

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

1. GENERAL

The Company is a public limited company incorporated and listed in Hong Kong. Its ultimate holding company is China State Construction Engineering Corporation, an entity established in the People's Republic of China (the "PRC").

The principal activities of the Group are investment holding, property development and investment, building and civil construction, foundation engineering and project management, real estate agency and management, infrastructure project investments, general trading, and treasury operations.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration, is credited to reserves.

Any premium or discount arising on the acquisition of an interest in an associate, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associate at the date of acquisition, is dealt with in the same manner as that described above for goodwill.

On disposal of investments in subsidiaries and associates, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary and associate.

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2000

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Investments in subsidiaries (Cont'd)

Investments in subsidiaries are included in the Company's balance sheet at cost as reduced by any decline in the value of the subsidiary that is other than temporary. The results of the subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

Investments in associates

An associate is an enterprise, other than a subsidiary, over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost as reduced by any decline in the value of the associate that is other than temporary.

Investments in infrastructure projects

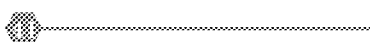
The Group's interests in infrastructure projects are accounted for as infrastructure project investments where the return therefrom is fixed or where the Group is entitled to a variable amount unconnected with the results of the projects. Such investments are initially recorded at cost. Payments receivable from such investments are apportioned between income and reduction of the carrying value of the investments so as to give a constant periodic rate of return on the net investments. Where the estimated recoverable amount of these investments falls below their carrying value, the carrying value is written down to the recoverable amount.

Investments in syndicated property projects

Investments in syndicated property project companies, not being subsidiaries or associates, are stated at cost as reduced by any decline in value that is other than temporary. The results of these project companies are accounted for by the Group on the basis of dividends received and receivable during the year.

Investments in securities

Investments in securities, not being securities held for an identified long-term strategic purpose, are classified as other investments and are measured at fair value, with unrealised gains and losses included in net results for the year.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2000

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Development properties

Completed properties and properties under development

Completed properties and properties under development held for sale are stated at the lower of cost and net realisable value. Cost includes the cost of land, development expenditure, borrowing costs capitalised in accordance with the Group's accounting policy and other attributable expenses. Net realisable value is determined by the management based on prevailing market conditions.

Properties for development

Properties held for development are stated at cost less any impairment loss. Cost includes the cost of land, borrowing costs capitalised in accordance with the Group's accounting policy and other attributable expenses.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case, the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On the disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement to form part of the gain or loss on disposal.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation. Properties for own use reclassified from investment properties are stated at the carrying value at the time when the reclassification took place, less subsequent depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance costs, is normally charged to the income statement 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 assets, the expenditure is capitalised as an additional cost of the assets.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2000

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement. Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Revaluation increase arising on revaluation of an asset is credited to an asset revaluation reserve. A decrease in net carrying amount of an asset is charged to the income statement to the extent that it exceeds the balance, if any, on the asset revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation increase is transferred to retained profits.

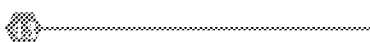
Advantage has been taken of the transitional relief provided by paragraph 72 of Statement of Standard Accounting Practice 17 "Property, plant and equipment" issued by the Hong Kong Society of Accountants from the requirement to make regular revaluations of the Group's land and buildings held for own use which had been carried at revalued amounts prior to 30 September 1995, and accordingly no further revaluation of such land and buildings is carried out.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual value, using the straight line method, as follows:

Leasehold land and land use rights	Over the term of the relevant lease
Buildings	Over the shorter of the term of the relevant lease or 25 years
Plant and machinery	3 to 5 years
Other assets	3 to 8 years

Inventories

Inventories, representing building materials, are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first in, first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2000

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that costs incurred to date bear to estimated total costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, each asset has been separately negotiated and the costs and revenues of each asset can be separately identified. A group of contracts, performed concurrently or in a continuous sequence, is treated as a single construction contract when they were negotiated as a single package and are so closely inter-related that they constitute a single project with an overall profit margin.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under trade and other receivables.

Capitalisation of borrowing costs

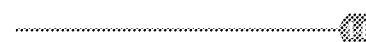
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the year in which they are incurred.

Foreign currencies

Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates of exchange ruling on the balance sheet date. Transactions denominated in currencies other than Hong Kong dollars are translated at the rates of exchange ruling on the dates of the transactions or at the contracted settlement rate. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries and associates established outside Hong Kong, which are denominated in currencies other than Hong Kong dollars, are translated at the rates of exchange ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in an exchange equalisation reserve.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2000

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease term.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Cash equivalents

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.

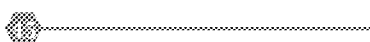
Revenue recognition

Sales of properties

Income from sales of properties together with the interest earned on deposits from the instalment sales of flats are recognised upon the execution of a binding sales agreement or upon the issuance of an occupation permit/completion certificate by the relevant authority, whichever is the later. Deposits received from forward sales of properties are carried in the balance sheet under current liabilities.

Property rentals

Rentals receivable under operating leases are recognised and credited to the income statement on a straight line basis over the relevant lease term.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2000

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Revenue recognition (Cont'd)

Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue from fixed price contracts is recognised on the percentage completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract, after making due allowances for contingencies. Provisions are made for any foreseeable losses when they are identified. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customers.

When the outcome of a construction contract can be estimated reliably, revenue from cost plus contracts is recognised by reference to the recoverable costs incurred during the period plus the fees earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Project management contracts

Income and profits from project management contracts are recognised on the basis of work performed.

Income from infrastructure project investments

Income from infrastructure project investments, where the Group is entitled to a fixed guaranteed return over the contract period, is recognised on an accrual basis using the actuarial method so as to produce a constant periodic rate of return on the net investment and loan balance.

Real estate agency and management services

Service income from real estate agency and management is recognised when services are provided.

Sales of goods

Sales of goods are recognised when goods are delivered and title has passed.

Income from sales of listed securities

Income from sales of listed securities is recognised when the sales become unconditional.

Interest income

Interest income from bank deposits and loans receivable is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2000

3. TURNOVER AND CONTRIBUTION

Turnover represents the aggregate of proceeds from sales of development properties, property rentals, revenue from construction contracts and project management, real estate agency and management service income, income from infrastructure project investments, proceeds from sales of goods and listed securities, interest and dividend income.

The following is an analysis of the Group's turnover and contribution from ordinary activities:

	Turnover		Contribution	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
By activity:				
Property development and investment				
Sales of properties	2,922,969	970,244	94,379	102,047
Property letting	166,988	147,725	127,364	123,611
Impairment losses	–	–	(269,530)	(1,109,070)
Building and civil construction, foundation engineering and project management	2,766,848	2,106,278	192,097	100,443
Real estate agency and management	88,143	61,504	25,039	22,585
Infrastructure project investments	135,476	135,795	135,476	135,795
Sales of goods	–	7,221	–	(13)
Other investments				
Securities trading	59,585	81,283	2,830	6,690
Placement of funds	84,290	82,246	84,290	82,246
Impairment losses on investments	–	–	(24,300)	(43,740)
	<u>6,224,299</u>	<u>3,592,296</u>	<u>367,645</u>	<u>(579,406)</u>
Gain on partial disposal of interest in an associate			31,954	–
Unallocated administrative expenses and finance costs			(227,731)	(266,516)
Share of results of associates			<u>23,330</u>	<u>35,935</u>
Profit (loss) from ordinary activities before taxation			<u>195,198</u>	<u>(809,987)</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

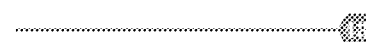
FOR THE YEAR ENDED 31 DECEMBER 2000

3. TURNOVER AND CONTRIBUTION (Cont'd)

	Turnover		Contribution	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By geographical location:				
Hong Kong	4,013,640	2,398,580	(226,991)	(915,614)
Other regions in the PRC	<u>2,210,659</u>	<u>1,193,716</u>	<u>594,636</u>	<u>336,208</u>
	<u>6,224,299</u>	<u>3,592,296</u>	367,645	(579,406)
Gain on partial disposal of interest in an associate			31,954	–
Unallocated administrative expenses and finance costs			(227,731)	(266,516)
Share of results of associates			<u>23,330</u>	<u>35,935</u>
Profit (loss) from ordinary activities before taxation			<u>195,198</u>	<u>(809,987)</u>

4. IMPAIRMENT LOSSES RECOGNISED

	GROUP	
	2000	1999
	HK\$'000	HK\$'000
Impairment losses recognised in respect of:		
Properties for sale	269,530	1,018,570
Syndicated property projects	–	90,500
Net unrealised holding loss on other investments	<u>24,300</u>	<u>43,740</u>
	<u>293,830</u>	<u>1,152,810</u>



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2000

5. PROFIT (LOSS) FROM OPERATIONS

	GROUP	
	2000	1999
	HK\$'000	HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Auditors' remuneration	2,359	2,600
Depreciation	80,350	82,079
Staff costs including directors' emoluments	442,908	406,490
Rental expenses in respect of land and buildings under operating leases	3,629	3,856
Provision for doubtful trade receivables	589	26,945
Exchange losses, net	4,043	–
	<u>449,878</u>	<u>522,970</u>
and after crediting:		
Rental income in respect of land and buildings under operating leases, net of outgoings of HK\$27,218,000 (1999: HK\$24,387,000)	139,770	123,338
Exchange gains, net	–	3,479
Dividends and appropriations from investments		
– listed	188	1,257
– unlisted	1,365	–
Realised gain on disposal of other investments	–	2,784
	<u>141,223</u>	<u>127,561</u>

6. FINANCE COSTS

	GROUP	
	2000	1999
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	342,569	302,942
Other finance costs	6,313	27,141
Less: Amount capitalised on development properties	(94,066)	(179,298)
	<u>254,816</u>	<u>150,785</u>