

The Directors present their annual report and the audited financial statements for the year ended 31st December, 2003.

### **PRINCIPAL ACTIVITIES**

The Company acts as an investment holding company. The principal activities of its principal subsidiaries, associates and principal jointly controlled entities are set out in notes 42, 16 and 17 to the financial statements respectively.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

### **CUSTOMERS AND SUPPLIERS**

For the year ended 31st December, 2003, the five largest customers of the Group together accounted for approximately 90% of the Group's turnover, with the largest customer accounted for 38%, and the five largest suppliers of the Group together represented less than 18% by value of the Group's total purchases.

None of the Directors, or any of their associates, or any shareholders which, to the knowledge of the Directors owned more than 5% of the Company's share capital, had any beneficial interests in the Group's five largest customers as mentioned in the preceding paragraph.

### **RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended 31st December, 2003 are set out in the consolidated income statement on page 35.

An interim dividend of HK2 cents per share was paid to shareholders during the year. The Directors now recommend the payment of a final dividend of HK5 cents and a special dividend of HK15 cents per share payable to shareholders whose names appear in the Register of Members of the Company on 12th May, 2004. The amounts of dividends paid and dividends proposed for the year are set out in note 12 to the financial statements.

### **RESERVES**

Movements in the reserves of the Group and the Company for the year are set out in the consolidated statement of changes in equity on page 39 and/or in note 35 to the financial statements.

### **FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the past five financial years/period is set out on page 91.

## PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent on land and buildings of HK\$3,512,000, leasehold improvements of HK\$45,000, plant and machinery of HK\$11,835,000, furniture, fixtures and equipment of HK\$726,000 and motor vehicles of HK\$138,000.

Details of these and other movements in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company are set out in notes 33 and 34 to the financial statements respectively.

## POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 40 to the financial statements.

## CONNECTED TRANSACTIONS

- (1) As disclosed in the circular dated 5th June, 2001 issued by the Company to the shareholders, the following connected transactions have been continuing after the disposal of Ngo Kee Construction Company Limited ("Ngo Kee") to NWS CON Limited ("NWS"), a subsidiary of a substantial shareholder of the Company:
- (i) the building/construction sub-contracting works (the "Sub-contracting Arrangements") which are currently undertaken by the Group in respect of which the main contractor is NWS or its associates including Ngo Kee;
  - (ii) the use of office premises and related office infrastructural facilities between Zen Pacific Construction Limited, a subsidiary of the Company, and Ngo Kee (the "Office Licence");
  - (iii) the provision of computer data storage and computer system repair and maintenance services (the "MIS Services"); and
  - (iv) the general consultancy services by the Group to Ngo Kee (the "General Consultancy Services") ((i) to (iv) collectively the "Connected Transactions").

The amounts received or receivable for the Connected Transactions for the year ended 31st December, 2003 are as follows:

	HK\$'000
Income received from:	
Sub-contracting Arrangements	—
MIS Services	64
General Consultancy Services	417
	<u>481</u>

**CONNECTED TRANSACTIONS** (Cont'd)

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has granted a conditional waiver dated 13th August, 2001 (the "Waiver") to the Company from strict compliance with the shareholders' approval and disclosure requirements under Rules 14.26 and 14.25(1) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in respect of the Sub-contracting Arrangements and under Rule 14.25(1) of the Listing Rules in respect of the Office Licence, MIS Services and General Consultancy Services. The Waiver is granted for a period of three years ending on 31st March, 2004 in respect of the Sub-contracting Arrangements, for a period up to 22nd October, 2002 in respect of the Office Licence and for a period up to 31st May, 2003 in respect of the MIS Services and the General Consultancy Services.

The independent non-executive directors of the Company have reviewed the Sub-contracting Arrangements, the MIS Services and the General Consultancy Services and confirmed that the Sub-contracting Arrangements have been conducted in the manner as stated in the Waiver and the terms of the MIS Services and the General Consultancy Services have not been varied since 27th September, 2001.

- (2) As disclosed in the announcement dated 5th August, 2003, the Company executed on 31st July, 2003 a counter indemnity (the "Counter Indemnity") in favour of Chow Tai Fook Enterprises Limited ("CTF"), a substantial shareholder of NWS Holdings Limited ("NWSHL"), in respect of the guarantees given by CTF ("CTF Guarantees") for certain obligations of First Star Development Limited ("First Star"). First Star was a jointly controlled company, of which each of NWSHL and the Company indirectly owned 50% equity interest and was engaged in the business of the development (the "Development") of a piece of land situate at Hung Hom Bay Reclamation Area.

As one of the conditions of CTF to provide the CTF Guarantees, the Company executed the Counter Indemnity to indemnify CTF for the claims on CTF in respect of the Development for not more than (a) 50% of the total claims in relation to a bank loan of HK\$2,100 million granted to First Star (the "Bank Loan"); and (b) 50% of the total claims made by the Government of Hong Kong in respect of certain performance obligations of First Star. The obligations of the Company under the Counter Indemnity were pro rata to the Company's equity interest in First Star. As at 31st December, 2003, the financial obligations under the Counter Indemnity amounting to HK\$1,050,000,000 was included in the total amount of contingent liabilities as set out in note 38 to the financial statements. Subsequent to the balance sheet date, the Counter Indemnity related to the Bank Loan was released by CTF.

Other than the Counter Indemnity, as at 31st December, 2003, there was an outstanding amount of the shareholder's loan advanced to First Star by the Group amounting to HK\$51,488,000. The shareholder's loan to First Star was less than the Group's pro rata share of its financial obligation to First Star. The shareholder's loan was interest free and was payable by First Star on demand by the Company. Subsequent to the balance sheet date, the shareholder's loan was disposed of upon the completion of disposal of the Group's interest in First Star as set out in note 40(b) to the financial statements.

### CONNECTED TRANSACTIONS (Cont'd)

Pursuant to Rule 14.25(2)(b) of the Listing Rules, as NWSHL is a substantial shareholder of the Company and thus a connected person of the Company. The execution of the Counter Indemnity and advance of the shareholder's loan, of which the aggregate value amounting to approximately HK\$1,101,488,000 exceeded 15% of the book value of the Group's net tangible assets of HK\$2,063,149,000 as at 31st December, 2003, constituted a connected transaction for the Company.

### DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors of the Company during the financial year and up to the date of this report were:

#### Executive Directors:

Zen Wei Pao, William (*Chairman*)

Zen Wei Peu, Derek (*Vice Chairman*)

Fong Shiu Leung, Keter

Yue Pak Lim

(retired on 12th May, 2003)

#### Non-executive Directors:

Lam Wai Hon, Patrick

Cheng Chi Pang, Leslie

#### Independent Non-executive Directors:

Wong Che Ming, Steve

Wan Siu Kau, Samuel

In accordance with Bye-law 87 of the Company's Bye-laws, Fong Shiu Leung, Keter and Cheng Chi Pang, Leslie shall retire from office at the forthcoming annual general meeting, and being eligible, offer themselves for re-election. All other remaining directors continue in office.

Each of Zen Wei Pao, William, Zen Wei Peu, Derek and Fong Shiu Leung, Keter entered into service contracts with the Group for a term of three years commencing from 1st August, 2003 and thereafter, if mutually agreed in writing, extend for further one year.

The Non-executive Directors have been appointed for a term subject to retirement by rotation as required by the Company's Bye-laws.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' INTERESTS

As at 31st December, 2003, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of SFO) or were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange were as follows:

### (I) The Company

#### (a) Interests in shares

Name of Director	Capacity/ Nature of interest	Number of Shares held		Percentage of holding (%)
		Long position	Short position	
Zen Wei Pao, William	Personal	187,381,843 ( <i>note 1</i> )	—	23.86*
	Personal	5,000,000 ( <i>note 2</i> )	—	0.64*
Zen Wei Peu, Derek	Personal	176,833,078 ( <i>note 1</i> )	—	22.52
Lam Wai Hon, Patrick	Personal	500,000 ( <i>note 2</i> )	—	0.06
Cheng Chi Pang, Leslie	Personal	500,000 ( <i>note 2</i> )	—	0.06
Wong Che Ming, Steve	Personal	1,100,000 ( <i>note 1</i> )	—	0.14

#### Notes:

- 1 Long position in the shares (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds).
  - 2 Long position in the underlying shares of the Company pursuant to unlisted equity derivatives (including physically settled, cash settled and other equity derivatives). Share options granted to directors or chief executives are included in this category the particulars of which are set out in (I)(b) below.
- \* As at 31st December, 2003, the issued share capital of the Company is 785,249,034 shares. Accordingly, the percentage has been adjusted.

## DIRECTORS' INTERESTS (Cont'd)

### (I) The Company (Cont'd)

#### (b) Interests in underlying shares through equity derivatives

Name of Director	Date granted	Vesting period	Exercisable period	Exercise price HK\$	Number of share options
Zen Wei Pao, William	29th November, 2000	3 years	29th November, 2001 to 28th November, 2004	0.34	5,000,000
Lam Wai Hon, Patrick	29th November, 2000	3 years	29th November, 2001 to 28th November, 2004	0.34	500,000
Cheng Chi Pang, Leslie	29th November, 2000	3 years	29th November, 2001 to 28th November, 2004	0.34	500,000

### (II) Associated Corporation

#### (a) Interests in shares

Name of Director	Name of company	Capacity/ Nature of interest	Number of Shares held		Percentage of holding (%)
			Long position	Short position	
Zen Wei Pao, William	Road King Infrastructure Limited	Personal	2,500,000 (note 2)	—	0.43
	Wai Kee (Zens) Construction & Transportation Company Limited	Personal	2,000,000 (note 1)	—	10.00
	Wai Luen Stone Products Limited	Personal	30,000 (note 1)	—	37.50
Zen Wei Peu, Derek	Road King Infrastructure Limited	Personal	300,000 (note 1)	—	0.05
		Personal	1,300,000 (note 2)	—	0.22
	Wai Kee (Zens) Construction & Transportation Company Limited	Personal	2,000,000 (note 1)	—	10.00
	Wai Luen Stone Products Limited	Personal	30,000 (note 1)	—	37.50
Fong Shiu Leung, Keter	Road King Infrastructure Limited	Personal	1,000,000 (note 2)	—	0.17

**DIRECTORS' INTERESTS** (Cont'd)**(II) Associated Corporation** (Cont'd)**(a) Interests in shares** (Cont'd)

Notes:

- 1 Long position in the shares (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds).
- 2 Long position in the underlying shares of Road King pursuant to unlisted equity derivatives (including physically settled, cash settled and other equity derivatives). Share options granted to directors or chief executives are included in this category the particulars of which are set out in (II)(b) below.

**(b) Interests in underlying shares through equity derivatives**

Name of Director	Date granted	Vesting period	Exercisable period	Exercise price HK\$	Number of share options
Zen Wei Pao, William	17th October, 2003	5 years	17th October, 2003 to 16th October, 2008	5.15	2,500,000
Zen Wei Peu, Derek	17th October, 2003	5 years	17th October, 2003 to 16th October, 2008	5.15	1,300,000
Fong Shiu Leung, Keter	17th October, 2003	5 years	17th October, 2003 to 16th October, 2008	5.15	1,000,000

Save as disclosed above, none of the Directors or chief executives or their associates has any interests or short positions in any shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of the SFO) as recorded in the register to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange.

**SHARE OPTIONS****(I) The Company**

The share option scheme of the Company adopted on 7th August, 1992 (the "Old Share Option Scheme") was terminated and a new share option scheme (the "New Share Option Scheme") was adopted by the Company at the annual general meeting held on 18th September, 2002 to comply with Chapter 17 of the Listing Rules. As a result, the Company may no longer grant further options under the Old Share Option Scheme. However, all options granted prior to the termination of the Old Share Option Scheme shall remain in full force and effect. During the year, 450,000 options expired, 200,000 options were cancelled and 8,125,000 options were exercised. As at 31st December, 2003, 7,875,000 options granted under the Old Share Option Scheme remained outstanding. No options were granted under the New Share Option Scheme during the year.

## SHARE OPTIONS (Cont'd)

### (I) The Company (Cont'd)

Details of the Old Share Option Scheme and the New Share Option Scheme are set out in note 34 to the financial statements.

A summary of movements during the year under the Old Share Option Scheme is as follows:

Name	Date granted	Vesting period	Exercisable period	Exercise Price HK\$	Number of share options					Balance at 31.12.2003
					Balance at 1.1.2003	Granted during the year	Exercised during the year*	Expired during the year	Cancelled during the year	
<b>Directors</b>										
Zen Wei Pao, William	29th November, 2000	3 years	29th November, 2001 to 28th November, 2004	0.34	5,000,000	—	—	—	—	5,000,000
Zen Wei Peu, Derek	29th November, 2000	3 years	29th November, 2001 to 28th November, 2004	0.34	5,000,000	—	(5,000,000)	—	—	—
Fong Shiu Leung, Keter	29th November, 2000	3 years	29th November, 2001 to 28th November, 2004	0.34	1,000,000	—	(1,000,000)	—	—	—
Lam Wai Hon, Patrick	29th November, 2000	3 years	29th November, 2001 to 28th November, 2004	0.34	500,000	—	—	—	—	500,000
Cheng Chi Pang, Leslie	29th November, 2000	3 years	29th November, 2001 to 28th November, 2004	0.34	500,000	—	—	—	—	500,000
Sub-total					12,000,000	—	(6,000,000)	—	—	6,000,000
<b>Others</b>										
Employees	11th November, 1999	3 years	1st December, 2000 to 30th November, 2003	1.28	500,000	—	—	(450,000)	(50,000)	—
	29th November, 2000	3 years	29th November, 2001 to 28th November, 2004	0.34	4,150,000	—	(2,125,000)	—	(150,000)	1,875,000
Sub-total					4,650,000	—	(2,125,000)	(450,000)	(200,000)	1,875,000
Total					16,650,000	—	(8,125,000)	(450,000)	(200,000)	7,875,000

\* The weighted average closing price of the Shares of the Company immediately before the dates on which the options were exercised is HK\$0.69.



## SHARE OPTIONS (Cont'd)

### (II) Associated Corporation

The share option scheme of Road King Infrastructure Limited ("Road King"), an associate of the Company, adopted on 3rd June 1996 (the "Road King Old Share Option Scheme") was terminated and a new share option scheme (the "Road King New Share Option Scheme") was adopted by Road King at the annual general meeting held on 12th May 2003 to comply with Chapter 17 of the Listing Rules. As a result, Road King may no longer grant further options under the Road King Old Share Option Scheme. However, all options granted prior to the termination of the Road King Old Share Option Scheme shall remain in full force and effect. During the year, Road King granted 4,800,000 share options under the Road King New Share Option Scheme to three Directors of the Company.

Details of the share options granted under the Road King Old Share Option Scheme and the Road King New Share Option Scheme to the following Directors of the Company and a summary of the movements during the year are as follows:

Name	Date of granted	Vesting period	Exercisable period	Exercise Price HK\$	Number of share options					Balance at 31.12.2003
					Balance at 1.1.2003	Granted during the year#	Exercised during the year**	Expired during the year	Cancelled during the year	
<b>Directors</b>										
Zen Wei Pao, William	8th August, 2000	2 years	8th August, 2001 to 7th August, 2003	3.20	2,900,000	—	(2,900,000)	—	—	—
	17 October 2003	5 years	17 October 2003 to 16 October 2008	5.15	—	2,500,000	—	—	—	2,500,000
Zen Wei Peu, Derek	8th August, 2000	2 years	8th August, 2001 to 7th August, 2003	3.20	1,500,000	—	(1,500,000)	—	—	—
	17 October 2003	5 years	17 October 2003 to 16 October 2008	5.15	—	1,300,000	—	—	—	1,300,000
Fong Shiu Leung, Keter	8th August, 2000	2 years	8th August, 2001 to 7th August, 2003	3.20	320,000	—	(320,000)	—	—	—
	17 October 2003	5 years	17 October 2003 to 16 October 2008	5.15	—	1,000,000	—	—	—	1,000,000
Total					4,720,000	4,800,000	(4,720,000)	—	—	4,800,000

# The closing price of the shares of Road King immediately before the date of grant was HK\$5.80.

\*\* The weighted average closing price of the shares of Road King immediately before the date on which the share options were exercised is HK\$5.60.

### **SHARE OPTIONS** (Cont'd)

Save as disclosed above, none of the Directors nor any of their associates had any interests in the securities of the Company or any of its associated corporations as defined in the SFO.

Save as disclosed above, none of the Directors nor their spouse or children under 18 years of age were granted or had exercised any rights to subscribe for any securities of the Company or any of its associated corporations.

### **ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES**

Other than the share option schemes as mentioned earlier, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2003, so far as is known to any Directors or chief executives of the Company, the following persons (other than directors or chief executives of the Company), who have interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Name of company	Capacity/ Nature of interest	Number of shares held		Percentage of holding (%) <sup>*</sup>
			Long position	Short position	
Chow Tai Fook Enterprises Limited (note A)	Wai Kee Holdings Limited	Corporate	213,868,000 (note 1)	—	27.24
New World Development Company Limited (note B)	Wai Kee Holdings Limited	Corporate	213,868,000 (note 1)	—	27.24
NWS Holdings Limited (note C)	Wai Kee Holdings Limited	Corporate	213,868,000 (note 1)	—	27.24
NWS Service Management Limited (note D)	Wai Kee Holdings Limited	Corporate	213,868,000 (note 1)	—	27.24
NWS Service Management Limited (note E)	Wai Kee Holdings Limited	Corporate	213,868,000 (note 1)	—	27.24
Vast Earn Group Limited (note F)	Wai Kee Holdings Limited	Personal/Beneficiary	213,868,000 (note 1)	—	27.24

## **SUBSTANTIAL SHAREHOLDERS** (Cont'd)

Notes:

- 1 Long position in the shares (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds).
- A Chow Tai Fook Enterprises Limited is deemed to be interested in the shares through its interests in more than one-third of the issued share capital of New World Development Company Limited.
- B New World Development Company Limited is deemed to be interested in the shares through its interests in more than one-third of the issued share capital of NWS Holdings Limited.
- C NWS Holdings Limited is deemed to be interested in the shares through its interests in its wholly owned subsidiaries, namely NWS Service Management Limited (incorporated in the Cayman Islands), NWS Service Management Limited (incorporated in the British Virgin Islands) and Vast Earn Group Limited.
- D NWS Service Management Limited (incorporated in the Cayman Islands) is deemed to be interested in the shares through its interests in its wholly owned subsidiary, namely NWS Service Management Limited (incorporated in the British Virgin Islands).
- E NWS Service Management Limited (incorporated in the British Virgin Islands) is deemed to be interested in the shares through its interests in its wholly owned subsidiary, namely Vast Earn Group Limited.
- F Vast Earn Group Limited is a wholly owned subsidiary of NWS Service Management Limited (incorporated in the British Virgin Islands).
- \* As at 31st December, 2003, the issued share capital of the Company was 785,249,034 shares. Accordingly, the percentage has been adjusted.

Save as disclosed above, no other person (other than directors or chief executives of the Company) has an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31st December, 2003.

### **PRE-EMPTIVE RIGHTS**

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

### **DONATIONS**

During the year, the Group made charitable and other donations amounting to HK\$217,000.

### **CODE OF BEST PRACTICE**

The Company has complied throughout the year ended 31st December, 2003 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

### **AUDIT COMMITTEE**

Pursuant to the requirements of the Listing Rules, the Company had on 30th July, 1998 established an Audit Committee comprising two independent non-executive directors with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants. The Audit Committee meets twice a year to review and discuss with management and external auditors the accounting principles and policies adopted by the Group, the general scope of audit work conducted by the external auditors and the assessment of the Group's internal controls.

### **PRACTICE NOTE 19 TO THE LISTING RULES**

In accordance with the requirements under Practice Note 19 ("PN 19") to the Listing Rules, the following information is disclosed:

- (1) (i) As at 31st December, 2003, financial assistance to and guarantees given for the benefit of the Company's affiliated companies, by the Company and/or its subsidiaries (the "Group"), amounted in aggregate to approximately HK\$1,594,286,000, being approximately 77.27% of the Group's net assets of HK\$2,063,149,000 as at 31st December, 2003.

## PRACTICE NOTE 19 TO THE LISTING RULES (Cont'd)

(1) (Cont'd)

(ii) Pursuant to paragraph 3.3 of PN 19, details of the financial assistance to and guarantees given for the benefit of the Company's affiliated companies as at 31st December, 2003 are as follows:

Jointly controlled entities/Associates	Percentage of interest attributable to the Group	Shareholders' loans to jointly controlled entities/associates HK\$'000	Guarantees given for banking facilities granted HK\$'000	Guaranteed banking facilities utilized HK\$'000	Guarantees given for tender/performance/retention bonds in respect of the construction contracts HK\$'000	Total HK\$'000
Balfour Beatty-Zen Pacific Joint Venture	50%	—	—	—	30,500	30,500
Barclay Mowlem-Zen Pacific-China Civil Joint Venture	35%	32	—	—	13,181	13,213
China State-Zen Pacific Joint Venture	30%	—	—	—	24,414	24,414
Dragages (HK) Joint Venture	14%	7,490	—	—	54,000	61,490
Dragages-Zen Pacific Joint Venture	25%	439	—	—	11,674	12,113
First Star Development Limited ("First Star") (Note a)	50%	51,488	1,050,000	990,165	58,450	1,159,938
Kier/Zen Pacific Joint Venture	50%	1,763	—	—	31,072	32,835
Taiwan Track Partners Joint Venture	8%	—	—	—	6,685	6,685
Zen Pacific-Shui On Joint Venture (C518)	50%	837	—	—	—	837
Elite United Property Management Limited	50%	3	—	—	—	3
Hong Kong Landfill Restoration Group Limited	23%	72	—	—	—	72
Kier Hong Kong Limited ("Kier") (Note b)	49.5%	46,597	192,997	—	2,003	241,597
Kong On Waste Management Limited	50%	269	—	—	—	269
Supertime Holdings Limited	50%	—	—	—	10,320	10,320
		<u>108,990</u>	<u>1,242,997</u>	<u>990,165</u>	<u>242,299</u>	<u>1,594,286</u>

Notes:

- (a) Pursuant to paragraph 3.2.1 of PN19, the aggregate value of shareholders' loan advanced to and all guarantees given in favour of First Star by the Group amounting to approximately HK\$1,159,938,000 exceeded 25% of the Group's net assets of HK\$2,063,149,000 as at 31st December, 2003.
- (b) Of the amount of shareholders' loan to Kier, a loan of HK\$40 million was advanced by a wholly owned subsidiary ("WOS") of the Company to Kier. Kier has agreed in writing that WOS has the right to set off the loan against any amount due from WOS or any companies whose ultimate holding company is the Company to Kier. As at 31st December, 2003, HK\$34,619,000 of the loan amount was set off against the same amount due from the Group to Kier.

The guarantees of HK\$192,997,000 were given for banking facilities granted collectively to Kier and the Group. As at 31st December, 2003, HK\$4,999,000 of the banking facilities was utilised for issuance of a bond in respect of construction contract of a subsidiary.

**PRACTICE NOTE 19 TO THE LISTING RULES** (Cont'd)

(1) (ii) (Cont'd)

Shareholders' loans to affiliated companies were funded by internal resources and/or bank borrowings of the Group. The shareholders' loans to affiliated companies were unsecured, interest free and are repayable on demand except for a shareholder's loan to Kier amounting to HK\$46,597,000 of which an amount of HK\$40,000,000 bears interest at best lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited and a shareholder's loan to First Star amounting to HK\$51,488,000 which is not repayable within twelve months from 31st December, 2003.

(iii) Pursuant to paragraph 3.10 of PN 19, a summary of the combined financial position of the Company's aforesaid affiliated companies as at 31st December, 2003 prepared based on the adjusted financial statements prepared under the accounting principles generally accepted in Hong Kong for the year ended 31st December, 2003, is as follows:

	<i>HK\$'000</i>
Non-current assets	168,543
Current assets	3,646,663
Current liabilities	(3,847,473)
Non-current liabilities	(38,892)
	<hr/>
Net liabilities	(71,159)
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(2) Pursuant to paragraph 3.7.1 of PN19, the following information is disclosed:

The Company has entered into a facility agreement which requires Messrs. Zen Wei Pao, William and Zen Wei Peu, Derek together, the controlling shareholders of the Company, to directly or indirectly beneficially own in aggregate not less than 35% of the entire issued share capital of the Company throughout the tenure of the facility agreement. As at 31st December, 2003, the total amount of the facility utilised was HK\$137,003,000 and the maturity of the facility would be 22nd July, 2006.

Save as disclosed above, there is no other disclosure required to be made by the Company pursuant to PN 19 to the Listing Rules.

**AUDITORS**

A resolution will be proposed at the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as Auditors of the Company.

On behalf of the Board  
**Zen Wei Pao, William**  
*Chairman*

26th March, 2004