

Notes to the Financial Statements

For The Year Ended 31 December 2002

1. General

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

The Group is engaged in property development and investment, building and civil construction, foundation engineering and project management, infrastructure project investments, investment holding, real estate agency and management, and treasury operations.

2. Adoption of Statements of Standard Accounting Practice

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants ("HKSA") which has resulted in the adoption of the following new and revised accounting policies. The adoption of these Standards has resulted in a change in the format of presentation of the cash flow statement and the introduction of the statement of changes in equity but has had no material effect on the results for the current or prior accounting periods.

Foreign currencies

The revisions to SSAP 11 *Foreign Currency Translation* have eliminated the choice of translating the income statements of subsidiaries and associates operating outside Hong Kong at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) *Cash Flow Statements*. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as either operating, investing or financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. In addition, the amounts presented for cash and cash equivalents have been amended to exclude cash balances held for investment purposes and short term loans that are financing in nature. The comparative amounts shown in the cash flow statement have been restated to conform with the current year's presentation.

Employee benefits

In the current year, the Group has adopted SSAP 34 *Employee Benefits*, which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

3. 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/negative goodwill

Goodwill/negative goodwill arising on consolidation represents the excess/shortfall of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill/negative goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves. Goodwill will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired. Negative goodwill will be credited to the income statement at the time of disposal of the relevant subsidiary or associate.

Goodwill arising on acquisitions on or after 1 January 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet. On disposal of a subsidiary or an associate, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill arising on acquisitions on or after 1 January 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the year in which those losses or expenses arise. The remaining negative goodwill is recognised as income over the expected useful life of the identifiable assets acquired.

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

3. Principal Accounting Policies *(cont'd)*

Goodwill/negative goodwill *(cont'd)*

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received or receivable.

Investments in associates

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, less any identified impairment loss.

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. In the Company's balance sheet, investments in associates are stated at cost less any identified impairment loss.

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 amount, the carrying amount 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 less any identified impairment loss. The results of these project companies are accounted for by the Group on the basis of dividends received and receivable.

Listed securities

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

3. Principal Accounting Policies *(cont'd)*

Development properties

Properties for sale

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 management based on prevailing market conditions.

Properties for development

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the impairment loss is treated as revaluation decrease under that Standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that Standard.

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.

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

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

3. Principal Accounting Policies *(cont'd)*

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses, where appropriate. Properties for own use reclassified from investment properties are stated at the carrying value at the time when the reclassification took place, less subsequent accumulated depreciation and any identified impairment losses.

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, at the following rates per annum:

Leasehold land	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

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.

Advantage has been taken of the transitional relief provided by paragraph 80 of SSAP 17 *Property, Plant and Equipment* issued by the HKSA 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, accordingly no further revaluation of such land and buildings is carried out. In previous years, the increase arising on revaluation of an asset was credited to an asset revaluation reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the asset revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation increase is transferred to retained profits.

Inventories

Inventories, representing building materials, are stated at the lower of cost and net realisable value. Cost is calculated using the first in, first out method.

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 cost will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

3. Principal Accounting Policies *(cont'd)*

Construction contracts *(cont'd)*

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 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

Transactions denominated in currencies other than Hong Kong dollars are initially recorded at the exchange rates prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the subsidiaries and associates operating outside Hong Kong are translated at the exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to exchange translation reserve. Such translation differences are recognised as income or as expenses in the year in which the subsidiary or associate is disposed of.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease term.

Retirement benefit costs

Payments to retirement benefit schemes are charged as an expense as they fall due.

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

3. Principal Accounting Policies *(cont'd)*

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.

Revenue recognition

Sales of properties

Income from sales of properties is 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.

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 cost 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 cost 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.

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.

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

3. Principal Accounting Policies *(cont'd)*

Revenue recognition *(cont'd)*

Sales of securities

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

Dividend income

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

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.

4. Turnover

Turnover represents the aggregate of proceeds from sales of properties, property rentals, revenue from construction contracts and project management, income from infrastructure project investments, real estate agency and management service fees, dividend income, interest income and proceeds from sales of listed securities and is analysed as follows:

	2002	2001
	HK\$'000	HK\$'000
Proceeds from sales of properties	2,994,175	3,583,576
Property rental income	193,412	198,336
Revenue from construction contracts and project management	2,910,543	2,538,663
Income from infrastructure project investments	58,735	101,312
Real estate agency and management service fees	88,012	82,881
Dividend income from syndicated property project companies	118,620	7,800
Other dividend income	333	172
Interest income	28,830	58,138
Proceeds from sales of listed securities	—	14,705
	6,392,660	6,585,583

5. Business and Geographical Segments

Business segment

The businesses based upon which the Group reports its primary segment information are as follows:

Property development	– development and sale of properties
Property investment	– property letting
Construction	– building and civil construction, foundation engineering and project management
Infrastructure project investment	– investments in entities undertaking infrastructure projects

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

5. Business and Geographical Segments *(cont'd)*

Business segment *(cont'd)*

Segment information about these businesses is presented below.

REVENUE AND RESULTS

Year ended 31 December 2002

	Property development	Property investment	Infrastructure Construction	Infrastructure project investment	Other operations	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE							
External	3,112,795	193,412	2,910,543	58,735	88,345	—	6,363,830
Inter-segment	—	2,780	531,439	—	—	(534,219)	—
	3,112,795	196,192	3,441,982	58,735	88,345	(534,219)	6,363,830

Inter-segment revenue was charged at prices determined by management with reference to market prices.

RESULTS

Segment results	(52,184)	137,977	129,824	58,060	31,798	(2,780)	302,695
Interest and other income							59,598
Unallocated corporate expenses							(178,436)
Profit from operations							183,857
Finance costs							(76,814)
Share of results of associates	(5,253)	—	11,168	—	1,826	—	7,741
Profit before taxation							114,784
Income tax expenses							(89,352)
Profit before minority interests							25,432
Minority interests							35,530
Net profit for the year							60,962

BALANCE SHEET

At 31 December 2002

	Property development	Property investment	Infrastructure Construction	Infrastructure project investment	Other operations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS						
Segment assets	7,663,138	1,755,926	1,372,140	369,834	58,674	11,219,712
Interests in associates	695,339	—	134,657	—	55,966	885,962
Unallocated corporate assets						2,371,217
Consolidated total assets						14,476,891
LIABILITIES						
Segment liabilities	(2,637,905)	(250,570)	(1,054,720)	(24)	(49,139)	(3,992,358)
Unallocated corporate liabilities						(2,778,339)
Consolidated total liabilities						(6,770,697)

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

5. Business and Geographical Segments *(cont'd)*

Business segment *(cont'd)*

OTHER INFORMATION

Year ended 31 December 2002

	Property development HK\$'000	Property investment HK\$'000	Construction HK\$'000
Capital additions	4,045	1,366	113,655
Depreciation and amortisation	4,210	12,306	82,913
Impairment losses and allowances recognised in income on			
– properties for sale	181,000	—	—
– amounts due from an associate and syndicated property project companies	299,000	—	—
– instalments receivable	9,000	—	—

REVENUE AND RESULTS

Year ended 31 December 2001

	Property development HK\$'000	Property investment HK\$'000	Construction HK\$'000	Infrastructure project investment HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE							
External	3,583,576	198,336	2,538,663	101,312	105,558	—	6,527,445
Inter-segment	—	5,107	513,875	—	—	(518,982)	—
	3,583,576	203,443	3,052,538	101,312	105,558	(518,982)	6,527,445

Inter-segment revenue was charged at prices determined by management with reference to market prices.

RESULTS

Segment results	55,003	141,213	93,138	73,971	38,757	(32,650)	369,432
Interest and other income							75,394
Unallocated corporate expenses							(156,953)
Profit from operations							287,873
Finance costs							(189,146)
Gain on disposal of investment							347,684
Share of results of associates (46,943)		—	21,006	—	3,192	—	(22,745)
Profit before taxation							423,666
Income tax expenses							(79,311)
Profit before minority interests							344,355
Minority interests							67,137
Net profit for the year							411,492

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

5. Business and Geographical Segments *(cont'd)*

Business segment *(cont'd)*

BALANCE SHEET

At 31 December 2001

	Property development	Property investment	Construction	Infrastructure project investment	Other operations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS						
Segment assets	6,969,187	1,808,041	951,277	760,465	57,227	10,546,197
Interests in associates	885,665	—	97,362	—	71,798	1,054,825
Unallocated corporate assets						2,452,415
Consolidated total assets						14,053,437
LIABILITIES						
Segment liabilities	(1,543,048)	(58,084)	(802,329)	(121)	(52,407)	(2,455,989)
Unallocated corporate liabilities						(3,586,278)
Consolidated total liabilities						(6,042,267)

OTHER INFORMATION

Year ended 31 December 2001

	Property development	Property investment	Construction
	HK\$'000	HK\$'000	HK\$'000
Capital additions	6,255	2,348	34,913
Depreciation and amortisation	2,891	6,347	58,626
Impairment loss on properties recognised in income	114,000	—	—

Geographical segments

The Group's property development, property investment and construction activities are carried out in Hong Kong and other regions in the People's Republic of China ("the PRC"). All the infrastructure project investments are located in the PRC. The following table provides an analysis of the Group's turnover by geographical market:

	Turnover by geographical market	
	2002 HK\$'000	2001 HK\$'000
Hong Kong	3,005,376	4,219,952
The PRC	3,387,284	2,365,631
	6,392,660	6,585,583

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

5. Business and Geographical Segments *(cont'd)*

Geographical segments *(cont'd)*

The following is an analysis of the carrying amounts of segment assets and additions to investment properties and property, plant and equipment analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to investment properties, property, plant and equipment	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	5,980,198	6,125,479	116,798	37,730
The PRC	8,496,693	7,927,958	10,516	13,695
	14,476,891	14,053,437	127,314	51,425

6. Impairment Losses and Allowances Recognised

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Impairment losses on properties for sale	181,000	114,000
Allowances for amounts due from		
- an associate	200,000	—
- syndicated property project companies	99,000	—
	480,000	114,000

As a result of the further decline in Hong Kong property prices, impairment losses totalling HK\$181,000,000 (2001: HK\$114,000,000) were provided to reduce the carrying amounts of certain properties held for sale to their net realisable value and allowances totalling HK\$299,000,000 (2001: Nil) were provided against the amounts due from an associate and certain syndicated property project companies to their estimated recoverable amounts as determined by management based on the estimated net selling price of properties by reference to market condition.

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

7. Profit from Operations

	The Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration	3,491	2,788
Depreciation and amortisation	104,050	78,795
Staff costs including directors' emoluments <i>(note)</i>	536,915	537,857
Rental expenses in respect of land and buildings		
under operating leases	4,186	10,818
Allowances for instalments receivable	9,000	—
Rental income in respect of land and buildings under operating leases, net of outgoings of HK\$40,882,000 (2001: HK\$42,165,000)	(152,530)	(156,171)
Net exchange gains on foreign currency borrowings less deposits	(2,655)	(2,798)
Dividends and returns from investments		
- listed	(160)	(172)
- unlisted	(118,793)	(7,800)

Note:

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees. The total cost charged to income statement of HK\$21 million (2001: HK\$21 million), which has been included in staff costs disclosed above, represents contributions payable to this scheme by the Group in respect of the current accounting period. As at 31 December 2002, contributions of HK\$2 million (2001: HK\$2 million) due in respect of the year had not been paid over to the scheme.

8. Gain on Disposal of Investment

The gain on disposal of investment of the prior year was derived from disposal of the Group's 21.56% interest in Ryoden Development Limited which was arrived at after accounting for the investment property revaluation reserve and negative goodwill on consolidation totalling HK\$127,653,000 transferred from reserves.

9. Finance Costs

	The Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans, overdrafts and other borrowings		
wholly repayable within five years	121,068	226,208
Other finance costs	7,490	828
Less: Amount capitalised on development properties	(51,744)	(37,890)
	76,814	189,146

The interest capitalised on development properties is calculated at capitalisation rates ranging from 4% to 7% per annum.

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

10. Directors' Emoluments

	The Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Directors' fees	—	—
Other emoluments		
Basic salaries, allowances and benefits-in-kind	20,015	23,140
Contributions to retirement benefit scheme	114	1,075
Total emoluments	20,129	24,215

The amounts disclosed above include allowances totalling HK\$400,000 (2001: HK\$400,000) payable to independent non-executive directors.

The emoluments of the directors were within the following bands:

	The Group	
	2002	2001
	Number of directors	Number of directors
HK\$		
Nil - 1,000,000	8	4
1,000,001 - 1,500,000	1	1
1,500,001 - 2,000,000	1	3
2,000,001 - 2,500,000	3	3
2,500,001 - 3,000,000	2	3
3,000,001 - 3,500,000	1	—

All the five highest paid individuals in the Group for both years presented are directors of the Company, whose emoluments are included above.

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

11. Income Tax Expense

	The Group	
	2002	2001
	HK\$'000	HK\$'000
The charge (credit) comprises:		
Company and subsidiaries		
Hong Kong Profits Tax		
Current year	7,209	10,903
Prior year's overprovision	(23,683)	(15,346)
	(16,474)	(4,443)
PRC income tax	101,245	83,184
Deferred taxation (note 33)	880	172
	85,651	78,913
Associates		
Hong Kong Profits Tax	1,296	2,856
PRC income tax	2,405	(2,458)
	3,701	398
	89,352	79,311

Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profit for the year.

PRC income tax is calculated at the applicable PRC tax rates on the estimated assessable profit for the year.

Details of the potential deferred taxation not recognised are set out in note 33.

12. Dividends

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Ordinary shares:		
Interim, paid		
HK2 cents (2001: HK2 cents) per share	109,286	109,280
Final, proposed		
HK1 cent (2001: HK2 cents) per share	54,125	109,286
	163,411	218,566

The final dividend of HK1 cent (2001: HK2 cents) per ordinary share has been proposed by the directors and is subject to approval by the shareholders at the forthcoming Annual General Meeting.

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

13. Earnings Per Share

The calculation of the basic and diluted earnings per share for the year is based on the following data:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Net profit for the purposes of basic and diluted earnings per share	60,962	411,492
	Number	Number
	of shares	of shares
	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	5,454,938	5,454,522
Effect of dilutive potential ordinary shares in respect of share options granted	59,200	67,829
Weighted average number of ordinary shares for the purposes of diluted earnings per share	5,514,138	5,522,351

The computation of the diluted earnings per share for both years presented does not assume the exercise of the outstanding share options granted by the Company where the exercise price was higher than the fair value per share.

14. Investment Properties

	Land and buildings
	HK\$'000
The Group	
VALUATION	
At 1 January 2002	1,791,500
Reclassified from property, plant and equipment	46,652
Disposals	(1,837)
Revaluation decrease	(94,865)
At 31 December 2002	1,741,450

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

14. Investment Properties *(cont'd)*

An analysis of the investment properties of the Group at 31 December 2002 is as follows:

	2002	2001
	HK\$'000	HK\$'000
In Hong Kong		
on long leases	128,000	140,000
on medium-term leases	712,750	783,300
In the PRC		
on long leases	—	1,500
on medium-term leases	900,700	866,700
	1,741,450	1,791,500

The investment properties of the Group are carried at their open market value on existing use basis at 31 December 2002 as valued by DTZ Debenham Tie Leung Limited, an independent firm of property valuers. This valuation gave rise to a revaluation decrease of HK\$94,865,000 (2001: HK\$106,475,000) which has been charged to investment property revaluation reserve (note 30).

15. Property, Plant and Equipment

	Properties for own use	Plant and machinery	Furniture, fixtures, equipment and motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group				
COST OR VALUATION				
At 1 January 2002	653,417	342,623	123,873	1,119,913
Additions	3,529	99,732	24,053	127,314
Disposals	(2,534)	(11,949)	(12,704)	(27,187)
Reclassified to				
- investment properties	(53,173)	—	—	(53,173)
- properties for sale	(8,378)	—	—	(8,378)
At 31 December 2002	592,861	430,406	135,222	1,158,489
DEPRECIATION				
At 1 January 2002	77,350	274,313	81,231	432,894
Provided for the year	11,192	74,215	18,643	104,050
Eliminated on disposals	(533)	(10,504)	(10,665)	(21,702)
Eliminated on reclassification	(7,166)	—	—	(7,166)
At 31 December 2002	80,843	338,024	89,209	508,076
NET BOOK VALUES				
At 31 December 2002	512,018	92,382	46,013	650,413
At 31 December 2001	576,067	68,310	42,642	687,019

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

15. Property, Plant and Equipment *(cont'd)*

	Properties for own use <i>HK\$'000</i>	Furniture, fixtures, equipment and motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
The Company			
COST OR VALUATION			
At 1 January 2002	5,620	29,697	35,317
Additions	—	1,804	1,804
Disposals	—	(901)	(901)
At 31 December 2002	5,620	30,600	36,220
DEPRECIATION			
At 1 January 2002	1,108	26,727	27,835
Provided for the year	169	1,293	1,462
Eliminated on disposals	—	(862)	(862)
At 31 December 2002	1,277	27,158	28,435
NET BOOK VALUES			
At 31 December 2002	4,343	3,442	7,785
At 31 December 2001	4,512	2,970	7,482

Notes:

(a) An analysis of the cost or valuation of the properties of the Group and the Company held for own use is as follows:

	The Group		The Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Land and buildings on medium-term leases				
At 1994 professional valuation				
In Hong Kong	392,726	430,690	3,720	3,720
In the PRC	37,514	37,839	1,900	1,900
At cost				
In Hong Kong	93,179	108,389	—	—
In the PRC	69,442	76,499	—	—
	592,861	653,417	5,620	5,620

The properties of the Group held for own use at valuation are carried at their open market value at 31 December 1994, as valued by Messrs. C.Y. Leung & Company Limited, an independent firm of property valuers, less subsequent depreciation.

Other property, plant and equipment are carried at cost less depreciation.

(b) The properties of the Group and those of the Company held for own use at valuation would have been included in the financial statements at the following amounts had these properties been carried on a historical cost basis less depreciation:

	The Group		The Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Properties for own use, at cost less depreciation	154,537	166,669	3,010	3,132

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

16. Properties for Development

	The Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
At cost		
Balance at 1 January	1,417,312	792,302
Additions	984,455	940,520
Acquisition of subsidiaries	50,282	95,626
Disposal of subsidiaries	(385,645)	–
Reclassified to properties under development	(525,638)	(411,136)
Balance at 31 December	1,540,766	1,417,312

17. Interests in Subsidiaries

	The Company	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	9,927	9,927
Amounts due from subsidiaries less allowances	8,451,913	8,954,445
	8,461,840	8,964,372

Particulars of the principal subsidiaries are set out in note 42.

18. Interests in Associates

	The Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted companies		
Share of net assets	202,293	217,780
Amounts due from associates less allowances	683,669	837,045
	885,962	1,054,825

	The Company	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	—	—
Amounts due from associates	10,193	10,192
	10,193	10,192

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

18. Interests in Associates *(cont'd)*

Set out below are the particulars of the principal associates at 31 December 2002 which, in the opinion of the directors, principally affected the results or the net assets of the Group. All these associates are indirectly held by the Company and are incorporated and operating in Hong Kong unless otherwise indicated.

Name of company	Proportion of nominal value of issued ordinary capital/ registered capital held by the Group %	Nature of business
Allways Success Development Limited	40	Property trading and investment
Allways Success Finance Limited	40	Loan financing
Beijing Ke Guan Property Development Co., Ltd. (i)	35	Property development
北京國海在線科技有限公司 (i)	39	Development of computer network application, internet portals and provision of internet related services
Best Reward Development Limited	30	Property trading and investment
China Digital satNet Limited	22	Development of satellite broadband digital network communication business
Chest Gain Development Limited	30	Property development
Elation Assets Limited (ii)	35	Investment holding
廣州中海房地產發展有限公司 (i)	45	Property development
Guangzhou Xin Yue Real Estate Development Co., Ltd. (i)	40	Property development and trading
廣州蒙特利實業有限公司 (i)	20	Manufacture and sale of modern construction materials
Hong Kong Concrete Company Limited	31.5	Manufacture and sale of ready-mixed concrete
Krimark Investments Limited (ii)	40	Investment holding
Shenzhen Hailong Cement Co., Ltd. (i)	50	Development and operation of a cement plant
Zhejiang Kingland Pipeline and Technologies Co., Ltd. (i)	20	Manufacture and trading of construction materials

(i) Registered and operating in the PRC

(ii) Incorporated in the British Virgin Islands

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

19. Investments in Infrastructure and Syndicated Property Projects

	Infrastructure		Syndicated		Total	
	project investments		property projects			
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group						
Unlisted investments, at cost	438,200	438,200	46	52	438,246	438,252
Amounts due from investees	—	186,353	1,139,255	1,112,194	1,139,255	1,298,547
Less: Repayment of capital						
contributed	(68,366)	(51,648)	—	—	(68,366)	(51,648)
Allowances for doubtful recovery	—	—	(301,500)	(202,500)	(301,500)	(202,500)
	369,834	572,905	837,801	909,746	1,207,635	1,482,651
Carrying amount analysed for reporting purposes as:						
Non-current	350,409	369,835	837,801	909,746	1,188,210	1,279,581
Current	19,425	203,070	—	—	19,425	203,070
	369,834	572,905	837,801	909,746	1,207,635	1,482,651

(a) Infrastructure project investments

Pursuant to the agreements entered into between the Group and PRC entities for the establishment of companies for the purposes of investing in infrastructure projects in the PRC, the Group has undertaken to contribute an agreed portion of the registered capital of the investee companies. The Group is entitled under the agreements to share a fixed amount of the operating surplus of the investee companies available for appropriation payable quarterly to the Group to enable the Group to recover its cost of investment and receive a periodic return therefrom. The PRC partners will be entitled to all of the remaining surplus. The Group's returns under the agreements are guaranteed by the PRC partners. Upon the expiration of the contract period, all assets of the investee companies will be reverted to the PRC partners without compensation. Accordingly, the Group's entitlements to the operating results of the investee companies are limited to the guaranteed returns.

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

19. Investments in Infrastructure and Syndicated Property Projects *(cont'd)*

(a) Infrastructure project investments *(cont'd)*

Particulars of the investee companies engaging in infrastructure project investments at 31 December 2002, all of which are established and are operating in the PRC, are as follows:

Name of company	Amount contributed		Operation period	Nature of business
	Registered capital <i>US\$'000</i>	by the Group <i>US\$'000</i>		
Guilin COLI Communication Development Ltd.	23,530	3,750	18 years from 19 December 1997	Operation and management of toll highways
Guilin COLI Infrastructure Investment Ltd.	23,530	3,750	18 years from 19 December 1997	Operation and management of toll highways
Liuzhou COLI Infrastructure Investment Ltd.	29,940	12,500	18 years from 18 July 1997	Operation and management of toll bridges
Liuzhou COLI Road Investment Ltd.	29,940	12,500	18 years from 18 July 1997	Operation and management of toll highways and bridges
Nanning COLI Infrastructure Investment Ltd.	29,450	8,000	16 years from 24 December 1996	Operation and management of toll bridges
Nanning Shachuan Bridge Investment Ltd.	29,620	8,000	16 years from 24 December 1996	Operation and management of toll bridges
Nanning Xixiangtang Road Investment Ltd.	29,740	8,000	16 years from 24 December 1996	Operation and management of toll highways

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

19. Investments in Infrastructure and Syndicated Property Projects *(cont'd)*

(b) Syndicated property projects

Each of the syndicated property projects is undertaken by a company incorporated solely for that purpose. The shareholders of each of the project companies are obliged to provide funding to the project company in accordance with their percentage shareholdings therein. Any profits or losses of the project companies are to be shared by the shareholders in accordance with their respective shareholdings.

Particulars of the principal project companies at 31 December 2002, all of which are incorporated and operating in Hong Kong unless otherwise indicated, are as follows:

Name of company	Attributable equity interests held by the Group
	%
Benefit Bright Limited	10
Direct Profit Development Limited	8
Dramstar Company Limited	12
Harvest Sun Limited	10
Moricrown Ltd.*	7
Victory World Limited	10

* Incorporated in the British Virgin Islands

20. Instalments Receivable

	The Group	
	2002 HK\$'000	2001 HK\$'000
Instalments receivable from property purchasers	247,123	243,094
Less: Allowance for doubtful recovery	(9,000)	—
Amount due within one year included in trade and other receivables under current assets	(1,052)	(1,480)
	237,071	241,614

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

21. Negative Goodwill

	The Group	
	2002	2001
	HK\$'000	HK\$'000
GROSS AMOUNT		
At 1 January	31,327	—
Arising on acquisition of subsidiaries	—	31,327
At 31 December	31,327	31,327
RELEASED TO INCOME		
At 1 January	(2,372)	—
Included in other operating income	(2,890)	(2,372)
At 31 December	(5,262)	(2,372)
CARRYING AMOUNT	26,065	28,955

The negative goodwill, which arose on the acquisition of subsidiaries in March, 2001, is released to income as and when the properties held by the subsidiaries acquired are disposed.

22. Inventories

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Building materials	1,100	1,097

23. Properties for Sale

	The Group		The Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Properties for sale				
Completed	2,039,702	2,816,678	1,798	1,846
Under development	2,432,583	1,385,075	—	—
	4,472,285	4,201,753	1,798	1,846

Included above are properties of HK\$734,599,000 (2001: HK\$1,029,444,000) which are carried at net realisable value.

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

24. Investments in Securities

	The Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity securities listed in Hong Kong at market value	4,246	6,069

25. Trade and Other Receivables

Except for the proceeds from property sales and income from infrastructure project investments which are payable in accordance with the terms of the relevant agreements, the Group generally allows a credit period of not exceeding 60 days to its customers.

The following is an analysis of trade and other receivables at the reporting date:

	The Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Receivables, aged		
0-30 days	558,350	440,354
31-90 days	409,968	210,800
Over 90 days	310,831	406,377
Retentions receivable	295,877	247,405
	1,575,026	1,304,936

26. Amounts Due from (to) Customers for Contract Work

	The Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contract in progress at the balance sheet date:		
Contract costs incurred plus recognised profits less losses	2,548,603	1,663,792
Less: Progress billings	(2,560,898)	(1,620,525)
	(12,295)	43,267
Analysed for reporting purposes as:		
Amounts due from contract customers	68,686	92,033
Amounts due to contract customers	(80,981)	(48,766)
	(12,295)	43,267

At 31 December 2002, retentions held by customers for contract work amounted to approximately HK\$295,877,000 (2001: HK\$247,405,000) which have been included in trade and other receivables under current assets.

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

27. Bank Balances and Cash

Included in bank balances and cash are deposits from pre-sale of properties under development received by the Group amounted to HK\$62 million (2001: HK\$170 million), withdrawal of which is restricted during the course of development of the properties.

28. Trade and Other Payables

The following is an analysis of trade and other payables at the reporting date:

	The Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Payables, aged		
0-30 days	1,360,583	987,742
31-90 days	190,259	255,695
Over 90 days	267,365	167,633
Retentions payable	286,623	243,271
	2,104,830	1,654,341

29. Share Capital

	The Group and the Company			
	2002		2001	
	Number of shares '000	Nominal value <i>HK\$'000</i>	Number of shares '000	Nominal value <i>HK\$'000</i>
Ordinary shares of HK\$0.1 each				
Authorised	10,000,000	1,000,000	10,000,000	1,000,000
Issued and fully paid				
At beginning of the year	5,464,024	546,402	5,437,404	543,740
Issue of shares upon exercise of share options	6,570	657	35,620	3,562
Shares repurchased	(58,116)	(5,812)	(9,000)	(900)
At end of the year	5,412,478	541,247	5,464,024	546,402

Issue of shares

During the year, the Company allotted and issued 3,470,000 shares and 3,100,000 shares at the respective issue price of HK\$0.52 and HK\$0.58 per share to employees upon the exercise of share options granted giving a total cash consideration of HK\$3,602,000.

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

29. Share Capital *(cont'd)*

Repurchases of shares

During the year, the Company made repurchases of its own shares on the Hong Kong Stock Exchange as follows:

Month of repurchase	Number of ordinary shares of HK\$0.1 each '000	Price per share		Aggregate consideration HK\$'000
		Highest HK\$	Lowest HK\$	
2002				
September	18,022	0.81	0.75	14,046
October	20,674	0.80	0.72	15,829
November	16,918	0.80	0.76	13,233
December	2,502	0.83	0.80	2,039
	<u>58,116</u>			<u>45,147</u>

All the shares repurchased were cancelled. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to the capital redemption reserve. The repurchases were effected by the directors with a view to benefit shareholders as a whole by increasing the net asset value per share of the Company.

Share option scheme

Pursuant to the share option scheme adopted by the Company in 1992, the board of directors of the Company ("the Board") was authorised to grant options to any employee of the Company or its subsidiaries to subscribe for shares in the Company at a subscription price which was 80% of the average closing price of the Company's shares for the five business days immediately preceding the date of grant or the nominal value of a share (whichever is the greater). This scheme expired in July 2002.

The Company's existing share option scheme ("the Scheme") was adopted pursuant to an ordinary resolution passed on 18th July, 2002. The Scheme shall be valid and effective for a period of 10 years and the purpose of which is to provide incentives to directors and eligible employees to contribute further to the Company. The Board is authorised to grant options under the Scheme to any full-time employee, including directors of the Company or any of its subsidiaries, to subscribe for shares in the Company.

The maximum number of shares that can be granted under the Scheme must not exceed 10% of the shares of the Company in issue as at the date of approval of the Scheme. The total number of shares issued and to be issued upon exercise of options granted to each participant must not, within any 12-month period, exceed 1% of the shares of the Company in issue. Any further grant of the options in excess of this 1% limit is subject to shareholders' approval. Each grant of options to any director or a substantial shareholder must be approved by independent non-executive directors. Where any grant of options to a substantial shareholder or an independent non-executive director or any of their respective associates in the 12-month period, would result in the shares issued and to be issued upon exercise of all options representing over 0.1% of the Company's share capital in issue or having an aggregate value in excess of HK\$5 million, such further grant of options must be approved by in advance the Company's shareholders.

Options granted must be taken up within 28 days from the date of the offer letter upon payment of HK\$1 per each grant of option payable as consideration on acceptance, which is recognised in the income statement when received. An option may be exercised at any time during a period of 9 years commencing on the expiry of 1 year after the offer date. The subscription price per share is determined by the Board and shall be at least the higher of (i) the closing price of the Company's shares on the date of offer; (ii) the average closing price of the shares for the five business days immediately preceding the date of offer; and (iii) the nominal value of the shares.

Save as aforementioned, no credit or charge is recognised in the financial statements in respect of the value of options granted.

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

29. Share Capital *(cont'd)*

Share option scheme *(cont'd)*

The following table discloses details of the Company's share options held by employees and movements in such holdings:

Date of grant	Exercisable period	Subscription price per share HK\$	Outstanding at 1 January 2002	Number of shares under options granted			Outstanding at 31 December 2002	Closing price of shares at date of exercise HK\$
				Granted during the year	Exercised during the year	Cancelled during the year		
17 July 1997	17 July 1998 - 16 July 2007	4.06	69,200,000	—	—	(3,210,000)	65,990,000	N/A
14 February 1998	14 February 1999 - 13 February 2008	1.08	172,750,000	—	—	(4,330,000)	168,420,000	N/A
30 September 1998	30 September 1999 - 29 September 2008	0.52	45,850,000	—	(3,470,000)	(1,320,000)	41,060,000	0.87 to 0.98
4 January 2000	4 January 2001 - 3 January 2010	0.58	77,450,000	—	(3,100,000)	(2,400,000)	71,950,000	0.87 to 0.98
24 October 2001	24 October 2002 - 23 October 2011	0.69	86,000,000	—	—	—	86,000,000	N/A
			451,250,000	—	(6,570,000)	(11,260,000)	433,420,000	

Date of grant	Exercisable period	Subscription price per share HK\$	Outstanding at 1 January 2001	Number of shares under options granted			Outstanding at 31 December 2001	Closing price of shares at date of exercise HK\$
				Granted during the year	Exercised during the year	Cancelled during the year		
17 July 1997	17 July 1998 - 16 July 2007	4.06	70,710,000	—	—	(1,510,000)	69,200,000	N/A
14 February 1998	14 February 1999 - 13 February 2008	1.08	176,750,000	—	(2,400,000)	(1,600,000)	172,750,000	1.09 to 1.15
30 September 1998	30 September 1999 - 29 September 2008	0.52	76,450,000	—	(28,720,000)	(1,880,000)	45,850,000	0.99 to 1.15
4 January 2000	4 January 2001 - 3 January 2010	0.58	82,650,000	—	(4,500,000)	(700,000)	77,450,000	1.05 to 1.14
24 October 2001#	24 October 2002 - 23 October 2011	0.69	—	86,000,000	—	—	86,000,000	N/A
			406,560,000	86,000,000	(35,620,000)	(5,690,000)	451,250,000	

During the prior year, the directors proposed to grant options at nominal consideration to certain employees to subscribe for a total of 86,000,000 shares of the Company at a subscription price of HK\$0.69 per share. It was confirmed during the year that the grant of options to subscribe for 86,000,000 shares is not required for shareholders' approval. The proposal to grant the options was finalised with retrospective effect.

Details of the share options held by the directors included in the above table are as follows:

	Outstanding at 1 January	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31 December
2002	123,710,000*	—	—	(1,500,000)	122,210,000
2001	155,880,000#	—	(12,740,000)	—	143,140,000

* This figure excludes the options to subscribe for 22,800,000 shares granted to a director who resigned during the year, but includes 3,370,000 shares granted to a director who was appointed during the year.

This figure excludes the options to subscribe for 16,100,000 shares granted to a director whose resignation took place in 2001.

Save as disclosed above, no options were granted, exercised, cancelled or lapsed during the year.

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

30. Reserves

	Share premium	Capital redemption reserve	Investment property revaluation reserve	Other property revaluation reserve	Exchange translation reserve	Goodwill on consolidation	PRC statutory reserve	Dividend reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP										
At 1 January 2001	5,173,613	884	373,627	405,681	(43,593)	(310,088)	—	108,748	1,790,774	7,499,646
Exchange differences on translation of financial statements	—	—	—	—	(707)	—	—	—	—	(707)
Final dividend for 2000 paid	—	—	—	—	—	—	—	(108,748)	—	(108,748)
Repurchase of own shares	—	900	—	—	—	—	—	—	(6,433)	(5,533)
Issue of shares less expenses	16,558	—	—	—	—	—	—	—	—	16,558
Share of associates' reserve movements	—	—	(5,300)	—	999	—	—	—	—	(4,301)
Decrease on revaluation of properties	—	—	(106,475)	—	—	—	—	—	—	(106,475)
Realised on disposal of properties	—	—	(231)	(7,047)	—	—	—	—	7,047	(231)
Realised when properties were used and depreciated	—	—	—	(2,824)	—	—	—	—	2,824	—
Realised on disposal of investment	—	—	(44,290)	—	—	(83,363)	—	—	—	(127,653)
Net profit for the year	—	—	—	—	—	—	—	—	411,492	411,492
Amounts set aside for dividend payments (note 12)	—	—	—	—	—	—	—	218,566	(218,566)	—
Interim dividend for 2001 paid	—	—	—	—	—	—	—	(109,280)	—	(109,280)
At 31 December 2001	5,190,171	1,784	217,331	395,810	(43,301)	(393,451)	—	109,286	1,987,138	7,464,768
Exchange differences on translation of financial statements	—	—	—	—	19,970	—	—	—	—	19,970
Final dividend for 2001 paid	—	—	—	—	—	—	—	(109,286)	—	(109,286)
Repurchase of own shares	—	5,812	—	—	—	—	—	—	(45,147)	(39,335)
Issue of shares less expenses	2,945	—	—	—	—	—	—	—	—	2,945
Share of associates' reserve movements	—	—	(21,000)	—	1,940	—	—	—	—	(19,060)
Decrease on revaluation of properties, adjusted for minority interests	—	—	(105,665)	—	—	—	—	—	—	(105,665)
Realised on partial disposal of a subsidiary	—	—	—	(6,935)	—	—	—	—	6,935	—
Realised on disposal of properties	—	—	(1,066)	4	—	—	—	—	(4)	(1,066)
Realised when properties were used and depreciated	—	—	—	(6,919)	—	—	—	—	6,919	—
Net profit for the year	—	—	—	—	—	—	—	—	60,962	60,962
Amounts set aside for dividend payments (note 12)	—	—	—	—	—	—	—	163,411	(163,411)	—
Interim dividend for 2002 paid	—	—	—	—	—	—	—	(109,286)	—	(109,286)
Transfer to PRC statutory reserve	—	—	—	—	—	—	11,497	—	(11,497)	—
At 31 December 2002	5,193,116	7,596	89,600	381,960	(21,391)	(393,451)	11,497	54,125	1,841,895	7,164,947

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

30. Reserves *(cont'd)*

	Share premium	Capital redemption reserve	Investment property revaluation reserve	Other property revaluation reserve	Exchange translation reserve	Goodwill on consolidation	Dividend reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE COMPANY									
At 1 January 2001	5,173,613	884	—	2,446	—	—	108,748	985,327	6,271,018
Final dividend for 2000 paid	—	—	—	—	—	—	(108,748)	—	(108,748)
Repurchase of own shares	—	900	—	—	—	—	—	(6,433)	(5,533)
Issue of shares less expenses	16,558	—	—	—	—	—	—	—	16,558
Realised on disposal of properties	—	—	—	(935)	—	—	—	935	—
Net profit for the year	—	—	—	—	—	—	—	252,026	252,026
Amounts set aside for dividend payments <i>(note 12)</i>	—	—	—	—	—	—	218,566	(218,566)	—
Interim dividend for 2001 paid	—	—	—	—	—	—	(109,280)	—	(109,280)
At 31 December 2001	5,190,171	1,784	—	1,511	—	—	109,286	1,013,289	6,316,041
Final dividend for 2001 paid	—	—	—	—	—	—	(109,286)	—	(109,286)
Repurchase of own shares	—	5,812	—	—	—	—	—	(45,147)	(39,335)
Issue of shares less expenses	2,945	—	—	—	—	—	—	—	2,945
Net profit for the year	—	—	—	—	—	—	—	(64,959)	(64,959)
Amounts set aside for dividend payments <i>(note 12)</i>	—	—	—	—	—	—	163,411	(163,411)	—
Interim dividend for 2002 paid	—	—	—	—	—	—	(109,286)	—	(109,286)
At 31 December 2002	5,193,116	7,596	—	1,511	—	—	54,125	739,772	5,996,120

Notes:

The retained profits of the Group included profits of HK\$34,991,000 (2001: HK\$41,781,000) retained by associates.

The property revaluation reserves are not distributable to shareholders until they are realised. The Company's reserves available for distribution to shareholders at 31 December 2002 comprised the retained profits of HK\$739,772,000 (2001: HK\$1,013,289,000) and the dividend reserve of HK\$54,125,000 (2001: HK\$109,286,000).

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

31. Long-term Borrowings

	The Group		The Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Secured bank loans repayable				
within one year	238,364	290,764	—	—
Unsecured bank loans repayable				
Within one year	66,038	1,749,607	—	1,246,080
More than one year, but not exceeding two years	47,170	140,187	—	—
More than two years, but not exceeding five years	1,338,000	78,000	1,260,000	—
	1,451,208	1,967,794	1,260,000	1,246,080
	1,689,572	2,258,558	1,260,000	1,246,080
Less: Portion due within one year included in current liabilities	(304,402)	(2,040,372)	—	(1,246,080)
	1,385,170	218,186	1,260,000	—

All the above borrowings carry interest at commercial lending rates.

32. Amounts Due to Minority Shareholders

The minority shareholders of certain subsidiaries have provided unsecured advances to those subsidiaries amounting to approximately HK\$1,519,393,000 (2001: HK\$1,561,872,000), of which approximately HK\$58,988,000 (2001: HK\$82,602,000) carries interest at commercial rates and the balance is interest free. Such advances have no fixed repayment terms but repayment will not be demanded within one year from the balance sheet date.

These advances have been reduced by the net liabilities of the subsidiaries attributable to the minority shareholders of approximately HK\$852,571,000 (2001: HK\$878,747,000).

33. Deferred Taxation

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Attributable to excess of tax allowances over depreciation		
Balance at 1 January	499	327
Charge for the year	880	172
Balance at 31 December	1,379	499

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

33. Deferred Taxation *(cont'd)*

At the balance sheet date, the major components of unprovided deferred tax liabilities (assets) are as follows:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	19,142	18,015
Taxation losses	(496,454)	(481,949)
Other timing differences	(10,934)	(12,642)
	(488,246)	(476,576)

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the losses will be utilised in the foreseeable future.

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

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Tax effect of timing differences because of:		
Differences between tax allowances and depreciation	1,127	(2,899)
Tax losses arising	(14,505)	(21,724)
Other timing differences	1,708	(10,749)
	(11,670)	(35,372)

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

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

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

34. Acquisition of Subsidiaries

During the year, the Group acquired 95% equity interest in Yorkley Group Limited, 80% interest in 北京中海房地產開發有限公司 and 75% interest in 北京國潤房地產開發經營有限公司 for an aggregate consideration of HK\$59,373,000. The companies acquired are principally engaged in property development in the PRC. The post acquisition profits after taxation of these companies included in the consolidated income statement for the year is insignificant.

	<i>HK\$'000</i>
Net assets acquired	
Property for development	50,282
Properties for sale	676,701
Trade and other receivables	31,232
Bank balances and cash	75,866
Trade and other payables	(222,172)
Sales and other deposits	(212,373)
Tax liabilities	(17)
Bank loans	(337,076)
Minority interests	(3,070)
	<u>59,373</u>

Satisfied by:

Cash consideration	
Paid	11,052
Outstanding	48,321
	<u>59,373</u>

Net cash inflow arising on acquisition:	<i>HK\$'000</i>
Cash consideration paid	(11,052)
Bank balances and cash acquired	75,866
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>64,814</u>

The subsidiaries acquired during the year did not contribute significantly to the Group's cash flows, turnover and profit from operations for the year.

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

35. Disposal of Subsidiaries

	<i>HK\$'000</i>
Net assets disposed of	
Properties for development	385,645
Bank balances and cash	3,340
Trade and other payables	(67,996)
	<u>320,989</u>
Sales consideration	(313,620)
Loss on disposal	<u>7,369</u>
Satisfied by:	
Cash	150,000
Properties for sale	89,080
Outstanding cash consideration	74,540
	<u>313,620</u>
Net cash inflow arising on disposal:	<i>HK\$'000</i>
Cash consideration	150,000
Bank balances and cash disposed of	(3,340)
	<u>146,660</u>

The subsidiaries disposed of during the year did not contribute significantly to the Group's cash flows, turnover and profit from operations for the year.

36. Major Non-cash Transactions

During the year,

- (i) the Group transferred certain properties held for development amounting to HK\$525,638,000 (2001: HK\$411,136,000) to properties under development.
- (ii) the Group transferred certain properties for own use amounting to HK\$7,733,000 (2001: Nil) and HK\$46,652,000 (2001: HK\$20,244,000) to properties for sale and investment properties respectively.

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

37. Operating Lease Commitments

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Within one year	3,292	5,735
In the second to fifth years inclusive	152	1,550
	3,444	7,285

Operating lease payments represent rentals payable by the Group for land and buildings. Leases are negotiated and rentals are fixed for an average term of two years.

The Group as lessor

At the balance sheet date, investment properties and completed properties for sale with a carrying value of HK\$1,386 million (2001: HK\$1,116 million) and HK\$434 million (2001: HK\$990 million) respectively were let out under operating leases.

Property rental income earned during the year is HK\$193 million (2001: HK\$198 million) of which HK\$145 million (2001: HK\$156 million) was derived from letting of investment properties. All of the properties leased out have committed tenants for the next one to three years without termination options granted to tenants.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Within one year	119,951	120,164
In the second to fifth years inclusive	136,179	99,569
After five years	25,286	3,323
	281,416	223,056

The Company had no significant operating lease commitments at the balance sheet date.

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

38. Project Commitments

At the balance sheet date, the Group had contracted commitments not provided for in the financial statements in respect of property development expenditure amounted to HK\$1,428,016,000 (2001: HK\$745,397,000).

The Company had no significant project commitments at the balance sheet date.

39. Contingent Liabilities

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

- (a) Guarantees given and indemnities provided by the Group and the Company.

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
In respect of credit facilities granted to:				
Subsidiaries	—	—	4,540,711	3,959,858
Associates	999,952	1,024,300	999,952	1,024,300
Syndicated property project companies	—	206,620	—	206,620
	999,952	1,230,920	5,540,663	5,190,778

- (b) The Group and the Company had outstanding counter indemnities amounting to HK\$1,344,767,000 (2001: HK\$309,684,000) and HK\$1,294,506,000 (2001: HK\$260,935,000) respectively for surety bonds issued in respect of construction projects undertaken by the Group and a subsidiary of the Company's ultimate holding company, China State Construction Engineering Corporation.

- (c) 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\$1,574,936,000 (2001: HK\$1,141,935,000) and HK\$5,131,000 (2001: HK\$152,585,000) respectively.

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

39. Contingent Liabilities *(cont'd)*

- (d) A subsidiary of the Company and their respective joint development partners were jointly and severally liable for the due and prompt completion of a joint development project undertaken by an associate.

40. Pledge of Assets

At the balance sheet date:

- (a) The 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\$517 million (2001: HK\$802 million).
- (b) The banking facilities granted to an associate were secured by pledge of shares in and subordination of advances to these companies with an aggregate carrying value of approximately HK\$216 million (2001: HK\$446 million).
- (c) The mortgage bank loans granted to purchasers of the Group's properties were secured by the Group's bank deposits amounting to approximately HK\$8 million (2001: HK\$35 million).

41. Related Party Transactions

- (a) Pursuant to a project management agreement and a deed of undertaking (together referred to as the "Project Management Agreement") entered into in 1993 between the Company's ultimate holding company, China State Construction Engineering Corporation ("CSCEC"), and the 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 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 construction contracts.

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

41. Related Party Transactions *(cont'd)*

During the year, the Company has agreed to provide counter indemnities to financial institutions issuing bid bonds and performance bonds which are required for construction and engineering projects in Hong Kong tendered or undertaken by CSCEC and its subsidiary for an amount not exceeding HK\$2,000 million from time to time. No fees are chargeable by the Company in this connection. At the balance sheet date, counter indemnities given by the Company in this respect amounted to approximately HK\$492 million (2001: Nil) remained outstanding.

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.

The Group had trade receivables due from CSCEC outstanding at the balance sheet date amounted to HK\$210,061,000 (2001: HK\$185,741,000).

- (b) Pursuant to an agreement entered into between CSCEC and a wholly owned subsidiary of the Company, China Overseas (Hong Kong) Limited ("COHK"), on 12 December 2002, CSCEC as the main contractor, subcontracted the management of and appointed COHK as the first phase project manager for the construction of a factory in Guangzhou, the PRC, at the contract price of RMB180,000,000 which was determined based on estimated cost plus a margin and is payable by CSCEC by reference to the progress of the project. The aggregate construction fee received or receivable by COHK amounted to HK\$148,779,000 (2001: Nil) in respect of the year.
- (c) Pursuant to the subscription agreement entered into on 14 March 2002, China Overseas Building Development (Shenzhen) Company Limited ("COBDS"), a subsidiary of the Company, allotted new equity interest, representing 11% interest in COBDS as enlarged by the subscription, to 深圳市中海投資管理有限公司 ("SCOIM"), which is a 95% subsidiary of CSCEC, for a consideration of approximately HK\$49,180,900. The consideration was determined based on the net tangible assets value of COBDS, as adjusted by the valuation of COBDS's properties at 31 December 2001 conducted by an independent firm of property valuers, plus a premium. The name of COBDS was subsequently changed to China Overseas Property Group Co., Ltd. ("COPC").

The following acquisitions of assets by COPC were transacted during the year:

- (i) Pursuant to an agreement entered into on 9 June 2002, COPC acquired a 31% interest in the registered capital of a joint venture company established in the PRC named 北京中海房地產開發有限公司 ("BCOPD") from SCOIM for a consideration of RMB3,737,360, which was determined based on the net assets value of BCOPD. Pursuant to the said agreement, COPC also acquired the 49% interest in the registered capital of BCOPD held by an outside party on the same terms as those between SCOIM and COPC.

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

41. Related Party Transactions *(cont'd)*

- (ii) 廣州江東房地產開發有限公司 (“GZJD”) is a joint venture company established in the PRC with a registered capital of RMB99,800,000 which was to be wholly contributed by Dong Kong Holdings Limited (“DKHL”), an indirect wholly-owned subsidiary of the Company. Pursuant to the Amended Contract dated 21 August 2002, DKHL transferred to COPC, at no consideration, the right to make the remaining capital contribution of RMB67,650,000 not yet contributed by DKHL, representing 67.79% of the registered capital of GZJD. DKHL will retain its interest in 32.21% of the registered capital of GZJD.

- (d) A wholly-owned subsidiary of the Company, China Overseas Investments Limited (“COIL”), entered into an agreement on 15 November 2002 with a subsidiary of the Company’s holding company, China Overseas Holdings Limited (“COHL”), pursuant to which COIL agreed to sell and transfer to a subsidiary of COHL its entire capital contribution of RMB4,800,000 in a PRC joint venture company, 哈爾濱國海星輪傳動有限公司, representing 21.8% of its registered capital, at cost.

- (e) During the year, the Group has taken out insurance policies with China Overseas Insurance Limited, which is a subsidiary of COHL. The aggregate premium paid or payable by the Group during the year, which was essentially based on terms agreed by the relevant parties concerned, amounted to HK\$78,367,000 (2001: Nil).

- (f) In the ordinary course of business, CSCEC and 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.

- (g) At 31 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\$198,000,000 (2001: HK\$194,000,000) which are unsecured and interest free with no fixed repayment terms.

- (h) During the year, the Group made purchases of construction materials from certain associates amounted to an aggregate of approximately HK\$62,091,000 (2001: HK\$27,081,000) at prices determined by reference to market price for similar purchases.

- (i) The Group acted as the contractor for the development of certain property projects owned by certain associates at the contract price determined by reference to the prices for similar projects contracted by the Group with outside parties. Construction fees for these 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. Construction fees receivable from an associate outstanding at the balance sheet date amounted to HK\$110,267,000 (2001: HK\$36,575,000).

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

42. Particulars of Principal Subsidiaries

The followings are the particulars of the Company's subsidiaries at 31 December 2002 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 operating in the PRC. Unless otherwise specified, all other subsidiaries are incorporated and operating principally in Hong Kong.

Name of company	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company		Principal activities
		Directly %	Indirectly %	
Advocate Properties Limited	100,000 shares of HK\$1 each	—	100	Investment holding
Ample Gain Limited	1,000 shares of HK\$1 each	100	—	Property investment and project management
Arch Regent Investments Limited (i)	1 share of US\$1	—	100	Investment holding
Barkgate Enterprises Limited (i)	200 shares of US\$1 each	—	100	Investment holding
北京中海豪庭房地產有限公司 (v)	RMB10,000,000	—	44.2	Property development
北京中海豪峰有限公司(v)	RMB50,000,000	—	50.6	Property development
北京中海房地產開發有限公司(v)	RMB10,000,000	—	63.2	Property development
北京國潤房地產開發經營有限公司(vi)	RMB30,000,000	—	75	Property development
Beijing Yorkley Real Estate Development Co., Ltd. (v)	US\$12,000,000	—	95	Property development
Beijing Zhong Hai Xing Ye Real Estate Development Co., Ltd. (v)	US\$8,624,000	—	100	Property development
北京中海紫金房地產開發有限公司 (v)	RMB10,000,000	—	100	Property development
Beijing Zhonghai Seagarden Real Estate Development Co., Ltd. (iv) & (viii)	US\$11,920,000	—	72	Property development
Better Success Development Limited	100 shares of HK\$1 each	—	100	Property trading
Capital Charm Development Limited	100 shares of HK\$1 each	—	100	Property trading
Cheerwise Investment Limited	10,000 shares of HK\$1 each	—	100	Investment holding
China Overseas Building Construction Limited	4,999,900 shares of HK\$10 each and 100 non-voting deferred shares of HK\$10 each	—	100	Building construction, project management and investment holding
Changchun China Overseas Property Co., Ltd (iv)	RMB7,500,000	—	84.3	Property development
China Overseas Property Group Co., Ltd. (iii) (formerly known as China Overseas Building Development (Shenzhen) Co., Ltd.)	RMB415,425,910	—	79	Property development, trading and investment, building construction and investment holding
China Overseas Building Management Limited	100 shares of HK\$1 each	—	100	Real estate management

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

42. Particulars of Principal Subsidiaries *(cont'd)*

Name of company	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company		Principal activities
		Directly %	Indirectly %	
China Overseas Civil Engineering Limited	2 shares of HK\$10 each and 100 non-voting deferred shares of HK\$10 each	—	100	Civil engineering works, project management and investment holding
China Overseas Foundation Engineering Limited	36,100,000 shares of HK\$1 each and 500,000 non-voting deferred shares of HK\$1 each	—	100	Building construction, foundation engineering works and project management
China Overseas Grand Gain Property Development Limited	10,000 shares of HK\$1 each	—	100	Property development
China Overseas (Hong Kong) Limited	5,000,000 shares of HK\$10 each	—	100	Investment holding and provision of management services
China Overseas Machinery Limited	2 shares of HK\$1 each	—	100	Leasing of plant and machinery
China Overseas Material Technology Company Limited	100 shares of HK\$1 each	100	—	Investment holding
China Overseas Mechanical & Electrical Engineering Limited	10,000,000 shares of HK\$1 each	—	100	Investment holding and mechanical and electrical engineering works
China Overseas Property Agency Limited	2 shares of HK\$1 each	—	100	Real estate agency
China Overseas Property Limited	100 shares of HK\$10 each	100	—	Investment holding, property consultancy and real estate agency
China Overseas Property Services Limited (formerly known as Gold Court Property Management Limited)	10 shares of HK\$10 each	—	100	Real estate management and investment holding
China Overseas Property (Shenzhen) Co., Ltd. (iv)	HK\$50,000,000	—	84.3	Property development
China Overseas (Zhong Guo) Limited	5,000,000 shares of HK\$10 each	—	100	Investment holding
Chung Hoi Finance Limited	500,000 shares of HK\$10 each	100	—	Loan financing, investment holding and securities investments
COB Development (Shanghai) Co., Ltd. (ii)	US\$17,000,000	—	100	Property development and trading
中海興業(成都)發展有限公司 (ii) (COBD Holdings (Chengdu) Co., Ltd. (viii))	US\$10,000,000	—	100	Property development

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

42. Particulars of Principal Subsidiaries *(cont'd)*

Name of company	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company		Principal activities
		Directly %	Indirectly %	
中海發展（廣州）有限公司 (ii) (COBD Holdings (Guangzhou) Company Limited (viii))	US\$10,000,000	—	100	Investment holding, building construction and project management
中海地產諮詢（上海）有限公司 (iii) (C.O.B. Property Consultants (Shanghai) Co., Ltd. (viii))	US\$500,000	—	100	Real estate agency
Dong Kong Holdings Limited	5,000,000 shares of HK\$1 each	—	100	Investment holding
Fortune Best Investment Limited	9,998 shares of HK\$1 each, and 2 non-voting deferred shares of HK\$1 each	—	100	Investment holding
Further Good Development Limited	100 shares of HK\$1 each	—	100	Property trading
Further Success Development Limited	100 shares of HK\$1 each	—	100	Property development
Gain Direct Limited (i)	1 share of US\$1	—	100	Investment holding
Goldcall Development Limited	100 shares of HK\$1 each	—	100	Property development
Goldwell Development Limited	100 shares of HK\$1 each	—	100	Property development, trading and investment
Great Trend Investment Limited	10,000 shares of HK\$1 each	—	100	Investment holding
廣州中海名都房地產發展有限公司 (v)	RMB94,684,000	—	100	Property development
Guangzhou Haijin Real Estate Development Co., Ltd. (v)	RMB80,000,000	—	100	Property development
廣州海粵房地產發展有限公司 (v) (Guangzhou Haiyue Real Estate Development Co., Ltd. (viii))	RMB138,000,000	—	100	Property trading and investment
廣州江東房地產開發有限公司 (v)	RMB72,150,000	—	85.7	Property development
Haifu Development (Shenzhen) Co., Ltd. (ii)	HK\$27,500,000	—	100	Property investment
Hainan Ruler Limited (i)	1 share of US\$1	100	—	Investment holding
Hing Wah Investment Limited (i)&(vii)	1 share of US\$1	—	100	Investment holding
Hong Kong Financial Limited	2 shares of HK\$1 each	—	100	Loan financing and investment holding
Kee Yet Company Limited	2 shares of HK\$1 each	—	100	Property development
Landcorp Investments Limited	2 shares of HK\$1 each	—	100	Investment holding
Macell Limited	2 shares of HK\$1 each	—	100	Investment holding
Macfirst Limited	2 shares of HK\$1 each	—	100	Property investment
Macfull Limited	1,000 shares of HK\$1 each	—	60	Property development

Notes to the Financial Statements *(cont'd)*

For The Year Ended 31 December 2002

42. Particulars of Principal Subsidiaries *(cont'd)*

Name of company	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company		Principal activities
		Directly %	Indirectly %	
Macwan Limited	10 shares of HK\$1 each	—	70	Property development
Macwan Finance Limited	10 shares of HK\$1 each	—	70	Loan financing
Macwest Limited	2 shares of HK\$1 each	—	100	Investment holding
Maxdo Investments Limited	10,000,000 shares of HK\$1 each	—	100	Investment holding
Maxjet Company Limited	10 shares of HK\$1 each	—	70	Property development
Maycheer Investments Limited	10 shares of HK\$10 each	100	—	Investment holding
Mepork Services Limited	100 shares of HK\$1 each	—	100	Provision of building cleaning, maintenance and security services
Nicegain Development Limited	100 shares of HK\$1 each	—	100	Investment holding
Nicetrade Development Limited	100 shares of HK\$1 each	—	100	Investment holding
Ocean Group Limited	2 shares of HK\$1 each	—	100	Property investment
On Success Development Limited	10,000 shares of HK\$1 each	—	100	Property investment
Safe Future Investments Limited (i) & (vii)	1 share of US\$1	—	100	Investment holding
上海海匯房地產有限公司 (iv)	US\$9,700,000	—	99.5	Property development
Shanghai Hai Li Real Estate Co., Ltd. (iv)	US\$12,000,000	—	55	Property development and trading
Shanghai Hai Xing Realty Co., Ltd. (iv)	US\$15,000,000	—	51	Property trading and investment
上海萬和房地產有限公司 (iv)	US\$43,340,000	—	95	Property development
上海永菱房產發展有限公司 (iv)	US\$40,000,000	—	60	Property development and investment
上海新海匯房產有限公司 (iv)	US\$3,427,429	—	99.5	Property development
Silver Yield Development Limited	100 shares of HK\$1 each	—	100	Property trading
Skilled Manner Investments Limited (i)	1 share of US\$1	—	100	Investment holding
Splendid Return Limited (i)	50,000 shares of US\$1 each	—	100	Investment holding
Techflex Limited (i) & (vii)	1 share of US\$1	—	100	Investment holding
Weedon International Limited (i)	1 share of US\$1	—	100	Investment holding
Widenews Company Limited	2 shares of HK\$1 each	—	100	Property development

Notes to the Financial Statements *(cont'd)*

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42. Particulars of Principal Subsidiaries *(cont'd)*

Name of company	Paid up issued/ registered ordinary capital	Proportion of nominal value of issued/registered ordinary capital held by the Company		Principal activities
		Directly %	Indirectly %	
Willy Development Limited	2 shares of HK\$1 each	—	100	Investment holding
Winfully Development Limited	2 shares of HK\$1 each	—	100	Investment holding
Winsley Development Limited	2 shares of HK\$1 each	—	100	Investment holding
Winwhole Development Limited	100 shares of HK\$1 each	—	100	Investment holding
Winwise Development Limited	2 shares of HK\$1 each	—	100	Investment holding
Yorkley Group Limited	100 shares of HK\$1 each	—	95	Investment holding
Zetson Enterprises Limited (i)	1 share of US\$1	100	—	Investment holding
Zhong Hai Beijing Limited (i)	1 share of US\$1	—	100	Investment holding
中海物業管理廣州有限公司 (vi) (Zhonghai Property Management (Guangzhou) Co., Ltd. (viii))	RMB15,800,000	—	100	Investment holding and real estate management
Zhonghai Property Management (Shanghai) Co., Ltd. (ii)	US\$610,000	—	100	Real estate management

(i) Incorporated in the British Virgin Islands

(ii) Foreign investment enterprise registered in the PRC

(iii) Joint stock limited company established in the PRC

(iv) Sino-foreign equity joint venture registered in the PRC

(v) Sino-foreign cooperative joint venture registered in the PRC

(vi) Limited liability company registered in the PRC

(vii) Operating principally in the PRC

(viii) Business name

43. Post Balance Sheet Events

Subsequent to the balance sheet date,

(a) a subsidiary entered into cooperative agreements with a PRC enterprise pursuant to which the said subsidiary agreed to invest approximately RMB332 million in a bridge project in the PRC. The agreements are subject to approval by the PRC government.

(b) a subsidiary entered into an agreement with CSCEC whereby the said subsidiary agreed to acquire 55% interest in an associate, 廣州中海房地產發展有限公司, owned by CSCEC for a consideration of RMB5,500,000. The consideration was determined based on the cost of investment in this associate made by CSCEC.