

Chairman's Statement



Mr. Yang Chunshu, *Chairman*

DIVIDENDS

No interim dividend was paid for the six months ended 30 June 2001 (2000 – nil). The directors do not recommend the payment of a final dividend for the year ended 31 December 2001 (2000 – nil).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 6 May 2002 to 10 May 2002 both days inclusive, during which period no transfer of shares will be registered.

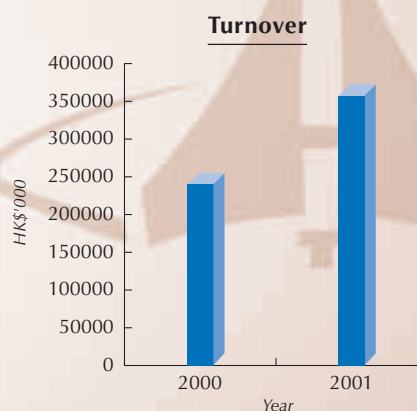
In order to qualify for attending the annual general meeting to be held on 10 May 2002, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Registrars in Hong Kong, Central Registration Hong Kong Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East,

Hong Kong not later than 4:00 p.m. on 3 May 2002.

BUSINESS REVIEW

Overall performance

For the year ended 31 December 2001, the Group achieved a turnover amounting to HK\$357,679,000 which, when compared to



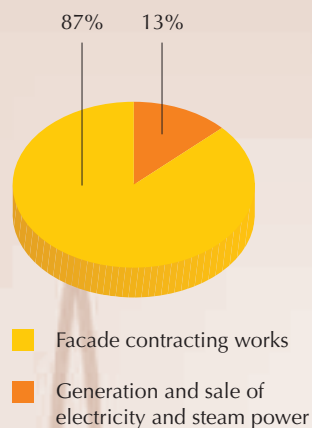


Mr. Wang Xinyan, Deputy Chairman

As set out in the 2001 Interim Report, the Group would conduct by the end of 2001 a review of the substantial amounts in investment property, goodwill, fixed assets and long term investment arising earlier from the acquisition of an investment property and interests in Hangzhou Sealand and a software development company. The Group, in consideration of the difficult operating conditions and uncertain prospects of such investments and businesses, has recognized certain deficits and impairments relative to these investments and assets as described below. During the year under review, after having

considered these deficits and impairments as well as other operating expenses as set out in the consolidated profit and loss account, the Group's operating activities has recorded a loss of HK\$69,434,000 (2000 – operating profit of HK\$1,118,000). Net loss attributable to shareholders was HK\$69,320,000 (2000 – net profit attributable to shareholders of HK\$1,439,000).

Turnover by Segment (2001)



HK\$239,857,000 of previous year, represents an increase of 49%. Gross profit has increased from HK\$42,154,000 in 2000 to HK\$51,480,000, representing a growth of approximately 22%. These increases were mainly attributable to the increased business activities in the Group's facade contracting works operation and the consolidation of the results of Hangzhou Sealand Electric Power Company Limited ("Hangzhou Sealand"), a 70% owned subsidiary of the Company, during the year under review.

Facade contracting works

The turnover of the facade contracting works has increased from HK\$239,857,000 for 2000 to HK\$309,417,000 for 2001 and yet the corresponding profit contribution as set out in note 4(a) to the financial statements was lowered from HK\$5,803,000 a year ago to HK\$5,354,000 in 2001. Having considered the continuing economic downturn and the intensified competition within the construction industry during the past year under review, one must recognize that the Group's performance in facade contracting works is already encouraging.

The turnover for 2001 as compared to the comparative figure in 2000 poses an increase of HK\$69,560,000 or 29%. This increase essentially reflects the value of new contracts secured in the relevant years. As set out in previous annual and interim reports, new contracts secured in 1998, 1999 and 2000 amounted to HK\$355,000,000, HK\$48,000,000 and HK\$588,000,000 respectively. Pursuant to the cyclical nature of facade contracting works, the turnover in 2000 of HK\$239,857,000 was largely derived from contracts secured in 1997, 1998 and 1999 and it follows that the turnover in 2001 of HK\$309,417,000 was mainly derived from contracts secured in 1999 and 2000. Since 2000, Hong Kong's economic fundamentals have been undergoing structural adjustments and in view of the uncertainty of the economic outlook, consumer spending and investment sentiments remain weak. Accordingly, many developers have been increasingly adopting a wait-and-see, prudent approach in their investments in property developments projects. The number of projects available for tender in the market has been reduced. Furthermore, in the face of the difficult operating environment within the facade contracting works business sector, profit margin of contracts came under pressure from fierce competition. However, continued strengthening of cost controls has enabled the Group to alleviate the impact and cushion the effect on the financial performance.

Amidst the unfavourable market conditions, the Group has adopted a flexible marketing strategy. In the past, the Group had mainly undertaken projects by private developers. In view of the substantial resources being invested by the Government of the Hong Kong Special Administrative Region in public development projects, the Group has also been actively tendering for projects in the public sector. In addition to the contract for Phase 1a, Science Park, Pak Shek Kok, New Territories secured in 2000, the Group has secured in 2001 two further projects in respect of this major development project, namely Phase 1b, Building

5 and Phase 1b, Buildings 4A and 4B. Besides, the Group has also tendered for projects with profit potential in Mainland China and has secured The R&D Center of Huawei Technologies, Shenzhen. Notwithstanding the economic recession, the Group's flexible marketing strategy has yielded new contracts in 2001 with an aggregate value amounting to HK\$510,000,000. Apart from the major contracts mentioned above, other major projects are as follows:

1. NKIL 6328 Lai Chi Kok Road, Kowloon
2. Kowloon Station Package Four (Podium Portion)
3. Cambridge House, Quarry Bay
4. Ocean Shores, TKOTL 55, Tseung Kwan O (Phase 3)

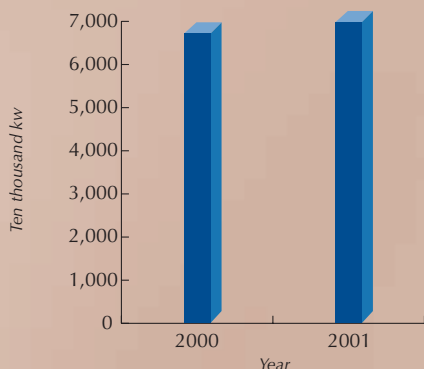
Majority of the new contracts secured in 2001 as set out above are to be executed in 2002 and 2003 and hence to be reflected in the operation of the years concerned.

As at 31 December 2001, the Group had outstanding contracts on hand valued in excess of HK\$780,000,000 (2000 – HK\$582,000,000).

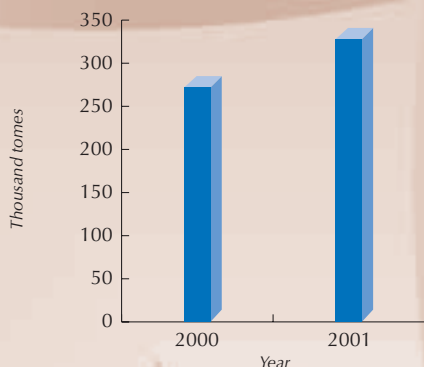
During the year, the Group focused on consolidating its leading position in the market. Far East Aluminium Works Company Limited ("Far East Aluminium"), the principal wholly-owned operating subsidiary of the Company, whilst continuing to strengthen its cost controls to maintain its competitive costing, has strived for recognition within the business sector for its outstanding performance in quality. Far East Aluminium has been awarded ISO9001: 2000 certification in October 2001. This certification serves to affirm the quality of works and professional management of Far East Aluminium, enhancing its competitive edge to secure more projects in the future.

Generation and sale of electricity and steam power

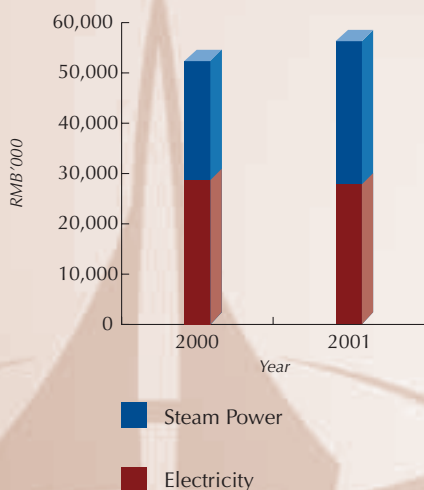
Electricity production volume



Steam power production volume



Sale of electricity and steam power



The Group initially acquired a 31% interest in Hangzhou Sealand on 15 September 2000 and a further 39% therein on 9 February 2001. Therefore, Hangzhou Sealand has become a

70% owned subsidiary since 9 February 2001. Accordingly, the results of Hangzhou Sealand since that date are consolidated whereas the Group's 31% share of the results of Hangzhou Sealand for the period from 1 January 2001 to 8 February 2001 was accounted for under the equity method in the consolidated profit and loss account as share of loss of an associate.

For the twelve months ended 31 December 2001, electricity production volume has increased slightly from 67,150,000 KW of previous year to 69,768,000 KW. However, pursuant to national adjustments on the proportion of sale of electricity during peak hours from 80% to 74% during the year, sale value of electricity has decreased slightly by 3% to RMB27,827,000 (HK\$26,006,000) from RMB28,739,000 (HK\$26,859,000) a year ago. Steam power production volume has achieved a growth of 21% from 272,000 tonnes of previous year to 328,000 tonnes during the year under review. As the number of steam power customers increased, sales of steam power has increased from RMB23,618,000 (HK\$22,073,000) of previous year to RMB28,490,000 (HK\$26,626,000), representing a rise of 21% in line with the increase in steam power production volume.

On an overall basis, sale of electricity and steam power amounted to an aggregate of RMB56,317,000 (HK\$52,632,000) for the year which represents an increase of 8% as compared to RMB52,357,000 (HK\$48,932,000) of previous year. On the other hand, as a result of the rise in cost of sales, gross profit slipped to RMB12,469,000 (HK\$11,653,000) from RMB17,836,000 (HK\$16,669,000) of previous year. Many small coal mines have been shut down under the Government regulatory policy, resulting in an increase in the price of coal which is the main raw material for the production of electricity and steam power. Furthermore, additional depreciation arising from revaluation of fixed assets as a result of acquisition has further increased the cost of sales.

A review of the generation plant and related structure of Hangzhou Sealand was performed at the end of the year, resulting in a revaluation deficit of HK\$8,566,000. The goodwill arising from the acquisition of Hangzhou Sealand is amortized on a straight line basis over a period of not more than twenty years, resulting in an amortization charge of HK\$3,462,000 to the profit and loss account of the Group for the year. Furthermore, as set out above, in consideration of the fair market value of the business interests of Hangzhou Sealand valued as of 31 December 2001 in light of its operating environment, the Group, taking a prudent and conservative approach, has decided to make a provision against goodwill in respect of its impairment in value of HK\$23,006,000.

In view of the above background, Hangzhou Sealand has returned to the Group for the year ended 31 December 2001 a loss of HK\$33,703,000 relative to a turnover of HK\$48,262,000 as set out in note 4(a) to the financial statements.

Furthermore, the Group recorded in its consolidated profit and loss account HK\$71,000 (2000 – share of profit of HK\$1,672,000) 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 date before the effective date of the additional 39% acquisition in Hangzhou Sealand's interest.

PROSPECTS

Pursuing vigorously and yet with a prudent, practical approach in the face of the market environment faltering badly, the Group has placed its facade contracting works on a firm stand. After having secured new contracts with an aggregate value of HK\$588,000,000 in 2000, the Group has secured further new contracts amounting to HK\$510,000,000 in 2001. In view

of Far East Aluminium's well established position in the market and the wide recognition of its quality works by developers, architects and other professionals, the Group is confident of obtaining more projects in the future whilst substantial contracts on hand are expected to continue to make profit contribution to the Group.

Hangzhou Sealand, established in 1993 with an operating period of 30 years, supplies electricity and steam power to the regional industrial areas in Yuhang Hangzhou. The Group, whilst closely monitoring the industrial developments of the region, will review Hangzhou Sealand's production development plan from time to time so as to cater to the demand for electricity and steam power in the region. In the meantime, the Group will strengthen management and tight cost controls so as to ensure Hangzhou Sealand's continuing steady growth.

The Group, whilst continuing to focus on maintaining and developing its existing businesses of facade contracting works and public utilities, remains committed to the strategy of diversification. The Group will adopt a selective and prudent approach to explore investment opportunities to diversify itself into aero-technology business to keep pace with its long term development.

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 over the past year.

By Order of the Board
Yang Chunshu
Chairman

Hong Kong, 26 March 2002