CHAIRMAN'S STATEMENT

At 18A La Salle Road, Kowloon Tong, Hong Kong

Dr. M.T. Geoffrey YEH, *Chairman of the Group*

BUSINESS OF THE GROUP

Founded in 1939, Hsin Chong Construction Group Ltd. (the "Company", together with its subsidiaries, the "Group") is primarily engaged in construction work in Hong Kong, the People's Republic of China (the "PRC") and Southeast Asia in both the private and public sectors. Listed in 1991, your Group has participated and benefited from Hong Kong's growth and dynamism. Being one of the few vertically-integrated construction companies in Hong Kong, your Group is able to perform a wide range of construction services including a) piling and foundation work; b) superstructure construction; c) civil engineering work; d) electrical and mechanical installation; and e) renovation and fitting-out work. The Group's competence is manifested in its profitability record over 60 years and having completed over 600 projects.

Having obtained a Qualification Permit in the PRC, your Group can undertake construction works within its realm of competence at Guangdong Province and Tianjin. A Qualification Permit is a form of qualification required to be obtained by a foreign contractor from the PRC Ministry of Construction and/or the relevant local construction commission before it can contract for construction projects in the PRC as a contractor. With the advent of PRC's entry into the World Trade Organisation, your Group will position itself for new opportunities as the market develops.

CORPORATE FOCUS

Strategy — The Board believes that management should always concentrate their efforts on the Group's core businesses — construction and construction related businesses — areas in which the Group has significant comparative advantage and goodwill due to its focus on "**Quality & Service**" and positive track record over the last six decades. Its involvement in construction related businesses, such as mechanical and engineering services and real estate development, are limited to those which complement its construction activities and, equally importantly, which are independently financially attractive.

The Board believes that your Group's two-prong operational strategy of focusing on a) value added work and b) structuring contractual terms more creatively, maximises benefits to your Group and its clients. The Group remains focused on institutional and quality conscious clients which generally are willing to pay a premium on quality and timeliness of work.

Execution — Cost control is closely monitored with mitigation of labour cost inflation and material price fluctuation as priorities. Efforts are also made to obtain management fee contracts and cost-plus construction contracts, both of which have lower operating risks.

Your Group's vertical integration and range of competence permit it to compete for a very broad spectrum of projects. Though this has the onus of higher overhead associated with more qualified personnel, it is countered by our flexibility in targeting cyclical opportunities and market niches. The composition of contracts, whether by client type or product mix, is therefore not indicative of any long-term focus but a judgement of the optimum mix under current conditions.

Strategically, a certain proportion of your Group's operations has been structured as joint venture. With joint ventures, your Group can grow its core businesses by partnering with companies with complementary areas of expertise and quickly expand into new construction or construction-related fields while minimising risks and costly outlays. Though as associates, the Group cannot account for its share of turnover and outstanding contracts, the underlying economic benefits are no less.

Investor Relations — Your Group's Board and its management are appreciative of shareholders' support and will continue to maximise shareholder value whilst focusing on its core businesses. Efforts taken to date include a) improving corporate transparency by being the first listed company on The Stock Exchange of Hong Kong Limited (the

"Stock Exchange") to publish consolidated balance sheet and consolidated cash flow statement in conjunction with the announcement of interim and final results; b) improving shareholder communication by being the first company listed on the Stock Exchange to issue quarterly trading statements; c) closely aligning the remuneration package of executive directors to the Group's operating results; and d) in the first quarter of 2000, adopting a five-year vision and related goals and targets to provide all employees, shareholders, stakeholders and the investing public with a clear strategic direction of the Group.

OPERATING RESULTS

For the year ended 31st March, 2001, your Group's core businesses remained profitable. Net profit and earnings per share for the financial year ended 31st March, 2001 after tax and minority interests are HK$25.3 million and HK3.9 cents respectively (2000: HK$44.3 million and HK6.6 cents respectively).

Operating profit after finance costs decreased by 39.9% to HK$35.2 million while consolidated turnover increased by 7.1% to HK$3,109.6 million. The decrease of HK$23.4 million in operating profit after finance cost is due principally to poor results of the piling and foundation segment, which incurred a loss of HK$73.9 million in the year. In the property development business, a provision of HK$26.8 million was made for impairment in value of the Guangzhou Wen Chang Square development where your Group shares a 42% interest. Despite losses incurred in non-core businesses, the building construction and civil engineering arms had a very successful year, both in terms of rising revenue, improved margins and operating results. The core division recorded HK$2,950.5 million in turnover, a 9.9% increase over last year and an increase of HK$30.2 million in operating profit after finance costs to HK$110.1 million.

No. 3 Lockhart Road (formerly known as AON Insurance Tower) is substantially let. With lease renewals normally at rates lower than previous years', total rental income (including those from Hsin Chong Center) has dropped by HK$7.7 million. Overall, rental income has been unable to cover mortgage interest incurred on Hsin Chong Center leading to a mild deficit of HK$0.4 million.

Results from associates and joint ventures remained stable at HK$4.0 million (2000: HK$3.2 million). Hsin Chong Aster Group reported a reasonable profit from its electrical and mechanical contracts. 18A La Salle Road has its provision for diminution reduced by HK$5.0 million as a result of a slight recovery in the luxury property market. However, Century Harbour Hotel remained unable to cover its fixed cost though the operating performance is gradually improving.

On consolidation, return on equity decreased from 6.5% in last year to 3.6% (before final dividend) of this year.

FINAL DIVIDEND

Your Board of Directors recommends a final dividend of HK2.5 cents per share payable on 28th August, 2001. While there is no interim dividend for the financial year under review, total annual dividend remains at HK2.5 cents per share (2000: HK2.5 cents). Taking into account the repurchase program, your Group has returned HK$28.9 million to its shareholders. This demonstrates the Board's commitment to maximize shareholder value, whether through reinvestment when opportunities arise, or return of capital if such usage is more compelling.

Since the scrip dividend option is inconsistent with the current stock repurchase activities, your Board has decided to continue to suspend the Group's scrip dividend scheme.

DIRECTORS, MANAGEMENT AND STAFF

Remuneration policy for your Group has been designed to align management's and staff's interest with shareholders. In line with this year's unsatisfactory performance, there is a decrease in executive directors' emoluments at HK$8.5

million (2000: HK$13.7 million). The remuneration includes a bonus portion of HK$2.7 million (2000: HK$5.4 million), which is based on a fixed formula tied to profits and return on equity. Such formula was approved by the Board in 1992. The Board has approved a proposition to reduce the salary of all the four executive directors of the Company by 2%, that includes the Chairman and Deputy Chairman in next fiscal year.

On 1st September, 2000, Mr. Ching-fai Raymond Or resigned from the Board due to the demands of his other commitments. The Board expresses its appreciation to Mr. Or for his invaluable contribution to the Group during his tenure and warmly welcomes Mr. Brian Robertson's appointment as an Independent Non-Executive Director on the same date. Mr. Robertson is currently the Head of Corporate and Institutional Banking of The Hongkong and Shanghai Banking Corporation Limited. The Board strongly believes that the Group will benefit from Mr. Robertson's past experience in the field of banking and finance.

Mr. Woon-cheong Steven Lam, an Executive Director of the Company has resigned from the Board with effect from 1st July, 2001 to pursue a Masters degree in Fine Art. The Board would like to express its deepest appreciation to Mr. Lam for his invaluable contribution to the Group during his 30 years' service.

As previously announced, Mr. Hin-chak Ian Tang, the former Executive Director of the Company had continued his presence as a Non-Executive Director of the Company for more than one year and he ceased the role as Non-Executive Director with effect from 9th July, 2001. The Board would like to express its deepest appreciation again to Mr. Tang for his invaluable contribution to the Group in the past.

Following to the formation of the Management Committee, Mr. Wai-tai Law, being a member of the Committee was nominated and duly approved by the Board as an Executive Director of the Company with effect from 9th July, 2001, subject to annual rotation. Mr. Shiu-chung Jacky Poon, being a member of the Committee was appointed as the Alternate Director to Mr. Wai-tai Law with effect from the same date.

Mr. Kok-foo James Lee, a member of the Committee was appointed as the Alternate Director to Mr. Siu-lun Cheung, an Executive Director of the Company with effect from 9th July, 2001.

OUTLOOK

The Economy — Recent statistics point to a rapidly slowing economy. In Hong Kong's first economic report of the year, the Government reduced growth expectations from its original prediction of 4% to 3% for 2001. Unemployment rate rose from 4.4% in December 2000 to 4.6% in May 2001, with construction-related unemployment increasing to 11.1%. Though the United States Federal Reserve has reduced interest rates by 275 basis points since January 2001, leading to a commensurate decline in local interest rates, the Hong Kong economy remains weak and is subject to continued uncertainty. Unsettled financial markets, inventory adjustments and stagnant employment growth all contribute to a lack of consumer confidence, resulting in restrained spending and a weak property market.

On the bright side, robust growth in PRC may put Hong Kong in a more favorable position vis-à-vis other Asian countries. However, it is still unlikely to shelter Hong Kong from a winded United States economy and an ailing Japan.

Overall prospects for 2001 have been substantially dimmed, though looking forward, consensus forecasts are for a brighter 2002 on the back of a recovery in exports and increased investment in PRC ahead of its imminent entry into the World Trade Organization.

The Construction Industry — Government statistics show that output in the construction sector fell 3.6% last year to HK$122 billion, its lowest level since 1996. The gloom will likely continue over the next 2 years, with the Government spending on capital works slackening and the production of public housings peaking after last year. In 2000, private sector demand for construction services fell to its lowest level since 1995, reflecting the continued depressed state of the property market.

The latest Government statistics on construction spending showed a 29.2% decline for 2000 from 1999. These overall construction statistics already include a significantly increased output for public works (+12.5% from 1998 to 2000). However, we believe that the situation will deteriorate further as some of the major public projects are being re-scheduled, thus deferring capital expenditures. The continuing fall in output is exacerbated the vicious cycle of cut-throat bidding and poor quality construction which led to recent scandals.

The Group — Reflecting a 24 month trend, profit from your Group's core construction activities (other than foundations) continues to improve, as contributions from HK$6.5 billion contracts awarded in the fiscal year 1998/99 are now being recognized. Five Housing Authority's contracts with aggregate value of HK$2,518 million were completed this year compared with the same number of Housing Authority's contracts, totalling HK$2,215 million, completed last year.

More importantly, all of these contracts were completed on time and to the client's satisfaction. The fact that your Group was able to do so in light of the Housing Authority's adoption of a "minimal defect policy" (as highlighted in last year's Annual Report) is a testament to your Group's emphasis on quality and service. In fact, when handing over the completed units, your Group's site management and after-sales services team received numerous letters of appreciation from the ultimate end-users.

As part of the Housing Authority's "Quality Housing — Partnering for Change" Initiative, the Housing Authority established the Premier League Scheme ("PLS") in August 2000 for the purpose of securing strategic partners for quality housing production. PLS targets contractors that are *"client committed, supportive of modernization and technologically innovating, quality and safety conscious and environmentally advocated"*. Qualification involved a rigorous two-stage process, with assessment on the contractor's management systems and their implementation in: client relations, human resources, supply chain, financial strength, and occupational safety and health.

Subsequent to rigorous examination and physical inspections to your Group's management systems and site operations, Hsin Chong Construction Company Limited ("HCC") was admitted as one of the six strategic partners to the PLS on 1st May, 2001. As a PLS member, your Group will have the opportunity *'to tender for special projects such as those of extreme complex nature, high risk or strategic value or those with a tight completion program.'* HCC's admittance further demonstrates not only your Group's technical capabilities and professionalism but also your Group's ability to consistently deliver quality products and services to the satisfaction of our customers. We do so by adhering to our 5 core values: "Integrity, Quality, Service, Innovation and Social Responsibility" and by embracing and leading the change in traditional mentality of the construction industry to meet the increasing expectations of our customers and end-users.

Compared with last year, your Group has made significant improvements in new contract awards. In the first quarter of 2001/02, your Group has already secured new orders comparable to what was acquired in the whole of year 2000/01, with a value slightly in excess of HK$1.5 billion. Nevertheless, as competition remains severe, management has focused cost reductions and business process improvements to enhance your Group's competitiveness. All changes require foremost a change in organizational culture.

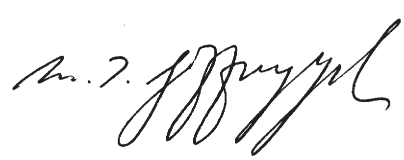
As mentioned in last year's Annual Report, your Group embarked on a culture change which started in April 2000. A brief summary of our journey is described in "Culture Change — An Update and Next Steps" of this Annual Report. Such a process is never easy. To date, though we are pleased with the progress made, our efforts are not yet complete. With a critical look at its processes and management, your Group has made some significant decisions, including the adoption of i) a new performance appraisal system (the balanced scorecard system) for all management staff; and ii) Total Quality Management as the Group's management model, leading to a "process" view of your Group's core business activities.

One example of the fruits of this culture change and renewed focus on the customer is the "3-year Unconditional No Leakage Warranty" (the "Warranty") announced by your Group on 3rd May, 2001. In a recent poll conducted by City University of Hong Kong, 88% of Hong Kong residents consider leak-proof as the critical factor when choosing a flat, and 87% of them said the current market standard of one-year no leakage warranty is inadequate. In addition, the poll revealed that 25% of Hong Kong people have encountered water leakage problems in their residence, amongst which windows, bathrooms, external walls and kitchens were the major problem spots, amounting to 87% of all problems. Nevertheless, traditionally new buildings in Hong Kong only enjoy a one-year warranty against most building defects, including water leakage. Unfortunately, this one-year period is not enough to substantiate that a building is truly leak-proof because, during that one year, a building may not have experienced extreme weather conditions and/or other conditions that may impact on the water-tightness of the building.

Taking a leadership role in addressing customer concerns and in improving standards in the construction industry, your Group introduced the Warranty for all of its design and build projects contracted from 3rd May, 2001 onwards. This Warranty is the culmination of over 14 months of extensive research and development efforts by our team of engineers, site operations' staff and management, who worked closely with academics, subcontractors, suppliers and property management providers. This initiative demonstrates your Group's commitment to excellence and enhance its competitiveness and, as stated in last year's Annual Report, its efforts towards fostering a culture which "encourages initiatives, ideas and feedback from all levels of staff" and "a working environment which encourages cross communication across various businesses, departments and functions, with specific regard to core processes, rather than along departmental lines."

Regrettably the foundation operations remained disappointing. A significant portion of the losses is due to a prudent reserve for claims and liquidated damages exposure in an environment where clients have become more litigious. Going forward, it is expected management efforts centered on rebuilding our competitiveness in the foundations business will take hold.

Looking forward, the Board believes your Group over the past 18 months, has made substantial progress in increasing its competitive edge.



Meou-tsen Geoffrey YEH
Chairman

Hong Kong SAR, 9th July, 2001