



CHUN WO HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

CHUN WO
2003

CHUN WO
2001

CHUN WO
2000

CHUN WO
2002

Interim Report

for the six months ended 30th September, 2003

INTERIM RESULTS

The Board of Directors (the “Board”) of Chun Wo Holdings Limited (the “Company”) is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September, 2003, together with the relevant comparative figures, are as follows:

Condensed Consolidated Income Statement

for the six months ended 30th September, 2003

	Notes	Unaudited six months ended 30th September,	
		2003	2002
		HK\$'000	HK\$'000
Turnover	2	1,476,474	1,271,253
Cost of sales		(1,398,884)	(1,232,628)
Gross profit		77,590	38,625
Other operating income		22,704	36,992
General and administrative expenses		(61,075)	(50,746)
Profit from operations	3	39,219	24,871
Finance costs	4	(2,439)	(2,501)
Share of results of jointly controlled entities		6,171	5,414
Profit from ordinary activities before taxation		42,951	27,784
Taxation	5	(10,845)	(4,449)
Profit before minority interests		32,106	23,335
Minority interests		5	398
Profit attributable to shareholders		32,111	23,733
Proposed interim dividend	6	9,057	5,434
Earnings per share – basic	7	4.4 cents	3.3 cents
– diluted		N/A	3.3 cents

Condensed Consolidated Balance Sheet
as at 30th September, 2003 and 31st March, 2003

		Unaudited 30th September, 2003 HK\$'000	Audited 31st March, 2003 HK\$'000
	Notes		
Non-current assets			
Investment properties	8	211,163	31,089
Property, plant and equipment	8	288,255	303,198
Properties under development		394,749	500,053
Interests in associates		79,742	79,742
Interests in jointly controlled entities		14,110	15,823
Investments		4,003	1,002
		<u>992,022</u>	<u>930,907</u>
Current assets			
Amounts due from customers for contract work		265,987	298,970
Properties under development	9	71,751	2,014,695
Debtors, deposits and prepayments	10	468,550	375,369
Amounts due from associates		487	487
Amounts due from jointly controlled entities		44,537	43,198
Investments		8,598	10,000
Taxation recoverable		1,700	1,288
Pledged bank deposits		134,520	21,976
Bank balances and cash		123,323	154,463
		<u>1,119,453</u>	<u>2,920,446</u>
Current liabilities			
Amounts due to customers for contract work		148,921	144,273
Creditors and accrued charges	11	609,710	526,470
Amounts due to jointly controlled entities		2,496	11,539
Taxation payable		8,108	7,341
Obligations under finance leases			
– due within one year		17,814	24,072
Borrowings – due within one year		308,204	2,239,380
		<u>1,095,253</u>	<u>2,953,075</u>
Net current assets (liabilities)		<u>24,200</u>	<u>(32,629)</u>
Total assets less current liabilities		<u>1,016,222</u>	<u>898,278</u>

Condensed Consolidated Balance Sheet (Continued)

as at 30th September, 2003 and 31st March, 2003

		Unaudited	Audited
		30th September,	31st March,
		2003	2003
	<i>Notes</i>	HK\$'000	HK\$'000
Non-current liabilities			
Obligations under finance leases			
– due after one year		11,338	14,434
Borrowings – due after one year		339,137	254,908
Deferred taxation		17,896	13,322
		368,371	282,664
Minority interests			
		2,491	2,365
Net assets			
		645,360	613,249
Capital and reserves			
Share capital	12	72,455	72,455
Reserves		572,905	540,794
		645,360	613,249

Condensed Consolidated Statement of Changes in Equity

for the six months ended 30th September, 2003 – unaudited

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st April, 2003	72,455	242,572	(7,340)	8,531	676	296,355	613,249
Profit attributable to shareholders for the period	—	—	—	—	—	32,111	32,111
At 30th September, 2003	<u>72,455</u>	<u>242,572</u>	<u>(7,340)</u>	<u>8,531</u>	<u>676</u>	<u>328,466</u>	<u>645,360</u>
At 1st April, 2002	72,455	242,572	(7,340)	8,531	676	303,440	620,334
Profit attributable to shareholders for the period	—	—	—	—	—	23,733	23,733
2001/2002 proposed final dividend	—	—	—	—	—	(7,246)	(7,246)
At 30th September, 2002	<u>72,455</u>	<u>242,572</u>	<u>(7,340)</u>	<u>8,531</u>	<u>676</u>	<u>319,927</u>	<u>636,821</u>

Condensed Consolidated Cash Flow Statement*for the six months ended 30th September, 2003*

	Unaudited	
	six months ended	
	30th September,	
	2003	2002
	HK\$'000	HK\$'000
		(restated)
Net cash from operating activities	62,785	42,959
Net cash from (used in) investing activities	1,782,557	(477,647)
Net cash (used in) from financing activities	(1,876,482)	447,580
Net (decrease) increase in cash and cash equivalents	(31,140)	12,892
Cash and cash equivalents at beginning of the period	154,463	135,298
Cash and cash equivalents at end of the period	<u>123,323</u>	<u>148,190</u>
Analysis of the balances of cash and cash equivalents		
Cash and cash equivalents as previously reported		126,342
Effect of reclassification of trust receipt loans		21,848
Cash and cash equivalents as restated		<u>148,190</u>
Being:		
Bank balances and cash	<u>123,323</u>	<u>148,190</u>

Notes:

I. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31st March, 2003, except as described below:

Income Taxes

In the current period, the Group has adopted SSAP 12 (Revised) “Income Taxes” which is effective for accounting periods commencing on or after 1st January, 2003. 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, i.e. 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 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. The adoption of SSAP 12 (Revised) has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

2. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two operating divisions - construction works and property development. 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, 2003

	Construction works <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Other activities <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
	<i>(Note)</i>			
TURNOVER				
External sales	<u>1,476,474</u>	<u>—</u>	<u>—</u>	<u>1,476,474</u>
RESULT				
Segment result	<u>46,350</u>	<u>(115)</u>	<u>(2,823)</u>	43,412
Interest income				54
Unallocated corporate expenses				<u>(4,247)</u>
Profit from operations				39,219
Finance costs				(2,439)
Share of results of jointly controlled entities	6,171			<u>6,171</u>
Profit from ordinary activities before taxation				42,951
Taxation				<u>(10,845)</u>
Profit before minority interests				32,106
Minority interests				<u>5</u>
Profit attributable to shareholders				<u><u>32,111</u></u>

2. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

For the six months ended 30th September, 2002

	Construction works HK\$'000	Property development HK\$'000	Other activities HK\$'000	Consolidated HK\$'000
	(Note)			
TURNOVER				
External sales	<u>1,271,253</u>	<u>—</u>	<u>—</u>	<u>1,271,253</u>
RESULT				
Segment result	<u>30,025</u>	<u>(2)</u>	<u>(1,298)</u>	28,725
Interest income				160
Unallocated corporate expenses				<u>(4,014)</u>
Profit from operations				24,871
Finance costs				(2,501)
Share of results of jointly controlled entities	5,414			<u>5,414</u>
Profit from ordinary activities before taxation				27,784
Taxation				<u>(4,449)</u>
Profit before minority interests				23,335
Minority interests				<u>398</u>
Profit attributable to shareholders				<u>23,733</u>

Note: Turnover and segment results derived from Private Sector Participation Scheme ("PSPS") are classified under construction works for segment reporting disclosure purpose.

Geographical segments

The Group's operations are located in Hong Kong and elsewhere in the People's Republic of China (the "PRC").

No analysis of contribution to profit from operations by geographical market has been presented as more than 90% of the Group's activities were carried out in Hong Kong.

3. PROFIT FROM OPERATIONS

	six months ended 30th September,	
	2003	2002
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation and amortisation	21,760	23,644
Less: Amount attributable to contract work	(19,901)	(21,746)
	<u>1,859</u>	<u>1,898</u>

4. FINANCE COSTS

	six months ended 30th September,	
	2003	2002
	HK\$'000	HK\$'000
Interest payable	20,181	30,607
Less: Amount attributable to contract work	(5,015)	(4,016)
Amount attributable to properties under development	(12,727)	(24,090)
	<u>2,439</u>	<u>2,501</u>

5. TAXATION

	six months ended 30th September,	
	2003	2002
	HK\$'000	HK\$'000
The charge comprises:		
Current taxation		
– Hong Kong Profits Tax	4,990	3,746
– Foreign Enterprise Income Tax in the PRC	147	70
	<u>5,137</u>	<u>3,816</u>
Deferred taxation		
– Hong Kong Profits Tax	4,574	(234)
	<u>9,711</u>	<u>3,582</u>
Share of taxation attributable to jointly controlled entities		
– Hong Kong Profits Tax	1,134	867
	<u>10,845</u>	<u>4,449</u>

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profits for the period.

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

6. PROPOSED INTERIM DIVIDEND

	six months ended 30th September, 2003		2002
	HK\$'000		HK\$'000
Proposed interim dividend of 1.25 cents (2002: 0.75 cent) per share	<u>9,057</u>		<u>5,434</u>

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to shareholders of HK\$32,111,000 (2002: HK\$23,733,000) and 724,545,896 shares (2002: 724,545,896 shares) in issue during the period. There is no effect of dilutive potential ordinary shares in both periods.

8. INVESTMENT PROPERTIES / PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$19.5 million and HK\$6.8 million (six months ended 30th September, 2002: HK\$20.0 million) on investment properties and property, plant and equipment respectively.

During the period, investment properties with carrying values of approximately HK\$160.6 million were transferred from properties under development upon completion of the development.

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

9. PROPERTIES UNDER DEVELOPMENT

During the period, the majority portions of the PSPS project at Tin Shui Wai, Yuen Long were disposed of upon completion with total sale proceeds amounting to HK\$2,158.9 million which was applied to fully repay the PSPS project loan.

10. DEBTORS, DEPOSITS AND PREPAYMENTS

Interim applications for progress payments in construction contracts are normally on a monthly basis and settled within one month. The ageing analysis of trade debtors of HK\$265,550,000 (at 31st March, 2003: HK\$230,027,000), which are included in the Group's debtors, deposits and prepayments, are as follows:

	As at 30th September, 2003 HK\$'000	As at 31st March, 2003 HK\$'000
Not yet due	250,082	209,271
0 to 30 days	7,379	4,671
31 to 90 days	666	3,009
91 to 180 days	—	—
Over 180 days	7,423	13,076
	<u>265,550</u>	<u>230,027</u>

11. CREDITORS AND ACCRUED CHARGES

The ageing analysis of trade creditors of HK\$309,805,000 (at 31st March, 2003: HK\$348,410,000), which are included in the Group's creditors and accrued charges, are as follows:

	As at 30th September, 2003 HK\$'000	As at 31st March, 2003 HK\$'000
Not yet due	198,422	231,429
0 to 30 days	67,058	65,237
31 to 90 days	14,685	21,561
91 to 180 days	4,365	4,198
Over 180 days	25,275	25,985
	<u>309,805</u>	<u>348,410</u>

12. SHARE CAPITAL

There were no movements in the share capital of the Company.

13. CAPITAL COMMITMENTS

	As at 30th September, 2003 HK\$'000	As at 31st March, 2003 HK\$'000
Capital expenditure relating to property, plant and equipment contracted for but not provided in the financial statements	<u>3,471</u>	<u>6,645</u>

In addition, at 30th September, 2003, the Group had no outstanding capital contribution to a subsidiary (at 31st March, 2003: HK\$4,867,000).

14. CONTINGENT LIABILITIES

	As at 30th September, 2003 HK\$'000	As at 31st March, 2003 HK\$'000
Indemnities issued to financial institutions for performance bonds in respect of construction contracts undertaken by:		
– subsidiaries	244,686	405,710
– an associate	22,400	22,400
– jointly controlled entities	311,393	311,393
	<u>578,479</u>	<u>739,503</u>
Extent of guarantee issued to a financial institution to secure credit facility granted to:		
– an associate	<u>52,400</u>	<u>52,400</u>

During the year ended 31st March, 2002, a guarantee was issued by a joint venture partner of a jointly controlled entity in favour of a financial institution to the extent of HK\$20,000,000 in respect of credit facilities granted to that jointly controlled entity. In consideration of the joint venture partner entering into the aforesaid guarantee, the Company has, accordingly, entered into a deed of indemnity to indemnify the joint venture partner in proportion to the Group's interest in the jointly controlled entity of any payments which are required to be made by the joint venture partner in respect of the aforesaid guarantee.

The extent of such facilities utilised by the jointly controlled entity at 30th September, 2003 amounted to HK\$204,000 (*at 31st March, 2003: HK\$637,000*).

15. PLEDGE OF ASSETS

- (a) At 30th September, 2003, the Group's leasehold properties in Hong Kong and bank deposits with carrying values of approximately HK30,830,000 (*at 31st March, 2003: HK\$31,351,000*) and HK\$9,681,000 (*at 31st March, 2003: HK\$21,976,000*) respectively and the benefits under certain construction contracts have been pledged to banks as securities for credit facilities granted to the Group.
- (b) At 30th September, 2003, the Group's interests in a property under development, an investment property and a bank deposit in Hong Kong with carrying values of approximately HK\$394,749,000 (*at 31st March, 2003: HK\$2,462,894,000*), HK\$160,580,000 and HK\$124,839,000 respectively have been pledged to certain banks as securities for a syndicated bank loan amounting to HK\$700,000,000 (*at 31st March, 2003: HK\$2,775,000,000*) granted to a subsidiary. Subsequent to the period end, the pledged investment property and the bank deposit of HK\$64,000,000 were released.

16. RELATED PARTY TRANSACTIONS

	Notes	Associates		Jointly controlled entities	
		six months ended 30th September, 2003 HK\$'000	2002 HK\$'000	six months ended 30th September, 2003 HK\$'000	2002 HK\$'000
Transactions during the period:					
Contract revenue recognised	(a)	<u>—</u>	<u>—</u>	<u>338</u>	<u>24,481</u>
Project management fee received	(a)	<u>—</u>	<u>—</u>	<u>6,427</u>	<u>4,699</u>
Security guard services income received	(a)	<u>—</u>	<u>—</u>	<u>1,239</u>	<u>3,417</u>
		As at 30th September, 2003 HK\$'000	As at 31st March, 2003 HK\$'000	As at 30th September, 2003 HK\$'000	As at 31st March, 2003 HK\$'000
Indemnities issued to financial institutions for performance bonds in respect of construction contracts undertaken by related parties		<u>22,400</u>	<u>22,400</u>	<u>311,393</u>	<u>311,393</u>
Extent of guarantee issued to a financial institution to secure credit facility granted to a related party		<u>52,400</u>	<u>52,400</u>	<u>—</u>	<u>—</u>
Amounts due from related parties:					
Due from associates	(b)	<u>79,741</u>	<u>79,741</u>	<u>—</u>	<u>—</u>
Trade balances shown under current assets	(c)	<u>487</u>	<u>487</u>	<u>44,537</u>	<u>43,198</u>
		<u>80,228</u>	<u>80,228</u>	<u>44,537</u>	<u>43,198</u>
Amounts due to related parties:					
Trade balances shown under current liabilities	(c)	<u>—</u>	<u>—</u>	<u>2,496</u>	<u>11,539</u>

In addition to the above, a subsidiary of the Company acts as one of the co-borrowers to a financial institution for credit facilities of HK\$20,000,000 (at 31st March, 2003: HK\$20,000,000) granted to a jointly controlled entity as detailed in note 14.

Notes:

- The pricing policy of contracts with related parties is consistent with the pricing of contracts with third parties.
- The amount is unsecured, interest free and will not be repayable within the next twelve months.
- The amounts are unsecured, interest free and are repayable on demand.

16. RELATED PARTY TRANSACTIONS *(Continued)*

During the period, Perfect Year Investment Limited, an indirect wholly-owned subsidiary of the Company entered into a sale and purchase agreement to acquire from Mr. Pang Yat Ting, Dominic a commercial property situated in Guangzhou, the PRC for investment purpose. The consideration for the acquisition is RMB20,000,000 (*approximately HK\$18,868,000*). Mr. Pang Yat Ting, Dominic is the son of Mr. Pang Kam Chun and Madam Li Wai Hang, Christina, both are directors and shareholders of the Company.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK1.25 cents per share (*2002: HK0.75 cent per share*) payable to shareholders whose names appear on the Register of Members on 11th February, 2004. Dividend warrants will be despatched to shareholders on or about 18th March, 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 5th February, 2004 to 11th February, 2004, 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 Registrars of the Company, 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 4th February, 2004.

REVIEW OF OPERATIONS

Over the past few months, the Hong Kong economy has shown a gradual but distinct trend of recovery from the trepidation of SARS and the endemic deflation has been easing. The forthcoming implementation of the Closer Economic Partnership Arrangement (“CEPA”) with the Mainland China next January looks likely to provide the Hong Kong economy a renewed avenue of opportunities. It was perhaps in anticipation of this, coupled with an upturn in the tourism sector, that the unemployment rate had fallen to 8.3%. In a matter of direct concern for us, it was worth noting that the gross value of construction work undertaken by major contractors had increased by 5.3% in the second quarter of 2003 over the first quarter of 2003.

The unfavourable economic climate had affected various business sectors of Hong Kong. Nevertheless, the Group has achieved moderate increase in turnover for the reporting period and with effective cost control, the Group has achieved a 35% increase in net profit as compared with previous corresponding period. At the time of reporting, the Group’s reckoned estimated value of contracts in hand is at HK\$8.5 billion level, with about HK\$4.3 billion outstanding.

On building construction, our building team had substantially completed the private residential development at Nos. 80-90 Des Voeux Road West. The residential development “Vianni Cove” at Tin Shui Wai Town Lot 27 was nearing completion. The superstructure work for the residential development “The Pacifica” at NKIL 6275 West Kowloon Reclamation was also proceeding well. At time of reporting, two building contracts, the Proposed Tsing Yi Office at TYTL139 and Cyberport Residential Development Contract R2, were added to the list of building projects for the Group.

On civil construction works, the Yam O Tuk Fresh Water Service Reservoir, part of the infrastructure development for Phase I Hong Kong Disneyland, is on program. The Investigation of Sewers & Drains Affecting the Safety of Slopes Features in the Catalogues of Slopes, Phase 2 is progressing on schedule.

Good progress on the Kowloon-Canton Railway Corporation (“KCRC”) contracts was reported. The Tin Shui Wai Station and its Public Transport Interchange, the West Rail Viaducts and the Hung Hom Station modification works had been completed. Track laying for the Ma On Shan Line and Tsim Sha Tsui Extension was progressing on schedule. Works on the Public Transport Interchanges and Property Development Enabling Works at Wu Kai Sha Station and Tai Wai Station were also progressing well.

Foundation works for the Wu Kai Sha Station, Ma On Shan Rail and for the redevelopment at Pok Oi Hospital at Yuen Long were substantially completed. The bored piling for Tai Wai Station, Ma On Shan Rail, and the site formation and foundation works for the Proposed Residential Development at Tai Hang Road (Tiger Balm Garden) were near completion. A new contract on piling works at Wan Po Road China Light & Power Substation was added and progressed in pace as planned.

On the maintenance front, the Light Rail maintenance contract for KCRC, the building maintenance works for Hong Kong International Airport, the term contract on waterworks for the Water Supplies Department had been undertaken proficiently. The works under the Minor Works contract with the Architectural Services Department and the building maintenance works for the Housing Authority were also progressing smoothly. During the reporting period, a Water Supplies Department’s term contract for Waterworks District H – Hong Kong Island and Ap Lei Chau was added to the Group’s maintenance works. A new contract for Replacement and Rehabilitation of Water Mains – Stage I Phase I for Urban Mains in New Territories was also awarded to the Group at time of reporting.

As for the Mass Transit Railway Corporation (“MTRC”) Choi Hung Park and Ride Development, apart from the completion of foundation works within the tower portion as reported in the last Annual Report, the foundation works for the access ramp along Clear Water Bay Road were substantially completed. Basement excavation work and superstructure works were progressing well.

As for the Hong Kong Disneyland Resort Project, work on the site development works was progressing smoothly. During the reporting period, the Group was awarded three more contracts for Adventureland, the Government Landscaped Area and Public Transport Interchange, and the Coach and Car Park for the Resort.

On electrical and mechanical (“E&M”) works, the Group’s in-house E&M teams provided supports and E&M installation services to building teams for satisfactory and smooth running of the Group’s building projects.

The Group’s security business arm, City Security Company Limited, continued to work in its normal core operation and provided high standard security services to construction sites and other premises.

The Group’s estate management division, City Professional Management Limited, had commenced professional property management services for the Group’s development, “Grandeur Terrace”, at Tin Shui Wai.

OUTLOOK AND PROSPECTS

Following the World Health Organization's removal of Hong Kong from its list of affected areas of atypical pneumonia, the HKSAR Government has worked actively to bring about a rebound of the Hong Kong economy and, with the support of the Central Government of Mainland China, signs of economic recovery have been emerging. One of its recent achievements had been the signing of the CEPA which would now provide for an expert group on coordinating Hong Kong/Guangdong cross boundary major infrastructure projects, such as the Hong Kong – Zhuhai – Macau Bridge, and an expert group on promoting a “Greater Pearl River Delta”, providing opportunities in both the construction and property development markets for the Group.

The successful results of the “Grandeur Terrace” Private Sector Participation Scheme development at Tin Shui Wai and the promising outcome of the MTRC Choi Hung Park and Ride Development have laid the foundation stone for the advancement of the Group on property development business. The encouraging occupancy rate at the shopping centre of the “Grandeur Terrace” has produced a stable income for the Group. Moreover, the planned sale of the residential development at the MTRC Choi Hung Park and Ride Development project in mid of next year is expected to generate reasonable profits. With the strength of the Group on construction management, coupled with the current recovering and healthy trend of the property market, the Group would gradually increase its participation in suitable property development projects through cooperation with other developers, and participating in urban renewal projects, and other private and public development projects.

The Group would continue its development in the property management sector. With its expertise in the field, the Group would continue to strive for the fulfillment to become one of the top class property and facilities companies.

The Group had also extended property development and property management services to Mainland China, including Beijing, Shanghai and Guangzhou.

On railway construction, both the MTRC and KCRC had plans for further additional and extended railway lines, including the South Island Link, the West Island Link, the Kowloon Southern Link and extension of the KCRC network to Hong Kong Island. Having successfully completed several projects in the railway sector, the Group is confident of pursuing and securing some of the planned projects from KCRC and MTRC.

On waterworks projects, tenders for other packages of the Replacement and Rehabilitation of Water Mains, Stage I Phase I are on the pipeline, and the Group is keen to secure more of these forthcoming projects.

On building construction, though the demand for public housing construction has reduced, there are works continually forthcoming from the Architectural Services Department on public building construction and from the private sector developers in the rallying property market. The Group's participation in the property development market would also provide opportunities for building construction work for the Group.

The Group is keenly interested in participating in environmental protection business under its continuing diversification strategy. It has recently acquired a sole agency for an environmental friendly toilet system that has prospects of application in Hong Kong.

Looking ahead, it would appear that in a revitalizing economy, our all-round capabilities and the high performance of our staff would definitely contribute to the continued healthy and prosperous growth for our Group.

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.

At 30th September, 2003, the total net debts of the Group amounted to HK\$418.7 million, representing total debts of HK\$676.5 million less bank balances and cash of HK\$257.8 million. The debt maturity profile of the Group at 30th September, 2003 is analysed as follows:

	As at 30th September, 2003 HK\$ Million	As at 31st March, 2003 HK\$ Million
Repayable within one year or on demand	326.0	2,263.4
Repayable after 1 year, but within 2 years	61.7	15.0
Repayable after 2 years, but within 5 years	288.8	253.8
Repayable after 5 years	—	0.6
Total	<u>676.5</u>	<u>2,532.8</u>

At 30th September, 2003, the gearing ratio of the Group, being the proportion of net interest bearing debts to shareholders' equity was 0.65 (at 31st March, 2003: 3.84).

The substantial decrease in gearing ratio was mainly attributable to repayment of the project loan of the Private Sector Participation Scheme ("PSPS") project at Tin Shui Wai, Yuen Long from the sale proceeds of the PSPS project.

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 fluctuation. Besides, the Group's medium-term borrowings have not yet been hedged by any interest rate financial instruments due to the continued easing of interest rate condition.

The Group's financial position is sound and strong. With available bank balances and cash at 30th September, 2003, cash generated by operations and available bank credit facilities, the Group has sufficient liquidity to satisfy its funding requirements.

EMPLOYEES

The Group has approximately 1,320 employees at 30th September, 2003. Total remuneration of employees for the six months ended 30th September, 2003 amounted to approximately HK\$184.7 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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at 30th September, 2003, the interests of the Directors, Chief Executives and their associates in the shares of the Company as recorded in the register required to be kept by the Company under Section 352 of Part XV of the Securities and Futures Ordinance (Chapter 571) of the Laws of Hong Kong (the "SFO") were as follows:

Name of Director	Number of Shares Held (Long Positions)	
	Personal Interests	Family Interests (Note)
Pang Kam Chun	316,230,950	10,148,875
Li Wai Hang, Christina	10,148,875	316,230,950
Kwok Yuk Chiu, Clement	2,993,540	—
Chen Po Sum	825,000	—
Au Son Yiu	2,300,000	—
Wong Sai Wing, James	831,875	—
Woo Kam Wai	346,000	—

Note: Madam Li Wai Hang, Christina is the spouse of Mr Pang Kam Chun and is deemed to be interested in those shares of the Company in which Mr Pang Kam Chun has an interest. Similarly, Mr Pang Kam Chun is also deemed to be interested in those shares of the Company in which Madam Li Wai Hang, Christina has an interest.

In addition, Mr Pang Kam Chun 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, at 30th September, 2003, none of the Directors, Chief Executives and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

- (a) The Company 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.

No share option was granted to any of the Company's Directors, employees and such eligible participants under the Scheme during the period.

- (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 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors and Chief Executives 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 Executives 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.

SUBSTANTIAL SHAREHOLDERS

Other than the interests of certain Directors disclosed under the heading "Directors' and Chief Executives' Interests and Short Positions" above, no other person has an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO as at 30th September, 2003.

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

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30th September, 2003.

PRACTICE NOTE 19 TO THE LISTING RULES

In compliance with Practice Note 19 to the Listing Rules, the information in relation to the proforma combined balance sheet of certain affiliates and the Group's attributable interest in these affiliates based on the unaudited management accounts as at 30th September, 2003 is as follows:

	Unaudited proforma combined balance sheet HK\$'000	Group's attributable interest HK\$'000
Property, plant and equipment	304,298	124,029
Current assets	427,844	273,043
Current liabilities	(466,361)	(252,313)
Non-current liabilities	(325,572)	(130,649)
	<u>(59,791)</u>	<u>14,110</u>
Capital and reserves	<u>(59,791)</u>	<u>14,110</u>

CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not at any time during the six months ended 30th September, 2003, in compliance with Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to thank the Group's shareholders, clients, business associates, government officials and consultants for their continued support. I would also like to thank our management and staff for their conscious efforts and commitments.

By Order of the Board
Pang Kam Chun
Chairman

Hong Kong, 15th December, 2003