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 principally 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 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 ("Hangzhou Sealand") which became a subsidiary of the Company during the year.

In the opinion of the directors, China National Aero-Technology Import & Export Corporation, a state-owned enterprise in the PRC, is the Company's ultimate holding company, 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.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time in the preparation of the current year's financial statements.

SSAP 9 (Revised)	Events after the balance sheet date
SSAP 14 (Revised)	Leases
SSAP 18 (Revised)	Revenue
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries
Interpretation 12	Business combinations – subsequent adjustment of fair values and goodwill initially reported
Interpretation 13	Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs and Interpretations which have had a significant effect on the financial statements are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. SSAP 9 (Revised) has had no major impact on these financial statements.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") *(continued)*

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 27 and 31 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. Provisions are now disclosed as a separate line item on the face of the consolidated balance sheet and additional disclosures are set out in note 26 to the financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against reserves. The adoption of the SSAP and Interpretation 13 has not resulted in a prior year adjustment. The required new additional disclosures are included in note 15 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairment of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements and has had no significant impact on the preparation of these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These 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 periodic remeasurement of the investment property and certain fixed assets 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 2001. 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 whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, 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 impairment losses.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

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

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of twenty years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

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) from 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";

(b) from the sale of electric and steam power, based on actual consumption derived from the reading of meters during the year;

(c) from the rendering of services, when the services are rendered;

(d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;

(e) rental income, on a time proportion basis over the lease terms; and

(f) government subsidies, on cash receipt basis.

3. 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.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

Fixed assets and depreciation

Fixed assets, other than investment properties and construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. 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.

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset 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 a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

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

Leasehold land/Land use rights	Over the remaining lease terms
Leasehold buildings	25 years or over the remaining lease terms, whichever is shorter
Leasehold improvements	4 years
Plant and machinery	5 years
Generation plant and related structure	15 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.

Construction in progress

Construction in progress represents fixed assets which are in their acquisition phase and is stated at cost less any impairment losses, and is not depreciated. The acquisition phase of an asset includes the period when the asset is under construction, installation and testing. Cost comprises the direct costs of construction together with borrowing costs incurred during the asset acquisition period that theoretically could have been avoided if expenditure for the asset had not been made. The capitalisation of borrowing costs ceases when substantially all of the activities necessary to prepare the asset for its intended use are completed. Construction in progress is transferred to the appropriate category of fixed asset when it is completed and ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the appropriate authorities.

3. 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 estimated 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.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on a straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Club debentures

Club debentures are held for long term purposes and are stated at cost less any impairment losses.

Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis. The investments are stated at cost less any impairment losses, on an individual investment basis.

3. 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 impairment 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. Provision is made for foreseeable losses as they are anticipated by management.

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 for construction contracts, comprising raw materials and sub-materials, 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.

Inventories for the generation of electric and steam power, comprising mainly coal and spare parts and consumables for repairs and maintenance of machinery and equipment, 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 based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

3. 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.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Provisions for warranties granted by the Group are recognised based on past experience of the level of repairs.

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, using 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

Foreign currency transactions 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 at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

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

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.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance (the "Ordinance") for those employees who are eligible to participate in the Scheme. The Scheme has operated since 1 December 2000. The Group's employer contributions are made based on a percentage of the employees' relevant income as defined under the Ordinance 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 were eligible and had 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 was frozen and no further contributions by the Group or the eligible employees were made after that date. When eligible employees leave the Group, they receive their entitlements pursuant to the existing rules of this fund.

The employees of the Group's subsidiary which operates in the PRC are required to participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount within the geographical area of their last employment at their retirement date. This PRC subsidiary is required to make contributions to a local social security bureau at a rate of 21% of the previous year's average basic salaries within the geographical area where the employees are under employment with this PRC subsidiary. This PRC subsidiary has no obligation for the payment of pension benefits beyond the annual contributions to the local social security bureau as set out above.

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 balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(a) the facade contracting works segment engages in 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;

(b) the electric and steam power supply segment engages in the generation and sale of electric and steam power in the regional industrial areas of Hangzhou in the PRC; and

(c) the long term investment segment engages in equity investment holding in certain companies.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

4. SEGMENT INFORMATION *(continued)*

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group	Facade contracting works		Electric and steam power supply		Long term investment		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Turnover	**309,417**	239,857	**48,262**	–	**–**	–	**357,679**	239,857
Other revenue	**39**	74	**3,405**	–	**–**	–	**3,444**	74
Total	**309,456**	239,931	**51,667**	–	**–**	–	**361,123**	239,931
Segment results	**5,354**	5,803	**(33,703)**	–	**(36,415)**	(120)	**(64,764)**	5,683
Interest income, rental income and unallocated gain							**6,813**	4,270
Unallocated expenses							**(11,483)**	(8,835)
Profit/(loss) from operating activities							**(69,434)**	1,118
Finance costs							**(1,912)**	(920)
Share of profit/(loss) of an associate			**(71)**	1,672			**(71)**	1,672
Profit/(loss) before tax							**(71,417)**	1,870
Tax							**(799)**	(431)
Profit/(loss) before minority interests							**(72,216)**	1,439
Minority interests							**2,896**	–
Net profit/(loss) attributable to shareholders							**(69,320)**	1,439
Segment assets	**329,646**	307,675	**173,213**	–	**200**	–	**503,059**	307,675
Interest in an associate	**–**	–	**–**	67,715	**–**	–	**–**	67,715
	329,646	307,675	**173,213**	67,715	**200**	–	**503,059**	375,390
Unallocated assets							**75,456**	97,911
Total assets							**578,515**	473,301
Segment liabilities	**221,590**	208,085	**38,995**	–	**–**	–	**260,585**	208,085
Unallocated liabilities							**1,227**	1,144
Total liabilities							**261,812**	209,229

4. SEGMENT INFORMATION *(continued)*

(a) Business segments (continued)

Group	Facade contracting works		Electric and steam power supply		Long term investment		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information:								
Depreciation	**3,209**	3,481	**7,484**	–	**–**	–	**10,693**	3,481
Unallocated amounts							**231**	213
							10,924	3,694
Capital expenditure	**3,488**	2,834	**7,232**	–	**–**	–	**10,720**	2,834
Unallocated amounts							**103**	852
							10,823	3,686
Impairment losses	**–**	2,380	**23,006**	–	**36,415**	120	**59,421**	2,500
Amortisation of goodwill	**–**	–	**3,462**	459	**–**	–	**3,462**	459
Deficit on revaluation of an investment property (unallocated)	**–**	**–**	**–**	–	**–**	–	**1,800**	160
Deficit on revaluation of fixed assets	**–**	–	**8,566**	–	**–**	–	**8,566**	–
Provision for doubtful receivables	**2,825**	1,163	**6,944**	–	**–**	–	**9,769**	1,163

(b) Geographical segments

The following table presents revenue, profit/(loss) and certain asset and expenditure information for the Group's geographical segments.

	Hong Kong		Elsewhere in the PRC		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Turnover	**301,519**	231,305	**56,160**	8,552	**357,679**	239,857
Segment results	**(32,140)**	6,521	**(32,624)**	(838)	**(64,764)**	5,683
Other segment information:						
Segment assets	**351,802**	356,668	**226,713**	116,633	**578,515**	473,301
Capital expenditure	**3,591**	3,686	**7,232**	–	**10,823**	3,686

5. TURNOVER, REVENUE AND GAIN

Turnover represents the value of contracting works performed; and income received and receivable from the generation and sale of electric and steam power.

An analysis of turnover, other revenue and gain is as follows:

	Group	
	2001	2000
	HK$	*HK$*
Turnover		
Value of contracting works performed	**309,416,546**	239,856,767
Generation and sale of electric and steam power	**48,262,396**	–
	357,678,942	239,856,767
Other revenue		
Interest income	**5,296,379**	4,270,545
Rental income	**1,512,000**	–
Government subsidy	**1,450,622**	–
Income from installation of structure for steam supply	**1,743,446**	–
Others	**249,757**	74,006
	10,252,204	4,344,551
Gain		
Gain on disposal of subsidiaries	**5,000**	–
Other revenue and gain	**10,257,204**	4,344,551
Total revenue	**367,936,146**	244,201,318

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Group	
	2001	2000
	HK$	*HK$*
Cost of contracting works:		
Cost of contracting works performed	**267,595,786**	195,126,127
Provision for warranty *(note 26)*	**1,207,897**	2,426,715
Provision for inventory obsolescence	**–**	150,000
	268,803,683	197,702,842
Cost of electric and steam power supply	**37,394,960**	–
	306,198,643	197,702,842
Depreciation	**10,923,819**	3,693,701
Less: Amounts capitalised to long term construction contracts	**(1,429,355)**	(1,000,391)
	9,494,464	2,693,310
Minimum lease payments under operating leases on land and buildings	**1,787,831**	1,205,884
Less: Amounts capitalised to long term construction contracts	**(438,901)**	(493,161)
	1,348,930	712,723
Staff costs (excluding directors' remuneration *(note 8)*):		
Wages and salaries	**17,546,561**	15,282,546
Pension contributions	**2,420,144**	1,712,822
Less: Forfeited contributions	**(263,898)**	(602,619)
Net pension contributions	**2,156,246**	1,110,203
Other operating expenses:		
Severance payments	**519,808**	272,765
Loss on disposal of subsidiaries	**–**	70,729
Loss on disposal of a property held for sale	**–**	642,297
Provision for impairment of properties held for sale	**–**	2,380,400
Provision for doubtful receivables	**9,768,858***	1,162,935
Loss on disposal of fixed assets	**119**	2,552
	10,288,785	4,531,678
Auditors' remuneration	**818,500**	797,500
Exchange differences, net	**24,372**	94,756

* Included in the provision for doubtful receivables is RMB7,430,000 (equivalent to HK$6,943,958) made against the amounts due from 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 (see note 33(iv)).

7. FINANCE COSTS

	Group	
	2001	2000
	HK$	*HK$*
Interest on overdrafts and bank loans		
wholly repayable within five years	**2,642,960**	809,356
Less: Amounts capitalised to long term construction contracts	**(835,401)**	(778,613)
	1,807,559	30,743
Interest on a loan from a fellow subsidiary	**–**	853,671
	1,807,559	884,414
Interest payable on finance leases	**104,876**	36,000
	1,912,435	920,414

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Group	
	2001	2000
	HK$	*HK$*
Fees:		
Executive directors	**216,000**	202,100
Non-executive directors	**360,000**	360,000
	576,000	562,100
Other emoluments (executive directors):		
Basic salaries, housing, other allowances and benefits in kind	**7,039,196**	6,284,000
Retirement scheme contributions	**459,197**	294,190
Bonuses paid or payable	**470,000**	440,000
	8,544,393	7,580,290

8. DIRECTORS' REMUNERATION *(continued)*

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

	Number of directors	
	2001	2000
Nil – HK$1,000,000	**7**	7
HK$1,000,001 – HK$1,500,000	**–**	–
HK$1,500,001 – HK$2,000,000	**1**	1
HK$2,500,001 – HK$3,000,000	**2**	2
	10	10

The total remuneration of the independent non-executive directors for the year amounted to HK$240,000 (2000: HK$240,000).

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

The directors' remuneration has not been included in the staff costs disclosed in note 6 above.

9. FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

The five highest paid individuals included three (2000: three) directors, details of whose remuneration are set out in note 8 above. The remuneration of the other two (2000: two) non-director, highest paid individuals is analysed and fell within the bands set out below.

	Group	
	2001	2000
	HK$	*HK$*
Basic salaries, housing, other allowances and benefits in kind	**2,673,952**	2,656,500
Retirement scheme contributions	**131,838**	115,762
Bonuses paid or payable	**170,000**	200,000
	2,975,790	2,972,262

	Number of employees	
	2001	2000
HK$1,000,000 – HK$1,500,000	**1**	1
HK$1,500,001 – HK$2,000,000	**1**	1
	2	2

10. 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 current and prior years. The tax charge for the year represents income tax in the mainland of the PRC, which is calculated at the applicable tax rate based on existing PRC legislations, interpretations and practices in respect thereof.

The tax charge for the year is represented by:

	Group	
	2001	2000
	HK$	*HK$*
Group:		
Mainland China	**774,468**	171,324
Share of tax attributable to an associate	**24,287**	259,927
Tax charge for the year	**798,755**	431,251

There was no provision for deferred tax in respect of the year (2000: Nil).

The principal components of the Group's unprovided deferred tax asset arising from tax losses and cumulative timing differences at the balance sheet date, calculated at 16% (2000: 16%), are as follows:

	Group	
	2001	2000
	HK$	*HK$*
Accelerated depreciation allowances	**(124,291)**	54,888
Revenue deferred for tax purposes	**8,457,653**	8,797,564
Tax losses carried forward	**(28,908,386)**	(29,006,093)
General provision for bad debts	**(254,400)**	–
Others	**(7,447)**	(310,740)
	(20,836,871)	(20,464,381)

11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK$76,931,598 (2000: net profit of HK$516,031).

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss attributable to shareholders of HK$69,319,808 (2000: net profit of HK$1,438,931) and the weighted average of 2,965,969,603 (2000: 1,316,946,248) shares in issue during the year.

No diluted loss per share for the year has been presented as the outstanding share options, if fully exercised, would not have had a dilutive effect on the basic loss per share. No diluted earnings per share for 2000 has been presented as the exercise price of the outstanding share options was higher than the average market price of the shares of the Company during that year.

13. INVESTMENT PROPERTY

	Group and Company 2001 *HK$*
At beginning of year	**23,000,000**
Deficit on revaluation	**(1,800,000)**
At 31 December 2001	**21,200,000**

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

The investment property was revalued by Norton Appraisals Limited, a firm of independent professional valuers, at HK$21,200,000 on an open market and existing use basis as at 31 December 2001. The deficit arising from the revaluation of HK$1,800,000 (2000: HK$159,843) was charged to the Group's profit and loss account for the year. The investment property is leased to a third party under an operating lease, further summary details of which are included in note 31 to the financial statements.

14. FIXED ASSETS

Group	Construction in progress	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Generation plant and related structure	Furniture, fixtures and equipment	Motor vehicles	Tools and moulds	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Cost or valuation:									
At beginning of year	–	17,565,925	10,146,152	5,156,730	–	11,819,331	3,957,971	1,368,134	50,014,243
Acquisition of a subsidiary	4,906,801	49,812,772	–	–	94,175,108	–	2,505,836	–	151,400,517
Additions	2,104,769	791,267	223,929	1,958,045	3,405,464	1,103,500	1,235,879	–	10,822,853
Disposals	–	–	–	–	–	(1,887)	–	–	(1,887)
Deficit on revaluation	–	–	–	–	(34,464,869)	–	–	–	(34,464,869)
Transfers	(6,976,991)	1,468,395	–	–	5,284,297	–	224,299	–	–
At 31 December 2001	**34,579**	**69,638,359**	**10,370,081**	**7,114,775**	**68,400,000**	**12,920,944**	**7,923,985**	**1,368,134**	**177,770,857**
Analysis of cost or valuation:									
At cost	34,579	69,638,359	10,370,081	7,114,775	–	12,920,944	7,923,985	1,368,134	109,370,857
At 31 December 2001 valuation	**–**	**–**	**–**	**–**	**68,400,000**	**–**	**–**	**–**	**68,400,000**
	34,579	69,638,359	10,370,081	7,114,775	68,400,000	12,920,944	7,923,985	1,368,134	177,770,857
Accumulated depreciation:									
At beginning of year	–	4,982,111	9,599,786	4,446,292	–	10,263,504	2,041,825	1,341,320	32,674,838
Acquisition of a subsidiary	–	9,389,207	–	–	20,311,325	–	1,449,228	–	31,149,760
Provided during the year	–	2,263,080	280,853	805,470	5,587,504	973,316	1,013,596	–	10,923,819
Deficit on revaluation	–	–	–	–	(25,898,829)	–	–	–	(25,898,829)
Disposals	–	–	–	–	–	(1,209)	–	–	(1,209)
At 31 December 2001	**–**	**16,634,398**	**9,880,639**	**5,251,762**	**–**	**11,235,611**	**4,504,649**	**1,341,320**	**48,848,379**
Net book value:									
At 31 December 2001	**34,579**	**53,003,961**	**489,442**	**1,863,013**	**68,400,000**	**1,685,333**	**3,419,336**	**26,814**	**128,922,478**
At 31 December 2000	–	12,583,814	546,366	710,438	–	1,555,827	1,916,146	26,814	17,339,405

14. **FIXED ASSETS** *(continued)*

Company

	Furniture, fixtures and equipment	**Motor vehicle**	**Total**
	HK$	*HK$*	*HK$*
Cost:			
At beginning of year	203,534	780,000	983,534
Additions	102,980	–	102,980
At 31 December 2001	**306,514**	**780,000**	**1,086,514**
Accumulated depreciation:			
At beginning of year	143,793	195,000	338,793
Provided during the year	35,703	195,000	230,703
At 31 December 2001	**179,496**	**390,000**	**569,496**
Net book value:			
At 31 December 2001	**127,018**	**390,000**	**517,018**
At 31 December 2000	59,741	585,000	644,741

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

At cost, located in:	*HK$*
Hong Kong, held under a long term lease	6,000,000
The PRC other than Hong Kong, held under a medium term lease	63,638,359
	69,638,359

At 31 December 2001, certain of the Group's leasehold land and buildings and generation plant and related structure with net book values of approximately HK$22,850,000 (2000: HK$4,383,000) and HK$18,500,000 (2000: Nil), respectively, were pledged to secure general banking facilities granted to the Group (see note 24).

14. FIXED ASSETS *(continued)*

The net book value of the fixed assets of the Group held under finance leases included in the total amount of the Group's motor vehicles at 31 December 2000 amounted to HK$1,241,710. The depreciation charge in the prior year in respect of such assets amounted to HK$413,904. The outstanding finance lease payments were settled in full in the current year (note 27).

The Group's generation plant and related structure was revalued at 31 December 2001 by Norton Appraisals Limited, a firm of independent professional valuers, on an open market and existing use basis. A deficit of HK$8,566,040 resulting from the revaluation has been charged to the profit and loss account. Had these generation plant and related structure been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been HK$68,400,000, which is the same as the revalued amount stated on Page 55.

Prior to its transfer to other categories of fixed assets, the carrying amount of construction in progress included capitalized interest of HK$232,049 (2000: nil). No interest was capitalized in the construction in progress at the balance sheet date.

15. GOODWILL

SSAP 30 was adopted during the year as detailed in note 2 to the financial statements. In the prior year, the Group acquired a 31% equity interest in Hangzhou Sealand. Goodwill arising from the 31% acquisition was included as part of the Group's interest in an associate as at 31 December 2000. During the year, the Group acquired a further 39% equity interest in Hangzhou Sealand which became a subsidiary of the Group thereafter.

The value of Hangzhou Sealand was revalued at 31 December 2001 by Norton Appraisals Limited, a firm of independent professional valuers, through the application of discounted cash method, resulting in an impairment loss of goodwill of HK$23 million. The impairment was a result of the adverse operating environment relating to Hangzhou Sealand, including the rise in raw material cost and the reduction of pricing on sale of electricity which occurred during the year subsequent to the acquisition of the 39% equity interest in Hangzhou Sealand. The amount of the goodwill capitalised as an asset arising from the acquisition of Hangzhou Sealand less accumulated amortisation and impairment loss is as follows:

	Group *HK$*
Cost:	
Transfer from interest in an associate *(note 17)*	36,711,423
Acquisition of a subsidiary *(note 30(c))*	35,478,137
At 31 December 2001	**72,189,560**
Accumulated amortisation and impairment:	
Transfer from interest in an associate *(note 17)*	458,893
Amortisation for the year	3,461,652
Impairment arising during the year	23,005,675
At 31 December 2001	**26,926,220**
Net carrying amount:	
At 31 December 2001	**45,263,340**
At 31 December 2000	–

15. GOODWILL *(continued)*

The acquisition of 39% equity interest in Hangzhou Sealand during the year at a consideration of HK$81,120,000 was satisfied by a cash payment of HK$14,999,920, and the issue and allotment of 508,616,000 new shares in the Company 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$73,622,556 in accordance with the requirements under SSAP 30. Further details of the acquisition are set out in note 33 to the financial statements.

16. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK$	*HK$*
Unlisted shares, at cost	**43,652,031**	43,652,024
Due from subsidiaries	**439,092,149**	340,483,909
Due to subsidiaries	**(34,490)**	(3,745,155)
	482,709,690	380,390,778
Less: Provisions for impairment	**(276,067,469)**	(244,904,112)
	206,642,221	135,486,666

Except for the loan to a wholly-owned subsidiary as at 31 December 2000 amounting to HK$30,000,000 which bore interest at 5% per annum, the balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

16. INTERESTS IN SUBSIDIARIES *(continued)*

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/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
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
FEA Engineering Limited	British Virgin Islands	US$100	–	100	Investment holding
FEA Investments 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
Willbert Limited	British Virgin Islands	US$1	–	100	Dormant
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

16. **INTERESTS IN SUBSIDIARIES** *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid-up ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Loyal Truth Investment Limited	Hong Kong/ PRC	HK$2	–	100	Property holding
Total Real Investment Limited	Hong Kong/ PRC	HK$2	–	100	Property holding
FEA Technology Limited	Hong Kong	HK$2	–	100	Provision of transportation services
Far East Aluminium Works Company Limited	Hong Kong	HK$200	–	100	Design, manufacture and installation of curtain wall, aluminium windows and other related products
Seniford Limited	Hong Kong	HK$2	–	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

16. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid-up ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Netfortune Limited	Hong Kong/ PRC	HK$500,000	–	100	Installation of curtain wall and aluminium windows
China Aero International Group Limited	Hong Kong	HK$2	–	100	Dormant
Starnet Investment Limited	British Virgin Islands	US$1	100	–	Investment holding
Hangzhou Sealand Electric Power Company Limited	PRC	RMB50,000,000	–	70*	Generation and sale of electric and steam power

* 39% equity interest was further acquired during the year.

17. INTEREST IN AN ASSOCIATE

	Group	
	2001	2000
	HK$	*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 interest in an associate as at 31 December 2000 represented the Group's 31% equity interest in Hangzhou Sealand. During the year, the Group acquired a further 39% equity interest in Hangzhou Sealand which became a subsidiary of the Company after the acquisition (note 16).

The balance with the associate as at 31 December 2000 was unsecured, interest-free and had no fixed terms of repayment.

18. LONG TERM INVESTMENTS

	Group	
	2001	2000
	HK$	*HK$*
Unlisted, at cost	**36,714,905**	434,620
Advances to investee companies	**20,000**	36,810,380
	36,734,905	37,245,000
Less: Provision for impairment in value	**(36,534,905)**	(37,245,000)
	200,000	–

18. LONG TERM INVESTMENTS *(continued)*

The unlisted investments as at 31 December 2000 represented 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 as at 31 December 2000 represented loans made to these companies. The Group's interest in Fortune Leader and FEA Design were classified under long term investments as, in the opinion of the directors, the Group did not exercised any influence over the operations of these companies and had no obligation to continue financing their operations. Full provision was made against the investment costs and the advances to these companies in prior years. During the year, the investment cost in and the advances made to Fortune Leader of HK$334,620 and HK$36,790,380, respectively, together with the full provision thereon were released from the long term investments upon the disposal of the subsidiary which held the investment in Fortune Leader.

During the year, the Group acquired from an independent third party (the "Vendor") a 23.5% equity interest in Pimpernel Resources Limited ("Pimpernel") at a consideration of HK$26,000,000 which was satisfied by an issue and allotment of 200,000,000 new shares in the Company at an issue price 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$0.18 per share, resulting in an adjustment of the cost of acquisition (including legal and professional fees and related expenses of HK$414,905) to HK$36,414,905 in accordance with SSAP 30. The Group's interest in Pimpernel has been classified under long term investments as, in the opinion of the directors, the Group has not exercised any influence over the operations of this company and has no obligation to finance its operations. Pursuant to the agreement entered into between the Vendor and the Group, 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") and the Vendor has delivered to the Group a cheque post dated to 30 June 2002 in favour of the Group in the sum of the Warranted Profit of HK$2,000,000.

In the opinion of the directors, the Group may not be able to recover the investment cost in Pimpernel in light of the continued difficult operating conditions of the information technology sector which has adverse impact on the market development potential of this information technology service. Furthermore, the directors have doubts as to whether the Vendor will be able to honour the Warranted Profit. Accordingly, an impairment loss of HK$36,414,905 was provided and charged to profit and loss account for the year.

19. PROPERTIES HELD FOR SALE

	Group	
	2001	2000
	HK$	*HK$*
Balance at beginning of year	**27,554,169**	43,912,577
Additions	**3,091,481**	–
Disposals	**–**	(16,358,408)
	30,645,650	27,554,169
Less: Provision for impairment	**(4,341,369)**	(4,341,369)
At lower of carrying cost or net realisable value	**26,304,281**	23,212,800

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 with the property developer to settle the amount in the following manner during the year:

(i) the Group to accept two properties of the relevant development project in the amount of approximately RMB3,289,660 (HK$3,091,481);

(ii) the property developer to settle a trade payable in the amount of RMB1,123,549 (HK$1,055,863) on behalf of the Group; and

(iii) the Group to receive a cash settlement of RMB1,014,929 (HK$953,798) by two instalments in the amounts of RMB507,465 and RMB507,464.

The cash settlement of RMB1,014,929 has been received. The transfer of the ownership of the two properties to the Group was also completed during the year.

The properties are stated at the lower of carrying cost or net realisable value based on their market value as at the balance sheet date as determined by the revaluation of the properties held for sale, on an individual property basis, performed on an open market value basis as at 31 December 2001 by Vigers Hong Kong Ltd., a firm of independent professional valuers.

In the prior year, one of the properties held for sale was pledged to secure the general banking facilities granted to the Group as detailed in note 24.

The properties held for sale as at 31 December 2001 and 2000 were carried at their net realisable values.

20. INVENTORIES

	Group	
	2001	2000
	HK$	*HK$*
Raw materials	**3,528,997**	544,637
Sub-materials	**2,145,938**	1,829,636
	5,674,935	2,374,273
Less: Provision for obsolescence	**(1,497,727)**	(1,497,727)
	4,177,208	876,546

There were no inventories carried at net realisable value at the balance sheet date (2000: Nil).

21. AMOUNT DUE FROM/(TO) CONTRACT CUSTOMERS

	Group	
	2001	2000
	HK$	*HK$*
Costs incurred to date on long term construction contracts plus attributable profits, less foreseeable losses	**1,750,771,558**	1,758,574,101
Less: Progress payments received and receivable	**(1,881,661,244)**	(1,830,164,228)
	(130,889,686)	(71,590,127)
Amount due from contract customers	**13,646,010**	33,670,525
Amount due to contract customers	**(144,535,696)**	(105,260,652)
	(130,889,686)	(71,590,127)

22. ACCOUNTS AND RETENTIONS RECEIVABLE

	Group	
	2001	2000
	HK$	*HK$*
Accounts receivable	**88,367,919**	72,432,765
Retentions receivable	**72,616,841**	77,599,224
	160,984,760	150,031,989
Less: Provision for doubtful debts	**(13,057,698)**	(11,392,115)
	147,927,062	138,639,874

An aged analysis of accounts receivable is as follows:

	Group	
	2001	2000
	HK$	*HK$*
Current	**71,145,276**	65,654,180
31-60 days	**13,890,191**	929,098
61-90 days	**139,800**	925,000
Over 90 days	**3,192,652**	4,924,487
	88,367,919	72,432,765
Less: Provision for doubtful debts	**(3,235,924)**	(3,525,543)
	85,131,995	68,907,222

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 aged 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.

22. ACCOUNTS AND RETENTIONS RECEIVABLE *(continued)*

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 prevalent in the Hong Kong building industry. Far East Aluminium recognises 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 14 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 amounts previously paid and retentions attributable to the sub-contract works as explained above.

The normal credit term of accounts receivable from the sale of electric and water steam power is 30-60 days.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001	2000	**2001**	2000
	HK$	*HK$*	***HK$***	*HK$*
Cash and bank balances	**26,708,332**	12,321,287	**586,343**	537,814
Short term deposits	**116,426,814**	114,839,450	**52,879,683**	72,020,464
	143,135,146	127,160,737	**53,466,026**	72,558,278

24. INTEREST-BEARING BANK BORROWINGS

	Group	
	2001	2000
	HK$	*HK$*
Bank overdrafts, secured	**13,405**	2,609,743
Import loans, secured	**23,546**	21,131,565
Bank loans, secured	**29,420,561**	–
	29,457,512	23,741,308
Bank overdrafts and import loans repayable within one year or on demand	**36,951**	23,741,308
Bank loans repayable:		
Within one year or on demand	**26,336,449**	–
In the second year	**3,084,112**	–
	29,420,561	–
	29,457,512	23,741,308
Portion classified as current liabilities	**(26,373,400)**	(23,741,308)
Non-current portion	**3,084,112**	–

The Group's banking facilities are secured by:

(i) pledges of certain of the Group's leasehold land and buildings with a net book value of approximately HK$22,850,000 (2000: HK$4,383,000) *(note 14)*;

(ii) pledges of the Group's generation plant and related structure with a net book value of HK$18,500,000 (2000: Nil) *(note 14)*;

(iii) a pledge of certain of the Group's short term deposits amounting to HK$41,500,000 (2000: HK$27,651,552); and

(iv) corporate guarantees amounting to an aggregate of HK$171,000,000 (2000: HK$166,000,000) executed by the Company *(note 32)*.

In addition, short term bank loans of HK$2,803,738 as at the balance sheet date were guaranteed by a subsidiary of the minority shareholder of a subsidiary (2000: Nil).

In the prior year, certain of the Group's bank loans were also secured by a pledge of a property held for sale situated in the PRC.

25. ACCOUNTS AND BILLS PAYABLE

An aged analysis of accounts and bills payable is as follows:

	Group	
	2001	2000
	HK$	*HK$*
Current	**19,622,647**	14,493,083
31-60 days	**3,801,918**	2,991,440
61-90 days	**2,004,093**	2,729,816
Over 90 days	**991,644**	2,068,317
	26,420,302	22,282,656

26. WARRANTY PROVISION

	Group
	HK$
At beginning of year	8,105,879
Additional provision	1,207,897
Amount utilised during the year	(2,706,259)
At 31 December 2001	**6,607,517**
Portion classified as current liabilities	(6,607,517)
Long term portion	–

The Group provides warranties to its customers on facade building contracting works as stipulated in contracts, under which defective works are rectified or replaced. The amount of warranty provision is estimated based on the past experience of the level of defective works and the estimation basis is reviewed on an ongoing basis and revised where appropriate.

27. FINANCE LEASE PAYABLES

The group leased certain of its motor vehicles for its facade building contracting works business. These leases were classified as finance leases and the outstanding finance lease payment was repaid in full in the current year.

At 31 December 2000, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2001	2000	**2001**	2000
	HK$	*HK$*	***HK$***	*HK$*
Amount payable:				
Within one year	–	496,008	–	400,000
In the second to fifth years, inclusive	–	1,302,021	–	1,049,997
Total minimum finance lease payments	–	1,798,029	–	1,449,997
Future finance charges	–	(348,032)		
Total net lease payables	–	1,449,997		
Less: Portion classified as current liabilities	–	(400,000)		
Long term portion of lease payables	–	1,049,997		

SSAP 14 was revised and implemented during the year, and requires certain new disclosures which have been included for the prior year comparative amounts above.

28. SHARE CAPITAL

Shares

	Company	
	2001	2000
	HK$	*HK$*
Authorised:		
6,000,000,000 shares of HK$0.10 each	**600,000,000**	600,000,000
Issued and fully paid:		
3,075,731,000 (2000: 2,345,767,000) shares of HK$0.10 each	**307,573,100**	234,576,700

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

(a) On 4 January 2001, 508,616,000 shares of HK$0.10 each were issued to a fellow subsidiary of the Company as partial consideration for the acquisition of a further 39% equity interest in Hangzhou Sealand, as further detailed in notes 15, 16 and 30(c) to the financial statements.

(b) On 20 March 2001 and 10 April 2001, 200,000,000 shares of HK$0.10 each in total were issued to an independent third party as the consideration for the acquisition of a long term investment, as further detailed in note 18 to the financial statements.

(c) The subscription rights attaching to options in respect of 21,348,000 shares were exercised at the exercise price of HK$0.17 per share, resulting in the issue of 21,348,000 shares of HK$0.10 each for a total cash proceeds, before expenses, of HK$3,629,160.

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

	Notes	**Carrying amount**	**Number of shares in issue**
		HK$	
At beginning of year		234,576,700	2,345,767,000
Shares issued for the acquisition of a further 39% equity interest in Hangzhou Sealand	*(a)*	50,861,600	508,616,000
Shares issued for the acquisition of a long term investment	*(b)*	20,000,000	200,000,000
Shares issued upon exercise of share options	*(c)*	2,134,800	21,348,000
At end of year		307,573,100	3,075,731,000

28. SHARE CAPITAL *(continued)*

Share options

The Company operated two share option schemes, the "Previous Share Option Scheme" and the "New Share Option Scheme" the definitions and further details of which are set out under the heading "Share option scheme" in the Report of the Directors on page 23.

(a) At the beginning of the year, there were options in respect of 85,692,000 shares outstanding under the Previous Share Option Scheme, which entitled the holders to subscribe for 43,200,000 and 42,492,000 shares in the Company at any time up to 9 December 2002 and during the period from 28 July 2000 to 27 July 2005, respectively. The exercise prices of these options were HK$0.43 and HK$0.17, respectively.

(b) Options in respect of a total of 21,348,000 shares were exercised during the year at an exercise price of HK$0.17 per share.

(c) During the year, options in respect of 43,200,000 and 6,672,000 shares with an exercise price of HK$0.43 and HK$0.17 per share, respectively, lapsed.

(d) At the balance sheet date, the Company had outstanding options in respect of 14,472,000 shares previously granted under the Previous Share Option Scheme, with an exercise period from 28 July 2000 to 27 July 2005 and an exercise price of HK$0.17 per share. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 14,472,000 additional shares of HK$0.10 each for a total cash proceeds, before expenses, of HK$2,460,240.

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

	Notes	**Number of shares in respect of options granted**
Outstanding at 1 January 2001	*(a)*	85,692,000
Exercised during the year	*(b)*	(21,348,000)
Lapsed during the year	*(c)*	(49,872,000)
Outstanding at 31 December 2001	*(d)*	14,472,000

29. RESERVES

Group

	Share premium account	Capital reserve*	Reserve fund**	Exchange fluctuation reserve	Accumulated losses	Total
	HK$	HK$	HK$	HK$	HK$	HK$
At 1 January 2000	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)	–
At 31 December 2000 and 1 January 2001	217,203,159	162,134	706,937	–	(188,576,492)	29,495,738
Issue of shares	22,752,840	–	–	–	–	22,752,840
Net loss for the year	–	–	–	–	(69,319,808)	(69,319,808)
Transfer to reserve fund	–	–	651,532	–	(651,532)	–
At 31 December 2001	**239,955,999**	**162,134**	**1,358,469**	**–**	**(258,547,832)**	**(17,071,230)**
Reserves retained by:						
Company and subsidiaries	239,955,999	162,134	1,358,469	–	(258,547,832)	(17,071,230)
31 December 2001	**239,955,999**	**162,134**	**1,358,469**	**–**	**(258,547,832)**	**(17,071,230)**
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	217,203,159	162,134	706,937	–	(188,576,492)	29,495,738

* As detailed in note 2 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits negative goodwill in respect of acquisitions which occurred prior to 1 January 2001 to remain credited to the capital reserve. The amount of negative goodwill remaining in capital reserve is HK$162,134 as at 1 January and 31 December 2001.

** The balance represents the Group's share of the statutory reserve fund of a subsidiary (2000: an associate) operating as a Foreign Investment Enterprise in the PRC. The reserve fund is non-distributable in nature.

29. RESERVES *(continued)*

Company

	Share premium	Contributed surplus	Accumulated losses	Total
	HK$	*HK$*	*HK$*	*HK$*
At 1 January 2000	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 and 1 January 2001	217,203,159	15,652,000	(205,178,165)	27,676,994
Issue of shares	22,752,840	–	–	22,752,840
Net loss for the year	–	–	(76,931,598)	(76,931,598)
At 31 December 2001	239,955,999	15,652,000	(282,109,763)	(26,501,764)

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. The Company's share premium account of HK$239,955,999 as at 31 December 2001 may be distributed in the form of fully paid bonus shares.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2001 *HK$*	2000 *HK$*
Profit/(loss) from operating activities	**(69,433,802)**	1,118,104
Interest income	**(5,296,379)**	(4,270,545)
Deficit on revaluation of an investment property	**1,800,000**	159,843
Amortisation of goodwill	**3,461,652**	458,893
Impairment in value of goodwill	**23,005,675**	–
Deficit on revaluation of fixed assets	**8,566,040**	–
Loss/(gain) on disposal of subsidiaries	**(5,000)**	70,729
Loss on disposal of fixed assets	**119**	2,552
Impairment in value of a long term investment	**36,414,905**	120,000
Loss on disposal of a property held for sale	**–**	642,297
Impairment in value of properties held for sale	**–**	2,380,400
Depreciation	**9,494,464**	2,693,310
Decrease in rental and utility deposits	**112,927**	76,841
Decrease/(increase) in inventories	**(691,513)**	892,363
Movement in amounts due from/to contract customers	**61,564,315**	37,406,280
Increase in accounts and retention receivable	**(6,092,018)**	(20,284,602)
Decrease/(increase) in prepayments, deposits and other receivables	**16,419,372**	(2,738,315)
Increase in amounts advanced to investee companies	**–**	(20,000)
Increase in accounts and bills payable	**3,492,108**	1,807,842
Increase/(decrease) in warranty provision	**(1,498,362)**	1,011,149
Decrease in other payables and accrued liabilities	**(3,881,064)**	(19,255,619)
Net cash inflow from operating activities	**77,433,439**	2,271,522

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing during the year

	Issued capital (including share premium account)	Bank loans	Trust receipt loans with original maturity over 3 months when acquired	Loan advanced from a fellow subsidiary	Finance lease payables	Minority interest
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Balance at 1 January 2000	256,658,268	–	4,701,509	10,000,000	–	–
Inception of finance lease contracts	–	–	–	–	1,600,000	–
Shares issued for the acquisition of an investment property	17,000,040	–	–	–	–	–
Net cash inflow/(outflow) from financing	178,121,551	–	(1,571,075)	(10,000,000)	(150,003)	–
Balance at 31 December 2000 and 1 January 2001	451,779,859	–	3,130,434	–	1,449,997	–
Shares issued for the acquisition of a further 39% equity interest in a subsidiary *(note 15)*	56,120,080	–	–	–	–	–
Shares issued for the acquisition of a long term investment *(note 18)*	36,000,000	–	–	–	–	–
Acquisition of a subsidiary *(note 30(c))*	–	29,420,561	–	–	–	29,097,799
Share of loss for the year	–	–	–	–	–	(2,896,373)
Net cash inflow/(outflow) from financing	3,629,160	–	(3,106,888)	–	(1,449,997)	–
Balance at 31 December 2001	**547,529,099**	**29,420,561**	**23,546**	**–**	**–**	**26,201,426**

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Acquisition of a subsidiary

	2001 HK$	2000 HK$
Net assets acquired:		
Fixed assets	120,250,757	–
Cash and bank balances	1,854,522	–
Accounts receivables	6,286,651	–
Prepayments, deposits and other receivables	7,937,054	–
Inventories	2,609,149	–
Accounts payable	(645,538)	–
Other payables and accrued liabilities	(10,109,842)	–
Tax payable	(152,743)	–
Interest-bearing bank and other borrowings	(29,420,561)	–
Minority interests	(29,097,799)	–
	69,511,650	–
Goodwill on acquisition *(note 15)*	35,478,137	–
	104,989,787	–
Satisfied by:		
Cash	14,999,920	–
Shares issued	56,120,080	–
Purchase consideration	71,120,000	–
Transfer from interest in an associate to interests in subsidiaries	31,367,231	–
Legal and professional fees and related expenses incurred	2,502,556	–
	104,989,787	–

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2001 HK$	2000 HK$
Cash consideration	(14,999,920)	–
Cash and bank balances acquired	1,854,522	–
Legal and professional fees and related expenses incurred	(2,502,556)	–
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(15,647,954)	–

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Acquisition of a subsidiary *(continued)*

During the year, the Group acquired a further 39% equity interest in Hangzhou Sealand which became a subsidiary of the Company thereafter, as detailed in notes 15 and 16 to the financial statements. The purchase consideration of HK$81,120,000 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 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$73,622,556 in accordance with the requirements under SSAP 30.

Since acquisition by the Group, Hangzhou Sealand contributed HK$48,262,396 to the Group's turnover and HK$36,217,000 to the consolidated loss after tax and before minority interests for the year ended 31 December 2001.

Since acquisition by the Group, Hangzhou Sealand contributed HK$14,123,000 to the Group's net operating cash flows, paid HK$1,652,000 in respect of the cash flows for net returns on investments and servicing of finance, paid HK$749,000 of tax, gave rise to investing cash outflows of HK$7,232,000 for the year ended 31 December 2001, but had no significant impact in respect of the Group's cash flows for financing activities.

(d) Disposal of subsidiaries

	2001	2000
	HK$	*HK$*
Net assets disposed of:		
Fixed assets	**–**	537,420
Cash and bank balances	**–**	129,609
Prepayments and other receivables	**–**	91,854
Other payables and accrued liabilities	**(5,000)**	(588,154)
	(5,000)	170,729
Gain/(loss) on disposal of subsidiaries	**5,000**	(70,729)
	–	100,000
Satisfied by:		
Remaining shareholding classified as a long term investment	**–**	100,000

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(d) Disposal of subsidiaries *(continued)*

One of the subsidiaries disposed of in the prior year became a long term investment of the Group. The amount of HK$100,000 represents the Group's remaining cost of the investment in 20% of the issued capital of this former subsidiary which was fully provided for in the prior year *(note 18)*.

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

	2001	2000
	HK$	*HK$*
Cash consideration	–	–
Cash and bank balances disposed of	–	(129,609)
Net cash outflow of cash and cash equivalents in respect of the disposal of the subsidiaries	–	(129,609)

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

(e) Major non-cash transactions

During the year, the Group capitalised depreciation charges amounting to HK$1,429,355 (2000: HK$1,000,391) and interest expense of HK$835,401 (2000: HK$778,613) in long term construction contracts *(notes 6 and 7)*.

During the year, the Group accepted two properties from a customer as settlement of accounts receivable of HK$3,091,481. The two properties have been classified as properties held for sale *(note 19)*.

During the year, 508,616,000 shares of HK$0.10 each were issued to a fellow subsidiary of the Company as partial consideration for the acquisition of a further 39% equity interest in Hangzhou Sealand, as further detailed in notes 15, 16, 30(c) and 33(d) to the financial statements.

During the year, 200,000,000 shares of HK$0.10 each were issued to an independent third party as the consideration for the acquisition of a long term investment, as further detailed in note 18 to the financial statements.

In the prior 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 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.

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Company leases its investment property to a third party under an operating lease arrangement, with a lease negotiated for a term within one year. At 31 December 2001, the Company and the Group had total future minimum lease receivables of HK$1,260,000 (2000: Nil) under a non-cancellable operating lease with its tenant falling due within one year.

(b) As lessee

The Group and the Company enter into non-cancellable operating lease arrangements with landlords, and the terms of the leases range from one to five years.

At 31 December 2001, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2001	2000	**2001**	2000
	HK$	*HK$*	***HK$***	*HK$*
Within one year	**1,007,200**	633,692	**731,200**	357,692
In the second to fifth years, inclusive	**323,355**	276,000	**323,355**	–
	1,330,555	909,692	**1,054,555**	357,692

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease payments receivable under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than the payments to be made during only the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above, have been restated to accord with the current year's presentation.

32. CONTINGENT LIABILITIES

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

	Group		Company	
	2001	2000	**2001**	2000
	HK$	*HK$*	***HK$***	*HK$*
Corporate guarantees for banking facilities granted to a subsidiary	**–**	–	**171,000,000**	166,000,000
Guarantees under performance bonds	**62,052,000**	59,472,000	**–**	–

Apart from the above, the Group also has contingent liabilities in respect of two indemnities issued 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.

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

	2001	2000
	HK$	*HK$*
Bank borrowings	**29,457,512**	23,741,308
Guarantee under performance bonds	**30,883,000**	27,749,000
	60,340,512	51,490,308

The pledges and guarantees for the facilities are set out in note 24 to the financial statements.

33. RELATED PARTY TRANSACTIONS

(a) 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	2001 HK$	2000 HK$
Interest expense paid to a fellow subsidiary	(i)	–	853,671
Rental expenses paid to a fellow subsidiary	(ii)	**399,280**	315,756
Purchase of a motor vehicle from a fellow subsidiary	(iii)	–	780,000
Provision for doubtful receivables from the minority shareholder of a subsidiary and a subsidiary of the said minority shareholder	(iv)	**6,943,958**	–

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 plus 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.

(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 a further tenancy agreement with Karlane to lease further 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 of these tenancy agreements expired during the year. On 23 November 2001, the Company entered into a tenancy agreement with Karlane for a term of one year commencing on 5 November 2001 at a total monthly rental of HK$39,000 (exclusive of rates, management fees and air-conditioning charges). The premises are 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 which was mutually agreed between the parties.

(iv) 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 the 31% interest in Hangzhou Sealand in 2000 as referred to in note (b) below.

33. RELATED PARTY TRANSACTIONS *(continued)*

(b) 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.

(c) 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.

(d) 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 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$73,622,556 in accordance with the requirements under SSAP 30. Hangzhou Sealand became a 70% subsidiary of the Company after the acquisition. Further details of this acquisition are disclosed in the circular of the Company dated 22 January 2001.

34. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2002.