

The directors herein present their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2001.

Principal activities

The principal activity of the Company is investment holding. The principal activities of the Group during the year consisted of undertaking building facade projects. These projects involve the design, manufacture and installation of fabricated aluminium and stainless steel products for buildings, such as curtain wall and cladding systems, windows, doors, skylights and other related products. The Group is also engaged 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") since the acquisition of a further 39% equity interest in Hangzhou Sealand Electric Power Company Limited which became a subsidiary of the Company during the year.

Segment information

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 4 to the financial statements.

Results and dividends

The Group's loss for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 84.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2001.

Summary financial information

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 85. This summary does not form part of the audited financial statements.

Fixed assets and investment property

Details of movements in the investment property and fixed assets of the Group and the Company during the year are set out in notes 13 and 14 to the financial statements, respectively.

Share capital and share options

Details of movements in the Company's share capital and share options during the year are set out in note 28 to the financial statements.

Pre-emptive rights

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

Purchase, sale or redemption of listed securities of the Company

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

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements.

Distributable reserves

As at 31 December 2001, the Company had no reserves available for distribution to shareholders as computed in accordance with the Companies Act 1981 of Bermuda (as amended).

Major customers and suppliers

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

	2001	2000
	%	%
Percentage of purchases:		
From the largest supplier	10	13
From the five largest suppliers	35	43
Percentage of turnover:		
From the largest customer	22	31
From the five largest customers	71	79

Far East Aluminium Works Company Limited, the Company's principal operating subsidiary, was the nominated subcontractor for a number of property development projects of certain subsidiaries of Cheung Kong (Holdings) Limited which collectively are the Group's largest customer for 2001. As far as the executive directors are aware, Beauty Queen Limited, a wholly-owned subsidiary of Cheung Kong (Holdings) Limited, owns more than 5% of the issued share capital of the Company. Apart from the above, none of the directors, their associates nor any shareholders who, to the knowledge of the directors, own more than 5% of the Company's issued share capital had any interests in the five major suppliers and customers.

Directors

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

Yang Chunshu

Wang Xinyan

Ji Guirong (appointed on 21 September 2001)

Shan Zumao (resigned on 21 September 2001)

Yu Li

Ren Haifeng

Cui Wei

Ip Tak Chuen, Edmond*

Li Ka Cheung, Eric**

Chu Yu Lin, David**

* *Non-executive director*

** *Independent non-executive directors*

Pursuant to the bye-laws of the Company, Mr. Ji Guirong, who was appointed as a director subsequent to the preceding annual general meeting on 14 May, 2001, will hold office until the forthcoming annual general meeting and will then be eligible for re-election at the meeting. Furthermore, Ms. Yu Li, Messrs. Ren Haifeng and Cui Wei will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' service contracts

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

Report of the Directors

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

Directors and senior management biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 15 to 18 of the Annual Report.

Directors' interests in share capital

As at 31 December 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 were as follows:

Name of director	Number of shares held and nature of interest
Ren Haifeng	Personal 4,400,000

The interests of the directors in the share options of the Company are separately disclosed in the section "Share option scheme" below.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Directors' rights to acquire shares or debentures

Apart from the details as disclosed under the headings "Directors' interests in share capital" above and "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

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 employees or executive directors of the Company or any of its subsidiaries to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted (together with shares issued pursuant to options exercised and shares in respect of which any option remains outstanding) under the New Share Option Scheme and any other share option schemes (excluding the Previous Share Option Scheme) of the Company is not permitted to exceed 10% of the shares of the Company in issue from time to time (excluding any shares in the Company issued pursuant to the New Share Option Scheme).

Subsequent to the adoption of the New Share Option Scheme on 14 May 2001, The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has introduced a number of changes to Listing Rules on share option schemes. These new rules came into effect on 1 September 2001. No share options have been granted under the New Share Option Scheme since its adoption on 14 May 2001. However, any option to be granted under the New Share Option Scheme shall be subject to the new changes which include, inter alia, the following:

- (a) the maximum number of shares issuable under share options to each eligible participant within any 12-month period is limited to 1% of the shares in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting;
- (b) share options granted to a director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by independent non-executive directors; and
- (c) the exercise price of share options is determined by directors, but may not be less than the higher of (i) the Stock Exchange closing price of the shares on the date of grant of the share options; and (ii) the average Stock Exchange closing price of the shares for the five trading days immediately preceding the date of the grant.

The Company shall amend, in due course, the terms of the New Share Option Scheme to comply with the requirements of the amended Listing Rules on share option schemes.

Report of the Directors

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 outstanding thereunder remain valid and exercisable until 27 July 2005 at HK\$0.17 per share. Pursuant to the Previous Share Option Scheme, there were 14,472,000 share options outstanding as at 31 December 2001, which if fully exercised, would represent approximately 0.47% of the Company's shares in issue as at that date.

The following share options granted under the Previous Share Option Scheme were outstanding during the year:

Name or category of participant	Number of shares in respect of options				Date of grant of share options*	Exercise price of share options** HK\$	Exercise period of share options outstanding at 31 December 2001	Price of Company's shares at date of exercise*** HK\$
	At 1 January 2001	Exercised during the year	Lapsed during the year	At 31 December 2001				
Directors								
Yang Chunshu	8,160,000	-	-	8,160,000	28/1/2000	0.17	28/7/2000 to 27/7/2005	
Shan Zumao	5,400,000	-	5,400,000	-	28/1/2000	0.17	-	
Yu Li	5,400,000	-	-	5,400,000	28/1/2000	0.17	28/7/2000 to 27/7/2005	
Ren Haifeng	5,400,000	5,400,000	-	-	28/1/2000	0.17	-	0.435
Cui Wei	5,400,000	5,400,000	-	-	28/1/2000	0.17	-	0.415
	<u>29,760,000</u>	<u>10,800,000</u>	<u>5,400,000</u>	<u>13,560,000</u>				
Other								
employees	12,732,000	10,548,000	1,272,000	912,000	28/1/2000	0.17	28/7/2000 to 27/7/2005	0.265
	43,200,000	-	43,200,000	-	10/6/1997	0.43		
	<u>85,692,000</u>	<u>21,348,000</u>	<u>49,872,000</u>	<u>14,472,000</u>				

No theoretical value of share options is disclosed as no share options were granted during the year.

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares as at the date of the exercise of the share options stated above is the weighted average of the Stock Exchange closing prices of the Company's shares immediately before the dates on which the options were exercised within the disclosure category.

Summary details of the Company's share option scheme are also set out in note 28 to the financial statements.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional issued share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled are deleted from the listing of outstanding options.

Directors' interests in contracts

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

Substantial shareholders

As at 31 December 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:

Shareholder	Number of shares held	Percentage of the Company's issued share capital
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. Tacko held the 1,265,767,000 shares stated above and CATIC (H.K.) is deemed under the SDI Ordinance to be interested in the same parcel of shares.
- (2) Speed Profit is a wholly-owned subsidiary of Catic Finance, which is in turn a wholly-owned subsidiary of CATIC. Speed Profit held the 508,616,000 shares stated above and Catic Finance is deemed under the SDI Ordinance to be interested in the same parcel of 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 under the SDI Ordinance to be interested in the same parcel of shares stated in (1) and (2) above.

Save for the interests referred to above, as at 31 December 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.

Connected transactions

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 Electric Power Company Limited ("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 new shares in the Company to Speed Profit at an issue price of HK\$0.13 per share. By reference to the prevailing market prices of the Company's shares on the date of completion, the above new shares issued were valued at HK\$0.11 per share, resulting in an adjustment of the cost of acquisition (including legal and professional fees and related expenses of HK\$2,502,556) to HK\$73.6 million in accordance with the requirements under the new Statement of Standard Accounting Practice No. 30. Hangzhou Sealand became a 70%-owned subsidiary of the Company after the acquisition. Further details of the acquisition are disclosed in the circular of the Company dated 22 January 2001.

On 23 November 2001, 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 one year commencing on 5 November 2001 at a monthly rental of HK\$39,000 (exclusive of rates, management fees and air-conditioning charges). The premises have been used as offices of the Company. The monthly rentals were determined with reference to open market rentals.

During the year, an aggregate provision of RMB7,430,000 (equivalent to HK\$6,943,958) was made and charged to the consolidated profit and loss account in respect of certain unsecured advances made by Hangzhou Sealand to Asia Capital Financial Group Limited, the minority shareholder in Hangzhou Sealand, and 盈華實業有限公司, a subsidiary of Asia Capital Financial Group Limited, prior to the acquisition by the Group of a 31% interest in Hangzhou Sealand in 2000.

Further details of the above transactions are included in note 33 to the financial statements.

Compliance with Code of Best Practice

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the accounting year covered by the Annual Report, except that the non-executive director and independent non-executive directors are not appointed for a specific term as required by paragraph 7 of the Code, but are subject to retirement by rotation at the annual general meeting of the Company in accordance with the bye-laws of the Company.

Audit committee

The Company has an audit committee, which was established in accordance with the requirements of the Code of Best Practice, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

Auditors

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

ON BEHALF OF THE BOARD

Yang Chunshu

Chairman

Hong Kong, 26 March 2002