



Building Construction

Civil Engineering

Property Development and Management

2006 • **FORWARD**



CHUN WO HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 711

Security and Guarding Services

E & M Installation

Interim Report
2006

Foundation Construction

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Pang Kam Chun (*Chairman*)
Kwok Yuk Chiu, Clement (*Managing Director*)
Li Wai Hang, Christina

Independent Non-executive Directors

Au Son Yiu
Chan Chiu Ying
Lee Shing See
Hui Chiu Chung

AUDIT COMMITTEE

Chan Chiu Ying (*Chairman*)
Au Son Yiu
Hui Chiu Chung

MANAGEMENT COMMITTEE

Pang Kam Chun (*Chairman*)
Kwok Yuk Chiu, Clement
Li Wai Hang, Christina

NOMINATION COMMITTEE

Lee Shing See (*Chairman*)
Au Son Yiu
Kwok Yuk Chiu, Clement

REMUNERATION COMMITTEE

Au Son Yiu (*Chairman*)
Chan Chiu Ying
Kwok Yuk Chiu, Clement

SECRETARY

Chan Sau Mui, Juanna

QUALIFIED ACCOUNTANT

Kwok Man Fai

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai
Banking Corporation Limited
Hang Seng Bank Limited
Bank of China (Hong Kong) Limited

SOLICITORS

Richards Butler
Conyers Dill & Pearman

AUDITORS

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

C2, 5th Floor
Hong Kong Spinners Industrial Building
601-603 Tai Nan West Street
Cheung Sha Wan Road
Kowloon
Hong Kong

PRINCIPAL REGISTRARS

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH REGISTRARS

Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

WEBSITE

<http://www.chunwo.com>

SHARE LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 711

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 (collectively the “Group”) for the six months ended 30th September, 2006, together with the relevant comparative figures, are as follows :

Condensed Consolidated Income Statement

for the six months ended 30th September, 2006

	Notes	Unaudited Six months ended 30th September,	
		2006 HK\$'000	2005 HK\$'000
Turnover	2	2,485,083	1,106,124
Cost of sales		(2,074,126)	(1,029,144)
Gross profit		410,957	76,980
Other income		5,625	1,521
Increase in fair value of investment properties		132,485	–
General and administrative expenses		(61,663)	(49,092)
Finance costs	3	(11,272)	(6,405)
Share of results of jointly controlled entities		18,706	7,715
Profit before taxation	4	494,838	30,719
Taxation	5	(88,041)	(5,305)
Profit for the period		406,797	25,414
Attributable to:			
Equity holders of the parent		407,383	25,517
Minority interests		(586)	(103)
		406,797	25,414
Declared dividends	6	29,783	7,446
Earnings per share – basic	7	54.7 cents	3.4 cents
– diluted		54.7 cents	3.4 cents

Condensed Consolidated Balance Sheet

as at 30th September, 2006 and 31st March, 2006

	Notes	Unaudited 30th September, 2006 HK\$'000	Audited 31st March, 2006 HK\$'000
Non-current assets			
Investment properties		539,270	229,470
Property, plant and equipment	8	172,488	180,698
Prepaid lease payments		28,302	78,917
Properties under development		–	136,659
Interests in associates		38,135	42,783
Interests in jointly controlled entities		106,193	87,487
Available-for-sale investments		–	1,002
Amount due from an associate		75,926	75,926
		960,314	832,942
Current assets			
Amounts due from customers for contract work		534,955	326,602
Debtors, deposits and prepayments	9	645,567	524,293
Properties held for sale		288,238	–
Properties under development		449,675	1,279,012
Prepaid lease payments		683	1,809
Amounts due from associates		1,185	1,182
Amounts due from jointly controlled entities		54,633	38,459
Investments held for trading		18,030	6,333
Taxation recoverable		1,303	935
Pledged bank deposits		12,350	10,252
Bank balances and cash		179,355	329,730
		2,185,974	2,518,607
Current liabilities			
Amounts due to customers for contract work		167,486	236,253
Creditors, deposits and accrued charges	10	522,977	497,779
Deposits received from pre-sales of properties under development		–	376,814
Amounts due to jointly controlled entities		77,033	80,297
Taxation payable		54,768	13,414
Dividend payable		13,030	–
Obligations under finance leases			
– due within one year		1,060	2,187
Borrowings – due within one year		697,256	892,739
		1,533,610	2,099,483
Net current assets		652,364	419,124
Total assets less current liabilities		1,612,678	1,252,066

	Notes	Unaudited 30th September, 2006 HK\$'000	Audited 31st March, 2006 HK\$'000
Non-current liabilities			
Obligations under finance leases			
– due after one year		476	695
Borrowings – due after one year		361,252	445,082
Deferred tax liabilities		52,240	10,547
		413,968	456,324
Net assets		1,198,710	795,742
Capital and reserves			
Share capital	11	74,457	74,457
Reserves		1,123,347	719,809
Equity attributable to equity holders of the parent		1,197,804	794,266
Minority interests		906	1,476
Total equity		1,198,710	795,742

Condensed Consolidated Statement of Changes in Equity

for the six months ended 30th September, 2006 – unaudited

	Attributable to equity holders of the parent							Minority interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000		
At 1st April, 2006	74,457	250,026	(7,340)	8,531	6,635	461,957	794,266	1,476	795,742
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	-	9,185	-	9,185	16	9,201
Profit (loss) for the period	-	-	-	-	-	407,383	407,383	(586)	406,797
Total recognised income and expense for the period	74,457	250,026	(7,340)	8,531	15,820	869,340	1,210,834	906	1,211,740
2005/2006 final dividend	-	-	-	-	-	(13,030)	(13,030)	-	(13,030)
At 30th September, 2006	74,457	250,026	(7,340)	8,531	15,820	856,310	1,197,804	906	1,198,710
At 1st April, 2005	74,457	250,026	(7,340)	8,531	1,272	422,185	749,131	2,722	751,853
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	-	4,785	-	4,785	-	4,785
Profit (loss) for the period	-	-	-	-	-	25,517	25,517	(103)	25,414
Total recognised income and expense for the period	74,457	250,026	(7,340)	8,531	6,057	447,702	779,433	2,619	782,052
2004/2005 final dividend	-	-	-	-	-	(9,307)	(9,307)	-	(9,307)
At 30th September, 2005	74,457	250,026	(7,340)	8,531	6,057	438,395	770,126	2,619	772,745

Condensed Consolidated Cash Flow Statement*for the six months ended 30th September, 2006*

	Unaudited	
	Six months ended	
	30th September,	
	2006	2005
	HK\$'000	HK\$'000
Net cash from operating activities	157,569	178,050
Net cash from (used in) investing activities	4,812	(171,946)
Net cash (used in) from financing activities	(310,645)	67,456
Net (decrease) increase in cash and cash equivalents	(148,264)	73,560
Cash and cash equivalents at beginning of the period	329,730	203,455
Effect of foreign exchange rate changes	(2,111)	266
Cash and cash equivalents at end of the period, represented by bank balances and cash	179,355	277,281

Notes:

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting".

The condensed financial statements have been prepared on the historical cost basis except for certain investment properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st March, 2006 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations of Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for accounting periods beginning on or after 1st December, 2005* or 1st January, 2006** or 1st March, 2006***.

HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures**
HKAS 21 (Amendment)	Net investment in a foreign operation**
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions**
HKAS 39 (Amendment)	The fair value option**
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts**
HKFRS 6	Exploration for and evaluation of mineral resources**
HK (IFRIC) – INT 4	Determining whether an arrangement contains a lease**
HK (IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds**
HK (IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment*
HK (IFRIC) – INT 7	Applying the restatement approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies"****

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods have been prepared and presented:

Financial guarantee contracts

In the current period, the Group has applied HKAS 39 and HKFRS 4 (Amendments) "Financial guarantee contracts" which is effective for annual periods beginning on or after 1st January, 2006.

A financial guarantee contract is defined by HKAS 39 "Financial Instruments: Recognition and Measurement" as "a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument".

The Group acts as the issuer of the financial guarantee contracts

Prior to 1st January, 2006, financial guarantee contracts were not accounted for in accordance with HKAS 39 and those contracts were disclosed as contingent liabilities. A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount can be estimated realisably.

Upon the application of these amendments, a financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

The Group has applied HKAS 39 in relation to a financial guarantee issued to a financial institution over a credit facility granted to an associate. The adoption of HKAS 39 and HKFRS 4 (Amendment) had no material effect on the results for the current or prior accounting periods prepared and presented. Accordingly, no prior period adjustment has been required.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

Fair value option

In the current period, the Group has applied HKAS 39 (Amendment) "The fair value option" which is effective for annual periods beginning on or after 1st January, 2006. Prior to 1st January, 2006, the Group designated certain financial instruments as at fair value through profit or loss.

Financial assets previously designated as at fair value through profit or loss reclassified as available-for-sale investments

The amendment permits designating a financial asset or financial liability as at fair value through profit or loss when certain conditions are met. Upon the application of this amendment, the Group identifies that no equity instrument previously classified as at fair value through profit or loss needs to be reclassified as available-for-sale owing to the failure to meet the conditions. The application of this amendment has had no material effect on the results for the current and prior periods, and no adjustment has been made.

Potential impacts arising on the new standard, amendment or interpretations not yet effective

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company are in the process of making an assessment of the potential impact of these standard, amendment and interpretations, and so far anticipate that the application of these new standard, amendment or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK (IFRIC) – INT 8	Scope of HKFRS 2 ²
HK (IFRIC) – INT 9	Reassessment of Embedded Derivatives ³
HK (IFRIC) – INT 10	Interim Financial Reporting and Impairment ⁴

¹ Effective for annual periods beginning on or after 1st January, 2007

² Effective for annual periods beginning on or after 1st May, 2006

³ Effective for annual periods beginning on or after 1st June, 2006

⁴ Effective for annual periods beginning on or after 1st November, 2006

2 SEGMENT INFORMATION

Business segments

For management purposes, the Group redesignated its business segments into four operating divisions – construction works, property development, property investment and professional services. 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, 2006

	Construction works HK\$'000	Property development HK\$'000	Property investment HK\$'000	Professional services HK\$'000	Other activities HK\$'000	Consolidated HK\$'000
TURNOVER						
External sales	1,439,698	983,580	13,569	48,211	25	2,485,083
RESULT						
Segment result	5,794	347,013	139,320	2,684	(396)	494,415
Interest income						847
Unallocated corporate expenses						(7,858)
Finance costs						(11,272)
Share of results of jointly controlled entities	18,706					18,706
Profit before taxation						494,838
Taxation						(88,041)
Profit for the period						406,797

2 SEGMENT INFORMATION (Continued)

For the six months ended 30th September, 2005

	Construction works HK\$'000	Property development HK\$'000	Property investment HK\$'000	Professional services HK\$'000	Other activities HK\$'000	Consolidated HK\$'000
TURNOVER						
External sales	1,069,370	–	12,555	23,926	273	1,106,124
RESULT						
Segment result	24,611	(8)	9,602	1,199	(289)	35,115
Interest income						354
Unallocated corporate expenses						(6,060)
Finance costs						(6,405)
Share of results of jointly controlled entities	7,715					7,715
Profit before taxation						30,719
Taxation						(5,305)
Profit for the period						25,414

3 FINANCE COSTS

	Six months ended 30th September,	
	2006 HK\$'000	2005 HK\$'000
Interest payable	29,767	23,785
Less: Amount attributable to contract work	(8,000)	(3,766)
Amount attributable to properties under development	(10,495)	(13,614)
	11,272	6,405

4 PROFIT BEFORE TAXATION

	Six months ended 30th September,	
	2006 HK\$'000	2005 HK\$'000
Profit before taxation has been arrived at after charging:		
Depreciation and amortisation	14,300	20,728
Less: Amount attributable to contract work	(12,471)	(14,518)
Amount attributable to properties under development	–	(4,492)
	1,829	1,718

5 TAXATION

	Six months ended 30th September,	
	2006 HK\$'000	2005 HK\$'000
The charge comprises:		
Current taxation		
– Hong Kong Profits Tax	46,268	2,163
– Foreign Enterprise Income Tax in the People's Republic of China (the "PRC")	80	116
	46,348	2,279
Deferred taxation		
– Hong Kong Profits Tax	41,693	3,026
	88,041	5,305

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 DECLARED DIVIDENDS

	Six months ended 30th September,	
	2006 HK\$'000	2005 HK\$'000
Final dividend		
Final dividend in respect of 2006 of HK1.75 cents (2005: HK1.25 cents) per share	13,030	9,307
Dividend declared		
Interim dividend declared after the balance sheet date of HK1.25 cents (2005: HK1 cent) per share	9,307	7,446
Special dividend declared after the balance sheet date of HK2.75 cents (2005: Nil) per share	20,476	–
	29,783	7,446

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,	
	2006 HK\$'000	2005 HK\$'000
Earnings for the purposes of basic and diluted earnings per share – Profit attributable to the equity holders of the parent	407,383	25,517
	Number of shares	
Weighted average number of shares for the purpose of basic earnings per share	744,565,896	744,565,896
Effect of dilutive potential shares in respect of share options (note)	–	–
Weighted average number of shares for the purpose of diluted earnings per share	744,565,896	744,565,896

Note: The computation of diluted earnings per share for both periods did not assume the exercise of the outstanding share options as the exercise prices of the Company's outstanding share options were higher than the average market price for the shares in both periods.

8 PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$7.8 million (six months ended 30th September, 2005: HK\$2.6 million) on property, plant and equipment.

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\$315,483,000 (at 31st March, 2006: HK\$240,070,000), which are included in the Group's debtors, deposits and prepayments, are as follows:

	At 30th September, 2006 HK\$'000	At 31st March, 2006 HK\$'000
Not yet due	301,697	234,466
0 to 30 days	4,373	4,518
31 to 90 days	4,583	888
91 to 180 days	4,717	198
Over 180 days	113	–
	315,483	240,070

10 CREDITORS, DEPOSITS AND ACCRUED CHARGES

The ageing analysis of trade creditors of HK\$389,148,000 (at 31st March, 2006: HK\$382,194,000), which are included in the Group's creditors, deposits and accrued charges, are as follows:

	At 30th September, 2006 HK\$'000	At 31st March, 2006 HK\$'000
Not yet due	284,100	292,640
0 to 30 days	81,834	57,649
31 to 90 days	10,555	23,646
91 to 180 days	6,222	3,412
Over 180 days	6,437	4,847
	389,148	382,194

11 SHARE CAPITAL

	Numbers of shares	Amount HK\$'000
Shares of HK\$0.1 each		
Authorised:		
At 1st April, 2006 and 30th September, 2006	1,500,000,000	150,000
Issued and fully paid:		
At 1st April, 2006 and 30th September, 2006	744,565,896	74,457

12 CAPITAL COMMITMENTS

	At 30th September, 2006 HK\$'000	At 31st March, 2006 HK\$'000
Capital expenditure relating to property, plant and equipment contracted for but not provided in the financial statements	–	1,000

13 CONTINGENT LIABILITIES

	At 30th September, 2006 HK\$'000	At 31st March, 2006 HK\$'000
Indemnities issued to financial institutions for performance bonds in respect of construction contracts undertaken by:		
– subsidiaries	394,374	348,908
– an associate	22,400	22,400
– jointly controlled entities	14,175	26,817
	430,949	398,125
Extent of guarantee issued to a financial institution to secure a credit facility granted to an associate	48,000	48,000
Extent of guarantee issued to a customer to indemnify contract work of a subsidiary	115,900	115,900

14 PLEDGE OF ASSETS

- (a) At 30th September, 2006, the Group's leasehold land and buildings in Hong Kong with carrying values of HK\$14,251,000 (at 31st March, 2006: HK\$14,535,000) have been pledged to banks as securities for credit facilities granted to the Group.
- (b) At 30th September, 2006, all the Group's interests in the properties held for sale/properties under development in Hong Kong with carrying values of HK\$288,238,000 (at 31st March, 2006: HK\$1,068,516,000), the Group's investment properties with carrying values of HK\$335,000,000 (31st March, 2006: Nil) and bank deposit of HK\$6,143,000 (at 31st March, 2006: HK\$3,349,000) have been pledged to certain banks as securities for bank loans amounting to HK\$600,000,000 (at 31st March, 2006: HK\$1,300,000,000) granted to subsidiaries.
- (c) At 30th September 2006, the Group's investment properties with carrying values of HK\$180,000,000 (at 31st March, 2006: HK\$180,000,000) and bank deposit of HK\$6,207,000 (at 31st March, 2006: HK\$6,903,000) have been pledged to certain banks as securities for a bank loan amounting to HK\$95,000,000 (at 31st March, 2006: HK\$95,000,000) granted to a subsidiary.

15 RELATED PARTY TRANSACTIONS

	Notes	Associates Six months ended 30th September,		Jointly controlled entities Six months ended 30th September,	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Transactions during the period:					
Contract revenue recognised	(a)	–	–	26,875	170,586
Project management fee received	(a)	–	–	1,026	2,838
Rental income received	(a)	–	–	930	–
Security guard services income received	(a)	–	–	546	2,171

15 RELATED PARTY TRANSACTIONS (Continued)

Notes	At 30th September, 2006 HK\$'000	At 31st March, 2006 HK\$'000	At 30th September, 2006 HK\$'000	At 31st March, 2006 HK\$'000
Indemnities issued to financial institutions for performance bonds in respect of construction contracts undertaken by related parties	22,400	22,400	14,175	26,817
Extent of guarantee issued to a financial institution to secure a credit facility granted to a related party	48,000	48,000	–	–
Amounts due from related parties:				
Due from associates (b)	75,926	75,926	–	–
Trade balances shown under current assets (c)	1,185	1,182	54,633	38,459
	77,111	77,108	54,633	38,459
Amounts due to related parties:				
Trade balances shown under current liabilities (c)	–	–	77,033	80,297

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.

In addition to the above, the Group paid remuneration of HK\$4,846,000 (six months ended 30th September, 2005: HK\$4,544,000) to the key management personnel of the Group during the period.

16 COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform with the presentation of current period.

INTERIM AND SPECIAL DIVIDENDS

The Board has declared an interim dividend of HK1.25 cents per share (2005: HK1 cent) and a special dividend of HK2.75 cents per share for the six months ended 30th September, 2006, which is payable to shareholders of the Company (the “Shareholders”) whose names appear on the Registers of Members of the Company on 30th January, 2007, with a scrip alternative to offer the right to Shareholders to elect to receive such interim and special dividends wholly or partly by allotment of new shares credited as fully paid in lieu of cash (the “Scrip Dividend Scheme”).

The Scrip Dividend Scheme is conditional upon (a) the issue price of a new share to be issued pursuant thereto being not less than the nominal value of a share of the Company; and (b) the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) of the listing and permission to deal in the new shares to be issued pursuant thereto. The issue price of the new shares to be issued under the Scrip Dividend Scheme will be fixed with reference to the average closing price of the shares of the Company quoted on the Stock Exchange for five consecutive trading days to be determined by the Directors. A circular containing details of the Scrip Dividend Scheme together with the relevant election form, where applicable, will be sent to each Shareholder in due course. Dividend warrants and/or new share certificates will be dispatched to Shareholders on or about 16th March, 2007.

PROPOSED BONUS WARRANT ISSUE

The Directors also proposed an issue of bonus warrants (“Bonus Warrant Issue”) on the basis of one warrant for every five shares held by Shareholders whose names appear on the Register of Members on 30th January, 2007. The final terms of the Bonus Warrant Issue, which shall be issued subject to the compliance of the relevant rules and regulations of the Stock Exchange, have not yet been finalized. A further announcement will be made once such terms are finalized. A circular will also be sent to the Shareholders as soon as practicable.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 24th January, 2007 to 30th January, 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the aforesaid interim and special dividends 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 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 23rd January, 2007.

BUSINESS REVIEW

During the period under review, the unemployment rate in Hong Kong has declined from a peak of 8.2% in 2003 to 4.7%. Backed up by this improving labour market and the stabilised interest rate, there was a general positive sentiment in the local economy. The gross value of construction work carried out by main contractors had increased slightly in the second quarter of 2006. Property market in Hong Kong had been slow in the first quarter of the period under review but had improved in the second quarter of the period under review. There was dynamic economic growth in Macau which had provided many prospects in both property development and construction sectors. In Mainland China, we also saw marked economic growth supported by both investment and consumption. This strong economic growth had given ample opportunities in both the property and construction markets in Mainland China.

Turnover of the Group for the six months ended 30th September, 2006 was approximately HK\$2,485.1 million (2005: approximately HK\$1,106.1 million), an increase of 124.7% as compared to the corresponding period last year. Profit attributable to shareholders was approximately HK\$407.4 million (2005: approximately HK\$25.5 million), representing an increase of 1,496.5% year-on-year. The significant increase of turnover and profit was mainly attributed to the sales of the residential units of its property development project “No. 8 Clear Water Bay Road”. At as 30th September, 2006, the Group’s estimated value of contracts in hand amounted to approximately HK\$7.5 billion, with about HK\$3.2 billion outstanding.

Construction

The Group had structured its focus on the construction of selective projects during the period under review.

For building construction projects, the construction of the prestigious “SkyPlaza” project was approaching occupation permit inspection stage. The construction for the superstructure of “The Legend” and the detached houses at Shouson Hill Road were substantially completed and were also prepared for occupation permit inspections in November 2006. The fitting out work for the Club House and Entrance Lobby for “The Legend” was on track. The projects in Mainland China and Macau were also progressing well. The Group was awarded a building project by the Housing Authority during the period under review.

BUSINESS REVIEW *(Continued)*

Construction *(Continued)*

For civil work projects, tracklaying works for Kowloon Canton Railway Corporation (“KCRC”) Lok Ma Chau Spur Line was substantially completed while the project for the permanent way for KCRC Kowloon Southern Link had commenced and was in smooth progress. The construction works of two projects at San Tin Interchange and Castle Peak Road from Highways Department were both progressing well. The construction work of the South Cargo Apron Extension Work project from Hong Kong Airport Authority was progressing according to schedule.

For term projects, the two term contracts with Architectural Services Department were in line with progress. Subsequent to the completion of a term contract with Water Supplies Department, the Group was awarded another new contract in the period under review.

The Group’s foundation subsidiary continued to provide foundation support to the Group’s construction projects and to procure external construction projects in a main contractor role. The piling work for Tin Shui Wai Area 104 for Housing Authority was substantially completed and the construction of the pile cap would commence in November 2006. The foundation work for “City of Dreams” at Macau was in smooth progress. The foundation and basement work for the residential tower of the luxurious project at Ho Chi Minh City, Vietnam had been substantially completed. Further foundation contracts awarded during the period under review included a local piling and slope stabilisation project at Conduit Road, and an additional parcel of work was provided by “City of Dreams” at Macau.

Other than supporting the Group’s electrical and mechanical (“E&M”) works, the Group’s E&M subsidiary continued to provide E&M installation services to both Government departments and private sector clients. The Group had obtained new E&M projects directly from the public and private sectors during the period under review, a notable one being the seawater system enhancement works for Hong Kong Airport Authority.

Property Development and Property Investment

The Group had sold a substantial number of residential units of its property development project, “No. 8 Clear Water Bay Road”. Due to the limited supply in high end residential properties in the district, the Group had plans to upgrade the remaining premium units on top floors.

BUSINESS REVIEW *(Continued)*

Property Development and Property Investment *(Continued)*

The Group's property development projects at Shijiazhuang and Yangzhou, Mainland China were progressing as planned. There were presale plans for the residential-cum-commercial developments at Shijiazhuang and Yangzhou in 2006 and 2007 respectively. The construction works for both development projects were progressing on track. The Group continued to explore property development opportunities in other areas of Mainland China. The joint venture project in Ho Chi Minh City, Vietnam was on schedule and the Group remained positive on the prospect on its future presales.

The Group's rental properties at "Grandeur Terrance" in Tin Shui Wai, "Infinity 8" in Choi Hung and those in Zhongshan, Mainland China continued to generate recurring rental income for the Group.

Professional Services

Following the Group's diversification strategy, the Group's non-construction businesses, namely the security and property management subsidiaries continued to develop their professional businesses by offering high standard services to the Group's various construction projects as well as to other clients.

Awards and Recognition

Various quality and safety awards had been attained in the period under review. For example: 14 Gold Awards in Business Performance Index from Hong Kong Quality Assurance Agency's Business Performance Index (BPI) Assessment, 10 awards from the Construction Safety Promotional Campaign 2006 and 10 awards from the Hong Kong Occupational Safety and Health Award 2006.

Corporate Social Responsibilities

In its continual assumption of social responsibilities, the Group has been participating in activities like sponsorship for 2009 East Asian Games, land development project for The Salvation Army Shek Wo School, donation to Youth Outreach to support their work.

The Group's volunteer team continued to organise a joint programme with the Tung Wah Group of Hospitals in rendering regular volunteer services in maintenance work and caring to the seniors.

Recently the Group has assisted in setting up Chun Wo Charitable Foundation Limited for the promotion and support to community services, education and training, health care services, sports, culture and recreation, environmental and charitable activities for the betterment of the society in Hong Kong.

OUTLOOK AND PROSPECTS

In view of the leveled-out interest rate since August 2006 together with the momentum in this robust Chinese economy coupled with the implementation of Closer Economic Partnership Arrangement and Qualified Domestic Institutional Investor, a continual growth in the Hong Kong economy is anticipated.

Large scale construction opportunities arise as people continue to demand a more convenient transportation network. Potential railway projects include, KCRC Northern Link, MTR South Hong Kong Island Line, West Hong Kong Island Line and other railway infrastructure projects; other infrastructure projects include Container Terminal 10 and cruise terminal for the Kai Tai Airport Development. Civil projects include landslip preventive measures, roads and drainage improvement projects. Other construction opportunities will arise from Public Private Partnership (PPP) approach for projects like water and sewage treatment, solid waste management facilities, recreational and cultural projects. The Hong Kong Government's proposed Mandatory Building Inspection Scheme provides additional opportunities in minor works sector for the construction industry. There are more than 8 hectares KCRC property sites at planning stage. These will give various opportunities for large-scale building projects which will help to provide further momentum on growth in the construction industry. The Group continues with its plan to pursue for selective and prestigious construction projects.

Furthermore, the Group continues to seek opportunities for its involvement in railway and transportation infrastructure development in South East Asia. Macau continues to offer construction opportunities in the extensive building of casinos, hotel infrastructure and residential properties. The Group will bid for further works there following the Group's involvement in the Venetian Macau complex.

The property market in Hong Kong should remain stable as steady interest rate together with the increase in household incomes support demand in the property market. In Macau, positive development prospects are driven by its strong economic growth backed up by the flourishing entertainment industry. Following the implementation of the macro-regulation measures in Mainland China, a stable and healthy property market is expected in the long run. An overall economic growth leading to a general positive sentiment in the South East Asian region is expected.

The Group has positioned its resources in property development to form strategic plans for the sale of the remaining premium units at "No. 8 Clear Water Bay Road" and the rental of the shops at "Infinity 8". The Group plans to place the Shijiazhuang project in the high end property market which, in stages, will provide progressive income for the Group. The Group is also seeking cautiously for investment opportunities in both Hong Kong and Mainland China.

The Group continues to put its efforts in exploring every diversification opportunity to strive for a better overall result.

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, 2006, the total net debts of the Group amounted to HK\$868.3 million, representing total debts of HK\$1,060.0 million less bank balances and cash of HK\$191.7 million. The debt maturity profile of the Group at 30th September, 2006 is analysed as follows:

	As at 30th September, 2006 HK\$ Million	As at 31st March, 2006 HK\$ Million
Repayable within one year or on demand	698.3	894.9
Repayable after 1 year, but within 2 years	342.6	418.1
Repayable after 2 years, but within 5 years	19.1	27.7
Total	1,060.0	1,340.7

At 30th September, 2006, the gearing ratio of the Group, being the proportion of net interest bearing debts to shareholders' equity was 0.73 (at 31st March, 2006: 1.26).

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 30th September, 2006 and available bank credit facilities, the Group has sufficient liquidity to satisfy its funding requirements.

EMPLOYEE AND REMUNERATION POLICIES

The Group has approximately 2,670 employees at 30th September, 2006. Total remuneration of employees for the period ended 30th September, 2006 amounted to approximately HK\$269.9 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

- (a) The Company had 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 under review are as follows:

Eligible participants	Date of grant	Exercise price per option HK\$	Exercise period	Number of share options			
				Outstanding at 1/4/2006	Cancelled during the period	Lapsed during the period	Outstanding at 30/9/2006
				'000	'000	'000	'000
Directors							
Mr. Pang Kam Chun	13/8/2004	0.904	21/8/2004 to 12/8/2014	732	—	—	732
Mr. Kwok Yuk Chiu, Clement	13/8/2004	0.904	21/8/2004 to 12/8/2014	7,326	—	—	7,326
Mr. Au Son Yiu	13/8/2004	0.904	21/8/2004 to 12/8/2014	732	—	—	732
Mr. Nip Yun Wing (Note 1)	15/11/2004	1.162	15/11/2004 to 14/11/2009	3,200	—	—	3,200
Employees							
	13/8/2004	0.904	21/8/2004 to 12/8/2014	7,326	—	—	7,326
	3/9/2004	0.950	4/10/2004 to 30/9/2009	5,638	(250)	(1,710)	3,678
Consultants							
	3/9/2004	0.950	4/10/2004 to 30/9/2009	400	—	—	400
Others							
(Note 2)	13/8/2004	0.904	21/8/2004 to 12/8/2014	2,196	—	—	2,196
				27,550	(250)	(1,710)	25,590

SHARE OPTION SCHEMES *(Continued)*

Notes:

1. Mr. Nip Yun Wing had resigned as an executive Director of the Company with effect from 1st August, 2006. The share options held by him would be lapsed after the end of October 2006 according to the terms of the Scheme.
 2. These outstanding share options were held by former independent Non-executive Directors. The Board has approved that these outstanding share options can be exercised on or before 12th August, 2014.
 3. All share options referred to above are not subject to any vesting period.
 4. No share options were granted or exercised under the Scheme during the period under review.
- (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 under review 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 period under review.

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

As at 30th September, 2006, the interests of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 (the "Model Code") 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 30/9/2006	Outstanding option shares as at 30/9/2006 (Note 1)
	Personal Interests	Family Interests	Corporate Interests	Total		
Mr. Pang Kam Chun	265,096,950	10,148,875 (Note 2)	121,348,294 (Note 3)	396,594,119	53.27%	732,000
Madam Li Wai Hang, Christina	10,148,875	265,096,950 (Note 2)	—	275,245,825	36.97%	—
Mr. Kwok Yuk Chiu, Clement	—	—	—	—	—	7,326,000
Mr. Au Son Yiu	866,000	—	—	866,000	0.12%	732,000

Notes:

1. Details of share options granted to Directors are stated under the heading "Share Option Schemes" above.
2. Madam Li Wai Hang, Christina is the spouse of Mr. Pang Kam Chun ("Mr. Pang") and is deemed to be interested in those shares of the Company in which Mr. Pang has an interest. Similarly, Mr. Pang is also deemed to be interested in those shares of the Company in which Madam Li Wai Hang, Christina has an interest.
3. Mr. Pang is deemed to have a corporate interest in those shares of the Company by virtue of his 100% interest in GT Winners Limited.

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

(Continued)

In addition, Mr. Pang 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, as at 30th September, 2006, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far as are known to the Directors, as at 30th September, 2006, the following parties (other than Directors' and chief executive of the Company) were recorded in the register kept by the Company under Section 336 of the SFO ("Register of Substantial Shareholders") as being interested in or deemed to be interested in 5% or more of the issued share capital of the Company:

Shareholders	Capacity	Number of shares held (Long Positions)	Percentage of the Company's issued share capital as at 30/9/2006
GT Winners Limited	Beneficial Owner	121,348,294	16.30%
Midland Realty (Holdings) Limited	Beneficial Owner	52,748,000	7.08%

Save as disclosed above, as at 30th September, 2006, the Register of Substantial Shareholders discloses no other party (other than Directors or chief executive of the Company) as being interested or deemed to be interested in 5% or more of the issued share capital of the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the period under review.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions in effect and certain recommended best practices set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules throughout the period under review except for the deviations from the provision A.4.2 of the Code.

Pursuant to provision A.4.2 of the Code, every Director should be subject to retirement by rotation at least once every three years. Relevant amendment to the Bye-laws of the Company had been proposed and was approved by Shareholders at the annual general meeting of the Company held on 21st September, 2006 in order to comply with provision A.4.2 of the Code, save as the Chairman and the Managing Director shall not be subject to retirement by rotation. The Board considers that the Chairman and the Managing Director are not subject to retirement by rotation in order to maintain the stability and continuity.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code 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 set out in the Model Code throughout the period under review.

AUDIT COMMITTEE REVIEW

The Audit Committee of the Company (the "Audit Committee") comprises three members, namely Mr. Au Son Yiu, Mr. Chan Chiu Ying and Mr. Hui Chiu Chung, all are Independent Non-executive Directors of the Company. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim financial statements of the Group for the six months ended 30th September, 2006.

ACKNOWLEDGEMENT

I would like to thank the Board, our Management for their guidance and all our staff for their dedication and hard work. I would also like to thank our Shareholders, financiers, business partners and clients for their valuable support.

By Order of the Board
Pang Kam Chun
Chairman

Hong Kong, 15th December, 2006