

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2000

29. DEFERRED TAXATION (Cont'd)

The amount of the unprovided deferred tax charge (credit) for the year is as follows:

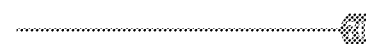
	GROUP	
	2000	1999
	HK\$'000	HK\$'000
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation charges	1,736	4,623
Tax losses arising	(123,466)	(188,973)
Other timing differences	10,092	(10,341)
	<u>(111,638)</u>	<u>(194,691)</u>

The Company had no material unprovided deferred taxation for the year or at the balance sheet date.

The valuation increases or decreases attributable to the Group's properties situated in Hong Kong and long-term investments do not constitute timing differences, accordingly deferred taxation has not been quantified. No provision has been made for deferred taxation attributable to the increase arising on the valuation of the Group's properties situated in the PRC as the amount involved is insignificant.

30. RECONCILIATION OF PROFIT (LOSS) FROM ORDINARY ACTIVITIES BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	GROUP	
	2000	1999
	HK\$'000	HK\$'000
Profit (loss) from ordinary activities before taxation	195,198	(809,987)
Impairment losses recognised (note 4)	293,830	1,152,810
Share of results of associates	(23,330)	(35,935)
Depreciation	80,350	82,079
Gain on partial disposal of interest in an associate	(31,954)	–
Gain on disposal of investment properties	–	(156)
Loss on disposal of property, plant and equipment	2,138	7,537
Interest expenses less amount capitalised	248,503	123,644
Provision for doubtful trade receivables	589	26,945
Movements in assets/liabilities held for operating activities:		
Decrease in instalments receivable	6,939	2,806
(Increase) decrease in inventories	(569)	899
(Increase) decrease in amounts due from customers for contract work	(80,086)	534
Decrease (increase) in properties for sale	1,029,911	(541,711)
(Increase) decrease in other investments	(7,877)	14,217
Increase in trade and other receivables, deposits and prepayments	(443,911)	(236,281)
Increase in trade and other payables, sales and other deposits	102,919	475,540
Increase in amounts due to customers for contract work	7,991	24,998
NET CASH INFLOW FROM OPERATING ACTIVITIES	<u>1,380,641</u>	<u>287,939</u>



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2000

31. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium <i>HK\$'000</i>	Bank loans and loans from ultimate holding company <i>HK\$'000</i>	Amounts due to minority shareholders <i>HK\$'000</i>
Group			
Balance at 1 January 1999	5,711,514	4,155,463	1,062,914
Net cash inflow from financing	874	266,083	26,711
Minority's share of results for the year	–	–	(403,426)
Minority's share of reserve movement for the year	–	–	(175)
Dividends paid to minority shareholders	–	–	(142)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 1999	5,712,388	4,421,546	685,882
Net cash inflow (outflow) from financing	4,965	(49,389)	151,800
Minority's share of results for the year	–	–	(216,421)
Minority's share of reserve movement for the year	–	–	(515)
Acquisition of additional interests in a subsidiary	–	–	(146,808)
Dividends paid to minority shareholders	–	–	(6,119)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2000	5,717,353	4,372,157	467,819

32. MAJOR NON-CASH TRANSACTIONS

During the year,

- (i) the Group transferred certain properties held for development amounting to HK\$301,442,000 (1999: Nil) to properties under development.
- (ii) the Group transferred certain properties for own use amounting to HK\$150,347,000 (1999: HK\$6,843,000) to investment properties.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2000

33. COMMITMENTS

At the balance sheet date, there were commitments not provided for in the financial statements as follows:

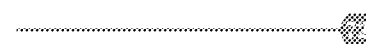
	GROUP		COMPANY	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
(a) Property development expenditure				
– authorised but not yet contracted for	270,950	–	–	–
– contracted for	826,232	1,139,734	–	–
	<u>1,097,182</u>	<u>1,139,734</u>	<u>–</u>	<u>–</u>
(b) Lease commitments payable in the next 12 months in respect of non-cancellable operating leases for land and buildings expiring				
– within one year	487	378	–	3,606
– in the second to fifth years inclusive	1,641	2,198	5,192	–
	<u>2,128</u>	<u>2,576</u>	<u>5,192</u>	<u>3,606</u>
(c) Outstanding capital contributions to investee companies contracted for	881,668	744,628	31,934	41,280
	<u>881,668</u>	<u>744,628</u>	<u>31,934</u>	<u>41,280</u>

34. CONTINGENT LIABILITIES

At the balance sheet date, there were contingent liabilities as follows:

(a) Guarantees given and indemnities provided by the Company and subsidiaries

	GROUP		COMPANY	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
In respect of credit facilities granted to:				
– subsidiaries	–	–	2,538,658	2,808,595
– associates	1,039,600	1,071,879	1,039,600	1,071,879
– syndicated property project companies	800,000	800,000	800,000	800,000
	<u>1,839,600</u>	<u>1,871,879</u>	<u>4,378,258</u>	<u>4,680,474</u>



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2000

34. CONTINGENT LIABILITIES (Cont'd)

- (a) Guarantees given and indemnities provided by the Company and subsidiaries (Cont'd)

Certain wholly owned subsidiaries of the Company had committed to invest an aggregate sum of approximately HK\$667 million (1999: HK\$700 million) (as included in note 33(c) above), representing the registered capitals of investee companies undertaking infrastructure projects in the PRC to be contributed. The subsidiaries' undertakings were guaranteed by the Company.

The Group and the Company had outstanding counter indemnities amounting to HK\$168,552,000 (1999: HK\$78,162,000) and HK\$31,900,000 (1999: HK\$33,040,000) respectively for surety bonds issued in respect of construction projects.

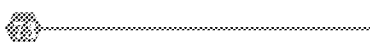
In addition, the Group and the Company had acted as guarantor for repayment of the mortgage bank loans granted to purchasers of the Group's properties amounting to HK\$994,100,000 (1999: HK\$347,477,000) and HK\$156,975,000 (1999: HK\$47,759,000) respectively.

- (b) Certain subsidiaries of the Company and their respective joint development partners were jointly and severally liable for the due and prompt completion of various joint development projects undertaken by associates and syndicated property project companies.

35. PLEDGE OF ASSETS

At the balance sheet date:

- (a) Banking facilities granted to the Group were secured, inter alia, by the following:
- (i) pledge of shares in certain subsidiaries; and
 - (ii) fixed charges on the Group's development properties with an aggregate carrying value of approximately HK\$2,829 million (1999: HK\$3,872 million).
- (b) Banking facilities granted to certain associates and syndicated property project companies were secured by pledge of shares in and subordination of advances to these companies with respective carrying values of approximately HK\$433 million (1999: HK\$373 million) and HK\$829 million (1999: HK\$779 million).
- (c) Mortgage bank loans granted to purchasers of the Group's properties were secured by the Group's bank deposits amounting to approximately HK\$16 million (1999: HK\$13 million).



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2000

36. RELATED PARTY TRANSACTIONS

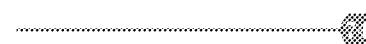
During the year, the Group had the following related party transactions:

- (a) Pursuant to a project management agreement (the "Project Management Agreement") entered into in 1993 between the Company's ultimate holding company, China State Construction Engineering Corporation ("CSCEC"), and certain wholly owned subsidiaries of the Company, namely China Overseas Building Construction Limited, China Overseas Civil Engineering Limited and China Overseas Foundation Engineering Limited (together the "Project Managers"), the Project Managers have been appointed by CSCEC as joint managers for each and every public works contract awarded to CSCEC since 1 January 1993. Under the Project Management Agreement, the Project Managers shall provide project management services and act as agent for, and in consultation with, CSCEC, to tender for and obtain projects on behalf of CSCEC on such terms as may be agreed by CSCEC. CSCEC has agreed to pay the Project Managers a management fee equivalent to 7 per cent. of the final contract sum receivable by CSCEC under such public works contracts.

Project management fees payable by CSCEC to the Group pursuant to the Project Management Agreement amounted to approximately HK\$248,631,000 (1999: HK\$357,503,000) in respect of the year.

In this connection, the Group had trade receivables owed by CSCEC to the Group outstanding at 31 December 2000 amounted to HK\$253,007,000 (1999: HK\$9,480,000), which are interest free and have no fixed repayment terms. Such receivables to the extent of HK\$125,166,000 was subsequently settled.

- (b) Pursuant to a medium-term loan facility agreement entered into between CSCEC and a wholly owned subsidiary of the Company, Chung Hoi Finance Limited ("CHFL"), an unsecured loan facility to the extent of HK\$300,000,000 (1999: HK\$300,000,000) was granted by CSCEC to CHFL to finance its working capital. The loan was fully repaid during the year. Interest payable on the loan, which was calculated at commercial lending rates, amounted to approximately HK\$305,000 (1999: HK\$1,390,000) in respect of the year.
- (c) In the ordinary course of business, CSCEC and the Company's immediate holding company, China Overseas Holdings Limited ("COHL"), acted as guarantors for certain banking facilities granted to the Group. No fees were chargeable by either CSCEC or COHL to the Group in this connection during the year.
- (d) On 21 July 2000, the Group entered into an agreement with the minority shareholder of Splendid Return Limited ("SRL"), a subsidiary of the Company, to acquire the 30% interest in SRL then held by the minority shareholder and loans to SRL for an aggregate agreed consideration of approximately HK\$52,900,000, subject to agreement. SRL, through its wholly owned subsidiary, owns a property in Hong Kong for development. Under the agreement, the minority shareholder has undertaken to procure vacant possession of the property. If the minority shareholder fails to do so within a specified period, the consideration payable is subject to an abatement to the extent of HK\$30,000,000.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2000

36. RELATED PARTY TRANSACTIONS (Cont'd)

- (e) At 31 December 2000, the amounts owed by associates to the Group before provision amounted to approximately HK\$1,443 million (1999: HK\$1,280 million) of which approximately HK\$1,189 million (1999: HK\$1,127 million) carries interests based on prime rate plus a specified margin and the remaining balance is interest free. A substantial amount of the interest receivable on the amount owed by an associate to the Group has not been accounted for in the financial statements as the realisation of which cannot be ascertained beyond reasonable doubt. Interest receivable on amounts owed by other associates to the Group recognised in the income statement for the year amounted to HK\$3,747,000 (1999: HK\$5,372,000). The amounts owing to associates by the Group at the year end amounted to approximately HK\$144,186,000 (1999: HK\$59,648,000) which are unsecured and interest free with no fixed repayment terms.
- (f) During the year, the Group made purchases of construction materials from certain associates amounted to an aggregate of approximately HK\$110,122,000 (1999: HK\$201,323,000) at prices determined by the directors with reference to market price for similar purchases.
- (g) The Group acted as the contractor for the development of a property project owned by an associate at the contract price which was determined with reference to the prices for similar projects contracted by the Group with outside parties. Construction fees for the project payable by the associate to the Group amounted to approximately HK\$137,299,000 (1999: HK\$133,800,000) in respect of the year.

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following are the particulars of the Company's subsidiaries at 31 December 2000 which, in the opinion of the directors, principally affected the results or the assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length. All subsidiaries registered in the PRC are operated in the PRC. Unless otherwise specified, all subsidiaries are incorporated and operating principally in Hong Kong and all issued shares are ordinary shares. None of the subsidiaries had any loan capital outstanding during the year.

Name of company	Proportion of nominal value of issued capital/ registered capital held by		Paid up issued capital/ registered capital	Principal activities
	Company %	Subsidiary %		
Advocate Properties Limited	–	100	100,000 shares of HK\$1 each	Investment holding
Ample Gain Limited	100	–	1,000 shares of HK\$1 each	Property investment and project management
Arch Regent Investments Limited (i)	–	100	1 share of US\$1	Investment holding
Barkgate Enterprises Limited (i)	–	100	200 shares of US\$1 each	Investment holding

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2000

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Name of company	Proportion of nominal value of issued capital/ registered capital held by		Paid up issued capital/ registered capital	Principal activities
	Company %	Subsidiary %		
Beauty Overseas Properties Limited	100	–	10,000 shares of HK\$1 each	Provision of nominee services
Beijing Zhong Hai Xing Ye Real Estate Development Co., Ltd.(iv)	–	100	US\$8,624,000	Property development
北京中海紫金房地產開發有限公司 (v)	–	100	RMB10,000,000	Property development
Better Success Development Limited	–	100	100 shares of HK\$1 each	Property trading
Capital Charm Development Limited	–	100	100 shares of HK\$1 each	Property trading
Cheerwise Investment Limited	–	100	10,000 shares of HK\$1 each	Investment holding
China Overseas Building Construction Limited	–	100	2 shares of HK\$10 each and 100 non-voting deferred shares of HK\$10 each	Building construction, project management and investment holding
中國海外建築(深圳)有限公司(ii) (China Overseas Building Development (Shenzhen) Co., Ltd. (vii))	–	100	RMB100,000,000	Property development, trading and investment and building construction
China Overseas Building Management Limited	–	100	100 shares of HK\$1 each	Real estate management
China Overseas Civil Engineering Limited	–	100	2 shares of HK\$10 each and 100 non-voting deferred shares of HK\$10 each	Civil engineering works, project management and investment holding
China Overseas Foundation Engineering Limited	–	100	36,100,000 shares of HK\$1 each and 500,000 non-voting deferred shares of HK\$1 each	Building construction, foundation engineering works and project management
China Overseas Grand Gain Property Development Limited	–	100	10,000 shares of HK\$1 each	Property development
China Overseas (Hong Kong) Limited	–	100	5,000,000 shares of HK\$10 each	Investment holding and provision of management services
China Overseas Machinery Limited	–	100	2 shares of HK\$1 each	Leasing of plant and machinery
China Overseas Mechanical & Electrical Engineering Limited	–	100	10,000,000 shares of HK\$1 each	Investment holding and mechanical and electrical engineering works
China Overseas Property Agency Limited	–	100	2 shares of HK\$1 each	Real estate agency



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2000

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Name of company	Proportion of nominal value of issued capital/ registered capital held by		Paid up issued capital/ registered capital	Principal activities
	Company %	Subsidiary %		
China Overseas Property Limited	100	–	100 shares of HK\$10 each	Investment holding, property consultancy and real estate agency
China Overseas Property (Shenzhen) Co., Ltd. (ii)	–	100	HK\$50,000,000	Property development
China Overseas (Zhong Guo) Limited	–	100	5,000,000 shares of HK\$10 each	Investment holding
Chung Hoi Finance Limited	100	–	500,000 shares of HK\$10 each	Loan financing, investment holding and security investments
COB Development (Shanghai) Co., Ltd. (ii)	–	100	US\$17,000,000	Property development and trading
中海興業(成都)發展有限公司(ii) (COBD Holdings (Chengdu) Co., Ltd (vii))	–	100	US\$10,000,000	Property development
中海發展(廣州)有限公司 (ii) (COBD Holdings (Guangzhou) Company Limited (vii))	–	100	US\$10,000,000	Investment holding, building construction and project management
中海地產諮詢(上海)有限公司 (ii) (C.O.B. Property Consultants (Shanghai) Co., Ltd. (vii))	–	100	US\$500,000	Real estate agency
Dong Kong Holdings Limited	–	100	5,000,000 shares of HK\$1 each	Investment holding
Further Good Development Limited	–	100	100 shares of HK\$1 each	Property trading
Further Success Development Limited	–	100	100 shares of HK\$1 each	Property development
Gold Court Property Management Limited	–	100	10 shares of HK\$10 each	Real estate management and investment holding
Goldcall Development Limited	–	100	100 shares of HK\$1 each	Property development
Goldwell Development Limited	–	100	100 shares of HK\$1 each	Property development, trading and investment
Great Trend Investment Limited	–	100	10,000 shares of HK\$1 each	Investment holding
廣州中海名都房地產發展有限公司(iv)	–	100	HK\$60,000,000	Property development
Guangzhou Haijin Real Estate Development Co., Ltd. (iv)	–	100	RMB80,000,000	Property development

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2000

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Name of company	Proportion of nominal value of issued capital/ registered capital held by		Paid up issued capital/ registered capital	Principal activities
	Company %	Subsidiary %		
廣州海粵房地產發展有限公司 (iv) (Guangzhou Haiyue Real Estate Development Co., Ltd. (vii))	–	100	RMB138,000,000	Property trading and investment
廣州江東房地產開發有限公司 (iv)	–	100	RMB32,150,000	Property development
H & T Trading Development Limited	–	100	2 shares of HK\$100 each and 10,000 non-voting deferred shares of HK\$100 each	Investment holding and trading of building and other materials
Haifu Development (Shenzhen) Co., Ltd. (ii)	–	100	HK\$27,500,000	Property investment
Hainan Ruler Limited (i)	100	–	1 share of US\$1	Investment holding
Hing Wah Investment Limited (i)&(vi)	–	100	1 share of US\$1	Investment holding
Hong Kong Financial Limited	–	100	2 shares of HK\$1 each	Loan financing and investment holding
Kee Yet Company Limited	–	100	2 shares of HK\$1 each	Property development
Landcorp Investments Limited	–	100	2 shares of HK\$1 each	Investment holding
Macell Limited	–	100	2 shares of HK\$1 each	Investment holding
Macfirst Limited	–	100	2 shares of HK\$1 each	Property investment
Macfull Limited	–	60	1,000 shares of HK\$1 each	Property development
Macwan Limited	–	70	10 shares of HK\$1 each	Property development
Macwan Finance Limited	–	70	10 shares of HK\$1 each	Loan financing
Macwest Limited	–	100	2 shares of HK\$1 each	Investment holding
Maxjet Company Limited	–	70	10 shares of HK\$1 each	Property development
Maycheer Investments Limited	100	–	10 shares of HK\$10 each	Investment holding
Mepork Services Limited	–	100	100 shares of HK\$1 each	Provision of building cleaning, maintenance and security services
Nicegain Development Limited	–	100	100 shares of HK\$1 each	Investment holding
Nicetrade Development Limited	–	100	100 shares of HK\$1 each	Investment holding
Ocean Group Limited	–	100	2 shares of HK\$1 each	Property investment
On Fortune Investments Limited (i) & (vi)	–	100	1 share of US\$1	Investment holding
On Success Development Limited	–	100	10,000 shares of HK\$1 each	Property investment
Safe Future Investments Limited (i) & (vi)	–	100	1 share of US\$1	Investment holding
Shanghai Hai Hua Realty Co., Ltd. (iii)	–	90	RMB92,000,000	Property trading and investment



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2000

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Name of company	Proportion of nominal value of issued capital/ registered capital held by		Paid up issued capital/ registered capital	Principal activities
	Company %	Subsidiary %		
上海海匯房地產有限公司 (iii)	–	99.5	US\$6,424,180	Property development
Shanghai Hai Li Real Estate Co., Ltd. (iii)	–	55	US\$12,000,000	Property development and trading
Shanghai Hai Xing Realty Co., Ltd. (iii)	–	51	US\$15,000,000	Property trading and investment
Silver Yield Development Limited	–	100	100 shares of HK\$1 each	Property trading
Skilled Manner Investments Limited (i)	–	100	1 share of US\$1	Investment holding
Splendid Return Limited (i)	–	100	50,000 shares of US\$1 each	Investment holding
Supreme Class Limited (i)	100	–	1 share of US\$1	Investment holding
Techflex Limited (i) & (vi)	–	100	1 share of US\$1	Investment holding
Weedon International Limited (i)	–	100	1 share of US\$1	Investment holding
Widenews Company Limited	–	100	2 shares of HK\$1 each	Property development
Willy Development Limited	–	100	2 shares of HK\$1 each	Investment holding
Winfully Development Limited	–	100	2 shares of HK\$1 each	Investment holding
Winsley Development Limited	–	100	2 shares of HK\$1 each	Investment holding
Winwhole Development Limited	–	100	100 shares of HK\$1 each	Investment holding
Winwise Development Limited	–	100	2 shares of HK\$1 each	Investment holding
Zetson Enterprises Limited (i)	100	–	1 share of US\$1	Investment holding
Zhong Hai Beijing Limited (i)	–	100	1 share of US\$1	Investment holding
中海物業管理廣州有限公司 (v) (Zhonghai Property Management (Guangzhou) Co., Ltd. (vii))	–	100	RMB10,000,000	Investment holding and real estate management
Zhonghai Property Management (Shanghai) Co., Ltd. (ii)	–	100	US\$200,000	Real estate management

- (i) Incorporated in the British Virgin Islands
(ii) Foreign investment enterprise registered in the PRC
(iii) Sino-foreign equity joint venture registered in the PRC
(iv) Sino-foreign cooperative joint venture registered in the PRC
(v) Limited liability company registered in the PRC
(vi) Operating principally in the PRC
(vii) Business name

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31 DECEMBER 2000

38. SUBSEQUENT EVENT

Subsequent to the balance sheet date, the Group entered into agreements with Ryoden and its substantial shareholder, Designcase Limited ("Designcase"), for the disposal of the Group's 21.6% shareholdings in Ryoden at a consideration of HK\$341.5 million, and the acquisition by the Group of interests in a subsidiary of Ryoden together with shareholder's loans at the aggregate consideration of HK\$341.5 million subject to adjustment as provided in the relevant agreement. The company to be acquired is the beneficial owner of 60% interest in a PRC property project.

The above transactions, completion of which is expected to take place on 25 May 2001, are conditional upon approval by the shareholders of the Company and Ryoden.

39. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on page 33 to 80 were approved by the Board of Directors on 11 April 2001.

