



Wai Kee Holdings Limited

(Incorporated in Bermuda with limited liability)



Construction



Highway



Bio-Technology



Quarry

POSITIVE THINKING ACTIVE PARTICIPATION

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The board of directors (the "Board") of Wai Kee Holdings Limited (the "Company") announces the interim results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2003.

CHANGE OF FINANCIAL YEAR END DATE

The Company has changed its financial year end date from 31st March to 31st December effective from the financial year ended 31st December, 2002. As a result of the change in financial year end date, the current interim period covers the six-month period from 1st January, 2003 to 30th June, 2003.

FINANCIAL PERFORMANCE HIGHLIGHTS

- Group turnover and share of turnover of jointly controlled entities HK\$738 million
- Profit attributable to shareholders HK\$45 million
- Basic earnings per share HK5.77 cents
- Interim dividend per share HK2 cents
- Net assets per share HK\$2.54

INTERIM DIVIDEND

The Board has resolved to pay an interim dividend of HK2 cents (six months ended 30th September, 2002: HK2 cents) per ordinary share for the six months ended 30th June, 2003 to the shareholders of the Company whose names appear in the Register of Members of the Company on 18th August, 2003.

It is expected that dividend warrants will be sent to the shareholders on or before 25th August, 2003.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 13th August, 2003 to Monday, 18th August, 2003, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars in Hong Kong, Secretaries Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Tuesday, 12th August, 2003.

The Group's unaudited turnover and share of turnover of jointly controlled entities for the six months ended 30th June, 2003 was HK\$738 million (six months ended 30th September, 2002: HK\$700 million) generating an unaudited consolidated profit after taxation of HK\$45 million (six months ended 30th September, 2002: HK\$63 million).

HIGHWAY AND EXPRESSWAY

Road King Infrastructure Limited ("Road King"), an associate of the Group, continues to benefit from the growing transportation business in China and contributed profit of approximately HK\$46 million to the Group for the six months ended 30th June, 2003 (six months ended 30th September, 2002: HK\$58 million). The contribution for the period was stated after deduction of the Group's finance costs related to the highway and expressway division and net loss on deemed disposals of interest in Road King due to the conversion of preference shares and the exercise of employee options of Road King.

Road King recorded an unaudited profit after taxation of HK\$156 million for the six months ended 30th June, 2003, representing a decrease of 9.8% as compared with that of 2002. The drop was mainly attributable to the fact that currently Road King's joint venture partners are entitled to a higher income sharing ratio in some of the projects. Upon the recovery of these joint venture partners' original investments, Road King's profit sharing ratio will increase again. The decrease in profit was also related to the outbreak of the Severe Acute Respiratory Syndrome ("SARS") in China, slowing down the traffic growth in the second quarter of the year.

During the period, Stagecoach Asia Limited, one of Road King's substantial shareholders, converted mandatorily all its 418,380 preference shares of Road King to 48,876,168 ordinary shares of Road King at a conversion price of HK\$8.56. In addition, options to subscribe for a total 9,345,000 ordinary shares of Road King were exercised by Road King's employees at a price of HK\$3.20. As a result, the Group's interest in Road King was diluted from 49.082% as at 31st December, 2002 to 44.102% as at 30th June, 2003. As the weighted average price of the conversion of preference shares and the exercise of options was lower than the carrying value of Road King in the Group, which was about HK\$8 per share of Road King, the Group recognized a net loss of approximately HK\$13 million on deemed disposals from the dilution of interest in Road King.

On 27th June, 2003, Road King signed cooperative joint venture contracts in agreement to invest in, operate and manage the Baoding-Tianjin Expressway in Hebei Province. The expressway, with a total length of approximately 104.95 kilometers, is now in operation and collecting tolls. It is anticipated that this project will provide profit contribution to Road King in the second half of the year.

HIGHWAY AND EXPRESSWAY (Cont'd)

On the financial front, Road King had cash and bank deposits of HK\$921 million as at 30th June, 2003, after early retiring a transferable term loan facility for the amount of US\$62.5 million and a standby letter of credit facility for the amount of US\$11 million.

CONSTRUCTION

The turnover and share of turnover of jointly controlled entities of construction division increased to HK\$679 million for the six months ended 30th June, 2003 (six months ended 30th September, 2002: HK\$648 million). The construction division recorded profit from operations of HK\$41 million (six months ended 30th September, 2002: HK\$27 million) and contributed net profit of HK\$30 million (six months ended 30th September, 2002: HK\$16 million) to the Group for the period.

In view of government budget deficit, it is unlikely that the construction market will be able to recover in the near future. We have noticed that some contractors tend to price below cost to obtain projects. We do not believe it is in the interest of the Group to participate in this kind of competition.

Rather, we have tried to capitalize on government's new procurement policy (since November 2002) and winning projects on a combination score of quality and financial offer. Also, in anticipation of more 'design and build' projects coming on stream, we are building up our technical capability to face the challenge. Naturally, the effectiveness of this approach will take a long time horizon to materialize.

Our attempt in opening up market in China has limited success, the medium term target is to have 1/3 of our turnover outside Hong Kong. Rather than attacking the entire market, we wish to focus on environmental projects, an area we believe will have huge demand in China in the next decade or two.

The formal hearing of the arbitration with Housing Authority was completed in June and award is expected in the next few months. The directors have determined that there is no requirement to make any further provision for the current period in respect of the incident.

As of the date of this report, the construction division had contracts in hand of about HK\$7,612 million of which about HK\$1,100 million has yet to be completed.

QUARRYING

The quarrying division recorded profit from operations and contributed net profit to the Group of HK\$4 million for the six months ended 30th June, 2003 (six months ended 30th September, 2002: HK\$8 million).

The production and sale of quarry products in Hong Kong in the first six months is 900,000 ton, a drop of 34% compared with corresponding period last year. In addition, due to competition in concrete market, the sales price of aggregates also drops by 15%. The outlook for quarrying in Hong Kong is pessimistic in the near future.

QUARRYING (Cont'd)

Our quarry in Shanghai had started selling aggregates to Shanghai Dayang deep water port since April this year; however, it is anticipated that full production will only be reached in September this year; we will then have a better feel of the operation. At the same time, we are also looking at providing other construction related services to local contractors to increase our return.

The need for high quality aggregate is gradually rising in Shanghai and the management believes that the future in quarrying in China is bright in the medium and long term.

BIO-TECHNOLOGY

Despite the outbreak of SARS in China, Wuhan Nature's Favour Bio-Engineering Company Limited launched two self-manufactured bio-pesticides in the second quarter of the year to over ten major agricultural provinces in China. The sales team is expected to extend the distribution network to the rest of the other agricultural provinces in the next peak season.

Management is actively applying licences for the production of three other bio-pesticides to expand the product lines. In view of the growing market acceptance for bio-pesticides in China, management anticipates a positive return to the Group in the next year.

PROPERTY DEVELOPMENT PROJECTS WITH GOVERNMENT

The Group has interests in two property development projects with Government. Both projects had been completed and occupation permits were obtained in last year. As development costs, including finance costs, incurred subsequent to the issuance of occupation permits are treated as expenses, the Group has recorded a total amount of HK\$32 million (six months ended 30th September, 2002: HK\$9 million) under the results of jointly controlled entities as its share of expenses for the period.

One of the property development projects has been converted to public rental housing and the Government purchased the residential area and the car parking spaces thereof in April 2003.

The Government, however, has yet to decide on the usage of the other property development project. Discussions have been held with Government authorities in respect of the usage and the extra costs incurred. Any decision reached will be reported in due course. In respect of this development project, the Company has an outstanding guarantee to a subsidiary of NWS Holdings Limited that the profit before taxation of the project should not be less than HK\$70 million. Based on the information presently available, the directors have considered that the financial impact of such guarantee will be insignificant. Accordingly, no provision has been made for any financial impact in respect of such guarantee in the financial statements.

LIQUIDITY AND FINANCIAL RESOURCES

During the period, total borrowings were maintained at a similar level with the maturity profile summarised as follows:

	As at	
	30th June, 2003	31st December, 2002
	<i>HK\$'million</i>	<i>HK\$'million</i>
Within one year	191	173
In the second year	50	50
In the third to fifth year inclusive	—	25
	<u>241</u>	<u>248</u>

Major movements of the total borrowings during the period were:

- (a) The Group repaid HK\$25 million of a three years term bank loan obtained in 2002. Apart from that, additional bank loans and overdrafts amounting to HK\$10 million were drawn during the period.
- (b) Additional interests of HK\$8 million was accrued during the period for the financial arrangement related to the disposals of interests in the development of two property development projects with the Government in year 2001, making up a total outstanding amount of HK\$80 million recorded as liability as at 30th June, 2003.

As at 30th June, 2003, the Group's cash and bank balances amounted to HK\$180 million, of which HK\$32 million bank deposits were pledged to secure bond and banking facilities granted to the Group and a jointly controlled entity.

The Group's net finance costs for the six months ended 30th June, 2003 was HK\$11 million (six months ended 30th September, 2002: HK\$11 million).

The Group's borrowings and cash balances were principally denominated in Hong Kong dollars and Renminbi. Hence, there is no significant exposure to foreign exchange rate fluctuations. During the period, the Group had no borrowing at fixed interest rate and had no financial instrument for hedging purpose.

CAPITAL STRUCTURE AND GEARING RATIO

The net gearing ratio, being the ratio of net borrowings (total borrowings less cash and bank balances) to shareholders' funds, was reduced from 6.4% to 3.1% during the period. As at 30th June, 2003, the shareholders' funds amounted to HK\$1,997 million, representing HK\$2.54 per share (HK\$2.52 per share as at 31st December, 2002). Increase in shareholders' funds was mainly attributable to profit retained after dividend paid for the period.

PLEDGE OF ASSETS

As at 30th June, 2003, apart from the bank deposits pledged to secure banking facilities granted, 46.5 million Road King shares were pledged to secure the Group's performance in respect of the sale and repurchase of interests in two property development projects with Government and a total of 180 million Road King shares were pledged to a bank to secure a three years term loan and other banking facilities granted to the Group.

CONTINGENT LIABILITIES

Apart from the outstanding profit guarantee in respect of a property development project with Government, the Group had contingent liabilities amounting to HK\$525 million as at 30th June, 2003 (HK\$579 million as at 31st December, 2002) related to tender, performance and retention bonds issued to customers in respect of outstanding construction contracts and guarantee given to a bank in respect of banking facilities granted to an associate.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2003, the Group had 1,139 employees (795 employees as at 31st December, 2002), of which 672 (615 as at 31st December, 2002) were located in Hong Kong, 436 (148 as at 31st December, 2002) were located in Mainland China and 31 (32 as at 31st December, 2002) were located in Taiwan.

Competitive remuneration packages are structured to commensurate with individual responsibilities, qualification, experience and performance.

OUTLOOK

The Group continues to focus on its core businesses and strengthen its financial position. The Group has taken steps to rationalise itself to be more competitive and is cautiously positioned itself to take advantage of opportunities in China. The Board is optimistic on the Group's performance and future.

DIRECTORS' INTERESTS

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

(I) The Company

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 (note 1)	–	23.88*
	Personal	5,000,000 (note 2)	–	0.64*
Zen Wei Peu, Derek	Personal	175,083,078 (note 1)	–	22.31*
Fong Shiu Leung, Keter	Personal	398,000 (note 1)	–	0.05
Lam Wai Hon, Patrick	Personal	500,000 (note 2)	–	0.06
Cheng Chi Pang, Leslie	Personal	500,000 (note 2)	–	0.06
Wong Che Ming, Steve	Personal	1,100,000 (note 1)	–	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 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.
- * As at 30th June, 2003, the issued share capital of the Company is 784,674,034 shares. Accordingly, the percentage has been adjusted.

Disclosure of Interests

(I) The Company (Cont'd)

(a) Particulars of outstanding share options

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

(b) Details of share options

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 Rules Governing the Listing of Securities on the Stock Exchange (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, 7,550,000 options were exercised and 200,000 options were cancelled. As at 30th June, 2003, 8,900,000 options granted under the Old Share Option Scheme remained outstanding. No options was granted under the New Share Option Scheme during the period.

(I) The Company (Cont'd)

(b) Details of share options (Cont'd)

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 30.6.2003
					Balance at 1.1.2003	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)	—	—	—
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
Others										
Employees	11th November, 1999	3 years	1st December, 2000 to 30th November, 2003	1.28	500,000	—	—	—	(50,000)	450,000
	29th November, 2000	3 years	29th November, 2001 to 28th November, 2004	0.34	4,150,000	—	(1,550,000)	—	(150,000)	2,450,000
Sub-total					4,650,000	—	(1,550,000)	—	(200,000)	2,900,000
Total					16,650,000	—	(7,550,000)	—	(200,000)	8,900,000

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

Disclosure of Interests

(II) Associated Corporation

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	300,000 (note 3)	–	0.05*
	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	1,996,645 (note 1)	–	0.35*
		Personal	241,329 (note 2)	–	0.04*
	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

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 listed equity derivatives (including physically settled, cash settled and other equity derivatives).
 - 3 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.
- * As at 30th June, 2003, the issued share capital of Road King is 573,822,377 shares. Accordingly, the percentage has been adjusted.

(II) Associated Corporation (Cont'd)

(a) Particulars of outstanding share options in Road King

Name of Director	Date granted	Vesting period	Exercisable period	Exercise price HK\$	Number of share options
Zen Wei Pao, William	8th August, 2000	2 years	8th August, 2001 to 7th August, 2003	3.20	300,000

(b) Details of share options in Road King

During the period, the following Directors of the Company had personal interests in share options to subscribe for shares in Road King:

Name	Date granted	Vesting period	Exercisable period	Exercise price HK\$	Number of share options				Balance at 30.6.2003
					Balance at 1.1.2003	Granted during the period	Exercised during the period #	Cancelled during the period	
Directors									
Zen Wei Pao, William	8th August, 2000	2 years	8th August, 2001 to 7th August, 2003	3.20	2,900,000	—	(2,600,000)	—	300,000
Zen Wei Peu, Derek	8th August, 2000	2 years	8th August, 2001 to 7th August, 2003	3.20	1,500,000	—	(1,500,000)	—	—
Fong Shiu Leung, Keter	8th August, 2000	2 years	8th August, 2001 to 7th August, 2003	3.20	320,000	—	(320,000)	—	—
Total					4,720,000	—	(4,420,000)	—	300,000

The weighted average closing price of Road King immediately before the dates on which the options were exercised is HK\$4.07.

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.

Disclosure of Interests

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th June, 2003, the following persons, not being a Director, chief executive of the Company had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Name of company	Capacity/ Nature of interest	Number of shares held		Percentage of holding (%)*
			Long position	Short position	
Chow Tai Fook Enterprises Limited (note A)	Wai Kee Holdings Limited	Corporate	213,868,000 (note 1)	–	27.26
New World Development Company Limited (note B)	Wai Kee Holdings Limited	Corporate	213,868,000 (note 1)	–	27.26
Citiplus Investment Limited (note C)	Wai Kee Holdings Limited	Corporate	213,868,000 (note 1)	–	27.26
NWS Holdings Limited (note D)	Wai Kee Holdings Limited	Corporate	213,868,000 (note 1)	–	27.26
NWS Service Management Limited (formerly known as New World Services Limited) (note E)	Wai Kee Holdings Limited	Corporate	213,868,000 (note 1)	–	27.26
NWS Service Management Limited (formerly known as New World Services Limited) (note F)	Wai Kee Holdings Limited	Corporate	213,868,000 (note 1)	–	27.26
Vast Earn Group Limited (note G)	Wai Kee Holdings Limited	Personal/ Beneficiary	213,868,000 (note 1)	–	27.26

SUBSTANTIAL SHAREHOLDERS' INTERESTS (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 Citiplus Investment Limited, a wholly owned subsidiary of 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 which act as a trustee holding the shares in NWS Holdings Limited on trust for certain subsidiaries of New World Development Company Limited.
- D 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.
- E 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).
- F 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.
- G Vast Earn Group Limited is a wholly owned subsidiary of NWS Service Management Limited (incorporated in the British Virgin Islands).
- * As at 30th June, 2003, the issued share capital of the Company is 784,674,034 shares. Accordingly, the percentage has been adjusted.

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 six months ended 30th June, 2003.

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 30th June, 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\$503,095,000, being approximately 25.20% of the Group's net assets of HK\$1,996,790,000 as at 30th June, 2003.
- (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 30th June, 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%	—	—	—	172,891	172,891
Barclay Mowlem-Zen Pacific-China Civil Joint Venture	35%	33	—	—	13,181	13,214
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%	49,510	—	—	—	49,510
Hsin Lung-Chung Lin Joint Venture	50%	—	—	—	3,889	3,889
Kier/Zen Pacific Joint Venture	50%	—	—	—	124,287	124,287
Taiwan Track Partners Joint Venture	8%	—	—	—	3,055	3,055
Zen Pacific-Shui On Joint Venture (C518)	50%	837	—	—	—	837
Elite United Property Management Limited	50%	335	—	—	—	335
Hong Kong Landfill Restoration Group Limited	23%	319	—	—	—	319
Kier Hong Kong Limited ("Kier")	49.5%	41,333	35,000	—	2,003	78,336
Kong On Waste Management Limited	50%	128	—	—	—	128
Road King Infrastructure Limited	44.102%	2	—	—	—	2
		<u>92,792</u>	<u>35,000</u>	<u>—</u>	<u>375,303</u>	<u>503,095</u>

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 amounting to HK\$41,333,000 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\$49,510,000 which is not repayable within twelve months from 30th June, 2003 and of which an amount of HK\$11,883,000 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 30th June, 2003 prepared based on their adjusted financial statements prepared in accordance with the accounting principles generally accepted in Hong Kong for the period ended 30th June, 2003, is as follows:

	<i>HK\$'000</i>
Non-current assets	4,149,971
Current assets	4,107,547
Current liabilities	(2,985,113)
Non-current liabilities	(681,374)
Minority interests	(64,799)
	<hr/>
Net assets	<u>4,526,232</u>

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

AUDIT COMMITTEE

The Audit Committee has reviewed with management and external auditors the accounting principles and policies adopted by the Group and the unaudited interim financial report for the six months ended 30th June, 2003.

CODE OF BEST PRACTICE

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June, 2003, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules on the Stock Exchange.

By Order of the Board
William Zen Wei Pao
 Chairman

Hong Kong, 28th July, 2003

德勤 • 關黃陳方會計師行

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Touche
Tohmatsu**

TO THE DIRECTORS OF WAI KEE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 18 to 34.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. As stated in note 1 to the condensed financial statements, the Company's financial year end date has been changed from 31st March to 31st December during 2002 and the comparative amounts shown for the condensed consolidated income statement, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and related notes cover the six-month period from 1st April, 2002 to 30th September, 2002. The interim financial report is the responsibility of, and has been approved by, the directors.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagement to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

FUNDAMENTAL UNCERTAINTY RELATING TO THE PUBLIC HOUSING PILING INCIDENT IN SHATIN (THE "PILING INCIDENT")

In arriving at our review conclusion, we have considered the adequacy of the disclosures made in note 15 to the interim financial report concerning the Piling Incident which occurred during 1999 and which is the subject of a claim against one of the Company's wholly-owned subsidiaries by The Hong Kong Housing Authority. Both parties have now agreed that the claim will be settled through arbitration. A provision of HK\$60 million was made during the year ended 31st March, 2000 in respect of the Piling Incident and, in the opinion of directors, no further provision is required. Although it is not possible to determine the outcome of the arbitration with reasonable certainty at this time, we consider that the fundamental uncertainty has been adequately accounted for and disclosed in the interim financial report and our review conclusion is not modified in this respect.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2003.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 28th July, 2003

Condensed Consolidated Income Statement

For the six months ended 30th June, 2003

	NOTES	Six months ended	
		30th June, 2003 (Unaudited) HK\$'000	30th September, 2002 (Unaudited) HK\$'000
Group turnover and share of turnover of jointly controlled entities		737,624	700,446
Less: Share of turnover of jointly controlled entities		286,502	321,916
Group turnover		451,122	378,530
Cost of sales		(402,928)	(330,380)
Gross profit		48,194	48,150
Other operating income	4	14,640	16,784
Distribution costs		(965)	(938)
Administrative expenses		(62,574)	(57,710)
Share of profits less losses of jointly controlled entities		10,733	10,573
Profit from operations	5	10,028	16,859
Finance costs	6	(11,348)	(10,823)
Share of profits less losses of associates		78,768	77,060
Loss on deemed disposals of partial interest in an associate	7	(12,706)	—
Profit before taxation		64,742	83,096
Taxation	8	(12,063)	(15,786)
Profit before minority interests		52,679	67,310
Minority interests		(7,541)	(3,927)
Profit for the period		45,138	63,383
Dividend	9	15,654	7,754
		HK cents	HK cents
Earnings per share	10		
- Basic		5.77	8.18
- Diluted		5.73	8.13

Condensed Consolidated Balance Sheet

At 30th June, 2003

	NOTES	30th June, 2003 (Unaudited) HK\$'000	31st December, 2002 Restated (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	11	53,714	51,015
Interests in associates		2,033,677	2,010,438
Interests in joint ventures		(19,632)	25,314
Loans receivable		49,030	52,030
Deferred tax assets		8,000	8,000
		<u>2,124,789</u>	<u>2,146,797</u>
Current assets			
Inventories		15,135	8,101
Amount due from customers for contract work		23,910	39,807
Debtors, deposits and prepayments	12	235,136	234,126
Amounts due from associates		2,118	1,819
Amounts due from jointly controlled entities		4,724	11,864
Tax recoverable		906	906
Investments in securities	13	46,104	61,771
Loans receivable		6,048	6,073
Bank deposits pledged	19	31,657	41,042
Bank balances and cash		148,480	82,301
		<u>514,218</u>	<u>487,810</u>
Current liabilities			
Amount due to customers for contract work		30,672	18,158
Creditors and accrued charges	14	263,868	269,503
Provision for piling incident	15	60,000	60,000
Amounts due to jointly controlled entities		6,422	1,212
Amounts due to associates		1,238	2,044
Amounts due to related companies	16	100,817	92,772
Amounts due to minority shareholders		2,548	2,548
Taxation		5,247	6,607
Bank loans - due within one year	17	88,222	80,000
Other borrowings - due within one year		221	208
Bank overdrafts, secured		1,749	—
		<u>561,004</u>	<u>533,052</u>

Condensed Consolidated Balance Sheet

At 30th June, 2003

	NOTES	30th June, 2003 (Unaudited) HK\$'000	31st December, 2002 Restated (Audited) HK\$'000
Net current liabilities		(46,786)	(45,242)
Total assets less current liabilities		2,078,003	2,101,555
Minority interests		3,408	11,017
Non-current liabilities			
Bank loans - due after one year	17	50,000	75,000
Other borrowings - due after one year		336	450
Loans from minority shareholders		941	941
Amounts due to associates		26,528	51,074
Amounts due to jointly controlled entities		—	3,070
Deferred taxation		—	1,400
		77,805	131,935
		1,996,790	1,958,603
Capital and reserves			
Share capital		78,467	77,712
Reserves		1,918,323	1,880,891
		1,996,790	1,958,603

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2003

	Share capital HK\$'000	Share premium HK\$'000	Translation reserve HK\$'000	Special reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st April, 2002						
- as previously stated	77,510	728,420	4,569	(29,530)	1,103,245	1,884,214
- adjustment on adoption of SSAP 12 (Revised)	—	—	—	—	8,000	8,000
- as restated	77,510	728,420	4,569	(29,530)	1,111,245	1,892,214
Exchange difference arising on translation of the financial statements of overseas operations	—	—	1,549	—	—	1,549
Share of reserves of associates	—	—	1,371	—	—	1,371
Total recognised gains not recognised in the condensed consolidated income statement	—	—	2,920	—	—	2,920
Exercise of share options	247	593	—	—	—	840
Shares repurchased	(213)	(1,205)	—	—	—	(1,418)
Profit for the period	—	—	—	—	63,383	63,383
Dividend paid	—	—	—	—	(7,754)	(7,754)
At 30th September, 2002	77,544	727,808	7,489	(29,530)	1,166,874	1,950,185
Exchange difference arising on translation of the financial statements of overseas operations	—	—	2	—	—	2
Share of reserves of associates	—	—	68	—	—	68
Total recognised gains not recognised in the condensed consolidated income statement	—	—	70	—	—	70
Exercise of share options	215	516	—	—	—	731
Shares repurchased	(47)	(258)	—	—	—	(305)
Profit for the period	—	—	—	—	23,445	23,445
Dividend paid	—	—	—	—	(15,523)	(15,523)
At 31st December, 2002	77,712	728,066	7,559	(29,530)	1,174,796	1,958,603
Share of reserves of associates not recognised in the condensed consolidated income statement	—	—	6,136	—	—	6,136
Exercise of share options	755	1,812	—	—	—	2,567
Profit for the period	—	—	—	—	45,138	45,138
Dividend paid	—	—	—	—	(15,654)	(15,654)
At 30th June, 2003	78,467	729,878	13,695	(29,530)	1,204,280	1,996,790

Condensed Consolidated Cash Flow Statement

For the six months ended 30th June, 2003

	Six months ended	
	30th June, 2003 (Unaudited) HK\$'000	30th September, 2002 Restated (Unaudited) HK\$'000
Net cash from (used in) operating activities	42,917	(83,294)
Investing activities		
Distribution of profits from jointly controlled entities	56,479	60,568
Dividends received from an associate	20,245	62,761
Repayment from associates	19,895	120
Repayment from (advance to) jointly controlled entities	6,196	(11,661)
Decrease in bank deposits to secure banking facilities	9,385	986
Purchase of property, plant and equipment	(9,184)	(6,149)
Purchase of investment in securities	(29,354)	—
Other investing activities	1,029	549
Net cash from investing activities	74,691	107,174
Financing activities		
New bank loans raised	8,222	163,999
Redemption of redeemable bond	—	(135,000)
Repayment of bank loans	(25,000)	—
Dividend paid	(15,654)	(7,754)
Advance from (repayment to) jointly controlled entities	2,140	(10,402)
Repayment to associates	(25,352)	(1,849)
Other financing activities	2,466	(670)
Net cash (used in) from financing activities	(53,178)	8,324
Increase in cash and cash equivalents	64,430	32,204
Cash and cash equivalents at beginning of the period	82,301	40,371
Cash and cash equivalents at end of the period	146,731	72,575
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	148,480	85,589
Bank overdrafts	(1,749)	(13,014)
	146,731	72,575

Certain comparative figures of the condensed consolidated cash flow statement have been restated in order to conform with the presentation required by Statement of Standard Accounting Practice 15 (Revised) "Cash flow statements".

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

During 2002, the Board of Directors resolved to change the financial year end date of the Company from 31st March to 31st December in order to facilitate the preparation of accounts of the Group as most of the Group's investments and business activities, except for the civil construction business, principally operate in the People's Republic of China (the "PRC") and the relevant subsidiaries and associates of the Company which carry on the businesses in the PRC have a financial year end date of 31st December. As a result of the change in the financial year end date, the condensed financial statements for the current period cover the six-month period from 1st January, 2003 to 30th June, 2003. Accordingly, the comparative amounts shown for the condensed consolidated income statement, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and related notes cover the six-month period from 1st April, 2002 to 30th September, 2002.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of certain investments in securities.

The condensed financial statements have been prepared in accordance with accounting policies consistent with those adopted by the Group in its annual financial statements for the period from 1st April, 2002 to 31st December, 2002 except that the Group has adopted SSAP 12 (Revised) "Income Taxes" which is effective for accounting periods commencing on or after 1st January, 2003.

INCOME TAXES

The principal effect of the adoption of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method under which a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the condensed financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

Notes to the Condensed Financial Statements

For the six months ended 30th June, 2003

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

INCOME TAXES (Cont'd)

The retained profits for the year ended 31st March, 2001 and 2002 have been increased by HK\$4,640,000 and HK\$3,360,000 respectively and the cumulative effect of the change in policy on the results for the years prior to 31st March, 2002 amounted to HK\$8,000,000. This adjustment relates to the recognition of the deferred tax assets in respect of the unrealised gains on construction contract recognised by a former wholly-owned subsidiary of the Company which was deconsolidated during the year ended 31st March, 2002. Details of these unrealised gains are set out in note 19 to the financial statements of the Company for the year ended 31st March, 2002.

3. SEGMENTAL INFORMATION

For management purposes, the Group is organised into three operating divisions - civil construction, quarrying, highway and expressway operations, and other operations. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Civil construction

- construction of civil engineering projects

Quarrying

- production and sale of quarry products

Highway and expressway operations

- investment in, development, operation and management of highways and expressways

Notes to the Condensed Financial Statements

For the six months ended 30th June, 2003

3. SEGMENTAL INFORMATION (Cont'd)

The Group's turnover and profit for the six months ended 30th June, 2003 and for the six months ended 30th September, 2002 by business activity are as follows:

	Civil construction HK\$'000	Quarrying operations HK\$'000	Highway and expressway operations HK\$'000	Others HK\$'000	Elimination HK\$'000	Total HK\$'000
Six months ended 30th June, 2003						
Results						
Group turnover	392,448	56,028	—	2,646	—	451,122
Add: Inter-segment sales	—	1,880	—	—	(1,880)	—
Segment turnover	392,448	57,908	—	2,646	(1,880)	451,122
Share of turnover of jointly controlled entities	286,502	—	—	—	—	286,502
Segment turnover and share of turnover of jointly controlled entities	<u>678,950</u>	<u>57,908</u>	<u>—</u>	<u>2,646</u>	<u>(1,880)</u>	<u>737,624</u>
The inter-segment sales were charged at cost plus a percentage of profit mark up.						
Segment result	(1,302)	4,021	—	1,020	—	3,739
Share of profits less losses of jointly controlled entities	42,583	—	—	(31,850)*	—	10,733
Segment result and share of profits less losses of jointly controlled entities	<u>41,281</u>	<u>4,021</u>	<u>—</u>	<u>(30,830)</u>	<u>—</u>	<u>14,472</u>
Unallocated corporate expenses						(4,444)
Profit from operations						10,028
Finance costs						(11,348)
Share of profits less losses of associates	797	—	76,663	1,308	—	78,768
Loss on deemed disposals of partial interest in an associate	—	—	(12,706)	—	—	(12,706)
Profit before taxation						64,742
Taxation						(12,063)
Profit before minority interests						52,679
Minority interests						(7,541)
Profit for the period						<u>45,138</u>

Notes to the Condensed Financial Statements

For the six months ended 30th June, 2003

3. SEGMENTAL INFORMATION (Cont'd)

	Civil construction HK\$'000	Building construction HK\$'000	Quarrying HK\$'000	Highway and expressway operations HK\$'000	Others HK\$'000	Elimination HK\$'000	Total HK\$'000
Six months ended 30th September, 2002							
Results							
Group turnover	326,145	—	49,818	—	2,567	—	378,530
Add: Inter-segment sales	—	—	4,017	—	—	(4,017)	—
Segment turnover	326,145	—	53,835	—	2,567	(4,017)	378,530
Share of turnover of jointly controlled entities	321,916	—	—	—	—	—	321,916
Segment turnover and share of turnover of jointly controlled entities	<u>648,061</u>	<u>—</u>	<u>53,835</u>	<u>—</u>	<u>2,567</u>	<u>(4,017)</u>	<u>700,446</u>
The inter-segment sales were charged at cost plus a percentage of profit mark up.							
Segment result	1,314	6,170	8,595	—	(4,373)	—	11,706
Share of profits less losses of jointly controlled entities	19,600	—	—	—	(9,027)*	—	10,573
Segment result and share of profits less losses of jointly controlled entities	<u>20,914</u>	<u>6,170</u>	<u>8,595</u>	<u>—</u>	<u>(13,400)</u>	—	22,279
Unallocated corporate expenses	—	—	—	—	—	—	(5,420)
Profit from operations	—	—	—	—	—	—	16,859
Finance costs	—	—	—	—	—	—	(10,823)
Share of profits less losses of associates	1,056	—	—	76,004	—	—	77,060
Profit before taxation	—	—	—	—	—	—	83,096
Taxation	—	—	—	—	—	—	(15,786)
Profit before minority interests	—	—	—	—	—	—	67,310
Minority interests	—	—	—	—	—	—	(3,927)
Profit for the period	—	—	—	—	—	—	<u>63,383</u>

* These losses were related to the Group's interest in the property development project with the Hong Kong Government.

Notes to the Condensed Financial Statements

For the six months ended 30th June, 2003

4. OTHER OPERATING INCOME

	Six months ended	
	30th June, 2003	30th September, 2002
	HK\$'000	HK\$'000
Other operating income includes the following:		
Unrealised gains on revaluation of other unlisted investments	7,544	10,120
Interest on bank deposits	129	427
Gain on disposal of investments in securities	<u>3,097</u>	<u>—</u>

5. PROFIT FROM OPERATIONS

	Six months ended	
	30th June, 2003	30th September, 2002
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation charge for the period, less amount attributable to construction contracts of HK\$1,358,000 (six months ended 30th September, 2002: HK\$1,376,000)	<u>4,407</u>	<u>5,303</u>

6. FINANCE COSTS

	Six months ended	
	30th June, 2003	30th September, 2002
	HK\$'000	HK\$'000
Interest on:		
Bank and other borrowings wholly repayable within five years	11,314	10,357
Others	<u>34</u>	<u>466</u>
	<u>11,348</u>	<u>10,823</u>

No interest attributable to construction contracts has been capitalised during the six months ended 30th June, 2003 and 30th September, 2002.

Notes to the Condensed Financial Statements

For the six months ended 30th June, 2003

7. LOSS ON DEEMED DISPOSALS OF PARTIAL INTEREST IN AN ASSOCIATE

During the period, the Company's associate, Road King Infrastructure Limited ("Road King") issued 9,345,000 and 48,876,168 ordinary shares upon the exercise of options granted to the employees, including the directors, of Road King under the share option scheme of Road King and upon the conversion of the convertible preference shares by one shareholder of Road King respectively. As a result, the interest of the Group in Road King was reduced from 49.08% to 44.10% resulting in a net loss of HK\$12,706,000 on this dilution in interest.

8. TAXATION

	Six months ended	
	30th June, 2003 HK\$'000	30th September, 2002 HK\$'000
Profit for the period		
Hong Kong	4,973	4,999
Other jurisdictions	133	193
(Over)underprovision in prior years		
Hong Kong	(844)	2
Other jurisdictions	406	(24)
Deferred taxation	(1,400)	—
Share of tax on results of associates	8,555	8,011
Share of tax on results of jointly controlled entities	240	2,605
	<u>12,063</u>	<u>15,786</u>

Hong Kong Profits Tax is calculated at 17.5 per cent. (six months ended 30th September, 2002: 16 per cent.) on the estimated assessable profit for the period.

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

Notes to the Condensed Financial Statements

For the six months ended 30th June, 2003

9. DIVIDEND

	Six months ended	
	30th June, 2003 HK\$'000	30th September, 2002 HK\$'000
Final dividend paid for the period from 1st April, 2002 to 31st December, 2002: HK2 cents (year ended 31st March, 2002: HK1 cent) per share	<u>15,654</u>	<u>7,754</u>

An interim dividend for the six months ended 30th June, 2003 of HK2 cents (six months ended 30th September, 2002: HK2 cents) per ordinary share, amounting to approximately HK\$15,693,000, was approved by the Board on 28th July, 2003. This interim dividend has not been included as a liability in these condensed financial statements.

10. EARNINGS PER SHARE

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

	Six months ended	
	30th June, 2003 HK\$'000	30th September, 2002 HK\$'000
Earnings for the purpose of basic and diluted earnings per share	<u>45,138</u>	<u>63,383</u>
	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	782,545,029	775,003,650
Effect of dilutive potential ordinary shares:		
Options	<u>5,481,339</u>	<u>4,971,193</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>788,026,368</u>	<u>779,974,843</u>

11. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent HK\$9,184,000 (six months ended 30th September, 2002: HK\$6,149,000) on property, plant and equipment.

Notes to the Condensed Financial Statements

For the six months ended 30th June, 2003

12. DEBTORS, DEPOSITS AND PREPAYMENTS

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Trade debtors (aged analysis):		
0 to 60 days	113,139	131,872
61 to 90 days	503	4,411
Over 90 days	11,739	390
	<u>125,381</u>	<u>136,673</u>
Retentions receivable	57,888	53,060
Other debtors, deposits and prepayments	51,867	44,393
	<u>235,136</u>	<u>234,126</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.

13. INVESTMENTS IN SECURITIES

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Unlisted equity securities		
Investment securities, at cost	800	800
Other investments, at fair values	46,104	61,771
	<u>46,904</u>	<u>62,571</u>
Less: Impairment loss recognised	(800)	(800)
	<u>46,104</u>	<u>61,771</u>

Notes to the Condensed Financial Statements

For the six months ended 30th June, 2003

13. INVESTMENTS IN SECURITIES (Cont'd)

Included in investments in securities was an amount of HK\$36,891,000 at 31st December, 2002 which represented the Group's interest in Sundart Timber Products Company Limited ("Sundart"), a former subsidiary, determined in accordance with SSAP 24 "Accounting for investments in securities". Pursuant to an agreement dated 15th October, 2001, the Group's interest in Sundart was disposed of to an independent third party for cash consideration of HK\$34,800,000 with a put option and a call option as specified in the agreement. The consideration was settled by instalments. Accordingly, the net assets of Sundart were deconsolidated on 15th October, 2001 when the transaction was completed with a view to derecognising the investment upon the lapse of the put option which was not to be later than 15th January, 2004. On 26th March, 2003, the independent third party and the Group agreed to cancel the put option and the call option as specified in the agreement and the gain amounting to HK\$3,097,000 was recognised in respect of the disposal of Sundart.

14. CREDITORS AND ACCRUED CHARGES

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Trade creditors (aged analysis):		
0 to 60 days	25,131	43,474
61 to 90 days	3,672	1,891
Over 90 days	11,870	7,162
	<hr/>	<hr/>
	40,673	52,527
Retentions payable	27,040	27,617
Accrued project costs	92,538	94,573
Other creditors and accrued charges	103,617	94,786
	<hr/>	<hr/>
	263,868	269,503
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Condensed Financial Statements

For the six months ended 30th June, 2003

15. PROVISION FOR PILING INCIDENT

In preparing the condensed financial statements, the directors have considered the likelihood of the success of a claim which is being made against one of the Company's wholly-owned subsidiaries, Zen Pacific Civil Contractors Limited ("ZPCCL"), in relation to a piling project which was discovered to be sub-standard in late 1999 and in respect of which the Group made a provision of HK\$60 million in its audited consolidated financial statements for the year ended 31st March, 2000, being the directors' estimate of the costs of carrying out remedial work and of legal and consultants' costs. Details were disclosed in note 6 to the financial statements for the year ended 31st March, 2000.

The Hong Kong Housing Authority ("HA") has alleged the claims in respect of the sub-standard piling are from an amount ranging from HK\$214 million to HK\$605 million. Both parties have agreed to settle the claims through arbitration.

ZPCCL has taken legal advice on the claims alleged by the HA and the amount of any such claims, and on the counterclaim prepared based on acceptable legal arguments available to ZPCCL. Based on that advice and on the information at present available to ZPCCL, although it is not possible to determine the outcome of the arbitration with reasonable certainty at this time, the directors have determined that there is no requirement to make any additional provision in respect of the alleged claims in the condensed financial statements.

16. AMOUNTS DUE TO RELATED COMPANIES

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Amounts due to:		
A former subsidiary (note a)	20,757	20,548
Other related companies (note b)	80,060	72,224
	<u>100,817</u>	<u>92,772</u>

Notes to the Condensed Financial Statements

For the six months ended 30th June, 2003

16. AMOUNTS DUE TO RELATED COMPANIES (Cont'd)

Notes:

- a. The amount was unsecured and carried interest at prime rate.
- b. On 28th April, 2001 the Group entered into agreements, which are financing in nature, with two subsidiaries of a substantial shareholder of one of the Company's substantial shareholders. Pursuant to the agreements, the Group agreed:
 - (i) to dispose of (1) its equity interests in an associate and a jointly controlled entity and (2) the amount due from the jointly controlled entity to the related companies at an aggregate consideration of HK\$55,239,000; and
 - (ii) to buy back all the assets disposed of in (i) at an aggregate consideration of HK\$81,920,000 at different dates specified in the agreements.

The Group recognised the consideration received as a liability and charged the finance costs, which represent the difference between the consideration received and the consideration to be paid, in the income statement over the period from the date of receipt of the consideration to the date of the buy back so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

17. BANK LOANS

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
The maturity of secured bank borrowings are as follows:		
Within one year	88,222	80,000
In the second year	50,000	50,000
In the third to fifth year inclusive	—	25,000
	<u>138,222</u>	<u>155,000</u>
Less: Amount due within one year shown under current liabilities	<u>(88,222)</u>	<u>(80,000)</u>
Amount due after one year	<u><u>50,000</u></u>	<u><u>75,000</u></u>

18. COMMITMENTS

At 30th June, 2003, the Group had committed to invest approximately HK\$27,636,000 (31st December, 2002: HK\$32,434,000) into several joint ventures established in the PRC. These joint ventures are principally engaged in the research and development of bio-pesticide products and the production of construction materials in the PRC.

Notes to the Condensed Financial Statements

For the six months ended 30th June, 2003

19. PLEDGE OF ASSETS

As at 30th June, 2003, the following assets of the Group were pledged:

- (a) Bank deposits amounting to HK\$31,657,000 (31st December, 2002: HK\$41,042,000) of the Group were pledged to secure the banking facilities granted to the Group and a jointly controlled entity.
- (b) 46,500,000 (31st December, 2002: 46,500,000) shares of Road King with a market value of HK\$216,225,000 (31st December, 2002: HK\$166,237,500) were pledged as security for the due performance of the sale and repurchase of an associate and a jointly controlled entity as set out in note 16(b).
- (c) 180,000,000 (31st December, 2002: 180,000,000) shares of Road King with a market value of HK\$837,000,000 (31st December, 2002: HK\$643,500,000) were pledged to secure the banking facilities granted to the Group.

20. CONTINGENT LIABILITIES

	30th June, 2003 HK\$'000	31st December, 2002 HK\$'000
Guarantee given to a bank in respect of banking facilities granted to an associate	<u>35,000</u>	<u>—</u>
Outstanding tender/performance/retention bonds in respect of construction contracts	<u>490,224</u>	<u>578,941</u>

At 30th June, 2003, the Company has also given guarantees to indemnify all liabilities for certain construction contracts undertaken by its subsidiaries.

At 30th June, 2003, the Company has an outstanding guarantee to a subsidiary of one of the Company's substantial shareholders that the net accumulated profit before taxation of First Star Development Limited ("First Star") derived from a property development project under the Home Ownership Scheme ("HOS") should not be less than HK\$70,000,000. First Star is a jointly controlled entity of the Group. This property development project has been substantially completed. Following the Government's announcement on its housing policy in November 2002, HOS will cease indefinitely. Discussions have been held with the relevant Government authorities in respect of the ultimate usage of this property development project under HOS. Based on the information presently available, the directors have considered that the financial impact of such a guarantee would be insignificant. Accordingly, no provision has been made in respect of this guarantee in the interim financial statements.