



CHUN WO HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

INTERIM REPORT

for the six months ended 30th September, 2002

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, 2002, together with the relevant comparative figures, are as follows:

Condensed Consolidated Income Statement

for the six months ended 30th September, 2002

		Unaudited six months ended 30th September,	
	Notes	2002 HK\$'000	2001 HK\$'000
Turnover	2	1,271,253	987,044
Cost of sales		<u>(1,232,628)</u>	<u>(951,116)</u>
Gross profit		38,625	35,928
Other revenue		36,992	22,762
General and administrative expenses		<u>(50,746)</u>	<u>(39,313)</u>
Profit from operations	3	24,871	19,377
Finance costs	4	(2,501)	(2,310)
Share of results of jointly controlled entities		<u>5,414</u>	<u>8,343</u>
Profit from ordinary activities before taxation		27,784	25,410
Taxation	5	<u>(4,449)</u>	<u>(4,066)</u>
Profit before minority interests		23,335	21,344
Minority interests		<u>398</u>	<u>99</u>
Profit attributable to shareholders		<u><u>23,733</u></u>	<u><u>21,443</u></u>
Proposed interim dividend	6	<u><u>5,434</u></u>	<u><u>3,623</u></u>
Earnings per share – basic and diluted	7	<u><u>3.3 cents</u></u>	<u><u>3.0 cents</u></u>

Condensed Consolidated Balance Sheet
as at 30th September, 2002 and 31st March, 2002

		Unaudited 30th September, 2002 HK\$'000	Audited 31st March, 2002 HK\$'000
	Notes		
Non-current assets			
Investment properties		31,089	31,089
Property, plant and equipment	8	315,997	319,764
Properties under development		379,555	458,571
Interests in associates		79,742	77,851
Interests in jointly controlled entities		28,358	23,811
Investments		1,602	1,602
		<u>836,343</u>	<u>912,688</u>
Current assets			
Amounts due from customers for contract work		286,726	256,726
Properties under development		1,851,653	1,292,569
Debtors, deposits and prepayments	9	374,549	337,597
Amounts due from associates		373	10,042
Amounts due from jointly controlled entities		70,486	94,021
Investments		10,000	10,000
Taxation recoverable		1,133	850
Pledged bank deposit		3,647	3,607
Bank balances and cash		148,190	135,298
		<u>2,746,757</u>	<u>2,140,710</u>
Current liabilities			
Amounts due to customers for contract work		191,512	183,181
Creditors and accrued charges	10	499,274	475,968
Amounts due to jointly controlled entities		8,578	9,292
Taxation payable		14,995	12,069
Dividend payable		7,245	—
Obligations under finance leases and hire purchase contracts – due within one year		33,928	42,374
Borrowings – due within one year		1,929,090	167,301
		<u>2,684,622</u>	<u>890,185</u>
Net current assets		<u>62,135</u>	<u>1,250,525</u>
Total assets less current liabilities		<u>898,478</u>	<u>2,163,213</u>

Condensed Consolidated Balance Sheet (Continued)
as at 30th September, 2002 and 31st March, 2002

	Notes	Unaudited 30th September, 2002 HK\$'000	Audited 31st March, 2002 HK\$'000
Non-current liabilities			
Obligations under finance leases and hire purchase contracts			
– due after one year		18,479	29,148
Borrowings – due after one year		233,908	1,505,907
Deferred taxation		7,484	7,718
		<u>259,871</u>	<u>1,542,773</u>
Minority interests		<u>1,786</u>	<u>107</u>
Net assets		<u>636,821</u>	<u>620,333</u>
Capital and reserves			
Share capital	//	72,454	72,454
Reserves		564,367	547,879
		<u>636,821</u>	<u>620,333</u>

Condensed Consolidated Cash Flow Statement*for the six months ended 30th September, 2002*

	Unaudited	
	six months ended	
	30th September,	
	2002	2001
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	42,959	(19,852)
Net cash outflow from investing activities	(477,647)	(247,742)
Net cash outflow before financing	(434,688)	(267,594)
Net cash inflow from financing	464,148	165,945
Increase/(decrease) in cash and cash equivalents	29,460	(101,649)
Cash and cash equivalents at beginning of the period	96,882	65,984
Cash and cash equivalents at end of the period	<u>126,342</u>	<u>(35,665)</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	148,190	89,474
Trust receipt loans	(21,848)	(125,139)
	<u>126,342</u>	<u>(35,665)</u>

Condensed Consolidated Statement of Changes in Equity
for the six months ended 30th September, 2002 – 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, 2001	72,454	242,571	(7,340)	8,301	677	274,790	591,453
Profit attributable to shareholders for the period	—	—	—	—	—	21,443	21,443
2000/2001 proposed final dividend	—	—	—	—	—	(9,057)	(9,057)
At 30th September, 2001	<u>72,454</u>	<u>242,571</u>	<u>(7,340)</u>	<u>8,301</u>	<u>677</u>	<u>287,176</u>	<u>603,839</u>
Goodwill released on disposal of interests in subsidiaries	—	—	—	230	—	—	230
Profit attributable to shareholders for the period	—	—	—	—	—	19,887	19,887
Interim dividend paid	—	—	—	—	—	(3,623)	(3,623)
At 31st March, 2002	<u>72,454</u>	<u>242,571</u>	<u>(7,340)</u>	<u>8,531</u>	<u>677</u>	<u>303,440</u>	<u>620,333</u>
Profit attributable to shareholders for the period	—	—	—	—	—	23,733	23,733
2001/2002 proposed final dividend	—	—	—	—	—	(7,245)	(7,245)
At 30th September, 2002	<u>72,454</u>	<u>242,571</u>	<u>(7,340)</u>	<u>8,531</u>	<u>677</u>	<u>319,928</u>	<u>636,821</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 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, 2002, except as described below:

In the current period, the Group has adopted, for the first time, the following new and revised SSAPs issued by Hong Kong Society of Accountants:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but 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, 2002

	Construction works HK\$'000	Property development HK\$'000	Other activities HK\$'000	Consolidated HK\$'000
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>

2. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

For the six months ended 30th September, 2001

	Construction works HK\$'000	Property development HK\$'000	Other activities HK\$'000	Consolidated HK\$'000
TURNOVER				
External sales	<u>987,044</u>	<u>—</u>	<u>—</u>	<u>987,044</u>
RESULT				
Segment result	<u>24,445</u>	<u>(3)</u>	<u>(4)</u>	24,438
Interest income				326
Unallocated corporate expenses				<u>(5,387)</u>
Profit from operations				19,377
Finance costs				(2,310)
Share of results of jointly controlled entities	8,343			<u>8,343</u>
Profit from ordinary activities before taxation				25,410
Taxation				<u>(4,066)</u>
Profit before minority interests				21,344
Minority interests				<u>99</u>
Profit attributable to shareholders				<u>21,443</u>

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,	
	2002	2001
	HK\$'000	HK\$'000
<hr/>		
Profit from operations has been arrived at after charging:		
Depreciation and amortisation	23,644	27,468
Less: Amount attributable to contract work	(21,746)	(25,648)
	<u>1,898</u>	<u>1,820</u>

4. FINANCE COSTS

	six months ended 30th September,	
	2002	2001
	HK\$'000	HK\$'000
<hr/>		
Interest payable	30,607	23,430
Less: Amount attributable to contract work	(4,016)	(7,641)
Amount attributable to properties under development	(24,090)	(13,479)
	<u>2,501</u>	<u>2,310</u>

5. TAXATION

	six months ended 30th September,	
	2002	2001
	HK\$'000	HK\$'000
The charge comprises:		
Current taxation		
– Hong Kong Profits Tax	3,746	2,593
– Foreign Enterprise Income Tax in the PRC	70	78
	<u>3,816</u>	<u>2,671</u>
Deferred taxation		
– Hong Kong Profits Tax	(234)	60
	<u>3,582</u>	<u>2,731</u>
Share of taxation attributable to jointly controlled entities		
– Hong Kong Profits Tax	867	1,335
	<u>4,449</u>	<u>4,066</u>

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profits for both periods.

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,	
	2002	2001
	HK\$'000	HK\$'000
Proposed interim dividend of 0.75 cent (2001: 0.5 cent) per share	<u>5,434</u>	<u>3,623</u>

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the profit attributable to shareholders of HK\$23,733,000 (2001: HK\$21,443,000) and on the weighted average number of 724,545,896 shares (2001: 724,545,896 shares) in issue during the period. There is no effect of dilutive potential ordinary shares in both periods.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$20.0 million (six months ended 30th September, 2001: HK\$6.6 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 in construction contracts are normally on a monthly basis and settled within one month. The ageing analysis of trade debtors of HK\$210,677,000 (at 31st March, 2002: HK\$171,995,000), which are included in the Group's debtors, deposits and prepayments, are as follows:

	As at 30th September, 2002 HK\$'000	As at 31st March, 2002 HK\$'000
Not yet due	172,355	122,167
0 to 30 days	8,100	6,039
31 to 90 days	890	7,339
91 to 180 days	2,089	37
Over 180 days	27,243	36,413
	<u>210,677</u>	<u>171,995</u>

10. CREDITORS AND ACCRUED CHARGES

The ageing analysis of trade creditors of HK\$344,604,000 (at 31st March, 2002: HK\$334,869,000), which are included in the Group's creditors and accrued charges, are as follows:

	As at 30th September, 2002 HK\$'000	As at 31st March, 2002 HK\$'000
Not yet due	218,329	198,458
0 to 30 days	89,407	74,876
31 to 90 days	4,474	9,920
91 to 180 days	2,921	633
Over 180 days	29,473	50,982
	<u>344,604</u>	<u>334,869</u>

11. SHARE CAPITAL

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

12. CAPITAL COMMITMENTS

	As at 30th September, 2002 HK\$'000	As at 31st March, 2002 HK\$'000
Capital expenditure relating to property, plant and equipment contracted for but not provided in the financial statements	<u>—</u>	<u>7,720</u>

In addition, at 30th September, 2002, the Group had no outstanding capital contribution to a subsidiary (at 31st March, 2002: approximately HK\$5,518,000).

13. CONTINGENT LIABILITIES

	As at 30th September, 2002 HK\$'000	As at 31st March, 2002 HK\$'000
Indemnities issued to financial institutions for performance bonds in respect of construction contracts undertaken by:		
– subsidiaries	405,774	398,215
– an associate	22,400	22,400
– jointly controlled entities	<u>311,393</u>	<u>311,393</u>
	<u>739,567</u>	<u>732,008</u>
Extent of guarantee issued to financial institution to secure credit facility granted to:		
– an associate	<u>52,400</u>	<u>52,400</u>

Note: During the year ended 31st March, 2002, a joint venture partner of a jointly controlled entity issued a guarantee in favour of a financial institution to the extent of HK\$20,000,000 in respect of a revised credit facilities granted to that jointly controlled entity. In consideration of the joint venture partner entering into the aforesaid guarantee, the Company has 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, 2002 amounted to HK\$647,000 (at 31st March, 2002: HK\$726,000).

14. PLEDGE OF ASSETS

- (a) At 30th September, 2002, the Group's leasehold properties in Hong Kong and plant and machinery with carrying values of approximately HK\$40,590,000 (at 31st March, 2002: HK\$41,218,000) and HK\$Nil (at 31st March, 2002: HK\$7,430,000) respectively and the benefits under certain construction contracts have been pledged to the banks as securities for credit facilities granted to the Group.
- (b) At 30th September, 2002, the Group's interests in the properties under development in Hong Kong with carrying values of approximately HK\$2,192,665,000 (at 31st March, 2002: HK\$1,719,565,000) have been pledged to certain banks as securities for certain syndicated bank loans amounting to HK\$2,775,000,000 (at 31st March, 2002: HK\$2,775,000,000) granted to two subsidiaries.

15. RELATED PARTY TRANSACTIONS

	Notes	Associates		Jointly controlled entities	
		six months ended 30th September, 2002 HK\$'000	2001 HK\$'000	six months ended 30th September, 2002 HK\$'000	2001 HK\$'000
Transactions during the period:					
Contract revenue recognised	(a)	—	—	24,481	61,649
Project management fee received	(a)	—	—	4,699	4,527
Rental income received	(a)	—	—	—	1,060
Security guard services income received	(a)	—	—	3,417	2,069
		As at 30th September, 2002 HK\$'000	As at 31st March, 2002 HK\$'000	As at 30th September, 2002 HK\$'000	As at 31st March, 2002 HK\$'000
Indemnities issued to financial institutions for performance bonds in respect of construction contracts undertaken by related parties					
		22,400	22,400	311,393	311,393
Extent of guarantee issued to financial institution to secure credit facility granted to a related party					
		52,400	52,400	—	—
Amounts due from related parties:					
Due from associates	(b)	79,742	77,851	—	—
Trade balances shown under current assets	(c)	373	10,042	70,486	94,021
		80,115	87,893	70,486	94,021
Amounts due to related parties:					
Trade balances shown under current liabilities	(c)	—	—	8,578	9,292

15. RELATED PARTY TRANSACTIONS *(Continued)*

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, 2002: HK\$20,000,000)* granted to a jointly controlled entity as detailed in note 13.

Notes:

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

INTERIM DIVIDEND

The Board has declared an interim dividend of 0.75 cent per share *(2001: 0.5 cent per share)* payable to shareholders whose names appear on the Register of Members on 11th February, 2003. Dividend warrants will be despatched to shareholders on or about 20th March, 2003.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 5th February, 2003 to 11th February, 2003, 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 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong (with effect from 13th January, 2003, 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, 2003.

REVIEW OF OPERATIONS

Over the passing months, the slowdown in the Hong Kong economy continued. The construction industry in the reporting period continued to be at a difficult time, as reflected by the decline in overall construction output.

Compared with the last corresponding one, the Group experienced increase in turnover in this period and remained busy in the pursuit of various projects in its wide spectrum of works. At the time of reporting, the Group's reckoned value of contracts in hand is at HK\$9.4 billion level, with about HK\$5.4 billion outstanding.

On building construction, "Grandeur Terrace", the Private Sector Participation Scheme development at Tin Shui Wai, "Palm Cove", a private 5-block residential development at Tuen Mun Town Lot 386, the proposed residential development at Tin Shui Wai Town Lot 27 and the private residential development at Nos. 80-90 Des Voeux Road West, were progressing well. Following our completion of the foundation works on the proposed residential development at NKIL 6275 West Kowloon Reclamation, the superstructure work had commenced and was also progressing well.

On civil construction, the Yam O Tuk Fresh Water Service Reservoir, part of the infrastructural development for phase I Hong Kong Disneyland, was proceeding on schedule. For the joint venture project on Mass Transit Railway Corporation (“MTRC”) Tseung Kwan O extension, the tunnelling works of the Black Hill Tunnels was completed successfully and well ahead of schedule, enabling the extension to be opened to the public in August, 4-1/2 months in advance of the date MTRC committed to the Hong Kong SAR Government. Our quality performance completed within such a tight schedule was highly commended by the client, MTRC.

Regarding progress of the Kowloon – Canton Railway Corporation (“KCRC”) contracts, the remaining works for the West Rail Viaducts were near completion, and the Tin Shui Wai Station was basically completed with remaining works progressing smoothly. Tracklaying for the West Rail was completed and trial runs successfully carried out. Tracklaying for the Ma On Shan Line had also started. As for KCRC Hung Hom Station modifications, after the opening for public use of the mid-level concourse, remaining works were proceeding well as planned. During the reporting period, the Public Transport Interchange at Tin Shui Wai Station was added to the Group’s railway related contracts.

On foundation works, piling for the construction of two primary schools at Tin Shui Wai Area III and three schools at Fat Tseung Street, Sham Shui Po were completed, with superstructure works proceeding satisfactorily. As for the additional works for housing development on the Black Hill Tunnel site, the foundation and basement works were also substantially completed. Current works include the site formation and foundation works for the Proposed Residential Development at Tai Hang Road (Tiger Balm Garden), and the site formation and foundation works for the redevelopment of Pok Oi Hospital at Yuen Long.

On the maintenance front, the waterworks maintenance for Water Supplies Department on Hong Kong Island and Ap Lei Chau moved forward smoothly. The building maintenance works, including Architectural Services Department’s Term Contract for Minor Works to Buildings and Lands and Other Properties, were also progressing smoothly. During the reporting period, a Water Supplies Department’s term contract for Waterworks District Kowloon, from Lai Chi Kok to Kwun Tong, and two Housing Authority’s District Term Contracts for the Maintenance and Vacant Flat Refurbishment for Hong Kong East District and Sham Shui Po District respectively were added to the Group’s maintenance works.

As for the MTRC Choi Hung Park and Ride Development, foundation works within the tower portion were close to completion and works on the basement had commenced.

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

The Group’s security business arm under City Security Company Limited continued to perform satisfactorily in its normal core operations in providing security services to construction sites and other premises.

OUTLOOK AND PROSPECTS

As reported in the last annual report, we maintain our view that recovery of the economy will take some time. Nevertheless, during the past few months, the Hong Kong SAR Government and the two railway corporations were seen to continue to fulfill the Government's commitment in its 2001 policy address of investing in infrastructure development.

On railway construction, KCRC had revealed plans for the design and build Sha Tin – Central rail line. Moreover, detailed planning and design of the Kowloon Southern Link had commenced. As for Hung Hom Station, the KCRC had already earmarked budget for future expansion and for its future use as cross-platform interchanges. With the Group's competitive track records in civil works and railway construction in general, and in particular the extensive participation in the KCR West Rail and East Rail Extensions, and the MTR Tseung Kwan O Extension and the Ma On Shan Line, together with its advanced construction techniques in railway development position it to benefit from such projects.

On waterworks projects, prequalification on initial packages of the Replacement and Rehabilitation of Water Mains on Hong Kong Island, Kowloon, and New Territories by the Water Supplies Department had already started. The Group's good performance and track records in various Water Supplies Department's projects, including waterworks maintenance projects position it to benefit from such projects.

Regarding highway projects, budget had already been approved for the completion of Route 9 highway between Tsing Yi and Sha Tin, including the Stonecutters Bridge and the Eagle's Nest Tunnel. Tendering process on the Deep Bay Link, both the Northern and the Southern Section, is expected to start in early 2003. As for the Shenzhen Western Corridor, the design for the Shenzhen – Hong Kong Western Passageway project had been released. Moreover, tendering process on various projects on widening of highways, including the remaining sections of the Tolo Highway and Yuen Long Highway, are expected to start in early 2003. The Group's past experience and good records in highway and transportation public works should enable it to benefit from such projects.

On building construction in the public sector, Government projects on the pipeline include among others the Joint User Building at Kennedy Town, Customs Headquarters Tower at North Point, Government offices' renovation works and hospital improvement works, including the Pok Oi Hospital extension. The Government's recent announcement of a nine-point package on a new set of housing policies and measures aimed to stabilize the property market and restore public confidence in it should bring about an improving market condition in private sector building construction in the long run. With our long standing experience in building, maintenance and improvement works, the Group is well prepared for the job opportunities that will be available from both the public and the private sectors.

At time of reporting, we were awarded two Public Transport Interchange and Property Development Enabling Works Construction Contracts by KCRC for the Wu Kai Sha Station and the Tai Wai Station of the Ma On Shan Rail. The scope of works include site formation, piling, superstructure, drainage works and road works.

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, 2002, the total net debts of the Group amounted to HK\$2,063.6 million, representing total debts of HK\$2,215.4 million less bank balances and cash of HK\$151.8 million. The debt maturity profile of the Group at 30th September, 2002 is analysed as follows:-

	As at 30th September, 2002 HK\$ Million	As at 31st March, 2002 HK\$ Million
Repayable within one year or on demand	1,963.0	209.7
Repayable after 1 year, but within 2 years	15.8	1,340.3
Repayable after 2 years, but within 5 years	235.4	193.0
Repayable after 5 years	1.2	1.7
Total	<u>2,215.4</u>	<u>1,744.7</u>

At 30th September, 2002, the gearing ratio of the Group, being the proportion of net interest bearing debts to shareholders' equity was 3.24 (at 31st March, 2002: 2.59).

The increase in gearing ratio was mainly attributable to drawdown of the project loans for the financing of the Private Sector Participation Scheme ("PSPS") project at Tin Shui Wai, Yuen Long and the MTRC Choi Hung Park and Ride Development.

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 easing of interest rate in light of the current and continuing slack economic condition.

The Group's financial position is sound and strong. With available bank balances and cash at 30th September, 2002, cash generated by operations and available bank credit facilities, the Group has sufficient liquidity to satisfy its funding requirements.

EMPLOYEE AND REMUNERATION POLICIES

The Group has approximately 1,660 employees at 30th September, 2002. 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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30th September, 2002, the interests of the Directors, Chief Executives and their associates in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of Director	Number of Shares Held	
	Personal Interests	Family Interests (Note)
Pang Kam Chun	302,050,950	10,148,875
Li Wai Hang, Christina	10,148,875	302,050,950
Kwok Yuk Chiu, Clement	2,993,540	—
Chen Po Sum	825,000	—
Au Son Yiu	2,000,000	—
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, 2002, none of the Directors, Chief Executives and their respective associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

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

- (a) The share option scheme of the Company adopted on 18th January, 1993 was terminated and a new share option scheme (the "Scheme") was adopted by the Company at the annual general meeting held on 28th August, 2002. The Scheme enables 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 or exercised by any of the Company's Directors, employees and such eligible participants under the Scheme during the period and there was no share option outstanding as at 30th September, 2002.

- (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 in Securities” above, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance shows no other person as having an interest of 10% or more in the issued share capital of the Company as at 30th September, 2002.

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, 2002 is as follows:

	Unaudited proforma combined balance sheet HK\$’000	Group’s attributable interest HK\$’000
Property, plant & equipment	314,264	128,359
Current assets	714,235	347,894
Current liabilities	(712,207)	(319,987)
Non-current liabilities	(318,556)	(127,908)
	<u>(2,264)</u>	<u>28,358</u>
Capital and reserves	<u>(2,264)</u>	<u>28,358</u>

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, 2002.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the period.

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, 18th December, 2002