

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 2004.

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, property development and property investment.

Results and Appropriations

The results of the Group and appropriations of the Company for the year ended 31 March 2004 are set out in the consolidated income statement on page 24.

An interim dividend of HK1.25 cents per share amounting to HK\$9,057,000 was paid to the shareholders of the Company during the year. The Directors now recommend the payment of a final dividend of HK2.65 cents per share amounting to HK\$19,227,000 to the shareholders of the Company whose names appear on the register of members on 31 August 2004.

Financial Summary

A financial summary of the Group is set out on page 71.

Share Capital

Details of the share capital of the Company are set out in note 25 to the financial statements.

Share Option Schemes

Particulars of the share option schemes and a summary of the movements in share options which were granted under the share option scheme of the Company ("Chun Wo Scheme") are set out in note 26 to the financial statements.

The closing price of the Company's shares immediately before the date on which the share options were granted was HK\$0.28. The Directors consider it is not appropriate to disclose the value of options granted during the year, since any valuation of the above options would be subject to a number of assumptions that would be subjective and uncertain.

As at the date of the Directors' Report, the total number of shares available for issue under the Chun Wo Scheme is 57,966,589 shares, representing 8% of the issued share capital of the Company at that date.

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 2004 as set out in note 11 to the financial statements.

During the year, the Group acquired investment properties at a cost of HK\$19,494,000 and revalued all its investment properties at the year end date. The surplus arising on the revaluation amounted to HK\$638,000 and HK\$38,099,000 have been credited directly to the consolidated income statement and the investment property revaluation reserve respectively.

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 2004 are set out in notes 35, 36 and 37 to the financial statements respectively.

Borrowings and Interest Capitalised

Details of the Group's borrowings are set out in notes 22 and 23 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 2004, the total net debts of the Group amounted to HK\$361.6 million, representing total debts of HK\$707.4 million less bank balances and cash of HK\$345.8 million. The debt maturity profile of the Group at 31 March 2004 is analysed as follows:

	As at 31 March 2004 HK\$ Million	As at 31 March 2003 HK\$ Million
Repayable within one year or on demand	284.1	2,263.4
Repayable after 1 year, but within 2 years	357.2	15.0
Repayable after 2 years, but within 5 years	66.1	253.8
Repayable after 5 years	—	0.6
Total	707.4	2,532.8

At 31 March 2004, the gearing ratio of the Group, being the proportion of net interest bearing debts to shareholders' equity was 0.51 (2003: 3.84).

Liquidity and Financial Resources > continued

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 been hedged by any interest rate financial instruments.

The Group’s financial position is sound and strong. With available bank balances and cash at 31 March 2004, 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 1,800 employees at 31 March 2004. Total remuneration of employees for the year ended 31 March 2004 amounted to approximately HK\$372.3 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 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), Mr. Au Son Yiu 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.

Directors and Service Contracts > continued

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 and Short Positions

At 31 March 2004, the interests and short positions of the Directors, Chief Executives and their associates in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name of Director	Number of shares held in the Company (Long Positions)			Percentage of issued share capital of the Company as at 31 March 2004
	Personal interests	Family interests	Total	
Mr. Pang Kam Chun	259,672,950	10,148,875	269,821,825	37.24%
Mr. Kwok Yuk Chiu, Clement	2,993,540	—	2,993,540	0.41%
Madam Li Wai Hang, Christina	10,148,875	259,672,950	269,821,825	37.24%
Madam Chen Po Sum	825,000	—	825,000	0.11%
Mr. Au Son Yiu	866,000	—	866,000	0.12%
Mr. Woo Kam Wai	346,000	—	346,000	0.05%

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.

Directors' and Chief Executives' Interests and Short Positions > continued

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 the subsidiaries held by certain Directors in trust for the Group, at 31 March 2004, none of the Directors, Chief Executives and any of their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

Directors' and Chief Executives' Rights to Acquire Shares or Debentures

Other than the Chun Wo Scheme and Foundations Scheme as set out in note 26 to the financial statements, at no time during the year 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 year.

Substantial Shareholders

Other than the interests of certain Directors disclosed under the heading "Directors' and Chief Executives' Interests and Short Positions" above, as at 31 March 2004, the register required to be kept by the Company under Section 336 of the SFO ("Register of Substantial Shareholders") shows that the following shareholders had notified the Company of their relevant interests in the shares and underlying shares of the Company:

Name	Capacity/ Nature of interest	Number of shares held (Long positions)	Percentage of holding
Cheah Cheng Hye (Note)	Corporate	36,824,000	5.08%
Midland Realty (Holdings) Limited	Beneficial	73,372,000	10.13%
Value Partners Limited	Investment manager	36,824,000	5.08%

Note: Mr. Cheah Cheng Hye is deemed to be interested in the shares through his interests of 31.82% in the issued share capital of Value Partners Limited.

Save as disclosed above, the Register of Substantial Shareholders discloses no other person as having a notifiable interest or a short position in the shares and underlying shares of the Company as at 31 March 2004.

Convertible Securities, Options, Warrants or Similar Rights

Other than the grant of share options during the year disclosed in note 26 to the financial statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 March 2004.

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 2004 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.

Major Customers and Suppliers

For the year ended 31 March 2004, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 65% of the Group's total turnover and the turnover attributable to the Group's largest customer accounted for approximately 25% 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.

Donations

During the year, the Group made charitable and other donations totalling approximately HK\$1,676,000.

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, 19 July 2004