

Connected and Related Party Transactions

In this section, the following expressions have the following meanings unless the context requires otherwise:

“BCOHT Agreement”	An agreement entered into between (1) SCO and (2) COP relating to the sale and purchase of the registered capital in BCOHT
“BCOHT”	北京中海豪庭房地產開發有限公司(Beijing China Overseas Haoting Property Development Company Limited), a company established in PRC, the registered capital of which is owned as to 70% by BCOP and 30% by SCO immediately before the completion of the BCOHT Agreement
“BCOP”	北京中海房地產開發有限公司(Beijing China Overseas Property Development Company Limited), a company established in PRC, the registered capital of which is owned as to 80% by COP and 20% by SCOP
“BEA”	The Bank of East Asia, Limited in which Dr. Li Kwok Po, David is a director, chief executive and beneficial shareholder
“Beijing Guo Run”	北京國潤房地產開發經營有限公司(Beijing Guo Run Property Development Limited), a company established in PRC, the registered capital of which is owned as to 75% by Beijing Xingye and 25% by an independent third party unrelated to any director, chief executive or substantial shareholder of the Company or any of its subsidiaries or their respective associate immediately before the completion of the Guo Run Agreement
“Beijing Seagarden”	北京中海海洋花園房地產開發有限公司(Beijing Zhonghai Seagarden Real Estate Development Co., Ltd.), a company established in PRC, the registered capital of which is owned as to 67% by COB, 5% by Beijing Xingye and 28% by an independent third party not connected with any of the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any associate of any of them immediately before the completion of the Seagarden Agreement
“Beijing Tiancheng”	北京中海天成房地產開發有限公司(Beijing China Overseas Tiancheng Real Estate Development Co., Ltd.), a company established in PRC, the registered capital of which is owned as to 49% by Beijing Xingye and 51% by COB immediately before the completion of the Tiancheng Agreement
“Beijing Xingye”	北京中海興業房地產開發有限公司(Beijing Zhong Hai Xing Ye Real Estate Development Co., Ltd.), a company established in PRC, being an indirect wholly owned subsidiary of the Company
“Beijing Yorkley”	北京億利房地產開發有限公司(Beijing Yorkley Real Estate Development Co., Ltd.), a company established in PRC, being an indirect non-wholly owned subsidiary of Gain Direct

“CCHK”	China Construction (Hong Kong) Investment Company Limited, a company incorporated in Hong Kong, being a direct wholly owned subsidiary of COP
“CCOP Agreement”	An agreement entered into between (1) the Company and (2) CCHK relating to the sale and purchase of the registered capital in CCOP
“CCOP”	長春中海地產有限公司(Changchun China Overseas Property Co., Ltd.), a Sino-foreign joint venture company established in PRC, the registered capital of which is owned as to 25% by the Company and 75% by COP immediately before the completion of the CCOP Agreement
“CDS”	China Digital satNet Limited, a company incorporated in Hong Kong, a non-wholly owned subsidiary of COTT immediately before the entering into of the sale and purchase agreement
“CHFL”	Chung Hoi Finance Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company
“COB”	中海發展(北京)有限公司(Zhong Hai Development (Beijing) Ltd.), a company established in PRC, being an indirect wholly owned subsidiary of the Company
“COBCL”	China Overseas Building Construction Limited, a company incorporated in Hong Kong, an indirect wholly owned subsidiary of the Company
“CODS”	深圳市中海建設監理有限公司(transliteration into English as Shenzhen China Overseas Development Supervision Co., Ltd.), a company established in the PRC, the equity interest of which is owned as to 95% by SCO and 5% by a subsidiary owned by SCO as to 95%
“COFC”	深圳市中海運輸有限公司(transliteration into English as Shenzhen China Overseas Freight Co., Ltd.), a company established in the PRC, the equity interest of which is owned as to 51% by the Vendor and 49% by 深圳市匯福盛實業有限公司(transliteration into English as Shenzhen Huifusheng Industrial Co., Ltd.) immediately before the completion of the sale and purchase agreement
“COG Restructuring”	The transactions effected under the GCOP Agreement and the Lanwan Agreement
“COG”	中海發展(廣州)有限公司(COBD Holdings (Guangzhou) Company Limited), a company established in PRC, being an indirect wholly owned subsidiary of the Company
“COGA”	深圳市中海貨物代理有限公司(transliteration into English as Shenzhen China Overseas Goods Agency Co., Ltd.), a company established in the PRC, the equity interest of which is owned as to 51% by the Vendor and 49% by COFC

"COHL"	China Overseas Holdings Limited, the immediate holding company of the Company and a substantial shareholder of the Company
"COIL"	China Overseas Insurance Limited, a direct wholly owned subsidiary of COHL
"COIT"	深圳市中海資訊科技有限公司(transliteration into English as Shenzhen China Overseas Information Technology Co., Ltd.), a company established in the PRC, the equity interest of which is owned as to 62% by the Vendor and 38% by 深圳市匯福盛實業有限公司(transliteration into English as Shenzhen Huifusheng Industrial Co., Ltd.),
"COP Group Restructuring"	The transactions effected under the CCOP Agreement, the SCOP Agreement, the Guo Run Agreement, the Seagarden Agreement, the Tiancheng Agreement, the Yorkley Agreement and the BCOHT Agreement
"COP Group"	COP and its subsidiaries
"COP"	中海地產股份有限公司(China Overseas Property Group Co., Ltd.), a Sino-foreign joint venture company established in PRC, the registered capital of which is owned as to 79% by COZG, 11% by SCO and 10% by three independent PRC entities not connected with any of the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any associate of any of them
"COPD"	廣州中海房地產發展有限公司(Guangzhou China Overseas Property Development Company Limited), a company established in the PRC owned as to 55% by CSCEC and 45% by COPM immediately before the sale and purchase agreement dated 3 January 2003 which is now known as Guangzhou China Overseas Property Company Limited ("GCOP")
"COPL"	China Overseas Property Limited, a wholly owned subsidiary of the Company
"COPM"	中海物業管理(廣州)有限公司(China Overseas Property Management (Guangzhou) Company Limited), a company established in PRC, being a subsidiary of the Company. The registered capital of COPM was held as to 90% by COG. The remaining 10% registered capital of COPM, which was contributed by COG, was held in the name of a subsidiary owned by SCO on behalf of COG
"COTT"	China Overseas Telecommunications Technology Limited, a company incorporated in the British Virgin Islands, an indirect wholly owned subsidiary of the Company
"COZG"	China Overseas (Zhong Guo) Limited, a company incorporated in Hong Kong, being an indirect wholly owned subsidiary of the Company

"CSCE(HK)"	China State Construction Engineering (Hong Kong) Limited is an associate of COHL which is a substantial shareholder of the Company
"CSCEC"	China State Construction Engineering Corporation, a state-owned corporation organised and existing under the laws of PRC, being the ultimate controlling shareholder of the Company
"East Asia"	East Asia Properties Holding Company Limited, a wholly owned subsidiary of BEA
"Gain Direct"	Gain Direct Limited, a company incorporated in the British Virgin Islands, being an indirect wholly owned subsidiary of the Company
"GCL" or "Goldmond"	Goldmond Company Limited, a connected party of the Company, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of BEA
"GCOP Agreement"	An agreement entered into between (1) COP (2) SCOP (3) COG and (4) COPM relating to the sale and purchase of the registered capital in, and the shareholders' loans in relation to, GCOP
"GCOP"	廣州中海地產有限公司(Guangzhou China Overseas Property Company Limited), a company established in PRC, the registered capital of which is owned as to 90% by COP and 10% by SCOP immediately before the completion of the GCOP Agreement
"GFCL"	Goldmond Finance Company Limited, a connected party of the Company, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of BEA
"Golden Queen"	Golden Queen International Limited, a wholly owned subsidiary of BEA
"GSPL"	Golden Share Properties Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of KKICL and the immediate holding company of RCPL
"Guangzhou Lanwan"	廣州藍灣房地產開發有限公司(Guangzhou Lanwan Property Development Ltd., formerly known as 廣州市番禺新恒源房地產開發有限公司), a company established in PRC, the registered capital of which is owned as to 90% by COP and 10% by SCOP immediately before the completion of the Lanwan Agreement
"Guo Run Agreement"	An agreement entered into between (1) Beijing Xingye (2) COP relating to the sale and purchase of the registered capital of, and shareholder's loan in relation to, Beijing Guo Run

“Henggang Agreement”	The construction contract entered into between SCOP and SCOCE relating to the construction of the first phase of the Henggang Project
“Henggang Project”	The property development project relating to the development of a piece of land situate in Henggang Central District, Shenzhen, PRC
“KKICL” or “Kiu Kwong”	Kiu Kwong Investment Corporation Limited, a company incorporated in Hong Kong
“KYCL”	Kee Yet Company Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company
“Lanwan Agreement”	An agreement entered into between (1) COP, (2) SCOP, (3) COG and (4) COPM relating to the sale and purchase of the registered capital in, and the shareholders’ loans in relation to, Guangzhou Lanwan
“LCOL”	柳州市桂中海迅物流有限公司(transliteration into English as Liuzhou Gui China Overseas Xun Logistics Co., Ltd.), a company established in the PRC, the equity interest of which is owned as to 20% by the Vendor and 80% by 柳州市商貿控股有限公司(transliteration into English as Liuzhou Commerce and Trading Holding Co., Ltd.),
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Macfull”	Macfull Limited is owned as to 60% by COPL
“MCL Agreement”	The sale and purchase agreement relating to the purchase of MCL loan and MCL shares
“MCL Loan”	The non interest bearing and unsecured loan in the principal sum of HK\$257,393,150 owing to GSPL by MCL
“MCL Shares”	2 shares of HK\$1 each of MCL owned by RCPL, representing 20% of the entire issued share capital of MCL
“MCL” or “Maxjet”	Maxjet Company Limited, a company incorporated in Hong Kong which is owned as to 70% by the Company (indirectly), 20% by RCPL and 10% by GCL before the completion of MCL Agreement
“Macwan”	Macwan Limited is owned as to 70% by COPL
“MFL Agreement”	The sale and purchase agreement relating to the purchase of MFL loan and MFL shares
“MFL Loan”	The non interest bearing and unsecured loan in the sum of HK\$189,198 owing to GSPL by MFL as at the date of the MFL Agreement

“MFL Shares”	2 shares of HK\$1 each of MFL owned by RCPL, representing 20% of the entire issued share capital of MFL
“MFL”	Maxjet Finance Limited, a company incorporated in Hong Kong which is owned as to 70% by the Company (indirectly), 20% by RCPL and 10% by GFCL before the completion of MFL Agreement
“Primrose Project”	The property development project for residential use known as Primrose Villa Phase I located at Kangle Road, Longgang District, Shenzhen, PRC
“Property Development Group”	A group of the Company’s subsidiaries (including COG and COPM) but other than the COP Group, which will engage in property development and investment in PRC after the Restructuring
“RCPL” or “Rich Charter”	Rich Charter Properties Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of GSPL and an indirect wholly-owned subsidiary of KKICL
“Restructuring”	The restructuring of the Group’s property development and investment operations in PRC as contemplated by the COP Group Restructuring and the COG Restructuring
“Rich Tower”	Rich Tower Properties Limited, a wholly owned subsidiary of KKICL
“SCO”	深圳市中海投資管理有限公司(Shenzhen China Overseas Investment Management Co., Ltd.), a company established in PRC, being a direct subsidiary owned by CSCEC as to 95%
“SCOCE”	深圳市中海建築工程公司(transliteration into English as Shenzhen China Overseas Construction Engineering Company), being a direct wholly owned subsidiary of CSCEC
“SCOP Agreement”	An agreement entered into between (1) COZG and (2) CCHK relating to the sale and purchase of the registered capital in, and the shareholders’ loans in relation to, SCOP
“SCOP”	深圳中海地產有限公司(Shenzhen China Overseas Property Company Limited), a company established in PRC, the registered capital of which is owned as to 75% by COP and 25% by COZG immediately before the completion of the SCOP Agreement
“Seagarden Agreement”	An agreement entered into between (1) COB, (2) Beijing Xingye and (3) COP relating to the sale and purchase of the registered capital in, and the shareholders’ loans in relation to, Beijing Seagarden
“Shanghai Hai Xing”	Shanghai Hai Xing Realty Co., Ltd. is 51% owned subsidiary of the Group

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"STL"	Spacelink Technology Limited, a company incorporated in Hong Kong
"Sunny Palm Agreement"	A project supervision agreement entered into between COP and CODS relating to the provision of project supervision service in respect of the Sunny Palm Project
"Sunny Palm Project"	The property development project for residential and commercial use known as Sunny Palm Phase III located in Nanshan District, Shenzhen, PRC
"Tiancheng Agreement"	An agreement entered into between (1) Beijing Xingye, (2) COB, (3) COP and (4) CCHK relating to the sale and purchase of the registered capital of, and the shareholders' loans in relation to, Beijing Tiancheng
"Top Brain"	Top Brain Development Limited
"Xun An"	Xun An Engineering Company Limited, a company incorporated in Hong Kong
"Yorkley Agreement"	A sale and purchase agreement entered into between (1) COZG and (2) CCHK relating to the sale and purchase of the entire issued share capital in Gain Direct, and the shareholder's loan in relation to Gain Direct and its subsidiaries

Part 1A: During the year under review, the Group entered into the following connected and related party transactions which are of a regular and continuing nature:

- (1) Pursuant to a project management agreement and a deed of undertaking (together referred to as the "**Project Management Agreement**") entered into in 1993 between CSCEC, the ultimate controlling shareholder of the Company, and certain wholly owned subsidiaries of the Company, namely China Overseas Building Construction Limited, China Overseas Civil Engineering Limited and China Overseas Foundation Engineering Limited (together the "**Project Managers**"), the Project Managers have been appointed by CSCEC and its subsidiary ("**CSCEC Group**") as joint managers for each and every construction contract in Hong Kong participated by CSCEC Group since 1 January 1993. Under the Project Management Agreement, CSCEC Group has agreed to pay the Project Managers a management fee equivalent to 7% of the final contract sum receivable by CSCEC Group under such construction contracts. The Project Managers shall act as agent for and, in consultation with CSCEC Group, tender for and obtain projects on behalf of CSCEC Group on such terms as may be agreed by CSCEC Group.

Project management fees paid or payable by CSCEC Group to the Group pursuant to the Project Management Agreement amounted to approximately HK\$407,854,000 (2002: HK\$356,470,000) and hire charges in respect of plant and machinery leased by the Group to CSCEC Group, calculated on a cost reimbursement basis, amounted to HK\$97 million (2002: HK\$88 million) in respect of the year.

In connection with the project management services provided by the Group to CSCEC Group as referred to in above, the Group had trade receivables owed by CSCEC Group to the Group outstanding at 31 December 2003 amounted to HK\$212,316,000 (2002: HK\$210,061,000).

- (2) In the ordinary course of business, CSCEC and COHL, the Company's ultimate controlling shareholder and controlling shareholder respectively, acted as guarantors for certain banking facilities granted to the Group. No fees were chargeable by either CSCEC or COHL to the Group in this connection during the year.
- (3) On 29 August 1995, the Group entered into an agreement with certain parties relating to the establishment of Macwan to undertake a property development project. Macwan is owned as to 70% by COPL, a wholly owned subsidiary of the Company, as to 20% by Rich Tower, a wholly owned subsidiary of Kiu Kwong, and as to 10% by Golden Queen. Pursuant to the agreement, the shareholders of Macwan have agreed to provide loans to Macwan in accordance with their respective equity proportions. At 31 December 2003, the amounts due by Macwan to the Group, Rich Tower and East Asia, a fellow subsidiary of Golden Queen, were approximately HK\$91,251,000, HK\$26,553,000 and HK\$13,277,000 respectively. The shareholders of Macwan and the lenders agreed that such loans are interest free. Golden Queen and East Asia are wholly owned subsidiaries of BEA in which Dr. Li Kwok Po, David is a director, chief executive and beneficial shareholder.
- (4) On 25 March 1997, a consortium led by the Company acquired a site situated in Homantin North at a public auction. Maxjet was established to undertake the property development project. Maxjet is owned as to 70% by COPL, as to 20% by KYCL (during the year, KYCL acquired 20% interests held by Rich Charter and details are set out in the section Part 2B (10)(i)), and as to 10% by Goldmond. The shareholders of Maxjet have agreed to provide loans to Maxjet in accordance with their respective equity proportions. At 31 December 2003, the amounts due by Maxjet to the Group and Goldmond were approximately HK\$1,205,519,000 and HK\$133,947,000 respectively. Such loans are interest free and have been subordinated to the bank borrowings (wholly repaid on 31 December 2003) of Maxjet. Goldmond is a wholly owned subsidiary of BEA.
- (5) On 14 October 1997, a consortium led by the Company acquired a site situated in Tuen Mun at a public auction. On 17 November 1997, members of the consortium entered into an agreement relating to the establishment of Macfull to undertake the development of the property. Macfull is owned as to 60% by COPL, as to 10% by Top Brain and as to 30% by independent third party. At 31 December 2003, the amounts due by Macfull to the Group and Top Brain were approximately HK\$1,252,093,000 and HK\$208,682,000 respectively. Such loans have been interest free since 1 January 1998. Top Brain is a wholly owned subsidiary of Kiu Kwong.

The directors consider that the Company is connected to Kiu Kwong by virtue of its equity interests in Macwan and Macfull. The directors also consider that the Company is connected to BEA by virtue of its equity interest in Macwan and Maxjet.

- (6) The Group made advances to Shanghai Hai Xing, a 51% owned subsidiary, to finance its property development project. The outstanding balances of such advances at the beginning and the end of the year were approximately HK\$63,440,000 and HK\$17,960,000 respectively. Such advances carry interest at commercial lending rates and are unsecured without specific repayment terms. The remaining 49% interest in Shanghai Hai Xing is held by an enterprise operating in the PRC which is not connected with any of the directors or the substantial shareholders of the Company or any of its subsidiaries or an associate (as defined in the Listing Rules) of any of them.
- (7) On 7 June 2002, the Company announced that indemnities (the "**New Indemnity**") would be given by the Company on behalf of CSCEC and CSCE(HK) in favour of Financial Institutions (within the meaning of the Banking Ordinance) issuing the bid bonds and performance bonds (the "**Bonds**") for construction and engineering projects in Hong Kong for an amount up to HK\$2 billion from time to time. The New Indemnity was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 18 July 2002.

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

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

At 31 December 2003, HK\$610,000,000 (2002: HK\$492,000,000) bonds were issued by the Financial Institutions under this arrangement.

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

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

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

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

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

During the year, the insurance premium paid and payable to COIL amounted to HK\$45.9 million (2002: HK\$78.4 million).

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

- (9) On 12 December 2002, China Overseas (Hong Kong) Limited ("**COHK**") (a company incorporated in Hong Kong, being an indirect wholly owned subsidiary of the Company) and CSCEC entered into a management agreement (the "**Jabil Agreement**") whereby CSCEC subcontracted the management of and appointed COHK as the first phase project manager in relation to the construction of a factory in Guangzhou, the PRC. The aggregate consideration payable by CSCEC under the Jabil Agreement amounts to RMB180,000,000 (approximately HK\$169,811,320).

The aggregate contract sum received or receivable by COHK amounted to HK\$36,398,000 (2002: HK\$148,779,000) in respect of the year.

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

Part 2A: During the year under review, the Group entered into the following connected and related party transactions which were subject to approval by the independent shareholders of the Company at a general meeting under Rule 14.26 of the Listing Rules:

- (1) On 23 December 2003, the Group has entered into various agreements to carry out the Restructuring, comprising:
- (a) the COP Group Restructuring – COP (COP, being a 79 per cent. owned subsidiary of the Group) and its subsidiaries, collectively referred to as the “**COP Group**”, will acquire certain property development and investment operations in Changchun, Shenzhen, Nanjing and Beijing, PRC from wholly owned subsidiaries of the Group and from SCO, a 95 per cent. subsidiary of CSCEC, the Company’s controlling shareholder.
 - (b) the COG Restructuring – COG, a wholly owned subsidiary of the Group and, COPM, a subsidiary of COG (both being a member of a group of the Company’s subsidiaries other than the COP Group, which will engage in property development and investment in PRC after the Restructuring, such group of subsidiaries will be referred to as the “**Property Development Group**”), will acquire certain property development and investment operations in Guangzhou, PRC from the COP Group.

In relation to the COP Group Restructuring:

- (i) the Company and CCHK entered into the CCOP Agreement whereby the Company agreed to dispose of its 25% interest in the registered capital of CCOP to CCHK for an initial consideration (subject to adjustment) of approximately RMB1,770,000 (approximately HK\$1,670,000).
- (ii) COZG and CCHK entered into the SCOP Agreement whereby COZG agreed to dispose of its 25% interest in the registered capital of, and all related shareholder’s loan in relation to, SCOP to CCHK for an initial aggregate consideration (subject to adjustment) of approximately RMB58,482,000 (approximately HK\$55,172,000).
- (iii) Beijing Xingye and COP entered into the Guo Run Agreement whereby Beijing Xingye agreed to dispose of its 75% interest in the registered capital in, and all related shareholder’s loan in relation to, Beijing Guo Run to COP for an aggregate initial consideration (subject to adjustment) of approximately RMB227,980,000 (approximately HK\$215,075,000).
- (iv) COB, Beijing Xingye and COP entered into the Seagarden Agreement whereby COB and Beijing Xingye agreed to dispose of their collective 72% interest in the registered capital of, and all related shareholders’ loans in relation to, Beijing Seagarden to COP for an aggregate initial consideration (subject to adjustment) of approximately RMB57,585,000 (approximately HK\$54,325,000).

- (v) Beijing Xingye, COB, COP and CCHK entered into the Tiancheng Agreement whereby Beijing Xingye and COB agreed to dispose of their collective 100% interest in the registered capital of, and all related shareholders' loans in relation to, Beijing Tiancheng to COP and CCHK respectively for an aggregate initial consideration (subject to adjustment) of approximately RMB165,568,000 (approximately HK\$156,196,000).
- (vi) COZG and CCHK entered into the Yorkley Agreement whereby COZG agreed to sell the entire issued share capital in Gain Direct, and all related shareholder's loan in relation to Gain Direct and its subsidiaries for an aggregate initial consideration (subject to adjustment) of approximately RMB85,581,000 (approximately HK\$80,737,000) to CCHK.
- (vii) SCO and COP entered into the BCOHT Agreement whereby COP agreed to acquire 30% interest in the registered capital of BCOHT from SCO for an aggregate initial consideration (subject to adjustment) of approximately RMB4,908,000 (approximately HK\$4,631,000).

In relation to the COG Restructuring:

- (viii) COP, SCOP, COG and COPM entered into the GCOP Agreement whereby COG and COPM respectively agreed to acquire 90% and 10% interest in the registered capital of, and all related shareholders' loans in relation to, GCOP from COP and SCOP for an aggregate initial consideration (subject to adjustment) of approximately RMB40,876,000 (approximately HK\$38,562,000).
- (ix) COP, SCOP, COG and COPM entered into the Lanwan Agreement whereby COG and COPM respectively agreed to acquire 90% and 10% interest in the registered capital of, and all related shareholders' loans in relation to, Guangzhou Lanwan from COP and SCOP for an aggregate initial consideration (subject to adjustment) of approximately RMB96,421,000 (approximately HK\$90,963,000).

(the CCOP Agreement, the SCOP Agreement, the Guo Run Agreement, the Seagarden Agreement, the Tiancheng Agreement, the Yorkley Agreement, the BCOHT Agreement, the GCOP Agreement, the Lanwan Agreement are collectively referred to as the "**Agreements**").

Following completion of the Restructuring, the Group can better streamline its interests and operations in property development and investment in PRC for more efficient and effective management and control. The Board believes that the operations of the COP Group and the Property Development Group would complement each other and the Group's business in property development and investment in PRC can be enhanced. As such, each of the COP Group and the Property Development Group will be able to strive to maximise the market shares in their respective territories of operations, and the Restructuring is therefore beneficial to the Shareholders.

The Restructuring is an important step to provide COP with a clear line and area of business operations that can be clearly distinguished from the rest of the Group. It also serves to prepare for the spin off of COP listing on the Shanghai Stock Exchange A share market in PRC Plan. The Board considers that the success of the spin off is important for the future development of the COP Group and also for establishing the leading position of the Group (through the COP Group as well as the Property Development Group) in the property development and investment business in PRC.

COP is held as to 11 per cent. by SCO, a 95 per cent. owned subsidiary of CSCEC, the controlling shareholder of the Company. Transactions between wholly owned subsidiaries of the Group and the COP Group, and between the COP Group and SCO and COPM constitute connected transactions of the Group under the Listing Rules.

Further details of the Restructuring were given in a circular to shareholders of the Company dated 14 January 2004. The Restructuring was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 30 January 2004.

Part 2B: During the year under review, the Company entered into the following connected and related party transactions which fell within the de minimis provision under Rule 14.25(1)(a) of the Listing Rules, details of which are listed chronologically as follows:

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

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

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

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

- (3) On 24 June 2003, it was announced that COP and the Company entered into a joint venture contract ("**Changchun Joint Venture Contract**") and an articles of association ("**Changchun Articles of Association**") for the establishment of Changchun China Overseas Property Co., Ltd. ("**Changchun JV Company**") which were effective on 24 December 2002. Under the Changchun Joint Venture Contract and the Changchun Articles of Association, each of COP and the Company will contribute towards the registered capital of Changchun JV Company for an amount of RMB10,000,000 (approximately HK\$9,433,962) in the proportion of 75% for COP and 25% for the Company.

The purpose of investing in and setting up Changchun JV Company is to carry out property development and management in Changchun, Jilin, PRC with the intent to acquire and develop a piece of land situate in Changchun, PRC. The land has a total gross area of about 1,000,000 square metres and the purchase price for the land is RMB330,000,000 (approximately HK\$311,320,755). Changchun JV Company intends to develop the land for residential and commercial use by phases.

The Group's investment in Changchun JV Company will allow the Group to further develop its property development and investment operation in the PRC market.

COP is a connected person of the Company by virtue of its substantial shareholder, SCO, being an associate of CSCEC.

- (4) On 24 June 2003, it was announced that on 10 January 2003, COP and SCOP entered into an articles of association ("**Xian Articles of Association**") for the establishment of Xian China Overseas Property Ltd. ("**Xian JV Company**"). Under the Xian Articles of Association, each of COP and SCOP will contribute towards the registered capital of Xian JV Company for an amount of RMB20,000,000 (approximately HK\$18,867,925) in the proportion of 80% for COP and 20% for SCOP.

The purpose of investing in and setting up Xian JV Company is to form a base for the Group to develop the property market in Xian, PRC. Subject to the obtaining of the requisite qualification and approval to engage in property development, the Group will actively look for business opportunities in Xian property market through Xian JV Company.

The Group's investment in Xian JV Company will allow the Group to further develop its property development and investment operation in the PRC market.

COP is a connected person of the Company by virtue of its substantial shareholder, SCO, being an associate of CSCEC.

- (5) On 24 June 2003, COPM, COP and SCOP entered into a sale and purchase agreement whereby COP and SCOP respectively agreed to acquire 35% and 10% interest in the registered capital of GCOP from COPM for a total consideration of RMB9,000,000 (approximately HK\$8,490,566).

The principal activity of GCOP is property development in the PRC. The Group's investments in GCOP will form a base for the Group to carry out and develop its property development and investment operation in Guangzhou, PRC. The Group will actively look for business opportunities in Guangzhou property market through GCOP.

COP is a connected person of the Company by virtue of its substantial shareholder, SCO, being an associate of CSCEC.

- (6) On 24 June 2003, COZG, GCOP, Dong Kong Development Limited ("**JV Party A**") and Guangzhou Economics and Technology Development District Hengfa Property Co., Ltd. entered into a joint venture contract (the "**Joint Venture Contract**") and an articles of association (the "**Articles of Association**") for the establishment of Guangzhou Kexue City Shenghuoyuan District Development Co., Ltd. (the "**JV Company**"). Under the Joint Venture Contract and the Articles of Association, each of COZG, GCOP and JV Party A will contribute towards the registered capital of the JV Company for an amount of RMB200 million (approximately HK\$188,679,245) in the proportion of 70% for COZG, 20% for GCOP and 10% for JV Party A.

The purpose of investing in and setting up the JV Company is to carry out property development, construction, sales, rental and management of a property development project (the "**Project**") with the intent to acquire a piece of land of which situates in Guangzhou, PRC. The Project has a total usable area of 2,007,745 square metres in which 600,000 square metres will be developed for residential use including fitting out works. The total investment of the Project shall be RMB1,500 million (approximately HK\$1,415,094,340).

It has been the intention of the Group to expand its property development business in the PRC. The Group's investment in the JV Company will allow the Group to further develop its property development and investment operation in the PRC market.

The Joint Venture Contract and the Articles of Association are entered into between COZG (an indirect wholly owned subsidiary of the Company) and GCOP (an indirect non-wholly owned subsidiary of the Company) and therefore the transactions contemplated thereunder constitute connected transactions of the Company for the purpose of the Listing Rules.

- (7) On 17 July 2003, 深圳市中海物流有限公司 (transliteration into English as Shenzhen China Overseas Logistics Co., Ltd.) (the "**Vendor**") and 中海物流(深圳)有限公司(transliteration into English as China Overseas Logistics (Shenzhen) Co., Ltd.), an indirect wholly owned subsidiary of the Company, (the "**Purchaser**") entered into the Sale and Purchase Agreement whereby the Vendor has agreed to sell and transfer and the Purchaser agreed to purchase:
- (i) 51% interest in the registered capital of COFC for a consideration of RMB3,428,127 (approximately HK\$3,234,082);
 - (ii) 51% interest in the registered capital of COGA for a consideration of RMB2,635,024 (approximately HK\$2,485,872);

- (iii) 62% interest in the registered capital of COIT for a consideration of RMB936,112 (approximately HK\$883,125); and
- (iv) 20% interest in the registered capital of LCOL for a consideration of RMB1,800,000 (approximately HK\$1,698,113).

The aggregate consideration is RMB8,799,263 (approximately HK\$8,301,192).

The Vendor is a connected person of the Company by virtue of its equity interest being owned as to 90% by SCO, an associate of CSCEC, and 10% by a subsidiary of SCO.

It has been the intention of the Group to consolidate the logistics business as one of the backbone of its business in order to increase medium and long term stable profit and to generate other profit sources.

- (8) On 27 October 2003, SCOP, an indirect non-wholly owned subsidiary of the Company (as developer) and SCOCE, a direct wholly owned subsidiary of CSCEC, the ultimate controlling shareholder of the Company (as main contractor) entered into a construction contract whereby SCOP contracted the construction of the first phase of the Henggang Project to SCOCE for undertaking completion thereupon. The consideration payable by SCOP to SCOCE under the Henggang Agreement amounts to RMB185,280,000 (approximately HK\$174,792,452).

SCOP is engaged in property development in the PRC. SCOP is legally and beneficially owned a piece of land situate in Henggang Central District, Shenzhen, PRC. SCOP intends to develop the land for residential and commercial use by two phases. The first phase of the Henggang Project has gross floor area of 143,000 square metres and the construction works of which was put for bidding tender. SCOCE was successfully in bidding for undertaking completion of the construction thereupon as the tender price submitted by SCOCE was proved to be the lowest offer among the short-listed participants. The principal activities of SCOCE are contracting of building construction and foundation engineering and trading of construction related materials.

- (9) On 27 October 2003, COP, the Company's non-wholly owned subsidiaries (as developer) and CODS, SCO's non-wholly owned subsidiary (as supervisor) entered into the project supervision agreement whereby CODS agreed to provide certain project supervision service in respect of the Sunny Palm Project. The supervision fee payable by COP to CODS amounts to RMB3,744,000 (approximately HK\$3,532,075).

The principal activities of COP are contracting for construction projects and property development in the PRC. The principal activities of CODS are preparation of tender documents relating to construction projects, making invitations to submit an offer and submissions of an offer, and the provision of project supervision service. The supervision fee payable under the Sunny Palm Agreement was negotiated on an arm's length basis between the parties and taking into account the Regulations which govern the calculation of such fee in Shenzhen.

- (10) (i) On 30 December 2003, the Company, KYCL and CHFL have entered into the MCL Agreement with KKICL, RCPL and GSPL pursuant to which KYCL and CHFL have agreed to purchase from RCPL and GSPL the MCL Shares and the MCL Loan for cash consideration of HK\$2 and HK\$36,960,000 respectively.

- (ii) On 30 December 2003, the Company and CHFL have entered into the MFL Agreement with KKICL, RCPL and GSPL pursuant to which CHFL has agreed to purchase from RCPL and GSPL the MFL Shares and the MFL Loan for cash consideration of HK\$2 and HK\$189,198 respectively.

MCL and MFL are non-wholly owned subsidiaries of the Company. As RCPL is a substantial shareholder of MCL and MFL and certain other non-wholly owned subsidiaries of the Company, RCPL, GSPL and KKICL are connected persons of the Company. Hence, the entering of the MCL Agreement and the MFL Agreement constitutes connected transactions of the Company.

MCL and MFL are both non-wholly owned subsidiaries of the Company. Having taken consideration of the saleable of the remaining unsold units and car parking spaces of Ellery Terrace, the current property market trend and the fair and reasonable consideration agreed at, the directors are of the opinion that such acquisition will be beneficial to the Group and in line with the existing business activities of the Group.

Part 2C: During the year under review, the Company entered into the following connected transactions which fell within the de minimis provision under Rule 14.24(5)(a) of the Listing Rules:

- (11) On 8 April 2003, COBCL and Xun An entered into a leasing contract pursuant to which Xun An shall let and COBCL shall rent an intelligent up-down scaffolding system ("**system**") at a sum of HK\$1,936,694.

Xun An possessed a short-term patent in self-elevating electric up-down scaffold with climbing sleeve while COBCL was the contractor of a construction site at Skyline Tower at 39 Wang Kwong Road, Kowloon Bay, N.K.I.L. 5846, Kowloon. In its course of daily operation, COBCL required the expertise as exhibited by Xun An in the system to enhance its performance at the external wall and the lift machine room.

COBCL is an indirect wholly owned subsidiary of the Company. Xun An is an indirect wholly owned subsidiary of COHL, the controlling shareholder of the Company. Xun An is, therefore, an associate of the Company, thus a connected person of the Company under the Listing Rules.

- (12) On 29 December 2003, STL and COTT entered into a sale and purchase agreement whereby STL agreed to sell and transfer to COTT its interest in 40,000,000 shares in the issued share capital of CDS at a consideration of HK\$1.00.

CDS is engaged in satellite applications and communications trading. The acquisition of the shares in CDS by COTT and the acquisitions from the remaining shareholders of CDS would result in CDS being 100% owned by the Group is in line with the Group's strategy to consolidate its strengths in industrial investment as one of the backbone businesses of the Group.

Mr. Sun Wen Jie, being a director of the Company, is also a director of STL. STL is an associate of the Company, therefore a connected person of the Company under the Listing Rules.

Part 3A: Subsequent to the year under review, the Company entered into the following connected transactions which fell within the de minimis provision under Rule 14.24(6) of the Listing Rules:

- (1) On 26 January 2004, the Company entered into a placing agreement under which COHL sold 850,000,000 existing ordinary shares of the Company at a price of HK\$1.80 per share, and subscribed for 850,000,000 new ordinary shares of the Company at the same price. The 850,000,000 ordinary shares were sold to not less than 6 independent professional, institutional and/or individual investors procured by the J.P. Morgan Securities Limited (as placing agent and underwriter of the placing).

The Company is considering various projects relating to the land acquisitions in China. Out of the net proceeds to the Company of the placing and subscription of approximately HK\$1.5 billion, RMB1 billion would be used in the initial phase of the redevelopment in Luwan district in Shanghai and the balance would be used for financing land acquisitions in China after the Company has finalised its plans for the same.

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

Part 3B: Subsequent to the year under review, the Company entered into the following connected transaction which fell within the de minimis provision under Rule 14.25(1)(a) of the Listing Rules:

- (2) On 16 February 2004, SCOP (as developer) and CODS (as supervisor) entered into a project supervision agreement, **Primrose Agreement**, whereby CODS agreed to provide certain project supervision service in respect of the Primrose Project. The supervision fee payable by SCOP to CODS amounts to RMB3,200,000 (approximately HK\$3,019,000). SCOP has the land use right in respect of the Primrose Project forming the subject matter of the Primrose Agreement.

The supervision fee payable under the Primrose Agreement was negotiated on an arm's length basis between the parties and taking into account the Regulations (《深圳市工程建設監理費規定》) which govern the calculation of such fee in Shenzhen.

CODS is a direct non-wholly owned subsidiary of SCO, an associate of CSCEC and therefore a connected person of the Company under the Listing Rules.

In the opinion of the directors (including the independent non-executive directors), the connected transactions contemplated under Part 1 to Part 3 were carried out in the ordinary and usual course of the Group's businesses on normal commercial terms that are fair and reasonable so far as the Company and the shareholders are concerned.