

Notes to Financial Statements

31 December 2000

1. CORPORATE INFORMATION

The registered office of CATIC International Holdings Limited is situated at Cedar House, 41 Cedar Avenue, Hamilton, HM12, Bermuda.

During the year, the Group was engaged in 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").

In the opinion of the directors, China National Aero-Technology Import & Export Corporation, a state-owned enterprise in the PRC, which is owned as to 50% by China Aviation Industries Corporation I and 50% by Aviation Industries Corporation II, both of which are directly under the regulation of the State Council of the PRC, is the Company's ultimate holding company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of the investment property as set out below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in value, when they are written down to values determined by the directors.

Notes to Financial Statements

31 December 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values other than those considered to be temporary in nature deemed necessary by the directors. Goodwill arising from the acquisition of the associates, which is not eliminated directly to reserves, is included as part of the Group's interest in the associates.

Goodwill and capital reserve

The goodwill or capital reserve arising on the consolidation of subsidiaries and on the acquisition of associates represents the excess or shortfall of the purchase consideration paid for the subsidiaries/associates over the fair values ascribed to the net underlying assets acquired at the date of acquisition. Goodwill is capitalised and amortised to the profit and loss account on the straight-line basis over a period of not more than twenty years, whereas a capital reserve is credited to reserves on consolidation. Goodwill is stated in the consolidated balance sheet at the amortised balance less any impairments in value, other than those considered to be temporary in nature, deemed necessary by the directors.

Upon disposal of such subsidiaries or associates, the relevant portion of the attributable goodwill or capital reserve is released to the profit and loss account in arriving at the gain or loss on disposal.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) the rendering of contracting works services, based on the stage of completion of the construction contracts as further explained in the accounting policy "Recognition of income from construction contracts"; and
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Notes to Financial Statements

31 December 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition of income from construction contracts

Profit on long term construction contracts is recognised in the profit and loss account on the percentage of completion basis when the outcome of each contract can be ascertained with reasonable certainty and when a contract is at least 20% complete, by reference to the total estimated cost of such contract, after making due allowance for contingencies. When the outcome of a construction contract cannot be estimated reliably and when a contract is less than 20% complete, revenue is recognised only to the extent that contract costs incurred are recoverable. Provision is made for any foreseeable losses as soon as such losses are anticipated by management.

The Group makes claims for additional work done, which may arise either under specific circumstances provided for under the contracts, or due to variations to the contract specifications made by its customers. Where the amounts of such claims have not been formally agreed at the balance sheet date, the likely amount receivable as estimated by management, based on all of the information available at the time, is included in the contract value in determining the estimated profit or foreseeable loss on the contract.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.

Depreciation is provided using the straight-line method to write off the cost of each asset over the following estimated useful lives:

Leasehold land	Over the remaining lease terms
Leasehold buildings	25 years
Leasehold improvements	4 years
Plant and machinery	5 years
Furniture, fixtures and equipment	5 years
Motor vehicles	4 years
Tools and moulds	4 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Notes to Financial Statements

31 December 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the useful lives of the assets. The finance costs of such finance leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments are unlisted equity securities intended to be held on a long term basis. The investments are stated at cost less any provisions for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the directors on an individual investment basis.

Notes to Financial Statements

31 December 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Properties held for sale

Properties held for sale represent interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held for sale. Such properties are not depreciated and are stated at the lower of carrying cost and net realisable value. Carrying cost represents the carrying net book value, which is the amounts transferred from land and buildings in the case of properties previously held for self use, or the amounts of the underlying debts extinguished for those properties that have been exchanged for settlement of the relevant debts. Net realisable value is determined by reference to the prevailing market prices on an individual property basis. Any diminution in value from the carrying cost is charged to the profit and loss account.

The gain or loss on disposal of a property held for sale recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant property.

Construction contracts

Construction contracts of a long term nature are stated at cost, plus any attributable profits, less any foreseeable losses, and progress payments received and receivable. Cost includes all direct material and labour costs, including subcontracted costs, and overheads, including depreciation on plant and machinery used in construction projects, and capitalised interest on loans to finance specific projects.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Inventories

Inventories, comprising raw materials and sub-materials purchased for incorporation into contracts in progress, are stated at the lower of cost and net realisable value, after making due allowance for any obsolete or slow-moving items. Cost is determined on the first-in, first-out basis. Net realisable value is determined by reference to the underlying specific contracts in progress in which the inventories will ultimately be used.

Notes to Financial Statements

31 December 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, 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.

Provision for warranty expenses

Provision for warranty expenses is made based on management's estimate of the potential claims which may arise during the warranty period, such period usually lasting for one year after the completion of each contract.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Deferred tax

Deferred tax is provided, under the liability method, for significant timing differences in the recognition of revenue and expenses for tax and financial reporting purposes, except where it is considered to be probable that the tax effects of such deferrals will continue in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

The Group maintains its accounting records in Hong Kong dollars. Transactions involving foreign currencies are recorded at the applicable rates of exchange ruling at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve in the consolidated balance sheet.

Notes to Financial Statements

31 December 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the Scheme. The Scheme became effective from 1 December 2000. The Group's employer contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

Prior to the Scheme being effective, the Group operated a defined contribution provident fund for those employees who are eligible and have elected to participate in the fund. This fund operated in a similar way to the Mandatory Provident Fund retirement benefits scheme, except that when an employee left the fund prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions. Upon the implementation of the Scheme with effect from 1 December 2000, the provident fund has been frozen and no further contributions by the Group or the eligible employees have been made after that date. When eligible employees leave the Group, they will receive their entitlements pursuant to the existing rules of this fund.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of the balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

Notes to Financial Statements

31 December 2000

3. TURNOVER AND REVENUE

Turnover represents the value of contracting works performed.

Revenue of the Group is generated from the following activities:

	2000 HK\$	1999 HK\$
Turnover:		
Value of contracting works performed	<u>239,856,767</u>	<u>282,463,742</u>
Other revenue:		
Interest income	4,270,545	1,018,557
Sales of scrap materials	—	1,174,301
Others	<u>74,006</u>	<u>—</u>
	<u>4,344,551</u>	<u>2,192,858</u>
Total revenue	<u><u>244,201,318</u></u>	<u><u>284,656,600</u></u>

4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is determined after charging/(crediting):

	Group	
	2000 HK\$	1999 HK\$
Cost of contracting works:		
Cost of construction works performed	195,126,127	264,587,639
Provision for repair and maintenance	2,426,715	4,216,000
Provision for stock obsolescence	<u>150,000</u>	<u>150,000</u>
	<u><u>197,702,842</u></u>	<u><u>268,953,639</u></u>

Notes to Financial Statements

31 December 2000

4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES (continued)

	Group	
	2000 HK\$	1999 HK\$
Depreciation — owned assets	3,279,797	3,109,831
— leased assets	413,904	53,474
Less: Amounts capitalised to long term construction contracts	<u>(1,000,391)</u>	<u>(1,379,065)</u>
	<u>2,693,310</u>	<u>1,784,240</u>
Operating lease rentals on land and buildings	1,205,884	879,299
Less: Amounts capitalised to long term construction contracts	<u>(493,161)</u>	<u>(578,208)</u>
	<u>712,723</u>	<u>301,091</u>
Staff costs:		
Wages and salaries	15,282,546	20,857,295
Pension contributions	1,712,822	1,939,664
Less: Forfeited contributions	<u>(602,619)</u>	<u>(692,472)</u>
Net pension contributions*	<u>1,110,203</u>	<u>1,247,192</u>
Other operating expenses:		
Professional fees and related expenses incurred in connection with the acquisition of the controlling interest in the Company by its existing controlling shareholder and the related general offer	—	1,142,998
Severance payments	272,765	987,447
Revaluation deficit on investment property (note 10)	159,843	—
Amortisation of goodwill	458,893	—
Loss on disposal of subsidiaries	70,729	—
Provision for permanent diminution in value of a long term investment (note 14)	120,000	—
Loss on disposal of a property held for sale (note 15)	642,297	2,833,191
Provision for diminution in value of properties held for sale (note 15)	2,380,400	3,820,134
Provision for doubtful debts	1,162,935	2,805,946
Loss on disposal of fixed assets	2,552	588,584
	<u>5,270,414</u>	<u>12,178,300</u>
Auditors' remuneration	797,500	760,000
Exchange differences, net	<u>94,756</u>	<u>(216,073)</u>

* At 31 December 2000, there were no forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years (1999: Nil).

Notes to Financial Statements

31 December 2000

5. FINANCE COSTS

	Group	
	2000 HK\$	1999 HK\$
Interest on bank loans, overdrafts and facilities wholly repayable within five years	809,356	1,741,886
Less: Amounts capitalised to long term construction contracts	<u>(778,613)</u>	<u>(912,130)</u>
	30,743	829,756
Interest on a loan from a fellow subsidiary	<u>853,671</u>	<u>620,301</u>
	884,414	1,450,057
Interest payable on finance leases	<u>36,000</u>	<u>52,440</u>
	<u><u>920,414</u></u>	<u><u>1,502,497</u></u>

6. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

(a) Directors' remuneration

Details of directors' remuneration charged to the Group's profit and loss account are set out below:

	2000 HK\$	1999 HK\$
Fees:		
Executive	202,100	178,329
Non-executive	<u>360,000</u>	<u>330,323</u>
	562,100	508,652
Other emoluments (executive directors):		
Basic salaries, housing, other allowances and benefits in kind	6,284,000	4,149,829
Retirement scheme contributions	294,190	27,625
Bonus paid or payable	<u>440,000</u>	<u>—</u>
	<u><u>7,580,290</u></u>	<u><u>4,686,106</u></u>

Notes to Financial Statements

31 December 2000

6. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION (continued)

(a) Directors' remuneration (continued)

The number of directors whose remuneration fell within the bands set out below is as follows:

	No. of directors	
	2000	1999
Nil — HK\$1,000,000	7	11
HK\$1,000,001 — HK\$1,500,000	—	2
HK\$1,500,001 — HK\$2,000,000	1	—
HK\$2,500,001 — HK\$3,000,000	2	—
	<u>10</u>	<u>13</u>

The remuneration of the independent non-executive directors for the year amounted to HK\$240,000 (1999: HK\$253,548).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

No value is included in directors' remuneration in respect of share options granted during the year because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted. Details of the options granted to the directors during the year are set out in the section "Directors' interests in share capital" in the Report of the Directors.

The directors' remuneration have not been included in the staff costs disclosed in note 4 above.

Notes to Financial Statements

31 December 2000

6. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION (continued)

(b) Five highest paid employees' emoluments

The five highest paid individuals included three (1999: two) directors, details of whose remuneration are set out above. The remuneration of the other two (1999: three) non-director highest paid individuals is analysed and fell within the bands set out below.

	2000 HK\$'000	1999 HK\$'000
Basic salaries, housing, other allowances and benefits in kind	2,656,500	3,944,767
Retirement scheme contributions	115,762	120,200
Bonuses paid or payable	200,000	—
	<u>2,972,262</u>	<u>4,064,967</u>

	No. of employees	
	2000	1999
HK\$1,000,000 — HK\$1,500,000	1	2
HK\$1,500,001 — HK\$2,000,000	1	1
	<u>2</u>	<u>3</u>

Details of the share options granted by the Company to the two non-director highest paid individuals mentioned above during the year are as follows:

Date of grant	Number of shares in respect of options granted 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\$
28 January 2000	1,512,000	1,512,000	28-7-2000 to 27-7-2005	0.17

No value is included in the remuneration of the non-director highest paid employees in respect of share options granted by the Company during the year because, in the absence of a readily available market value for the options on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the options granted.

Notes to Financial Statements

31 December 2000

7. TAX

No Hong Kong profits tax has been provided for the year as the Group had available tax losses brought forward to offset the assessable profits arising in Hong Kong for the year. No Hong Kong profits tax was provided in the prior year as the Group did not generate any assessable profits in Hong Kong during that year. Tax on the profits of subsidiaries operating elsewhere is calculated at the rates applicable in the respective countries in which they operate, based on existing legislation, interpretations and practices in respect thereof.

The tax charge for the year is represented by:

	Group	
	2000 HK\$	1999 HK\$
Group:		
Hong Kong	—	—
Elsewhere	171,324	1,200,821
Tax refund in respect of prior year	—	(26,253)
	<u>171,324</u>	<u>1,174,568</u>
Share of tax attributable to an associate	<u>259,927</u>	—
Tax charge for the year	<u><u>431,251</u></u>	<u><u>1,174,568</u></u>

There was no provision for deferred tax in respect of the year (1999: Nil).

The principal components of the Group's unprovided deferred tax asset arising from cumulative timing differences at the balance sheet date, calculated at 16% (1999: 16%), are as follows:

	Group	
	2000 HK\$	1999 HK\$
Accelerated depreciation allowances	54,888	130,389
Revenue deferred for tax purposes	8,797,564	10,470,365
Tax losses carried forward	(29,006,093)	(28,697,897)
General provision for bad debts	—	(214,400)
Others	(310,740)	(1,952,382)
	<u><u>(20,464,381)</u></u>	<u><u>(20,263,925)</u></u>

Notes to Financial Statements

31 December 2000

8. NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders dealt with in the financial statements of the Company is HK\$516,031 (1999: net loss of HK\$28,434,481).

9. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit attributable to shareholders of HK\$1,438,931 (1999: net loss of HK\$39,769,286) and the weighted average of 1,316,946,248 shares (1999: 958,845,763 shares) in issue during the year, adjusted to reflect the rights issue during the year. The weighted average number of shares in issue during 1999 has also been adjusted to reflect the rights issue during the year and accordingly the 1999 basic loss per share has been adjusted.

No diluted earnings per share for the year is presented as the exercise price of the outstanding share options was higher than the average market price of the shares of the Company during the year. No diluted loss per share for 1999 is presented as the outstanding share options, if fully exercised, would not have had a dilutive effect on the basic loss per share.

10. INVESTMENT PROPERTY

	Group and Company 2000 HK\$
Addition during the year	23,159,843
Deficit on revaluation	(159,843)
	<hr/>
At balance sheet date	<u>23,000,000</u>

The Group's investment property is situated in Hong Kong and is held under a long term lease.

The Group's investment property was revalued by B. I. Appraisals Limited, independent professionally qualified valuers, at HK\$23,000,000 on an open market, existing use basis as at 31 December 2000.

The deficit arising from the revaluation of HK\$159,843 was charged to the Group's profit and loss account for the year (note 4).

Notes to Financial Statements

31 December 2000

10. INVESTMENT PROPERTY (continued)

Details of the investment property are as follows:

Address	Lot number/ registration number	Percentage of interest attributable to the Company Direct	Gross floor area
Office B on 15th Floor, United Centre, No. 95 Queensway, Central, Hong Kong	8469	100%	3,950 sq.ft.

11. FIXED ASSETS

Group

	Leasehold land and buildings HK\$	Leasehold improve- ments HK\$	Plant and machinery HK\$	Furniture, fixtures and equipment HK\$	Motor vehicles HK\$	Tools and moulds HK\$	Total HK\$
Cost:							
At beginning of year	17,565,925	9,802,408	4,977,835	12,806,930	1,732,102	1,368,134	48,253,334
Additions	—	364,410	178,895	707,306	2,435,614	—	3,686,225
Disposals	—	(20,666)	—	(1,694,905)	(209,745)	—	(1,925,316)
At 31 December 2000	17,565,925	10,146,152	5,156,730	11,819,331	3,957,971	1,368,134	50,014,243
Accumulated depreciation:							
At beginning of year	4,361,136	9,178,323	3,621,655	9,863,426	1,380,100	1,336,220	29,740,860
Provided during the year	620,975	431,791	824,637	1,069,071	742,127	5,100	3,693,701
Disposals	—	(10,328)	—	(668,993)	(80,402)	—	(759,723)
At 31 December 2000	4,982,111	9,599,786	4,446,292	10,263,504	2,041,825	1,341,320	32,674,838
Net book value:							
At 31 December 2000	<u>12,583,814</u>	<u>546,366</u>	<u>710,438</u>	<u>1,555,827</u>	<u>1,916,146</u>	<u>26,814</u>	<u>17,339,405</u>
At 31 December 1999	<u>13,204,789</u>	<u>624,085</u>	<u>1,356,180</u>	<u>2,943,504</u>	<u>352,002</u>	<u>31,914</u>	<u>18,512,474</u>

Notes to Financial Statements

31 December 2000

11. FIXED ASSETS (continued)

Company

	Furniture, fixtures and equipment <i>HK\$</i>	Motor vehicles <i>HK\$</i>	Total <i>HK\$</i>
Cost:			
At beginning of year	145,493	—	145,493
Additions	72,101	780,000	852,101
Disposals	(14,060)	—	(14,060)
	<u>203,534</u>	<u>780,000</u>	<u>983,534</u>
At 31 December 2000	203,534	780,000	983,534
Accumulated depreciation:			
At beginning of year	131,499	—	131,499
Provided during the year	17,684	195,000	212,684
Disposals	(5,390)	—	(5,390)
	<u>143,793</u>	<u>195,000</u>	<u>338,793</u>
At 31 December 2000	143,793	195,000	338,793
Net book value:			
At 31 December 2000	<u>59,741</u>	<u>585,000</u>	<u>644,741</u>
At 31 December 1999	<u>13,994</u>	<u>—</u>	<u>13,994</u>

An analysis of the Group's leasehold land and buildings is as follows:

At cost, located in:	<i>HK\$</i>
Hong Kong, held under a long term lease	6,000,000
The PRC other than Hong Kong, held under a medium term lease	11,565,925
	<u>17,565,925</u>

The leasehold land and buildings in Hong Kong were pledged to a bank to secure general banking facilities granted to the Group (see note 20).

The net book value of the fixed assets of the Group held under finance leases included in the total amount of the Group's fixed assets at 31 December 2000 amounted to HK\$1,241,710 (1999: Nil). The depreciation charge during the year in respect of such assets amounted to HK\$413,904 (1999: HK\$53,474).

Notes to Financial Statements

31 December 2000

12. INTERESTS IN SUBSIDIARIES

	Company	
	2000 HK\$	1999 HK\$
Unlisted shares, at cost	43,652,024	43,652,016
Due from subsidiaries	340,483,909	290,576,004
Due to subsidiaries	(3,745,155)	(3,757,695)
	380,390,778	330,470,325
Less: Provisions for permanent diminutions in values	(244,904,112)	(253,810,557)
	135,486,666	76,659,768

Except for the loan to a wholly-owned subsidiary amounting to HK\$30,000,000 which bears interest at 5% per annum and is repayable on demand, the balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries at the balance sheet date are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid-up ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
FEA Holdings Limited	Cayman Islands	US\$6,000	100%	—	Investment holding
Far East Aluminium (Asia) Limited	British Virgin Islands	US\$100	—	100%	Investment holding
Far East Aluminium (B.V.I.) Limited	British Virgin Islands	US\$6,000	—	100%	Investment holding

Notes to Financial Statements

31 December 2000

12. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid-up ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
FEA Engineering Limited	British Virgin Islands	US\$100	—	100%	Investment holding
FEA Investments Limited	British Virgin Islands	US\$1	—	100%	Investment holding
Feda International Limited	British Virgin Islands	US\$1	—	100%	Investment holding
Polyson Investment Limited	British Virgin Islands	US\$1	100%	—	Investment holding
Rich Accord Limited	British Virgin Islands	US\$1	—	100%	Investment holding
Strong Power International Limited	Hong Kong	HK\$2	—	100%	Investment holding
Better View Investment Limited	Hong Kong/ PRC	HK\$2	—	100%	Property holding
Far East Aluminium Works (Guangzhou) Company Limited	Hong Kong/ PRC	HK\$2	—	100%	Property holding
FEA Technology Limited	Hong Kong	HK\$2	—	100%	Provision of transportation services

Notes to Financial Statements

31 December 2000

12. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid-up ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Willbert Limited	British Virgin Islands/ Hong Kong	US\$1	—	100%	Property holding
Loyal Truth Investment Limited	Hong Kong/ PRC	HK\$2	—	100%	Property holding
Total Real Investment Limited	Hong Kong/ PRC	HK\$2	—	100%	Property holding
Far East Aluminium Works Company Limited	Hong Kong	HK\$200	—	100%	Design, manufacture and installation of curtain wall, aluminium windows and other related products
Heng Fai International Ltd.	British Virgin Islands/PRC	HK\$1,000	—	100%	Manufacture of curtain wall and aluminium windows
Netfortune Limited	Hong Kong/ PRC	HK\$500,000	—	100%	Installation of curtain wall and aluminium windows

Notes to Financial Statements

31 December 2000

12. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid-up ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Seniford Limited	Hong Kong	HK\$2	—	100%	Design, manufacture and installation of curtain wall, aluminium windows and other related products
China Aero International Group Limited	Hong Kong	HK\$2	—	100%	Dormant
Galmoey Properties Limited	British Virgin Islands	US\$1	—	100%	Dormant

13. INTEREST IN AN ASSOCIATE

	Group	
	2000 HK\$	1999 HK\$
Share of net assets	29,845,922	—
Goodwill on acquisition of an associate, less amortisation	36,252,530	—
	66,098,452	—
Due from an associate	1,616,785	—
	67,715,237	—

The balance with the associate is unsecured, interest-free and has no fixed terms of repayment.

Notes to Financial Statements

31 December 2000

13. INTEREST IN AN ASSOCIATE (continued)

Particulars of the associate are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of equity interest attributable to the Group 2000	Principal activities
Hangzhou Sealand Electric Power Company Limited ("Hangzhou Sealand")	Corporate	PRC	31%	Generation and sale of electric and water steam power

The 31% equity interest in Hangzhou Sealand was acquired from Speed Profit Enterprises Limited ("Speed Profit"), a fellow subsidiary of the Company, during the year. Further details of the acquisition are included in note 28 to the financial statements. Note 29 to the financial statements includes details of the increase in the Group's investment in this associate subsequent to the balance sheet date.

Speed Profit had unconditionally and irrevocably warranted that the audited profit after tax but before extraordinary items of Hangzhou Sealand for the year ended 31 December 2000 prepared according to the PRC Accounting Standards will not be less than RMB20 million. The audited profit of Hangzhou Sealand as defined above, according to the financial statements audited by the local PRC auditor of Hangzhou Sealand, was more than RMB20 million for the year ended 31 December 2000.

Notes to Financial Statements

31 December 2000

14. LONG TERM INVESTMENTS

	Group	
	2000	1999
	HK\$	HK\$
Unlisted, at cost	434,620	334,620
Advances to investee companies	36,810,380	36,790,380
	<u>37,245,000</u>	<u>37,125,000</u>
Less: Provision for impairment in value	<u>(37,245,000)</u>	<u>(37,125,000)</u>
	<u>—</u>	<u>—</u>

Unlisted investments represent the cost of the Group's 33% and 20% equity investments in Fortune Leader Limited ("Fortune Leader") (HK\$334,620) and FEA Design & Engineering N.V. ("FEA Design") (HK\$100,000), respectively. The advances represent loans made to these companies. FEA Design was previously included as a subsidiary of the Group. In December 2000, the Group reduced its investment in FEA Design from 75% to 20% through the disposal of a 55% equity interest to a director of FEA Design at a nominal cash consideration of BEF 1 in view of FEA Design's financial position. FEA Design has since become a 20% investment of the Group.

In the opinion of the directors, the Group ceased to be in a position to exercise significant control over FEA Design upon the reduction in shareholding and therefore the Group's remaining 20% interest in FEA Design is treated as a long term investment. The results of FEA Design have been consolidated up to the date of disposal in December 2000. The Group's cost of investment in FEA Design was HK\$100,000, which represented the Group's original cost of investment. Full provision has been made against this investment cost and against the Group's additional HK\$20,000 advance to FEA Design (note 4).

The Group's interest in Fortune Leader has also been classified under long term investments as, in the opinion of the directors, the Group does not exercise significant influence over the operations of this company, and has no obligation to continue financing its operations. Full provision was made against the investment cost and the advance to Fortune Leader in prior years.

Notes to Financial Statements

31 December 2000

15. PROPERTIES HELD FOR SALE

	Group	
	2000	1999
	HK\$	HK\$
Balance at beginning of year	43,912,577	52,690,328
Additions	—	25,338,134
Disposals	(16,358,408)	(34,115,885)
	<u>27,554,169</u>	<u>43,912,577</u>
Less: Provision for diminution in value	(4,341,369)	(10,819,377)
	<u>23,212,800</u>	<u>33,093,200</u>

During the year, a property with a carrying value of HK\$7,500,000 (1999: HK\$29,000,000) was disposed of to a non-related party at a consideration of HK\$6,880,000 (1999: HK\$26,500,000), resulting in a loss on disposal of HK\$642,297 (1999: HK\$2,833,191), including legal fees and related expenses of HK\$22,297 (1999: HK\$333,191) (see note 4). The sale of this property was completed subsequent to the balance sheet date (note 20).

The properties are stated at the lower of carrying cost or net realisable value which is taken to be their market value as at balance sheet date. A revaluation of the properties held for sale, on an individual property basis, was performed on an open market value basis as at 31 December 2000 by Vigers Hong Kong Ltd., a firm of independent registered professional valuers. As a result of the revaluation, an additional provision for diminution in value of properties of HK\$2,380,400 has been included in the Group's profit and loss account to write down the carrying amount of certain properties to their net realisable value (note 4). Surpluses of valuations over carrying costs have not been recognised.

One of the properties held for sale is pledged to secure the general banking facilities granted to the Group as detailed in note 20.

The properties held for sale as at 31 December 2000 and 1999 are carried at their net realisable value.

Notes to Financial Statements

31 December 2000

15. PROPERTIES HELD FOR SALE (continued)

Details of the properties held for sale are as follows:

Address	Lot number/ registration number	Percentage of interest attributable to the Company		Gross floor area	Existing use
		Direct	Indirect		
Unit 1907 on level 19, West Tower, Golden Magnolia Plaza, No. 1 Da Pu Road, Lu Wan District, Shanghai, the PRC	001143	—	100%	149.53 sq.m.	Vacant
Level 8 of South Tower, Shanghai China Merchants Plaza, No. 333 Cheng Du North Road, Jian An District, Shanghai, the PRC	001084	—	100%	1,004.68 sq.m.	Vacant
Level 13 of South Tower, Shanghai China Merchants Plaza, No. 333 Cheng Du North Road, Jian An District, Shanghai, the PRC	001084	—	100%	1,004.68 sq.m.	Vacant

16. INVENTORIES

	Group	
	2000 HK\$	1999 HK\$
Raw materials	544,637	826,566
Sub-materials	1,829,636	2,290,070
	2,374,273	3,116,636
Less: Provision for obsolescence	(1,497,727)	(1,347,727)
	876,546	1,768,909

There were no inventories carried at net realisable value at the balance sheet date (1999: Nil).

Notes to Financial Statements

31 December 2000

17. AMOUNT DUE FROM/(TO) CONTRACT CUSTOMERS

	Group	
	2000 HK\$	1999 HK\$
Costs incurred to date on long term construction contracts plus attributable profits, less foreseeable losses	1,758,574,101	1,713,765,886
Less: Progress payments received and receivable	<u>(1,830,164,228)</u>	<u>(1,749,728,737)</u>
	<u>(71,590,127)</u>	<u>(35,962,851)</u>
Amount due from contract customers	33,670,525	38,985,858
Amount due to contract customers	<u>(105,260,652)</u>	<u>(74,948,709)</u>
	<u>(71,590,127)</u>	<u>(35,962,851)</u>

At 31 December 1999, included in accounts and bills payable under current liabilities, was an advance payment in the amount of HK\$14,221,204 received from a customer for contract works.

18. ACCOUNTS AND RETENTIONS RECEIVABLE

	Group	
	2000 HK\$	1999 HK\$
Accounts receivable	72,432,765	46,719,647
Retentions receivable	<u>77,599,224</u>	<u>81,864,805</u>
	150,031,989	128,584,452
Less: Provision for doubtful debts	<u>(11,392,115)</u>	<u>(10,229,180)</u>
	<u>138,639,874</u>	<u>118,355,272</u>

Notes to Financial Statements

31 December 2000

18. ACCOUNTS AND RETENTIONS RECEIVABLE (continued)

The ageing analysis of accounts receivable is as follows:

	Group	
	2000	1999
	HK\$	HK\$
Current	65,654,180	33,263,249
31-60 days	929,098	1,745,851
61-90 days	925,000	4,152,200
Over 90 days	4,924,487	7,558,347
	<u>72,432,765</u>	<u>46,719,647</u>
Less: Provision for doubtful debts	<u>(3,525,543)</u>	<u>(4,578,092)</u>
	<u><u>68,907,222</u></u>	<u><u>42,141,555</u></u>

Retentions receivable represent certified contract payments in respect of works performed, for which payments are withheld by customers for retention purposes, and are released to the Group pursuant to the provisions of the relevant contracts. No ageing analysis of retentions receivable is presented as the amount retained is provided on each payment up to a maximum amount calculated at a prescribed percentage of the contract sum.

The Group's accounts receivable mainly represent progress payments receivable from facade building contracting works performed by Far East Aluminium Works Company Limited ("Far East Aluminium"), the Company's principal operating subsidiary, which is generally engaged as a nominated sub-contractor in respect of property development projects in Hong Kong. Far East Aluminium adopts credit policies consistent with the trade practices prevailing in the Hong Kong building industry. Far East Aluminium will recognise its accounts receivable when the value of the sub-contract works is certified by the architect. Pursuant to the trade practices, the main contractor from time to time makes applications for payment certificates which include the certified value of the nominated sub-contract works. Normally within fourteen days of the receipt by the main contractor of the payment from the employer against the payment certificate from the architect, the main contractor shall pay to the sub-contractors the certified value of their sub-contract works, less retention attributable to the sub-contract works as explained above.

Notes to Financial Statements

31 December 2000

19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Cash and bank balances	12,321,287	7,789,030	537,814	13,035
Short term deposits	114,839,450	16,910,749	72,020,464	—
	<u>127,160,737</u>	<u>24,699,779</u>	<u>72,558,278</u>	<u>13,035</u>

20. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Bank overdrafts, secured	2,609,743	1,187,209	—	—
Import loans, secured	21,131,565	11,155,851	—	—
Other loan, unsecured	—	10,000,000	—	10,000,000
	<u>23,741,308</u>	<u>22,343,060</u>	<u>—</u>	<u>10,000,000</u>

In the prior year, the other loan was advanced by CATIC International Finance Limited (“CATIC International Finance”), a fellow subsidiary. The loan was unsecured, bore interest at prime +1% per annum and was fully repaid in the current year. The bank loans and overdrafts are repayable within one year.

The general banking facilities granted to the Group in respect of the bank overdrafts, bank guarantees and trade financing as at 31 December 2000 were secured by:

- (i) pledges of all the Group’s leasehold land and buildings situated in Hong Kong and a property held for sale situated in the PRC (notes 11 and 15);
- (ii) a pledge of certain of the Group’s short term deposits amounting to HK\$27,651,552 (1999: HK\$19,020,960); and
- (iii) corporate guarantees amounting to an aggregate of HK\$166,000,000 (1999: HK\$143,000,000) executed by the Company (note 27).

Certain of the facilities were also secured by a property held for sale situated in Hong Kong which was sold prior to 31 December 2000 pursuant to a sale and purchase agreement which was completed subsequent to 31 December 2000 (note 15). According to the arrangement with the bank, subsequent to the year end date but prior to the completion of the sale of this property on 19 January 2001, the Group provided a time deposit of HK\$7,500,000 as a security for the facilities in place of the property.

Notes to Financial Statements

31 December 2000

21. ACCOUNTS AND BILLS PAYABLE

The ageing analysis of accounts and bills payable is as follows:

	Group	
	2000	1999
	HK\$	HK\$
Current	14,493,083	8,716,286
31-60 days	2,991,440	1,371,194
61-90 days	2,729,816	1,266,054
Over 90 days	2,068,317	9,121,280
	<u>22,282,656</u>	<u>20,474,814</u>

22. FINANCE LEASE PAYABLES

Details of obligations under finance leases at the balance sheet date are as follows:

	Group	
	2000	1999
	HK\$	HK\$
Amount payable:		
Within one year	496,008	—
In the second to fifth years, inclusive	1,302,021	—
	<u>1,798,029</u>	<u>—</u>
Total minimum lease payments	1,798,029	—
Future finance charges	(348,032)	—
	<u>1,449,997</u>	<u>—</u>
Total net lease payables	1,449,997	—
Less: Portion classified as current liabilities	(400,000)	—
	<u>1,049,997</u>	<u>—</u>
Long term portion of lease payables	<u>1,049,997</u>	<u>—</u>

Notes to Financial Statements

31 December 2000

23. SHARE CAPITAL

Shares	Company	
	2000 HK\$	1999 HK\$
Authorised: 6,000,000,000 (1999: 600,000,000) shares of HK\$0.10 each	<u>600,000,000</u>	<u>60,000,000</u>
Issued and fully paid: 2,345,767,000 (1999: 367,350,000) shares of HK\$0.10 each	<u>234,576,700</u>	<u>36,735,000</u>

During the year, the following movements in share capital were recorded:

- (a) Pursuant to an ordinary resolution passed on 28 August 2000, the authorised share capital of the Company was increased from HK\$60,000,000 to HK\$600,000,000 by the creation of 5,400,000,000 additional shares of HK\$0.10 each, ranking *pari passu* in all respects with the then existing share capital of the Company.
- (b) A rights issue of five rights shares for every one existing share held by members on the register of members on 28 August 2000 was made at an issue price of HK\$0.10 per rights share, resulting in the issue of 1,836,750,000 new shares of HK\$0.10 each for a total cash proceeds, before expenses, of HK\$183,675,000. The net proceeds of the rights issue amounted to HK\$175 million out of which approximately HK\$65 million was utilized to finance the acquisition of Hangzhou Sealand, approximately HK\$30 million for the repayment of the Group's loans and borrowings and the remaining balance to finance the Group's business in facade contract works and as general working capital of the Group. Subsequent to the year end date, a cash payment of approximately HK\$15 million as partial satisfaction of the total consideration for the acquisition of 39% equity interest in Hangzhou Sealand as set out in note 29(a) was funded by the Group's general working capital.
- (c) On 21 December 2000, 141,667,000 new shares of HK\$0.10 each were issued to Tacko, the Company's controlling shareholder, as instructed by CATIC (H.K.) Limited ("CATIC (H.K.)") at an issue price of HK\$0.12 per share. The shares issued represented part of the consideration for the investment property acquired by the Company from CATIC (H.K.), the intermediate holding company of the Company, during the year (note 28).

Notes to Financial Statements

31 December 2000

23. SHARE CAPITAL (continued)

A summary of the transactions during the year with reference to the above movements in the Company's share capital is as follows:

	Carrying amount	Shares issued
	2000	2000
	HK\$	
At beginning of year	36,735,000	367,350,000
Rights issue (b)	183,675,000	1,836,750,000
Shares issued for acquisition of an investment property (c)	14,166,700	141,667,000
	<u>234,576,700</u>	<u>2,345,767,000</u>
At end of year	<u>234,576,700</u>	<u>2,345,767,000</u>

There were no changes to the carrying amount or the number of shares in issue during the prior year.

Share options

Pursuant to a share option scheme approved by the shareholders at the special general meeting on 20 November 1991, 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. The subscription price is determined by the board and shall be the higher of the nominal value of a share and a price being not less than 80% of the average of the closing prices of the shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the offer of the options. The maximum number of shares in respect of which options may be granted under the scheme may not exceed 10% of the issued share capital of the Company from time to time, excluding those shares which have been issued under the scheme.

As at 1 January 2000, an outstanding option was held by a director of a subsidiary of the Company, who was entitled to subscribe for 7,200,000 shares in the Company at HK\$2.10 per share at any time up to 9 December 2002. The number of shares under this share option and the exercise price were adjusted to 43,200,000 and HK\$0.43, respectively, upon the completion of the rights issue. Subsequent to 31 December 2000, this share option lapsed pursuant to the rules of the share option scheme.

Notes to Financial Statements

31 December 2000

23. SHARE CAPITAL (continued)

Share options (continued)

During the year, pursuant to a board resolution on 28 January 2000, share options were granted to executive directors and certain employees to subscribe for 5,860,000 and 2,390,000 shares, respectively. These options were exercisable at HK\$0.52 per share at any time during the period from 28 July 2000 to 27 July 2005. The number of shares under these share options and their exercise price were adjusted to 49,500,000 and HK\$0.17, respectively, upon the completion of the rights issue. Share options in respect of 7,008,000 shares lapsed before the balance sheet date pursuant to the rules of the share option scheme.

No options were exercised during the year. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 85,692,000 additional shares of HK\$0.10 each for a total cash proceeds, before expenses, of HK\$25,799,640.

A summary of the movements in the above share options during the year is as follows:

	Number of shares in respect of options granted
Outstanding at 1 January 2000	7,200,000
Granted during the year	8,250,000
Adjustment on rights issue	77,250,000
Lapsed during the year	<u>(7,008,000)</u>
Outstanding at 31 December 2000	<u><u>85,692,000</u></u>

Notes to Financial Statements

31 December 2000

24. RESERVES

Group

	Share premium account HK\$	Capital reserve on consolidation HK\$	Reserve fund * HK\$	Exchange fluctuation reserve HK\$	Accumulated losses HK\$	Total HK\$
At 1 January 1999	219,923,268	162,134	—	69,170	(149,539,200)	70,615,372
Exchange realignment	—	—	—	(105,762)	—	(105,762)
Net loss for the year	—	—	—	—	(39,769,286)	(39,769,286)
At 31 December 1999 and beginning of year	219,923,268	162,134	—	(36,592)	(189,308,486)	30,740,324
Issue of shares	2,833,340	—	—	—	—	2,833,340
Expenses of rights issue	(5,553,449)	—	—	—	—	(5,553,449)
Exchange realignment	—	—	—	36,592	—	36,592
Net profit for the year	—	—	—	—	1,438,931	1,438,931
Transfer to reserve fund	—	—	706,937	—	(706,937)	—
	<u>217,203,159</u>	<u>162,134</u>	<u>706,937</u>	<u>—</u>	<u>(188,576,492)</u>	<u>29,495,738</u>
Reserves retained by:						
Company and subsidiaries	217,203,159	162,134	—	—	(189,282,120)	28,083,173
Associate	—	—	706,937	—	705,628	1,412,565
31 December 2000	<u>217,203,159</u>	<u>162,134</u>	<u>706,937</u>	<u>—</u>	<u>(188,576,492)</u>	<u>29,495,738</u>
Company and subsidiaries	219,923,268	162,134	—	(36,592)	(189,308,486)	30,740,324
Associate	—	—	—	—	—	—
31 December 1999	<u>219,923,268</u>	<u>162,134</u>	<u>—</u>	<u>(36,592)</u>	<u>(189,308,486)</u>	<u>30,740,324</u>

* The balance represents the Group's share of the statutory reserve fund of its associate operating as a Foreign Investment Enterprise in the PRC. The reserve fund is non-distributable in nature.

Notes to Financial Statements

31 December 2000

24. RESERVES (continued)

Company	Share premium account <i>HK\$</i>	Contributed surplus <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
At 1 January 1999	219,923,268	15,652,000	(177,259,715)	58,315,553
Net loss for the year	—	—	(28,434,481)	(28,434,481)
At 31 December 1999 and beginning of year	219,923,268	15,652,000	(205,694,196)	29,881,072
Issue of shares	2,833,340	—	—	2,833,340
Expenses of rights issue	(5,553,449)	—	—	(5,553,449)
Net profit for the year	—	—	516,031	516,031
At 31 December 2000	<u>217,203,159</u>	<u>15,652,000</u>	<u>(205,178,165)</u>	<u>27,676,994</u>

The contributed surplus of the Company represents the difference between the consolidated net asset value of Far East Aluminium (B.V.I.) Limited on 20 November 1991 when its entire issued share capital was acquired by the Company pursuant to a group reorganisation, and the nominal amount of the Company's shares issued in consideration for such acquisition. Under the Companies Act of 1981 of Bermuda (as amended), the contributed surplus of the Company is distributable to shareholders under certain circumstances.

Notes to Financial Statements

31 December 2000

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) from operating activities to net cash inflow from operating activities

	2000 HK\$	1999 HK\$
Profit/(loss) from operating activities	1,118,104	(37,092,221)
Interest income	(4,270,545)	(1,018,557)
Revaluation deficit on investment property	159,843	—
Loss on disposal of subsidiaries	70,729	—
Loss on disposal of fixed assets	2,552	588,584
Amortisation of goodwill	458,893	—
Provision for permanent diminution in value of a long term investment	120,000	—
Loss on disposal of a property held for sale	642,297	2,833,191
Provision for diminution in value of properties held for sale	2,380,400	3,820,134
Depreciation	2,693,310	1,784,240
Decrease in rental and utility deposits	76,841	335,737
Decrease in inventories	892,363	541,302
Movement in amount due from/to contract customers	37,406,280	47,555,220
Increase in accounts and retention receivable	(20,284,602)	(10,250,608)
Increase in prepayments, deposits and other receivables	(2,738,315)	(1,361,244)
Increase in amount advanced to investee companies	(20,000)	—
Increase/(decrease) in accounts and bills payable	1,807,842	(24,637,118)
Increase/(decrease) in other payables and accrued liabilities	(18,244,470)	27,027,078
	<u>2,271,522</u>	<u>10,125,738</u>
Net cash inflow from operating activities	<u>2,271,522</u>	<u>10,125,738</u>

Notes to Financial Statements

31 December 2000

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$	Bank loan HK\$	Loan advanced from a fellow subsidiary HK\$	Finance lease payables HK\$
Balance at 1 January 1999	256,658,268	12,410,000	—	391,573
Net cash inflow/(outflow) from financing	—	(12,410,000)	10,000,000	(391,573)
Balance at 31 December 1999 and 1 January 2000	256,658,268	—	10,000,000	—
Inception of finance lease contracts	—	—	—	1,600,000
Shares issued for acquisition of an investment property	17,000,040	—	—	—
Net cash inflow/(outflow) from financing	178,121,551	—	(10,000,000)	(150,003)
Balance at 31 December 2000	<u>451,779,859</u>	<u>—</u>	<u>—</u>	<u>1,449,997</u>

(c) Disposal of subsidiaries

	2000 HK\$	1999 HK\$
Net assets disposed of:		
Fixed assets	537,420	—
Cash and bank balances	129,609	—
Prepayments and other receivables	91,854	—
Accruals and other payables	(588,154)	—
	<u>170,729</u>	<u>—</u>
Loss on disposal of subsidiaries	(70,729)	—
	<u>100,000</u>	<u>—</u>
Satisfied by:		
Remaining shareholding classified as long term investment	100,000	—
	<u>100,000</u>	<u>—</u>

Notes to Financial Statements

31 December 2000

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Disposal of subsidiaries (continued)

One of the subsidiaries disposed of during the year became a long term investment of the Group (note 14). The amount of HK\$100,000 represents the Group's remaining cost of investment in 20% of the issued capital of this former subsidiary which has been fully provided for in the current year (notes 4 and 14).

There was an amount due from FEA Design of HK\$1,294,461 which was written off upon disposal of the Group's 55% interest in FEA Design. No minority interest was reflected in the above calculation as the share of loss in FEA Design attributable to the minority shareholder exceeded his capital contribution.

Analysis of the net outflow of cash and cash equivalents in respect of the disposal of the subsidiaries:

	2000 HK\$	1999 HK\$
Cash consideration	—	—
Cash and bank balances disposed of	<u>(129,609)</u>	<u>—</u>
Net cash outflow of cash and cash equivalents in respect of the disposal of the subsidiaries	<u><u>(129,609)</u></u>	<u><u>—</u></u>

The subsidiaries disposed of during the year had no significant impact on the Group's cash flows, turnover or consolidated results for the year.

(d) Major non-cash transactions

During the year, the Company entered into a sale and purchase agreement with its intermediate holding company, CATIC (H.K.), to purchase from CATIC (H.K.) an investment property at a consideration of HK\$22,000,000. The consideration was satisfied by a cash payment of HK\$4,999,960 together with the issue and allotment of 141,667,000 new shares in the Company at an issue price of HK\$0.12 per share.

During the year, the Group capitalised depreciation charges amounting to HK\$1,000,391 (1999: HK\$1,379,065) and interest expense of HK\$778,613 (1999: HK\$912,130) in long term construction contracts.

During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$1,600,000.

In the prior year, the Group accepted two properties from a customer as settlement of accounts receivable of HK\$25,338,134. The two properties are included in properties held for sale.

Notes to Financial Statements

31 December 2000

26. COMMITMENTS

	Group		Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Annual commitments under non-cancellable operating leases for land and buildings expiring:				
Within one year	357,692	101,827	357,692	—
In the second to fifth years, inclusive	276,000	577,800	—	301,800
	<u>633,692</u>	<u>679,627</u>	<u>357,692</u>	<u>301,800</u>

27. CONTINGENT LIABILITIES

Contingent liabilities of the Group and the Company at the balance sheet date were as follows:

	Group		Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Corporate guarantees for banking facilities granted to a subsidiary	—	—	166,000,000	143,000,000
Guarantees under performance bonds	59,472,000	82,428,000	—	—

Apart from the above, the Group also has contingent liabilities in respect of two indemnities issued during the year by a subsidiary of the Company in favour of a customer and a main contractor, respectively, to indemnify them against losses incurred by reason of default in the performance of a contract undertaken by another subsidiary of the Company.

Notes to Financial Statements

31 December 2000

27. CONTINGENT LIABILITIES (continued)

At the balance sheet date, banking facilities utilised by the Group is analysed as follows:

	2000 HK\$	1999 HK\$
Bank borrowings	23,741,308	12,343,060
Guarantee under performance bonds	27,749,000	29,322,000
	<u>51,490,308</u>	<u>41,665,060</u>

28. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances described elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2000 HK\$	1999 HK\$
Interest expense paid to a fellow subsidiary	(i)	853,671	620,301
Rental expenses paid to a fellow subsidiary	(ii)	315,756	50,300
Purchase of a motor vehicle from a fellow subsidiary	(iii)	780,000	—

Notes:

- (i) The Company and 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 date of drawdown 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.
- (ii) 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 certain premises 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 other premises 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.
- (iii) On 7 September 2000, the Company purchased a motor vehicle licensed to operate in both Hong Kong and the Province of Guangdong, the PRC from CATIC International Finance for a cash consideration of HK\$780,000 as mutually agreed between the parties.

Notes to Financial Statements

31 December 2000

28. RELATED PARTY TRANSACTIONS *(continued)*

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, to acquire from Speed Profit a 31% equity interest in its subsidiary, 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. A further interest in Hangzhou Sealand was acquired from Speed Profit subsequent to the balance sheet date, as detailed in note 29(a) to the financial statements.

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.) an investment 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 investment property are disclosed in the circular of the Company dated 1 December 2000 and are set out in note 10 to the financial statements.

29. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following significant events occurred:

- (a) 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.

Notes to Financial Statements

31 December 2000

29. POST BALANCE SHEET EVENTS (continued)

- (b) As a result of the inability of a property developer in Shanghai to settle the outstanding accounts and retention receivable of HK\$5,101,142 due to the Group in respect of contract works for a commercial development project in the PRC, the Group entered into an arrangement on 12 December 2000 with the property developer to settle the amount in the following manner:
- (i) the Group to accept two properties of the relevant development project in the amount of approximately RMB3,289,660;
 - (ii) the property developer to settle a trade payable in the amount of RMB1,123,549 on behalf of the Group; and
 - (iii) the Group to receive cash settlement by two instalments in the amounts of RMB507,465 and RMB507,464.

The first cash instalment of RMB507,465 was received prior to 31 December 2000 and the second cash instalment of RMB507,464 was received subsequent to 31 December 2000. As at the date of this report, the applications for the real property ownership certificates in respect of the two properties referred to above are in progress.

- (c) On 12 March 2001, the Group entered into an acquisition agreement with Imaster Management Limited (the "Vendor"), an independent third party, to acquire a 23.5% equity interest in Pimpernel Resources Limited ("Pimpernel") at a total consideration of HK\$26,000,000. The consideration will be satisfied by an issue and allotment of 200,000,000 new shares of the Company to the Vendor at HK\$0.13 per share (the "Consideration Shares").

Pursuant to the agreement, the Vendor has warranted that the Group's 23.5% share in the audited profit after tax of Pimpernel for the period from 1 April 2001 to 31 March 2002 will not be less than HK\$2,000,000 ("Warranted Profit"). On 20 March 2001 (the "Completion Date"), 100,000,000 shares of the Company were issued to the Vendor. The remaining 100,000,000 shares will be issued to the Vendor on 20 September 2001, being six months after the Completion Date, and upon delivery to the Group by the Vendor a cheque post dated to 30 June 2002 in the sum of the Warranted Profit of HK\$2,000,000 in favour of the Group. Notwithstanding the aforesaid, the Group shall have absolute discretion to issue and allot the other half of the Consideration Shares to the Vendor at any time during the period from the Completion Date to 19 September 2001.

Notes to Financial Statements

31 December 2000

30. COMPARATIVE FIGURES

Certain comparative figures for the year ended 31 December 1999 were reclassified as in the opinion of the directors, such reclassification would produce a more appropriate presentation of the Group's operating results. A summary of the reclassification is as follows:

- (a) Provision for repairs and maintenance of HK\$4,216,000 and provision for stock obsolescence of HK\$150,000 for the year ended 31 December 1999 were reclassified from administrative expenses to cost of contracting works.
- (b) Provision for doubtful debts of HK\$2,805,946 and loss on disposal of fixed assets of HK\$588,584 for the year ended 31 December 1999 were reclassified from administrative expenses to other operating expenses.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 28 March 2001.