

# Directors' Report

The directors present their annual report and the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2003.

## Principal Activities

The Company is principally engaged in investment holding, property investment and provision of management services to its subsidiaries. The activities of the Company's principal subsidiaries and associates are set out in notes 44 and 17 to the financial statements respectively.

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

## Results and Appropriations

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 56.

An interim dividend of HK2 cents per share was paid on 7 November 2003. The board of directors recommends the payment of a final dividend of HK3 cents per share to the shareholders on the register of members on 28 June 2004 in respect of the year. Including the interim dividend paid, dividends for the year amount to a total of HK5 cents per share.

## Reserves

Movements during the year in the reserves of the Group and of the Company are set out in note 31 to the financial statements.



**Kong Qingping**  
Vice Chairman &  
Chief Executive

## Financial Summary

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on pages 114 and 115.

## Major Properties

Details of the major properties and property interests of the Group at 31 December 2003 are set out on pages 116 to 119.

## Tangible Fixed Assets

The Group's investment properties were revalued at the year end date. The revaluation resulted in a net revaluation increase, adjusted for minority interests, of approximately HK\$3,295,000 which has been credited directly to the investment property revaluation reserve.

Details of these and other movements during the year in the tangible fixed assets of the Group and the Company are set out in notes 13 and 14 to the financial statements.

## Share Capital

During the year, the Company allotted and issued a total of 51,900,000 ordinary shares of HK\$0.1 each ("Shares") upon exercise of the share options granted to employees, giving a cash consideration of HK\$32,711,000.

Details of movements during the year in the share capital of the Company are set out in note 30 to the financial statements.

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

During the year, the directors of the Company have exercised the powers of the Company to make repurchases of its own Shares pursuant to the general mandates granted to the directors of the Company passed at the extraordinary general meeting of the Company held on 18 July 2002 and annual general meeting held on 20 May 2003. Details of the shares repurchased are shown in note 30 to the financial statements.

## Borrowings and Interest Capitalised

Bank loans, overdrafts and other borrowings repayable within one year or on demand are classified as current liabilities in the balance sheet. An analysis of the repayment schedule of non-current borrowings is set out in notes 32 and 33 to the financial statements.

Interest capitalised by the Group during the year in respect of development properties amounted to approximately HK\$44,046,000.

## Directors

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

### Executive Directors

Mr. Sun Wen Jie	(Chairman)
Mr. Kong Qingping	(Vice Chairman and Chief Executive)
Mr. Yao Peifu	(Vice Chairman)
Mr. Cui Duosheng	
Mr. Cheung Shiu Kit	
Mr. Wu Jianbin	
Mr. Yip Chung Nam	
Mr. Nip Yun Wing	
Mr. Luo Weikang	(resigned on 18 February 2003)
Mr. Yao Xiancheng	(resigned on 13 February 2004)

### Independent Non-Executive Directors

Dr. Li Kwok Po, David O.B.E., J.P.	
Mr. Lam Kwong Siu	(appointed on 30 September 2003)
Mr. Wong Ying Ho, Kennedy, J.P.	(appointed on 5 January 2004)
Mr. Hu Zhao Guang	(retired on 20 May 2003)
Mr. Che Shujian	(resigned on 30 September 2003)

In accordance with Article 105(A) and Article 96 of the Company's Articles of Association, Mr. Kong Qingping, Mr. Wu Jianbin, Dr. Li Kwok Po, David, Mr. Lam Kwong Siu and Mr. Wong Ying Ho, Kennedy shall retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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

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

Information regarding directors' emoluments is set out in note 9 to the financial statements.

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

As at 31 December 2003, the directors, the chief executive of the Company and their respective associates had the following interests in the Shares and underlying Shares of the Company as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance (the "SFO").

### (a) Personal interests in Shares

Name of director	Number of Shares	Percentage of issued share capital
Mr. Sun Wen Jie	2,020,000	0.037%
Mr. Kong Qingping	1,320,000	0.024%
Mr. Yao Peifu	1,400,000	0.026%
Mr. Cui Duosheng	6,060,000	0.111%
Mr. Wu Jianbin	440,000	0.008%
Mr. Yip Chung Nam	1,200,000	0.022%
Dr. Li Kwok Po, David	200,000	0.004%
Mr. Yao Xiancheng (resigned on 13 February 2004)	1,400,000	0.026%

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

Name of director	Date of Grant	Number of Shares under options granted				Outstanding at 31.12.2003
		Outstanding at 1.1.2003	Granted during the year	Exercised during the year	Cancelled during the year	
Mr. Sun Wen Jie	17 July 1997(i)	6,880,000	–	–	–	6,880,000
	14 February 1998(ii)	20,000,000	–	–	–	20,000,000
	30 September 1998(iii)	3,800,000	–	1,520,000(v)	–	2,280,000
	4 January 2000(iv)	2,500,000	–	500,000(vi)	–	2,000,000
		<u>33,180,000</u>				<u>31,160,000</u>
Mr. Kong Qingping	17 July 1997(i)	1,000,000	–	–	–	1,000,000
	14 February 1998(ii)	11,000,000	–	–	–	11,000,000
	30 September 1998(iii)	1,840,000	–	460,000(vii)	–	1,380,000
	4 January 2000(iv)	2,000,000	–	400,000(viii)	–	1,600,000
		<u>15,840,000</u>				<u>14,980,000</u>
Mr. Yao Peifu	17 July 1997(i)	3,800,000	–	–	–	3,800,000
	14 February 1998(ii)	15,000,000	–	–	–	15,000,000
	30 September 1998(iii)	2,000,000	–	500,000(ix)	–	1,500,000
	4 January 2000(iv)	2,000,000	–	400,000(x)	–	1,600,000
		<u>22,800,000</u>				<u>21,900,000</u>

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

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

Name of director	Date of Grant	Number of Shares under options granted				Outstanding at 31.12.2003
		Outstanding at 1.1.2003	Granted during the year	Exercised during the year	Cancelled during the year	
Mr. Cui Duosheng	17 July 1997(i)	1,000,000	–	–	–	1,000,000
	14 February 1998(ii)	9,000,000	–	–	–	9,000,000
	30 September 1998(iii)	1,440,000	–	360,000(xi)	–	1,080,000
	4 January 2000(iv)	1,700,000	–	340,000(xii)	–	1,360,000
		<u>13,140,000</u>				<u>12,440,000</u>
Mr. Cheung Shiu Kit	17 July 1997(i)	1,000,000	–	–	–	1,000,000
Mr. Wu Jianbin	17 July 1997(i)	550,000	–	–	–	550,000
	14 February 1998(ii)	800,000	–	–	–	800,000
	30 September 1998(iii)	720,000	–	180,000(xiii)	–	540,000
	4 January 2000(iv)	1,300,000	–	260,000(xiv)	–	1,040,000
		<u>3,370,000</u>				<u>2,930,000</u>
Mr. Yip Chung Nam	17 July 1997(i)	800,000	–	–	–	800,000
	14 February 1998(ii)	1,000,000	–	–	–	1,000,000
		<u>1,800,000</u>				<u>1,800,000</u>
Mr. Yao Xiancheng (xvii)	17 July 1997(i)	3,800,000	–	–	–	3,800,000
	14 February 1998(ii)	15,000,000	–	–	–	15,000,000
	30 September 1998(iii)	2,000,000	–	500,000(xv)	–	1,500,000
	4 January 2000(iv)	2,000,000	–	400,000(xvi)	–	1,600,000
		<u>22,800,000</u>				<u>21,900,000</u>

*Notes:*

- (i) The share options were granted at an exercise price of HK\$4.06 per Share, exercisable for the period from 17 July 1998 to 16 July 2007 (both dates inclusive).
- (ii) The share options were granted at an exercise price of HK\$1.08 per Share, exercisable for the period from 14 February 1999 to 13 February 2008 (both dates inclusive).
- (iii) The share options were granted at an exercise price of HK\$0.52 per Share, exercisable for the period from 30 September 1999 to 29 September 2008 (both dates inclusive).
- (iv) The share options were granted at an exercise price of HK\$0.58 per Share, exercisable for the period from 4 January 2001 to 3 January 2010 (both dates inclusive).

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

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

- (v) Mr. Sun Wen Jie exercised an option to subscribe for 1,520,000 Shares on 9 September 2003 and the weighted average market price immediately before the exercise of such option was HK\$0.78.
- (vi) Mr. Sun Wen Jie exercised an option to subscribe for 500,000 Shares on 9 September 2003 and the weighted average market price immediately before the exercise of such option was HK\$0.78.
- (vii) Mr. Kong Qingping exercised an option to subscribe for 460,000 Shares on 9 September 2003 and the weighted average market price immediately before the exercise of such option was HK\$0.78.
- (viii) Mr. Kong Qingping exercised an option to subscribe for 400,000 Shares on 9 September 2003 and the weighted average market price immediately before the exercise of such option was HK\$0.78.
- (ix) Mr. Yao Peifu exercised an option to subscribe for 500,000 Shares on 29 July 2003 and the weighted average market price immediately before the exercise of such option was HK\$0.75.
- (x) Mr. Yao Peifu exercised an option to subscribe for 400,000 Shares on 29 July 2003 and the weighted average market price immediately before the exercise of such option was HK\$0.75.
- (xi) Mr. Cui Duosheng exercised an option to subscribe for 360,000 Shares on 18 July 2003 and the weighted average market price immediately before the exercise of such option was HK\$0.74.
- (xii) Mr. Cui Duosheng exercised an option to subscribe for 340,000 Shares on 18 July 2003 and the weighted average market price immediately before the exercise of such option was HK\$0.74.
- (xiii) Mr. Wu Jianbin exercised an option to subscribe for 180,000 Shares on 25 July 2003 and the weighted average market price immediately before the exercise of such option was HK\$0.74.
- (xiv) Mr. Wu Jianbin exercised an option to subscribe for 260,000 Shares on 25 July 2003 and the weighted average market price immediately before the exercise of such option was HK\$0.74.
- (xv) Mr. Yao Xiancheng exercised an option to subscribe for 500,000 Shares on 25 July 2003 and the weighted average market price immediately before the exercise of such option was HK\$0.74.
- (xvi) Mr. Yao Xiancheng exercised an option to subscribe for 400,000 Shares on 25 July 2003 and the weighted average market price immediately before the exercise of such option was HK\$0.74.
- (xvii) Mr. Yao Xiancheng resigned as director of the Company on 13 February 2004.

Save as disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any director or chief executive of the Company or their respective associates in the Shares and underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. Nor any of the director and chief executive of the Company (including their spouses and children under the age of 18) had, as at 31 December 2003, any interest in, or had been granted any right to subscribe for the Shares and options of the Company and its associated corporations within the meaning of the SFO, or had exercised any such rights.

### Arrangements to Acquire Shares or Debentures

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

## Directors' Interest in Competing Business

Pursuant to existing Rule 8.10 of the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules") and Rule 13.51(2)(e) of the Listing Rules which shall come into effect on 31 March 2004, the Company discloses that during the year and up to the date of this report, Messrs. Sun Wen Jie, Kong Qingping, Yao Peifu, Yao Xiancheng, Cheung Shiu Kit, Wu Jianbin and Yip Chung Nam held directorships in the Company's ultimate holding company, China State Construction Engineering Corporation ("CSCEC"), and/or its subsidiaries, which are engaged in construction, property development and related business.

Save as disclosed above, the Company had not been notified of any other relationships among the directors, senior management or substantial or controlling shareholders of the Company.

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

## Substantial Shareholders

At 31 December 2003, the following parties (other than director or the chief executive of the Company) were substantial shareholders of the Company (as defined in the Listing Rules) and had interests in the Shares and underlying Shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Number of ordinary shares of HK\$0.1 each	Percentage of interest
J. P. Morgan Chase & Co.	380,891,642	7%
China Overseas Holdings Limited ("COHL")	3,164,626,800	58.16%
CSCEC	3,164,626,800	58.16%

COHL is a direct wholly owned subsidiary of CSCEC, thus CSCEC is deemed by the SFO to be interested in 3,164,626,800 Shares directly owned by COHL.

Save as disclosed above, the Company had not been notified of any other person (other than director or the chief executive of the Company) who had an interest in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 31 December 2003.

## Major Customers and Suppliers

For the financial year ended 31 December 2003, the five largest customers of the Group accounted for approximately 28% of the Group's turnover and turnover from the largest customer included therein accounted for approximately 8%. The five largest suppliers of the Group accounted for less than 30% of the Group's total purchases for the year.

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

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

## Connected and Related Party Transactions

Details of connected and related party transactions are set out on pages 37 to 54. Save as other related party transactions disclosed in note 43 to the financial statements, no contracts of significance to which the Company or any of its subsidiaries, holding companies or fellow subsidiaries was a party or were parties and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Share Option Scheme

Details of the Share Option Scheme adopted by the Company are disclosed in note 30 to the financial statements.

At 31 December 2003, the options granted to subscribe for 348,090,000 Shares remained outstanding, representing approximately 6.40% of the issued share capital of the Company at that date. As at the date of this annual report, 265,600,000 Shares were available for issue under the Share Option Scheme, representing approximately 4.17% of the issued share capital of the Company at that date.

## Retirement Benefit Scheme

With effect from 1 December 2000, the Group has joined a mandatory provident fund scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group with respect to MPF Scheme is to make the required contributions under the scheme. During the year, the Group made contribution to the MPF Scheme amounting to approximately HK\$22 million. No forfeited contribution under this scheme is available to reduce the contribution payable in future years.

## Donations

During the year, the Group made charitable and other donations amounted to approximately HK\$1,349,000.

## Practice Note 19 Disclosure

As at 31 December 2003, the Group has loan facilities with an aggregate principal amount of HK\$2,000 million which are discloseable under Practice Note 19 of the Listing Rules. The last repayment date for these facilities is 8 July 2008. As per the loan agreements, both CSCEC and COHL are required to maintain specified minimum holdings in the share capital of the Company, directly or indirectly, ranging from 38% to above 50%.

## Post Balance Sheet Events

Details of post balance sheet events are set out in note 45 to the financial statements.



## Audit Committee

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

## Corporate Governance

The Company has complied throughout the year ended 31 December 2003 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the Company's Articles of Association.

## Auditors

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

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

On behalf of the Board

**Kong Qingping**

*Vice Chairman & Chief Executive*

Hong Kong, 26 March 2004