in respect of the said acquisition, which was completed on 17th September, 1998 (the "Completion Date"). The Retained Shares are retained by the CCIHL group until the first anniversary of the Completion Date in connection with the indemnity given by the NCHK Company under the said agreement.
- (c) 1,706,500,000 shares (the "Exchange Property") were charged by a wholly owned subsidiary of the Company in favour of a trustee for the holders of the Series B Bonds issued as part of the restructuring and settlement proposal in respect of the then existing bonds of the Group which closed on 31st October, 2002 (the "Closing Date") to form the initial exchange property in respect of the Series B Bonds. The Exchange Property is to be released to the holders of the Series B Bonds in four quarterly tranches (with the first tranche comprising 284,125,000 shares and the other three tranches each comprising 474,125,000 shares) on each dates falling 12, 15, 18 and 21 months after the Closing Date, subject to certain early release provisions.
- (d) 400 shares were held through companies controlled by CCIHL and 600 shares were held through a company controlled by Mr. Lo Yuk Sui.
- (e) 800,000 shares were held through companies controlled by CCIHL and 1,200,000 shares were held through companies controlled by Mr. Lo Yuk Sui (including 8D-BVI).
- (f) 8D is a wholly owned subsidiary company of 8D Matrix.
- (g) A wholly owned subsidiary company of the Company holds 30% attributable shareholding interest in Cheerjoy through Point Perfect Investments Limited ("Point Perfect") which is a 30% owned associate of such subsidiary company. Point Perfect holds all the issued shares of Cheerjoy, i.e. 2 shares.
- (h) (i) Pursuant to the Agreement dated 2nd August, 2002 (as supplemented by a Supplemental Agreement dated 31st October, 2002) (the "Share Swap Agreement") entered into between Grand Modern Investments Limited ("Grand Modern"), Select Wise Holdings Limited and Splendid All Holdings Limited ("Splendid All") (collectively, the "VPI Vendors"), Almighty, which became a wholly owned subsidiary of CCIHL on 31st December, 2002 pursuant to the Share Swap Agreement, and CCIHL, the VPI Vendors sold to Almighty 3,450,000,000 non-voting convertible preference shares of HK\$0.10 each of the Company ("PHL Preference Shares"). The consideration for acquiring the 3,450,000,000 PHL Preference Shares was satisfied by the allotment and issue of an aggregate amount of 13,800,000,000 exchangeable preference shares of HK\$0.10 each of Almighty ("Almighty EP Shares") to the VPI Vendors, in the proportion of four Almighty EP Shares for each PHL Preference Share, on 31st December, 2002.



- (ii) Out of the 13,800,000,000 Almighty EP Shares, 11,000,000,000 Almighty EP Shares were allotted and issued to Grand Modern, a company controlled by Mr. Lo Yuk Sui, and were attached with rights to exchange for 2,750,000,000 PHL Preference Shares (or 2,750,000,000 new ordinary shares of HK\$0.01 each of the Company ("PHL Ordinary Shares") so converted from the 2,750,000,000 PHL Preference Shares), on the basis of one PHL Preference Share (or one PHL Ordinary Share) for every four Almighty EP Shares, subject to certain conditions and restrictions.
 - (iii) Out of the 13,800,000,000 Almighty EP Shares, 800,000,000 Almighty EP Shares were allotted and issued to Splendid All and were attached with rights to exchange for 200,000,000 PHL Preference Shares (or 200,000,000 new PHL Ordinary Shares so converted from the 200,000,000 PHL Preference Shares), on the basis of one PHL Preference Share (or one PHL Ordinary Share) for every four Almighty EP Shares, subject to certain conditions and restrictions. Mr. Lo Yuk Sui holds the entire issued share capital of Splendid All as a trustee and may have discretion over the exercise of the voting right attaching to the entire issued share capital of Splendid All.
- (i) (i) On 23rd January, 2003, Splendid All exercised the exchange rights attached to 400,000,000 Almighty EP Shares held by it, which were as a result exchanged into 100,000,000 PHL Preference Shares on the basis of one PHL Preference Share for every four Almighty EP Shares so exchanged.
- (ii) On 24th January, 2003, Splendid All exercised the conversion rights attached to 100,000,000 PHL Preference Shares held by it for conversion into 100,000,000 new PHL Ordinary Shares on the basis of one new PHL Ordinary Share for one PHL Preference Share so converted. As a result, 100,000,000 new PHL Ordinary Shares were allotted and issued to Splendid All on 24th January, 2003.

(B) Interests in Share Options Granted by the Company

Details of Directors' interests in share options granted by the Company are set out in note 37 to the financial statements.

Save as disclosed in note 37 to the financial statements, during the year, no right has been granted to, or exercised by, the following persons, to subscribe for shares in or debentures of the Company and no option granted to such persons has been cancelled and lapsed:

- (i) any Director, chief executive or substantial shareholders of the Company, or their respective associates;
- (ii) any participant with options granted in excess of the individual limit;
- (iii) any employee working under employment contract that is regarded as "continuous contract" for the purpose of the Employment Ordinance;
- (iv) any supplier of goods or services; and
- (v) any other participants.



SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARE CAPITAL

As at 31st December, 2002, the interests of those persons (other than the Directors) in the share capital of the Company as recorded in the register kept under Section 16 of SDIO were as follows:

Name of Shareholder	Number of Shares held
CCIHL (Notes i and iii)	1,373,024,977
Century City BVI Holdings Limited (Notes ii and iii)	1,373,024,977
Century City Holdings Limited (Note ii)	769,458,989

Notes:

- (i) These shares were shown as the corporate interests of Mr. Lo Yuk Sui in the Company as disclosed under Interests in Shares of Directors' Interests in Share Capital.
- (ii) These companies are subsidiary companies of CCIHL and their interests in the shares of the Company are included in the interests held by CCIHL.
- (iii) Including the retained balance of 6,444,444 shares as disclosed under Note (b) to Interests in Shares of Directors' Interests in Share Capital.

Mr. Lo Yuk Sui, Mrs. Kitty Lo Lee Kit Tai, Mr. Jimmy Lo Chun To, Mr. Kenneth Ng Kwai Kai and Mr. Ng Siu Chan are directors of CCIHL. Messrs. Lo Yuk Sui, Cheng Yuk Lun, Donald Fan Tung and Kenneth Ng Kwai Kai are also directors of the abovenamed subsidiary companies of CCIHL.



DIRECTORS' INTERESTS IN AND MOVEMENTS IN SHARE OPTIONS GRANTED BY REGAL HOTELS INTERNATIONAL HOLDINGS LIMITED

During the year, details of Directors' interests in and movements in share option granted by RHIHL pursuant to the Executive Share Option Scheme of RHIHL (the "RHIHL Option Scheme") approved by its shareholders on 28th June, 1990 are set out in note 37 to the financial statements.

Save as disclosed above, during the year, no right has been granted to, or exercised by, the following persons, to subscribe for shares in or debenture of the subsidiary companies of the Company, and no option granted to such persons has been cancelled and lapsed:

- (i) any Director, chief executive or substantial shareholders of the Company, or their respective associates;
- (ii) any participant with options granted in respect of the individual limit;
- (iii) any employee working under employment contract that is regarded as "continuous contract" for the purpose of the Employment Ordinance;
- (iv) any supplier of goods or services; and
- (v) any other participants.

MOVEMENTS IN 5¼% CONVERTIBLE CUMULATIVE REDEEMABLE PREFERENCE SHARES OF REGAL HOTELS INTERNATIONAL HOLDINGS LIMITED

Movements during the year in 5¼% convertible cumulative redeemable preference shares with par value of US\$10.00 each ("Preference Shares") of RHIHL are detailed below:

	Number of Preference Shares
Balance at beginning and at end of year	<u>16,748</u>

Note: The Preference Shares are convertible into fully paid ordinary shares of HK\$0.01 each of RHIHL at any time until and including 5th December, 2008 at the adjusted conversion price of HK\$1.7037 per share (subject to adjustment) based on a reference amount of US\$1,000 per Preference Share at the fixed exchange rate of HK\$7.730255 to US\$1.00.

For the purpose of the sections below headed "Connected Transactions" and "Disclosure pursuant to Practice Note 19", the "RHIHL Group" refers to RHIHL and its subsidiary companies; the "PHL Group" refers to the Company and its subsidiary companies, other than those comprising

the RHIHL Group; the "CCIHL Group" refers to CCIHL and its subsidiary companies, other than those comprising the PHL Group and the RHIHL Group; and the "PHL/RHL Group" or the "Group" refers to the Company and its subsidiary companies, including those comprising the RHIHL Group.



CONNECTED TRANSACTIONS

ON-GOING TRANSACTIONS

On 9th February, 1998, the Company issued a circular (the "Circular") to the shareholders containing information regarding, inter alia, various on-going transactions (the "On-going Transactions") and future similar transactions (the "Future Connected Transactions") between respective subsidiary companies of the CCIHL Group, the PHL Group and the RHIHL Group, all conducted within their ordinary and normal course of businesses. The said transactions constituted or will constitute connected transactions for the Company under the Listing Rules. The Stock Exchange, on application by the Company, granted a waiver (the "Waiver") of strict compliance by the Company with the announcing requirement under the Listing Rules in respect of Future Connected Transactions, details of which Waiver were contained in the Circular. Details of the On-going Transactions conducted during the year were as follows:

Corporate Services Transactions

Before the closing of the bonds settlement of the PHL Group on 31st October, 2002, which involved, inter alia, the transfer of Paliburg Plaza by the PHL Group to the bondholders, the present head office accommodation of the CCIHL Group located at 18th to 22nd Floors of Paliburg Plaza was leased to the CCIHL Group by the PHL Group. Relevant rentals paid for the year ended 31st December, 2002 amounted to approximately HK\$7.9 million. The lease was last renewed for a term of six months to 28th September, 2002 at approximately HK\$0.8 million per month.

Since then, the lease has been further renewed for terms of 6 months, but the rental term for such lease renewals are yet to be finalised and agreed.

The head office accommodation of the CCIHL Group is shared with the CCIHL Group by the PHL Group and the RHIHL Group. The rental charge of the head office accommodation is allocated among the Company, CCIHL and RHIHL, according to estimates from time to time by the directors of CCIHL and, as appropriate, with endorsement of the respective directors of the Company and RHIHL, of fair proportional use, based on the actual area occupied. The rental in respect of the areas used in common among such members of the PHL Group, the CCIHL Group and the RHIHL Group is apportioned with reference to individual consolidated turnover, profit (as applicable) and assets values of the Company, CCIHL and RHIHL for each financial year. The payment obligation in respect of such rentals is assumed by the three companies.

Furthermore, the CCIHL Group provides corporate management services to the PHL Group and the RHIHL Group, the fees for which are charged by apportionment of actual costs among the Company, CCIHL and RHIHL on a fair proportionate basis by reference to individual consolidated turnover, profit (as applicable) and asset values of the Company, CCIHL and RHIHL for each financial year.

The aggregate amount of such rentals and corporate management costs apportioned to the Company and RHIHL for 2002 were approximately HK\$23.2 million (comprising rental of approximately HK\$4.0 million) and HK\$22.6 million (comprising rental of approximately HK\$3.4 million), respectively.



Miscellaneous Connected Transactions

An associate of the CCIHL Group has been providing advertising and promotion services to the PHL Group on retainers and at a standard fee based on total costs involved, with actual costs and out-of-pocket expenses incurred reimbursed. The associate is owned as to 10% by the CCIHL Group, 30% by the RHIHL Group (the RHIHL Group also holds an additional 6% attributable interest through its holding in 8D-BVI) and 60% indirectly by Mr. Lo Yuk Sui, the Chairman and controlling shareholder of CCIHL, through his associates (as defined in the Listing Rules), including 8D-BVI. The aggregate sum of the retainer fees and standard fees paid by the PHL Group to that associate of CCIHL Group in respect of such transactions for the year ended 31st December, 2002 amounted to approximately HK\$0.7 million.

Information relating to the On-going Transactions is also contained in note 49 to the financial statements.

Compliance with the Waiver Conditions

The aggregate amounts of the rentals and corporate management costs under the Corporate Services Transactions apportioned to the Company for the year ended 31st December, 2002 exceeded the relevant cap as set out in the Waiver of 0.5% of the latest published audited consolidated net tangible assets of the Group as at 31st December, 2001, adjusted to take into account of the results for the six-month period ended 30th June, 2002. The Company will make submission to the Stock Exchange with respect to necessary compliance of announcing or other requirements under the Listing Rules in relation thereto.

The aggregate amounts of the retainer fees and standard fees under the Miscellaneous Connected Transactions paid by the PHL Group to the CCIHL Group for the year ended 31st December, 2002 were within the relevant cap as set out in the Waiver of 0.25% of the latest published audited consolidated net tangible assets of the Group as at 31st December, 2001, adjusted to take into account of the results for the six-month period ended 30th June, 2002.

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.



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 70% by RHIHL and 30% by China Overseas Land & Investment Limited, 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), by the RHIHL Group as at 31st December, 2002 are set out below:

Advances

	RHIHL Group (HK\$'million)
(A) Principal Amount of Advances	2,700.9
(B) Interest Receivable	379.2
(C) Several Guarantees for:	
(a) Principal Amount of Bank Facilities	2,310.0
(b) Amount of Bank Facilities Drawdown	1,938.4
Total: (A)+(B)+(C)(a)	<u>5,390.1</u>
(A)+(B)+(C)(b)	<u>5,018.5</u>

The above advances to Chest Gain in an aggregate sum of HK\$3,080.1 million (before a provision of HK\$1,633.3 million) included an amount of HK\$1,701.1 million (before a provision of HK\$933.3 million), which represented the gross amount of the advances attributable to the Company's 40% interest in Chest Gain transferred to the RHIHL Group pursuant to the Stanley Transfer as detailed in note 21 to the financial statements. Such contribution of funds to Chest Gain is required to be provided in the form of shareholder's loan in proportion to the shareholding interests of the shareholders of Chest Gain. The advances are unsecured and have no fixed term of repayment, and related interest had been accrued at prime rate up to 31st December, 1998. 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 then 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.

Pursuant to the agreement for the Stanley Transfer, the Company has agreed to continue to provide, after completion of the Stanley Transfer, a several guarantee in respect of 40% of the bank borrowings for the project.



Calculated on the basis shown above, the aggregate of advances and other financial assistance as at 31st December, 2002 provided by the RHIHL Group to Chest Gain in the respective sums of (a) HK\$5,390.1 million (based on the total available amount of the bank facilities) and (b) HK\$5,018.5 million (based on the amount of bank facilities drawdown) represented (a) 256.6% and (b) 239.0 % of the consolidated net tangible assets of the Company of HK\$2,100.2 million (the "Paliburg NTA"), by reference to its latest audited financial statements for the year ended 31st December, 2002.

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 Group as at 31st December, 2002 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) 2,700.9	(B) 379.2	(C)(i) 2,310.0	(C)(ii) 1,938.4	
Cheerjoy Development Limited	(D) 147.7 (Interest Rate: Prime Rate)	(E) 7.5	Nil	Nil	
Talent Faith Investments Ltd.	(F) 78.6	–	Nil	Nil	
8D International (BVI) Limited	(G) 28.6	–	Nil	Nil	
8D Matrix Limited	(H) 0.5	–	Nil	Nil	
Bright Future (HK) Limited	(I) 5.6	–	Nil	Nil	
				Total: (A)+(B)+(C)(i)+(D)to(I)	<u>5,658.6</u>
				(A)+(B)+(C)(ii)+(D)to(I)	<u>5,287.0</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") was previously a wholly owned subsidiary company of the Company. Talent Faith owns a 65% interest in a joint venture company which, in turn, owns 70% interest in an equity joint venture in the People's Republic of China involved in property development in Beijing. Talent Faith became a 50% owned associate of the Company during 2000. 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 and, in accordance with the terms in the agreement entered into with the said third party in relation to the disposal of the Group's 50% interest in Talent Faith, would not be in proportion to the Company's shareholding interest in Talent Faith. The advances were provided for the purpose of funding the working capital requirements of Talent Faith, are unsecured, interest free and have no fixed terms 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 a broadband fibre optic network in The People's Republic of China and the development and distribution of technologically advanced security and building related systems and software development, and promotions businesses. 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 (RHIHL also holds an additional 6% attributable interest through its holding in 8D-BVI), which is involved in promotions businesses. The remaining shareholding interest in 8D Matrix are owned as to 10% indirectly by CCIHL, 60% indirectly by Mr. Lo Yuk Sui through his associates (as defined in the Listing Rules), including 8D-BVI. 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.



Bright Future (HK) Limited ("Bright Future"), a 50% owned associate of RHIHL, owns a 90% effective equity interest in a foreign enterprise in The People's Republic of China engaged in the operation of a hotel in Qinghai. The remaining 50% shareholding interest in Bright Future and the remaining 10% equity interest in the aforesaid foreign enterprise are owned by third parties respectively, which are 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 to Bright Future were provided by the RHIHL Group in the form of shareholder's loans in proportion to RHIHL's shareholding interest in Bright Future, for the purpose of funding the working capital requirements of Bright Future. The advances to Bright Future are unsecured, interest free and have no fixed term of repayment.

Calculated on the basis shown above, as at 31st December, 2002, 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\$5,658.6 million (based on the total available amount of the bank facilities to Chest Gain) and (b) HK\$5,287.0 million (based on the drawdown amount of bank facilities to Chest Gain) represented (a) 269.4% and (b) 251.7% 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	1,069.3	373.5
Current assets	4,547.0	1,521.0
Current liabilities	(298.4)	(109.6)
Non-current liabilities	(9,229.1)	(3,091.6)
Net liabilities	<u>(3,911.2)</u>	<u>(1,306.7)</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, 2002 (HK\$'million)	Final Maturity of Bank Facilities	Specific Performance Obligations
RHIHL Group	(a)	1,060.8	July 2007	Note (i)
	(b)	3,755.8	September 2004	Note (ii)
Total:		4,816.6		

Notes:

- (i) Mr. Lo Yuk Sui, the Chairman and the controlling shareholder of CCIHL which owns a 56.8% shareholding interest in the Company (which in turn owns a 74.9% 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 the shareholding (as defined under the Listing Rules) and management control of 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 the breach of certain terms and financial covenants of the above loan agreements are set out in note 3 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 which currently comprises Dr. Alex Wu Shu Chih (Chairman of the Committee), Mr. Abramam Shek Lai Him 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 17 to the financial statements.

PROPERTIES UNDER DEVELOPMENT

The details of movements in properties under development during the year are set out in note 19 to the financial statements.

PROPERTY HELD FOR FUTURE DEVELOPMENT

The details of movements in properties held for future development during the year are set out in note 20 to the financial statements.

BORROWINGS

The details of the Group's borrowings at the balance sheet date are set out in notes 31 and 35 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 37 to the financial statements.

SHARE PREMIUM ACCOUNT

The details of movements in the share premium account during the year are set out in note 37 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 39 to the financial statements.

CAPITAL RESERVE

The details of movements in the capital reserve account during the year are set out in note 40 to the financial statements.

SPECIAL RESERVE

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

REVALUATION RESERVES

The details of movements in the revaluation reserve account during the year are set out in note 42 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 43 to the financial statements.

SUBSIDIARY COMPANIES

Particulars of the Company's principal subsidiary companies are set out in note 44 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 21 and 22 to the financial statements, respectively.

CONTRIBUTED SURPLUS

The details of movements in the contributed surplus account during the year are set out in note 45 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31st December, 2002, the Company's reserves available for distribution calculated in accordance with The Companies Act 1981 of Bermuda amounted to HK\$1,742.7 million.

INTEREST CAPITALISED

Interest expenses in the amount of HK\$0.4 million were capitalised during the year in respect of the Group's construction contracts.

POST BALANCE SHEET EVENTS

Details of the significant events which occurred subsequent to the balance sheet date are set out in note 54 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, 2003

