

## Report of the Directors

The directors herein present their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2000.

### Principal activities

The principal activity of the Company is investment holding. The principal activities of the Group during the year consisted of undertaking building facade projects. These projects involve the design, manufacture and installation of fabricated aluminium and stainless steel products for buildings, such as curtain wall and cladding systems, windows, doors, skylights and other related products. The Group also, through its associate acquired during the year, commenced engaging in the generation and sale of electric and steam power in the regional industrial areas of Hangzhou in the People's Republic of China (the "PRC").

### Segmental information

The Group's turnover and contribution to profit from operating activities for the year were entirely attributable to the undertaking of building facade projects. Accordingly, no additional analysis by activity is provided.

An analysis of the Group's turnover and contribution to profit from operating activities for the year by geographical area of operations is as follows:

	Turnover		Contribution	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
The People's Republic of China:				
Hong Kong	231,305	246,883	39,816	25,348
Elsewhere	8,552	35,581	2,338	(11,838)
	<u>239,857</u>	<u>282,464</u>	<u>42,154</u>	<u>13,510</u>
Add: Other revenue:				
Hong Kong			4,344	2,193
Less: Administrative expenses:				
Hong Kong			(37,964)	(38,372)
Elsewhere			(2,146)	(2,245)
Other operating expenses:				
Hong Kong			(4,240)	(9,233)
Elsewhere			(1,030)	(2,945)
Profit/(loss) from operating activities			<u>1,118</u>	<u>(37,092)</u>

# Report of the Directors

## Results and dividends

The Group's profit for the year ended 31 December 2000 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 79.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2000.

## Fixed assets and investment property

Details of movements in the investment property and fixed assets of the Group and the Company during the year are set out in notes 10 and 11 to the financial statements, respectively.

## Subsidiaries

Particulars of the Company's subsidiaries are set out in note 12 to the financial statements.

## Associate

Particulars of the Group's interest in an associate are set out in note 13 to the financial statements.

## Borrowings and interest capitalised

Details of the Group's borrowings at the balance sheet date are set out in note 20 to the financial statements.

The amount of interest capitalised as part of the cost of long term construction contracts is set out in note 5 to the financial statements.

# Report of the Directors

## Retirement scheme and costs

Details of the Group's retirement scheme and the related costs for the year are set out in notes 2 and 4 to the financial statements.

## Share capital and share options

Details of the movements in the Company's share capital and share options during the year are set out in note 23 to the financial statements.

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## Purchase, sale or redemption of listed securities of the Company

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 24 to the financial statements.

## Distributable reserves

As at 31 December 2000, the Company had no reserves available for cash distribution and/or distribution in specie as computed in accordance with the Companies Act 1981 of Bermuda (as amended). The Company's share premium of HK\$217,203,159 as at 31 December 2000 may be distributed in the form of fully paid bonus shares.

## Report of the Directors

### Major customers and suppliers

The percentages of the Group's purchases and turnover attributable to major suppliers and customers are as follows:

	2000	1999
	%	%
Percentage of purchases:		
From the largest supplier	13	9
From the five largest suppliers	43	23
Percentage of turnover:		
From the largest customer	31	44
From the five largest customers	<u>79</u>	<u>90</u>

Far East Aluminium Works Company Limited, the Company's principal operating subsidiary, was the nominated subcontractor for a number of property development projects of the Cheung Kong group of companies, the Group's largest customer for 2000. As far as the executive directors are aware, Beauty Queen Limited, a wholly-owned subsidiary of Cheung Kong (Holdings) Limited, owns more than 5% of the issued share capital of the Company. Apart from the above, none of the directors, their associates nor any shareholders who, to the knowledge of the directors, own more than 5% of the Company's share capital had any interests in the five major suppliers and customers.

# Report of the Directors

## Directors

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

Yang Chunshu

Wang Xinyan (appointed on 20 September 2000)

Shan Zumao

Yu Li

Ren Haifeng

Cui Wei

Liang Kaiming (deceased on 18 April 2000)

Ip Tak Chuen, Edmond\*

Li Ka Cheung, Eric\*\*

Chu Yu Lin, David\*\*

\* *Non-executive director*

\*\* *Independent non-executive directors*

Pursuant to the bye-laws of the Company, Mr. Wang Xinyan, who was appointed as a director subsequent to the preceding annual general meeting held on 18 May 2000, will hold office until the forthcoming annual general meeting and will then be eligible for re-election at the meeting. Furthermore, Messrs. Ip Tak Chuen, Edmond, Li Ka Cheung, Eric and Chu Yu Lin, David will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## Directors' service contracts

The non-executive director and independent non-executive directors are not appointed for a specific term, but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

# Report of the Directors

## Directors and senior management biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 16 to 20 of the Annual Report.

## Directors' interests in share capital

As at 31 December 2000, the interests of the directors in the shares of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance are as follows:—

The Company has adopted a share option scheme under which the directors may, on or before 19 November 2001, grant options to any employee or executive director of the Company or any of its subsidiaries to subscribe for shares in the Company. During the year, the Company granted options to certain directors to subscribe for shares in the Company. Details of the options granted are as follows:

Name of director	Number of shares in respect of options granted during the year	Number of shares in respect of options lapsed during the year	Number of shares in respect of options outstanding at end of year	Exercise period of share options	Exercise price per share HK\$
Yang Chunshu	8,160,000	—	8,160,000	28-7-2000 to 27-7-2005	0.17
Shan Zumao	5,400,000	—	5,400,000	28-7-2000 to 27-7-2005	0.17
Yu Li	5,400,000	—	5,400,000	28-7-2000 to 27-7-2005	0.17
Ren Haifeng	5,400,000	—	5,400,000	28-7-2000 to 27-7-2005	0.17
Cui Wei	5,400,000	—	5,400,000	28-7-2000 to 27-7-2005	0.17
Liang Kaiming	5,400,000	(5,400,000)	—		
	<u>35,160,000</u>	<u>(5,400,000)</u>	<u>29,760,000</u>		

# Report of the Directors

## Directors' interests in share capital *(continued)*

Mr. Liang Kaiming passed away on 18 April 2000 and his outstanding share options lapsed before the year end date. None of the above share options was exercised during the year.

Except as set out above, as at 31 December 2000 there was no other interest or right recorded in the register required to be kept under Section 29 of the SDI Ordinance.

The Company's existing share option scheme, adopted on 20 November 1991 with a life span of 10 years, will expire in 2001. The directors will propose a new share option scheme for approval by the shareholders of the Company at the forthcoming annual general meeting.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

Further details of the Company's share option scheme are set out in note 23 to the financial statements.

## Directors' interests in contracts

No director during the year had a beneficial interest, either direct or indirect, in any significant contract to which the Company or any of its subsidiaries was a party at the balance sheet date or at any time during the year.

## Substantial shareholders

As at 31 December 2000, the interests of every person in the shares of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance were as follows:

Shareholder	Number of shares held	%
Tacko International Limited ("Tacko")	1,265,767,000 (Note)	54
CATIC (H.K.) Limited ("CATIC (H.K.)")	1,265,767,000 (Note)	54
China National Aero-Technology Import & Export Corporation ("CATIC")	1,265,767,000 (Note)	54
China Aviation Industries Corporation I ("AVIC I")	1,265,767,000 (Note)	54
China Aviation Industries Corporation II ("AVIC II")	1,265,767,000 (Note)	54

# Report of the Directors

## Substantial shareholders *(continued)*

### Note:

Tacko is a wholly-owned subsidiary of CATIC (H.K.), which is in turn a wholly-owned subsidiary of CATIC. CATIC is owned as to 50% by AVIC I and as to 50% by AVIC II. Tacko held the 1,265,767,000 shares stated above, and each of CATIC (H.K.), CATIC, AVIC I and AVIC II was deemed under the SDI Ordinance to be interested in the same parcel of shares.

Save for the interests referred to above, as at 31 December 2000, no other person or corporation had any interest in the shares of the Company as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance.

## Connected transactions

1. On 18 November 1999, the Company entered into a tenancy agreement with a fellow subsidiary, Karlane Investment Limited (“Karlane”), a wholly-owned subsidiary of CATIC, to lease from Karlane the premises known as Office B with a floor area of approximately 1,965 square feet on the 21st floor of CATIC Plaza, 8 Causeway Road, Causeway Bay, Hong Kong for a term of two years commencing on 5 November 1999 at a monthly rental of HK\$25,150 (exclusive of rates, management fees and air-conditioning charges). On 19 October 2000, the Company entered into another tenancy agreement with Karlane to lease further premises known as Office A with a floor area of approximately 545 square feet on the 21st floor of CATIC Plaza, 8 Causeway Road, Causeway Bay, Hong Kong for a term of one year commencing on 5 November 2000 at a monthly rental of HK\$6,978 (exclusive of rates, management fees and air-conditioning charges). Both premises have been used as offices of the Company. The monthly rentals were determined with reference to open market rentals.
2. The Company and CATIC International Finance Limited (“CATIC International Finance”), a wholly-owned subsidiary of CATIC and a fellow subsidiary of the Company, entered into a supplemental agreement dated 2 May 2000 pursuant to which the date of maturity of a loan in the amount of HK\$10,000,000, which was unsecured and bore interest at prime +1% per annum, made by CATIC International Finance and drawn down by the Company on 4 May 1999 under a loan agreement dated 30 April 1999, was amended to be two years following the drawdown date of the loan by the Company, i.e. 5 May 2001. On 10 November 2000, the loan was repaid in full by the Company from proceeds generated by the rights issue.



## Report of the Directors

### Connected transactions (continued)

3. On 19 July 2000, Polyson Investment Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with a wholly-owned subsidiary of CATIC International Finance and a fellow subsidiary of the Company, Speed Profit Enterprises Limited (“Speed Profit”), to acquire from Speed Profit a 31% equity interest in its subsidiary, Hangzhou Sealand Electric Power Company Limited (“Hangzhou Sealand”), at a total cash consideration of HK\$64,480,000, which was determined with reference to the fair market value of the business interests of Hangzhou Sealand of approximately HK\$208 million as at 30 June 2000 as valued by Brooke International (China) Limited. Further details of the acquisition are disclosed in the circular of the Company dated 9 August 2000 and are set out in note 13 to the financial statements.
4. On 7 September 2000, the Company purchased a motor vehicle licensed to operate in both Hong Kong and the Province of Guangdong, PRC from CATIC International Finance for a cash consideration of HK\$780,000 as mutually agreed between the parties.
5. On 20 November 2000, the Company entered into a sale and purchase agreement with its intermediate holding company, CATIC (H.K.), to purchase from CATIC (H.K.) the premises known as Office B with a floor area of approximately 3,950 square feet on the 15th floor of United Centre, 95 Queensway, Central, Hong Kong (“the Property”) at a consideration of HK\$22,000,000 as valued by B.I. Appraisals Limited on an open market basis as at 13 November 2000. The consideration was satisfied by a cash payment of HK\$4,999,960 together with the issue and allotment to Tacko, the Company’s controlling shareholder, as instructed by CATIC (H.K.) of 141,667,000 new shares in the Company at an issue price of HK\$0.12 per share. Further details of the purchase of the Property are disclosed in the circular of the Company dated 1 December 2000 and are set out in note 10 to the financial statements.
6. Subsequent to the balance sheet date, on 4 January 2001, the Group entered into a sale and purchase agreement with Speed Profit to acquire from Speed Profit a further 39% equity interest in Hangzhou Sealand at a consideration of HK\$81,120,000, which was determined with reference to the fair market value of the business interests of Hangzhou Sealand of approximately HK\$208 million as at 31 December 2000 as valued by B.I. Appraisals Limited. The consideration was satisfied by a cash payment of HK\$14,999,920 together with the issue and allotment of 508,616,000 shares to Speed Profit at HK\$0.13 per share. Hangzhou Sealand became a 70% subsidiary of the Company after the acquisition. Further details of the acquisition are disclosed in the circular of the Company dated 22 January 2001.

Further details of the above transactions are included in notes 28 and 29 to the financial statements.

# Report of the Directors

## Compliance with Code of Best Practice

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the accounting year covered by the Annual Report, except that the non-executive director and independent non-executive directors are not appointed for a specific term, but are subject to retirement by rotation at the annual general meeting of the Company in accordance with the bye-laws of the Company. In accordance with paragraph 14 of the Code of Best Practice, an audit committee was established since 1998 and its current members consist of the two independent non-executive directors of the Company.

## Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 29 to the financial statements.

## Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Yang Chunshu**

*CHAIRMAN*

Hong Kong

28 March 2001