



The directors present their annual report and the audited financial statements of the Company and its subsidiaries (together the “**Group**”) for the year ended 31st December, 2002.

### **Principal Activities**

The Company is principally engaged in investment holding, property investment and provision of management services to its subsidiaries. The activities of the Company’s principal subsidiaries and associates are set out in notes 42 and 18 to the financial statements respectively.

An analysis of the Group’s turnover and contribution is set out in notes 4 and 5 to the financial statements respectively.

### **Results and Appropriations**

The results of the Group for the year ended 31st December, 2002 are set out in the consolidated income statement on page 43.

An interim dividend of HK2 cents per share was paid on 8th November, 2002. The board of directors recommends the payment of a final dividend of HK1 cent per share to the shareholders on the register of members on 20th May, 2003 in respect of the year. Together with the interim dividend, total dividends for the whole year are HK3 cents per share.

## **Directors' Report** *(cont'd)*

### **Reserves**

Movements during the year in the reserves of the Group and of the Company are set out in note 30 to the financial statements.

### **Financial Summary**

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on pages 98 and 99.

### **Major Properties**

Details of the major properties and property interests of the Group at 31st December, 2002 are set out on pages 100 to 103.

### **Tangible Fixed Assets**

The Group's investment properties were revalued at the year end date. The revaluation resulted in a net revaluation decrease, adjusted for minority interests, of approximately HK\$105,665,000 which has been debited directly to the investment property revaluation reserve.

Details of these and other movements during the year in the tangible fixed assets of the Group and the Company are set out in notes 14 and 15 to the financial statements.

### **Share Capital**

During the year, the Company allotted and issued a total of 6,570,000 ordinary shares of HK\$0.1 each ("**Shares**") upon exercise of share options granted to employees, giving a cash consideration of HK\$3,602,000.

Details of movements during the year in the share capital of the Company are set out in note 29 to the financial statements.

### **Purchase, Sale or Redemption of the Company's Listed Securities**

During the year, the directors of the Company have exercised powers of the Company to make repurchases of its own Shares pursuant to the general mandate granted to the directors of the Company passed at the extraordinary general meeting of the Company held on 18th July, 2002. Details of the shares repurchased are shown in note 29 to the financial statements.

### **Borrowings and Interest Capitalised**

Bank loans, overdrafts and other borrowings repayable within one year or on demand are classified as current liabilities in the balance sheet. An analysis of the repayment schedule of non-current borrowings is set out in notes 31 and 32 to the financial statements.

Interest capitalised by the Group during the year in respect of development properties amounted to approximately HK\$51,744,000.

## Directors

The directors of the Company during the year and up to the date of this report were:

### Executive Directors

Mr. Sun Wen Jie	(Chairman)
Mr. Kong Qingping	(Vice Chairman and Chief Executive)
Mr. Yao Peifu	(Vice Chairman)
Mr. Yao Xiancheng	(Vice Chairman)
Mr. Cui Duosheng	
Mr. Cheung Shiu Kit	
Mr. Yip Chung Nam	
Mr. Wu Jianbin	(appointed on 18th April, 2002)
Mr. Nip Yun Wing	(appointed on 20th June, 2002)
Mr. Kwok Ying Lok, Sam	(resigned on 28th February, 2002)
Mr. Li Fuyou	(resigned on 18th June, 2002)
Mr. Luo Weikang	(resigned on 18th February, 2003)

### Independent Non-Executive Directors

Dr. Li Kwok Po, David O.B.E., J.P.	
Mr. Hu Zhao Guang	
Mr. Che Shujian	(appointed on 2nd September, 2002)
Dr. Chau Cham Son O.B.E., J.P.	(resigned on 18th June, 2002)

In accordance with Article 105(A) and Article 96 of the Company's Articles of Association, Messrs. Cui Duosheng, Cheung Shiu Kit, Yip Chung Nam, Nip Yun Wing and Che Shujian shall retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The term of office for each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

Mr. Hu Zhao Guang shall retire at the forthcoming Annual General Meeting according to Article 105(A) of the Company's Articles of Association but not offering himself for re-election.

No director proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

Information regarding directors' emoluments is set out in note 10 to the financial statements.

## Directors' Report *(cont'd)*

### Directors' Interests in Shares and Rights to Subscribe for Shares

At 31st December, 2002, the interests of the directors and their associates in the share capital of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

#### (a) Personal interests in Shares

Name of director	Number of Shares
Mr. Kong Qingping	460,000
Mr. Yao Peifu	500,000
Mr. Yao Xiancheng	500,000
Mr. Cui Duosheng	5,360,000
Mr. Yip Chung Nam	1,200,000
Dr. Li Kwok Po, David	200,000
Mr. Li Fuyou (resigned on 18th June, 2002)	500,000
Mr. Luo Weikang (resigned on 18th February, 2003)	220,000

#### (b) Interests in options to acquire Shares

Name of director	Date of Grant	Number of shares under options granted				Outstanding at 31.12.2002
		Outstanding at 1.1.2002	Granted during the year	Exercised during the year	Cancelled during the year	
		1.1.2002	the year	the year	the year	
Mr. Sun Wen Jie	17th July, 1997(i)	6,880,000	—	—	—	6,880,000
	14th February, 1998(ii)	20,000,000	—	—	—	20,000,000
	30th September, 1998(iii)	3,800,000	—	—	—	3,800,000
	4th January, 2000(iv)	2,500,000	—	—	—	2,500,000
		<u>33,180,000</u>				<u>33,180,000</u>
Mr. Kong Qingping	17th July, 1997(i)	1,000,000	—	—	—	1,000,000
	14th February, 1998(ii)	11,000,000	—	—	—	11,000,000
	30th September, 1998(iii)	1,840,000	—	—	—	1,840,000
	4th January, 2000(iv)	2,000,000	—	—	—	2,000,000
		<u>15,840,000</u>				<u>15,840,000</u>

## Directors' Report *(cont'd)*

### Directors' Interests in Shares and Rights to Subscribe for Shares *(cont'd)*

#### (b) Interests in options to acquire Shares *(cont'd)*

Name of director	Date of Grant	Number of shares under options granted				Outstanding at 31.12.2002
		Outstanding at 1.1.2002	Granted during the year	Exercised during the year	Cancelled during the year	
Mr. Yao Peifu	17th July, 1997(i)	3,800,000	—	—	—	3,800,000
	14th February, 1998(ii)	15,000,000	—	—	—	15,000,000
	30th September, 1998(iii)	2,000,000	—	—	—	2,000,000
	4th January, 2000(iv)	2,000,000	—	—	—	2,000,000
		<u>22,800,000</u>				<u>22,800,000</u>
Mr. Yao Xiancheng	17th July, 1997(i)	3,800,000	—	—	—	3,800,000
	14th February, 1998(ii)	15,000,000	—	—	—	15,000,000
	30th September, 1998(iii)	2,000,000	—	—	—	2,000,000
	4th January, 2000(iv)	2,000,000	—	—	—	2,000,000
		<u>22,800,000</u>				<u>22,800,000</u>
Mr. Cui Duosheng	17th July, 1997(i)	1,000,000	—	—	—	1,000,000
	14th February, 1998(ii)	9,000,000	—	—	—	9,000,000
	30th September, 1998(iii)	1,440,000	—	—	—	1,440,000
	4th January, 2000(iv)	1,700,000	—	—	—	1,700,000
		<u>13,140,000</u>				<u>13,140,000</u>
Mr. Cheung Shiu Kit	17th July, 1997(i)	1,000,000	—	—	—	1,000,000
Mr. Wu Jianbin	17th July, 1997(i)	550,000	—	—	—	550,000
	14th February, 1998(ii)	800,000	—	—	—	800,000
	30th September, 1998(iii)	720,000	—	—	—	720,000
	4th January, 2000(iv)	1,300,000	—	—	—	1,300,000
		<u>3,370,000</u>				<u>3,370,000</u>
Mr. Yip Chung Nam	17th July, 1997(i)	800,000	—	—	—	800,000
	14th February, 1998(ii)	1,000,000	—	—	—	1,000,000
		<u>1,800,000</u>				<u>1,800,000</u>
Mr. Kwok Ying Lok, Sam (v)	17th July, 1997(i)	700,000	—	—	(700,000)	—
	14th February, 1998(ii)	800,000	—	—	(800,000)	—
		<u>1,500,000</u>				<u>—</u>
Mr. Li Fuyou (vi)	17th July, 1997(i)	3,800,000	—	—	—	3,800,000
	14th February, 1998(ii)	15,000,000	—	—	—	15,000,000
	30th September, 1998(iii)	2,000,000	—	—	—	2,000,000
	4th January, 2000(iv)	2,000,000	—	—	—	2,000,000
		<u>22,800,000</u>				<u>22,800,000</u>

## Directors' Report *(cont'd)*

### Directors' Interests in Shares and Rights to Subscribe for Shares *(cont'd)*

#### (b) Interests in options to acquire Shares *(cont'd)*

Name of director	Date of Grant	Number of shares under options granted				Outstanding at 31.12.2002
		Outstanding at 1.1.2002	Granted during the year	Exercised during the year	Cancelled during the year	
Mr. Luo Weikang (vii)	17th July, 1997(i)	900,000	—	—	—	900,000
	14th February, 1998(ii)	5,000,000	—	—	—	5,000,000
	30th September, 1998(iii)	880,000	—	—	—	880,000
	4th January, 2000(iv)	1,500,000	—	—	—	1,500,000
		<u>8,280,000</u>				<u>8,280,000</u>

*Notes:*

- (i) The share options were granted at an exercise price of HK\$4.06 per Share, exercisable for the period from 17th July, 1998 to 16th July, 2007 (both dates inclusive).
- (ii) The share options were granted at an exercise price of HK\$1.08 per Share, exercisable for the period from 14th February, 1999 to 13th February, 2008 (both dates inclusive).
- (iii) The share options were granted at an exercise price of HK\$0.52 per Share, exercisable for the period from 30th September, 1999 to 29th September, 2008 (both dates inclusive).
- (iv) The share options were granted at an exercise price of HK\$0.58 per Share, exercisable for the period from 4th January, 2001 to 3rd January, 2010 (both dates inclusive).
- (v) Mr. Kwok Ying Lok, Sam resigned as director of the Company on 28th February, 2002.
- (vi) Mr. Li Fuyou resigned as director of the Company on 18th June, 2002.
- (vii) Mr. Luo Weikang resigned as director of the Company on 18th February, 2003.

Save as disclosed above, none of the directors or their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the directors, or their spouses or children under the age of 18, had any rights to subscribe for the securities of the Company, or had exercised any such rights during the year.

### Arrangements to Acquire Shares or Debentures

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

### Directors' Interest in Competing Business

Pursuant to paragraph 8.10 of the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules"), the Company discloses that during the year and up to the date of this report, Messrs. Sun Wen Jie, Kong Qingping, Yao Peifu, Yao Xiancheng, Wu Jianbin and Yip Chung Nam held directorships in the Company's ultimate holding company, China State Construction Engineering Corporation ("CSCEC"), and/or its subsidiaries, which are engaged in construction, property development and related business.

As the Board of Directors of the Group operates independently of the boards of these companies, the Group operates its business independently of, and at arm's length from, the businesses of these companies.

### Substantial Shareholders

At 31st December, 2002, the register of substantial shareholders maintained under Section 16(I) of the SDI Ordinance showed that the following shareholders had an interest of 10 per cent. or more in the share capital of the Company:

Name of shareholder	Number of ordinary shares of HK\$0.1 each	Percentage of interest
China Overseas Holdings Limited ("COHL")	3,164,626,800	58.47%
CSCEC	3,164,626,800	58.47%

CSCEC owns 100% of COHL and is accordingly deemed by the SDI Ordinance to be interested in 3,164,626,800 Shares directly owned by COHL.

Save as disclosed above, the Company has not been notified of any other interests representing 10 per cent. or more of the Company's issued share capital at 31st December, 2002.

### Major Customers and Suppliers

For the financial year ended 31st December, 2002, the five largest customers of the Group accounted for approximately 30.7% of the Group's turnover and turnover from the largest customer included therein accounted for approximately 11%. The five largest suppliers of the Group accounted for less than 30% of the Group's total purchases for the year.

CSCEC, the Company's ultimate holding company, is one of the five largest customers of the Group referred to above.

Save as aforementioned, at no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5 per cent. of the Company's issued share capital) have an interest in any of the Group's five largest customers or suppliers.

### Connected Transactions

Details of connected transactions are set out on pages 33 to 41. Save as the related party transactions disclosed in note 41 to the financial statements, no contracts of significance to which the Company or any of its subsidiaries, holding companies or fellow subsidiaries was a party or were parties and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### Share Option Scheme

Details of the Share Option Scheme adopted by the Company are disclosed in note 29 to the financial statements.

At 31 December 2002, the options granted to subscribe for 433,420,000 Shares remained outstanding, representing approximately 8% of the issued share capital of the Company at that date. As at the date of this annual report, 543,848,360 Shares were available for issue under the Share Option Scheme, representing approximately 10% of the issued share capital of the Company at that date.

## Directors' Report *(cont'd)*

### Retirement Benefit Scheme

With effect from 1st December, 2000, the Group has joined a mandatory provident fund scheme ("**MPF Scheme**") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group with respect to MPF Scheme is to make the required contributions under the scheme. During the year, the Group made contribution to the MPF Scheme amounting to approximately HK\$21 million. No forfeited contribution under this scheme is available to reduce the contribution payable in future years.

### Donations

During the year, the Group made charitable and other donations amounted to approximately HK\$362,000.

### Practice Note 19 Disclosure

As at 31st December, 2002, the Group has loan facilities with an aggregate principal amount of HK\$1,978 million which are discloseable under Practice Note 19 of the Listing Rules. The last repayment date for these facilities is 23rd July, 2007. As per the loan agreements, both CSCEC and COHL are required to maintain specified minimum holdings in the share capital of the Company, directly or indirectly, ranging from 38% to 51%.

### Post Balance Sheet Events

Details of post balance sheet events are set out in note 43 to the financial statements.

### Audit Committee

The principal duties of the Audit Committee are the review of the internal controls and financial reporting requirements of the Group. The members of the Audit Committee have been satisfied with the Company's internal control procedures and the financial reporting disclosures.

### Corporate Governance

The Company has complied throughout the year ended 31st December, 2002 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 are not appointed for specific terms but are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the Company's Articles of Association.

### Auditors

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company for the past three years.

A resolution will be proposed at the forthcoming Annual General Meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**Kong Qingping**

*Vice Chairman & Chief Executive*

Hong Kong, 3rd April, 2003