

Directors' Report

The Directors present their annual report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended 31 March 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in civil engineering, electrical and mechanical engineering, foundation and building construction work and property development.

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company for the year ended 31 March 2002 are set out in the consolidated income statement on page 25.

An interim dividend of HK0.5 cent per share was paid to shareholders during the year. The Directors recommend the payment of a final dividend of HK1 cent per share to the shareholders whose names appear on the Register of Members on 28 August 2002 and the retention of the remaining profit for the year.

| 01 |

FINANCIAL SUMMARY

A financial summary of the Group is set out on page 70.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 24 to the financial statements.

SHARE OPTION SCHEMES

- A. The Company’s share option scheme was adopted on 18 January 1993 (the “Share Option Scheme”) for the primary purpose of providing incentives to the employees of the Group. Under the terms and conditions of the Share Option Scheme, the Board of Directors of the Company (the “Board”) may, at their discretion, grant options to any directors or employees of the Company or any of its subsidiaries to subscribe for shares in the Company at a price equal to the higher of the nominal value of a share and 80% of the average of the closing price of the Company’s share on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on the five trading days immediately preceding the date of grant of the options. The Share Option Scheme will expire on 17 January 2003.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme may not exceed 10% of the issued share capital of the Company from time to time. No option may be granted to any one employee which, if exercised in full, would

SHARE OPTION SCHEMES > continued

result in the total number of shares already issued and issuable to him under all the options granted to him exceeding 25% of the maximum aggregate number of shares for the time being issued and issuable under the Share Option Scheme. An option may be exercised in accordance with its terms at any time during a period to be notified by the Board to each grantee and in any event, such period shall end not later than 17 January 2003 subject to the provisions for early termination contained in the Share Option Scheme. HK\$1 is payable by each eligible employee upon acceptance of the share options.

During the year ended 31 March 2001, share options were granted under the Share Option Scheme to certain employees of the Company and its subsidiaries to subscribe for 6,934,000 shares in the Company. These share options were exercisable at any time between 17 April 2000 and 16 April 2001 at an exercise price of HK\$0.3912 per share. No share options were granted by the Company during the year.

A summary of the movements in share options which were granted to certain eligible employees of the Group is as follows:

	Number of share options		
	Outstanding at 1 April 2001	Lapsed during the year	Outstanding at 31 March 2002
Category: Directors	—	—	—
Category: Employees	6,934,000	(6,934,000)	—
Total	6,934,000	(6,934,000)	—

As at the date of the directors' report, no further shares are available for issue under the Share Option Scheme according to the existing rules set out by the Stock Exchange.

- B. The share option scheme of Chun Wo Foundations Limited ("CWF"), a wholly-owned subsidiary of the Company, was approved by the Company on 24 September 1996 (the "Foundations Scheme") for the primary purpose of providing incentives to the full-time employees of the Group, save for Mr. Pang Kam Chun (the "Eligible Employees"). Under the terms and conditions of the Foundations Scheme, the board of directors of CWF may, at their discretion, grant options to any Eligible Employees to subscribe for shares in CWF at a price not less than the higher of the nominal value of a share in CWF and the net asset value per share of CWF calculated in accordance with the terms of the Foundations Scheme. The Foundations Scheme will expire on 23 September 2006.

The maximum number of shares in respect of which options may be granted under the Foundations Scheme may not exceed 10% of the issued share capital of CWF from time to time. The maximum number of shares in respect of which options may be granted under the Foundations Scheme to any Eligible Employee shall not exceed 25% of the aggregate number of shares for the time being issued and issuable under the Foundations Scheme. An option may be exercised in accordance with its terms at any time during a period to be notified by the board of directors of CWF to each grantee and in any event, such period shall end not later than the 10th anniversary of the date of offer subject to the provisions for early termination contained in the Foundations Scheme. HK\$1 is payable by each Eligible Employee upon acceptance of the share options.

SHARE OPTION SCHEMES > continued

No share option has been granted under the Foundations Scheme since its adoption.

As at the date of the directors' report, no further shares are available for issue under the Foundations Scheme according to the existing rules set out by the Stock Exchange.

In view of the introduction of certain amendments to Chapter 17 of the Listing Rules governing share schemes which became effective on 1 September 2001, the Directors wish to propose to shareholders of the Company that the Share Option Scheme and the Foundations Scheme shall be terminated and two new share option schemes shall be adopted respectively. The two new share option schemes will enable the directors of the Company and CWF to grant options to selected eligible persons as incentives or rewards for their contribution or potential contribution to the Group.

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in note 27 to the financial statements.

INVESTMENT PROPERTIES

The investment properties of the Group were revalued as at 31 March 2002 as set out in note 11 to the financial statements.

03

The resulting surplus arising on revaluation of HK\$153,203 has been credited to the income statement.

PROPERTY, PLANT AND EQUIPMENT

Movements during the year in the property, plant and equipment of the Group and the Company are set out in note 12 to the financial statements.

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Particulars of the Company's principal subsidiaries and the Group's associates and jointly controlled entities as at 31 March 2002 are set out in notes 40, 41 and 42 to the financial statements respectively.

BORROWINGS AND INTEREST CAPITALISED

Details of the Group's borrowings are set out in notes 21 and 22 to the financial statements.

Interest capitalised by the Group during the year is set out in note 7 to the financial statements.

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 31 March 2002, the total net debts of the Group amounted to HK\$1,605.8 million, representing total debts of HK\$1,744.7 million less bank balances and cash of HK\$138.9 million. The debt maturity profile of the Group at 31 March 2002 is analysed as follows:

	2002 HK\$ Million	2001 HK\$ Million
Repayable within one year or on demand	209.7	219.1
Repayable after 1 year, but within 2 years	1,340.3	37.9
Repayable after 2 years, but within 5 years	193.0	805.5
Repayable after 5 years	1.7	3.0
Total	1,744.7	1,065.5

At 31 March 2002, the gearing ratio of the Group, being the proportion of net interest bearing debts to shareholders' equity was 2.59 (2001: 1.56 (restated)).

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 & Ride Development. The committed medium-term banking facilities additionally secured during the year for the MTRC Choi Hung Park and Ride Development amounted to HK\$700 million.

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 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 31 March 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 1,430 employees at 31 March 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 SERVICE CONTRACTS

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

Executive Directors:

Mr. Pang Kam Chun

Mr. Kwok Yuk Chiu, Clement

Madam Li Wai Hang, Christina

DIRECTORS AND SERVICE CONTRACTS > continued

Independent Non-executive Directors:

Madam Chen Po Sum

Mr. Au Son Yiu

Dr. Wong Sai Wing, James

Mr. Woo Kam Wai

In accordance with Bye-laws 87 and 169(2), Madam Chen Po Sum and Mr. Woo Kam Wai will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election. The remaining Directors will continue in office.

Each of the Independent Non-executive Directors has a service agreement for a term of one year. The agreement is renewable subject to consent given by the Company and the respective Directors. The Independent Non-executive Directors are also subject to retirement by rotation in accordance with the above Bye-laws.

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

05

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 March 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)
Mr. Pang Kam Chun	302,050,950	10,148,875
Mr. Kwok Yuk Chiu, Clement	2,993,540	—
Madam Li Wai Hang, Christina	10,148,875	302,050,950
Madam Chen Po Sum	825,000	—
Mr. Au Son Yiu	2,000,000	—
Dr. Wong Sai Wing, James	831,875	—
Mr. 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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES > continued

In addition to the above, 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 under the heading "Directors' and Chief Executives' Rights to Acquire Shares or Debentures" below and other than certain nominee shares in subsidiaries held by certain Directors in trust for the Group, at 31 March 2002, none of the Directors, Chief Executives or any of their 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 enables the Directors to grant options to eligible employees, including executive directors, of the Company and its subsidiaries to subscribe for shares in the Company. Details of the Share Option Scheme are set out under the heading "Share Option Schemes" above.

No share option was granted to any of the Company's Directors and Chief Executives under the Share Option Scheme during the year and there was no outstanding share option held by them as at 31 March 2002.

- (b) The Foundations Scheme enables the directors of CWF to grant options to Eligible Employees to subscribe for shares in CWF. Details of the Foundations Scheme are set out under the heading "Share Option Schemes" above.

No share option has been granted under the Foundations Scheme since its adoption.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or 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 or 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 year.

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 discloses no other person as having an interest of 10% or more in the issued share capital of the Company as at 31 March 2002.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2002, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 50% of the Group's total turnover and the turnover attributable to the Group's largest customer accounted for approximately 23% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for less than 30% of the Group's total purchases.

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) has any interest in any of the Group's five largest customers.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

The Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 March 2002.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year.

PRE-EMPTIVE RIGHTS

07 | There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2002 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.

DONATIONS

During the year, the Group made charitable and other donations totalling approximately HK\$262,760.

AUDITORS

A resolution will be submitted to the Annual General Meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors.

On behalf of the Board
PANG KAM CHUN
Chairman

Hong Kong, 15 July 2002