

2004



Interim Report 2004

## **CATIC International Holdings Limited**

(Incorporated in Bermuda with limited liability)



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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 2004 (2003: Nil).

### BUSINESS REVIEW

#### Overall performance

The first half of 2004 saw satisfactory improvement in the business volume of facade contracting works as well as the sales of electricity and steam power. Total turnover achieved a moderate growth of 15% to HK\$349,008,000 (2003: HK\$303,932,000). Facade contracting works continued to perform well. However, as the results of Hangzhou Sealand Electric Power Company Limited ("Hangzhou Sealand") was battered by the rising fuel cost and also due to the fact that Project EC120 did not perform up to expectations, the Group's total gross profit was down from HK\$36,115,000 for the six months ended 30 June 2003 by 12% to HK\$31,958,000 for the period, while the total operating profit slipped by 16% to HK\$7,400,000 (2003: HK\$8,794,000). At the end, net profit attributable to shareholders was HK\$2,218,000 (2003: HK\$5,622,000).

#### Facade contracting works

For the six months ended 30 June 2004, facade contracting works continued to show good performance. The turnover for the year ended 31 December 2003 was HK\$636,571,000 and for the first six months in 2004, the amount topped HK\$295,579,000, representing an increase of 13% as compared to HK\$262,271,000 for the corresponding period in 2003.

Given increased turnover while profit margin of projects remaining steady, facade contracting works contributed HK\$5,648,000 to the Group's operating profit, which represents an increase of 29% when compared to HK\$4,393,000 for the corresponding period in 2003. As set out in the 2003 Annual Report, 2004 can be said to be a critical year in terms of the business environment of the facade contracting works sector in Hong Kong. During the period, new contracts amounting to HK\$77,840,000 (2003: HK\$273,000,000) were mainly secured from areas outside Hong Kong. Further to having secured two projects in Macau in 2003, the Group scored a breakthrough by securing a project in Singapore during the first half of 2004, hence establishing itself there for further projects in the future. Another major new project is the Ka Wah Centre in Shanghai.

As at 30 June 2004, the remaining value of contracts in hand amounted to HK\$470,000,000 (31 December 2003: HK\$700,000,000), which is a relatively low level in recent years. However, since 1 July 2004 and up to the date of this Interim Report, the Group has secured a number of new projects with an aggregate value of HK\$52,125,000 including the following:

1. Cyberport Residential Development (contract numbers R311 and R411a)
2. Civil Aid Service Headquarter and Fire Services Department Rescue Training Centre at Area 17 of West Kowloon Reclamation, Yaumatei

### **Generation and sale of electricity and steam power**

During the period under review, the Linping industrial region of Hangzhou, where the Company's 70% owned subsidiary Hangzhou Sealand is situated, continued to enjoy healthy economic growth, leading to increasing demand for electricity and steam power. The expansion plan for electricity generators and steam turbines, which began last year, have been completed early this year and the facilities have since been put into operation. Given the above reasons, sales of electricity and steam power for the six months in 2004 increased by 24% and 42% respectively to HK\$13,979,000 (2003: HK\$11,318,000) and HK\$38,763,000 (2003: HK\$27,277,000). Since late 2003, the tremendous growth in the high energy consuming steel and cement productions and other sectors have resulted in substantial demand for coal. With the increasing concern over coal mine safety and the regulation of coal mining, many substandard coal mines have been closed. It follows that the supply of coal fails to meet the demand, resulting in escalating coal prices. Although the State has recently raised the sale price of electricity, yet the extent of the price hike fell short of the rise in coal prices. Coal is the principal raw material for the generation of electricity and production of steam power. Moreover, the increase in sale price of electricity and steam power failed to catch up with the rapid rise in the price of coal. Accordingly, Hangzhou Sealand's overall gross profit did not benefit from the increase in sale price of electricity and steam power during the period. Hangzhou Sealand has already implemented a number of effective measures for cost controls and has managed to return a contribution of HK\$3,435,000 (2003: HK\$4,796,000) to the Group's operating profit for the period.

### **Aero-technology**

Recently the order for EC120 helicopters is gradually on the rise. However, their lagging sales since 2003 hampered the performance for the period, resulting in a small contribution of HK\$341,000 to the Group's operating profit. For the six months ended 30 June 2003, on the basis of profit warranty of not less than RMB6,500,000 for 2003, the Group took in a contribution of HK\$2,784,000 to operating profit.

During the period, China Nav-Info Co., Ltd. ("China Nav-Info"), 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, has done well in marketing its automobile navigation and mobile phone positioning services. However, China Nav-Info continued to suffer losses during the development phase. CATIC Siwei Co., Ltd. ("CATIC Siwei"), another associate which is engaged in the provision of aero-photographic services in Mainland China, performed well in terms of sales but recorded losses arising from certain development costs. In short, the Group recorded a share of losses in the amount of HK\$1,044,000 (2003: losses of HK\$741,000) from the above two associates in the period.

On 24 December 2003, the Company entered into an agreement with an independent third party to pay US\$5,000,000 (equivalent to approximately HK\$39,000,000) for the exclusive distributorship of certain helicopter engines produced by the third party in the following three years. The amount was paid in full on 20 January 2004. As the helicopter engines are of latest hi-tech models, the responses from the market are encouraging. Pursuant to the agreement, the average annualized return to the Company on the paid amount of HK\$39,000,000 shall not be less than 8% per annum or effectively US\$1,200,000 in aggregate for the three years ending 31 December 2006. Accordingly, the Group has accrued for the period a profit of US\$200,000 (equivalent to approximately HK\$1,560,000) which was credited to other income.

## FINANCIAL REVIEW

Total cash and bank balances were reduced from HK\$239,582,000 as at 31 December 2003 to HK\$185,893,000 as at 30 June 2004 whilst total liabilities were also reduced from HK\$381,623,000 as at 31 December 2003 to HK\$354,727,000 as at 30 June 2004. The Group's gearing ratio, calculated on the basis of net borrowings (i.e. after deducting cash and bank balances) relative to shareholders' equity remained unchanged at zero (31 December 2003: zero). As at 30 June 2004, certain of the Group's assets, comprising mainly time deposits and part of long term investments and fixed assets, with an aggregate net carrying value of HK\$93,514,000 (31 December 2003: HK\$132,139,000), were pledged to banks as securities for banking facilities which consisted of mainly revolving trade finances and bank loans. In all, the Group's financial position remains healthy.

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 TRANSACTION

On 29 March 2004, Florex Investment Limited ("Florex"), a wholly-owned subsidiary of the Company, entered into an agreement (the "Agreement") with CATIC (H.K.) Limited ("CATIC (HK)"), a substantial shareholder of the Company, to acquire from CATIC (HK) (i) its 45% equity interest (the "Shares") in CATIC International Support Limited ("CISL"), an exclusive overseas agent of China National Aero-Technology Import & Export Corporation ("CATIC"), the Company's ultimate holding Company, for distribution and trading of aircraft components and the provision of related services; and (ii) its 45% interest in a shareholder's loan (the "Loan"), with an aggregate sum of HK\$50,000,000, to be advanced by CATIC (HK) to CISL. Pursuant to the Agreement, the aggregate consideration for the acquisition, which is limited to the lesser of HK\$100,000,000, or to be determined on the basis of a price-earning ratio of 6.7 times of 45% of the average audited net income of CISL for the two years ending 31 December 2006, will be payable in cash by installments as set out in the Agreement. Moreover, pursuant to the Agreement, a put option was granted by CATIC (HK) to Florex, under which Florex is entitled to sell back to CATIC (HK) the Shares and the Loan at Florex's absolute discretion at any time commencing on the completion date of the transaction and up to the fifth anniversary date. At the Special General Meeting held on 20 May 2004, the connected transaction was approved by the independent shareholders of the Company. Further details of the transaction are set out in the announcements of the Company dated 30 March 2004 and 20 May 2004. As Florex and CATIC (HK) are still in the process of finalising the future business plan and operation of CISL, additional time is required for CATIC (HK) to provide the Loan to CISL. Florex and CATIC (HK) have therefore mutually agreed in writing to extend the date by which the conditions of the Agreement must be fulfilled (the "Long Stop Date") from 30 June 2004 to 31 March 2005, or such later date as the parties may agree in writing. Further details regarding the extension of the Long Stop Date is set out in the announcement of the Company dated 17 September 2004.

## EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2004, the Group employed 870 employees (31 December 2003: 912). Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical insurance and grants discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

## PROSPECTS

Recently, there are signs of gradual recovery in the Hong Kong building industry as a whole. It is expected that improvements are becoming more noticeable by the end of the year and the number of facade projects available for tender in the market shall be on the rise. Besides Hong Kong, the Group has also tendered for a large number of projects in Beijing, Shanghai, Macau, Singapore and area as far as the Gulf region in the Middle East. The Group is confident of securing further projects and of the performance in its facade contracting works in the second half of the year.

The greatest challenges which face Hangzhou Sealand presently are short supply and rising prices of coal. Although steel and cement productions and other high energy consuming industries have slowed down since the introduction of macro-austerity measures in April this year, coal in the near term is expected to remain in short supply. Also, the demand for coal in electricity production accelerates as a result of rising consumption of electricity around the country. On the other hand, as adequate supply of electricity is vital to the country's continuing economic growth, the State has earlier restricted the rise in coal prices. Furthermore, in order to provide further support to the electric power industry, the State is expected to raise the price of electricity again. Hopefully, the increase will be large enough to more than offset the increase in coal prices. Hangzhou Sealand together with other electricity and steam power suppliers in the region have been having discussions with the government department concerned on the pricing mechanism so as to make it more responsive to reflect coal price fluctuations. Moreover, Hangzhou Sealand shall continue to strengthen its internal management and to implement cost control measures for the purpose of reducing its production costs. Hangzhou Sealand remains prudently optimistic in enhancing its earning ability in the face of both rising production costs and electricity and steam power sale prices. Furthermore, in order to cope with business needs in the future, Hangzhou Sealand has already begun another new phase of expansion plan in the first half of this year.

Lately, there are signs that the order for EC120 helicopters is gradually on the rise. CATIC Siwei has earlier entered into a number of contracts for its aero-photographic services which are expected to generate income in the second half of the year. China Nav-Info is progressing well in promoting its automobile navigation and mobile phone positioning services. In short, the above aero-technology related businesses shall benefit the Group's overall performance.

## CHANGE OF DIRECTORS

On 17 May 2004, Mr. Wang Xinyan resigned as executive director and Deputy Chairman of the Company and Mr. Pan Linwu also resigned as an executive director of the Company. On the same day, Mr. Yang Chunshu resigned from his position as the Chairman of the Board but he remains as an executive director of the Company. Mr. Fu Shula and Mr. Wang Xinkuo were appointed as executive directors of the Company with effect from 17 May 2004. Mr. Fu and Mr. Wang were also appointed as the Chairman and Deputy Chairman of the Board respectively with effect from the same day.

## 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

**Fu Shula**

*Chairman*

Hong Kong, 17 September 2004



## DISCLOSURE OF INTERESTS

### DIRECTORS' INTERESTS

As at 30 June 2004, 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")) that was required to be recorded pursuant to Section 352 of the SFO, or as 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) Shares of the Company

Name of director	Number of shares Personal interests	Percentage of the Company's issued share capital
Ren Haifeng	11,282,000	0.30

#### (b) Underlying shares in respect of 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 Rules Governing the Listing of Securities (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, another 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. 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 relevant provisions thereof 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 2004, are as follows:

Eligible person	Number of shares in respect of options					Outstanding at 30 June 2004	Date of grant	Exercise period (iii)	Exercise price per share (iv) HK\$
	Outstanding at 1 January 2004	Granted during the period	Exercised during the period	Lapsed/cancelled during the period	Transferred to other employees during the period				
<b>1991 Scheme</b>									
<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			
Other employees	912,000	-	-	-	-	912,000	28/1/2000	28/7/2000 to 27/7/2005	0.17
	14,472,000	-	-	-	-	14,472,000			
<b>2001 Scheme</b>									
<i>Director</i>									
Yang Chunshu	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
Wang Xinyan (resigned during the period)	20,000,000	-	-	-	(20,000,000)	-	25/2/2003	25/8/2003 to 24/8/2008	0.13
	100,000,000	-	(20,000,000)	-	(20,000,000)	60,000,000			
Other employees	3,550,000	-	(800,000)	(750,000)	20,000,000	22,000,000	25/2/2003	25/8/2003 to 24/8/2008	0.13
	103,550,000	-	(20,800,000)	(750,000)	-	82,000,000			

- (i) The weighted average closing price per share immediately before the date of exercise was HK\$0.238.
- (ii) The weighted average closing price per share immediately before the date of exercise was HK\$0.276.
- (iii) Share options must be held for a minimum of six months before exercise. Exercise period shall not exceed a period of five years commencing on the expiry of a period of not less than six months after the date the option is accepted.
- (iv) 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 2004, 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 (within the meaning of Part XV of the SFO) that was required to be recorded 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 2004, the interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

### Long positions:

Name of Shareholders	Number of ordinary shares held	Percentage of the Company's issued share capital	Notes
Tacko International Limited ("Tacko")	1,265,767,000	33.83	(1)
CATIC (H.K.) Limited ("CATIC (H.K.)")	1,265,767,000	33.83	(1)
Speed Profit Enterprises Limited ("Speed Profit")	508,616,000	13.59	(2)
Catic International Finance Limited ("Catic Finance")	508,616,000	13.59	(2)
China National Aero-Technology Import & Export Corporation ("CATIC")	1,774,383,000	47.42	(3)
China Aviation Industries Corporation I ("AVIC I")	1,774,383,000	47.42	(3)
China Aviation Industries Corporation II ("AVIC II")	1,774,383,000	47.42	(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 2004, no other person or corporation (other than the directors or chief executive of the Company, whose interests are set out in the section "Directors' Interests" above) had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## **OTHER INFORMATION**

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES 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 2004.

### **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 2004, in compliance with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules on the Stock Exchange 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	
		2004	2003
		HK\$'000	HK\$'000
Turnover	2	<b>349,008</b>	303,932
Cost of sales		<b>(317,050)</b>	(267,817)
Gross profit		<b>31,958</b>	36,115
Other revenue and gain	3	<b>5,359</b>	2,415
Administrative and other operating expenses		<b>(29,917)</b>	(29,736)
Operating profit	2, 4	<b>7,400</b>	8,794
Finance costs	5	<b>(1,649)</b>	(789)
Share of losses of associates		<b>(1,044)</b>	(741)
Profit before tax		<b>4,707</b>	7,264
Tax	6	<b>(1,826)</b>	(326)
Profit before minority interests		<b>2,881</b>	6,938
Minority interests		<b>(663)</b>	(1,316)
Net profit attributable to shareholders		<b>2,218</b>	5,622
Earnings per share			
– basic	7	<b>0.0593 cent</b>	0.1529 cent
– diluted	7	<b>0.0589 cent</b>	0.1527 cent

## CONSOLIDATED BALANCE SHEET

		Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
	Notes		
<b>NON-CURRENT ASSETS</b>			
Investment properties		22,891	22,891
Fixed assets		156,803	143,342
Financial asset under Project EC120		37,759	37,759
Goodwill		39,308	40,499
Interest in associates		37,158	38,087
Long term investments		26,180	26,188
Deferred tax assets		8,276	9,206
Club debentures		960	960
Rental and utility deposits		358	384
Receivable in respect of exclusive distributorship of certain helicopter engines	8	40,560	–
Prepayment for a land use right		10,849	–
Pledged time deposits		10,000	10,000
		<u>391,102</u>	<u>329,316</u>
<b>CURRENT ASSETS</b>			
Inventories		8,440	3,551
Amount due from contract customers		65,957	39,936
Accounts and retentions receivable	9	154,839	220,001
Prepayments, deposits and other receivables		16,086	11,406
Pledged time deposits		41,680	69,718
Cash and cash equivalents		134,213	159,864
		<u>421,215</u>	<u>504,476</u>
<b>CURRENT LIABILITIES</b>			
Amount due to contract customers		139,170	141,195
Accounts and bills payable	10	46,419	39,663
Tax payable		957	948
Warranty provision		10,050	9,754
Other payables and accrued liabilities		73,880	89,447
Interest-bearing bank borrowings		77,082	93,054
Due to minority shareholders		164	163
Current portion of finance lease payables		190	184
		<u>347,912</u>	<u>374,408</u>
<b>NET CURRENT ASSETS</b>		<u>73,303</u>	<u>130,068</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>464,405</u>	<u>459,384</u>

## CONSOLIDATED BALANCE SHEET (cont'd)

		<b>Unaudited</b>	Audited
		<b>30 June</b>	31 December
		<b>2004</b>	2003
	Notes	<b>HK\$'000</b>	HK\$'000
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<b>6,226</b>	6,530
Long term portion of finance lease payables		<b>589</b>	685
		<u><b>6,815</b></u>	<u>7,215</u>
<b>MINORITY INTERESTS</b>			
		<u><b>26,623</b></u>	<u>26,124</u>
		<u><b>430,967</b></u>	<u>426,045</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	11	<b>374,148</b>	372,068
Reserves	12	<b>56,819</b>	53,977
		<u><b>430,967</b></u>	<u>426,045</u>



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Unaudited</b>	
	<b>For the six months</b>	
	<b>ended 30 June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Net cash (outflow)/inflow from operating activities	<b>(22,243)</b>	41,502
Net cash inflow/(outflow) from investing activities	<b>9,950</b>	(16,913)
Net cash (outflow)/inflow before financing activities	<b>(12,293)</b>	24,589
Net cash (outflow)/inflow from financing activities	<b>(13,358)</b>	5,037
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(25,651)</b>	29,626
Cash and cash equivalents at 1 January	<b>159,864</b>	137,714
Cash and cash equivalents at 30 June	<b>134,213</b>	167,340
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	<b>134,213</b>	167,340
Bank overdrafts	-	-
	<b>134,213</b>	167,340

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<b>Unaudited</b>	
	<b>For the six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
At 1 January	<b>426,045</b>	406,591
Issue of shares	<b>2,704</b>	–
Exchange differences on translation of the financial statements of foreign entities	–	801
Net profit for the period attributable to shareholders	<b>2,218</b>	5,622
	<hr/>	<hr/>
At 30 June	<b>430,967</b>	413,014
	<hr/>	<hr/>

## NOTES TO INTERIM FINANCIAL STATEMENTS

### 1. Accounting policies

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and the basis of preparation used by the Group in the preparation of the condensed consolidated interim financial statements are consistent with those used in the audited annual financial statements for the year ended 31 December 2003.

### 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			
	2004		2003	
	Turnover	Operating profit	Turnover	Operating profit
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Facade contracting works	295,579	5,648	262,271	4,393
Generation and sale of electricity and steam power	52,742	3,435	38,595	4,796
Aero-technology	687	341	3,066	2,784
	<u>349,008</u>	<u>9,424</u>	<u>303,932</u>	11,973
Add: Unallocated other revenue		2,877		1,389
Less: Unallocated administrative and other operating expenses		(4,901)		(4,568)
		<u>7,400</u>		<u>8,794</u>

*(b) Geographical segments*

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

	<b>For the six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>Turnover</b>	Turnover
	<b>HK\$'000</b>	HK\$'000
Hong Kong	<b>201,279</b>	193,115
Mainland China	<b>147,729</b>	110,817
	<b><u>349,008</u></b>	<u>303,932</u>

**3. Other revenue and gain**

	<b>For the six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Interest income	<b>561</b>	884
Rental income	<b>601</b>	505
Income derived from exclusive distributorship of helicopter engines	<b>1,560</b>	–
Income from installation of structures for steam supply	<b>1,732</b>	325
Government subsidy	<b>57</b>	617
Gain on disposal of long term investment	<b>133</b>	–
Gain on deemed disposal of interest in an associate	<b>115</b>	–
Others	<b>600</b>	84
	<b><u>5,359</u></b>	<u>2,415</u>

#### 4. Operating profit

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

	<b>For the six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Depreciation	5,328	4,807
Less: amount capitalized to long term construction contracts	<u>(1,592)</u>	<u>(1,517)</u>
	<b><u>3,736</u></b>	<b><u>3,290</u></b>
Amortization of goodwill	1,191	1,191
Provision for doubtful debts	600	1,200
Write-back of provision against receivables from related companies (Note 15 (b))	–	(651)
Loss on disposal of properties held for sale	<u>–</u>	<u>179</u>

#### 5. Finance costs

	<b>For the six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Interest on bank overdrafts and bank loans wholly repayable within 5 years	2,252	1,628
Less: amount capitalized to long-term construction contracts	<u>(629)</u>	<u>(839)</u>
	<b><u>1,623</u></b>	<b><u>789</u></b>
Interest on a finance lease	<u>26</u>	<u>–</u>
	<b><u>1,649</u></b>	<b><u>789</u></b>

## 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 based on existing PRC legislations, interpretations and practices in respect thereof. 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:

	<b>For the six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Group		
Current tax – Hong Kong	–	–
– Mainland China	<b>1,200</b>	1,301
Overprovision in prior period		
– Mainland China*	–	(933)
Deferred tax	<b>626</b>	(42)
	<b>1,826</b>	326

- \* In 2003, a subsidiary of the Group in Mainland China was granted a tax concession of which from the first year of deriving profit, the subsidiary shall be fully exempted from profits tax for that year and the next year, and thereafter shall only be subject to 50% profits tax for the third to fifth years. Accordingly, a tax provision made by the subsidiary in 2002 in relation to Project EC120 was written back in 2003.

## 7. Earnings per share

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

	<b>For the six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Earnings for the purposes of basic and diluted earnings per share	<u>2,218</u>	<u>5,622</u>
	<b>Number of shares</b>	
Weighted average number of shares for the purpose of basic earnings per share	<u>3,737,608,473</u>	3,675,731,000
Potential dilutive effect arising from share options	<u>31,067,015</u>	<u>6,279,661</u>
Weighted average number of shares for the purpose of diluted earnings per share	<u>3,768,675,488</u>	<u>3,682,010,661</u>

## 8. Receivable in respect of exclusive distributorship of certain helicopter engines

On 24 December 2003, the Company entered into an agreement with an independent third party to pay US\$5,000,000 (equivalent to approximately HK\$39,000,000) (the "Paid Amount") for the exclusive distributorship of 20 certain helicopter engines produced by that third party in the three years ending 31 December 2006. The amount was paid in full on 20 January 2004.

Pursuant to the agreement, the third party agreed to provide a discount of US\$300,000 to the Company for each of the first 20 aforesaid helicopter engines delivered provided that the average annualized return to the Company on the Paid Amount shall not be less than 8% per annum or effectively US\$1,200,000 in aggregate for the three years ending 31 December 2006. Accordingly, US\$200,000 (equivalent to approximately HK\$1,560,000), which represents 8% per annum on the Paid Amount for the six month period, was recorded as other income and a receivable of the Group. The receivable in respect of exclusive distributorship of certain helicopter engines in the amount of HK\$40,560,000 on the consolidated balance sheet consists of the Paid Amount of HK\$39,000,000 and the related income of HK\$1,560,000.

## 9. Accounts and retentions receivable

	<b>30 June 2004 HK\$'000</b>	31 December 2003 HK\$'000
Accounts receivable	56,866	128,831
Retentions receivable	<u>112,916</u>	<u>105,513</u>
	<b>169,782</b>	234,344
Less: provision for doubtful debts	<u>(14,943)</u>	<u>(14,343)</u>
	<u><b>154,839</b></u>	<u>220,001</u>

The ageing analysis of accounts receivable is as follows:

	<b>30 June 2004 HK\$'000</b>	31 December 2003 HK\$'000
Within 30 days	40,284	87,864
31–60 days	7,796	31,613
61–90 days	14	1,872
Over 90 days	<u>8,772</u>	<u>7,482</u>
	<b>56,866</b>	128,831
Less: provision for doubtful debts	<u>(5,677)</u>	<u>(5,077)</u>
	<u><b>51,189</b></u>	<u>123,754</u>

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 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 at a prescribed percentage of the contract sum.



The Group's accounts receivable mainly represent 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 2003 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.

## 10. Accounts and bills payable

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

	<b>30 June 2004 HK\$'000</b>	31 December 2003 HK\$'000
Within 30 days	<b>40,890</b>	34,266
31–60 days	<b>1,772</b>	4,252
61–90 days	<b>2,277</b>	212
Over 90 days	<b>1,480</b>	933
	<b>46,419</b>	39,663

## 11. Share capital

	<b>Number of ordinary shares of HK\$0.10 each</b>	HK\$'000
<i>Authorised:</i>		
At 1 January 2004 and 30 June 2004	6,000,000,000	600,000
<i>Issued and fully paid:</i>		
At 1 January 2004	3,720,681,000	372,068
Issue of new shares upon exercise of share options during the period (Note 12(b))	20,800,000	2,080
At 30 June 2004	3,741,481,000	374,148

## 12. Reserves

	Share premium account HK\$'000	Capital reserve HK\$'000	Fixed assets revaluation reserve HK\$'000	Reserve fund HK\$'000	Exchange fluctuation reserve HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2003	273,184	162	384	2,182	-	(236,893)	39,019
Share premium reduction to set off against accumulated losses (a)	(273,184)	-	-	-	-	273,184	-
Issue of shares (b)	1,349	-	-	-	-	-	1,349
Deficit on revaluation	-	-	(64)	-	-	-	(64)
Exchange realignment	-	-	-	-	795	-	795
Net profit for the year	-	-	-	-	-	12,878	12,878
Transfer to reserve fund	-	-	-	670	-	(670)	-
At 31 December 2003	1,349	162	320	2,852	795	48,499	53,977
Issue of shares (b)	624	-	-	-	-	-	624
Net profit for six months ended 30 June 2004	-	-	-	-	-	2,218	2,218
<b>At 30 June 2004</b>	<b>1,973</b>	<b>162</b>	<b>320</b>	<b>2,852</b>	<b>795</b>	<b>50,717</b>	<b>56,819</b>

- (a) 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"). 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.
- (b) During the period, the subscription rights attaching to options in respect of 20,800,000 shares (Year ended 31 December 2003: 44,950,000 shares) were exercised at the exercise price of HK\$0.13 per share, resulting in the issue of 20,800,000 shares (Year ended 31 December 2003: 44,950,000 shares) of HK\$0.10 each for a total cash consideration of HK\$2,704,000 (Year ended 31 December 2003: HK\$5,843,500), represented by increases in issued capital and share premium of HK\$2,080,000 (Year ended 31 December 2003: HK\$4,495,000) and HK\$624,000 (Year ended 31 December 2003: HK\$1,348,500) respectively.

### 13. Commitments

	<b>30 June 2004 HK\$'000</b>	31 December 2003 HK\$'000
Contracted, but not provided for:		
Acquisition of a land use right	<b>10,849</b>	–
Acquisition of plant and machinery	<b>17,347</b>	2,187
Others (a)	–	39,000
	<b>28,196</b>	41,187

- (a) On 24 December 2003, the Company entered into an agreement with an independent third party to pay US\$5,000,000 (equivalent to approximately HK\$39,000,000) for the exclusive distributorship of certain helicopter engines produced by the third party in three years ending 31 December 2006. The amount was paid in full on 20 January 2004.

In addition to the above commitments, as set out under the heading of Material Transaction in Chairman's Statement, Florex entered into an agreement with CATIC (HK), a substantial shareholder of the Company, to acquire from CATIC (HK) 45% equity interest in CISL and 45% interest in a shareholder's loan to be advanced by CATIC (HK) to CISL at an aggregate consideration not exceeding HK\$100,000,000.

#### 14. Contingent liabilities

As at 30 June 2004, the Group had contingent liabilities in respect of guarantees under performance bonds in the amount of HK\$135,491,000 (31 December 2003: HK\$126,312,000). 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\$641,000 (31 December 2003: HK\$709,000) which has not been recognized in light of the improbability if resulting in a material cash outflow for the Group.

#### 15. Related party transactions

In addition to the agreement entered into between Florex and CATIC (H.K.) as set out in note 13 and other transactions and balances described elsewhere in the interim financial statements, the Group had the following significant related party transactions during the period:

	<b>For the six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Rental expenses paid to a fellow subsidiary (a)	<b>234</b>	234
Recovery of debts from related companies (b)	<b>–</b>	651
	<hr/>	<hr/>

- (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 (equivalent to approximately 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, Hangzhou Sealand set-off dividends otherwise payable to Asia Capital in the amount of RMB690,000 (HK\$651,000) against the amount due to the Group as partial settlement. Accordingly, a provision against receivables of HK\$651,000 was written back by the Group during that period. For the six months ended 30 June 2004, no settlement was made by Asia Capital to Hangzhou Sealand by way of set-off described above or otherwise.