

The Directors present their annual report and the audited financial statements for the nine months ended 31st December, 2002.

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 46, 18 and 19 to the financial statements respectively.

An analysis of the Group's turnover and profit for the period by principal activity and geographical market is set out in note 5 to the financial statements.

CHANGE OF FINANCIAL YEAR END DATE

During the period, the Company and its subsidiaries changed their financial year end date from 31st March to 31st December in order to facilitate the preparation of accounts of the Group. The financial statements presented therefore cover the nine-month period from 1st April, 2002 to 31st December, 2002.

CUSTOMERS AND SUPPLIERS

For the nine months ended 31st December, 2002, the five largest customers of the Group together accounted for approximately 86% of the Group's turnover, with the largest customer accounted for 40%, and the five largest suppliers of the Group together represented less than 19% 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 nine months ended 31st December, 2002 are set out in the consolidated income statement on page 33.

An interim dividend of HK2 cents per share amounting to approximately HK\$15,523,000 was paid to shareholders during the period. The Directors now recommend the payment of a final dividend of HK2 cents per share amounting to approximately HK\$15,646,000 payable to shareholders whose names appear in the Register of Members of the Company on 12th May, 2003 and recommend that profit for the period of HK\$55,659,000 to be retained.

RESERVES

Movements in the reserves of the Group and the Company for the period are set out in the statement of changes in equity on page 37.

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 94.

PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent on land and buildings of HK\$3,348,000, leasehold improvements of HK\$3,421,000, plant and machinery of HK\$276,000, furniture, fixtures and equipment of HK\$707,000 and motor vehicles of HK\$217,000.

Details of movements in the property, plant and equipment of the Group are set out in note 16 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 36 and 37 to the financial statements respectively.

CONNECTED TRANSACTIONS

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 ("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 ("Office Licence");
- (iii) the provision of computer data storage and computer system repair and maintenance services ("MIS Services"); and
- (iv) the general consultancy services by the Group to Ngo Kee ("General Consultancy Services") ((i) to (iv) collectively the "Connected Transactions").

CONNECTED TRANSACTIONS (Cont'd)

The amounts received or receivable for the Connected Transactions for the period from 1st April, 2002 to 31st December, 2002 are as follows:

| | <i>HK\$'000</i> |
|------------------------------|-------------------|
| Income received from: | |
| Sub-contracting Arrangements | – |
| Office Licence | 1,128 |
| MIS Services | 122 |
| General Consultancy Services | 833 |
| | <u> </u> |

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 15.25(1) of the Listing Rules in respect of the Office Licence, MIS Services and General Consultancy Services.

The Independent Non-executive Directors of the Company have reviewed the Sub-contracting Arrangements, Office Licence, MIS Services and General Consultancy Services and confirmed that the Sub-contracting Arrangements have been conducted in the manner as stated in the paragraph 1 of the Waiver and the terms of the Office Licence, MIS Services and General Consultancy Services have not been varied since 27th September, 2001.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive Directors:

Zen Wei Pao, William (*Chairman*)
Zen Wei Peu, Derek (*Vice Chairman*)
Yue Pak Lim
Fong Shiu Leung, Keter

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, Yue Pak Lim and Lam Wai Hon, Patrick shall retire from office at the forthcoming annual general meeting. Lam Wai Hon, Patrick being eligible, offers himself for re-election. In view of other business commitments, Yue Pak Lim, though eligible, has given notice to retire from the Board at the forthcoming annual general meeting and does not offer himself for re-election. All other remaining directors continue in office.

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).

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

DIRECTORS' INTERESTS IN SECURITIES

At 31st December, 2002, the interests of the Directors of the Company in the shares and warrants of the Company and its associated corporations within the meaning of Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

| Name of Director | The Company | | Road King Infrastructure Limited | | | | Wai Kee (Zens) Construction & Transportation Company Limited | | Wai Luen Stone Products Limited |
|----------------------|---|---------------------|---|---------------------|----------------------------------|---------------------|---|--|------------------------------------|
| | Number of ordinary shares held under | | Number of ordinary shares held under | | Number of warrants held under | | Number of non-voting deferred shares held under | Number of non-voting deferred shares held under | |
| | personal interests | family interests | personal interests | family interests | personal interests | family interests | personal interests | personal interests | |
| Zen Wei Pao, William | 187,381,843 | Nil | Nil | Nil | Nil | Nil | 2,000,000 | 30,000 | |
| Zen Wei Peu, Derek | 165,761,078 | Nil | 1,206,645 | Nil | 241,329 | Nil | 2,000,000 | 30,000 | |
| Wong Che Ming, Steve | 1,100,000 | Nil | Nil | Nil | Nil | Nil | Nil | Nil | |

Save as aforesaid, none of the Directors or their associates had any interests in any securities of the Company or any of its associated corporations as defined under the SDI Ordinance as at 31st December, 2002.

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 period or at any time during the period.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

- (i) 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 period, 50,000 options expired, 600,000 options were cancelled and 4,620,000 options were exercised. As at 31st December, 2002, 16,650,000 options granted under the Old Share Option Scheme remained outstanding. No option was granted under the New Share Option Scheme during the period.

The purpose of the New Share Option Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to the Company and/or its subsidiaries. The participants include any full-time employees, executives or officers and directors (executive and non-executive directors) of the Company or any of its subsidiaries.

The total number of shares which may be issued under the New Share Option Scheme and any other schemes of the Company must not in aggregate exceed 10% (the "10% Limit") of the shares in issue as at the date of adoption of the New Share Option Scheme less the aggregate of exercised, cancelled and outstanding options, i.e. 13,884,403 shares representing approximately 1.77% of the issued share capital as at the date of this annual report. The 10% Limit may be refreshed with the approval of shareholders of the Company. The maximum number of shares may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other schemes must not exceed 30% of the shares in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares in issue unless the same is approved by shareholders.

The option period commences on the first anniversary of the commencement date (the date upon which the options are deemed to be granted and accepted) of such options and ends on the fourth anniversary of the commencement date. The option must be held by the participant for a year before it can be exercised. Each participant must pay HK\$1 as consideration for the grant of option within 30 days from the date of offer.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES (Cont'd)

The exercise price shall be determined by the directors, being not less than the highest of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of offer; and (b) the average of the official closing prices of the Shares stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of offer.

The New Share Option Scheme shall be valid and effective for a period of 10 years commencing on the adoption date, i.e. 18th September, 2002.

A summary of movement during the period 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 31.12.2002 |
|------------------------|---------------------|----------------|--|---------------------|-------------------------|---------------------------|------------------------------|---------------------------|-----------------------------|-----------------------|
| | | | | | Balance at 1.4.2002 | Granted during the period | Exercised during the period* | Expired during the period | Cancelled during the period | |
| Directors | | | | | | | | | | |
| 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 |
| Yue Pak Lim | 29th November, 2000 | 3 years | 29th November, 2001 to 28th November, 2004 | 0.34 | 1,000,000 | — | (1,000,000) | — | — | — |
| 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 |
| Wong Che Ming, Steve | 29th November, 2000 | 3 years | 29th November, 2001 to 28th November, 2004 | 0.34 | 500,000 | — | (500,000) | — | — | — |
| Sub-total | | | | | 13,500,000 | — | (1,500,000) | — | — | 12,000,000 |
| Others | | | | | | | | | | |
| Employees | 9th November, 1998 | 3 years | 9th November, 1999 to 8th November, 2002 | 0.96 | 50,000 | — | — | (50,000) | — | — |
| | 11th November, 1999 | 3 years | 1st December, 2000 to 30th November, 2003 | 1.28 | 700,000 | — | — | — | (200,000) | 500,000 |
| | 29th November, 2000 | 3 years | 29th November, 2001 to 28th November, 2004 | 0.34 | 7,670,000 | — | (3,120,000) | — | (400,000) | 4,150,000 |
| Sub-total | | | | | 8,420,000 | — | (3,120,000) | (50,000) | (600,000) | 4,650,000 |
| Total | | | | | 21,920,000 | — | (4,620,000) | (50,000) | (600,000) | 16,650,000 |

* The weighted average closing price of the Shares of the Company immediately before the dates on which the options were exercised is HK\$0.68.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES (Cont'd)

(ii) During the period, the following Directors of the Company had personal interests in share options to subscribe for shares in Road King Infrastructure Limited ("Road King"), an associate of the Company:

| Name | Date granted | Vesting period | Exercisable period | Exercise price HK\$ | Number of share options | | | | | Balance at 31.12.2002 |
|------------------------|------------------|----------------|--------------------------------------|------------------------|-------------------------|---------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------|
| | | | | | Balance at 1.4.2002 | Granted during the period | Exercised during the period | Expired during the period | Cancelled during the period | |
| Directors | | | | | | | | | | |
| Zen Wei Pao, William | 2nd August, 1999 | 2 years | 2nd August, 2000 to 1st August, 2002 | 5.60 | 719,000 | — | — | (719,000) | — | — |
| | 2nd August, 1999 | 2 years | 2nd August, 2000 to 1st August, 2002 | 4.95 | 550,000 | — | — | (550,000) | — | — |
| | 8th August, 2000 | 2 years | 8th August, 2001 to 7th August, 2003 | 3.20 | 2,900,000 | — | — | — | — | 2,900,000 |
| Zen Wei Peu, Derek | 2nd August, 1999 | 2 years | 2nd August, 2000 to 1st August, 2002 | 5.60 | 539,000 | — | — | (539,000) | — | — |
| | 2nd August, 1999 | 2 years | 2nd August, 2000 to 1st August, 2002 | 4.95 | 250,000 | — | — | (250,000) | — | — |
| | 8th August, 2000 | 2 years | 8th August, 2001 to 7th August, 2003 | 3.20 | 1,500,000 | — | — | — | — | 1,500,000 |
| Fong Shiu Leung, Keter | 8th August, 2000 | 2 years | 8th August, 2001 to 7th August, 2003 | 3.20 | 320,000 | — | — | — | — | 320,000 |
| Total | | | | | 6,778,000 | — | — | (2,058,000) | — | 4,720,000 |

Save as aforesaid, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or Chief Executives of the Company, or their spouses or children under the age of 18, had any rights to subscribe for the securities of the Company, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to section 16(1) of the SDI Ordinance showed the following shareholders as having an interest of 10% or more in the issued share capital of the Company as at 31st December, 2002:

| Name | Number of shares held |
|--|-----------------------|
| Vast Earn Group Limited | 210,278,000 |
| New World Services Limited (incorporated in the British Virgin Islands) (note 1) | 210,278,000 |
| New World Services Limited (incorporated in the Cayman Islands) (note 2) | 210,278,000 |
| Citiplus Investment Limited (note 3) | 210,278,000 |
| New World Development Company Limited (note 4) | 210,278,000 |
| Chow Tai Fook Enterprises Limited (note 5) | 210,278,000 |

Notes:

- (1) Vast Earn Group Limited is a wholly-owned subsidiary of New World Services Limited (incorporated in the British Virgin Islands). By virtue of the SDI Ordinance, New World Services Limited was deemed to be interested in the shares of the Company.
- (2) New World Services Limited (incorporated in the British Virgin Islands) is a wholly-owned subsidiary of New World Services Limited (incorporated in the Cayman Islands). By virtue of the SDI Ordinance, New World Services Limited (incorporated in the Cayman Islands) was deemed to be interested in the shares of the Company.
- (3) New World Services Limited (incorporated in the Cayman Islands) is a subsidiary of Citiplus Investment Limited. By virtue of the SDI Ordinance, Citiplus Investment Limited was deemed to be interested in the shares of the Company.
- (4) Citiplus Investment Limited is a wholly-owned subsidiary of New World Development Company Limited. By virtue of the SDI Ordinance, New World Development Company Limited was deemed to be interested in the shares of the Company.
- (5) Chow Tai Fook Enterprises Limited holds more than one-third of the issued share capital of New World Development Company Limited. By virtue of the SDI Ordinance, Chow Tai Fook Enterprises Limited was deemed to be interested in the shares of the Company.

Other than the information disclosed above and the interests disclosed under the heading "Directors' Interests in Securities", the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31st December, 2002.

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

During the period, the Company repurchased certain of its own shares on the Stock Exchange, details of which are set out in note 36 to the financial statements. The Directors considered that as the Company's shares were trading at a discount to the net assets value per share, the repurchases would increase the net assets value per share of the Company.

None of the Company's subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period.

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 period, the Group made charitable and other donations amounting to HK\$4,000.

CODE OF BEST PRACTICE

The Company has complied throughout the nine months ended 31st December, 2002 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

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) As at 31st December, 2002, 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\$526,133,000, being approximately 26.97% of the Group's net assets of HK\$1,950,603,000 as at 31st December, 2002.
- (2) 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, 2002 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 performance/ retention bonds in respect of the construction contracts HK\$'000 | Total HK\$'000 |
|--|--|--|--|-------------------|
| Balfour Beatty-Zen Pacific Joint Venture | 50% | 2,896 | 172,891 | 175,787 |
| Barclay Mowlem-Zen Pacific-AMEC Consortium | 30.73% | — | 3,850 | 3,850 |
| Barclay Mowlem-Zen Pacific-China Civil Joint Venture | 35% | 7,836 | 13,181 | 21,017 |
| Barclay Mowlem-Zen Pacific Joint Venture | 40% | 187 | — | 187 |
| China State-Zen Pacific Joint Venture | 30% | — | 19,531 | 19,531 |
| Dragages-Zen Pacific Joint Venture | 25% | 108 | 36,466 | 36,574 |
| First Star Development Limited ("First Star") | 49% | 48,373 | — | 48,373 |
| Kier/Zen Pacific Joint Venture | 50% | — | 124,287 | 124,287 |
| Zen Pacific-Shui On Joint Venture (C518) | 50% | 837 | — | 837 |
| 惠記集團有限公司 - 亞太單氏海事工程有限公司 - 遠東疏浚有限公司聯合承攬企業體 (Wai Kee Holdings Limited - Zen Pacific Marine Contractors Limited - Far Fast Dredging Limited Joint Venture*) | 37.5% | — | 31,875 | 31,875 |
| Elite United Property Management Limited | 50% | 335 | — | 335 |
| Hong Kong Landfill Restoration Group Limited | 23% | 19,895 | 2,101 | 21,996 |
| Kier Hong Kong Limited ("Kier") | 49.5% | 41,234 | — | 41,234 |
| Kong On Waste Management Limited | 50% | 191 | — | 191 |
| Road King Infrastructure Limited | 49.082% | 59 | — | 59 |
| | | 121,951 | 404,182 | 526,133 |

* The English names are only fair translations of the Chinese names and are not necessarily used by these companies.

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

(2) (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 which bears interest at best lending rate quoted by The Hongkong & Shanghai Banking Corporation Limited and a shareholder's loan to First Star amounting to HK\$48,373,000 which is not repayable within twelve months from 31st December, 2002 and of which an amount of HK\$10,939,000 bears interest at prevailing market rate which is at a certain percentage over the Hong Kong Interbank Offered Rate.

(3) 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, 2002 prepared based on their adjusted financial statements prepared in accordance with the accounting principles generally accepted in Hong Kong for the period ended 31st December, 2002, is as follows:

| | <i>HK\$'000</i> |
|-------------------------|------------------|
| Non-current assets | 4,427,364 |
| Current assets | 4,341,553 |
| Current liabilities | (1,288,813) |
| Non-current liabilities | (2,910,145) |
| Minority interests | (489,064) |
| Net assets | <u>4,080,895</u> |

Save as disclosed above, there is no other disclosure required to be made by the Company pursuant to PN 19 and Chapter 14 of 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

27th March, 2003