



**CATIC International Holdings Limited**  
(Incorporated in Bermuda with limited liability)

**Interim Report**  
**2001**



The board of directors of CATIC International Holdings Limited (the "Company") is pleased to present herewith the interim report for the six months ended 30 June 2001 as follows:-

### **Consolidated Profit and Loss Account**

		<b>Unaudited</b>	
		<b>For the six months</b>	
		<b>ended 30 June</b>	
		<b>2001</b>	2000
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Turnover	2	<b>142,106</b>	73,098
Cost of sales		<b>(114,485)</b>	(58,619)
Gross profit		<b>27,621</b>	14,479
Other revenue	3	<b>5,457</b>	1,266
Administrative expenses		<b>(26,868)</b>	(20,749)
Other operating expenses	4	<b>(1,865)</b>	(4,221)
Operating profit/(loss)	2, 5	<b>4,345</b>	(9,225)
Finance costs	6	<b>(818)</b>	(496)
Share of loss of an associate		<b>(71)</b>	-
Profit/(Loss) before tax		<b>3,456</b>	(9,721)
Tax	7	<b>(405)</b>	(171)
Profit/(Loss) before minority interests		<b>3,051</b>	(9,892)
Minority interests		<b>(926)</b>	-
Net profit/(loss) attributable to shareholders		<b>2,125</b>	(9,892)
Earnings/(Loss) per share – basic	8	<b>0.0744 cent</b>	(1.0317 cents)
– diluted	8	<b>0.0742 cent</b>	-

## ***Consolidated Statement of Recognised Gains and Losses***

	<b>Unaudited</b>	
	<b>For the six months</b>	
	<b>ended 30 June</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Exchange differences on translation of the financial statements of a foreign entity	–	(7)
Net profit/(loss) attributable to shareholders	<b>2,125</b>	(9,892)
Total recognised gains/(losses)	<b>2,125</b>	(9,899)

**Consolidated Balance Sheet**

		<b>Unaudited 30 June 2001 HK\$'000</b>	Audited 31 December 2000 HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Investment property		<b>23,000</b>	23,000
Goodwill	9	<b>79,865</b>	–
Fixed assets		<b>138,622</b>	17,339
Long term investments		<b>27,735</b>	–
Interests in an associate		–	67,715
Rental and utility deposits		<b>305</b>	253
		<b>269,527</b>	108,307
<b>CURRENT ASSETS</b>			
Properties held for sale		<b>26,304</b>	23,213
Inventories		<b>4,541</b>	876
Amount due from contract customers		<b>27,901</b>	33,671
Accounts and retentions receivable	10	<b>88,513</b>	138,640
Prepayments, deposits and other receivables		<b>10,301</b>	13,782
Amounts due from related companies	11	<b>5,959</b>	–
Cash and bank balances		<b>136,283</b>	127,161
Pledged time deposits		<b>41,500</b>	27,651
		<b>341,302</b>	364,994
<b>CURRENT LIABILITIES</b>			
Amount due to contract customers		<b>98,583</b>	105,261
Accounts and bills payable	12	<b>20,451</b>	22,283
Tax payable		<b>404</b>	81
Other payables and accrued liabilities		<b>55,627</b>	56,413
Current portion of finance lease payables		–	400
Interest-bearing bank and other borrowings		<b>40,710</b>	23,741
		<b>215,775</b>	208,179
<b>NET CURRENT ASSETS</b>			
		<b>125,527</b>	156,815
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>395,054</b>	265,122
<b>NON-CURRENT LIABILITIES</b>			
Long term portion of finance lease payables		–	(1,050)
Long term bank borrowings		<b>(3,084)</b>	–
		<b>(3,084)</b>	(1,050)
<b>MINORITY INTERESTS</b>			
		<b>(30,024)</b>	–
		<b>361,946</b>	264,072
<b>CAPITAL AND RESERVES</b>			
Issued capital	13	<b>307,573</b>	234,577
Reserves	14	<b>54,373</b>	29,495
		<b>361,946</b>	264,072

## **Condensed Consolidated Cash Flow Statement**

	<b>Unaudited</b>	
	<b>For the six months</b>	
	<b>ended 30 June</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Net cash inflow from operating activities	<b>51,755</b>	36,350
Net cash inflow from returns on investments and servicing of finance	<b>1,973</b>	707
Tax paid	<b>(211)</b>	–
Net cash outflow from investing activities	<b>(37,206)</b>	(2,261)
Net cash inflow before financing activities	<b>16,311</b>	34,796
Net cash outflow from financing activities	<b>(689)</b>	(4,305)
Increase in cash and cash equivalents	<b>15,622</b>	30,491
Cash and cash equivalents at 1 January	<b>106,550</b>	17,058
Effect of foreign exchange rate changes, net	–	(7)
Cash and cash equivalents at 30 June	<b>122,172</b>	47,542
Analysis of balances of cash and cash equivalents		
Cash and bank balances	<b>136,283</b>	54,461
Bank loans and overdrafts	<b>(14,111)</b>	(6,919)
	<b>122,172</b>	47,542

## Notes to Interim Financial Statements

### 1. Accounting policies

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting". The accounting policies and the basis of preparation used in the preparation of interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2000.

### 2. Segmental information

The Group's turnover and operating loss for the six months ended 30 June 2000 were entirely attributable to the principal activities of the Group in undertaking facade contracting works and accordingly, no analysis by activities is provided. For the six months ended 30 June 2001, the Group, in addition to undertaking facade contracting works, was also engaged in the generation and sale of electricity and steam power in China following the acquisition of a further 39% interest in Hangzhou Sealand Electric Power Company Limited ("Hangzhou Sealand") which has since 9 February 2001 become a 70% owned subsidiary of the Company. The Group's turnover and operating profit for the six months ended 30 June 2001 by activities and geographical locations are as follows:-

	For the six months ended 30 June			
	2001		2000	
	Turnover HK\$'000	Operating profit HK\$'000	Turnover HK\$'000	Operating loss HK\$'000
Facade contracting works				
– Hong Kong	116,509	5,099	69,711	(2,160)
– Mainland China	4,560	136	3,387	(3,279)
	<b>121,069</b>	<b>5,235</b>	73,098	(5,439)
Generation and sale of electricity and steam power				
– Mainland China	21,037	2,307	–	–
	<b>142,106</b>	<b>7,542</b>	<b>73,098</b>	<b>(5,439)</b>
Add: unallocated other revenue		2,000		–
Less: unallocated administrative expenses		(5,197)		(3,786)
		<b>4,345</b>		<b>(9,225)</b>

**3. Other revenue**

	<b>For the six months ended 30 June</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Interest income	<b>3,494</b>	1,266
Rental income	<b>756</b>	–
Income from installation of structure for steam supply	<b>909</b>	–
Government subsidy	<b>187</b>	–
Others	<b>111</b>	–
	<hr/> <b>5,457</b>	<hr/> 1,266
	<hr/> <hr/> <b>5,457</b>	<hr/> <hr/> 1,266

**4. Other operating expenses**

	<b>For the six months ended 30 June</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Severance payments	–	(170)
Loss on disposal of fixed assets	–	(363)
Amortization of goodwill	<b>(1,865)</b>	–
Provision for diminution in value of properties held for sale	–	(1,498)
Provision for doubtful debts	–	(2,190)
	<hr/> <b>(1,865)</b>	<hr/> (4,221)
	<hr/> <hr/> <b>(1,865)</b>	<hr/> <hr/> (4,221)

**5. Operating profit/(loss)**

The Group's operating profit/(loss) is determined after charging:–

	<b>For the six months ended 30 June</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Depreciation	<b>4,943</b>	1,594
Less: amount capitalized to long term construction contracts	<b>(1,007)</b>	(461)
	<hr/> <b>3,936</b>	<hr/> 1,133
	<hr/> <hr/> <b>3,936</b>	<hr/> <hr/> 1,133

**6. Finance costs**

	<b>For the six months ended 30 June</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Interest on bank loans, overdrafts and facilities wholly repayable within 5 years	<b>1,521</b>	560
Less: amount capitalized to long term construction contracts	<b>(703)</b>	(64)
	<b>818</b>	496

**7. Tax**

- (a) No Hong Kong profits tax has been provided as the Group has available tax losses brought forward to offset the assessable profits arising in Hong Kong for the current period. No Hong Kong profits tax was provided in the corresponding period in 2000 as the Group did not generate any assessable profits in Hong Kong during that period.

For both current and prior periods, tax on the profits of subsidiaries operating in Mainland China is calculated at the applicable tax rate based on existing PRC tax legislation, interpretation and practice in respect thereof.

- (b) The tax charge for the period is made up as follows:–

	<b>For the six months ended 30 June</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Group		
Mainland China	<b>381</b>	171
Share of tax attributable to an associate	<b>24</b>	–
	<b>405</b>	171

**8. Earnings/(Loss) per share**

For the six months ended 30 June 2000, the calculation of basic loss per share is based on the net loss attributable to shareholders of HK\$9,892,000 and the weighted average of 958,845,763 shares in issue during that period, after making adjustment to reflect the rights issue in August 2000. The diluted loss per share is not presented as outstanding share options, if fully exercised, would not have a diluting effect on the basic loss per share.



For the six months ended 30 June 2001, the calculation of the basic and diluted earnings per share is based on the following:-

	<b>Earnings</b> <i>HK\$'000</i>	<b>Weighted average</b> <b>of shares</b>
For the purpose of basic earnings per share	2,125	2,854,388,956
Dilutive effect arising from share options	-	7,583,022
	<hr/>	<hr/>
For the purpose of diluted earnings per share	2,125	2,861,971,978
	<hr/> <hr/>	<hr/> <hr/>

#### 9. **Goodwill**

The balance represents goodwill arising from the acquisition of the 70% interest in Hangzhou Sealand which is amortized on a straight line basis over a period of not more than 20 years.

#### 10. **Accounts and retentions receivable**

	<b>30 June</b> <b>2001</b> <i>HK\$'000</i>	<b>As at</b> 31 December 2000 <i>HK\$'000</i>
Accounts receivable	<b>34,057</b>	72,433
Retentions receivable	<b>64,612</b>	77,599
	<hr/>	<hr/>
	<b>98,669</b>	150,032
Less: Provision for doubtful debts	<b>(10,156)</b>	(11,392)
	<hr/>	<hr/>
	<b>88,513</b>	138,640
	<hr/> <hr/>	<hr/> <hr/>

The ageing analysis of accounts receivable is as follows:-

	<b>30 June</b> <b>2001</b> <i>HK\$'000</i>	<b>As at</b> 31 December 2000 <i>HK\$'000</i>
Current	<b>25,436</b>	65,654
31-60 days	<b>4,656</b>	929
61-90 days	<b>42</b>	925
Over 90 days	<b>3,923</b>	4,925
	<hr/>	<hr/>
	<b>34,057</b>	72,433
Less : Provision for doubtful debts	<b>(2,996)</b>	(3,526)
	<hr/>	<hr/>
	<b>31,061</b>	68,907
	<hr/> <hr/>	<hr/> <hr/>

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 after the completion of the projects in question. No ageing analysis of retentions receivable is presented as the amount retained is provided on each payment up to a maximum amount calculated on a prescribed percentage of the contract sum. The outstanding balance as at 30 June 2001 represents the amounts being retained in respect of projects currently in progress as at 30 June 2001 and the balance of retention monies in respect of projects completed prior to 30 June 2001.

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.

In formulating its credit policy, Hangzhou Sealand takes into account the financial standing and credit risk of its customers who are generally granted a credit term of 30 to 60 days.

#### **11. Amounts due from related companies**

As set out in the circular of the Company dated 22 January 2001, the Group acquired a further 39% interest in Hangzhou Sealand and the acquisition was completed on 9 February 2001. Since then, Hangzhou Sealand has become a 70% owned subsidiary of the Company and accordingly its assets and liabilities are included in the consolidated balance sheet of the Group as at 30 June 2001.

As set out in the financial statements of Hangzhou Sealand contained in the circular of the Company dated 22 January 2001, Hangzhou Sealand had outstanding amounts due from its 30% minority shareholder, Asia Capital Financial Group Limited, and 盈華實業有限公司, a subsidiary of Asia Capital Financial Group Limited, in the aggregate of RMB6,972,000 as at 31 December 2000. These amounts largely remained outstanding as at 30 June 2001 as follows:-

	<i>RMB'000</i>	<i>(HK\$'000)</i>
Asia Capital Financial Group Limited	4,540	(4,243)
盈華實業有限公司	1,836	(1,716)
	<hr/>	
	6,376	(5,959)
	<hr/> <hr/>	

Asia Capital Financial Group Limited has agreed to repay the above RMB6,376,000 in full on or before 31 December 2001.

**12. Accounts and bills payable**

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

	<b>As at</b>	
	<b>30 June</b>	31 December
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Current	<b>15,259</b>	14,493
31-60 days	<b>1,909</b>	2,992
61-90 days	<b>2,282</b>	2,730
Over 90 days	<b>1,001</b>	2,068
	<b>20,451</b>	22,283

**13. Share capital**

	<b>30 June</b>	31 December
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Authorised:		
6,000,000,000 (31 December 2000 – 6,000,000,000) shares of HK\$0.10 each	<b>600,000</b>	600,000
Issued and fully paid:		
3,075,731,000 (31 December 2000 – 2,345,767,000) shares of HK\$0.10 each	<b>307,573</b>	234,577

A summary of the movements in the issued share capital of the Company during the period is as follows:-

	<b>Number of shares</b>	<b>Amount HK\$'000</b>
At 1 January 2001	2,345,767,000	234,577
Shares issued for acquisition of a further 39% interest in Hangzhou Sealand	508,616,000	50,861
Shares issued for acquisition of a 23.5% interest in a software development company	200,000,000	20,000
Shares issued upon exercise of share options	21,348,000	2,135
<b>At 30 June 2001</b>	<b>3,075,731,000</b>	<b>307,573</b>

**14. Reserves**

	Share premium account <i>HK\$'000</i>	Capital reserve on consolidation <i>HK\$'000</i>	Reserve fund <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2001	217,203	162	707	(188,577)	29,495
Issue of shares	22,753	-	-	-	22,753
Net profit for the period	-	-	-	2,125	2,125
<b>At 30 June 2001</b>	<b>239,956</b>	<b>162</b>	<b>707</b>	<b>(186,452)</b>	<b>54,373</b>

**15. Contingent liabilities**

As at 30 June 2001, the Group had contingent liabilities in respect of the following:-

- (i) guarantees under performance bonds of HK\$68,142,000 (31 December 2000 - HK\$59,472,000); and
- (ii) two indemnities issued by a subsidiary in favour of a developer 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.

**16. Related party transactions**

Save as disclosed in note 11 to the condensed consolidated interim financial statements, the Group had the following material transactions with related parties during the period:-

	<b>For the six months ended 30 June</b>	
	<b>2001</b>	2000
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Purchase consideration satisfied for acquisition from a fellow subsidiary of a further 39% interest in Hangzhou Sealand (a)	<b>81,120</b>	-
Interest expenses paid to a fellow subsidiary (b)	-	474
Rental expenses paid to a fellow subsidiary (c)	<b>193</b>	151

- (a) Pursuant to a sale and purchase agreement dated 4 January 2001, the Group acquired from Speed Profit Enterprises Limited ("Speed Profit") a further 39% 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 HK\$208,000,000 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 and the balance thereof by the issue and allotment of 508,616,000 shares to Speed Profit at HK\$0.13 per share.

- (b) Pursuant to a loan agreement dated 30 April 1999, the Company borrowed a loan of HK\$10,000,000, which was unsecured and bore interest at prime + 1% per annum, from Catic International Finance Limited. The date of maturity of the loan was amended from 5 May 2000 to 5 May 2001 pursuant to a supplemental agreement dated 2 May 2000. On 10 November 2000, the loan was repaid in full by the Company.
- (c) Pursuant to a tenancy agreement dated 18 November 1999, the Company leases from Karlane Investment Limited ("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). Pursuant to another tenancy agreement dated 19 October 2000, the Company leases further premises from Karlane 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 and the monthly rentals were determined with reference to open market rentals.

### **17. Comparative figures**

Certain administrative expenses for the six months ended 30 June 2000 were reclassified to cost of sales and other operating expenses in order to produce a more appropriate presentation of the Group's operating results.

## **DIVIDENDS**

The directors do not recommend the payment of an interim dividend for the year ending 31 December 2001 (2000 – nil).

## **BUSINESS REVIEW**

### **Overall performance**

The first six months in 2001 saw an almost 100% increase in both turnover and gross profit, largely attributable to increased business activities in the Group's facade contracting works operation and the consolidation of the results of Hangzhou Sealand, a 70% owned subsidiary of the Company, during the period as described below. Turnover amounted to HK\$142,106,000 for the period (2000 – HK\$73,098,000) with a corresponding increase in gross profit to HK\$27,621,000 (2000 – HK\$14,479,000). On an overall basis, for the period, the Group's operating activities have resulted in a profit of HK\$4,345,000, and consequently a net profit attributable to shareholders of HK\$2,125,000, as opposed to an operating loss of HK\$9,225,000 and a net loss attributable to shareholders of HK\$9,892,000 respectively, in last period.

As described in this interim report, the Group has made significant investments during the period including the further 39% interest in Hangzhou Sealand in February and the 23.5% interest in a software development company in March, thereby resulting in substantial amounts in goodwill, fixed assets and long term investments as at 30 June 2001. Furthermore, the Group has an investment property, acquired in late 2000, and properties held for sale which were stated at HK\$23,000,000 and HK\$26,304,000 respectively as at 30 June 2001. As most of the above investments and acquisitions were only recently completed, no impairment or diminution in value thereof was envisaged as at 30 June 2001. However, the Group shall consider and review these investments and assets for any material impairment or diminution in value at the end of the year.

### ***Facade contracting works***

The nature of the facade contracting works is such that it would generally take three to nine months from tender submission, tender negotiation to final award and thereafter some eighteen to twenty four months from design, procurement, fabrication and installation to final completion for a substantial project. Change of control of the Company took place in April 1999. Since the second half of 1999, the Group has been actively tendering for projects. In view of the above background, new contracts secured in 1999 amounted to only HK\$48,000,000 and as a result turnover of HK\$73,098,000 for the first six months in 2000 was largely derived from contracts secured in 1997 and 1998. On the other hand, new projects with an aggregate value of approximately HK\$588,000,000 were secured in 2000. These new projects, many of which were though at a preliminary stage as at 30 June 2001, have generated a turnover of HK\$121,069,000 for the first half of 2001, representing a significant increase as compared to that of the corresponding period in 2000.

In addition to generating substantial increase in turnover, the Group has during the period continued to focus on strengthening of project management and cost control in order to maintain profit margin. Furthermore, during the period, no increase in provision was made in respect of doubtful debts and diminution in value of properties held for sale given the property prices in Shanghai becoming stable, the building facade contracting works has returned a contribution to the operating profit of the Group for the first half of 2001 in the amount of HK\$5,235,000 (2000 – operating loss of HK\$5,439,000).

The overall Hong Kong economy during the period remained gloomy while competition within the facade contracting works business sector intensified. However, the management, in response to changing market conditions, has adopted a flexible strategy of selecting projects with good profit potential in major cities in China in

addition to tendering for projects in Hong Kong. During the current six months period, the Group has secured new projects amounting to an aggregate value of HK\$346,000,000 including the following major ones:-

1. NKIL 6328 Lai Chi Kok Road, Kowloon
2. Kowloon Station Package Four (Podium Portion)
3. Cambridge House, Quarry Bay
4. Science Park, Pak Shek Kok, Phase 1b, Building 5, New Territories
5. The R & D Center of Huawei Technologies, Shenzhen

As at 30 June 2001, the Group's total value of contracts on hand amounted to HK\$864 million. Majority of these contracts are to be completed in 2002 and 2003.

### ***Generation and sale of electricity and steam power***

As set out below, the Group first acquired a 31% interest in Hangzhou Sealand in September 2000. The Group acquired a further 39% interest in Hangzhou Sealand during the period. This acquisition was completed on 9 February 2001 and since then Hangzhou Sealand has become a 70% owned subsidiary of the Company. Accordingly, the results of Hangzhou Sealand are consolidated from the effective date of acquisition whereas the Group's 31% share of the results of Hangzhou Sealand for the period from 1 January 2001 to the effective date of acquisition is recorded in the consolidated profit and loss account of the Group as share of results of an associate.

For the six months ended 30 June 2001, Hangzhou Sealand, which is principally engaged in the generation and sale of electricity and steam power, generated a turnover of RMB27,187,000 (HK\$25,408,000) which represented a moderate increase as compared to RMB26,155,000 (HK\$24,444,000) for the corresponding period in 2000. As the number of steam power customers continued to enjoy its upward trend, sale of steam power rose by RMB3,000,000 (HK\$2,800,000) as compared to the comparative figure a year ago. On the other hand, due to national adjustments to the pricing of electricity during the period, sale of electricity experienced a decline which largely neutralized the rise in the sale of steam power. Additionally, during the period, the costs of production increased, primarily due to rise in the price of coal, which is the principal raw material used in the generation of electricity and steam power, and additional depreciation arising from revaluation of fixed assets as a result of acquisition. In view of the above, for the period from the effective date of acquisition to 30 June 2001, Hangzhou Sealand generated for the Group a turnover of HK\$21,037,000 and correspondingly a profit contribution of HK\$4,172,000 before

deducting the relevant finance costs, tax, minority interests and the amortization of goodwill arising from the acquisition of Hangzhou Sealand. The acquisition of the 39% interest in Hangzhou Sealand in February 2001 has resulted a goodwill of HK\$45,478,000 which is represented by the excess of the Group's cost of acquisition over Hangzhou Sealand's revalued net asset value acquired as at the effective date of acquisition. This goodwill, together with the goodwill generated upon the Group's initial acquisition of the 31% interest in Hangzhou Sealand in September 2000, are amortized on a straight line basis over a period of not more than twenty years, thereby resulting in an amortization charge of HK\$1,865,000 to the Group's consolidated profit and loss account for the six months ended 30 June 2001. After having considered this amortization charge, the Group has derived from Hangzhou Sealand a contribution of HK\$2,307,000 to its operating profit for the first half of 2001 before taking into account the relevant finance costs, tax and minority interests.

Furthermore, the Group recorded in its consolidated profit and loss account HK\$71,000 as its share of loss of an associate, which represents the Group's 31% share of Hangzhou Sealand's pre-tax loss for the period from 1 January 2001 to the effective date of acquisition.

## **FINANCIAL REVIEW**

### **Overall review**

The Group is financially sound. As at 30 June 2001, the Group had cash deposits and bank balances in the aggregate of HK\$177,783,000 (31 December 2000 – HK\$154,812,000) relative to total borrowings of HK\$43,794,000 (31 December 2000 – HK\$25,191,000). As at 30 June 2001, gearing ratio, calculated on the basis of total borrowings less cash deposits and bank balances over shareholders' equity, is zero (31 December 2000 – zero).

### **Facade contracting works**

The Group generally finances its operation in facade contracting works with cashflow generated from ongoing projects and the availability of banking facilities in the aggregate amount of HK\$86,000,000 of which HK\$42,123,000, consisting of overdraft of HK\$1,903,000, short term import loans of HK\$12,471,000 with maturities within four months and the issue of performance bonds of HK\$27,749,000, were utilized as at 30 June 2001. These banking facilities were secured by pledge of fixed assets with a carrying value of HK\$4,300,000 and short term deposits of HK\$41,500,000 as at 30 June 2001. The Group has limited exposure to foreign exchange fluctuation in relation to facade contracting works as most of the project receipts and outlays are in Hong Kong dollars.



### ***Generation and sale of electricity and steam power***

Hangzhou Sealand, being in the utilities sector, finances its operation mainly with steady and recurrent cash inflow generated from its sale of electricity and steam power, and bank borrowings amounting to an aggregate of RMB31,480,000 (HK\$29,420,000) as at 30 June 2001, of which RMB28,180,000 (HK\$26,336,000) are maturing within one year with the balance maturing beyond one year. These bank borrowings were mainly secured by certain fixed assets of Hangzhou Sealand with an aggregate carrying value of RMB51,047,000 (HK\$47,707,000) as at 30 June 2001. As Hangzhou Sealand operates in China with most of its transactions denominated in RMB, its exposure to fluctuation in foreign currency is minimal.

### ***MATERIAL ACQUISITIONS AND INVESTMENTS***

Further to the acquisition of 31% interest in Hangzhou Sealand, which is principally engaged in the generation and sale of electricity and steam power in the regional industrial areas of Hangzhou in the Mainland, from Speed Profit Enterprises Limited ("Speed Profit"), the then fellow subsidiary of the Company, in September 2000, the Group, as set out in the circular of the Company dated 22 January 2001, acquired from Speed Profit a further 39% interest in Hangzhou Sealand, increasing its stake in Hangzhou Sealand to 70%, at a consideration of HK\$81.12 million. The consideration was satisfied by a cash payment of HK\$14,999,920, funded by the Group's general working capital, and the balance thereof by the issue and allotment of 508,616,000 new shares at HK\$0.13 per share. The acquisition of 39% interest was completed on 9 February 2001 and since then Hangzhou Sealand has become a 70% owned subsidiary of the Company.

In March 2001, the Group acquired from an independent third party a 23.5% stake in a software development company which has undertaken a major investment project, namely the Web-enable Document System, an innovative software system designed to provide value-added information technology services for use by institutional customers and end-users, at a consideration of HK\$26 million by way of issue of 200,000,000 new shares at HK\$0.13 per share. Pursuant to the acquisition agreement, the vendor warranted that the Group's 23.5% profit share in the audited profit after tax of the software development company for the period from 1 April 2001 to 31 March 2002 shall not be less than HK\$2 million. Further details are set out in the announcement of the Company dated 13 March 2001.

### ***EMPLOYEES AND REMUNERATION POLICY***

As at 30 June 2001, the Group had a workforce of approximately 686 employees, including 490 engaged in facade contracting works and 196 under the employ of Hangzhou Sealand in the generation and sale of electricity and steam power.

In formulating its remuneration policy, the Group considers the employment conditions as well as the regulations and trade practices prevalent in the locations in which the Group operates. Competitive remunerations are determined in accordance with the employees' respective abilities and experience and performance-driven incentive bonus is awarded to those with exceptional performance and contribution.

At the Company's annual general meeting held on 14 May 2001, the share option scheme adopted in 1991 was terminated and a new share option scheme was approved. Under the new share option scheme, which is designed to attract and retain key employees with experience and ability and to allow them to participate in the growth of the Group, the employees or executive directors of the Company or any of its subsidiaries may be granted options to subscribe for shares in the Company.

## **PROSPECTS**

The outlook of the Hong Kong economy as well as its property market in the foreseeable future remains to be weak. The competition within the facade contracting works business sector as impacted by the difficult operating environment of the building industry as a whole intensifies increasingly while profit margin continues to be squeezed. The Group continues to reinforce cost control to maintain its competitiveness in the market and is optimistic of securing more projects in the future. Furthermore, in view of its substantial contracts on hand and its well established position in the market, the Group is looking forward to further profit contribution from its facade contracting works.

Hangzhou Sealand, established in 1993 with an operating period of 30 years, supplies electricity and steam power to the regional industrial areas in Hangzhou and it is expected that the demand for electricity and steam power shall be in line with economic developments of the region in the future. The Group, whilst closely monitoring the need to expand the generation facilities of Hangzhou Sealand in response to the growth in the regional economy and the resulting increase in the consumption of electricity and steam power, is looking forward to steady and recurrent income derived therefrom in the years to come.

The Group, whilst having diversified in the utilities sector via its acquisition of the 70% owned power plant of Hangzhou Sealand in addition to its long-established core business in the facade contracting works, remains committed to the strategy of diversification, including seeking investment opportunities to diversify itself in the aero-technology business in the future.

## ***DIRECTORS' INTERESTS IN SHARE CAPITAL***

As at 30 June 2001, 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:–

### ***(a) Interests in the Company***

<b>Name of director</b>	<b>Number of shares Personal interests</b>
Ren Haifeng	5,400,000

### ***(b) Share options of the Company***

At the Company's annual general meeting held on 14 May 2001, the share option scheme (the "Previous Share Option Scheme") adopted in 1991 with a life span of ten years was terminated and a new share option scheme (the "New Share Option Scheme") was adopted under which the directors may, on or before 13 May 2011, grant options to any employee or executive director of the Company or any of its subsidiaries to subscribe for shares in the Company. No share options were granted under the New Share Option Scheme since its adoption on 14 May 2001. No share options were granted under the Previous Share Option Scheme for the period from 1 January 2001 to its termination on 14 May 2001. Notwithstanding the termination of the Previous Share Option Scheme, share options then outstanding thereunder remain valid and exercisable until 27 July 2005 at HK\$0.17 per share. Movements of share options granted to the executive directors of the Company on 28 January 2000 under the Previous Share Option Scheme during the period are as follows:–

<b>Name of director</b>	<b>Number of shares in respect of options outstanding at 1 January 2001</b>	<b>Number of shares in respect of options exercised during the period</b>	<b>Number of shares in respect of options outstanding at 30 June 2001</b>	<b>Exercise price per share HK\$</b>	<b>Exercise period</b>
Yang Chunshu	8,160,000	–	8,160,000	0.17	28/7/2000 to 27/7/2005
Shan Zumao	5,400,000	–	5,400,000	0.17	28/7/2000 to 27/7/2005
Yu Li	5,400,000	–	5,400,000	0.17	28/7/2000 to 27/7/2005
Ren Haifeng	5,400,000	5,400,000	–	0.17	–
Cui Wei	5,400,000	5,400,000	–	0.17	–
	<b>29,760,000</b>	<b>10,800,000</b>	<b>18,960,000</b>		

Mr. Cui sold all of his 5,400,000 shares stated above, leaving no interest in shares of the Company as at 30 June 2001. Mr. Ren still owned the above 5,400,000 shares as at 30 June 2001 (see (a) above).

Except as set out above, as at 30 June 2001 there was no other interest or right recorded in the register required to be kept under Section 29 of the SDI Ordinance.

Save as disclosed above, at no time during the period 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.

## ***SUBSTANTIAL SHAREHOLDERS***

As at 30 June 2001, 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:–

<b>Shareholder</b>	<b>Number of shares held</b>	<b>%</b>
Tacko International Limited (“Tacko”)	1,265,767,000 ( <i>Note 1</i> )	41.15
CATIC (H.K.) Limited (“CATIC (H.K.)”)	1,265,767,000 ( <i>Note 1</i> )	41.15
Speed Profit Enterprises Limited (“Speed Profit”)	508,616,000 ( <i>Note 2</i> )	16.54
Catic International Finance Limited (“Catic Finance”)	508,616,000 ( <i>Note 2</i> )	16.54
China National Aero-Technology Import & Export Corporation (“CATIC”)	1,774,383,000 ( <i>Note 3</i> )	57.69
China Aviation Industries Corporation I (“AVIC I”)	1,774,383,000 ( <i>Note 3</i> )	57.69
China Aviation Industries Corporation II (“AVIC II”)	1,774,383,000 ( <i>Note 3</i> )	57.69

*Notes:–*

- (1) Tacko is a wholly-owned subsidiary of CATIC (H.K.), which is in turn a wholly-owned subsidiary of CATIC. CATIC (H.K.) is deemed to be interested in the 1,265,767,000 shares.
- (2) Speed Profit is a wholly-owned subsidiary of Catic Finance, which is in turn a wholly-owned subsidiary of CATIC. Catic Finance is deemed to be interested in the 508,616,000 shares.
- (3) CATIC is owned as to 50% by AVIC I and as to 50% by AVIC II. Each of CATIC, AVIC I and AVIC II is deemed to be interested in the same parcels of shares stated in (1) and (2) above.

Save for the interests referred to above, as at 30 June 2001, 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.

### **PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY**

There was no purchase, sale or redemption of the shares of the Company by the Company itself or any of its subsidiaries during the period.

### **AUDIT COMMITTEE**

The Audit Committee, together with the external auditors and the management, have reviewed the accounting principles and policies adopted by the Group and the unaudited interim financial statements for the six months ended 30 June 2001.

### **CODE OF BEST PRACTICE**

None of the directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2001, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except that the non-executive and independent non-executive directors of the Company are not appointed for a specific term, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the bye-laws of the Company.

### **APPRECIATION**

I would like to take this opportunity to express my appreciation to my fellow directors and all our staff for their support, hard work and dedication.

By Order of the Board  
**Yang Chunshu**  
Chairman

Hong Kong, 21 September 2001