

Directors' Report

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 March 2006.

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 DIVIDENDS

The results of the Group for the year ended 31 March 2006 are set out in the consolidated income statement on page 37.

An interim dividend of HK1.00 cent per share amounting to HK\$7,446,000 was paid to the Shareholders during the year under review. The Directors now recommend the payment of a final dividend of HK1.75 cents per share amounting to HK\$13,030,000 to the Shareholders whose names appear on the register of members on 21 September 2006.

FINANCIAL SUMMARY

A financial summary of the Group is set out on page 106.

INVESTMENT PROPERTIES

During the year under review, the Group disposed of certain investment properties with aggregate carrying value of approximately HK\$13.5 million and revalued all of its investment properties at 31 March 2006. The net increase in fair value of approximately HK\$10.1 million has been credited to the consolidated income statement.

Details of these and other movements during the year under review in the investment properties of the Group are set out in note 14 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year under review, the Group acquired property, plant and equipment at a cost of approximately HK\$10 million for the purpose of expanding the Group's business.

Details of these and other movements during the year under review in the property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of share capital of the Company are set out in note 31 to the consolidated financial statements.

BORROWINGS AND INTEREST CAPITALISED

Details of the Group's borrowings are set out in notes 28 and 29 to the consolidated financial statements.

Interest capitalised by the Group during the year under review is set out in note 8 to the consolidated 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 2006 are set out in notes 41, 42 and 43 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to Shareholders as at 31 March 2006 were as follows:

	HK\$'000
Contributed surplus	52,552
Retained earnings	19,559
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	72,111
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Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

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 2006, the total net debts of the Group amounted to approximately HK\$1,000.7 million, representing total debts of approximately HK\$1,340.7 million less bank balances and cash of approximately HK\$340.0 million. The debt maturity profile of the Group at 31 March 2006 is analysed as follows:

	2006 HK\$ million	2005 HK\$ million
Repayable within one year or on demand	894.9	691.5
Repayable after 1 year, but within 2 years	418.1	36.3
Repayable after 2 years, but within 5 years	27.7	365.0
Total	1,340.7	1,092.8

At 31 March 2006, the gearing ratio of the Group, being the proportion of net interest bearing debts to shareholders' equity was 1.26 (2005: 1.14 (restated)).

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 2006 and available bank credit facilities, the Group has sufficient liquidity to satisfy its funding requirements.

EMPLOYEE AND REMUNERATION POLICIES

The Group has approximately 2,240 employees at 31 March 2006. Total remuneration of employees for the year ended 31 March 2006 amounted to approximately HK\$506.9 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.

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 32 to the consolidated financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

A brief biographical details of Directors and senior management are set out on pages 15 to 19.

DIRECTORS AND SERVICE CONTRACTS

The Directors 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

Independent non-executive directors:

Mr. Au Son Yiu	
Mr. Chan Chiu Ying	
Mr. Hui Chiu Chung <i>JP</i>	(appointed on 1 January 2006)
Mr. Lee Shing See <i>GBS, OBE, JP</i>	(appointed on 1 January 2006)
Madam Chen Po Sum	(retired on 24 August 2005)
Dr. Wong Sai Wing, James	(retired on 24 August 2005)
Mr. Woo Kam Wai	(resigned on 1 January 2006)

In accordance with the Company's bye-laws ("Bye-laws") 86(2), 87 and 169(2), Mr. Lee Shing See, Mr. Hui Chiu Chung and Madam Li Wai Hang, Christina will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election. The remaining Directors will continue in office.

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.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' emoluments and the five highest paid individuals in the Group are set out in note 10 to the consolidated financial statements.

EMOLUMENT POLICY FOR DIRECTORS

The Directors are paid fees in line with market practice. The Group adopted the following main principles of determining the Directors' remuneration:

- No individual should determine his or her own remuneration
- Remuneration should be broadly aligned with companies with whom the Group competes for human resources
- Remuneration should reflect performance and responsibility with a view to motivating and retaining high performing individuals and enhancing of the value of the Company to its shareholders

In addition to the basic salaries, a share option scheme is adopted for rewarding and retaining Directors for the continual operation and development of the Group.

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 had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year under review.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2006, the interests and short positions of the Directors, chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("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 contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), 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 2006	Outstanding option shares (Note 2)
	Personal interests	Family interests (Note 1)	Total		
Mr. Pang Kam Chun	265,096,950	10,148,875	275,245,825	36.97%	732,000
Madam Li Wai Hang, Christina	10,148,875	265,096,950	275,245,825	36.97%	–
Mr. Kwok Yuk Chiu, Clement	2,983,540	–	2,983,540	0.40%	7,326,000
Mr. Nip Yun Wing	–	–	–	–	3,200,000
Mr. Au Son Yiu	866,000	–	866,000	0.12%	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 Executive's 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, as at 31 March 2006, none of the Directors, chief executive of the Company 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 EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Details of the movements in share options granted under the Chun Wo Scheme to Directors and chief executive of the Company during the year ended 31 March 2006 are as follows:

Name of Director	Date of grant	Exercise price per share HK\$	Exercisable period	Number of share options				
				Outstanding at 1 April 2005	Transferred from other category during the year	Transferred to other category during the year	Cancelled/ lapsed during the year	Outstanding at 31 March 2006
Mr. Pang Kam Chun	13 August 2004	0.904	21 August 2004 to 12 August 2014	732,000	-	-	-	732,000
Mr. Kwok Yuk Chiu, Clement	13 August 2004	0.904	21 August 2004 to 12 August 2014	7,326,000	-	-	-	7,326,000
Mr. Au Son Yiu	13 August 2004	0.904	21 August 2004 to 12 August 2014	732,000	-	-	-	732,000
Mr. Nip Yun Wing	15 November 2004	1.162	15 November 2004 to 14 November 2009	3,200,000	-	-	-	3,200,000
Madam Chen Po Sum	13 August 2004	0.904	21 August 2004 to 12 August 2014	732,000	-	(732,000)	-	-
Mr. Wong Sai Wing, James	13 August 2004	0.904	21 August 2004 to 12 August 2014	732,000	-	(732,000)	-	-
Mr. Woo Kam Wai	13 August 2004	0.904	21 August 2004 to 12 August 2014	732,000	-	(732,000)	-	-
Others (Note)	13 August 2004	0.904	21 August 2004 to 12 August 2014	-	2,196,000	-	-	2,196,000
				<u>14,186,000</u>	<u>2,196,000</u>	<u>(2,196,000)</u>	<u>-</u>	<u>14,186,000</u>

Note: These outstanding share options were held by the former Independent Non-executive Directors, who had either retired or resigned during the year under review. The Board has approved that these outstanding share options can be exercised on or before 12 August 2014.

As at the date of this Directors' Report, the total number of shares available for issue under the Chun Wo Scheme is 27,550,000 shares, representing 3.70% 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 32, 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 executive 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 executive of the Company 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 under review.

SUBSTANTIAL SHAREHOLDERS

Other than the interests of certain Directors disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, as at 31 March 2006, the register required to be kept by the Company under Section 336 of the SFO ("Register of Substantial Shareholders") shows that the following entity had, or was deemed or taken to have, an interest as a short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange:

Name	Capacity	Number of shares held (Long Position)	Percentage of the Company's issued shares capital as at 31 March 2006
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 interest or a short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange as at 31 March 2006.

CONDITIONAL VOLUNTARY CASH OFFERS

On 22 February 2006, GT Winners Limited (the "Offeror"), a company wholly and beneficially owned by Mr. Pang Kam Chun, chairman and controlling Shareholder of the Company, made the cash offers (the "Offers") to acquire all of the issued shares in the capital of, and for cancellation of all the outstanding options of, the Company (other than those already owned by the Offeror or parties acting in concert with it) at HK\$0.74 per share and HK\$0.001 per option respectively. On 9 May 2006, the Offeror increased the share offer price from HK\$0.74 to HK\$0.84 per share.

The Offers were closed on 12 June 2006. The Offeror received valid acceptances in respect of 121,348,294 shares of the Company under the share offer as revised by the revised offers and 250,000 options under the options offer. As a result, Mr. Pang Kam Chun's interests in the shares of the Company were increased from 36.97% to 53.27%.

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 under review.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this Directors' Report, the Company has maintained sufficient public float throughout the year ended 31 March 2006 as required under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2006, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 96% of the Group's total turnover and the turnover attributable to the Group's largest customer accounted for approximately 49% 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 or suppliers.

DONATIONS

During the year under review, the Group made charitable and other donations totalling approximately HK\$1.4 million.

AUDITORS

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

On behalf of the Board

PANG KAM CHUN

Chairman

Hong Kong, 21 July 2006