

Interim Report

2004-05



CHUN WO HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

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, 2004, together with the relevant comparative figures, are as follows:

Condensed Consolidated Income Statement

for the six months ended 30th September, 2004

		Unaudited	
		six months ended	
		30th September,	
		2004	2003
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	1,338,513	1,476,474
Cost of sales		(1,274,681)	(1,398,884)
Gross profit		63,832	77,590
Other operating income		22,110	22,704
General and administrative expenses		(59,901)	(61,075)
Profit from operations	3	26,041	39,219
Finance costs	4	(1,352)	(2,439)
Share of results of jointly controlled entities		19,172	6,171
Profit before taxation		43,861	42,951
Taxation	5	(10,318)	(10,845)
Profit before minority interests		33,543	32,106
Minority interests		(88)	5
Profit attributable to shareholders		33,455	32,111
Proposed interim dividend	6	9,238	9,057
Earnings per share – basic	7	4.6 cents	4.4 cents
– diluted		4.5 cents	N/A

Condensed Consolidated Balance Sheet

as at 30th September, 2004 and 31st March, 2004

		Unaudited 30th September, 2004 HK\$'000	Audited 31st March, 2004 HK\$'000
Non-current assets			
Investment properties	8	209,393	231,393
Property, plant and equipment	8	255,347	266,365
Properties under development		147,342	447,307
Interests in associates		122,523	79,742
Interests in jointly controlled entities		54,430	34,746
Investments		2,003	2,003
		<u>791,038</u>	<u>1,061,556</u>
Current assets			
Amounts due from customers for contract work		298,306	258,201
Properties under development		497,948	–
Properties held for sale		9,801	29,687
Debtors, deposits and prepayments	9	584,121	532,896
Amount due from an associate		487	487
Amounts due from jointly controlled entities		40,610	41,828
Investments		9,386	8,047
Taxation recoverable		412	4,526
Pledged bank deposits		14,078	62,964
Bank balances and cash		128,110	282,840
		<u>1,583,259</u>	<u>1,221,476</u>

Condensed Consolidated Balance Sheet (Continued)

as at 30th September, 2004 and 31st March, 2004

		Unaudited	Audited
		30th September,	31st March,
		2004	2004
	<i>Notes</i>	HK\$'000	HK\$'000
Current liabilities			
Amounts due to customers for contract work		243,215	238,331
Creditors and accrued charges	<i>10</i>	591,989	514,011
Amounts due to jointly controlled entities		70,735	78,746
Taxation payable		11,191	5,931
Dividend payable		19,445	–
Obligations under finance leases			
– due within one year		10,432	14,890
Borrowings – due within one year		222,839	269,197
		1,169,846	1,121,106
Net current assets		413,413	100,370
Total assets less current liabilities		1,204,451	1,161,926
Non-current liabilities			
Obligations under finance leases			
– due after one year		4,935	8,285
Borrowings – due after one year		446,763	415,029
Deferred taxation		18,008	22,166
		469,706	445,480
Minority interests		2,875	2,787
Net assets		731,870	713,659
Capital and reserves			
Share capital	<i>11</i>	73,903	72,455
Reserves		657,967	641,204
		731,870	713,659

Condensed Consolidated Statement of Changes in Equity

for the six months ended 30th September, 2004 – unaudited

	Share capital HK\$'000	Share premium HK\$'000	Investment property revaluation reserve HK\$'000	Special reserve HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st April, 2004	72,455	242,572	38,099	(7,340)	8,531	676	358,666	713,659
Issue of shares	1,448	2,753	-	-	-	-	-	4,201
Profit attributable to shareholders for the period	-	-	-	-	-	-	33,455	33,455
2003/2004 proposed final dividend	-	-	-	-	-	-	(19,445)	(19,445)
At 30th September, 2004	<u>73,903</u>	<u>245,325</u>	<u>38,099</u>	<u>(7,340)</u>	<u>8,531</u>	<u>676</u>	<u>372,676</u>	<u>731,870</u>
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>-</u>	<u>(7,340)</u>	<u>8,531</u>	<u>676</u>	<u>328,466</u>	<u>645,360</u>

Condensed Consolidated Cash Flow Statement*for the six months ended 30th September, 2004*

	Unaudited	
	six months ended	
	30th September,	
	2004	2003
	HK\$'000	HK\$'000
Net cash from operating activities	21,532	62,785
Net cash (used in) from investing activities	(150,661)	1,782,557
Net cash used in financing activities	(25,601)	(1,876,482)
Net decrease in cash and cash equivalents	(154,730)	(31,140)
Cash and cash equivalents at beginning of the period	282,840	154,463
Cash and cash equivalents at end of the period	128,110	123,323
Being:		
Bank balances and cash	128,110	123,323

Notes:

1. 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 Institute of Certified Public 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, 2004.

2. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating divisions – construction works, property development and property investment. 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, 2004

	Construction works HK\$'000	Property development HK\$'000	Property investment HK\$'000	Other activities HK\$'000	Consolidated HK\$'000
TURNOVER					
External sales	<u>1,301,845</u>	<u>22,066</u>	<u>14,602</u>	<u>-</u>	<u>1,338,513</u>
RESULT					
Segment result	<u>16,651</u>	<u>670</u>	<u>12,883</u>	<u>270</u>	30,474
Interest income					502
Unallocated corporate expenses					(4,935)
Profit from operations					26,041
Finance costs					(1,352)
Share of results of jointly controlled entities	19,172				19,172
Profit before taxation					43,861
Taxation					(10,318)
Profit before minority interests					33,543
Minority interests					(88)
Profit attributable to shareholders					<u>33,455</u>

2. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

For the six months ended 30th September, 2003

	Construction works HK\$'000	Property development HK\$'000	Property investment HK\$'000	Other activities HK\$'000	Consolidated HK\$'000
	(Note)				
TURNOVER					
External sales	1,474,612	–	1,862	–	1,476,474
RESULT					
Segment result	44,573	(115)	1,777	(2,823)	43,412
Interest income					54
Unallocated corporate expenses					(4,247)
Profit from operations					39,219
Finance costs					(2,439)
Share of results of jointly controlled entities	6,171				6,171
Profit before taxation					42,951
Taxation					(10,845)
Profit before minority interests					32,106
Minority interests					5
Profit attributable to shareholders					32,111

Note : Turnover and segment results derived from the property development project under the Private Sector Participation Scheme in Yuen Long 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,	
	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation and amortisation	19,239	21,760
Less: Amount attributable to contract work	(17,457)	(19,901)
	<u>1,782</u>	<u>1,859</u>

4. FINANCE COSTS

	six months ended 30th September,	
	2004	2003
	HK\$'000	HK\$'000
Interest payable	7,370	20,181
Less: Amount attributable to contract work	(2,870)	(5,015)
Amount attributable to properties under development	(3,148)	(12,727)
	<u>1,352</u>	<u>2,439</u>

5. TAXATION

	six months ended 30th September,	
	2004	2003
	HK\$'000	HK\$'000
The charge comprises:		
Current taxation		
– Hong Kong Profits Tax	10,723	4,990
– Foreign Enterprise Income Tax in the PRC	565	147
	<u>11,288</u>	<u>5,137</u>
Deferred taxation		
– Hong Kong Profits Tax	(4,158)	4,574
	<u>7,130</u>	<u>9,711</u>
Share of taxation attributable to jointly controlled entities		
– Hong Kong Profits Tax	3,188	1,134
	<u>10,318</u>	<u>10,845</u>

Hong Kong Profits Tax is calculated at 17.5% on 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,	
	2004	2003
	HK\$'000	HK\$'000
Proposed interim dividend of HK1.25 cents (2003: HK1.25 cents) per share	<u>9,238</u>	<u>9,057</u>

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	six months ended 30th September,	
	2004	2003
	HK\$'000	HK\$'000
Earnings for the purposes of basic and diluted earnings per share		
– Profit attributable to shareholders	<u>33,455</u>	<u>32,111</u>
	Number of shares	
Weighted average number of shares for the purpose of basic earnings per share	<u>727,922,442</u>	<u>724,545,896</u>
Effect of dilutive potential shares in respect of share options	<u>8,396,006</u>	
Weighted average number of shares for the purpose of diluted earnings per share	<u>736,318,448</u>	

Diluted earnings per share for 2003 has not been presented as there was no dilutive potential ordinary shares outstanding during the period ended 30th September, 2003.

8. INVESTMENT PROPERTIES/PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$Nil (six months ended 30th September, 2003: HK\$19.5 million) and HK\$8.2 million (six months ended 30th September, 2003: HK\$6.8 million) on investment properties and property, plant and equipment respectively.

During the period, an investment property with carrying value of HK\$22.0 million was disposed of and the loss on the disposal amounted to approximately HK\$0.5 million.

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 submitted on a monthly basis and are settled within one month. The ageing analysis of trade debtors of HK\$309,947,000 (at 31st March, 2004: HK\$307,269,000), which are included in the Group's debtors, deposits and prepayments, are as follows:

	As at 30th September, 2004 HK\$'000	As at 31st March, 2003 HK\$'000
Not yet due	301,776	285,552
0 to 30 days	3,914	9,116
31 to 90 days	1,568	10,701
91 to 180 days	781	969
Over 180 days	1,908	931
	<u>309,947</u>	<u>307,269</u>

10. CREDITORS AND ACCRUED CHARGES

The ageing analysis of trade creditors of HK\$408,045,000 (at 31st March, 2004: HK\$337,582,000), which are included in the Group's creditors and accrued charges, are as follows:

	As at 30th September, 2004 HK\$'000	As at 31st March, 2004 HK\$'000
Not yet due	310,256	221,019
0 to 30 days	70,266	84,096
31 to 90 days	9,213	17,304
91 to 180 days	9,622	8,661
Over 180 days	8,688	6,502
	<u>408,045</u>	<u>337,582</u>

11. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Shares of HK\$0.1 each		
Authorised:		
At 1st April, 2004 and 30th September, 2004	1,500,000,000	150,000
Issued and fully paid:		
At 1st April, 2004	724,545,896	72,455
Exercise of share options	14,488,000	1,448
	<u>739,033,896</u>	<u>73,903</u>
At 30th September, 2004	<u>739,033,896</u>	<u>73,903</u>

During the period, 14,488,000 share options under the Chun Wo Scheme were exercised at a subscription price of HK\$0.29 per share resulting in the issue of 14,488,000 ordinary shares of HK\$0.1 each in the Company. All the shares issued during the period rank pari passu with the existing shares in all respects.

12. CAPITAL COMMITMENTS

	As at 30th September, 2004 HK\$'000	As at 31st March, 2004 HK\$'000
Capital expenditure relating to property, plant and equipment contracted for but not provided in the financial statements	<u>3,412</u>	<u>3,424</u>

13. CONTINGENT LIABILITIES

	As at 30th September, 2004 HK\$'000	As at 31st March, 2004 HK\$'000
Indemnities issued to financial institutions for performance bonds in respect of construction contracts undertaken by:		
– subsidiaries	195,244	258,663
– an associate	22,400	22,400
– jointly controlled entities	70,015	84,443
	<u>287,659</u>	<u>365,506</u>
Extent of guarantee issued to a financial institution to secure credit facility granted to:		
– an associate	<u>48,000</u>	<u>48,000</u>
Extent of guarantee issued to a customer to indemnify contract work of a subsidiary	<u>115,900</u>	<u>115,900</u>

14. PLEDGE OF ASSETS

- (a) At 30th September, 2004, the Group's leasehold properties in Hong Kong with carrying values of approximately HK\$29,790,000 (at 31st March, 2004: HK\$30,310,000), bank deposits of HK\$5,845,000 (at 31st March, 2004: HK\$5,851,000), and the benefits under a construction contract have been pledged to banks as securities for credit facilities granted to the Group.
- (b) At 30th September, 2004, all the Group's interests in the properties under development in Hong Kong with carrying values of approximately HK\$619,338,000 (at 31st March, 2004: HK\$447,307,000) and bank deposit of HK\$Nil (at 31st March, 2004: HK\$50,000,000) have been pledged to certain banks as securities for a syndicated bank loan amounting to HK\$700,000,000 (at 31st March, 2004: HK\$700,000,000) granted to a subsidiary.
- (c) At 30th September, 2004, the Group's investment properties with carrying values of approximately HK\$172,000,000 (at 31st March, 2004: HK\$172,000,000) and bank deposit of HK\$8,233,000 (at 31st March, 2004: HK\$7,113,000) have been pledged to certain banks as securities for a bank loan amounting to HK\$95,000,000 (at 31st March, 2004: HK\$95,000,000) granted to a subsidiary.

15. RELATED PARTY TRANSACTIONS

	Notes	Associates		Jointly controlled entities	
		six months ended 30th September,		six months ended 30th September,	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Contract revenue recognised	(a)	-	-	4,977	338
Project management fee received	(a)	-	-	1,095	6,427
Rental income received	(a)	-	-	50	-
Security guard services income received	(a)	-	-	420	1,239

Transactions during the period:

15. RELATED PARTY TRANSACTIONS (Continued)

	As at 30th September, 2004 HK\$'000	As at 31st March, 2004 HK\$'000	As at 30th September, 2004 HK\$'000	As at 31st March, 2004 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>70,015</u>	<u>84,443</u>
Extent of guarantee issued to a financial institution to secure credit facility granted to a related party	<u>48,000</u>	<u>48,000</u>	<u>-</u>	<u>-</u>
Amounts due from related parties:				
Due from associates (b)	79,741	79,741	-	-
Trade balances shown under current assets (c)	<u>487</u>	<u>487</u>	<u>40,610</u>	<u>41,828</u>
	<u>80,228</u>	<u>80,228</u>	<u>40,610</u>	<u>41,828</u>
Amounts due to related parties:				
Trade balances shown under current liabilities (c)	<u>-</u>	<u>-</u>	<u>70,735</u>	<u>78,746</u>

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 HK1.25 cents per share (2003: HK1.25 cents per share) payable to shareholders whose names appear on the Register of Members on 8th February, 2005. Dividend warrants will be despatched to shareholders on or about 18th March, 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 2nd February, 2005 to 8th February, 2005, 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 1st February, 2005.

REVIEW OF OPERATIONS

During the period under review, we saw a sustained recovery of the Hong Kong economy as reflected by a drop in unemployment rate from 7.1% in January 2004 to the latest rate of 6.7%. The optimistic bidding in the Land Sales in October also reflected a bullish demand in the property market. The current fiscal deficit had hampered any drastic relaxation in public expenditure including construction expenditure in the public sector. However, the low level of interest rate shifting investors' interest from deposit into investment mode, on the other hand, had supported among other things a more positive outlook of the economy.

At the time of writing of this report, the Group's estimated value of contracts in hand stands at HK\$8 billion, with about HK\$4.2 billion outstanding.

The Group continued with the construction of various building projects, including the residential developments at Cyberport Phase II and Tai Hang IL8972 in the private sector and various term contracts in waterworks and building works in the public sector. In addition, the specialist project on the Investigation of Sewers & Drains for the Drainage Services Department was progressing ahead of schedule.

The tracklaying works and construction of two Public Transport Exchanges for Ma On Shan Rail were progressing according to plans. The Group's construction works for the Hong Kong Disneyland Resort proceeded smoothly to meet its opening in next September. The tracklaying works for High Speed Rail at Taiwan commenced in September 2003 was nearing completion.

The Group's foundation and electrical and mechanical arms continued to perform well and enhance the Group's capability in providing a one-stop design and build service to clients.

The Group was recently awarded further contracts in the private sector and public sector, including the Sky Plaza and associated SkyPier Automatic People Mover Tunnel, both being joint venture projects, at the Hong Kong International Airport and a term contract in building works with Government.

The Group's security business arm, City Security Company Limited, and property management operation, City Professional Management Limited, continued to provide professional services to the Group's construction sites and other clients' premises.

The Group has been diversifying its business into property development since 1997. The current property development project, "No. 8 Clear Water Bay Road" above Choi Hung MTR Station, was making its way into superstructure construction as planned. The presale of this sophisticated and distinguished development in the district in October had attracted popular attention with a significant portion presold. In addition, after the success of the Zhongshan project completed last year in China, the Group has been exploring further opportunities to extend its property development business in China. The launch of the macro-regulation measures by the Chinese Government since last April provided suitable opportunities. Two new projects at Shijiazhuang and Yixing involving residential and commercial property developments have just been secured by the time of reporting.

OUTLOOK AND PROSPECTS

Notwithstanding the fluctuation of oil prices, mild rising of interest rates in the United States and the macro-regulation measures taken in China, the Government expects to see the targetted annual growth rate of 7.5% this fiscal year. The local economy witnesses a continual recovering trend with deflation gone. The number of tourists visiting Hong Kong this year has struck a record high. The continual increase in number of tourists from overseas including China, the second announcement of the Closer Economic Partnership Arrangement (CEPA) and the need for infrastructures development for 2008 Olympic Games in Beijing and 2010 Expo in Shanghai would altogether create more opportunities for the construction industry in Hong Kong and China.

Regarding the public sector construction, the Government's spending is budgeted at comparable level to last year. The actual capital work expenditure in 2003-04 amounted to HK\$31.4 billion while the estimate in 2004-05 is set at HK\$32.9 billion, indicating a turnaround in new works provided by various Government works departments.

The general expectation of a significant increase in real estates business provides some momentum in building and construction activities. The construction opportunities arise from property development include various private sector development schemes and railway related developments for MTRC Tseung Kwan O Line, KCRC West Rail and Ma On Shan Line.

Future railway trackwork projects include the KCRC Kowloon Southern Link, Northern Link connecting West Rail to Lok Ma Chau and the South Island Line and the West Island Line of MTRC. The Group has also been attempting to extend its specialised tracklaying works business into Asian countries like Thailand, Indonesia and India.

Under the revitalising property market and with the successful presale of the residential units of “No. 8 Clear Water Bay Road”, the Group is putting in place subsequent presale plans for the remaining units. The shopping arcade at “Grandeur Terrace” has been generating a stable revenue to the Group since its opening last year. The commercial properties within “No. 8 Clear Water Bay Road” are planned for completion by the end of 2005. The Group’s financial strength would be increasingly enhanced along subsequent sales of “No. 8 Clear Water Bay Road” and more funds will be available for new investments, including opportunities of property development in Hong Kong and China.

With a more favourable economic environment expected ahead, the Group continues to seek every prudent opportunity in diversifying and enhancing the profitability of its businesses.

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, 2004, the total net debts of the Group amounted to HK\$542.8 million, representing total debts of HK\$685.0 million less bank balances and cash of HK\$142.2 million. The debt maturity profile of the Group at 30th September, 2004 is analysed as follows:

	As at 30th September, 2004 HK\$ Million	As at 31st March, 2004 HK\$ Million
Repayable within one year or on demand	233.3	284.1
Repayable after 1 year, but within 2 years	396.2	357.2
Repayable after 2 years, but within 5 years	55.5	66.1
Total	<u>685.0</u>	<u>707.4</u>

At 30th September, 2004, the gearing ratio of the Group, being the proportion of net interest bearing debts to shareholders' equity was 0.74 (at 31st March, 2004: 0.51).

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 30th September, 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 2,200 employees at 30th September, 2004. Total remuneration of employees for the period ended 30th September, 2004 amounted to approximately HK\$181.3 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 CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at 30th September, 2004, the interests of the Directors, Chief Executives and their associates in the shares and underlying 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 (the "SFO") were as follows :

Name of Director	Number of shares held in the Company (Long Positions)			Percentage of the Company's issued share capital as at 30/9/2004	Outstanding option shares (Note 2)
	Personal interests	Family interests (Note 1)	Total		
Pang Kam Chun	260,572,950	10,148,875	270,721,825	36.63%	732,000
Li Wai Hang, Christina	10,148,875	260,572,950	270,721,825	36.63%	–
Kwok Yuk Chiu, Clement	2,983,540	–	2,983,540	0.40%	7,326,000
Chen Po Sum	825,000	–	825,000	0.11%	732,000
Au Son Yiu	866,000	–	866,000	0.12%	732,000
Woo Kam Wai	346,000	–	346,000	0.05%	732,000
Wong Sai Wing, James	–	–	–	–	732,000

Notes :

1. 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.
2. Details of share options granted to Directors are stated under the heading "Directors' and Chief Executives' Rights to Acquire Shares or Debentures" below.

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, 2004, 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.

Details of the movements in share options granted during the period ended 30th September, 2004 are as follows :

	Date of grant	Exercise price per share HK\$	Exercisable period	Number of option shares			
				Outstanding at 1/4/2004	Granted during the period	Exercised during the period	Outstanding at 30/9/2004
Directors							
Pang Kam Chun	13/8/2004	0.904	21/8/2004 to 12/8/2014	-	732,000	-	732,000
Kwok Yuk Chiu, Clement	13/8/2004	0.904	21/8/2004 to 12/8/2014	-	7,326,000	-	7,326,000
Chen Po Sum	13/8/2004	0.904	21/8/2004 to 12/8/2014	-	732,000	-	732,000
Au Son Yiu	13/8/2004	0.904	21/8/2004 to 12/8/2014	-	732,000	-	732,000
Wong Sai Wing, James	13/8/2004	0.904	21/8/2004 to 12/8/2014	-	732,000	-	732,000
Woo Kam Wai	13/8/2004	0.904	21/8/2004 to 12/8/2014	-	732,000	-	732,000
Employees							
	13/8/2004	0.904	21/8/2004 to 12/8/2014	-	7,326,000	-	7,326,000
	3/9/2004	0.950	4/10/2004 to 30/9/2009	-	11,650,000	-	11,650,000
Consultants							
	24/10/2003	0.290	24/10/2003 to 23/10/2004	14,488,000	-	14,488,000	-
	3/9/2004	0.950	4/10/2004 to 30/9/2009	-	400,000	-	400,000

Notes :

1. The closing prices of the shares of the Company immediately before the options granted on 13th August, 2004 and 3rd September, 2004 were HK\$0.90 and HK\$0.96 respectively.
 2. The weighted average closing price of the shares immediately before the dates of exercise by the consultants was HK\$0.96.
 3. No share options were cancelled or lapsed under the Scheme during the period.
 4. The Directors consider it is not appropriate to disclose the value of options granted during the period, since any valuation of the above options would be subject to a number of assumptions that would be subjective and uncertain.
 5. The financial impact of the share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted during the period. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the outstanding options.
- (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, as at 30th September, 2004, the register required to be kept by the Company under Section 336 of the SFO (“Register of Substantial Shareholders”) shows that the following shareholder had notified the Company of its relevant interests in the shares and underlying shares of the Company :

Name	Capacity	Number of shares held (Long Positions)	Percentage of the Company’s issued share capital as at 30/9/2004
Midland Realty (Holdings) Limited	Beneficial Owner	73,372,000	9.93%

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 30th September, 2004.

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, 2004 is as follows:

	Unaudited proforma combined balance sheet HK\$’000	Group’s attributable interest HK\$’000
Property, plant & equipment	309,434	125,300
Current assets	339,264	201,096
Current liabilities	(285,598)	(148,690)
Non-current liabilities	(307,874)	(123,276)
	<u>55,226</u>	<u>54,430</u>
Capital and reserves	<u>55,226</u>	<u>54,430</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.

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, 2004, in compliance with Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

AUDIT COMMITTEE

The Audit Committee comprises three members, namely, Madam Chen Po Sum, Mr Au Son Yiu and Mr Chan Chiu Ying, all are Independent Non-executive Directors of the Company. 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 Group's unaudited interim financial statements for the six months ended 30th September, 2004.

ACKNOWLEDGEMENT

I would like to extend my profound thanks to the Board, its Management and all our staff for their dedicated hard work. I would also like to thank our shareholders, financiers, business partners and clients for their continuing support.

By Order of the Board
Pang Kam Chun
Chairman

Hong Kong, 15th December, 2004