



CATIC International Holdings Limited

(Incorporated in Bermuda with limited liability)



Interim Report

2003

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CHAIRMAN'S STATEMENT

DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2003 (2002: nil).

BUSINESS REVIEW

Overall performance

Whilst the Group's total turnover for the current period in the amount of HK\$303,932,000 (2002: HK\$287,041,000) achieved a moderate increase of 6%, the gross profit went up by 38%, largely due to the improved operating performance in the generation and sale of electricity and steam power and the income arising from the Project EC120 as explained below. Net profit attributable to shareholders for the period under review was HK\$5,622,000 (2002: HK\$3,436,000).

Facade contracting works

For the first six months in 2003, the turnover of facade contracting works has increased marginally by 3% to HK\$262,271,000 as compared to HK\$254,496,000 for the corresponding period of last year. In line with the increased business volume, the facade contracting works has returned a contribution to the Group's operating profit in the amount of HK\$4,393,000 (2002: HK\$3,289,000), representing an increase of 34%. Given the economic downturn in Hong Kong in recent years and the business outlook of the Hong Kong building industry in the near future remaining bleak, the Group has taken steps to expand into other markets and tender for projects there in order to make up for the squeeze in the Hong Kong market. Recently, the Group has secured the facade and curtain walling contract in respect of the Las Vegas Sands Casino in Macau. Besides, the Group secured further major projects during the first six months of 2003 as follows:

1. Building 6, Science Park, Phase 1C, Pak Shek Kok
2. Urban Renewal Authority Project K2 Podium, Site A – Office Tower Base & Site B – Hotel Lobby
3. Tsing Yi Hotels, TYTL 140

Taking into account the above new contracts secured during the first six months in 2003 in the aggregate amount of HK\$273 million, the remaining value of contracts in hand as at 30 June 2003 amounted to a healthy level of HK\$829 million as compared to HK\$817 million as at 31 December 2002.

Generation and sale of electricity and steam power

Hangzhou Sealand Electric Power Company Limited ("Hangzhou Sealand"), a 70% owned subsidiary of the Company, registered a substantial increase in turnover by 19% to HK\$38,595,000 (2002: HK\$32,545,000) as a result of remarkable growth in the sales of steam power as fuelled by continuing demand for steam power. Cost of production tended to stabilize as coal price began to level off during the period. Also, Hangzhou Sealand recorded a write-back of provision in the amount of HK\$651,000 (2002: HK\$2,094,000) against receivables from related companies as set out in note 13(b) below. Overall speaking, albeit the decrease in other revenue from installation of structures for steam supply, Hangzhou Sealand contributed HK\$4,796,000 (2002: HK\$4,481,000) to the Group's operating profit for the period under review.

Aero-technology

Pursuant to the Income Assignment Agreement dated 28 May 2002, which provides a profit warranty to the Group in respect of the Project EC120 for each of the two years ending 31 December 2002 and 2003 of not less than RMB6,500,000, the Group received a profit share of RMB6,593,500 (HK\$6,280,000) thereof for the year ended 31 December 2002. Accordingly, based on 50% of the warranty profit of not less than RMB6,500,000 for 2003, the Group recorded for the six months ended 30 June 2003 a profit share of RMB3,250,000 (HK\$3,066,000), resulting in profit contribution of HK\$2,784,000 after deducting related expenses.

China Nav-Info Co., Ltd., an associate established on 3 December 2002 in the business of utilizing geographical information system and global positioning system technologies to manufacture location-based navigation products and provide related services, suffered a loss in the development stage during the period. CATIC Siwei Co., Ltd., another associate which is engaged in the provision of aerophotographic services in Mainland China, managed to achieve a profit despite lagging sales. In short, the Group recorded a share of net loss in the amount of HK\$741,000 from the above two associates.

FINANCIAL REVIEW

The Group's financial position remains sound. As at 30 June 2003, cash and bank balances totalled HK\$211,220,000 (31 December 2002: HK\$185,954,000) whilst total liabilities, including borrowings of HK\$76,776,000 (31 December 2002: HK\$70,511,000), were HK\$346,177,000 (31 December 2002: HK\$355,291,000). The Group's gearing, calculated on the basis of net borrowings (i.e. after deducting cash and bank balances) relative to shareholders' equity of HK\$413,014,000 (31 December 2002: HK\$406,591,000), was zero (31 December 2002: zero). As at 30 June 2003, certain of the Group's assets, comprising mainly time deposits and part of long-term investments and fixed assets, with an aggregate net carrying amount of HK\$114,313,000 (31 December 2002: HK\$110,763,000) were pledged to banks as securities for banking facilities which consisted of mainly revolving trade finances and bank loans.

The Group's monetary assets, liabilities and transactions are largely denominated in Hong Kong dollars, Renminbi or US dollars. Given Hong Kong dollars being pegged to US dollars and no significant exchange rate fluctuations between Hong Kong dollars and Renminbi, the Group considers its risk of exposure to foreign exchange fluctuations to be insignificant.

MATERIAL TRANSACTIONS

On 28 May 2002, CATIC General Aviation Holdings Limited ("CATIC GA"), a wholly-owned subsidiary of the Company, entered into a capital injection agreement with China National Aero-Technology Import & Export Corporation ("CATIC"), the Company's ultimate controlling shareholder, and China Siwei Surveying & Mapping Technology Corporation ("China Siwei"), an independent third party, pursuant to which CATIC GA agreed to contribute HK\$26.5 million to CATIC Siwei Co., Ltd. ("CATIC Siwei"), representing 40% of the registered capital of CATIC Siwei as enlarged. CATIC Siwei is principally engaged in the provision of aerophotographic services in the PRC. The transaction was completed on 17 January 2003. On completion, CATIC GA's capital contribution to CATIC Siwei was lowered from the original amount of HK\$26.5 million to HK\$25.1 million as a result of reduction of the unaudited net asset value of CATIC Siwei for the purpose of determining each party's capital contribution in respect of their respective equity interests in CATIC Siwei. Further details regarding the completion of this transaction are set out in the Company's announcement dated 30 January 2003.

Pursuant to sale and purchase agreements entered into with two independent third parties on 28 March 2003, the Group disposed of the two properties situated in the PRC held for sale for an aggregate cash proceeds of RMB23,610,000 (equivalent to approximately HK\$22,274,000) at a loss of HK\$179,000 (after deducting related costs and expenses) for the period under review. The two properties were acquired several years ago by way of settlement of contract payments due to the Group in respect of the related contracting works undertaken for a commercial development project in Shanghai and finally the Group succeeded to cash in on the properties.

In addition to the above major transactions, at the annual general meeting held on 13 May 2003, the shareholders of the Company passed resolutions to give effect to the elimination in full of the Company's accumulated losses as at 31 December 2002 in the amount of HK\$283,592,863 by way of set-off against the Company's share premium account of HK\$273,184,163 and the application of the Company's contributed surplus to the extent of HK\$10,408,700. Further details regarding the above transactions and their effects on the Group's consolidated accounts for the six months ended 30 June 2003 are set out in note 11(b).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2003, the Group had a workforce of approximately 955 employees (31 December 2002: 910 employees). Besides competitive remuneration packages, eligible employees may also be granted discretionary incentive bonuses and share options based on their performance and contribution to the Group. During the six months ended 30 June 2003, share options in respect of 150,000,000 shares were granted to eligible employees at an exercise price of HK\$0.13 per share.

PROSPECTS

Whilst committing itself to Hong Kong as its core market, the Group has been looking elsewhere for projects in order to cushion the contraction in the local market for the purpose of maintaining a healthy level of contracts in hand and hence, sustaining financial performance in its facade contracting business. Notwithstanding substantial contracts in hand, the Group will be devoting greater resources in tapping markets in major cities in Mainland China and other regions. Equally important is that the Group will exert greater control over project costs to enhance their effectiveness as to improve the profit margin of its many existing projects.

Being an energy provider in the Hangzhou industrial region, Hangzhou Sealand will continue to face the challenges of supply and demand in the future. Though electricity sales has slowed down gradually, the sales of steam power has been increasing at a greater pace. As long as coal price remains stable, the demand for steam power will be increasingly becoming a major factor in advancing the future business growth of Hangzhou Sealand which is expected to continue its profitability and cash inflow to the Group.

The Company's diversification into aero-technology helps strike a better balance in terms of profit contribution from its major businesses. The Group remains committed to its long-term goal of developing into an aero-technology driven 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, 19 September 2003

DISCLOSURE OF INTERESTS

DIRECTORS' INTERESTS

As at 30 June 2003, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

(a) Interests in shares of HK\$0.10 each of the Company

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

(b) Share options

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

Subsequent to the adoption of the 2001 Scheme on 14 May 2001, the Stock Exchange introduced a number of changes to Chapter 17 of the Listing Rules on share option schemes. These new rules came into effect on 1 September 2001. In compliance with the amended Chapter 17 of the Listing Rules, a new share option scheme (the "Existing Scheme") was adopted by the Company at the annual general meeting held on 13 May 2003 and at the same time the 2001 Scheme was terminated. The Existing Scheme became effective on 13 May 2003 and, unless otherwise cancelled or amended, will remain in force for ten years from that date. Since the adoption of the Existing Scheme, no options have been granted thereunder.

Notwithstanding the termination of the 1991 Scheme and the 2001 Scheme, the provisions of the relevant schemes remain in full force and effect to the extent necessary to give effect to the exercise of any outstanding share options granted thereunder prior to their respective terminations. Details of share options, granted under the 1991 Scheme and 2001 Scheme prior to their respective terminations and outstanding as at 30 June 2003, were as follows:

Eligible person	Number of shares in respect of options				Outstanding at 30 June 2003	Date of grant (i)	Exercise period (ii)	Exercise price per share (iii) HK\$
	Outstanding at 1 January 2003	Granted during the period	Exercised during the period	Cancelled/lapsed during the period				
1991 Scheme								
<i>Director</i>								
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
	13,560,000	-	-	-	13,560,000			
Employees under continuous contracts								
	912,000	-	-	-	912,000	28/1/2000	28/7/2000 to 27/7/2005	0.17
	14,472,000	-	-	-	14,472,000			
2001 Scheme								
<i>Director</i>								
Yang Chunshu	-	20,000,000	-	-	20,000,000	25/2/2003	25/8/2003 to 24/8/2008	0.13
Wang Xinyan	-	20,000,000	-	-	20,000,000	25/2/2003	25/8/2003 to 24/8/2008	0.13
Yu Li	-	20,000,000	-	-	20,000,000	25/2/2003	25/8/2003 to 24/8/2008	0.13
Ji Guirong	-	20,000,000	-	-	20,000,000	25/2/2003	25/8/2003 to 24/8/2008	0.13
Ren Haifeng	-	20,000,000	-	-	20,000,000	25/2/2003	25/8/2003 to 24/8/2008	0.13
Cui Wei	-	20,000,000	-	-	20,000,000	25/2/2003	25/8/2003 to 24/8/2008	0.13
	-	120,000,000	-	-	120,000,000			
Employees under continuous contracts								
	-	30,000,000	-	500,000	29,500,000	25/2/2003	25/8/2003 to 24/8/2008	0.13
	-	150,000,000	-	500,000	149,500,000			

- (i) The closing price per share immediately before the date of grant of 25 February 2003 was HK\$0.134.
- (ii) Share options must be held for a minimum of six months before exercise.
- (iii) 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.

No fair value of the share options granted during the six months ended 30 June 2003 is disclosed as the Company believes that the calculation of such value, which would be based on a number of speculative assumptions and variables such as the risk-free interest rate and expected volatility of the share prices, would not be meaningful or representative.

Except as set out above, as at 30 June 2003, none of the directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the interests or short positions of every person (other than directors and chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Aggregate long position in shares	Percentage of the total issued share capital	Notes
Tacko International Limited ("Tacko")	1,265,767,000	34.44	(1)
CATIC (H.K.) Limited ("CATIC (H.K.)")	1,265,767,000	34.44	(1)
Speed Profit Enterprises Limited ("Speed Profit")	508,616,000	13.84	(2)
Catic International Finance Limited ("Catic Finance")	508,616,000	13.84	(2)
China National Aero-Technology Import & Export Corporation ("CATIC")	1,774,383,000	48.27	(3)
China Aviation Industries Corporation I ("AVIC I")	1,774,383,000	48.27	(3)
China Aviation Industries Corporation II ("AVIC II")	1,774,383,000	48.27	(3)

Notes:

- (1) Tacko is a wholly-owned subsidiary of CATIC (H.K.), which is in turn a wholly-owned subsidiary of CATIC. Pursuant to the SFO, 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. Pursuant to the SFO, 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. Pursuant to the SFO, each of CATIC, AVIC I and AVIC II is deemed to be interested in the aggregate of the shares stated in (1) and (2) above (i.e. an aggregate of 1,774,383,000 shares held by Tacko and Speed Profit).

Save as set out above, as at 30 June 2003, no other person or corporation had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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, has reviewed the accounting principles and policies adopted by the Group and the unaudited interim financial statements for the six months ended 30 June 2003.

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 2003, in compliance with the Code of Best Practice (the "Code") 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 as required by paragraph 7 of the Code, 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	
		2003	2002
		HK\$'000	HK\$'000
			(Restated)
Turnover	2	303,932	287,041
Cost of sales		(267,817)	(260,819)
Gross profit		36,115	26,222
Other revenue	3	2,415	5,903
Administrative and other operating expenses		(29,736)	(24,633)
Operating profit	2, 4	8,794	7,492
Finance costs	5	(789)	(926)
Share of loss less profit of associates		(741)	–
Profit before tax		7,264	6,566
Tax	6	(326)	(1,966)
Profit before minority interests		6,938	4,600
Minority interests		(1,316)	(1,164)
Net profit attributable to shareholders		5,622	3,436
Earnings per share			
– basic	7	0.1529 cent	0.1092 cent
– diluted	7	0.1527 cent	0.1091 cent

CONSOLIDATED BALANCE SHEET

		Unaudited 30 June 2003 HK\$'000	Audited 31 December 2002 HK\$'000 (Restated)
	Notes		
NON-CURRENT ASSETS			
Investment properties		22,891	22,891
Fixed assets		137,259	133,422
Financial asset under Project EC120		39,759	39,759
Goodwill		41,690	42,881
Interest in associates		29,932	5,562
Long-term investments		34,188	24,825
Deferred tax asset	1	11,343	11,497
Club debentures		960	800
Rental and utility deposits		385	429
		<u>318,407</u>	<u>282,066</u>
CURRENT ASSETS			
Properties held for sale		–	21,489
Inventories		5,724	5,597
Amount due from contract customers		72,836	36,882
Accounts and retentions receivable	8	164,772	242,629
Prepayments, deposits and other receivables		10,571	12,463
Pledged time deposits		43,880	48,240
Cash and cash equivalents		167,340	137,714
		<u>465,123</u>	<u>505,014</u>
CURRENT LIABILITIES			
Amount due to contract customers		145,124	155,768
Accounts and bills payable	9	33,262	39,514
Tax payable		668	1,700
Warranty provision		8,775	9,783
Other payables and accrued liabilities		75,240	71,814
Interest-bearing bank borrowings		75,826	70,511
Due to minority shareholders		327	–
Current portion of finance lease payables		178	–
		<u>339,400</u>	<u>349,090</u>
NET CURRENT ASSETS		<u>125,723</u>	<u>155,924</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>444,130</u>	<u>437,990</u>

CONSOLIDATED BALANCE SHEET (cont'd)

		Unaudited	Audited
		30 June	31 December
		2003	2002
	Notes	HK\$'000	HK\$'000
			(Restated)
NON-CURRENT LIABILITIES			
Deferred tax liabilities	1	6,005	6,201
Long term portion of finance lease payables		772	–
		<u>6,777</u>	<u>6,201</u>
MINORITY INTERESTS			
		<u>24,339</u>	<u>25,198</u>
		413,014	406,591
CAPITAL AND RESERVES			
Issued capital	10	367,573	367,573
Reserves	11	45,441	39,018
		<u>413,014</u>	<u>406,591</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	For the six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	41,502	(18,672)
Net cash outflow from investing activities	(16,913)	(43,617)
Net cash inflow/(outflow) before financing activities	24,589	(62,289)
Net cash inflow from financing activities	5,037	115,832
Increase in cash and cash equivalents	29,626	53,543
Cash and cash equivalents at 1 January	137,714	143,122
Cash and cash equivalents at 30 June	167,340	196,665
Analysis of balances of cash and cash equivalents		
Cash and bank balances	167,340	196,665
Bank overdrafts	–	–
	167,340	196,665

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Unaudited	
		For the six months ended 30 June	
		2003	2002
		HK\$'000	HK\$'000
At 1 January as previously stated		399,435	290,502
Prior period adjustment	1	7,156	9,747
As restated		406,591	300,249
Issue of shares		–	96,000
Placing expenses		–	(2,772)
Exchange differences on translation of the financial statements of foreign entities		801	–
Net profit for the period attributable to shareholders		5,622	3,436
At 30 June		413,014	396,913

NOTES TO INTERIM FINANCIAL STATEMENTS

1. Accounting policies

These 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 these interim financial statements are consistent with those used in the audited annual financial statements for the year ended 31 December 2002, except that the Group has adopted for the first time SSAP12 (Revised) "Income Taxes" which is effective for accounting periods commencing on or after 1 January 2003.

In prior years, deferred tax is provided, using liability method, for significant timing differences in the recognition of revenue and expenses for tax and financial reporting purposes, except that where it is considered to be probable that the tax effects for such deferrals will continue in the foreseeable future. A deferred tax asset is not recognized until its realization is assured beyond reasonable doubt.

Under the SSAP12 (Revised), deferred tax liabilities are provided in full on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases whilst deferred tax assets arising from unused tax losses and unused tax credits are recognized to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilized. The application of SSAP12 (Revised) retrospectively has resulted in prior period adjustment to the opening balance of equity as at 1 January 2003 which has been restated and increased by HK\$7,156,000 (1 January 2002: HK\$9,747,000), representing the cumulative effect of this change in accounting policy on accumulated losses prior to 2003. As to the effect on the Group's results for the six months ended 30 June 2003, there is a decrease in tax charge of HK\$42,000 (2002: an increase in tax charge of HK\$1,121,000) whilst the minority interests is increased by HK\$59,000 (2002: decreased by HK\$23,000). Certain comparative figures for the corresponding period in 2002 have been restated accordingly.

2. Segmental information

(a) Business segments

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

	For the six months ended 30 June			
	2003		2002	
	Turnover HK\$'000	Operating profit HK\$'000	Turnover HK\$'000	Operating profit HK\$'000
Facade contracting works	262,271	4,393	254,496	3,289
Generation and sale of electricity and steam power	38,595	4,796	32,545	4,481
Aero-technology	3,066	2,784	–	–
Long-term investment	–	–	–	2,000
	<u>303,932</u>	<u>11,973</u>	<u>287,041</u>	9,770
Add: Unallocated other revenue		1,389		1,986
Less: Unallocated administrative and other operating expenses		<u>(4,568)</u>		<u>(4,264)</u>
		<u>8,794</u>		<u>7,492</u>

(b) Geographical segments

The following table presents turnover by the Group's geographical segments.

	For the six months ended 30 June	
	2003	2002
	Turnover	Turnover
	HK\$'000	HK\$'000
Hong Kong	193,115	225,044
Mainland China	110,817	61,997
	303,932	287,041

3. Other revenue

	For the six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Interest income	884	1,230
Rental income	505	756
Warranted profit from a long-term investment (a)	–	2,000
Income from installation of structures for steam supply	325	1,392
Government subsidy	617	420
Others	84	105
	2,415	5,903

- (a) During the first half of 2002, the Group received warranted profit of HK\$2,000,000 (the "Warranted Profit") in respect of a long-term investment. In 2001, in view of difficult environment in which the long-term investment operated, and the uncertainty as to the receipt of the Warranted Profit, the Group made a full provision against the cost of this long-term investment and the Warranted Profit was not recorded as revenue in that year.

4. Operating profit

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

	For the six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Depreciation	4,807	5,632
Less: amount capitalized to long-term construction contracts	<u>(1,517)</u>	<u>(697)</u>
	3,290	4,935
Amortization of goodwill	1,191	1,191
Provision for doubtful debts	1,200	1,500
Write-back of provision against receivables from related companies (Note 13(b))	(651)	(2,094)
Loss on disposal of properties held for sale	<u>179</u>	<u>–</u>

5. Finance costs

	For the six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and banking facilities wholly repayable within 5 years	1,628	1,021
Less: amount capitalized to long-term construction contracts	<u>(839)</u>	<u>(95)</u>
	789	926

6. Tax

- (a) For both current and prior periods, no Hong Kong profits tax has been provided as the Group had available tax losses brought forward to offset the assessable profits arising in Hong Kong whereas tax on profits assessable in Mainland China has been provided at the applicable rate. Deferred tax on deductible/taxable temporary differences reversed during the period has been charged/credited to the profit and loss account using the applicable rates of tax in Hong Kong and Mainland China.
- (b) The tax charge for the period is made up as follows:

	For the six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
		(Restated)
Group		
Current tax		
– Hong Kong	–	–
– Mainland China	1,301	845
Overprovision in prior period		
– Mainland China	(933)	–
Deferred tax	(42)	1,121
	326	1,966

7. 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	
	2003	2002
	HK\$'000	HK\$'000 (Restated)
Earnings for the purposes of basic and diluted earnings per share	<u>5,622</u>	<u>3,436</u>
	Number of shares	
Weighted average number of shares for the purpose of basic earnings per share	3,675,731,000	3,145,344,260
Potential dilutive effect arising from share options	<u>6,279,661</u>	<u>3,414,742</u>
Weighted average number of shares for the purpose of diluted earnings per share	<u>3,682,010,661</u>	<u>3,148,759,002</u>

8. Accounts and retentions receivable

	30 June	31 December
	2003	2002
	HK\$'000	HK\$'000
Accounts receivable	79,375	161,405
Retentions receivable	<u>99,567</u>	<u>94,194</u>
	178,942	255,599
Less: Provision for doubtful debts	<u>(14,170)</u>	<u>(12,970)</u>
	<u>164,772</u>	<u>242,629</u>

The ageing analysis of accounts receivable is as follows:

	30 June	31 December
	2003	2002
	HK\$'000	HK\$'000
Within 30 days	60,032	127,437
31–60 days	11,133	2,972
61–90 days	133	16,109
Over 90 days	8,077	14,887
	<hr/>	<hr/>
	79,375	161,405
Less: Provision for doubtful debts	(5,479)	(2,503)
	<hr/>	<hr/>
	73,896	158,902
	<hr/>	<hr/>

Retentions receivable represent certified value in respect of contracting works performed, the payments of which are withheld by customers for retention purposes, and are to be released to the Group pursuant to the provisions of the relevant contracts after the completion of projects. No ageing analysis of retentions receivable is presented as the amount retained is provided on each payment up to a maximum amount calculated at a prescribed percentage of the contract sum.

The Group's accounts receivable mainly consist of (i) 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; and (ii) the credit sale of electricity and steam power. As particularly described in the 2002 Annual Report, Far East Aluminium adopts credit policies consistent with the trade practices prevailing in the Hong Kong building industry. The normal credit term of accounts receivable from the sale of electricity and steam power is 30–60 days.

9. Accounts and bills payable

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

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Within 30 days	26,478	33,520
31–60 days	3,408	2,960
61–90 days	2,423	2,144
Over 90 days	953	890
	33,262	39,514

10. Share capital

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
<i>Authorised:</i>		
6,000,000,000 (2002: 6,000,000,000) shares of HK\$0.10 each	600,000	600,000
<i>Issued and fully paid:</i>		
3,675,731,000 (2002: 3,675,731,000) shares of HK\$0.10 each	367,573	367,573

11. Reserves

	Share premium account	Capital reserve	Fixed assets revaluation reserve	Reserve fund	Exchange fluctuation reserve	Retained earnings/ (accumulated losses)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002 as previously stated	239,956	162	–	1,358	–	(258,547)	(17,071)
Prior period adjustment (note 1)	–	–	–	–	–	9,747	9,747
As restated	239,956	162	–	1,358	–	(248,800)	(7,324)
Issue of shares (a)	36,000	–	–	–	–	–	36,000
Placing expenses (a)	(2,772)	–	–	–	–	–	(2,772)
Net profit for the six months ended 30 June 2002 as restated	–	–	–	–	–	3,436	3,436
At 30 June 2002 as restated	273,184	162	–	1,358	–	(245,364)	29,340
Net profit for six months ended 31 December 2002 as restated	–	–	–	–	–	9,294	9,294
Transfer to reserve fund	–	–	–	823	–	(823)	–
Surplus on revaluation	–	–	384	–	–	–	384
At 31 December 2002 as restated	273,184	162	384	2,181	–	(236,893)	39,018
Share premium reduction to set off against accumulated losses (b)	(273,184)	–	–	–	–	273,184	–
Exchange realignment	–	–	–	–	801	–	801
Net profit for six months ended 30 June 2003	–	–	–	–	–	5,622	5,622
At 30 June 2003	–	162	384	2,181	801	41,913	45,441

- (a) On 31 May 2002, Tacko International Limited (“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. Subsequently on 10 June 2002, Tacko subscribed for and was allotted 600,000,000 new shares in the Company at the same price of HK\$0.16 per share. The excess of the issue price of HK\$0.16 per share over the nominal value of HK0.10 per share in respect of the new shares issued in the aggregate amount of HK\$36,000,000 was credited to the share premium account whilst the related placing expenses were deducted therefrom.
- (b) At the annual general meeting held on 13 May 2003, the Company’s shareholders passed resolutions to (i) set off the entire sum of HK\$273,184,163 standing to the credit of the share premium account of the Company as at 31 December 2002 (the “Share Premium Reduction”) against the accumulated losses of the Company which amounted to HK\$283,592,863 as at 31 December 2002, thereby reducing the accumulated losses of the Company from HK\$283,592,863 to HK\$10,408,700; and (ii) set off the above balance of the accumulated losses of the Company in the amount of HK\$10,408,700 in full by way of application of an amount of HK\$10,408,700 standing to the credit of the contributed surplus account of the Company as at 31 December 2002 (the “Application of Contributed Surplus”). Both the Share Premium Reduction and the Application of Contributed Surplus took effect on 14 May 2003 and further details in relation thereto are set out in the circular of the Company dated 10 April 2003 and the announcements of the Company dated 7 April and 13 May 2003. Insofar as the Group’s consolidated accounts for the six months ended 30 June 2003 are concerned, the Share Premium Reduction as recorded in the Company’s own accounts, correspondingly, gave rise to the set-off of the same amount of HK\$273,184,163 standing to the credit of the Group’s share premium account as at 31 December 2002 against the Group’s accumulated losses as at 31 December 2002. However, as the Application of Contributed Surplus only concerns the Company’s own accounts, it did not give rise to a corresponding adjustment in the Group’s consolidated accounts.

12. Contingent liabilities

As at 30 June 2003, the Group had contingent liabilities in respect of guarantees under performance bonds in the amount of HK\$120,293,100 (31 December 2002: HK\$109,565,100). In addition, the Group had a contingent liability in respect of possible future long service payments to certain employees under the Hong Kong Employment Ordinance with a maximum possible amount of HK\$1,411,000 (31 December 2002: HK\$1,487,000) which has not been recognized in light of the improbability of resulting in a material cash outflow for the Group.

13. Related party transactions

In addition to transactions and balances described elsewhere in the interim financial statements, the Group had the following significant related party transactions during the period:

	For the six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Rental expenses paid to a fellow subsidiary (a)	234	234
Recovery of debts from related companies (b)	651	2,094

- (a) The Company leases certain premises for use as its office from Karlane Investment Limited, a fellow subsidiary and a wholly-owned subsidiary of CATIC. The monthly rentals were determined with reference to open market rentals.

- (b) In 2001, 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 (“Asia Capital”), the minority shareholder of Hangzhou Sealand and 盈華實業有限公司, a subsidiary of Asia Capital. For the six months ended 30 June 2003, as mutually agreed, the Group set off dividends of Hangzhou Sealand payable to Asia Capital in the amount of RMB690,000 (HK\$651,000) (2002: RMB2,240,000 (HK\$2,094,000)) against the amount due to the Group as partial settlement. Accordingly, a provision against receivables of HK\$651,000 (2002: HK\$2,094,000) was written back by the Group during the period.

14. Comparative figures

As further explained in note 1 to the interim financial statements, due to the adoption of the SSAP12 (Revised) “Income Taxes”, the accounting treatment and presentation of certain items and balances in these interim financial statements have been revised to comply with the new requirements. Also, reclassification of certain comparative revenue and expense items for the six months ended 30 June 2002 has been made in order to conform with the current period’s presentation.