

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 2003.

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 2003 are set out in the consolidated income statement on page 27.

An interim dividend of HK0.75 cent per share was paid to shareholders during the year. The Directors do not recommend the payment of a final dividend.

Financial Summary

A financial summary of the Group is set out on page 72.

Share Capital

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

Share Option Schemes

Particulars of the share option schemes are set out in note 25 to the financial statements. No option was granted under the share option schemes during the year ended 31 March 2003.

As at the date of the directors' report, the number of shares in the Company available for issue under the Company's share option scheme is 72,454,589 shares, representing 10% of the issued share capital of the Company.

Reserves

Movements during the year in the reserves of the Group and the Company are set out in note 26 to the financial statements.

Investment Properties

The investment properties of the Group were revalued as at 31 March 2003 as set out in note 11 to the financial statements. There was no resulting surplus or deficit arising on revaluation of the investment properties.

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 2003 are set out in notes 36, 37 and 38 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.

At 31 March 2003, the total net debts of the Group amounted to HK\$2,356.4 million, representing total debts of HK\$2,532.8 million less bank balances and cash of HK\$176.4 million. The debt maturity profile of the Group at 31 March 2003 is analysed as follows:

	As at 31 March 2003 HK\$ Million	As at 31 March 2002 HK\$ Million
Repayable within one year or on demand	2,263.4	209.7
Repayable after 1 year, but within 2 years	15.0	1,340.3
Repayable after 2 years, but within 5 years	253.8	193.0
Repayable after 5 years	0.6	1.7
Total	2,532.8	1,744.7

At 31 March 2003, the gearing ratio of the Group, being the proportion of net interest bearing debts to shareholders' equity was 3.84 (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. Subsequent to 31 March 2003, the sale proceeds of stage 1 of PSPS project at Tin Shui Wai in the amount of HK\$1,222 million was received and applied to prepay the PSPS project loan accordingly. The gearing ratio of the Group decreased to approximately 2.14 as at the date of the loan repayment.

Liquidity and Financial Resources | continued

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. With available bank balances and cash, 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 1,750 employees as at 31 March 2003. 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

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 Li Wai Hang, Christina and Dr. Wong Sai Wing, James 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.

Directors' and Chief Executives' Interests in Securities

As at 31 March 2003, 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	316,230,950	10,148,875
Mr. Kwok Yuk Chiu, Clement	2,993,540	—
Madam Li Wai Hang, Christina	10,148,875	316,230,950
Madam Chen Po Sum	825,000	—
Mr. Au Son Yiu	2,300,000	—
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.

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 2003, 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

Save as disclosed in note 25 to the financial statements, 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 2003.

Connected Transaction

On 7 July 2003, 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 People's Republic of China 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.

Major Customers and Suppliers

For the year ended 31 March 2003, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 51% of the Group's total turnover and the turnover attributable to the Group's largest customer accounted for approximately 29% 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 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 2003.

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

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 2003 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\$144,000.

Post Balance Sheet Event

Details of the significant post balance sheet event are set out in note 35 to the financial statements.

Auditors

A resolution will be submitted to the forthcoming 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, 17 July 2003