

Connected Transactions

During the year under review, the Group entered into the following connected transactions which are of a regular and continuing nature:

- (1) Pursuant to a project management agreement and a deed of undertaking (together referred to as the “**Project Management Agreement**”) entered into in 1993 between China State Construction Engineering Corporation (“**CSCEC**”), the ultimate controlling shareholder of the Company, 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 construction contract in Hong Kong participated by CSCEC since 1st January, 1993. Under the Project Management Agreement, CSCEC has agreed to pay the Project Managers a management fee equivalent to 7% of the final contract sum receivable by CSCEC under such construction contracts. The Project Managers shall act as agent for and, in consultation with CSCEC, tender for and obtain projects on behalf of CSCEC on such terms as may be agreed by CSCEC.

Project management fees payable by CSCEC to the Group pursuant to the Project Management Agreement amounted to approximately HK\$356,470,000 (2001:HK\$268,912,000) and hire charges in respect of plant and machinery leased by the Group to CSCEC, calculated on a cost reimbursement basis, amounted to HK\$53 million (2001: HK\$40 million) in respect of the year.

In connection with the project management services provided by the Group to CSCEC as referred to in above, the Group had trade receivables owed by CSCEC to the Group outstanding at 31st December, 2002 amounted to HK\$210,061,000 (2001:HK\$185,741,000), which are interest free and have no fixed repayment terms.

- (2) 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.
- (3) On 29th August, 1995, the Group entered into an agreement with certain parties relating to the establishment of a company in the name of Macwan Limited (“**Macwan**”) to undertake a property development project. Macwan is owned as to 70% by China Overseas Property Limited (“**COPL**”), a wholly owned subsidiary of the Company, as to 20% by Rich Tower Properties Limited (“**Rich Tower**”), a wholly owned subsidiary of Kiu Kwong Investment Corporation Limited (“**Kiu Kwong**”), and as to 10% by Golden Queen International Limited (“**Golden Queen**”). Pursuant to the agreement, the shareholders of Macwan have agreed to provide loans to Macwan in accordance with their respective equity proportions. At 31st December, 2002, the amounts due by Macwan to the Group, Rich Tower and a fellow subsidiary of Golden Queen, East Asia Properties Holding Company Limited (“**East Asia**”), were approximately HK\$91,251,000, HK\$26,553,000 and HK\$13,277,000 respectively. The shareholders of Macwan and the lenders agreed that such loans are interest free. Golden Queen and East Asia are wholly owned subsidiaries of The Bank of East Asia, Limited (“**BEA**”) in which Dr. Li Kwok Po, David is a director, chief executive and beneficial shareholder.

Connected Transactions *(cont'd)*

- (4) On 25th March, 1997, a consortium led by the Company acquired a site situated in Homantin North at a public auction. A company in the name of Maxjet Company Limited ("**Maxjet**") was established to undertake the property development project. Maxjet is owned as to 70% by COPL, as to 20% by Rich Charter Properties Limited ("**Rich Charter**") and as to 10% by Goldmond Company Limited ("**Goldmond**"). The shareholders of Maxjet have agreed to provide loans to Maxjet in accordance with their respective equity proportions. In addition, each parent company of the shareholders of Maxjet has executed a several guarantee to a bank in accordance with its equity proportion in order to secure the general banking facilities granted to Maxjet to the total extent of HK\$996 million. At 31st December 2002, the amounts due by Maxjet to the Group, Rich Charter and Goldmond were approximately HK\$900,876,000, HK\$257,393,000 and HK\$128,697,000 respectively. Such loans are interest free and have been subordinated to the bank borrowings of Maxjet. Rich Charter and Goldmond are wholly owned subsidiaries of Kiu Kwong and BEA respectively.
- (5) On 14th October, 1997, a consortium led by the Company acquired a site situated in Tuen Mun at a public auction. On 17th November, 1997, members of the consortium entered into an agreement relating to the establishment of a company in the name of Macfull Limited ("**Macfull**") to undertake the development of the property. Macfull is owned as to 60 % by COPL, as to 10% by Smart Winner Development Limited ("**Smart Winner**"), as to 10% by Top Brain Development Limited ("**Top Brain**") and as to 20% by an independent third party. At 31st December, 2002, the amounts due by Macfull to the Group and Top Brain were approximately HK\$1,252,093,000 and HK\$208,682,000 respectively. Such loans have been interest free since 1st January, 1998. Top Brain is a wholly owned subsidiary of Kiu Kwong.
- The directors consider that the Company is connected to Kiu Kwong by virtue of its equity interests in Macwan, Maxjet and Macfull.
- (6) The Group made advances to a 51% owned subsidiary, namely Shanghai Hai Xing Realty Co., Ltd. ("**Shanghai Hai Xing**"), to finance its property development project. The outstanding balances of such advances at the beginning and the end of the year were approximately HK\$127,049,000 and HK\$61,313,000 respectively. Such advances carry interest at commercial lending rates and are unsecured without specific repayment terms. The remaining 49% interest in Shanghai Hai Xing is held by an enterprise operating in the PRC who is not connected with any of the directors or the substantial shareholders of the Company or any of its subsidiaries or an associate (as defined in the Listing Rules) of any of them.
- (7) The Group purchased construction materials from certain associates at current market prices, amounted to HK\$62,091,000 (2001: HK\$27,081,000).
- (8) The Group acted as the contractor for the development of property projects owned by certain associates 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 projects payable by the associates to the Group amounted to approximately HK\$255,087,000 (2001: HK\$72,698,000) in respect of the year.

Connected Transactions *(cont'd)*

- (9) At 31st December, 2002, the amounts owed by associates to the Group before allowance amounted to approximately HK\$1,584 million (2001: HK\$1,537 million) of which approximately HK\$1,284 million (2001: HK\$1,198 million) carries interest 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 its realisation 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\$1,248,000 (2001: HK\$ 1,366,000). The amounts owing to associates by the Group at the year end amounted to approximately HK\$198 million (2001: HK\$194 million) which are unsecured and interest free with no fixed repayment terms.

During the year under review, the Group entered into the following connected transactions which were subject to approval by the independent shareholders of the Company at a general meeting under Rule 14.26 of the Listing Rules:

- (1) On 14th March, 2002, the Company announced that COZG, SCO, and three independent subscribers entered into a subscription agreement whereby COP will allot new equity interests to SCO and three independent subscribers for a total cash consideration of RMB99,524,100 (approximately HK\$93,600,000) (the “**Subscription**”).

Upon completion of the Subscription, the enlarged registered capital of COP will be owned by COZG as to 79%, by SCO as to 11% and as to 10% by three independent subscribers collectively. The proceeds from the Subscription will be applied for acquiring lands for future development of COP should suitable investment opportunities arise.

The Group intends to expand its property development business in the PRC. CSCEC, the ultimate controlling shareholder of the Company, has the required qualifications and experiences to carry out property development projects nationwide and the introduction of CSCEC as an indirect shareholder in COP will improve the likelihood of COP being granted a nationwide property development licence.

SCO, being a subsidiary of CSCEC, is an associate of CSCEC and therefore a connected person of the Company under the Listing Rules.

Further details of the Subscription were given in a circular to shareholders of the Company dated 25th March, 2002. The Subscription was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 11th April, 2002.

The relevant parties to the Subscription are:

COP : 中海地產股份有限公司 (China Overseas Property Group Co., Ltd.)(formerly known as 中國海外建築(深圳)有限公司 China Overseas Building Development (Shenzhen) Limited), an indirect wholly owned subsidiary of the Company immediately before completion of the Subscription

COZG : China Overseas (Zhong Guo) Limited, a company incorporated in Hong Kong, being an indirect wholly owned subsidiary of the Company

SCO : 深圳市中海投資管理有限公司 (Shenzhen China Overseas Investment Management Co., Ltd.), a company incorporated in the PRC, being a subsidiary owned as to 95% by CSCEC

Connected Transactions *(cont'd)*

- (2) On 7th June, 2002, the Company announced that indemnities (the **"New Indemnity"**) would be given by the Company on behalf of CSCEC and China State Construction Engineering (Hong Kong) Limited (**"CSCE(HK)"**) in favour of Financial Institutions (within the meaning of the Banking Ordinance) issuing the bid bonds and performance bonds (the **"Bonds"**) for construction and engineering projects in Hong Kong for an amount up to HK\$2 billion from time to time.

The New Indemnity will facilitate both CSCEC and CSCE(HK) to maximise the opportunities to capture for more projects, which the Group could in turn generate more project management fee income under the project management agreement with CSCEC and CSCE(HK).

The New Indemnity is provided on the basis of (i) the aggregate amount of the Bonds that the Indemnity would secure will not exceed HK\$2 billion from time to time (ii) the Bonds will be used by each of CSCEC and CSCE(HK) for making tenders for and securing performance of both public and non-public works it secures in Hong Kong (iii) the period during which the Financial Institutions may provide the Bonds will be a period of not more than six years from the date on which the relevant Financial Institutions offers the granting of the Bonds.

Both CSCEC and CSCE(HK) are associates of COHL which is a substantial shareholder of the Company and therefore connected persons of the Company under the Listing Rules.

Further details of the New Indemnity were given in a circular to shareholders of the Company dated 2nd July, 2002. The New Indemnity was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 18th July, 2002.

During the year under review, the Company entered into the following connected transactions which fell within the de minimis provision under Rule 14.25(1)(a) of the Listing Rules, details of which are listed chronologically as follows:

- (3) On 17th July, 2002, the Company announced that COP, SCO and an independent third party entered into a sale and purchase agreement dated 9th June, 2002 whereby (i) COP acquired 31% interest in the registered capital of BCOPD from SCO at a consideration of RMB3,737,360 (approximately HK\$3,525,800) and (ii) the independent third party agreed to sell its entire 49% interest in the registered capital of BCOPD to COP at a consideration of RMB5,907,440 (approximately HK\$5,573,000).

The principal activities of BCOPD are investment holding and principal assets are the holding of 70% equity interest in BCOHT with the remaining 30% owned by SCO and a property in the PRC. BCOHT is principally engaged in property development in the PRC.

It has been the intention of the Group to expand its property development business in the PRC. With existing property development projects, BCOPD will be able to increase the Group's market share which is beneficial to its future development in the PRC.

Connected Transactions *(cont'd)*

SCO, being a subsidiary of CSCEC, is an associate of CSCEC and therefore a connected person of the Company under the Listing Rules.

The relevant parties to the sale and purchase agreement are:

BCOPD : 北京中海房地產開發有限公司(Beijing China Overseas Property Development Company Limited), a company established in the PRC

BCOHT : 北京中海豪庭房地產開發有限公司(Beijing China Overseas Hao Ting Property Development Company Limited), a company established in the PRC owned as to 70% by BCOPD and 30% by SCO

COP : 中海地產股份有限公司 (China Overseas Property Group Co., Ltd.), a Sino-foreign joint venture company established in the PRC

SCO : 深圳市中海投資管理有限公司 (Shenzhen China Overseas Investment Management Co., Ltd.), a company incorporated in the PRC, being a subsidiary owned as to 95% by CSCEC

- (4) On 21st August, 2002, COP, HKDK, JV Party A and JV Party B entered into an amended contract (the “**Amended Contract**”) whereby COP agreed to make a capital contribution of RMB67,654,420 (approximately HK\$63,224,000) to GZKD, representing 67.79% of the registered capital of GZKD.

On 18th January, 1999, HKDK, JV Party A and JV Party B entered into a joint venture contract (the “**JV Contract**”) relating to the establishment of GZKD whereby JV Party A agreed to contribute the land use right of a piece of undeveloped land of 229,227 square metres to GZKD for the project under development and JV Party B agreed to supply works and services related to such project. Pursuant to the Amended Contract, COP agreed to become a party to the JV Contract and make a capital contribution representing 67.79% of the registered capital of GZKD according to the terms of the JV Contract as amended by the Amended Contract. HKDK will retain its interest in 32.21% of the registered capital of GZKD.

The Group has plans to reorganise its property development business in the PRC by transferring its interests in such business to COP, which has the ability to obtain a Nationwide Property Development Licence for the development of property in any part of the PRC. The entering into the Amended Contract was part of such reorganisation plan.

COP, being an indirect non-wholly owned subsidiary of the Company, has a substantial shareholder, SCO, which is an associate of a connected person of the Company. Therefore, COP is a connected person of the Company under the Listing Rules.

Connected Transactions *(cont'd)*

The relevant parties to the Amended Contract are:

COP : 中海地產股份有限公司 (China Overseas Property Group Co., Ltd.), a Sino-foreign joint venture company established in the PRC

GZKD : 廣州江東房地產開發有限公司 (Guangzhou Jiang Dong Property Development Company Limited), a company established in the PRC

HKDK : 東江實業集團有限公司 (Dong Kong Holdings Limited), a company incorporated in Hong Kong, being an indirect wholly-owned subsidiary of the Company

JV Party A : 廣州市天河區東圃經濟發展總公司 (Guangzhou City Tian He District Dong Pu Economic Development Headquarters), an independent third party to the Company

JV Party B : 廣州千鶴房地產開發有限公司 (Guangzhou Qian He Property Development Company Ltd.), an independent third party to the Company

- (5) On 12th September, 2002, the Company announced that certain wholly owned subsidiaries of the Company have since July 2002 entered into 115 different insurance policies (the “**Policies**”) with China Overseas Insurance Limited (“**COIL**”), an insurance company in Hong Kong which is a direct wholly owned subsidiary of COHL. The aggregate premium payable by the Group under the Policies amounts to HK\$12,420,952.

In undertaking the development or construction projects and the provision of property management, the Group will have to arrange the necessary insurance, from time to time, to insure against the risks involved. Since the commencement of business of COIL in May 2002, the Group has taken out a total of 115 Policies with COIL including employees’ compensation, contractors’ all risks, public liability, money, fidelity guarantee and motor vehicle.

COIL, being a wholly owned subsidiary of COHL which is a substantial shareholder of the Company, is an associate of CSCEC and therefore a connected person of the Company under the Listing Rules.

- (6) On 15th November, 2002, COI and Massive entered into a sale and purchase agreement whereby COI agreed to sell and transfer to Massive its entire capital contribution of RMB4,800,000 (approximately HK\$4,528,302) in the JV Company.

The JV Company is engaged in research and development, production as well as sales of decelerators used in heavy machinery in the PRC. The disposal of the capital contribution in the JV Company by COI is therefore in line with the Group’s strategy to expand its property development business in the PRC.

Massive, being a wholly owned subsidiary of COHL, which is a substantial shareholder of the Company, is an associate of CSCEC and therefore a connected person of the Company under the Listing Rules.

Connected Transactions *(cont'd)*

The relevant parties to the sale and purchase agreement are:

COI : China Overseas Investments Limited, a company incorporated in Hong Kong, being an indirect wholly owned subsidiary of the Company

JV Company: 哈爾濱國海星輪傳動有限公司 (Harbin Guo Hai Xing Lun Transmission Company Limited), a joint venture company established under the laws of the PRC and the total registered capital of which is owned by COI as to 21.8% and the remaining 78.2% by three other joint venture partners

Massive : Massive Information Enterprises Limited, a company incorporated in the British Virgin Islands, a wholly owned subsidiary of COHL

- (7) On 15th November, 2002, the Company announced that an application has been made to the Stock Exchange for a conditional waiver in respect of the insurance policies taken out with China Overseas Insurance Limited ("**COIL**") from strict compliance with the connected transaction provisions of the Listing Rules.

COIL, a direct wholly owned subsidiary of COHL, is an insurance company in Hong Kong. Certain wholly owned subsidiaries of the Company will take out insurance policies with COIL (the "**Transactions**") for any development or construction projects undertaken by the Group. The purpose of having insurance policies in place is to insure against the risks involved in undertaking the development or construction projects and the provision of property management services by the Group.

Since the Transactions will take place on a continuing basis, the Company has made an application to the Stock Exchange for a conditional waiver from the normal disclosure requirements as stipulated under Chapter 14 of the Listing Rules in respect of the Transactions on each occasion they arise during the term of the Transactions. The waiver was granted by the Stock Exchange to the Company on 5th December, 2002 subject to the following conditions:

- (i) the Transactions have been and will be taken out in the ordinary and usual course of business of the Group and conducted either on normal commercial terms or on terms no less favourable than that offered by independent third parties;
- (ii) the aggregate premium payable by the Group to COIL under the Transactions in each financial year shall not exceed 3% of the net assets of the Group as shown in its latest published annual report and audited accounts;
- (iii) details of the Transactions will be disclosed in the annual report and audited accounts of the Group in accordance with Rule 14.25 (1)(A) to (D) of the Listing Rules;
- (iv) confirmation from the independent non-executive directors of the Company that the Transactions have been taken out in accordance with (i) and (ii) above shall be given in the annual report of the relevant financial year;
- (v) a copy of the auditors' letter in respect of the Transactions shall be made available to the Stock Exchange stating that the Transactions have been entered into on normal commercial terms and on terms no less favourable than that offered by independent third parties and the aggregate amount of the premium paid have not exceeded the cap stated in (ii) above and where, for whatever reasons, the auditors decline to accept the engagement or are unable to provide the auditors' letter, the directors of the Company shall contact the Stock Exchange immediately; and

Connected Transactions *(cont'd)*

- (vi) in the event that the aggregate amount of premium paid under the Transactions to COIL from the Group in any financial year should exceed the cap stated in (ii) above, the Company shall comply with the relevant provisions of the Listing Rules.

COIL, being a wholly owned subsidiary of COHL which is a substantial shareholder of the Company, is an associate of CSCEC and therefore a connected person of the Company under the Listing Rules.

- (8) On 12th December, 2002, China Overseas (Hong Kong) Limited ("**COHK**") (a company incorporated in Hong Kong with limited liability, being an indirect wholly owned subsidiary of the Company) and CSCEC entered into a management agreement (the "**Jabil Agreement**") whereby CSCEC subcontracted the management of and appointed COHK as the first phase project manager in relation to the construction of a factory in Guangzhou, the PRC. The aggregate consideration payable by CSCEC under the Jabil Agreement amounts to RMB180,000,000 (approximately HK\$169,811,320.75).

On 20th December, 2001, CSCEC managed to secure the main contract for Jabil Circuit (Guangzhou) Limited in relation to the construction of a factory in Guangzhou, the PRC (the "**Jabil Project**"). As the first phase of the Jabil Project involves the design and building of a factory, it requires more advanced management skills and technology to implement. CSCEC appointed COHK to be the first phase project manager as it has the relevant experience and international exposure to supervise completion of the first phase of the Jabil Project.

As the PRC market is progressively opening up, it is important for the Group to obtain relevant experiences in the PRC. Accordingly, the entering into the Jabil Agreement will be beneficial to the Group as it would enhance the credentials and thus the competitiveness of the Group in the PRC.

The aggregate contract sum received or receivable by COHK amounted to HK\$148,779,000 in respect of the year.

CSCEC is the ultimate controlling shareholder of the Company and therefore a connected person of the Company under the Listing Rules.

Subsequent to the year under review, the Company entered into the following connected transaction which fell within the de minimis provision under Rule 14.25(1)(a) of the Listing Rules:

- (9) On 3rd January, 2003, COP, COPM and CSCEC entered into a sale and purchase agreement whereby COP agreed to acquire 55% interest in the registered capital of COPD from CSCEC for a consideration of RMB5,500,000 (approximately HK\$5,188,680).

The principal activities of COPD is property development in the PRC. COPD entered into an agreement on 27th July, 2001 as supplemented on 14th November, 2002 with an independent third party pursuant to which COPD agreed to acquire a piece of undeveloped land of approximately 12,000 square metres located in No. 26, Zhongshan Road No. 1, Guangzhou (廣州市中山一路 26 號) (the "**Land**") for a consideration of RMB70,000,000 (approximately HK\$66,037,736).

Connected Transactions *(cont'd)*

It has been the intention of the Group to expand its property development business in the PRC. Upon the acquisition by the Company of an interest in COPD and its acquisition of the Land, COPD will be able to facilitate the Group to achieve its business strategy which is beneficial to its future development in the PRC.

CSCEC is the ultimate controlling shareholder of the Company and therefore a connected person of the Company under the Listing Rules.

The relevant parties to the sale and purchase agreement are:

COP : 中海地產股份有限公司 (China Overseas Property Group Co., Ltd.), a Sino-foreign joint venture company established in the PRC, being an indirect non-wholly owned subsidiary of the Company

COPD : 廣州中海房地產發展有限公司 (Guangzhou China Overseas Property Development Company Limited), a company established in the PRC owned as to 55% by CSCEC and 45% by COPM

COPM : 中海物業管理（廣州）有限公司 (China Overseas Property Management (Guangzhou) Company Limited). A company established in the PRC, being an indirect non-wholly owned subsidiary of the Company

CSCEC : China State Construction Engineering Corporation, a state-owned corporation organised and existing under the laws of the PRC, being the ultimate controlling shareholder of the Company

In the opinion of the directors (including the independent non-executive directors), the connected transactions contemplated under (1) to (9) were carried out in the ordinary and usual course of the Group's businesses on normal commercial terms that are fair and reasonable so far as the Company and the shareholders are concerned.