



CHUN WO DEVELOPMENT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 711

Warrant Code : 654

Chun Wo and You
—◆—
Craft the Future

INTERIM REPORT
2007

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Pang Kam Chun (*Chairman*)
Kwok Yuk Chiu, Clement (*Managing Director*)
Li Wai Hang, Christina

Independent Non-executive Directors

Au Son Yiu
Chan Chiu Ying
Lee Shing See
Hui Chiu Chung

AUDIT COMMITTEE

Chan Chiu Ying (*Chairman*)
Au Son Yiu
Hui Chiu Chung

EXECUTIVE COMMITTEE

Kwok Yuk Chiu, Clement (*Chairman*)
Pang Yat Ting, Dominic
Pang Yat Bond, Derrick
Kwok Man Fai

MANAGEMENT COMMITTEE

Pang Kam Chun (*Chairman*)
Kwok Yuk Chiu, Clement
Li Wai Hang, Christina

NOMINATION COMMITTEE

Lee Shing See (*Chairman*)
Au Son Yiu
Kwok Yuk Chiu, Clement

REMUNERATION COMMITTEE

Au Son Yiu (*Chairman*)
Chan Chiu Ying
Kwok Yuk Chiu, Clement

SECRETARY

Chan Sau Mui, Juanna

QUALIFIED ACCOUNTANT

Kwok Man Fai

AUDITORS

Deloitte Touche Tohmatsu

SOLICITORS

Conyers Dill & Pearman
Johnson Stokes & Master

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai
Banking Corporation Limited
Hang Seng Bank Limited
Bank of China (Hong Kong) Limited

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

C2, 5th Floor
Hong Kong Spinners Industrial Building
601-603 Tai Nan West Street
Cheung Sha Wan
Kowloon
Hong Kong

PRINCIPAL REGISTRAR

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH REGISTRAR

Tricor Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

WEBSITE

<http://www.chunwo.com>

SHARE LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 711
Warrant Code: 654

INTERIM RESULTS

The Board of Directors (the “Board”) of Chun Wo Development Holdings Limited (the “Company”) is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30th September, 2007, together with the relevant comparative figures, are as follows:–

Condensed Consolidated Income Statement

for the six months ended 30th September, 2007

	Notes	Unaudited six months ended 30th September,	
		2007 HK\$'000	2006 HK\$'000 (restated)
Turnover	2	1,359,538	2,485,083
Cost of sales		(1,213,344)	(2,051,180)
Gross profit		146,194	433,903
Other income		9,784	5,625
Gain on change in value of leasehold interest in land and properties under development upon transfer to investment properties		–	132,485
Selling expenses		(15,611)	(22,946)
General and administrative expenses		(73,498)	(61,663)
Share of profit of jointly controlled entities		111	18,706
Finance costs	3	(28,198)	(11,272)
Profit before tax	4	38,782	494,838
Income tax expense	5	(7,496)	(88,041)
Profit for the period		31,286	406,797
Attributable to:			
Equity holders of the parent		31,278	407,383
Minority interests		8	(586)
		31,286	406,797
Declared dividends	6	8,574	29,783
Earnings per share – basic	7	4.0 cents	54.7 cents
– diluted		3.8 cents	54.7 cents

Condensed Consolidated Balance Sheet

as at 30th September, 2007 and 31st March, 2007

	Notes	Unaudited 30th September, 2007 HK\$'000	Audited 31st March, 2007 HK\$'000
Non-current assets			
Investment properties		620,183	620,183
Property, plant and equipment	8	144,931	150,979
Prepaid lease payments		27,619	27,960
Interests in associates		42,783	42,783
Interests in jointly controlled entities		58,100	79,489
Amounts due from associates		93,670	128,108
		987,286	1,049,502
Current assets			
Amounts due from customers for contract work		827,088	698,344
Debtors, deposits and prepayments	9	725,463	570,313
Prepaid lease payments		683	683
Properties under development		671,815	548,808
Properties held for sale		88,136	181,833
Amounts due from associates		1,216	1,207
Amounts due from jointly controlled entities		37,177	33,316
Investments held for trading		21,089	15,973
Tax recoverable		1,672	6,865
Pledged bank deposit		26,480	34,667
Bank balances and cash		253,307	300,457
		2,654,126	2,392,466
Current liabilities			
Amounts due to customers for contract work		76,881	87,849
Creditors, deposits and accrued charges	10	428,645	491,805
Deposits received from pre-sales of properties under development		233,560	217,650
Amounts due to jointly controlled entities		56,538	70,512
Tax payable		40,208	46,731
Dividend payable		51,239	–
Obligations under finance leases			
– due within one year		1,283	1,566
Borrowings – due within one year		644,575	726,197
		1,532,929	1,642,310
Net current assets		1,121,197	750,156
Total assets less current liabilities		2,108,483	1,799,658

Condensed Consolidated Balance Sheet *(Continued)*

as at 30th September, 2007 and 31st March, 2007

<i>Notes</i>	Unaudited 30th September, 2007 HK\$'000	Audited 31st March, 2007 HK\$'000
Non-current liabilities		
Obligations under finance leases		
– due after one year	1,071	1,640
Borrowings – due after one year	707,228	489,850
Deferred tax liabilities	61,434	56,780
	769,733	548,270
Net assets	1,338,750	1,251,388
Capital and reserves		
Share capital	85,573	74,705
Reserves	1,252,826	1,176,340
Equity attributable to equity holders of the parent	1,338,399	1,251,045
Minority interests	351	343
Total equity	1,338,750	1,251,388

Condensed Consolidated Statement of Changes in Equity

for the six months ended 30th September, 2007 – unaudited

	Attributable to equity holders of the parent									
	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Share options reserve HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1st April, 2007	74,705	252,056	(7,340)	-	8,531	23,572	899,521	1,251,045	343	1,251,388
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	-	-	9,362	-	9,362	-	9,362
Profit (loss) for the period	-	-	-	-	-	-	31,278	31,278	8	31,286
Total recognised income and expense for the period	-	-	-	-	-	9,362	31,278	40,640	8	40,648
Exercise of warrants	9,715	72,861	-	-	-	-	-	82,576	-	82,576
Exercise of share options	1,153	9,741	-	-	-	-	-	10,894	-	10,894
Recognition of equity-settled share-based payments	-	-	-	4,483	-	-	-	4,483	-	4,483
2006/2007 final dividend	-	-	-	-	-	-	(51,239)	(51,239)	-	(51,239)
At 30th September, 2007	85,573	334,658	(7,340)	4,483	8,531	32,934	879,560	1,338,399	351	1,338,750
At 1st April, 2006	74,457	250,026	(7,340)	-	8,531	6,635	461,957	794,266	1,476	795,742
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	-	-	9,185	-	9,185	16	9,201
Profit (loss) for the period	-	-	-	-	-	-	407,383	407,383	(586)	406,797
Total recognised income and expense for the period	-	-	-	-	-	9,185	407,383	416,568	(570)	415,998
2005/2006 final dividend	-	-	-	-	-	-	(13,030)	(13,030)	-	(13,030)
At 30th September, 2006	74,457	250,026	(7,340)	-	8,531	15,820	856,310	1,197,804	906	1,198,710

Condensed Consolidated Cash Flow Statement*for the six months ended 30th September, 2007*

	Unaudited six months ended 30th September,	
	2007	2006
	HK\$'000	<i>HK\$'000</i> (restated)
Net cash (used in) from operating activities	(159,155)	154,963
Net cash (used in) from investing activities	(81,240)	4,812
Net cash from (used in) financing activities	190,742	(310,931)
Net decrease in cash and cash equivalents	(49,653)	(151,156)
Cash and cash equivalents at beginning of the period	300,457	329,730
Effect of foreign exchange rate changes	2,503	781
Cash and cash equivalents at end of the period, represented by bank balances and cash	253,307	179,355

Notes:

1 Basis of preparation and principal accounting policies

The condensed consolidated 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 (the “Listing Rules”) and with Hong Kong Accounting Standard 34 (“HKAS 34”) “Interim Financial Reporting” issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st March, 2007.

In the current period, the Group has applied, for the first time, the following new standard, amendment and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1st April, 2007.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial Instruments: disclosures ¹
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies ²
HK(IFRIC) – INT 8	Scope of HKFRS 2 ³
HK(IFRIC) – INT 9	Reassessment of embedded derivatives ⁴
HK(IFRIC) – INT 10	Interim financial reporting and impairment ⁵

¹ Effective for annual periods beginning on or after 1st January, 2007.

² Effective for annual periods beginning on or after 1st March, 2006.

³ Effective for annual periods beginning on or after 1st May, 2006.

⁴ Effective for annual periods beginning on or after 1st June, 2006.

⁵ Effective for annual periods beginning on or after 1st November, 2006.

The adoption of these new HKFRSs had no material effect on the results or financial position for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards and interpretations will have no material impact on the results and the financial position of the Group.

HKAS 23 (Revised)	Borrowing costs ¹
HKFRS 8	Operating segments ¹
HK(IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions ²
HK(IFRIC) – INT 12	Service concession arrangements ³

¹ *Effective for annual periods beginning on or after 1st January, 2009.*

² *Effective for annual periods beginning on or after 1st March, 2007.*

³ *Effective for annual periods beginning on or after 1st January, 2008.*

2 Segment information

Business segments

For management purposes, the Group is currently organised into four operating divisions – construction work, property development, property investment and professional services. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

For the six months ended 30th September, 2007

	Construction work HK\$'000	Property development HK\$'000	Property investment HK\$'000	Professional services HK\$'000	Other activities HK\$'000	Consolidated HK\$'000
TURNOVER						
External sales	1,126,714	160,854	14,696	57,274	-	1,359,538
RESULT						
Segment result	10,829	42,046	14,323	3,157	5,302	75,657
Interest income						1,375
Unallocated corporate expenses						(10,163)
Share of profit of jointly controlled entities	111	-	-	-	-	111
Finance costs						(28,198)
Profit before tax						38,782
Income tax expense						(7,496)
Profit for the period						31,286

For the six months ended 30th September, 2006

	Construction work HK\$'000	Property development HK\$'000	Property investment HK\$'000	Professional services HK\$'000	Other activities HK\$'000	Consolidated HK\$'000
TURNOVER						
External sales	1,439,698	983,580	13,569	48,211	25	2,485,083
RESULT						
Segment result	5,794	347,013	139,320	2,684	(396)	494,415
Interest income						847
Unallocated corporate expenses						(7,858)
Share of profit of jointly controlled entities	18,706	-	-	-	-	18,706
Finance costs						(11,272)
Profit before tax						494,838
Income tax expense						(88,041)
Profit for the period						406,797

3 Finance costs

	Six months ended 30th September,	
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Interest payable	35,576	29,767
Less: Amount attributable to contract work	(4,272)	(8,000)
Amount attributable to properties under development	(3,106)	(10,495)
	28,198	11,272

4 Profit before tax

	Six months ended 30th September,	
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Profit before tax has been arrived at after charging:		
Depreciation and amortisation	11,900	14,300
Less: Amount attributable to contract work	(10,081)	(12,471)
	1,819	1,829

5 Income tax expense

	Six months ended 30th September,	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
Current taxation		
– Hong Kong Profits Tax	2,790	46,268
– Enterprise Income Tax in the People's Republic of China (the "PRC")	52	80
	2,842	46,348
Deferred tax	4,654	41,693
	7,496	88,041

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for both periods.

Enterprise Income Tax in the PRC is calculated at the rates prevailing in the PRC.

6 Declared dividends

	Six months ended 30th September,	
	2007 HK\$'000	2006 HK\$'000
Final dividend		
Final dividend in respect of 2007 of HK2.75 cents (2006: HK1.75 cents) per share	23,485	13,030
Special final dividend in respect of 2007 of HK3.25 cents (2006: Nil) per share	27,754	–
	51,239	13,030
Dividend declared		
Interim dividend declared after the balance sheet date of HK1.00 cent (2006: HK1.25 cents) per share	8,574	9,307
Special interim dividend declared after the balance sheet date of nil (2006: HK2.75 cents) per share	–	20,476
	8,574	29,783

8 Property, plant and equipment

During the period, the Group spent approximately HK\$5.6 million (six months ended 30th September, 2006: HK\$7.8 million) on property, plant and equipment.

There was no major disposal of property, plant and equipment during the period.

9 Debtors, deposits and prepayments

Interim applications for progress payments on construction contracts are normally submitted on a monthly basis and are settled within one month. The ageing analysis of trade debtors of HK\$301,813,000 (at 31st March, 2007: HK\$270,807,000), which are included in the Group's debtors, deposits and prepayments, are as follows:

	At 30th September, 2007 <i>HK\$'000</i>	At 31st March, 2007 <i>HK\$'000</i>
Not yet due	283,652	258,707
0 to 30 days	11,237	7,204
31 to 90 days	2,603	1,680
91 to 180 days	566	146
Over 180 days	3,755	3,070
	301,813	270,807

10 Creditors, deposits and accrued charges

The ageing analysis of trade creditors of HK\$319,807,000 (at 31st March, 2007: HK\$342,443,000), which are included in the Group's creditors, deposits and accrued charges, are as follows:

	At 30th September, 2007 HK\$'000	At 31st March, 2007 HK\$'000
Not yet due	238,203	245,441
0 to 30 days	45,236	53,837
31 to 90 days	16,162	25,511
91 to 180 days	2,060	7,390
Over 180 days	18,146	10,264
	319,807	342,443

11 Share capital

	Number of shares	Amount HK\$'000
Shares of HK\$0.1 each		
Authorised:		
At 1st April, 2007 and 30th September, 2007	1,500,000,000	150,000
Issued and fully paid:		
At 1st April, 2007	747,052,546	74,705
Exercise of warrants	97,147,556	9,715
Exercise of share options	11,532,000	1,153
At 30th September, 2007	855,732,102	85,573

12 Contingent liabilities and performance guarantee

	At 30th September, 2007 <i>HK\$'000</i>	At 31st March, 2007 <i>HK\$'000</i>
Indemnities issued to financial institutions for performance bonds in respect of construction contracts undertaken by:		
– subsidiaries	435,049	385,600
– an associate	4,400	4,400
– jointly controlled entities	14,175	14,175
	453,624	404,175
Extent of guarantee issued to a financial institution to secure a credit facility granted to an associate	48,000	48,000
Extent of guarantee issued to a customer to indemnify contract work of a subsidiary	115,900	115,900
Extent of guarantee provided for a property development project to banks which granted facilities to purchasers of the Group's pre-sale properties	77,615	81,315

13 Pledge of assets

At the balance sheet date, the following assets were pledged by the Group to secure banking facilities granted to the Group:

	At 30th September, 2007 <i>HK\$'000</i>	At 31st March, 2007 <i>HK\$'000</i>
Investment properties	555,000	555,000
Leasehold buildings and related prepaid lease payments	13,684	13,968
Properties under development	303,018	295,035
Properties held for sale	88,136	181,833
Bank deposit	26,480	34,667
	986,318	1,080,503

14 Related party transactions

	Associates		Jointly controlled entities	
	six months ended		six months ended	
	30th September,		30th September,	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Transactions during the period:				
Contract revenue recognised	-	-	29,059	26,875
Project management fee received	-	-	358	1,026
Rental income received	-	-	-	930
Security guard services income received	-	-	457	546
	At 30th September, 2007	At 31st March, 2007	At 30th September, 2007	At 31st March, 2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Indemnities issued to financial institutions for performance bonds in respect of construction contracts undertaken by related parties	4,400	4,400	14,175	14,175
Extent of guarantee issued to a financial institution to secure a credit facility granted to an associate	48,000	48,000	-	-

15 Comparative figures

Certain comparative figures have been reclassified in order to conform with the presentation of current period.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK1.00 cent (2006: HK1.25 cents and a special dividend of HK2.75 cents) per share for the six months ended 30th September, 2007, which is payable to shareholders of the Company (the “Shareholder”) whose names appear on the Register of Members of the Company on 31st January, 2008. Dividend warrants will be despatched to Shareholders on or about 13th March, 2008.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 25th January, 2008 to 31st January, 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong Branch Registrar of the Company, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 24th January, 2008.

Registered holders of the Company’s 2009 warrants who wish to exercise their subscription rights attaching to their warrants so as to participate in the interim dividend should complete and sign the subscription forms and lodge the same together with the relevant warrant certificates and the appropriate subscription money with Tricor Secretaries Limited at the above address not later than 4:00 p.m. on 24th January, 2008.

BUSINESS REVIEW

Hong Kong economy continued to pick up during the review period. Unemployment rate in Hong Kong stood at 4.1% in September 2007 and real GDP was up by 6.1% on a year to year basis in the first half of 2007. Such positive developments were also shared by the city’s neighbours Macau, and other economies in Asia. Mainland China also rode a crest of optimism.

BUSINESS REVIEW *(Continued)*

For the six months ended 30th September, 2007, the Group reported turnover of HK\$1,359.5 million (2006: HK\$2,485.1 million), a decrease of 45.3% as compared with the corresponding period last year. Profit attributable to shareholders was approximately HK\$31.3 million (2006: HK\$407.4 million), representing a decrease of 92.3% year on year. The considerable decrease in turnover and profit was partly attributable to the reduction in revenue from Hong Kong property sale as well as the amount of work undertaken by the construction segment. Substantial revenue was derived from the sale of residential units at “No.8 Clear Water Bay Road” during the corresponding period last year. Due to the limited number of units still available for sale during the review period, revenue derived from Hong Kong property sale was substantially lower than that of last year. On the construction front, given the limited number of public sector infrastructure projects available during the review period, together with the Group’s current focus on technically-advanced projects with higher margins, the Group’s construction revenue and profit decreased accordingly. Moreover, the absence of the increase in fair value of investment property in the review period also resulted in substantially lower profit than that of the corresponding period last year.

As at 30th September, 2007, the estimated value of contracts the Group had on hand amounted to approximately HK\$4.4 billion, with around HK\$2.0 billion outstanding.

Construction

With the Hong Kong Government earmarking HK\$250 billion over the next 5 to 10 years for infrastructure projects as highlighted in the 2007-08 Policy Address of the Chief Executive of the Hong Kong Special Administrative Region, the Group will continue to focus on higher margin and prestigious projects that require advanced technical expertise and experience.

BUSINESS REVIEW *(Continued)*

Construction *(Continued)*

For the building division, the Group was able to complete several prestigious projects in the review period such as the Congress Centre and the Event Center for “The Venetian” in Macau as well as the detached houses on Shouson Hill Road. Construction of Upper Wong Tai Sin Phase 3, a Housing Authority project is progressing well while a building demolition project for the government quarters is underway. Moreover, the Group is currently undertaking a private development project at the Huangsha MTR station in Guangzhou with steady progress.

For the civil division, projects such as construction of viaducts at the San Tin Interchange and improvement works on Castle Peak Road were completed during the review period, while the South Cargo Apron Extension Work is scheduled for completion by February 2008.

The maintenance division achieved good progress with existing projects and has been awarded three new contracts by the Water Supplies Department (“WSD”) and Architectural Services Department (“ASD”).

As for the track work division, it has scheduled to commence site work of the Kowloon Southern Link in the second half of the financial year.

During the review period, the Group’s foundation subsidiary was engaged in four key projects which were progressing on schedule, namely No. 55 Conduit Road on the Mid-Levels in Hong Kong, the “Macau Studio City”, the “City of Dreams” and the “Nam Van Lake” in Macau.

The Group’s electrical and mechanical (“E&M”) subsidiary completed works on the “SkyPlaza” and Sea Water Pump House Enhancement for the Hong Kong Airport Authority during the review period. As for the South Cargo Apron Extension Work and the minor works term contract with ASD, they are due to be completed by February 2008 and the second quarter of 2008 respectively. The E&M subsidiary is planning to extend its business coverage to include Macau.

BUSINESS REVIEW *(Continued)*

Property Development and Property Investment

The Group was able to derive a good income from the sale of the residential units at “No. 8 Clear Water Bay Road”. As at 30th September, 2007, over 92% of the residential units were sold and only a few remaining units were available on the upper floors.

In Mainland China, construction of the “Arc De Royal” in Shijiazhuang, Hebei Province progressed as planned, with the topping-out of phase 1A completed. We are confident that over 300 pre-sold units will be delivered to customers on schedule in the first half of 2008.

Regarding performance of investment properties, “Grandeur Terrace” at Tin Shui Wai and “Infinity 8” at Choi Hung, Hong Kong and “Elite Plaza” in Zhongshan, Guangdong Province continued to generate stable income for the Group.

Professional Services

The security services and property management subsidiaries of the Group are complementary businesses in the Group’s diverse business portfolio. During the period under review, they continued to provide guarding services to prestigious properties for numerous clients such as MTR Corporation, Swire Properties Ltd, Sun Hung Kai Properties Limited and HKR International Limited, and to provide property management services for properties in Hong Kong and Mainland China. Enjoying synergies, the two subsidiaries have been able to offer unparalleled service packages, an ability that can enable them to seize business opportunities in new sectors.

BUSINESS REVIEW *(Continued)*

Termination of Acquisition

In April 2007, Chun Wo Bioscience (Beijing) Company Limited (“Chun Wo Bioscience”), an indirect wholly-owned subsidiary of the Company, entered into a letter of intent with the shareholders of Chengdu Friendship Hospital and Chengdu Friendship Hospital Company Limited (collectively the “Hospital”), to acquire equity interest in the Hospital. Initially, the Group believed that substantial value can be realized through reconstruction, modification or redevelopment of the plot of land on which the Hospital stands. Subsequent to certain independent asset appraisal and negotiation between Chun Wo Bioscience and the Hospital on the various terms related to the redevelopment plans, the Group decided not to proceed with the acquisition.

Awards and Recognition

The Group continued to earn numerous quality and safety awards in 2007 including the HKCA Proactive Safety Contractor Award 2006 presented by the Hong Kong Construction Association, and 10 different awards from the Hong Kong Occupational Safety and Health Award Campaign.

Corporate Social Responsibility

The Group continued to demonstrate its commitment to corporate social responsibility via Chun Wo Charitable Foundation Limited. During the review period, the Foundation sponsored many visits to different Mainland cities by delegations of engineers belonging to the Association of Engineering Professionals in Society. The visits provided opportunities for young engineers to gain a better understanding of construction projects and urban planning in different cities of Mainland China.

Volunteers from the Group also launched a new programme in conjunction with the Tung Wah Group of Hospitals (“TWGH”). The aim of the programme is to establish sustainable relationships between “Caring Families” in Tai Po and the elderly. The volunteers also participated in the Caritas Bazaar and TWGH charity sales.

OUTLOOK AND PROSPECTS

As the Mainland economy continues to flourish, the management is confident that the local economy is going to see steady growth in the years to come.

The Hong Kong Government has also sought to spur economic development and increase employment opportunities through targeted efforts by stating its intention to embark on 10 major infrastructure projects including construction of railways, highways, the Hong Kong-Zhuhai-Macao Bridge, development of the West Kowloon Cultural District and the Kai Tak area comprising a new cruise terminal. Riding on the Group's solid track record and experience, Chun Wo will endeavor to capture these prestigious construction projects in the upcoming construction market expansion.

In Macau, also with an economic boom, opportunities are sprouting in its pillar construction industry. The Group will continue to source projects in the city riding on its successful involvement in various prominent developments such as "The Venetian" and the "City of Dreams". As for the bored pile foundation project at the "Nam Van Lake", it is progressing well. Beyond Hong Kong and Macau, the Group will continue to secure construction projects in countries such as Thailand, India and the Middle East.

As for the local property market, sales of residential properties has been picking up as induced by increasing favourable economic sentiments, increases in household income and favorable lending rates. The Group's "No. 8 Clear Water Bay Road" flagship residential project is almost all sold out with less than 2% of the units still available.

Since December 2006, the Group has launched a number of sale campaigns with remarkable results for the high class residential properties located in Shijiazhuang, Hebei Province and Yangzhou, Jiangsu Province in Mainland China and in Ho Chi Minh City, Vietnam.

OUTLOOK AND PROSPECTS *(Continued)*

Due to the rise of citizens' living standard and continuous increase in housing demand, the Group's average selling price of Shijiazhuang Phase 1 residential units recorded a double-digit growth. The Company briskly sold over 30,000 m² of residential units at an average selling price of 57% over the average selling price that we achieved in December 2006. The Group's average selling price of Yangzhou residential units is one of the highest amongst comparable products. Since pre-sale starting from the end of October 2007, over 70% of our available units has been sold.

The Group's project in Yixing, Jiansu Province, which is a hotel-type service apartment complex with a three-storey retail arcade, is progressing as planned with pre-sale scheduled for the first half of 2008.

In the second half of the financial year, the Group will continue to benefit from the favourable property market condition and meet the strong demand for residential properties by launching more property sale campaigns. Moreover, the Group will continue to focus on pursuing development opportunities in second and third tier cities, such as Shenyang, Chengdu, etc., in the coming years.

PRC central government has introduced a number of austerity measures aimed at regulating or restricting investments in the PRC real estate industry. We believe its impact on our projects may not be significant since the government policies and measures are targeted primarily at controlling housing price hikes in first tier cities.

While diligently seeking new property development opportunities in Mainland China and Vietnam, the Group will continue to seek other high-growth areas such as the Middle East and India for projects with strong potential.

CHANGE OF COMPANY NAME

In November 2007, shareholders had approved at a Special General Meeting to change the Company's name from "Chun Wo Holdings Limited" to "Chun Wo Development Holdings Limited" to better reflect the Group's current business status and growth strategy. The Group will maintain the two-pronged strategy of cultivating construction and property development businesses to ensure its long-term growth.

ISSUANCE OF CONVERTIBLE BONDS

In November 2007, the Group issued an aggregate principal amount of HK\$372.3 million of zero coupon convertible bonds to DKR Soundshore Oasis Holding Fund Ltd., GLG Market Neutral Fund and HSBC Bank Plc. The five-year bonds may be convertible into 170,779,816 new shares at the conversion price of HK\$2.18 per share, subject to adjustment. The new shares represent 19.92% of the issued share capital at the date of the issue of convertible bond and 16.61% of the issued share capital as enlarged by the shares to be issued upon conversion of the bonds. The Group intends to use the net proceeds from the convertible bond issue for acquiring new land for development in Mainland China and general working capital purposes. This will also improve the liquidity position of the Group as well as potentially enhance the equity base by inviting fund from the international institutional investors and promote the Company profile in the international capital market.

LIQUIDITY AND FINANCIAL RESOURCES

The Group mainly relies upon internally generated funds as well as bank and other borrowings to finance its operations and expansion, which is supplemented by equity funding when it is required.

LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

At 30th September, 2007, the total net debts of the Group amounted to approximately HK\$1,074.4 million, representing total debts of approximately HK\$1,354.2 million less bank balances and cash of approximately HK\$279.8 million. The debt maturity profile of the Group at 30th September, 2007 is analysed as follows:

	As at 30th September, 2007 HK\$ million	As at 31st March, 2007 HK\$ million
Repayable within one year or on demand	645.9	727.8
Repayable after 1 year, but within 2 years	9.7	10.3
Repayable after 2 years, but within 5 years	619.2	397.4
Repayable over five years	79.4	83.8
Total	1,354.2	1,219.3

At 30th September, 2007, the gearing ratio of the Group, being the proportion of net interest bearing debts to shareholders' equity was 0.80 (at 31st March, 2007: 0.71).

To minimise exposure on foreign exchange fluctuations, the Group's borrowings and cash balances are primarily denominated in Hong Kong dollars. The Group has no significant exposure to foreign exchange rate fluctuations. Furthermore, the Group's borrowings have not been hedged by any interest rate financial instruments.

The Group's financial position is sound and strong. With available bank balances and cash at 30th September, 2007 and available bank credit facilities, the Group has sufficient liquidity to satisfy its funding requirements.

EMPLOYEE AND REMUNERATION POLICIES

The Group has approximately 2,110 employees at 30th September, 2007. Total remuneration of employees for the six months ended 30th September, 2007 amounted to approximately HK\$230.5 million. Employees are remunerated according to nature of the job and market trend, with built-in merit component incorporated in the annual increment to reward and motivate individual performance. Employee bonus is distributable based on the performance of the respective companies and the employees concerned. The Group also provides in-house and external training programmes which are complementary to certain job functions.

SHARE OPTION SCHEMES

- (a) The Company had adopted a new share option scheme (the "Scheme") on 28th August, 2002 to enable the Directors to grant options to eligible participants, including executive directors, of the Company and its subsidiaries to subscribe for shares in the Company.

Details of the movements in share options granted during the period under review are as follows:

Eligible participants	Date of grant	Exercise price per option HK\$	Exercise period	Number of share options				
				Outstanding at 1/4/2007	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30/9/2007
<i>Directors</i>								
Mr. Pang Kam Chun	13/8/2004	0.904	21/8/2004 to 12/8/2014	732,000	-	-	-	732,000
	2/4/2007	1.010	10/4/2007 to 1/4/2017	-	747,000	-	-	747,000
Mr. Kwok Yuk Chiu, Clement	13/8/2004	0.904	21/8/2004 to 12/8/2014	7,326,000	-	(4,000,000)	-	3,326,000
Mr. Au Son Yiu	13/8/2004	0.904	21/8/2004 to 12/8/2014	732,000	-	(732,000)	-	-
Madam Li Wai Hang	2/4/2007	1.010	10/4/2007 to 1/4/2017	-	747,000	-	-	747,000

SHARE OPTION SCHEMES (Continued)

Eligible participants	Date of grant	Exercise price per option HK\$	Exercise period	Number of share options				
				Outstanding at 1/4/2007	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30/9/2007
<i>Employees</i>	13/8/2004	0.904	21/8/2004 to 12/8/2014	7,326,000	-	-	-	7,326,000
	3/9/2004	0.950	4/10/2004 to 30/9/2009	3,678,000	-	(1,600,000)	(580,000)	1,498,000
	2/5/2007	1.010	2/5/2007 to 1/5/2010	-	9,340,000	(3,736,000)	-	5,604,000
	9/8/2007	1.950	9/8/2007 to 8/8/2010	-	800,000	-	-	800,000
<i>Consultants</i>	3/9/2004	0.950	4/10/2004 to 30/9/2009	400,000	-	-	-	400,000
	2/5/2007	1.010	2/5/2007 to 1/5/2010	-	1,868,000	-	-	1,868,000
	25/5/2007	1.420	25/5/2007 to 24/5/2010	-	3,737,000	-	-	3,737,000
	31/7/2007	2.396	1/2/2008 to 31/7/2010	-	62,604	-	-	62,604
	8/8/2007	2.010	25/9/2007 to 24/5/2010	-	3,737,000	-	-	3,737,000
<i>Others</i> (Note 1)	13/8/2004	0.904	21/8/2004 to 12/8/2014	2,196,000	-	(1,464,000)	-	732,000
				22,390,000	21,038,604	(11,532,000)	(580,000)	31,316,604

Notes:

- These outstanding share options were held by former Independent Non-executive Directors. The Board has approved that these outstanding share options can be exercised on or before 12th August, 2014.
- All options referred to the above table are not subject to any vesting period save as the options granted on 31st July, 2007 and 8th August, 2007, the vesting dates are 1st February, 2008 and 25th September, 2007, respectively.
- The closing price of the shares of the Company immediately before the options granted on 2nd April, 2007, 2nd May, 2007, 25th May, 2007, 31st July, 2007, 8th August, 2007 and 9th August, 2007 were HK\$1.00, HK\$1.01, HK\$1.42, HK\$2.36, HK\$1.81 and HK\$1.90 respectively.

SHARE OPTION SCHEMES *(Continued)*

Notes:

4. The weighted average closing price of the shares immediately before the date of exercise by Mr. Kwok Yuk Chiu, Clement was HK\$1.47.
 5. The weighted average closing price of the shares immediately before the date of exercise by Mr. Au Son Yiu was HK\$2.36.
 6. The weighted average closing price of the shares immediately before the dates of exercise by the employees was HK\$1.73.
 7. The weighted average closing price of the shares immediately before the date of exercise by others was HK\$1.62.
 8. No share options were cancelled under the Scheme during the period under review.
- (b) Pursuant to the share option scheme of Chun Wo Foundations Limited (“CWFL”), an indirect wholly-owned subsidiary of the Company, approved by the Company on 28th August, 2002, the board of directors of CWFL may, at their discretion, grant options to eligible participants of CWFL, the Company or any of their subsidiaries to subscribe for shares in CWFL.

No option has been granted under the share option scheme of CWFL since its adoption.

Save as disclosed above at no time during the period under review was the Company or any of its subsidiaries a party to any arrangement to enable the Directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. In addition, none of the Directors and chief executive of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such right during the period under review.

SHARE OPTION EXPENSES

Share option expenses charged are based on valuation determined using the Black-Scholes model. Share options granted during the period were valued based on the following assumptions:

Date of grant	Option value ¹ (HK\$)	Share price at date of grant (HK\$)	Exercise price (HK\$)	Expected volatility ²	Annual risk-free interest rate ³	Life of option	Dividend yield ⁴
2/4/2007	0.341	1.01	1.010	48.32%	4.005%	10 years	3.96%
2/5/2007	0.139	1.01	1.010	30.19%	3.898%	3 years	3.96%
25/5/2007	0.233	1.42	1.420	33.67%	4.093%	3 years	2.82%
31/7/2007	0.354	2.21	2.396	37.97%	3.961%	3 years	1.81%
8/8/2007	0.323	1.90	2.010	40.03%	4.008%	3 years	2.11%
9/8/2007	0.389	1.95	1.950	40.03%	4.040%	3 years	2.05%

1. Since option pricing model requires input of highly subjective assumptions, fair values calculated are therefore inherently subjective and the model may not necessarily provide a reliable measure of share option expense.
2. Estimated volatility was based on the historical stock prices over 1 year preceding the grant date, expressed as an annualized rate and based on daily price changes.
3. The risk-free interest rate was based on the market yield of Hong Kong Exchange Fund notes with a remaining life corresponding to the expected option life.
4. Dividend yield was based on the average dividend yield for the one year preceding the year of grant.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th September, 2007, the interests of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 (the "Model Code") to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(a) Interests of the Directors in the shares of the Company (Long Positions)

Name of Director	Personal interests	Family interests	Corporate interests	Total interests	Total interests as % of the Company's issued share capital
Mr. Pang Kam Chun ("Mr. Pang")	276,116,340	10,148,875 (Note 1)	129,348,294 (Note 2)	415,613,509	48.57%
Madam Li Wai Hang, Christina	10,148,875	405,464,634 (Note 1)	-	415,613,509	48.57%
Mr. Au Son Yiu	301,816	-	-	301,816	0.03%

Notes:

1. Madam Li Wai Hang, Christina is the spouse of Mr. Pang and is deemed to be interested in those shares of the Company in which Mr. Pang has an interest. Similarly, Mr. Pang is also deemed to be interested in those shares of the Company in which Madam Li Wai Hang, Christina has an interest.
2. Mr. Pang is deemed to have a corporate interest in those shares of the Company by virtue of his 100% interest in GT Winners Limited.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

(Continued)

(b) Interests of the Directors in the underlying shares of the Company (Long Positions)

Name of Director	Personal interests	Family interests	Corporate interests	Total interests	Total interests as % of the Company's issued share capital
Mr. Pang	1,479,000 (Note 1)	2,776,775 (Note 2)	16,269,658 (Note 3)	20,525,433	2.40%
Madam Li Wai Hang, Christina	2,776,775 (Note 4)	17,748,658 (Note 2)	–	20,525,433	2.40%
Mr. Kwok Yuk Chiu, Clement	3,326,000 (Note 5)	–	–	3,326,000	0.39%
Mr. Au Son Yiu	360,000 (Note 6)	–	–	360,000	0.04%

Notes:

- These represent the interests in the underlying shares of the Company in respect of 1,479,000 units of share options granted by the Company, the details of which are stated under the heading "Share Option Schemes" above.
- Madam Li Wai Hang, Christina is deemed to be interested in the underlying shares of the Company in which Mr. Pang has an interest. Similarly, Mr. Pang is also deemed to be interested in the underlying shares of the Company in which Madam Li Wai Hang, Christina has an interest.
- Mr. Pang is deemed to have a corporate interest in the warrants of the Company by virtue of his 100% interest in GT Winners Limited.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

(Continued)

(b) Interests of the Directors in the underlying shares of the Company (Long Positions) *(Continued)*

Notes:

4. These represent the interests in the underlying shares of the Company in respect of (i) 747,000 units of share options granted by the Company, the details of which are stated under the heading "Share Option Schemes" above and (ii) 2,029,775 units of warrants of the Company.
5. These represent the interests in the underlying shares of the Company in respect of 3,326,000 units of share options granted by the Company, the details of which are stated under the heading "Share Option Schemes" above.
6. These represent the interests in the underlying shares of the Company in respect of 360,000 units of warrants of the Company.

In addition, Mr. Pang and Madam Li Wai Hang, Christina hold 8,347,500 and 90,000 non-voting deferred shares respectively in Chun Wo Construction and Engineering Company Limited, which are subject to an option granted to Chun Wo Hong Kong Limited, a wholly-owned subsidiary of the Company, to purchase the said non-voting deferred shares.

Save as disclosed above and other than certain nominee shares in the subsidiaries held by Directors in trust for the Group, as at 30th September, 2007, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far as are known to the Directors, as at 30th September, 2007, the following parties (other than Directors' and chief executive of the Company) were recorded in the register kept by the Company under Section 336 of the SFO ("Register of Substantial Shareholders") as being interested in or deemed to be interested in 5% or more of the issued share capital of the Company:

<u>Shareholders</u>	<u>Capacity</u>	<u>Number of shares held (Long Positions)</u>	<u>Percentage of the Company's issued share capital as at 30/9/2006</u>
GT Winners Limited	Beneficial Owner	145,617,952	17.02%

Save as disclosed above, as at 30th September, 2007, the Register of Substantial Shareholders discloses no other party (other than Directors or chief executive of the Company) as being interested or deemed to be interested in 5% or more of the issued share capital of the Company.

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

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the period under review.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions in effect and certain recommended best practices set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules throughout the period under review except for the deviations from the provision A.4.2 of the Code.

CORPORATE GOVERNANCE PRACTICES *(Continued)*

Pursuant to provision A.4.2 of the Code, every Director should be subject to retirement by rotation at least once every three years. Relevant amendment to the Bye-laws of the Company had been proposed and was approved by Shareholders at the annual general meeting of the Company held on 21st September, 2006 in order to comply with provision A.4.2 of the Code, save as the Chairman and the Managing Director shall not be subject to retirement by rotation. The Board considers that the Chairman and the Managing Director are not subject to retirement by rotation in order to maintain the stability and continuity.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following a specific enquiry by the Company, that they have fully complied with the required standard set out in the Model Code throughout the period under review.

AUDIT COMMITTEE REVIEW

The Audit Committee of the Company (the "Audit Committee") comprises three members, namely Mr. Au Son Yiu, Mr. Chan Chiu Ying and Mr. Hui Chiu Chung, all are Independent Non-executive Directors of the Company. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim financial statements of the Group for the six months ended 30th September, 2007.

ACKNOWLEDGEMENT

On behalf of the Board, I thank members of the management team and all staff for putting in their best during the review period. We will continue to dedicate our utmost efforts to deliver satisfactory returns to Shareholders.

By Order of the Board
Pang Kam Chun
Chairman

Hong Kong, 28th December, 2007