

Notes to the Financial Statement

For the year ended 31 December 2004

I. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Directors consider Wai Kee, also incorporated in Bermuda as an exempted company with limited liability and its share being listed on the Stock Exchange, as the Company's ultimate holding company.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 41, 18 and 19 respectively.

Share of turnover of jointly controlled entities is disclosed in the consolidated income statement so as to provide additional information in respect of the financial position and financial performance of the Group. The information provided is solely for internal purpose.

2. GROUP RESTRUCTURING

Pursuant to a restructuring agreement signed on 20 November 2003 (the "Restructuring Agreement"), the former provisional liquidator of the Company entered into a restructuring proposal with Wai Kee. The Restructuring Agreement was completed on 23 April 2004 and the following transactions of the Agreement have been taken place:

- (a) The authorised share capital of the Company was effectively increased from HK\$80,000,000 to HK\$200,000,000 divided into ordinary shares of HK\$170,000,000 and preference shares of HK\$30,000,000 and the issued and fully paid-up capital were effectively consolidated from 508,339,764 issued shares of HK\$0.0025 each into 127,084,941 issued new shares of HK\$0.01 each.
- (b) The creditors of the Company discharged and waived all their claims against the Company through debt restructuring scheme.
- (c) All the subsidiaries of the Company other than Trinity Rent-A-Car Limited were transferred to the former Provisional Liquidator or Scheme's administrator and shall be held on trust of the Company's creditors.
- (d) On 23 April 2004, the Company issued 5,987,000,000 ordinary shares of HK\$0.01 each and 3,000,000,000 convertible preference shares of HK\$0.01 each to Top Horizon Holdings Limited ("Top Horizon"), which is a wholly owned subsidiary of Wai Kee, at a total consideration of HK\$89,870,000. The consideration was satisfied by cash of HK\$29,870,000 and by injection of Top Tactic Holdings Limited ("Top Tactic") and its subsidiaries (collectively "Top Tactic Group") valued at HK\$60,000,000. Top Tactic was a then wholly owned subsidiary of Top Horizon.

Upon completion, the Company obtained the entire equity interest of Top Tactic Group. The Company, Trinity Rent-A-Car Limited and Top Tactic Group were collectively known as the Combined Enterprise.

Details of the restructuring proposals are set out in a circular jointly released by former provisional liquidator and Wai Kee dated 24 February 2004.

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3. BASIS OF PREPARATION

As set out in note 2(d), the Company obtained ownership of Top Tactic by the issuance of the voting shares as consideration and has resulted the control of the Combined Enterprise being transferred to Top Horizon. Under accounting principles generally accepted in Hong Kong, the transactions were accounted for as a reverse acquisition. Top Tactic was treated as the acquirer and the Company and its subsidiaries immediately before the issue of the voting shares (the "Former I-China Group") were deemed to have been acquired by Top Tactic.

Top Tactic applied the acquisition method to account for the acquisition of the Former I-China Group. In applying the acquisition method, the identifiable assets and liabilities of the Former I-China Group were recorded on the balance sheet of the Combined Enterprise at their fair values at 23 April 2004. Goodwill arising on acquisition was determined as the excess of the purchase consideration deemed to be incurred by Top Tactic over the fair value of the separable assets and liabilities of the Former I-China Group at 23 April 2004. Net assets acquired were as follows:

	HK\$'000
Property, plant and equipment	51
Debtors, deposits and prepayments	302
Creditors and accrued charges	<u>(213)</u>
	140
Goodwill (note 15)	<u>31,975</u>
Total consideration	<u><u>32,115</u></u>
Satisfied by:	
Net assets of a subsidiary transferred to minority interests	2,115
Issue of preference shares (note)	<u>30,000</u>
	<u><u>32,115</u></u>

Note: The proceeds from the issue of the preference shares were applied to settle the creditors of the Former I-China Group amounting to HK\$22,000,000 and the restructuring cost and expenses amounting to HK\$7,795,000 in relation to the implementation of the Restructuring Agreement immediately before the transfer of control of the Former I-China Group to Top Tactic.

A dividend of HK\$22,000,000 was declared by Top Tactic prior to the completion of the restructuring ("Completion") but the payment of this will not be made until 12 months after Completion and unless the Directors of the Company, when deciding to make the payment of such dividend, have consulted their financial advisers and are satisfied that the Group will remain solvent for at least 12 months after the payment.

The Company's financial year end date was also changed from 31 March to 31 December to align with that of Wai Kee.

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4. SIGNIFICANT ACCOUNTING POLICIES

In 2004, the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Company has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Company has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain investments in securities. The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards, which includes Statements of Standard Accounting Practice and Interpretations issued by HKICPA, and accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

Goodwill

Goodwill arising on consolidation represents the excess of the purchase consideration over the fair value of the Group’s share of the identifiable assets and liabilities of subsidiaries, associates or jointly controlled entities at the date of acquisition. Goodwill is recognised as an asset in the consolidated balance sheet and amortised on a straight-line basis over its estimated useful life.

Goodwill arising on the acquisition of associates or jointly controlled entities is included within the carrying amount of the associates or jointly controlled entities. Goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Negative goodwill**

Negative goodwill represents the excess of the fair value of the Group's share of the identifiable assets and liabilities of subsidiaries, associates or jointly controlled entities at the date of acquisition over the cost of acquisition. Negative goodwill will be released to income based on an analysis of the circumstances from which the balance resulted.

Negative goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet as a deduction from assets.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

Revenue recognition

When the outcome of a construction contract can be estimated reliably, revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the value of work performed during the year.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the terms of the relevant leases.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment loss. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use.

Notes to the Financial Statement

For the year ended 31 December 2004

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvements	33 $\frac{1}{3}$ % or over the terms of the relevant leases, whichever is shorter
Plant and machinery	10% – 25%
Furniture, fixtures and equipment	25%
Motor vehicles	25%
Vessels	10% – 15%

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus goodwill and less negative goodwill on acquisition in so far as it has not already been written off or amortised or released to income, and less any identified impairment loss.

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated income statement. The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of net assets of the jointly controlled entities plus goodwill and less negative goodwill on acquisition in so far as it has not already been written off or amortised or released to income, and less any identified impairment loss.

Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date on the same basis as the contract revenue recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Construction contracts (Continued)**

When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as “Amount due from customers for contract work” or “Amount due to customers for contract work”, as appropriate. Amounts billed, but not yet paid by the customers, for work performed on contracts are included in the balance sheet under “Debtors, deposits and prepayments”.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any identified impairment loss recognised to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost less any identified impairment loss, that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in the profit for the year.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

Notes to the Financial Statement

For the year ended 31 December 2004

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

On consolidation, the assets and liabilities of the Group's overseas operations which are denominated in foreign currencies, are translated at exchange rates prevailing on the balance sheet date. Income and expense items, which are denominated in foreign currencies, are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Retirement benefit schemes contributions**

The contributions payable to the Group's Mandatory Provident Fund Schemes ("MPF Schemes") are charged as expenses as they fall due.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

5. TURNOVER

Turnover represents the revenue on construction contracts recognised during the year.

6. SEGMENTAL INFORMATION**(a) Business segments**

The Group is mainly engaged in civil engineering work. Accordingly, no business segment analysis of financial information is provided.

Notes to the Financial Statement

For the year ended 31 December 2004

6. SEGMENTAL INFORMATION (Continued)

(b) Geographical segments

The Group's civil construction business is principally located in Hong Kong, Taiwan and other regions in the People's Republic of China (the "PRC"). The Group reports its segment information based on the geographic location of its customers and the segment information about these geographical markets is presented below:

Year ended 31 December 2004

	Hong Kong HK\$'000	Taiwan HK\$'000	The PRC HK\$'000	Total HK\$'000
<i>Results</i>				
Segment turnover	342,234	26,497	-	368,731
Share of turnover of jointly controlled entities	<u>287,936</u>	<u>75,704</u>	<u>8,391</u>	<u>372,031</u>
Segment turnover and share of turnover of jointly controlled entities	<u>630,170</u>	<u>102,201</u>	<u>8,391</u>	<u>740,762</u>
Segment results	(102,593)	1,836	(3,619)	(104,376)
Share of results of jointly controlled entities	<u>147,954</u>	<u>25,339</u>	<u>2,621</u>	<u>175,914</u>
	<u>45,361</u>	<u>27,175</u>	<u>(998)</u>	<u>71,538</u>
Unallocated net income				<u>6,668</u>
Profit from operations				78,206
Finance costs				(195)
Share of results of associates less goodwill amortised	904	-	-	904
Amortisation of goodwill of subsidiaries				<u>(1,421)</u>
Profit before taxation				77,494
Income tax expense				<u>(21,935)</u>
Profit before minority interests				55,559
Minority interests				<u>(5,387)</u>
Profit for the year				<u>50,172</u>

Notes to the Financial Statement

For the year ended 31 December 2004

6. SEGMENTAL INFORMATION (Continued)

(b) Geographical segments (Continued)

Year ended 31 December 2003

	Hong Kong HK\$'000	Taiwan HK\$'000	The PRC HK\$'000	Total HK\$'000
<i>Results</i>				
Segment turnover	570,680	70,075	–	640,755
Share of turnover of jointly controlled entities	<u>548,393</u>	<u>18,002</u>	<u>105</u>	<u>566,500</u>
Segment turnover and share of turnover of jointly controlled entities	<u><u>1,119,073</u></u>	<u><u>88,077</u></u>	<u><u>105</u></u>	<u><u>1,207,255</u></u>
Segment results	(25,049)	(23,400)	(1,750)	(50,199)
Share of results of jointly controlled entities	<u>95,327</u>	<u>4,018</u>	<u>(623)</u>	<u>98,722</u>
Profit (loss) from operations	<u><u>70,278</u></u>	<u><u>(19,382)</u></u>	<u><u>(2,373)</u></u>	48,523
Finance costs				(2,196)
Share of results of associates less goodwill amortised	942	–	–	<u>942</u>
Profit before taxation				47,269
Income tax expense				<u>(14,210)</u>
Profit before minority interests				33,059
Minority interests				<u>(8,666)</u>
Profit for the year				<u><u>24,393</u></u>

Notes to the Financial Statement

For the year ended 31 December 2004

6. SEGMENTAL INFORMATION (Continued)

(b) Geographical segments (Continued)

At 31 December 2004

	Hong Kong HK\$'000	Taiwan HK\$'000	The PRC HK\$'000	Total HK\$'000
<i>Assets</i>				
Segment assets	209,003	11,306	8,450	228,759
Interests in associates	4,535	-	-	4,535
Interests in joint ventures	431	29,544	22,143	52,118
Other corporate assets				<u>125,634</u>
Total consolidated assets				<u><u>411,046</u></u>
<i>Liabilities</i>				
Segment liabilities	201,237	30,455	4,267	235,959
Other corporate liabilities				<u>58,530</u>
Total consolidated liabilities				<u><u>294,489</u></u>

For the year ended 31 December 2004

	Hong Kong HK\$'000	Taiwan HK\$'000	The PRC HK\$'000	Total HK\$'000
Additions in property, plant and equipment	7,115	-	185	7,300
Depreciation and amortisation of property, plant and equipment	<u>3,102</u>	<u>880</u>	<u>58</u>	<u>4,040</u>

Notes to the Financial Statement

For the year ended 31 December 2004

6. SEGMENTAL INFORMATION (Continued)

(b) Geographical segments (Continued)

At 31 December 2003

	Hong Kong HK\$'000	Taiwan HK\$'000	The PRC HK\$'000	Total HK\$'000
<i>Assets</i>				
Segment assets	241,982	68,199	12,549	322,730
Interests in associates	3,631	–	–	3,631
Interests in joint ventures	21,842	4,018	19,876	45,736
Other corporate assets				<u>49,627</u>
Total consolidated assets				<u><u>421,724</u></u>
<i>Liabilities</i>				
Segment liabilities	295,325	28,967	4,083	328,375
Other corporate liabilities				<u>29,872</u>
Total consolidated liabilities				<u><u>358,247</u></u>

For the year ended 31 December 2003

	Hong Kong HK\$'000	Taiwan HK\$'000	The PRC HK\$'000	Total HK\$'000
Additions in property, plant and equipment	260	–	94	354
Depreciation and amortisation of property, plant and equipment	<u>3,096</u>	<u>209</u>	<u>25</u>	<u>3,330</u>

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7. OTHER OPERATING INCOME

	I.1.2004 to 31.12.2004 HK\$'000	I.1.2003 to 31.12.2003 HK\$'000
Other operating income includes:		
Call of performance bond given by a subcontractor	8,100	–
Unrealised gain on revaluation of investments in securities	4,550	–
Dividend income from investments in securities	1,396	–
Gain on disposal of investments in securities	932	–
Write off of negative goodwill arising upon conversion of preference shares	385	–
Interest on bank deposits	171	59
Interest on other receivables	27	114
	<u><u>27</u></u>	<u><u>114</u></u>

Notes to the Financial Statement

For the year ended 31 December 2004

8. PROFIT FROM OPERATIONS

	1.1.2004 to 31.12.2004 HK\$'000	1.1.2003 to 31.12.2003 HK\$'000
Profit from operations has been arrived at after charging:		
Loss on disposal of property, plant and equipment	262	–
Auditors' remuneration		
Provision for the current year	1,200	939
Underprovision in prior years	–	280
	<u>1,200</u>	<u>1,219</u>
Depreciation	4,942	7,447
Less: Amount attributable to construction contracts	(902)	(4,117)
	<u>4,040</u>	<u>3,330</u>
Impairment loss on property, plant and equipment	–	5,010
Hire charges for plant and machinery	28,240	13,705
Less: Amount attributable to construction contracts	(28,240)	(13,705)
	<u>–</u>	<u>–</u>
Staff costs:		
Directors' remuneration (note 10)	9,796	4,101
Other staff costs	131,847	135,478
Retirement benefits scheme contributions, excluding amounts included in directors' remuneration and net of forfeited contributions of HK\$351,000 (1.1.2003 to 31.12.2003: HK\$593,000)	5,360	6,371
	<u>147,003</u>	<u>145,950</u>
Less: Amount attributable to construction contracts	(76,168)	(100,788)
	<u>70,835</u>	<u>45,162</u>
Operating lease rentals in respect of land and buildings	<u>1,815</u>	<u>1,786</u>

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9. FINANCE COSTS

	1.1.2004 to 31.12.2004 HK\$'000	1.1.2003 to 31.12.2003 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	195	1,220
Amount due to ultimate holding company	-	866
Other creditors	-	110
	<u>195</u>	<u>2,196</u>

10. DIRECTORS' REMUNERATION

	1.1.2004 to 31.12.2004 HK\$'000	1.1.2003 to 31.12.2003 HK\$'000
Directors' fees	-	-
Other emoluments - executive directors:		
Salaries and other benefits	3,641	1,966
Performance related incentive payments	6,000	1,989
Retirement benefits scheme contributions	155	146
	<u>9,796</u>	<u>4,101</u>
	<u>9,796</u>	<u>4,101</u>

Remuneration of the directors were within the following bands:

	Number of directors	
	1.1.2004 to 31.12.2004	1.1.2003 to 31.12.2003
Up to HK\$1,000,000	5	1
HK\$4,000,001 to HK\$4,500,000	1	1
HK\$5,500,001 to HK\$6,000,000	1	-
	<u>7</u>	<u>2</u>

Notes to the Financial Statement

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11. EMPLOYEES' EMOLUMENTS

Details of the emoluments of five highest paid individuals included two directors (2003: one director) set out above. The emoluments of the remaining three (1.1.2003 to 31.12.2003: four) highest paid individuals are as follows:

	1.1.2004 to 31.12.2004 HK\$'000	1.1.2003 to 31.12.2003 HK\$'000
Salaries and other benefits	3,844	5,405
Performance related incentive payments	2,550	1,470
Retirement benefits scheme contributions	<u>209</u>	<u>278</u>
	<u>6,603</u>	<u>7,153</u>

The emoluments were within the following bands:

	Number of employees	
	1.1.2004 to 31.12.2004	1.1.2003 to 31.12.2003
HK\$1,500,001 to HK\$2,000,000	1	3
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$2,500,001 to HK\$3,000,000	<u>1</u>	<u>–</u>

12. INCOME TAX EXPENSE

	1.1.2004 to 31.12.2004 HK\$'000	1.1.2003 to 31.12.2003 HK\$'000
Provision for the year		
Hong Kong	12,506	7,485
Underprovision in prior years		
Hong Kong	5,481	610
Other jurisdictions	1,457	–
Deferred taxation		
For the year (note 35)	–	(1,531)
Effect on change in tax rate (note 35)	–	131
Share of tax on results of associates	–	49
Share of tax on results of jointly controlled entities	<u>2,491</u>	<u>7,466</u>
	<u>21,935</u>	<u>14,210</u>

Hong Kong Profits Tax is calculated at 17.5 per cent (1.1.2003 to 31.12.2003: 17.5 per cent) on the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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12. INCOME TAX EXPENSE (Continued)

Taxation for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	1.1.2004 to 31.12.2004 HK\$'000	1.1.2003 to 31.12.2003 HK\$'000
Profit before taxation	<u>77,494</u>	<u>47,269</u>
Taxation at the applicable rate of 17.5% (1.1.2003 to 31.12.2003: 17.5%)	13,561	8,272
Tax effect of expenses that are not deductible in determining taxable profit	6,053	17,966
Tax effect of losses not recognised	2,763	14,400
Tax effect of income that is not taxable in determining taxable profit	(451)	(24,143)
Underprovision in prior year	6,938	610
Tax effect of utilisation of tax losses not previous recognised	(6,980)	(4,390)
Effect of different rates for companies operating in other jurisdictions	10	1,464
Tax effect of share of results of associates	(251)	(209)
Tax effect of share of results of jointly controlled entities	792	109
Increase in opening deferred tax liabilities resulting from an increase in Hong Kong Profits Tax rate	-	131
Others	<u>(500)</u>	<u>-</u>
Income tax for the year	<u><u>21,935</u></u>	<u><u>14,210</u></u>

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13. EARNINGS PER SHARE

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

	1.1.2004 to 31.12.2004 HK\$'000	1.1.2003 to 31.12.2003 HK\$'000
Profit for the year	50,172	24,393
Dividends on convertible preference share capital	(200)	—
Earnings for the purposes of basic earnings per share	49,972	<u>24,393</u>
Effect of dilutive potential ordinary shares:		
Dividends on convertible preference share capital	200	
Earnings for the purposes of diluted earnings per share	50,172	
	1.1.2004 to 31.12.2004 '000	1.1.2003 to 31.12.2003 '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	724,588	<u>598,700</u>
Effect of dilutive potential ordinary shares:		
Convertible preference share capital	103,279	
Weighted average number of ordinary shares for the purposes of diluted earnings per share	827,867	

The 598,700,000 shares issued (taking into account the consolidation of shares as set out in note 30(e)) by the Company to acquire TopTactic Group as set out in note 2 are deemed to be in issue on 1 January 2003 for the purpose of computing earnings per share under the reverse acquisition of the Company.

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14. PROPERTY, PLANT AND EQUIPMENT THE GROUP

	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Vessels	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST						
At 1 January 2004	7,631	18,444	19,825	7,654	84,260	137,814
Exchange realignment	–	253	51	148	641	1,093
Acquisition of subsidiaries	–	–	–	51	–	51
Additions	–	–	520	28	6,752	7,300
Disposals	–	(4,295)	(207)	(3,074)	(227)	(7,803)
At 31 December 2004	<u>7,631</u>	<u>14,402</u>	<u>20,189</u>	<u>4,807</u>	<u>91,426</u>	<u>138,455</u>
DEPRECIATION AND IMPAIRMENT						
At 1 January 2004	6,593	15,764	19,064	6,531	64,780	112,732
Exchange realignment	–	162	38	97	292	589
Provided for the year	589	805	364	170	3,014	4,942
Eliminated on disposals	–	(2,714)	(207)	(2,072)	(139)	(5,132)
At 31 December 2004	<u>7,182</u>	<u>14,017</u>	<u>19,259</u>	<u>4,726</u>	<u>67,947</u>	<u>113,131</u>
NET BOOK VALUES						
At 31 December 2004	<u>449</u>	<u>385</u>	<u>930</u>	<u>81</u>	<u>23,479</u>	<u>25,324</u>
At 31 December 2003	<u>1,038</u>	<u>2,680</u>	<u>761</u>	<u>1,123</u>	<u>19,480</u>	<u>25,082</u>

Notes to the Financial Statement

For the year ended 31 December 2004

15. GOODWILL

THE GROUP

HK\$'000

GROSS AMOUNT

Arising on reverse acquisition of the Company
during the year and at 31 December 2004

31,975

AMORTISATION

Provided for the year and balance at 31 December 2004

(1,421)

CARRYING AMOUNT

At 31 December 2004

30,554

Goodwill arose on the group restructuring as detailed in note 2 and is amortised using the straight-line method over its estimated useful life of fifteen years.

16. LONG-TERM DEPOSITS

THE COMPANY

31.12.2004

HK\$'000

31.3.2004

HK\$'000

Deposits for acquisition of:

– an investment property

–

15,495

– an investment project

–

38,728

– a property development project

–

158,830

–

213,053

Less: Allowance

–

(213,053)

–

–

The long term deposits at 1 April 2004 were discharged pursuant to the group restructuring as detailed in note 2.

Notes to the Financial Statement

For the year ended 31 December 2004

17. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	31.12.2004	31.3.2004
	HK\$'000	HK\$'000
Unlisted shares, at cost	60,000	482,322
Amounts due from subsidiaries	<u>–</u>	<u>607,691</u>
	60,000	1,090,013
Impairment loss recognised	<u>–</u>	<u>(1,090,013)</u>
	60,000	–
	<u>60,000</u>	<u>–</u>

The interests in subsidiaries at 1 April 2004 were discharged pursuant to the group restructuring as detailed in note 2.

Details of the Company's principal subsidiaries at 31 December 2004 are set out in note 41.

18. INTERESTS IN ASSOCIATES

	THE GROUP	
	31.12.2004	31.12.2003
	HK\$'000	HK\$'000
Share of net liabilities of associates	(4,594)	(6,027)
Goodwill (<i>note</i>)	<u>9,129</u>	<u>9,658</u>
	4,535	3,631
	<u>4,535</u>	<u>3,631</u>

Notes to the Financial Statement

For the year ended 31 December 2004

18. INTERESTS IN ASSOCIATES (Continued)

Details of the incorporated associates of the Group as at 31 December 2004 are as follows:

Name of associate	Place of incorporation or registration/ operation	Proportion of nominal value of issued ordinary capital held indirectly by the Company %	Principal activities
Hong Kong Landfill Restoration Group Limited	Hong Kong	23	Civil engineering
Kong On Waste Management Limited	Hong Kong	50	Environmental and waste management
Kier Hong Kong Limited	United Kingdom/ Hong Kong	49.5	Civil engineering

Note:

Movement in the goodwill included in interests in associates is as follows:

	HK\$'000
GROSS AMOUNT	
At 1 January 2004 and 31 December 2004	10,584
AMORTISATION	
At 1 January 2004	926
Provided for the year	529
At 31 December 2004	1,455
CARRYING AMOUNT	
At 31 December 2004	9,129
At 31 December 2003	9,658

Notes to the Financial Statement

For the year ended 31 December 2004

19. INTERESTS IN JOINT VENTURES

	THE GROUP	
	31.12.2004	31.12.2003
	HK\$'000	HK\$'000
Share of net assets of jointly controlled entities	<u>52,118</u>	<u>45,736</u>

At 31 December 2004, the Group had interests in the following principal jointly controlled entities:

Name of jointly controlled entity	Form of business structure	Place of incorporation/ registration/ operation	Attributable interest to the Group %	Principal activities
Balfour Beatty-Zen Pacific Joint Venture	Unincorporated	Hong Kong	50 <i>(note b)</i>	Civil engineering
China State-Zen Pacific Joint Venture	Unincorporated	Hong Kong	30	Civil engineering
Dragages-Zen Pacific Joint Venture	Unincorporated	Hong Kong	25	Civil engineering
Dragages (HK) Joint Venture	Unincorporated	Hong Kong	14 <i>(note a)</i>	Civil engineering
E & M 404 Joint Venture	Unincorporated	Hong Kong	12.5 <i>(note a)</i>	Civil engineering
Kier/Zen Pacific Joint Venture	Unincorporated	Hong Kong	50	Civil engineering
Shanxi Jin-Ya Road and Bridge Construction Limited	Incorporated	PRC	51	Road construction
Taiwan Track Partners Joint Venture	Unincorporated	Taiwan	8 <i>(note a)</i>	Civil engineering
Taiwan Track Partners Rheda Joint Venture	Unincorporated	Taiwan	8 <i>(note a)</i>	Civil engineering

The above table lists the jointly controlled entities of the Group which, in the opinion of the Directors, principally affect the results for the year or constitute a substantial portion of the net assets of the Group. To give details of other jointly controlled entities would, in the opinion of the Directors, result in particulars of excessive length.

Notes to the Financial Statement

For the year ended 31 December 2004

19. INTERESTS IN JOINT VENTURES (Continued)

Notes:

- (a) The Group holds less than 20% interests in these entities. However, under the joint venture agreements, the entities are jointly controlled by the Group and the other significant joint venture partners. Therefore, these entities are classified as jointly controlled entities.
- (b) The following details have been extracted from the unaudited financial statements of the Group's significant jointly controlled entity, Balfour Beatty-Zen Pacific Joint Venture.

Operating results:

	2004	2003
	HK\$'000	HK\$'000
Turnover	<u>176,816</u>	<u>461,529</u>
Profit from ordinary activities before taxation	<u>154,781</u>	<u>75,644</u>
Profit from ordinary activities before taxation attributable to the Group	<u>77,391</u>	<u>37,822</u>

Financial position:

	2004	2003
	HK\$'000	HK\$'000
Non-current assets	–	1,057
Current assets	35,757	169,327
Current liabilities	<u>(24,576)</u>	<u>(163,984)</u>
Net assets	<u>11,181</u>	<u>6,400</u>
Net assets attributable to the Group	<u>5,591</u>	<u>3,200</u>

Notes to the Financial Statement

For the year ended 31 December 2004

20. INVESTMENTS IN SECURITIES

	THE GROUP	
	31.12.2004	31.12.2003
	HK\$'000	HK\$'000
Equity securities		
Unlisted investment securities, at cost (<i>note</i>)	28,302	28,302
Other listed investments in Hong Kong, at market value	55,430	8,622
	<u>83,732</u>	<u>36,924</u>
Represented by:		
Non-current assets	28,302	36,924
Current assets	55,430	—
	<u>83,732</u>	<u>36,924</u>

Note: The amount represents an 6.25% equity investment amounting to HK\$28,302,000 in the registered capital, amounting to HK\$452,830,000, of Shanghai Environment Investment Company Limited ("SEICL"), a company incorporated in the PRC. SEICL is an investment holding company whose investment targets are companies undertaking waste management projects in the PRC, including incinerators and landfill.

21. AMOUNT DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	THE GROUP	
	31.12.2004	31.12.2003
	HK\$'000	HK\$'000
Contracts in progress at balance sheet date:		
Contract costs incurred plus recognised profits less recognised losses	1,421,960	3,063,395
Less: Progress billings	(1,398,805)	(3,039,140)
	<u>23,155</u>	<u>24,255</u>
Represented by:		
Due from customers included in current assets	33,190	43,099
Due to customers included in current liabilities	(10,035)	(18,844)
	<u>23,155</u>	<u>24,255</u>

Notes to the Financial Statement

For the year ended 31 December 2004

22. DEBTORS, DEPOSITS AND PREPAYMENTS

	THE GROUP	
	31.12.2004	31.12.2003
	HK\$'000	HK\$'000
Trade debtors within 60 days	35,475	73,520
Retentions receivable	17,575	58,627
Other debtors, deposits and prepayments	<u>28,536</u>	<u>27,624</u>
	<u>81,586</u>	<u>159,771</u>

The Group allows an average credit period of 60 days to its trade customers. For retention receivables in respect of construction contracts, the due dates are usually one year after the completion of the construction work.

23. AMOUNTS DUE FROM IMMEDIATE HOLDING COMPANY/A FELLOW SUBSIDIARY

The amounts are unsecured, interest-free and have no fixed repayment terms.

24. AMOUNTS DUE FROM ASSOCIATES

The amounts due from associates are unsecured and interest-free except for an amount of HK\$20,000,000 (31.12.2003: HK\$40,000,000) advanced to an associate ("Associate") by a subsidiary of the Company (the "Subsidiary") which bears interest at prime rate.

The Associate agreed in writing that the Subsidiary has the right to set off the amount against any amount due to the Associate by the Subsidiary or any companies whose ultimate holding company is Wai Kee. As at 31 December 2004, HK\$8,484,000 (31.12.2003: HK\$34,619,000) of the amount was set off against the same amount due to the Associate.

25. CREDITORS AND ACCRUED CHARGES

	THE GROUP	
	31.12.2004	31.12.2003
	HK\$'000	HK\$'000
Trade creditors analysed by age:		
0 to 60 days	11,899	29,802
61 to 90 days	3,094	992
Over 90 days	<u>3,580</u>	<u>5,400</u>
	18,573	36,194
Retentions payable	18,531	25,057
Accrued project costs	60,670	63,343
Other creditors and accrued charges	<u>59,857</u>	<u>41,712</u>
	<u>157,631</u>	<u>166,306</u>

Notes to the Financial Statement

For the year ended 31 December 2004

26. OTHER PAYABLE

The amount of HK\$20,000,000 in the consolidated income statement for the year ended 31 December 2003 represented the additional provision for a piling incident in late 1999 and the amount of HK\$70,000,000 in the consolidated balance sheet at 31 December 2003 represented the outstanding payable for this incident at 31 December 2003. The obligations of the Group under this piling incident was fully discharged during the year.

27. BANK LOANS

	THE GROUP		THE COMPANY	
	31.12.2004 HK\$'000	31.12.2003 HK\$'000	31.12.2004 HK\$'000	31.3.2004 HK\$'000
The maturity of bank loans is as follows:				
Within one year	–	16,000	–	411,383
In the second year	6,600	–	6,600	–
In the third to fifth year inclusive	13,400	–	13,400	–
	<u>20,000</u>	<u>16,000</u>	<u>20,000</u>	<u>411,383</u>
Less: Amount due within one year shown under current liabilities	–	(16,000)	–	(411,383)
Amount due after one year	<u>20,000</u>	<u>–</u>	<u>20,000</u>	<u>–</u>
Secured	–	16,000	–	–
Unsecured	<u>20,000</u>	<u>–</u>	<u>20,000</u>	<u>411,383</u>
	<u>20,000</u>	<u>16,000</u>	<u>20,000</u>	<u>411,383</u>

The Company's bank loans as at 1 April 2004 were settled pursuant to Group Restructuring as detailed in note 2.

28. AMOUNTS DUE TO ASSOCIATES

The amounts are unsecured, interest-free and have no fixed repayment terms. The associates have agreed not to demand repayment within twelve months from the balance sheet date and the balances are therefore shown as non-current liabilities.

Notes to the Financial Statement

For the year ended 31 December 2004

29. AMOUNTS DUE TO JOINTLY CONTROLLED ENTITIES

The amounts are unsecured, interest-free and have no fixed repayment terms. The amounts will not be repayable within twelve months from the balance sheet date and the balances are therefore shown as non-current liabilities.

30. SHARE CAPITAL/PAID-IN CAPITAL

	THE COMPANY	
	Number of shares '000	Amount HK\$'000
Authorised:		
Ordinary shares		
At 1 April 2003 and 31 March 2004 of HK\$0.01 each	8,000,000	80,000
Cancellation of authorised ordinary share capital (note b)(iii))	(7,872,860)	(78,729)
Increase in authorised ordinary share capital (note b(iv))	16,872,860	168,729
Consolidation of shares (note (e))	<u>(15,300,000)</u>	<u>–</u>
At 31 December 2004 of HK\$0.1 each	<u><u>1,700,000</u></u>	<u><u>170,000</u></u>
Issued and fully paid:		
Ordinary shares		
At 1 April 2003 and 31 March 2004 of HK\$0.01 each	508,339	5,083
Capital reduction (note b(i))	–	(3,812)
Consolidated of shares (note b)(ii))	(381,255)	–
Issue of ordinary shares (note (c))	6,187,000	61,870
Conversion of convertible preference shares (note (d))	1,500,000	15,000
Consolidation of shares (note (e))	<u>(7,032,676)</u>	<u>–</u>
At 31 December 2004 of HK\$0.1 each	<u><u>781,408</u></u>	<u><u>78,141</u></u>

Notes to the Financial Statement

For the year ended 31 December 2004

30. SHARE CAPITAL/PAID-IN CAPITAL (Continued)

Notes:

- (a) The share capital of HK\$7,808,000 as at 1 January 2004 represents the paid-in capital of the companies comprising Top Tactic Group as at 1 January 2004.
- (b) On 23 April 2004, pursuant to the capital restructuring approved by the court of Bermuda and Hong Kong dated 16 April 2004 and 20 April 2004 respectively, the share capital of the Company was changed as follows:
- i. the issued ordinary share capital of HK\$5,083,000 was reduced by HK\$3,812,000 to HK\$1,271,000 by cancelling the paid-up capital of HK\$0.01 each so that each of such issued ordinary shares shall be treated as one fully paid shares of HK\$0.0025. The credit of HK\$3,812,000 arising from the capital reduction was applied to eliminate an equivalent amount of the Company's accumulated losses;
 - ii. every four issued ordinary shares reduced pursuant to (b)(i) above were consolidated into one ordinary share of HK\$0.01. Accordingly, 508,339,764 issued ordinary shares of HK\$0.0025 each were consolidated into 127,084,941 issued ordinary shares of HK\$0.01 each;
 - iii. the unissued ordinary share capital of HK\$78,729,000 in the authorised ordinary share capital of HK\$80,000,000 of the Company was cancelled and diminished resulting in an authorised and issued ordinary share capital of HK\$1,271,000; and
 - iv. the authorised ordinary share capital of the Company was increased from HK\$1,271,000 to HK\$170,000,000 by creation of 16,872,860,000 ordinary shares of HK\$0.01 each.
- (c) On 23 April 2004, the Company issued 5,987,000,000 new ordinary shares of HK\$0.01 each of the Company in exchange of the entire equity interest in Top Tactic Group and issued 200,000,000 new ordinary shares of HK\$0.01 each of the Company to the former creditors of the Company in exchange for the discharge and waiver of all the claims against the Company.
- (d) On 24 April 2004, the holder of the preference shares converted HK\$15,000,000 of the preference shares in the Company (note 31).
- (e) On 26 July 2004, every ten ordinary shares of the Company were consolidated into one ordinary share. The nominal value of the ordinary shares was then consolidated from HK\$0.01 each share to HK\$0.1 each share.

Notes to the Financial Statement

For the year ended 31 December 2004

31. CONVERTIBLE PREFERENCE SHARE CAPITAL

	THE COMPANY	
	Number of shares '000	Amount HK\$'000
Authorised:		
Convertible preference shares of HK\$0.01 each Created on 23 April 2004 (note (a)) and at 31 December 2004	<u>3,000,000</u>	<u>30,000</u>
Issued and fully paid of HK\$0.01 each:		
Convertible preference shares Issued on 23 April 2004 (note (a))	3,000,000	30,000
Conversion into ordinary shares (note 30(d))	<u>(1,500,000)</u>	<u>(15,000)</u>
At 31 December 2004	<u>1,500,000</u>	<u>15,000</u>

Note:

- (a) On 23 April 2004, the authorised share capital of the Company was increased from HK\$170,000,000 to HK\$200,000,000 by creation of 3,000,000,000 convertible preference shares of HK\$0.01 each. On the same date, the Company issued 3,000,000,000 new convertible preference shares of HK\$0.01 each for cash at par for repayment of certain liabilities of the Company.
- (b) On 26 July 2004, every ten ordinary shares of the Company were consolidated into one ordinary shares and the conversion price for exercise of the conversion rights attaching to the convertible preference share was increased from HK\$0.01 to HK\$0.1.

The preference shares shall entitle the holders thereof the right to convert their preference shares into fully-paid ordinary shares of the Company at any time after the date of issuance of the preference shares but before the seventh anniversary, into such number of fully-paid ordinary shares to be determined by the issue price of preference shares divided by the conversion price of HK\$0.1 per ordinary share.

Holders of the preference shares shall be entitled to receive dividends at the rate of 2% per annum at its issue price. The holders of the preference shares shall be entitled to received dividends prior to and in preference to the holders of the ordinary shares.

The holder of each preference share shall not have any voting rights. The preference shares shall be non-redeemable and will not be listed on any stock exchange.

Notes to the Financial Statement

For the year ended 31 December 2004

32. AMOUNTS DUE TO SUBSIDIARIES

The amounts at 31 March 2004 were unsecured, interest-free and were settled pursuant to the group restructuring as detailed in note 2.

The amounts at 31 December 2004 are unsecured, interest-free and have no fixed repayment terms.

33. AMOUNTS DUE TO FORMER ASSOCIATES

	THE COMPANY	
	31.12.2004	31.3.2004
	HK\$'000	HK\$'000
Unsecured and interest bearing	-	4,465
Unsecured and interest-free	-	936
	<u> </u>	<u> </u>
	-	5,401
	<u> </u>	<u> </u>

The amounts at 31 March 2004 were settled pursuant to the group restructuring as detailed in note 2.

34. RESERVES

Details of the movements on the Group's share premium and reserves are set out in the consolidated statement of changes in equity on page 35.

The special reserve of the Group represents the issued ordinary share capital of the Company at the time it was acquired by Top Tactic Group.

The retained profits of the Group included HK\$11,460,000 (31.12.2003: HK\$12,893,000) losses accumulated by associates of the Group and HK\$32,054,000 (31.12.2003: HK\$25,670,000) profits retained by its jointly controlled entities.

Notes to the Financial Statement

For the year ended 31 December 2004

34. RESERVES (Continued)

Details of the movements in the Company's reserves are as follows:

	Capital redemption reserve	Contributed surplus	Deficit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE COMPANY				
At 1 April 2003	115	419,212	(978,062)	(558,735)
Net loss for the year	<u>–</u>	<u>–</u>	<u>(47,252)</u>	<u>(47,252)</u>
At 31 March 2004	115	419,212	(1,025,314)	(605,987)
Capital reduction (note 30(b)(i))	–	–	3,812	3,812
Net profit for the period	<u>–</u>	<u>–</u>	<u>567,037</u>	<u>567,037</u>
At 31 December 2004	<u><u>115</u></u>	<u><u>419,212</u></u>	<u><u>(454,465)</u></u>	<u><u>(35,138)</u></u>

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries when they were acquired by the Company and the nominal amount of the Company's shares issued for the acquisition.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of a company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

There were no reserves available for distribution to the shareholders of the Company at 31 March 2004 and 31 December 2004.

Notes to the Financial Statement

For the year ended 31 December 2004

35. DEFERRED TAX ASSETS/LIABILITIES

The following are the deferred tax liabilities recognised by the Group and movements thereon during the year:

	Accelerated tax depreciation HK\$'000
At 1 January 2003	(1,400)
Credit to income for the year (<i>note 12</i>)	1,531
Effect of change in tax rate credited to income (<i>note 12</i>)	<u>(131)</u>
At 31 December 2003 and 2004	<u><u>–</u></u>

At the balance sheet date, the Group has unutilised tax losses carried forward to offset future profits, the utilisation of which will expire in the following years:

	31.12.2004 HK\$'000	31.12.2003 HK\$'000
Tax losses:		
To expire in 2004	–	3,564
To expire in 2005	–	15,303
To expire in 2006	2,168	10,459
Carried forward indefinitely	<u>72,073</u>	<u>69,012</u>
	<u><u>74,241</u></u>	<u><u>98,338</u></u>

No deferred tax asset has been recognised in respect of unused tax losses due to the unpredictability of future profit streams.

Notes to the Financial Statement

For the year ended 31 December 2004

36. COMMITMENTS

(a) Joint venture commitments

At 31 December 2004, the Group had committed to invest approximately HK\$11,826,000 (31.12.2003: Nil) into a joint venture established in the PRC. The joint venture is principally engaged in civil engineering in the PRC.

(b) Operating lease commitments

Lessee

At 31 December 2004, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	31.12.2004	31.12.2003
	HK\$'000	HK\$'000
Within one year	1,434	1,830
In the second to fifth year inclusive	<u>143</u>	<u>1,034</u>
	<u><u>1,577</u></u>	<u><u>2,864</u></u>

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for terms ranging from one to three years and rentals are fixed at the time of entering the respective leases.

At 31 December 2004, the Company did not have any significant commitments.

37. PLEDGE OF ASSETS

At 31 December 2004, the Group has pledged the following assets to secure the banking facilities granted to the Group and jointly controlled entities.

	31.12.2004	31.12.2003
	HK\$'000	HK\$'000
Bank deposits	<u><u>19,038</u></u>	<u><u>54,494</u></u>

Notes to the Financial Statement

For the year ended 31 December 2004

38. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	31.12.2004 HK\$'000	31.12.2003 HK\$'000	31.12.2004 HK\$'000	31.3.2004 HK\$'000
Guarantee given to financial institutions in respect of banking facilities granted to subsidiaries	–	–	20,000	–
an associate	<u>35,000</u>	<u>285,000</u>	<u>–</u>	<u>–</u>
Outstanding tender/performance/retention bonds in respect of construction contracts	<u>23,927</u>	<u>208,624</u>	<u>10,000</u>	<u>–</u>

39. RETIREMENT BENEFITS SCHEME

The Group operates two MPF Schemes for all eligible employees in Hong Kong. These MPF Schemes are registered with the Mandatory Fund Schemes Authority (“MPFA”) in accordance with the Mandatory Provident Fund Schemes Ordinance (“MPF Schemes Ordinance”).

The assets of the MPF Schemes are held separately from those of the Group under the control of independent trustees approved by the MPFA.

In addition to the mandatory contributions specified under the MPF Schemes Ordinance, the Group also provides additional contributions for certain qualifying employees as specified in the rules of the Group’s MPF Schemes. Employees leaving the MPF Schemes prior to stipulated service periods may forfeit part of their benefits relating to the Group’s voluntary contributions and these amounts may be applied to reduce future voluntary contributions payable by the Group.

The amount charged to the consolidated income statement represents contributions payable to the retirement benefit schemes by the Group at the rates specified in the rules of the MPF Schemes reduced by the aforesaid amount of forfeited benefits.

Notes to the Financial Statement

For the year ended 31 December 2004

40. RELATED PARTY TRANSACTIONS

During the year, the Group has the following transactions with the related parties:

	Notes	I.1.2004 to 31.12.2004 HK\$'000	I.1.2003 to 31.12.2003 HK\$'000
Immediate holding company			
Corporate guarantee fee	(b)	5,131	5,343
Management fee paid	(c)	914	3,208
Revenue from MIS service	(c)	328	129
		<u> </u>	<u> </u>
Fellow subsidiaries			
Purchase of goods	(c)	395	3,000
		<u> </u>	<u> </u>
Associate			
Value of construction work certified	(c)	7,381	970
Consultancy fee paid	(c)	717	8,338
Interest income	(d)	1,292	2,333
Sale of project's scrap	(c)	-	2,596
		<u> </u>	<u> </u>
Ultimate holding company			
Interest expenses	(e)	-	866
		<u> </u>	<u> </u>
Related company (Note a)			
Revenue from MIS services	(f)	-	58
		<u> </u>	<u> </u>

Notes:

- (a) The related company is a subsidiary of a substantial shareholder of one of the substantial shareholders of the ultimate holding company.
- (b) Corporate guarantee fee was charged in accordance with respective agreements entered between the Company and the ultimate holding company.
- (c) The transactions were charged at the terms determined and agreed by both parties.
- (d) Interest income is calculated at prime rate as quoted by a financial institution.
- (e) Interest expenses were calculated at 2% over prime rate as quoted by a financial institution on the net amount due to ultimate holding company.
- (f) As disclosed in the circular dated 5 June 2001 issued by the ultimate holding company to the shareholders, these transactions have been continuing after the disposal of Ngo Kee Construction Company Limited ("Ngo Kee"), a former subsidiary of the ultimate holding company. The revenue was charged in accordance with the respective agreements entered between Ngo Kee and the ultimate holding company and its subsidiaries.

Notes to the Financial Statement

For the year ended 31 December 2004

40. RELATED PARTY TRANSACTIONS (Continued)

At 31 December 2004, Wai Kee provided corporate guarantees amounting to HK\$45,000,000 (31.12.2003: HK\$239,710,000) to several banks to secure the general banking facilities granted to the Group.

At 31 December 2004 and 31 December 2003, Wai Kee has also given guarantees to indemnify all liabilities for certain construction contracts undertaken by the Group.

At 31 December 2003, Wai Kee had given a guarantee amounting to HK\$80,000,000 in respect of a piling incident. The guarantee was discharged as at 31 December 2004.

As at 31 December 2003, certain listed shares of Road King Infrastructure Limited, an associate of the ultimate holding company, held by fellow subsidiaries were pledged to secure the banking and other facilities granted to the Group.

In addition to above, the Group has an interest in a jointly controlled entity for the construction of Zhejiang Shenjiawan – Zhongmentong (the "JCE"). The JCE is an unincorporated jointly controlled entity operating in the PRC, with a 50% attributable interests held by a wholly-owned subsidiary of the Company and the remaining attributable interest held by two wholly owned subsidiaries of Wai Kee.

41. PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation	Place of operation	Issued and fully paid ordinary share capital	Proportion of nominal value of issued ordinary share capital held by the Group %	Principal activities
Graphic Construction Company Limited	Macau	Macau	MOP25,000	100	Construction and civil engineering
Hsin Lung Construction Company Limited	Taiwan	Taiwan	NT\$175,000,000	100	Civil engineering
Leader Civil Engineering Corporation Limited	Hong Kong	Hong Kong	HK\$25,200,000 Ordinary shares HK\$24,000,000 Non-voting deferred shares (note)	100	Civil engineering

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41. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation	Place of operation	Issued and fully paid ordinary share capital	Proportion of nominal value of issued ordinary share capital held by the Group %	Principal activities
Leader Construction Company Limited	Hong Kong	Hong Kong	HK\$2	100	Provision of administrative and management services to group companies
Leader Marine Contractors Limited	Hong Kong	Hong Kong	HK\$200,000	100	Marine engineering and provision of transportation services
Profound Success Limited	BVI	Hong Kong	US\$1	100	Investment holding
Smart Start Investments Limited	Hong Kong	Hong Kong	HK\$2	100	Investment holding
Wai Kee China Construction Company Limited	Hong Kong	Hong Kong	HK\$10,000,000	100	Civil engineering
Wai Kee (Zens) Construction & Transportation Company Limited	Hong Kong	Hong Kong	HK\$2 Ordinary shares HK\$14,800,000 Non-voting deferred shares HK\$5,200,000 Non-voting deferred shares (note)	100	Civil engineering

Note: These deferred shares, which are not held by the Group, practically carry minimal rights to dividends and no rights to receive notice of or to attend or vote at any general meeting of respective companies. On winding up, the holders of the deferred shares are entitled to a distribution out of the remaining assets of the respective companies only after the distribution of substantial amounts as specified in the articles of associations to holders of ordinary shares of the respective companies.

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41. PRINCIPAL SUBSIDIARIES (Continued)

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affect the results of the year or constitute a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.