



**CATIC
International
Holdings Limited**

(Incorporated in Bermuda
with limited liability)

Interim Report 2002

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Chairman's Statement

DIVIDENDS

The directors do not recommend the payment of an interim dividend for the year ending 31 December 2002 (2001 – nil).

BUSINESS REVIEW

Overall performance

For the first six months of 2002, the Group recorded a turnover of HK\$287,041,000, representing 101% increase from HK\$142,106,000 for the corresponding period last year. The increase was mainly attributable to the substantial growth in the business activities of the Group's facade contracting works. For the period under review, notwithstanding the difficult operating conditions and the deteriorating gross margin, the Group managed to achieve an operating profit of HK\$7,492,000 (2001: HK\$4,345,000) and a profit attributable to the shareholders of HK\$4,534,000 (2001: HK\$2,125,000).

Facade contracting works

For the first half of 2002, facade contracting works poised a steady performance with a contribution of HK\$3,289,000 to the Group's operating profit (2001: HK\$3,047,000) relative to a turnover of HK\$254,496,000 (2001: HK\$121,069,000). The turnover increased more than one fold whereas the turnover of first half of 2001 almost doubled as compared with that of HK\$73,098,000 for the corresponding period in 2000. These are clear indications that the many projects secured in recent years have been progressively carried out as reflected in the turnover of the relevant years. As these projects were secured under fierce competitive environment, their profit margin was relatively lower than that of prior years and yet the operation has returned rather satisfactory performance due to the substantial rise in turnover.

Having secured news contracts with an aggregate value of HK\$510,000,000 in 2001, the Group, given its leading position in the market and competitive tender prices, secured during the first six months this year new contracts valued in excess of HK\$400,000,000, including the following major ones:

1. Cyberport Development Contract C5 Hotel

2. Urban Renewal Authority Project K2, Site A – Office Tower & Site B – Hotel Tower
3. Buildings 7 & 8, Science Park, Phase 1C, Pak Shek Kok
4. Urban Renewal Authority Project K2, Site A – Atrium and Retail Area

Taking into account the new contracts mentioned above, the total value of outstanding contracts in hand amounted to HK\$940,000,000 as at 30 June 2002 (31 December 2001: HK\$780,000,000).

Generation and sale of electricity and steam power

On 9 February 2001, the Group acquired a further 39% interest in Hangzhou Sealand Electric Power Company Limited (“Hangzhou Sealand”), formerly an associate of the Group, which has since then become a 70% owned subsidiary of the Company.

For the six months ended 30 June 2002, Hangzhou Sealand achieved a healthy growth in its turnover, mainly due to the increasing demand for steam power and its price adjustment since June 2002. On the other hand, the spiral rise in price of coal since the second half of 2001 has fuelled the escalation in production costs. In 2001, Hangzhou Sealand made a full provision of RMB7,430,000 (HK\$6,944,000) against the unsecured advances made to Asia Capital Financial Group Limited (“Asia Capital”), a minority shareholder of Hangzhou Sealand, and 盈華實業有限公司, a subsidiary of Asia Capital. During the period under review, Hangzhou Sealand, by way of setting off against the dividend otherwise payable to Asia Capital during the period, recorded a recovery of RMB2,240,000 (HK\$2,094,000) in respect of the provision in its profit and loss account.

In view of above, Hangzhou Sealand generated for the Group an operating profit of HK\$5,672,000 (before the relevant finance costs, tax, minority interests and the amortization of goodwill arising from the acquisition of Hangzhou Sealand) against a turnover of HK\$32,545,000 for the period under review whereas in last year for the period from 9 February 2001, the effective date of acquisition, to 30 June 2001, Hangzhou Sealand generated for the Group an operating profit of HK\$4,110,000 (before deducting the various items mentioned above) against a turnover of HK\$21,037,000. After taking into account of amortization of goodwill of HK\$1,191,000 (2001: HK\$1,865,000), the Group derived from Hangzhou Sealand an operating profit of HK\$4,481,000 before deducting the relevant finance cost, tax and minority interests (2001: HK\$2,245,000).

Furthermore, for the six months ended 30 June 2001, the Group recorded HK\$71,000 as its share of loss of an associate, which represents the Group's 31% share of Hangzhou Sealand's pre-tax loss for the period from 1 January 2001 to the effective date of acquisition.

FINANCIAL REVIEW

Overall review

As at 30 June 2002, the Group's net asset value amounted to approximately HK\$388,264,000 (31 December 2001: HK\$290,502,000) and bank deposits and balances totalled HK\$264,005,000 (31 December 2001: HK\$184,635,000). The net proceeds of HK\$93,228,000 arising from the placing and subscription in June 2002 as set out below contributed to the drastic increase in net asset value and cash position. Nevertheless, given the lowering of the deposit interest rates during 2001 to their record low for the current period, the Group earned much reduced interest income from its deposits with banks. In line with the increase in business volume, total borrowings rose to HK\$53,069,000 (31 December 2001: HK\$29,457,000), of which HK\$49,985,000 are maturing within one year with the balance of HK\$3,084,000 maturing beyond one year. As at 30 June 2002, gearing ratio, calculated on the basis of net borrowings over shareholders' equity, was zero (31 December 2001: zero). In short, financially, the Group is very sound.

As at 30 June 2002, the Group's assets in the aggregate of HK\$105,853,000 (31 December 2001: HK\$82,850,000) were pledged to banks as securities for banking facilities. In addition, for tendering purposes, the Group pledged time deposits amounting to HK\$19,100,000 (31 December 2001: Nil) to a bank for the issue of confirmation letters by the bank in respect of provision of performance bonds.

The Group has limited exposure to foreign exchange fluctuations as most of its transactions are denominated in Hong Kong dollars or Renminbi. The Group does not currently undertake any foreign exchange hedging activity.

Facade contracting works

To cope with the growth in facade contracting works, the Group received further support from banks. Total banking facilities granted to Far East Aluminium Works Company Limited ("Far East Aluminium"), the principal operating subsidiary of the Company, were increased from HK\$91,000,000 at 31 December 2001 to HK\$141,000,000 (exclusive of the amounts in respect of the confirmation letters for

the provision of performance bonds referred to above) as at 30 June 2002. These banking facilities are largely used for the issue of documentary credits for the purchase of major materials and the issue of performance bonds. The increased banking facilities, together with cash inflow from many on-going projects, provide additional working capital to Far East Aluminium whilst strengthening its capability to undertake further new projects.

Generation and sale of electricity and steam power

Hangzhou Sealand finances its operation mainly with steady and recurrent cash inflow generated from its sale of electricity and steam power, and bank borrowings. As at 30 June 2002, total bank borrowings stood at RMB31,480,000 (HK\$29,421,000) (31 December 2001: RMB31,480,000 (HK\$29,421,000)).

MATERIAL ACQUISITIONS AND INVESTMENTS

As a first giant step in its realization of developing into an aerotechnology-based diversified enterprise, the Group entered into the following agreements on 28 May 2002 as more particularly set out in the Company's announcement dated 30 May 2002:

- (a) A subsidiary of the Company entered into the Income Assignment Agreement with China National Aero-Technology Import & Export Corporation ("CATIC"), the ultimate controlling shareholder of the Company, pursuant to which the Company agreed to acquire from CATIC an 80% interest in the Net Income of Project EC120 at a consideration of RMB40,000,000 (HK\$37,740,000). Pursuant to the Income Assignment Agreement, CATIC warrants that the amount received by the Group in accordance with the Income Assignment Agreement for each of the two years ending 31 December 2002 and 2003 will not be less than RMB6,500,000. Project EC120 is a jointly controlled operation established in October 1992 by Eurocopter S.A., ST Aero and CATIC under which they co-operate to develop, manufacture and globally distribute the multi-purpose EC120 helicopters.
- (b) A subsidiary of the Company entered into the Capital Injection Agreement with CATIC and China Siwei Surveying & Mapping Technology Corporation ("China Siwei"), pursuant to which the Group agreed to contribute HK\$26,500,000 to CATIC Siwei Co., Ltd ("CATIC Siwei"), representing approximately 40% of the registered capital of CATIC Siwei as enlarged. CATIC Siwei, established in July 2001, has been principally engaged in the provision of aerophotographic services.

- (c) Pursuant to the Equity Joint Venture Agreement entered into by the Company with China Siwei, China Cartographic Publishing House, CATIC Siwei and Beijing Shangluo Data System Co., Ltd. for the establishment of an equity joint venture, the Company agreed to contribute RMB5,900,000 (HK\$5,570,000) to the equity joint venture, representing approximately 20% of the registered capital of the equity joint venture. The equity joint venture will utilise its geographical information system and global positioning system technologies to manufacture location-based navigation products and provide related services, which will principally be applied in the areas of personal data assistants, mobile phones and geographical information system call centres with digital maps.
- (d) Pursuant to the Equity Joint Venture Agreement entered into by a subsidiary of the Company with CATIC for the establishment of an equity joint venture, the Group agreed to contribute HK\$24,500,000 to the equity joint venture, representing approximately 49% of the registered capital of the equity joint venture. The equity joint venture will be principally engaged in the provision of aircraft leasing and related services.

Each of the above transactions constituted a connected transaction of the Company by virtue of CATIC being the ultimate controlling shareholder of the Company. At the Special General Meeting held on 8 July 2002, the independent shareholders of the Company approved the above four transactions. Since additional time is required for the obtaining of all necessary consents and approvals from the relevant PRC governmental authorities for the completion of the above four transactions, the Company entered into extension agreements with all relevant parties on 26 August 2002 to extend the long-stop date for the satisfaction of the conditions precedent of each of the transactions from 26 August 2002 to 30 November 2002. Further details are set out in the announcement of the Company dated 26 August 2002.

In order to provide the necessary funding for the above four transactions, Tacko International Limited ("Tacko"), the Company's controlling shareholder, pursuant to the Placing Agreement entered into with the placing agent on 28 May 2002, placed its 600,000,000 shares in the Company at a price of HK\$0.16 per share to independent investors on 31 May 2002. Pursuant to the Subscription Agreement entered into with the Company on 28 May 2002, Tacko subscribed for, and was allotted and issued 600,000,000 new shares in the Company at the same price of HK\$0.16 per share on 10 June 2002. By way of the placing and subscription, the Company raised a net proceeds of approximately HK\$93,228,000. Further details relating to the above four transactions and the placing and subscription are set out in the circular of the Company dated 20 June 2002.

After completion of the above four transactions, the Group will diversify itself into the aerotechnology-related business and widen its earnings base.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2002, the Group had a total of approximately 830 employees including 200 under the employ of Hangzhou Sealand in the generation and sale of electricity and steam power with the balance of 630 engaged in facade contracting works. The Group provides competitive remuneration package to employees commensurable to their qualifications and experiences, and the prevailing salary level of the businesses in which the Group operates. To attract and retain talent staff, remuneration packages are reviewed on a regular basis and performance-driven merit payments, in addition to the basic remuneration, are also offered to those with outstanding performance and contribution. Regarding staff training and development, the Group provides both in-house and external training programmes for the purpose of enhancing the professional competence and performance of its employees.

The Company has also set up share option scheme, pursuant to which the Company may grant options to the executive directors and employees of the Company or any of its subsidiaries to subscribe for shares in the Company so as to promote their sense of belonging and to enable them to share the growth of the Group.

PROSPECTS

As difficult times of the property market and the building industry in Hong Kong are expected to prevail in the foreseeable future, the Group, in light of the intensifying competition in the market, will continue to strengthen project management and cost control measures to complete the many contracts in hand. Meanwhile, the Group will adopt a prudent approach in tendering for new projects in order to increase its order book so as to sustain a steady growth in the future.

Recently there are signs that coal prices are about to fall. Furthermore, given room for the selling price of steam power to rise, and tight controls on production costs, Hangzhou Sealand is looking forward to further improvement in its performance in the second half of this year. In May 2002, the Hangzhou provincial government has announced the implementation of its policy on the prohibition of utilizing high pollution energy. Pursuant to this policy, all factories in the region are banned to install steam boilers themselves and have to purchase steam power from authorized suppliers via supply network. As a result, the Group anticipates that the demand for steam power will rapidly increase in the future and has begun to launch a study on the expansion of Hangzhou Sealand's steam power production capacity.

From an overall perspective, the Group on one hand continues to focus on maintaining and developing its existing businesses in facade contracting works and public utility and on the other hand, in optimizing its best interest, the Group will endeavor to complete the above transactions, namely, the EC120 project 80% net income assignment, capital injection and establishment of joint ventures, as soon as practicable. In the near term, the Group will benefit from its investments in EC120 and CATIC Siwei, both of which are well established business ventures with track record. In the longer term, all four transactions will contribute to further widening of the Group's earnings base in furtherance of the long term development strategy of developing the Group into an aerotechnology-based diversified enterprise.

APPRECIATION

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

By Order of the Board
Yang Chunshu
Chairman

Hong Kong, 24 September 2002

Disclosure of Interests

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30 June 2002, 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:

(a) Interests in the Company

Name of director	Number of shares Personal interests
Ren Haifeng	4,400,000

(b) Share options

At the Company's annual general meeting held on 14 May 2001, the share option scheme (the "1991 Share Option Scheme") adopted in 1991 with a life span of ten years was terminated and concurrently a new share option scheme (the "2001 Share Option Scheme") was adopted.

Pursuant to the 2001 Share Option Scheme, 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 and 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) thereunder and any other share option schemes (excluding the 1991 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 2001 Share Option Scheme).

Subsequent to the adoption of the 2001 Share Option Scheme on 14 May 2001, The Stock Exchange of Hong Kong Limited (the "Stock Exchange") introduced a number of changes to Listing Rules on share option schemes. These new rules came into effect on 1 September 2001 and no option should be granted under the 2001 Share Option Scheme unless options are granted in full compliance with these new rules. The Company shall amend, in due course, the terms of the 2001 Share Option Scheme to comply with the requirements of the amended Listing Rules on share option schemes.

No share options have been granted under the 2001 Share Option Scheme since its adoption on 14 May 2001. Notwithstanding the termination of the 1991 Share Option Scheme, share options granted prior to its termination and outstanding thereunder remain valid and exercisable until 27 July 2005 at HK\$0.17 per share, details of which are as follows:

Grantee	Number of shares in respect of options outstanding at 1 January 2002	Number of shares in respect of options exercised during the period	Number of shares in respect of options outstanding at 30 June 2002	Date of grant*	Exercise period	Exercise price per share** HK\$
Director						
Yang Chunshu	8,160,000	–	8,160,000	28/1/2000	28/7/2000 to 27/7/2005	0.17
Yu Li	5,400,000	–	5,400,000	28/1/2000	28/7/2000 to 27/7/2005	0.17
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	13,560,000	–	13,560,000			
Other employees	912,000	–	912,000	28/1/2000	28/7/2000 to 27/7/2005	0.17
	<hr/>					
	14,472,000	–	14,472,000			

* Share options must be held for a minimum of six months before exercise.

** 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.

Except as set out above, as at 30 June 2002 there was no other interest or right recorded in the register required to be kept under Section 29 of the SDI Ordinance.

Save as disclosed above, at no time during the period were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any

such rights exercised by them or was the Company or any of its subsidiaries a party to any arrangement to enable the directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, 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:

Name of Shareholder	Number of shares interested	<i>Notes</i>
Tacko International Limited ("Tacko")	1,265,767,000	(1)
CATIC (H.K.) Limited ("CATIC (H.K.)")	1,265,767,000	(1)
Speed Profit Enterprises Limited ("Speed Profit")	508,616,000	(2)
Catic International Finance Limited ("Catic Finance")	508,616,000	(2)
China National Aero-Technology Import & Export Corporation ("CATIC")	1,774,383,000	(1), (2) & (3)
China Aviation Industries Corporation I ("AVIC I")	1,774,383,000	(1), (2) & (3)
China Aviation Industries Corporation II ("AVIC II")	1,774,383,000	(1), (2) & (3)

Notes:

- (1) Tacko is a wholly-owned subsidiary of CATIC (H.K.), which is in turn a wholly-owned subsidiary of CATIC. Under the SDI Ordinance, both CATIC (H.K.) and CATIC are deemed to be interested in the 1,265,767,000 shares held by Tacko.
- (2) Speed Profit is a wholly-owned subsidiary of Catic Finance, which is in turn a wholly-owned subsidiary of CATIC. Under the SDI Ordinance, both Catic Finance and CATIC are deemed to be interested in the 508,616,000 shares held by Speed Profit.
- (3) CATIC is owned as to 50% by AVIC I and as to 50% by AVIC II. Under the SDI Ordinance, each of AVIC I and AVIC II is deemed to be interested in the aggregate of the shares stated in notes (1) and (2) above (i.e. an aggregate of 1,774,383,000 shares held by Tacko and Speed Profit).

Save for the interests referred to above, as at 30 June 2002, 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.

Other Information

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

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

AUDIT COMMITTEE

The Audit Committee, together with the external auditors and the management, have reviewed the accounting principles and policies adopted by the Group and the unaudited interim financial statements for the six months ended 30 June 2002.

CODE OF BEST PRACTICE

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2002, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except that the non-executive and independent non-executive directors of the Company are not appointed for a specific term, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the bye-laws of the Company.

Interim Financial Statements

Consolidated Profit and Loss Account

	Notes	Unaudited For the six months ended 30 June	
		2002 HK\$'000	2001 HK\$'000
Turnover	2	287,041	142,106
Cost of sales		(260,819)	(114,485)
Gross profit		26,222	27,621
Other revenue	3	3,903	5,457
Administrative expenses		(24,036)	(26,868)
Other operating income/(expenses)	4	1,403	(1,865)
Operating profit	2, 5	7,492	4,345
Finance costs	6	(926)	(818)
Share of loss of an associate		-	(71)
Profit before tax		6,566	3,456
Tax	7	(845)	(405)
Profit before minority interests		5,721	3,051
Minority interests		(1,187)	(926)
Net profit attributable to shareholders		4,534	2,125
Earnings per share – basic	8	0.1441 cent	0.0744 cent
– diluted	8	0.1440 cent	0.0742 cent

Consolidated Balance Sheet

		Unaudited 30 June 2002 HK\$'000	Audited 31 December 2001 HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Investment property		21,200	21,200
Fixed assets		127,804	128,922
Goodwill	9	44,072	45,263
Long term investments		13,463	200
Club debentures		800	800
Rental and utility deposits		380	140
		207,719	196,525
CURRENT ASSETS			
Properties held for sale		26,304	26,304
Inventories		5,803	4,177
Amount due from contract customers		43,862	13,646
Accounts and retentions receivable	10	166,640	147,927
Prepayments, deposits and other receivables		10,846	5,300
Cash and bank balances		196,665	143,135
Pledged time deposits		67,340	41,500
		517,460	381,989
CURRENT LIABILITIES			
Amount due to contract customers		140,875	144,536
Accounts and bills payable	11	44,223	26,420
Tax payable		706	259
Warranty provision		7,179	6,608
Other payables and accrued liabilities		65,778	54,531
Interest-bearing bank borrowings		49,985	26,373
		308,746	258,727
NET CURRENT ASSETS			
		208,714	123,262
TOTAL ASSETS LESS CURRENT LIABILITIES			
		416,433	319,787
NON-CURRENT LIABILITIES			
Long term bank borrowings		(3,084)	(3,084)
MINORITY INTERESTS			
		(25,085)	(26,201)
		388,264	290,502
TOTAL SHAREHOLDERS' FUNDS			
Share capital	12	367,573	307,573
Reserves	13	20,691	(17,071)
		388,264	290,502

Condensed Consolidated Cash Flow Statement

	Unaudited	
	For the six months	
	ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
		(Restated)
Net cash inflow/(outflow) from operating activities	(18,672)	55,039
Net cash outflow from investing activities	(43,617)	(37,206)
Net cash inflow/(outflow) before financing activities	(62,289)	17,833
Net cash inflow/(outflow) from financing activities	115,832	(8,003)
Increase in cash and cash equivalents	53,543	9,830
Cash and cash equivalents at 1 January	143,122	124,551
Cash and cash equivalents at 30 June	196,665	134,381
Analysis of balances of cash and cash equivalents		
Cash and bank balances	196,665	136,283
Bank overdrafts	–	(1,902)
	196,665	134,381

Condensed Consolidated Statement of Changes in Equity

	Unaudited	
	For the six months	
	ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Total shareholders' funds as at 1 January	290,502	264,072
Issue of shares	96,000	95,749
Placing expenses	(2,772)	–
Net profit for the period attributable to shareholders	4,534	2,125
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Total shareholders' funds as at 30 June	388,264	361,946

Notes to Interim Financial Statements

1. Accounting policies

These unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting". The accounting policies and the basis of preparation used in the preparation of interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2001, except the following new/revised SSAPs which have been adopted for the first time in the preparation of the current period's condensed consolidated financial statements:

- SSAP 1 (Revised): "Presentation of Financial Statements"
- SSAP 11 (Revised): "Foreign Currency Translation"
- SSAP 15 (Revised): "Cash Flow Statements"
- SSAP 34: "Employee Benefits"

A summary of their major effect is as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the condensed consolidated financial statements is that the profit and loss account of subsidiaries and associates operating in Mainland China and overseas are translated at an average rate for the period on consolidation, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously required. This SSAP is required to be applied retrospectively. The Group has adopted the transitional provision of this SSAP that where the calculation of a prior year adjustment is impractical, these changes in policy are applied only to current and future financial statements and the effect on the results of the current period is not significant.

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The condensed consolidated cash flow statement for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. This SSAP has had no major impact on these condensed consolidated financial statements.

2. Segmental information

(a) *Business segments*

The following table presents turnover and operating profit for the Group's business segments.

	For the six months ended 30 June			
	2002		2001	
	Turnover	Operating profit	Turnover	Operating profit
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Restated)
Facade contracting works	254,496	3,289	121,069	3,047
Generation and sale of electricity and steam power	32,545	4,481	21,037	2,245
Long-term investment	–	2,000	–	–
	287,041	9,770	142,106	5,292
Add: Unallocated other revenue		1,986		4,250
Less: Unallocated administrative expenses		(4,264)		(5,197)
		7,492		4,345

(b) *Geographical segments*

The following table presents turnover and operating profit for the Group's geographical segments.

	For the six months ended 30 June			
	2002		2001	
	Turnover <i>HK\$'000</i>	Operating profit <i>HK\$'000</i>	Turnover <i>HK\$'000</i>	Operating profit <i>HK\$'000</i> (Restated)
Hong Kong	225,044	5,922	116,509	2,911
Mainland China	61,997	3,848	25,597	2,381
	287,041	9,770	142,106	5,292

3. *Other revenue*

	For the six months ended 30 June	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interest income	1,230	3,494
Rental income	756	756
Income from installation of structure for steam supply	1,392	909
Government subsidy	420	187
Others	105	111
	3,903	5,457

4. Other operating income/(expenses)

	For the six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Amortization of goodwill	(1,191)	(1,865)
Provision for doubtful debts	(1,500)	–
Warranted profit from a long-term investment (a)	2,000	–
Recovery of debts from related companies (Note 15 (c))	2,094	–
	1,403	(1,865)

- a. In light of the continued difficult operating conditions faced by the Group's long-term investment (see note 13(a)) in the information technology sector, and of the doubtfulness of the vendor's ability of honouring the warranted profit attributable to the Group's 23.5% interest in the long-term investment for the period from 1 April 2001 to 31 March 2002 in the amount of not less than HK\$2,000,000 (the "Warranted Profit"), the Group made a full provision against the cost of the long-term investment and the Warranted Profit in the aggregate amount of HK\$36,414,905 in the preceding year. During the period under review, the Group received the Warranted Profit in the amount of HK\$2,000,000.

5. Operating profit

The Group's operating profit is determined after charging:

	For the six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Depreciation	5,632	4,943
Less: amount capitalized to long term construction contracts	(697)	(1,007)
	4,935	3,936

6. Finance costs

	For the six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and banking facilities wholly repayable within 5 years	1,021	1,521
Less: amount capitalized to long term construction contracts	(95)	(703)
	926	818

7. Tax

- (a) No Hong Kong profits tax has been provided as the Group has available tax losses brought forward to offset the assessable profits arising in Hong Kong for both current and prior periods.

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

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

	For the six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Group		
Mainland China	845	381
Share of tax attributable to an associate	–	24
	845	405

8. Earnings per share

The calculation of basic and diluted earnings per share was based on the following data:

	For the six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000
Earnings for the purposes of basic and diluted earnings per share	4,534	2,125
	Number of shares	
Weighted average number of shares for the purpose of basic earnings per share	3,145,344,260	2,854,388,956
Dilutive effect arising from outstanding share options	3,414,742	7,583,022
Weighted average number of shares for the purpose of diluted earnings per share	3,148,759,002	2,861,971,978

9. Goodwill

The balance represents goodwill arising from the acquisition of the 70% interest in Hangzhou Sealand which is amortized on a straight line basis over a period of 20 years.

10. Accounts and retentions receivable

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Accounts receivable	99,065	88,368
Retentions receivable	80,295	72,617
	179,360	160,985
Less: Provision for doubtful debts	(12,720)	(13,058)
	166,640	147,927

The ageing analysis of accounts receivable is as follows:

	30 June 2002 <i>HK\$'000</i>	31 December 2001 <i>HK\$'000</i>
Current	77,300	71,145
31-60 days	17,445	13,890
61-90 days	30	140
Over 90 days	4,290	3,193
	99,065	88,368
Less: Provision for doubtful debts	(3,806)	(3,236)
	95,259	85,132

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 questions. No ageing analysis of retentions receivable is presented as the amount retained is provided on each payment up to a maximum amount calculated on a prescribed percentage of the contract sum.

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

The normal credit term of accounts receivable from the sale of electricity and steam power is 30 – 60 days.

11. Accounts and bills payable

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

	30 June 2002 <i>HK\$'000</i>	31 December 2001 <i>HK\$'000</i>
Current	33,072	19,622
31-60 days	5,135	3,802
61-90 days	4,688	2,004
Over 90 days	1,328	992
	44,223	26,420

12. Share capital

	Number of shares	Nominal value <i>HK\$'000</i>
Authorised:		
At 1 January 2002 and 30 June 2002		
Shares of HK\$0.10 each	6,000,000,000	600,000
Issued and fully paid:		
At 1 January 2002	3,075,731,000	307,573
Issue of Shares (a)	600,000,000	60,000
At 30 June 2002	3,675,731,000	367,573

- (a) On 31 May 2002, Tacko, the controlling shareholder of the Company, placed its 600,000,000 shares in the Company to independent investors at a price of HK\$0.16 per share pursuant to the Placing Agreement entered into on 28 May 2002 with the placing agent. On 10 June 2002, Tacko subscribed and were allotted and issued 600,000,000 new shares in the Company at the same price of HK\$0.16 pursuant to the Subscription Agreement entered into on 28 May 2002 with the Company and the amount exceeding the nominal value of the new shares issued was credited to the share premium account (Note 13).

13. Reserves

	Share premium account <i>HK\$'000</i>	Capital reserve on consolidation <i>HK\$'000</i>	Reserve fund <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2001	217,203	162	707	(188,576)	29,496
Issue of shares at a premium for the acquisition of a further 39% interest in Hangzhou Sealand (<i>note 15(a)</i>)	5,259	-	-	-	5,259
Issue of shares at a premium for the acquisition of a long term investment (<i>a</i>)	16,000	-	-	-	16,000
Issue of shares at a premium under share option scheme (<i>b</i>)	1,494	-	-	-	1,494
Net loss for the year	-	-	-	(69,320)	(69,320)
Transfer to reserve fund	-	-	651	(651)	-
At 30 December 2001	239,956	162	1,358	(258,547)	(17,071)
Issue of shares at a premium pursuant to placing and subscription (<i>note 12(a)</i>)	36,000	-	-	-	36,000
Placing expenses	(2,772)	-	-	-	(2,772)
Net profit for the period	-	-	-	4,534	4,534
At 30 June 2002	273,184	162	1,358	(254,013)	20,691

- (a) In March 2001, the Company acquired from an independent third party a 23.5% interest in a software development company 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 and the amount exceeding the nominal value of the new shares issued was credited to the share premium account.
- (b) In 2001, share options in respect of a total of 21,348,000 shares were exercised at an exercise price of HK\$0.17 per share and the amount exceeding the nominal value of new shares issued was credited to the share premium account.

14. Contingent liabilities

As at 30 June 2002, the Group had contingent liabilities in respect of guarantees under performance bonds in aggregate amount of HK\$66,119,000 (31 December 2002: HK\$62,052,000).

15. Related party transactions

The Group had the following significant related party transactions during the period:

	For the six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000
Purchase consideration satisfied for acquisition from a fellow subsidiary of a further 39% interest in Hangzhou Sealand (a)	–	71,120
Rental expenses paid to a fellow subsidiary (b)	234	193
Recovery of debts from related companies (c)	2,094	–

- (a) Pursuant to a sale and purchase agreement dated 4 January 2001, the Group acquired from Speed Profit Enterprises Limited ("Speed Profit"), a then fellow subsidiary of the Company, a further 39% interest in Hangzhou Sealand at a consideration of HK\$81,120,000, which was determined with reference to the fair market value of the business interests of Hangzhou Sealand of approximately HK\$208,000,000 as at 31 December 2000 as valued by B.I. Appraisals Limited. The consideration was satisfied by a cash payment of HK\$14,999,920 and the balance thereof by the issue and allotment of 508,616,000 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 the purchase consideration being stated at HK\$71,120,000 in accordance with the requirements under SSAP 30. The amount exceeding the nominal value of the new shares issued was credited to the share premium account (Note 13).
- (b) The Company leases certain premises for use as its office from a fellow subsidiary, Karlane Investment Limited, a wholly owned subsidiary of CATIC. The monthly rentals were determined with reference to open market rentals.
- (c) In the preceding year, the Group made a full provision against unsecured advances in the aggregate of RMB7,430,000 (HK\$6,944,000) made by Hangzhou Sealand to Asia Capital Financial Group Limited, the minority shareholder of Hangzhou Sealand and 盈華實業有限公司, a subsidiary of Asia Capital Financial Group Limited. During the period under review, Hangzhou Sealand, by way of setting off against the dividend otherwise payable to Asia Capital Financial Group Limited during the period, recorded a recovery of RMB2,240,000 (HK\$2,094,000) in respect of the provision in its profit and loss account.

16. Comparative figures

As further explained in note 1 to the interim financial statements, due to adoption of certain new and revised SSAPs during the current period, the accounting treatment and representation 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 period's presentation.