

# 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 2005.

## 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 2005 are set out in the consolidated income statement on page 27.

An interim dividend of HK1.25 cents per share amounting to HK\$9,307,000 was paid to the shareholders of the Company during the year. The Directors now recommend the payment of a final dividend of HK1.25 cents per share amounting to HK\$9,307,000 to the shareholders of the Company whose names appear on the register of members on 24 August 2005.

## Financial Summary

A financial summary of the Group is set out on page 77.

## Share Capital

Details of movements during the year in 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 the details 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.

## 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 2005 as set out in note 11 to the financial statements.

## 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.

## 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 2005, the total net debts of the Group amounted to HK\$850.6 million, representing total debts of HK\$1,092.8 million less bank balances and cash of HK\$242.2 million. The debt maturity profile of the Group at 31 March 2005 is analysed as follows:

	As at 31 March 2005 HK\$ Million	As at 31 March 2004 HK\$ Million
Repayable within one year or on demand	691.5	284.1
Repayable after 1 year, but within 2 years	36.3	357.2
Repayable after 2 years, but within 5 years	365.0	66.1
Total	<u>1,092.8</u>	<u>707.4</u>

At 31 March 2005, the gearing ratio of the Group, being the proportion of net interest bearing debts to shareholders' equity was 1.12 (2004: 0.51).

The increase in gearing ratio was mainly attributable to drawdown of the bank loans for the acquisition of property development projects in the People's Republic of China.

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 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 2005 and available bank credit facilities, the Group has sufficient liquidity to satisfy its funding requirements.

## 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.

## Subsidiaries, Associates and Jointly Controlled Entities

Particulars of the Company's principal subsidiaries and the Group's principal associates and jointly controlled entities as at 31 March 2005 are set out in notes 36, 37 and 38 to the financial statements respectively.

## Employee and Remuneration Policies

The Group has approximately 1,860 employees at 31 March 2005. Total remuneration of employees for the year ended 31 March 2005 amounted to approximately HK\$430.8 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.

## Major Customers and Suppliers

For the year ended 31 March 2005, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 81% 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\$387,000.

## 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

Mr. Nip Yun Wing (appointed on 15 November 2004)

### Independent Non-executive Directors:

Madam Chen Po Sum

Mr. Au Son Yiu

Dr. Wong Sai Wing, James

Mr. Woo Kam Wai

Mr. Chan Chiu Ying (appointed on 27 September 2004)

In accordance with Bye-laws 86(2), 87 and 169(2), Mr. Chan Chiu Ying, Mr. Nip Yun Wing, Madam Chen Po Sum and Dr. Wong Sai Wing, James will retire at the forthcoming annual general meeting and be eligible for re-election. Mr. Chan Chiu Ying and Mr. Nip Yun Wing will offer themselves for re-election. Madam Chen Po Sum and Dr. Wong Sai Wing, James will not 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.

Mr. Nip Yun Wing has entered into a service contract with the Company for a term of three years commencing from 15 November 2004 and Mr. Nip is subject to retirement by rotation and re-election in accordance with the Bye-laws of the Company. The Company may terminate the service contract by giving not more than twelve months' written notice. If the service contract is to be terminated by the Company in the first two years, Mr. Nip is entitled to a terminal payment of not exceeding HK\$2,266,000.

Save as disclosed above, 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 2005, 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 the Company's issued share capital as at 31 March 2005	Outstanding option shares (Note 2)
	Personal interests	Family interests (Note 1)	Total		
Pang Kam Chun	265,096,950	10,148,875	275,245,825	36.97%	732,000
Li Wai Hang, Christina	10,148,875	265,096,950	275,245,825	36.97%	–
Kwok Yuk Chiu, Clement	2,983,540	–	2,983,540	0.40%	7,326,000
Nip Yun Wing	–	–	–	–	3,200,000
Chen Po Sum	325,000	–	325,000	0.04%	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 the share options granted to the 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 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 2005, 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

Details of the movements in share options granted under the Chun Wo Scheme during the year ended 31 March 2005 are as follows:

	Date of grant	Exercise price per share HK\$	Exercisable period	Number of option shares			
				Outstanding at 1 April 2004	Granted during the year	Exercised during the year	Outstanding at 31 March 2005
<b>Directors</b>							
Pang Kam Chun	13/8/2004	0.904	21/8/2004 – 12/8/2014	–	732,000	–	732,000
Kwok Yuk Chiu, Clement	13/8/2004	0.904	21/8/2004 – 12/8/2014	–	7,326,000	–	7,326,000
Chen Po Sum	13/8/2004	0.904	21/8/2004 – 12/8/2014	–	732,000	–	732,000
Au Son Yiu	13/8/2004	0.904	21/8/2004 – 12/8/2014	–	732,000	–	732,000
Wong Sai Wing, James	13/8/2004	0.904	21/8/2004 – 12/8/2014	–	732,000	–	732,000
Woo Kam Wai	13/8/2004	0.904	21/8/2004 – 12/8/2014	–	732,000	–	732,000
Nip Yun Wing	15/11/2004	1.162	15/11/2004 – 14/11/2009	–	3,200,000	–	3,200,000
<b>Employees</b>							
	13/8/2004	0.904	21/8/2004 – 12/8/2014	–	7,326,000	–	7,326,000
	3/9/2004	0.950	4/10/2004 – 30/9/2009	–	11,650,000	(5,532,000)	6,118,000
<b>Consultants</b>							
	24/10/2003	0.290	24/10/2003 – 23/10/2004	14,488,000	–	(14,488,000)	–
	3/9/2004	0.950	4/10/2004 – 30/9/2009	–	400,000	–	400,000
				<u>14,488,000</u>	<u>33,562,000</u>	<u>(20,020,000)</u>	<u>28,030,000</u>

### Notes:

1. The closing prices of the shares of the Company immediately before the options granted on 13 August 2004, 3 September 2004 and 15 November 2004 were HK\$0.90, HK\$0.96 and HK\$1.16 respectively.
2. The weighted average closing price of the shares immediately before the dates of exercise by the consultants and employees was HK\$1.05.
3. No share options were cancelled or lapsed under the Chun Wo Scheme during the year.
4. 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.
5. As at the date of this Directors' Report, the total number of shares available for issue under the Chun Wo Scheme is 24,884,589 shares, representing 3.34% of the issued share capital of the Company at that date.

Save as disclosed above and other than the Foundations Scheme as set out in note 26, 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 2005, 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 31 March 2005
Midland Realty (Holdings) Limited	Beneficial Owner	52,748,000	7.08%

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 2005.

## Connected Transactions

On 13 August 2004, Chun Wo (China) Limited, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement to dispose of its beneficial interest in Bright Wealth Profits Limited to Prosper Wisdom Developments Limited, a company wholly and beneficially owned by Mr. Pang Kam Chun, a director and shareholder of the Company. The consideration for the disposal is HK\$7,830,000. The gain on disposal is approximately HK\$5,430,000.

On 30 June 2005, Chun Wo Construction and Engineering Company Limited, an indirect wholly-owned subsidiary of the Company, entered into a Sub-contracting Agreement with Kin Wing Engineering Company Limited (the "Sub-contractor"), an associate of Dr. Wong Sai Wing, James, a director of the Company, to sub-contract the mini piling works for construction of lift tower at Lei Cheng UK Estate, Sham Shui Po, Kowloon to the Sub-contractor at a sub-contract sum of HK\$3,090,000.

## Convertible Securities, Options, Warrants or Similar Rights

Other than the grant of share options during the year disclosed under "Share Option Schemes" above and in note 26 to the financial statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 March 2005.

## 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 2005 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 (the "Listing Rules") which was in force prior to 1 January 2005.

During the year, the Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following a specific enquiry by the Company, that they have fully complied with the required standard as set out in the Model Code throughout the year.

The Company has received from each Independent Non-executive Director an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the Independent Non-executive Directors are independent.

## Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this Directors' Report, the Company has maintained sufficient public float as required under the Listing Rules.

## 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, 26 July 2005