

Notes to the Financial Statements

For the year ended 31 December 2003

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, generation and supply of heat and electricity, investment holding, real estate agency and management, and treasury operations.

2. Adoption of Revised Statement of Standard Accounting Practice

In the current year, the Group has adopted, for the first time, the revised Statement of Standard Accounting Practice No. 12 ("SSAP 12 (Revised)") "Income Taxes" issued by the Hong Kong Society of Accountants ("HKSA"). The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. The balance of retained profits at 1 January 2002 has been reduced by HK\$55 million, which is the cumulative effect of such change in accounting policy on the results for periods prior to 2002. The Group's investment property revaluation reserve and other property revaluation reserve at 1 January 2002 have been reduced by HK\$8 million and HK\$63 million respectively, representing the deferred tax liabilities attributable to the surpluses on revaluation of the Group's properties recognised. The change in accounting policy has resulted in an increase in net profits of HK\$13 million and a decrease in other property revaluation reserve of HK\$4 million in respect of the year ended 31 December 2003 and a decrease in net profit of HK\$19 million, a decrease in investment property revaluation reserve of HK\$3 million and an increase in other property revaluation reserve of HK\$3 million in respect of 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.

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

For the year ended 31 December 2003

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

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, an associate or a jointly controlled entity 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, associate or jointly controlled entity, 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, associate or jointly controlled entity.

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 or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet. On disposal of a subsidiary, an associate or a jointly controlled entity, 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. 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 remaining average useful life of the identifiable acquired depreciable assets.

Negative goodwill arising on the acquisition of an associate or a jointly controlled entity is deducted from the carrying amount of that associate or jointly controlled entity. 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.

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

For the year ended 31 December 2003

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

Investments in associates *(cont'd)*

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 jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The consolidated income statement includes the Group's share of the post-acquisition results of its jointly controlled entities for the year. In the consolidated balance sheet, interests in jointly controlled entities are stated at the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss.

When the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred.

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, associates or jointly controlled entities, 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.

Investments in securities

Investment securities, which represent securities held for an identified long term purpose, are measured at reporting dates at cost, less any identified impairment loss. The results of these investments are accounted for by the Group on the basis of dividends received and receivable.

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

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

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

For the year ended 31 December 2003

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

Investment properties *(cont'd)*

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.

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 amount at the time when the reclassification took place, less subsequent accumulated depreciation and any identified impairment loss.

No depreciation is provided on construction in progress until the development of the related assets are completed. 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
Power and heat supply facilities	8 to 12 years
Construction machinery and equipment	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 Statement of Standard Accounting Practice No. 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.

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

For the year ended 31 December 2003

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

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.

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.

Inventories

Inventories, representing raw materials and consumables, 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 2003

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.

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.

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, associates and jointly controlled entities 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, associate or jointly controlled entity 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 2003

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates or jointly controlled entities except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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.

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

For the year ended 31 December 2003

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

Revenue recognition *(cont'd)*

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.

Supply of heat and electricity

Income from supply of heat and electricity is recognised when heat and electricity are delivered.

Dividend income

Dividend 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.

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

For the year ended 31 December 2003

4. Turnover

Turnover comprises 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, income from supply of heat and electricity, dividend and interest income, and is analysed as follows:

	2003 HK\$'000	2002 HK\$'000
Proceeds from sales of properties	3,497,973	2,994,175
Property rental income	168,713	193,412
Revenue from construction contracts and project management	3,747,067	2,910,543
Income from infrastructure project investments	49,880	58,735
Real estate agency and management service fees	92,601	88,012
Income from supply of heat and electricity	30,130	–
Dividend from syndicated property project companies	1,920	118,620
Interest income	16,393	28,830
Other income	13,293	333
	7,617,970	6,392,660

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 2003

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 2003

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Construction <i>HK\$'000</i>	Infrastructure project investment <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE							
External	3,497,973	168,713	3,747,067	49,880	137,944	-	7,601,577
Inter-segment	-	6,582	340,695	-	-	(347,277)	-
	<u>3,497,973</u>	<u>175,295</u>	<u>4,087,762</u>	<u>49,880</u>	<u>137,944</u>	<u>(347,277)</u>	<u>7,601,577</u>

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

RESULTS

Segment results	<u>734,946</u>	<u>132,416</u>	<u>162,044</u>	<u>48,531</u>	<u>7,143</u>	<u>(6,582)</u>	1,078,498
Interest and other income							55,914
Unallocated corporate expenses							<u>(137,978)</u>
Profit from operations							996,434
Finance costs							<u>(82,245)</u>
Share of profits (losses) of Associates	(36,510)	-	(1,468)	-	(8,088)	-	(46,066)
Jointly controlled entities	-	-	-	14,728	-	-	14,728
Profit before taxation							882,851
Income tax expense							<u>(119,209)</u>
Profit before minority interests							763,642
Minority interests							<u>(74,724)</u>
Net profit for the year							<u>688,918</u>

BALANCE SHEET

At 31 December 2003

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Construction <i>HK\$'000</i>	Infrastructure project investment <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS						
Segment assets	7,858,847	1,784,715	1,441,562	193,450	832,577	12,111,151
Interests in associates	958,742	-	130,607	-	106,800	1,196,149
Interests in jointly controlled entities	-	-	-	304,652	-	304,652
Unallocated corporate assets						<u>2,951,724</u>
Consolidated total assets						<u>16,563,676</u>
LIABILITIES						
Segment liabilities	(3,112,857)	(267,718)	(1,477,827)	(24)	(324,882)	(5,183,308)
Unallocated corporate liabilities						<u>(3,294,619)</u>
Consolidated total liabilities						<u>(8,477,927)</u>

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

For the year ended 31 December 2003

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

Business segment *(cont'd)*

OTHER INFORMATION

Year ended 31 December 2003

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Construction <i>HK\$'000</i>	Other operations <i>HK\$'000</i>
Additions to investment properties, property, plant and equipment and properties for development	1,449,900	2,493	36,280	594,916
Depreciation and amortisation	4,134	4,453	76,450	12,442
(Reversal) recognition of allowances for				
– Amount due from an associate	(300,000)	–	–	–
– Amounts due from syndicated property project companies	26,000	–	–	–
– Construction fees receivable	–	–	32,971	–
– Instalments receivable	–	–	–	20,000

REVENUE AND RESULTS

Year ended 31 December 2002

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Construction <i>HK\$'000</i>	Infrastructure project investment <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
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)	–
	<u>3,112,795</u>	<u>196,192</u>	<u>3,441,982</u>	<u>58,735</u>	<u>88,345</u>	<u>(534,219)</u>	<u>6,363,830</u>

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 profits (losses) of associates	(5,253)	–	11,168	–	1,826	–	7,741
Profit before taxation							114,784
Income tax expense							(108,572)
Profit before minority interests							6,212
Minority interests							35,530
Net profit for the year							<u>41,742</u>

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

For the year ended 31 December 2003

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

Business segment *(cont'd)*

BALANCE SHEET

At 31 December 2002

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Construction <i>HK\$'000</i>	Infrastructure project investment <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
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						<u>14,476,891</u>
LIABILITIES						
Segment liabilities	(2,636,709)	(250,570)	(1,054,537)	(24)	(49,139)	(3,990,979)
Unallocated corporate liabilities						<u>(2,925,736)</u>
Consolidated total liabilities						<u>(6,916,715)</u>

OTHER INFORMATION

Year ended 31 December 2002

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Construction <i>HK\$'000</i>	Other operations <i>HK\$'000</i>
Additions to investment properties property, plant and equipment and properties for development	1,038,782	1,366	113,655	4,341
Depreciation and amortisation	4,210	12,306	82,913	1,709
Allowances recognised on				
– Amount due from an associate	200,000	–	–	–
– Amounts due from syndicated property project companies	99,000	–	–	–
Impairment losses on properties for sale recognised	181,000	–	–	–

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 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	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Hong Kong	3,984,692	3,005,376
The PRC	3,633,278	3,387,284
	<u>7,617,970</u>	<u>6,392,660</u>

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

For the year ended 31 December 2003

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 and properties for development	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	6,194,403	5,980,198	37,125	117,075
The PRC	10,369,273	8,496,693	2,051,837	1,044,976
	16,563,676	14,476,891	2,088,962	1,162,051

6. Impairment Losses and Allowances Reversed (Recognised)

	The Group	
	2003 HK\$'000	2002 HK\$'000
Reversal (recognition) of allowances for		
– Amount due from an associate	300,000	(200,000)
– Amounts due from syndicated property project companies	(26,000)	(99,000)
– Construction fees receivable	(32,971)	–
– Instalments receivable	(20,000)	–
Impairment losses on properties for sale recognised	–	(181,000)
	221,029	(480,000)

In the prior year, impairment losses on the Group's properties held for sale amounted to HK\$181 million were recognised and allowances for doubtful recovery totalling HK\$299 million were provided against the amount due from an associate and certain syndicated property project companies. The Hong Kong property market condition has improved, as a result, the allowance for doubtful recovery of the amount due from an associate previously made in the financial statements to the extent of HK\$300 million has been reversed as determined by the directors based on the estimated net selling prices of properties held by the associate by reference to the current market condition.

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

For the year ended 31 December 2003

7. Profit from Operations

	The Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration	3,411	3,491
Depreciation and amortisation	108,834	104,050
Staff costs including directors' emoluments (note)	516,711	536,915
Rental expenses in respect of land and buildings under operating leases	6,600	4,186
Rental income in respect of land and buildings under operating leases, net of outgoings of HK\$42,881,000 (2002: HK\$40,882,000)	(125,833)	(152,530)
Net exchange gains on foreign currency borrowings less deposits	(898)	(2,655)
Dividends and returns from investments		
– listed	(126)	(160)
– unlisted	(1,920)	(118,793)
	<u> </u>	<u> </u>

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\$22 million (2002: 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. At 31 December 2003, contributions of HK\$2 million (2002: HK\$2 million) due in respect of the year had not been paid over to the scheme.

8. Finance Costs

	The Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans, overdrafts and other borrowings		
– wholly repayable within five years	98,410	121,068
Other finance costs	27,881	7,490
Less: Amount capitalised on development properties	(44,046)	(51,744)
	<u> </u>	<u> </u>
	<u>82,245</u>	<u>76,814</u>

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

For the year ended 31 December 2003

9. Directors' Emoluments

	The Group	
	2003 HK\$'000	2002 HK\$'000
Directors' fees	250	–
Other emoluments		
Basic salaries, allowances and benefits-in-kind	17,893	20,015
Contributions to retirement benefit scheme	96	114
Total emoluments	<u>18,239</u>	<u>20,129</u>

The amounts disclosed above include allowances totalling HK\$250,000 (2002: HK\$400,000) payable to independent non-executive directors.

The emoluments of the directors were within the following bands:

HK\$	The Group	
	2003 Number of directors	2002 Number of directors
Nil – 1,000,000	6	8
1,000,001 – 1,500,000	2	1
1,500,001 – 2,000,000	2	1
2,000,001 – 2,500,000	–	3
2,500,001 – 3,000,000	3	2
3,000,001 – 3,500,000	–	1
3,500,001 – 4,000,000	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 2003

10. Income Tax Expense

	The Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Hong Kong Profits Tax		
Current year	4,575	7,209
Prior year's overprovision	(1,208)	(23,683)
	3,367	(16,474)
PRC income tax		
Current year	148,033	101,245
Prior year's overprovision	(23,387)	–
	124,646	101,245
	128,013	84,771
Deferred tax (note 35)		
Current year	(15,635)	20,100
Attributable to a change in tax rate in Hong Kong	2,713	–
	(12,922)	20,100
Tax attributable to the Company and its subsidiaries	115,091	104,871
Associates		
Hong Kong Profits Tax	666	1,296
PRC income tax	3,452	2,405
	4,118	3,701
	119,209	108,572

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) on the estimated assessable profit for the year. The Profits Tax rate has been increased from 16% to 17.5% with effect from the 2003/04 year of assessment.

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

Details of deferred taxation are set out in note 35.

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

For the year ended 31 December 2003

10. Income Tax Expense *(cont'd)*

The charge for the year can be reconciled to the profit from ordinary activities before taxation per the income statement as follows:

	2003 HK\$'000	2002 <i>HK\$'000</i>
Profit from ordinary activities before taxation	882,851	114,784
Tax at the domestic income tax rate of 17.5% (2002: 16%)	154,499	18,365
Tax effect of expenses not deductible for tax purpose	13,517	36,600
Tax effect of income not taxable for tax purpose	(26,128)	(70,087)
Overprovision in respect of prior years	(24,595)	(23,683)
Tax effect of tax losses not recognised	38,324	112,800
Tax effect of utilisation of tax losses not previously recognised	(75,528)	(16,514)
Tax effect of share of results of associates and jointly controlled entities	9,603	2,463
Increase in opening deferred tax liability resulting from an increase in Hong Kong Profits Tax rate	2,713	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	26,804	48,628
Tax expense for the year	119,209	108,572

In addition to the amount charged to the income statement, deferred tax arising from revaluation of the Group's properties has been dealt with directly in equity (see note 31).

11. Dividends

	The Group	
	2003 HK\$'000	2002 <i>HK\$'000</i>
Ordinary shares:		
Interim, paid		
HK2 cents (2002: HK2 cents) per share	108,249	109,286
Final, proposed		
HK3 cents (2002: HK1 cent) per share	191,174	54,125
	299,423	163,411

The final dividend of HK3 cents (2002: HK1 cent) per ordinary share has been proposed by the directors and is subject to approval by the shareholders at the forthcoming Annual General Meeting. The amount of final dividend proposed was calculated based on the number of ordinary shares in issue at the date of approval of the financial statements.

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

For the year ended 31 December 2003

12. Earnings Per Share

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

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Net profit for the purposes of basic and diluted earnings per share	688,918	41,742
	Number	Number
	of shares	of shares
	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	5,407,631	5,454,938
Effect of dilutive potential ordinary shares in respect of share options granted	57,054	59,200
Weighted average number of ordinary shares for the purposes of diluted earnings per share	5,464,685	5,514,138

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.

The adjustment to comparative basic and diluted earnings per share, arising from the change in accounting policy shown in note 2 above, is as follows:

	Basic	Diluted
	HK cents	HK cents
Reconciliation of 2002 earnings per share		
Reported figures before adjustments	1.12	1.11
Adjustments arising from the adoption of SSAP 12 (Revised)	(0.35)	(0.35)
Restated	0.77	0.76

13. Investment Properties

	Land and buildings
	<i>HK\$'000</i>
THE GROUP	
VALUATION	
At 1 January 2003	1,741,450
Reclassified from property, plant and equipment	15,370
Disposals	(2,845)
Revaluation increase	3,295
At 31 December 2003	1,757,270

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

For the year ended 31 December 2003

13. Investment Properties *(cont'd)*

An analysis of the investment properties of the Group at 31 December 2003 is as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
In Hong Kong		
On long leases	128,000	128,000
On medium-term leases	713,200	712,750
In the PRC		
On medium-term leases	916,070	900,700
	1,757,270	1,741,450

The investment properties of the Group are carried at their open market value on an existing use basis at 31 December 2003 as valued by DTZ Debenham Tie Leung Limited, an independent firm of professional property valuers. This valuation gave rise to a revaluation increase of HK\$3,295,000 (2002: decrease of HK\$94,865,000) which has been dealt with in the investment property revaluation reserve (note 31).

14. Property, Plant and Equipment

	Properties for own use <i>HK\$'000</i>	Power and heat supply facilities <i>HK\$'000</i>	Construction machinery and equipment <i>HK\$'000</i>	Furniture, fixtures, equipment and motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP						
COST OR VALUATION						
At 1 January 2003	592,861	–	430,406	135,222	–	1,158,489
Acquisition of subsidiaries	144,153	318,635	–	14,080	54,231	531,099
Additions	–	126	27,437	38,297	51,000	116,860
Disposals	(2,086)	–	(14,246)	(18,240)	–	(34,572)
Reclassified to investment properties	(43,129)	–	–	–	–	(43,129)
At 31 December 2003	691,799	318,761	443,597	169,359	105,231	1,728,747
DEPRECIATION						
At 1 January 2003	80,843	–	338,024	89,209	–	508,076
Provided for the year	11,343	3,513	63,850	25,040	–	103,746
Eliminated on disposals	(731)	–	(14,162)	(15,787)	–	(30,680)
Eliminated on reclassification	(6,435)	–	–	–	–	(6,435)
At 31 December 2003	85,020	3,513	387,712	98,462	–	574,707
NET BOOK VALUES						
At 31 December 2003	606,779	315,248	55,885	70,897	105,231	1,154,040
At 31 December 2002	512,018	–	92,382	46,013	–	650,413

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

For the year ended 31 December 2003

14. 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 2003	5,620	30,600	36,220
Additions	–	145	145
Disposals	–	(245)	(245)
At 31 December 2003	<u>5,620</u>	<u>30,500</u>	<u>36,120</u>
DEPRECIATION			
At 1 January 2003	1,277	27,158	28,435
Provided for the year	170	1,237	1,407
Eliminated on disposals	–	(173)	(173)
At 31 December 2003	<u>1,447</u>	<u>28,222</u>	<u>29,669</u>
NET BOOK VALUES			
At 31 December 2003	<u>4,173</u>	<u>2,278</u>	<u>6,451</u>
At 31 December 2002	<u>4,343</u>	<u>3,442</u>	<u>7,785</u>

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	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Land and buildings on medium-term leases				
At 1994 professional valuation				
In Hong Kong	392,726	392,726	3,720	3,720
In the PRC	1,900	37,514	1,900	1,900
At cost				
In Hong Kong	93,179	93,179	–	–
In the PRC	203,994	69,442	–	–
	<u>691,799</u>	<u>592,861</u>	<u>5,620</u>	<u>5,620</u>

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 professional 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	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Properties for own use, at cost	<u>114,229</u>	<u>154,537</u>	<u>2,888</u>	<u>3,010</u>
less depreciation				

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

For the year ended 31 December 2003

15. Properties for Development

	The Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
AT COST		
At 1 January	1,540,766	1,417,312
Additions	1,441,003	984,455
Acquisition of subsidiaries	–	50,282
Disposal of subsidiaries	–	(385,645)
Transferred to properties under development	<u>(1,971,907)</u>	<u>(525,638)</u>
At 31 December	<u>1,009,862</u>	<u>1,540,766</u>

16. Interests in Subsidiaries

	The Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares, at cost	12,345	9,927
Amounts due from subsidiaries less allowances	<u>9,278,007</u>	<u>8,451,913</u>
	<u>9,290,352</u>	<u>8,461,840</u>

Particulars of the principal subsidiaries are set out in note 44.

17. Interests in Associates

	The Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted companies		
Share of net assets	184,942	202,293
Goodwill on acquisition of associates	29,896	–
Less: Amortisation	(5,088)	–
Amounts due from associates less allowances	<u>986,399</u>	<u>683,669</u>
	<u>1,196,149</u>	<u>885,962</u>
	The Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares, at cost	–	–
Amounts due from associates	<u>10,011</u>	<u>10,193</u>
	<u>10,011</u>	<u>10,193</u>

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

For the year ended 31 December 2003

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

Set out below are the particulars of the principal associates at 31 December 2003 which, in the opinion of the directors, principally affected the results or the net assets of the Group. All 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
Chest Gain Development Limited	30	Property development
Elation Assets Limited (ii)	35	Investment holding
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)	41.8	Manufacture and sale of construction materials
Hong Kong Concrete Company Limited	31.5	Manufacture and sale of ready-mixed concrete
Krimark Investments Limited (ii)	40	Investment holding
美聯鋼結構建築系統(上海)有限公司 (i)	33.3	Manufacture and installation of steel products
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 sale of construction materials
深圳路安特瀝青高新技術有限公司 (i)	35.9	Manufacture and sale of asphalt
United Structures Holdings Limited	33.3	Investment holding

(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 2003

18. Interests in Jointly Controlled Entities

	The Group	
	2003 HK\$'000	2002 HK\$'000
Unlisted companies		
Share of net assets	293,096	–
Amounts due from jointly controlled entities	11,556	–
	304,652	–

During the year, the Group entered into agreements with a PRC party for the operation and management of a toll bridge in Nanchang, the PRC which is undertaken by the following jointly controlled entities established in the PRC:

Name of entity	Proportion of nominal value of registered capital held by the Group %	Operation period
Nanchang COB Infrastructure Ltd.	55.24	25 years from 29 March 2003
Nanchang COIL City Bridge Ltd.	55.24	25 years from 29 March 2003
Nanchang COVC City Bridge Ltd.	55.24	25 years from 29 March 2003

Pursuant to the relevant joint ventures agreements, the Group is entitled to share a 92% of the operating results of these jointly controlled entities in their first 11 years of operation and thereafter at a reduced rate of 55.24% for the remaining 14 years' operation period.

19. Investments in Infrastructure Projects

	The Group	
	2003 HK\$'000	2002 HK\$'000
Unlisted investments, at cost	244,265	438,200
Less: Repayment of capital contributed	(50,824)	(68,366)
	193,441	369,834
Amount due from an investee	9	–
	193,450	369,834
Carrying amount analysed for reporting purposes as:		
Non-current	180,540	350,409
Current	12,910	19,425
	193,450	369,834

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

For the year ended 31 December 2003

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

Pursuant to the agreements entered into between the Group and certain 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.

Particulars of the investee companies engaging in infrastructure project investments at 31 December 2003, all of which are established and are operating in the PRC, are as follows:

Name of company	Registered capital <i>US\$'000</i>	Amount contributed by the Group <i>US\$'000</i>	Operation period	Nature of business
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
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

20. Investments in Syndicated Property Projects

	The Group 2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted investments, at cost	46	46
Amounts due from investees	979,623	1,139,255
Less: Allowances for doubtful recovery	(327,500)	(301,500)
	652,169	837,801

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

For the year ended 31 December 2003

20. Investments in Syndicated Property Projects *(cont'd)*

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 2003, 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

21. Investments in Securities

	Investment securities		Trading securities		Total	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP						
Unlisted equity investments, at cost	524	-	-	-	524	-
Equity securities listed in Hong Kong, at market value	-	-	-	4,246	-	4,246
Amount due from an investee	6,719	-	-	-	6,719	-
	7,243	-	-	4,246	7,243	4,246
Carrying amount analysed for reporting purposes as:						
Non-current	7,243	-	-	-	7,243	-
Current	-	-	-	4,246	-	4,246
	7,243	-	-	4,246	7,243	4,246

22. Instalments Receivable

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Instalments receivable from property purchasers	245,905	247,123
Less: Allowance for doubtful recovery	(29,000)	(9,000)
Amount due within one year included in trade and other receivables under current assets	(5,274)	(1,052)
	211,631	237,071

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

For the year ended 31 December 2003

23. Negative Goodwill

	The Group	
	2003 HK\$'000	2002 HK\$'000
GROSS AMOUNT		
At 1 January	31,327	31,327
Arising on acquisition of a subsidiary (Note)	96,207	–
At 31 December	<u>127,534</u>	<u>31,327</u>
RELEASED TO INCOME		
At 1 January	(5,262)	(2,372)
Included in other operating income	(2,917)	(2,890)
At 31 December	<u>(8,179)</u>	<u>(5,262)</u>
CARRYING AMOUNT	<u>119,355</u>	<u>26,065</u>

Note:

The negative goodwill arose from the Group's acquisition of the entire interest in 瀋陽皇姑熱電供暖有限公司 in October 2003 which represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities acquired over the cost of acquisition.

Negative goodwill is released to income on a straight line basis over 12 years.

24. Inventories

	The Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials and consumables, at cost	<u>13,092</u>	<u>1,100</u>

25. Properties for Sale

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Properties for sale				
Completed	1,712,523	2,039,702	1,798	1,798
Under development	3,827,407	2,432,583	–	–
	<u>5,539,930</u>	<u>4,472,285</u>	<u>1,798</u>	<u>1,798</u>

The properties of the Group included properties carried at net realisable value of HK\$474,211,000 (2002: HK\$734,599,000).

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

For the year ended 31 December 2003

26. 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	
	2003	2002
	HK\$'000	HK\$'000
Receivables, aged		
0-30 days	794,651	558,350
31-90 days	295,964	409,968
Over 90 days	256,166	310,831
Retentions receivable	356,543	295,877
	<u>1,703,324</u>	<u>1,575,026</u>

27. Amounts due from (to) Customers for Contract Work

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Contract in progress at the balance sheet date:		
Contract costs incurred plus recognised profits less losses	3,026,733	2,548,603
Less: Progress billings	(3,198,648)	(2,560,898)
	<u>(171,915)</u>	<u>(12,295)</u>
Analysed for reporting purposes as:		
Amounts due from contract customers	45,774	68,686
Amounts due to contract customers	(217,689)	(80,981)
	<u>(171,915)</u>	<u>(12,295)</u>

At 31 December 2003, retentions held by customers for contract work amounted to approximately HK\$356,543,000 (2002: HK\$295,877,000) 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 2003

28. 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\$187 million (2002: HK\$62 million), withdrawal of which is restricted during the course of development of the properties.

29. Trade and Other Payables

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

	The Group	
	2003 HK\$'000	2002 HK\$'000
Payables, aged		
0-30 days	1,732,924	1,360,583
31-90 days	193,296	190,259
Over 90 days	532,612	219,044
Retentions payable	412,930	286,623
	2,871,762	2,056,509

30. Share Capital

	The Group and the Company			
	2003		2002	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
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	5,412,478	541,247	5,464,024	546,402
Issue of shares upon exercise of share options	51,900	5,190	6,570	657
Shares repurchased	(23,342)	(2,334)	(58,116)	(5,812)
At end of the year	5,441,036	544,103	5,412,478	541,247

Issue of shares

During the year ended 31 December 2003, the Company issued a total of 51,900,000 shares at prices ranging from HK\$0.52 to HK\$1.08 per share to employees upon the exercise of the share options granted giving a total cash consideration of HK\$32,711,000.

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

For the year ended 31 December 2003

30. Share Capital *(cont'd)*

Repurchase of shares

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

Month of repurchase	Number of ordinary shares of HK\$0.1 each <i>'000</i>	Price per share		Aggregate consideration <i>HK\$'000</i>
		Highest <i>HK\$</i>	Lowest <i>HK\$</i>	
2003				
April	17,682	0.64	0.59	10,994
May	4,808	0.80	0.62	3,308
June	852	0.86	0.80	709
	<u>23,342</u>			<u>15,011</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

The Company's share option scheme ("the Scheme") was adopted pursuant to an ordinary resolution passed on 18 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 in advance by 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 one 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 2003

30. 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\$	Number of shares under options granted				Outstanding at 31 December 2003	Closing price of shares at date of exercise HK\$
			Outstanding at 1 January 2003	Movements during the year				
				Granted	Exercised	Cancelled		
17 July 1997	17 July 1998 – 16 July 2007	4.06	65,990,000	–	–	(5,860,000)	60,130,000	N/A
14 February 1998	14 February 1999 – 13 February 2008	1.08	168,420,000	–	(1,150,000)	(16,250,000)	151,020,000	0.85 to 0.89
30 September 1998	30 September 1999 – 29 September 2008	0.52	41,060,000	–	(11,930,000)	(2,370,000)	26,760,000	0.71 to 0.89
4 January 2000	4 January 2001 – 3 January 2010	0.58	71,950,000	–	(13,820,000)	(8,950,000)	49,180,000	0.73 to 0.89
24 October 2001	24 October 2002 – 23 October 2011	0.69	86,000,000	–	(25,000,000)	–	61,000,000	0.85 to 0.89
			<u>433,420,000</u>	<u>–</u>	<u>(51,900,000)</u>	<u>(33,430,000)</u>	<u>348,090,000</u>	

Date of grant	Exercisable period	Subscription price per share HK\$	Number of shares under options granted				Outstanding at 31 December 2002	Closing price of shares at date of exercise HK\$
			Outstanding at 1 January 2002	Movements during the year				
				Granted	Exercised	Cancelled		
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
			<u>451,250,000</u>	<u>–</u>	<u>(6,570,000)</u>	<u>(11,260,000)</u>	<u>433,420,000</u>	

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

	Number of shares under options granted				Outstanding at 31 December
	Outstanding at 1 January	Movements during the year			
		Granted	Exercised	Cancelled	
2003	<u>*122,210,000</u>	<u>–</u>	<u>(5,820,000)</u>	<u>(8,280,000)#</u>	<u>108,110,000</u>
2002	<u>123,710,000</u>	<u>–</u>	<u>–</u>	<u>(1,500,000)</u>	<u>122,210,000</u>

The options to subscribe for 8,280,000 shares granted to a resigned director were cancelled during the year.

* This figure includes the options to subscribe for 8,280,000 shares granted to a director who resigned during the year.

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 2003

31. 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
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
THE GROUP										
At 1 January 2002										
– As previously reported	5,190,171	1,784	217,331	395,810	(43,301)	(393,451)	–	109,286	1,987,138	7,464,768
– Prior period adjustments	–	–	(7,714)	(63,194)	–	–	–	–	(55,459)	(126,367)
– As restated	5,190,171	1,784	209,617	332,616	(43,301)	(393,451)	–	109,286	1,931,679	7,338,401
Exchange differences on translation of financial statements	–	–	–	–	19,970	–	–	–	–	19,970
2001 final dividend 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 investment properties, adjusted for minority interests	–	–	(105,665)	–	–	–	–	–	–	(105,665)
Deferred tax liability arising from surplus on revaluation of properties realised on partial disposal of a subsidiary	–	–	(3,013)	2,582	–	–	–	–	–	(431)
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	–	–	–	–	–	–	–	–	41,742	41,742
Amounts set aside for dividend payment (note 11)	–	–	–	–	–	–	–	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	78,873	321,348	(21,391)	(393,451)	11,497	54,125	1,767,216	7,018,929
Exchange differences on translation of financial statements	–	–	–	–	667	–	–	–	–	667
2002 final dividend paid	–	–	–	–	–	–	–	(54,125)	–	(54,125)
Repurchase of own shares	–	2,334	–	–	–	–	–	–	(15,094)	(12,760)
Issue of shares less expenses	27,493	–	–	–	–	–	–	–	–	27,493
Share of associates' reserve movements	–	–	(2,100)	–	–	–	–	–	–	(2,100)
Increase on revaluation of investment properties	–	–	3,295	–	–	–	–	–	–	3,295
Realised on disposal of properties	–	–	–	(327)	–	–	–	–	327	–
Deficit on revaluation of properties for own use reclassified to investment properties	–	–	–	(16,845)	–	–	–	–	–	(16,845)
Realised when properties were used and depreciated	–	–	–	(6,790)	–	–	–	–	6,790	–
Deferred tax liability arising from surplus on revaluation of properties	–	–	–	(3,577)	–	–	–	–	–	(3,577)
Net profit for the year	–	–	–	–	–	–	–	–	688,918	688,918
Amounts set aside for dividend payment (note 11)	–	–	–	–	–	–	–	299,423	(299,423)	–
2003 interim dividend paid	–	–	–	–	–	–	–	(108,249)	–	(108,249)
Transfer to PRC statutory reserve	–	–	–	–	–	–	53,434	–	(53,434)	–
At 31 December 2003	5,220,609	9,930	80,068	293,809	(20,724)	(393,451)	64,931	191,174	2,095,300	7,541,646

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

For the year ended 31 December 2003

31. Reserves *(cont'd)*

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Other property revaluation reserve <i>HK\$'000</i>	Dividend reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY						
At 1 January 2002	5,190,171	1,784	1,511	109,286	1,013,289	6,316,041
2001 final dividend 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 loss for the year	–	–	–	–	(64,959)	(64,959)
Amounts set aside for dividend payment (note 11)	–	–	–	163,411	(163,411)	–
2002 interim dividend paid	–	–	–	(109,286)	–	(109,286)
At 31 December 2002	5,193,116	7,596	1,511	54,125	739,772	5,996,120
2002 final dividend paid	–	–	–	(54,125)	–	(54,125)
Repurchase of own shares	–	2,334	–	–	(15,094)	(12,760)
Issue of shares less expenses	27,493	–	–	–	–	27,493
Net profit for the year	–	–	–	–	265,102	265,102
Amounts set aside for dividend payment (note 11)	–	–	–	299,423	(299,423)	–
2003 interim dividend paid	–	–	–	(108,249)	–	(108,249)
At 31 December 2003	5,220,609	9,930	1,511	191,174	690,357	6,113,581

Notes:

The retained profits of the Group included profits of HK\$20,995,000 (2002: HK\$34,991,000) 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 2003 comprised the retained profits of HK\$690,357,000 (2002: HK\$739,772,000) and the dividend reserve of HK\$191,174,000 (2002: HK\$54,125,000).

The PRC statutory reserve of the Group represents general and development fund reserve applicable to PRC subsidiaries which was established in accordance with the relevant PRC regulations.

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

For the year ended 31 December 2003

32. Long-term Bank Loans

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Secured bank loans repayable				
within one year	—	238,364	—	—
Unsecured bank loans repayable				
Within one year	—	66,038	—	—
More than one year, but not exceeding two years	311,320	47,170	—	—
More than two years, but not exceeding five years	1,610,000	1,338,000	1,510,000	1,260,000
	1,921,320	1,451,208	1,510,000	1,260,000
	1,921,320	1,689,572	1,510,000	1,260,000
Less: Portion due within one year included in current liabilities	—	(304,402)	—	—
	1,921,320	1,385,170	1,510,000	1,260,000

All the above borrowings carry interest at commercial lending rates.

33. Amounts due to Minority Shareholders

The minority shareholders of certain subsidiaries have provided unsecured advances to those subsidiaries amounting to approximately HK\$1,259,524,000 (2002: HK\$1,519,393,000), of which approximately HK\$30,049,000 (2002: HK\$58,988,000) 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.

The amounts due to minority shareholders are presented after deducting the net liabilities of the subsidiaries attributable to the minority shareholders of approximately HK\$602,670,000 (2002: HK\$852,571,000).

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

For the year ended 31 December 2003

34. Purchase Consideration Payable

	The Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Consideration for the acquisition of subsidiaries payable		
Within one year	31,107	48,321
More than one year, but not exceeding two years	28,387	–
More than two years, but not exceeding five years	45,419	–
	104,913	48,321
Less: Portion due within one year included in current liabilities	(31,107)	(48,321)
	73,806	–

The purchase consideration payable is unsecured and interest free.

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

For the year ended 31 December 2003

35. Deferred Tax Liabilities

The following are the major deferred tax liabilities recognised by the Group and movements thereon during the current and prior reporting periods.

	Accelerated tax depreciation <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002				
– as previously reported	499	–	–	499
– adjustment on adoption of SSAP12 (Revised)	25,114	70,908	30,345	126,367
– as restated	25,613	70,908	30,345	126,866
(Credit) charge to income statement	(1,870)	–	21,970	20,100
Charge to equity	–	431	–	431
At 31 December 2002	23,743	71,339	52,315	147,397
Charge (credit) to income statement	998	–	(16,633)	(15,635)
Credit to equity	–	(1,145)	–	(1,145)
Carried by a subsidiary acquired (Note)	–	–	45,287	45,287
Effect of a change in tax rate				
– charge to income statement	2,226	–	487	2,713
– charge to equity	–	4,722	–	4,722
At 31 December 2003	26,967	74,916	81,456	183,339

Notes: The deferred tax liabilities of HK\$45,287,000 carried by a subsidiary acquired represent pre-acquisition income of the subsidiary which is taxable in future years.

At the balance sheet date, the Group has unused tax losses of HK\$4,716 million (2002: HK\$4,929 million) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. These unused tax losses to the extent of HK\$957 million (2002: HK\$1,211 million) have not yet been agreed by the relevant tax authority. Included in unrecognised tax losses are losses of HK\$430 million (2002: HK\$430 million) that will expire within five years. Other losses may be carried forward indefinitely.

Temporary differences arising in connection with the interests in associates and jointly controlled entities are insignificant.

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

For the year ended 31 December 2003

36. Acquisition of Subsidiaries

During the year, the Group acquired subsidiaries for an aggregate consideration of HK\$341,503,000, including 100% interests in each of 瀋陽皇姑熱電有限公司(「皇姑熱電」), 瀋陽皇姑熱電供暖有限公司(「皇姑供暖」) and 深圳市浩融科技創業投資有限公司(「浩融科技」). The principal activities of 皇姑熱電 and 皇姑供暖 are generation and supply of heat and electricity. 浩融科技 is engaged in investment holding. The post acquisition profits after taxation of these companies included in the consolidated income statement for the year are insignificant.

	2003 HK\$'000	2002 HK\$'000
Net assets acquired		
Property, plant and equipment	531,099	–
Interests in associates	36,604	–
Properties for development	–	50,282
Properties for sale	109,858	676,701
Investments in securities	524	–
Inventories	11,109	–
Trade and other receivables	101,279	31,232
Deposits and prepayments	26,781	–
Bank balances and cash	181,411	75,866
Trade and other payables	(275,751)	(222,172)
Sales and other deposits	(21,226)	(212,373)
Tax liabilities	(7,588)	(17)
Bank loans	(72,868)	(337,076)
Minority interests	(100,940)	(3,070)
Deferred tax liabilities	(45,287)	–
	475,005	59,373
Carrying value of interest in an associate	(37,295)	–
Negative goodwill on acquisition	(96,207)	–
	341,503	59,373
Satisfied by:		
Cash consideration		
Paid	236,590	11,052
Payable	104,913	48,321
	341,503	59,373
Net cash (outflow) inflow arising on acquisition:	HK\$'000	HK\$'000
Cash consideration paid	(236,590)	(11,052)
Bank balances and cash acquired	181,411	75,866
Net (outflow) inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(55,179)	64,814

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

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

For the year ended 31 December 2003

37. Disposal of Subsidiaries

In the year ended 31 December 2002, the Group disposed of certain subsidiaries engaging in the business of property development for an aggregate consideration of HK\$313,620,000.

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

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

38. Major Non-cash Transactions

During the year,

- (i) the Group transferred certain properties held for development amounting to HK\$1,971,907,000 (2002: HK\$525,638,000) to properties under development.
- (ii) the Group transferred certain properties for own use amounting to HK\$15,370,000 (2002: HK\$46,652,000) to investment properties.

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

For the year ended 31 December 2003

39. 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	
	2003	2002
	HK\$'000	HK\$'000
Within one year	701	3,292
In the second to fifth years inclusive	2,344	152
	3,045	3,444

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\$1,402 million (2002: HK\$1,386 million) and HK\$375 million (2002: HK\$434 million) respectively were let out under operating leases.

Property rental income earned during the year is HK\$169 million (2002: HK\$193 million) of which HK\$141 million (2002: HK\$145 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	
	2003	2002
	HK\$'000	HK\$'000
Within one year	101,689	119,951
In the second to fifth years inclusive	115,445	136,179
After five years	14,186	25,286
	231,320	281,416

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 2003

40. Project and Other Commitments

At the balance sheet date, the Group had the following commitments not provided for in the financial statements:

	The Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Property development expenditure		
– Authorised but not contracted	1,986,068	–
– Contracted but not provided for	992,953	1,428,000
	2,979,021	1,428,000
Acquisition of property, plant and equipment		
– Contracted but not provided for	97,398	–

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

41. 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	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
In respect of credit facilities granted to:				
Subsidiaries	–	–	7,290,332	4,540,711
Associates	1,002,355	999,952	1,002,355	999,952
	1,002,355	999,952	8,292,687	5,540,663

- (b) The Group and the Company had outstanding counter indemnities amounting to HK\$1,168,850,000 (2002: HK\$1,344,767,000) and HK\$1,103,091,000 (2002: HK\$1,294,506,000) 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 had acted as guarantor for repayment of the mortgage bank loans granted to purchasers of the Group's properties amounting to HK\$2,405,420,000 (2002: HK\$1,574,936,000).

- (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.

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

For the year ended 31 December 2003

42. Pledge of Assets

At the balance sheet date:

- (a) The banking facilities granted to an associate were secured by pledge of the shares in and subordination of the advances to the associate with an aggregate carrying value of approximately HK\$549 million (2002: HK\$216 million).
- (b) The mortgage bank loans granted to the purchasers of the Group's properties were secured by the Group's bank deposits amounting to approximately HK\$12 million (2002: HK\$8 million).

43. Related Party Transactions

Other than the transactions with related parties disclosed above, the Group had the following transactions with related parties during the year:

- (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 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, the Project Managers shall provide project management services and act as agent for and, in consultation with CSCEC Group, to tender for and obtain projects on behalf of CSCEC Group on such terms as may be agreed by CSCEC Group. CSCEC Group has agreed to pay the Project Managers a management fee equivalent to 7 per cent. of the final contract sum receivable by CSCEC Group under such construction contracts.

The Company has agreed to provide counter indemnities to financial institutions issuing bid bonds and performance bonds for CSCEC Group, which are required when lodging tenders for construction and engineering projects in Hong Kong, 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\$610 million (2002: HK\$492 million) remained outstanding.

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.

The Group had trade receivables due from CSCEC Group outstanding at the balance sheet date amounted to HK\$212,316,000 (2002: HK\$210,061,000).

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

For the year ended 31 December 2003

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

- (b) Pursuant to an agreement entered into between CSCEC and a wholly owned subsidiary of the Company, China Overseas (Hong Kong) Limited ("COHK"), in 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\$36,398,000 (2002: HK\$148,779,000) in respect of the year.
- (c) Pursuant to an agreement entered into during the year between a subsidiary of the Company, Shenzhen China Overseas Property Co., Ltd. ("SCOP") and a subsidiary of CSCEC, Shenzhen China Overseas Construction Engineering Company ("SCOCE"), SCOCE was appointed as the main contractor for the construction of the first phase of the property development project held by SCOP at a consideration of approximately RMB185 million which was determined based on the cost of construction materials plus a margin.
- (d) Pursuant to the group restructuring implemented during the year, the Group entered into a conditional agreement to acquire from a subsidiary of CSCEC a 30% interest in the registered capital of 北京中海豪庭房地產開發有限公司 ("BCOHT") for a consideration of HK\$4.6 million, subject to adjustment. BCOHT is a company established in the PRC principally engaged in property development. The purchase consideration was determined by reference to the valuation of the property interests of BCOHT. The acquisition was approved by the shareholders subsequent to the balance sheet date.
- (e) During the year, the Group has taken out insurance policies with China Overseas Insurance Limited, which is a subsidiary of China Overseas Holdings Limited ("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\$45,931,000 (2002: HK\$78,367,000).
- (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 the balance sheet date, the amounts owed by associates to the Group before allowance amounted to approximately HK\$1,586 million (2002: HK\$1,584 million) of which approximately HK\$1,313 million (2002: HK\$1,284 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\$271,000 (2002: HK\$1,248,000). At the balance sheet date, the Group had amounts due to associate amounted to approximately HK\$202,000,000 (2002: HK\$198,000,000) which are unsecured and interest free with no fixed repayment terms.
- (h) The Group acted as the contractor for the development of a property project owned by an associate at the contract price determined by reference to the prices for similar projects contracted by the Group with outside parties. Construction fees for the project payable by the associate to the Group amounted to approximately HK\$438,627,000 (2002: HK\$255,087,000) in respect of the year. Construction fees receivable from the associate outstanding at the balance sheet date amounted to HK\$87,819,000 (2002: HK\$110,267,000).
- (i) During the year, the Group made purchases of construction materials from certain associates amounted to an aggregate of approximately HK\$63,440,000 (2002: HK\$62,091,000) at prices determined by reference to market price for similar purchases.

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

For the year ended 31 December 2003

44. Particulars of Principal Subsidiaries

The following are the particulars of the Company's subsidiaries at 31 December 2003 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 (ii)	200 shares of US\$1 each	–	100	Investment holding
北京中海豪庭房地產開發有限公司 (v)	RMB10,000,000	–	56	Property development
北京中海豪峰房地產開發有限公司 (v)	RMB50,000,000	–	64	Property development
北京中海房地產開發有限公司 (v)	RMB10,000,000	–	80.1	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\$2,347,078	–	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
Changchun China Overseas Property Co., Ltd. (iv)	RMB10,000,000	25	59.3	Property development
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
China Overseas Building Management Limited	100 shares of HK\$1 each	–	100	Real estate management
China Overseas Civil Engineering Limited	1,019,900 shares of HK\$10 each and 100 non-voting deferred shares of HK\$10 each	–	100	Civil engineering works, project management and investment holding

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

For the year ended 31 December 2003

44. 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 Foundation Engineering Limited	46,500,000 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, building construction and provision of management services
China Overseas Industrial Holdings Limited	2 shares of HK\$1 each	100	–	Investment holding
China Overseas Infrastructure Limited	2 shares of HK\$1 each	–	100	Investment holding
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 Group Co., Ltd. (iii)	RMB415,425,910	–	79	Property development, trading and investment, building construction and investment holding
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 Security Services Limited	2 shares of HK\$1 each	–	100	Provision of security service
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 security investments
COB Development (Shanghai) Co., Ltd. (ii)	US\$17,000,000	–	100	Property development and trading

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

For the year ended 31 December 2003

44. 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 %	
中海興業(成都)發展有限公司 (ii) (COBD Holdings (Chengdu) Co., Ltd. (viii))	US\$10,000,000	–	100	Property development
中海發展(廣州)有限公司 (ii) (COBD Holdings (Guangzhou) Co., Ltd. (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 (ii) (C.O.B. Property Consultants (Shanghai) Co., Ltd. (viii))	US\$500,000	–	100	Real estate agency
中海物流(深圳)有限公司 (ii)	HK\$50,000,000	–	100	Property investment and investment holding
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
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)	RMB99,800,000	–	85.8	Property development
廣州藍灣房地產開發有限公司 (vi) (formerly known as 廣州市番禺新恒源房地產開發有限公司)	RMB15,000,000	–	79.5	Property development
廣州中海名都房地產發展有限公司 (v)	RMB94,684,000	–	100	Property development
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
MaceII Limited	2 shares of HK\$1 each	–	100	Investment holding
Macfirst Limited	2 shares of HK\$1 each	–	100	Property investment

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

For the year ended 31 December 2003

44. 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 %	
Macfull Finance Limited	1,000 shares of HK\$1 each	–	60	Loan financing
Macfull Limited	1,000 shares of HK\$1 each	–	60	Property development
Macwan Finance Limited	10 shares of HK\$1 each	–	70	Loan financing
Macwan Limited	10 shares of HK\$1 each	–	70	Property development
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	–	90	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
南京中海地產有限公司 (vi)	RMB20,000,000	–	80.1	Property development
南京中海臥龍房地產開發有限公司 (iv)	US\$1,986,000	–	59.3	Property development
南京中海現代房地產開發有限公司 (iv)	US\$1,986,000	–	59.3	Property development
南京市溧水縣中海龍匯房地產開發有限公司 (vi)	RMB1,000,000	–	60	Property development
南京市溧水縣中海龍瑞房地產開發有限公司 (vi)	RMB1,000,000	–	60	Property development
南京市溧水縣中海龍潤房地產開發有限公司 (vi)	RMB1,000,000	–	60	Property development
南京市溧水縣中海龍澤房地產開發有限公司 (vi)	RMB1,000,000	–	60	Property development
南京市溧水縣中海紫瑞房地產開發有限公司 (vi)	RMB1,000,000	–	60	Property development
南京市溧水縣中海紫霞房地產開發有限公司 (vi)	RMB1,000,000	–	60	Property development
南京市溧水縣中海紫曦房地產開發有限公司 (vi)	RMB1,000,000	–	60	Property development
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 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\$9,276,352	–	99.5	Property development
上海中海房地產有限公司 (vi)	RMB10,000,000	–	100	Property development
Shenzhen China Overseas Property Co., Ltd. (iv)	HK\$50,000,000	–	84.3	Property development
深圳市中海運輸有限公司 (vi)	RMB5,000,000	–	51	Provision of logistic services
深圳市中海資訊科技有限公司 (vi)	RMB1,000,000	–	62	Provision of logistic services

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

For the year ended 31 December 2003

44. 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 %	
深圳市浩融科技創業投資有限公司 (vi)	RMB30,000,000	–	100	Investment holding
深圳市中海深圳灣房地產開發有限公司 (vi)	RMB10,000,000	–	40.3	Property development
深圳市海鵬物業發展有限公司 (vi)	RMB41,791,000	–	51.4	Property development
深圳市中海貨物代理有限公司 (vi)	RMB5,000,000	–	76	Provision of logistic services
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
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
中山市中海房地產開發有限公司 (vi)	RMB10,000,000	–	100	Property development
瀋陽皇姑熱電有限公司 (ii)	RMB200,000,000	–	100	Generation and supply of electricity
瀋陽皇姑熱電供暖有限公司 (iv)	RMB10,000,000	–	100	Heat supply

(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

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

For the year ended 31 December 2003

45. Post Balance Sheet Events

Subsequent to the balance sheet date,

- (a) In December 2003, the Group announced a group restructuring involving the acquisition by a 79% owned subsidiary, China Overseas Property Group Co., Ltd. ("COP") and its subsidiaries, certain property development projects in the PRC from other subsidiaries of the Group and a subsidiary of CSCEC, and the disposal by COP of certain property development projects to other subsidiaries of the Group. Details regarding the group restructuring are contained in the circular to shareholders dated 14 January 2004. The group restructuring was approved by the shareholders subsequent to the balance sheet date.
- (b) the Company issued a total of 850,000,000 new shares of HK\$0.1 each to independent investors at the price of HK\$1.80 per share giving a total cash consideration of HK\$1,530 million before expenses.
- (c) the Group entered into an agreement with the shareholder of a 35% owned associate for the acquisition of its 65% interest in the associate together with the advances made to the associate for an aggregate consideration of HK\$203 million. The associate is principally engaged in property development in the PRC through its subsidiary. The consideration payable was determined by reference to the fair value of the property interests of the associate.