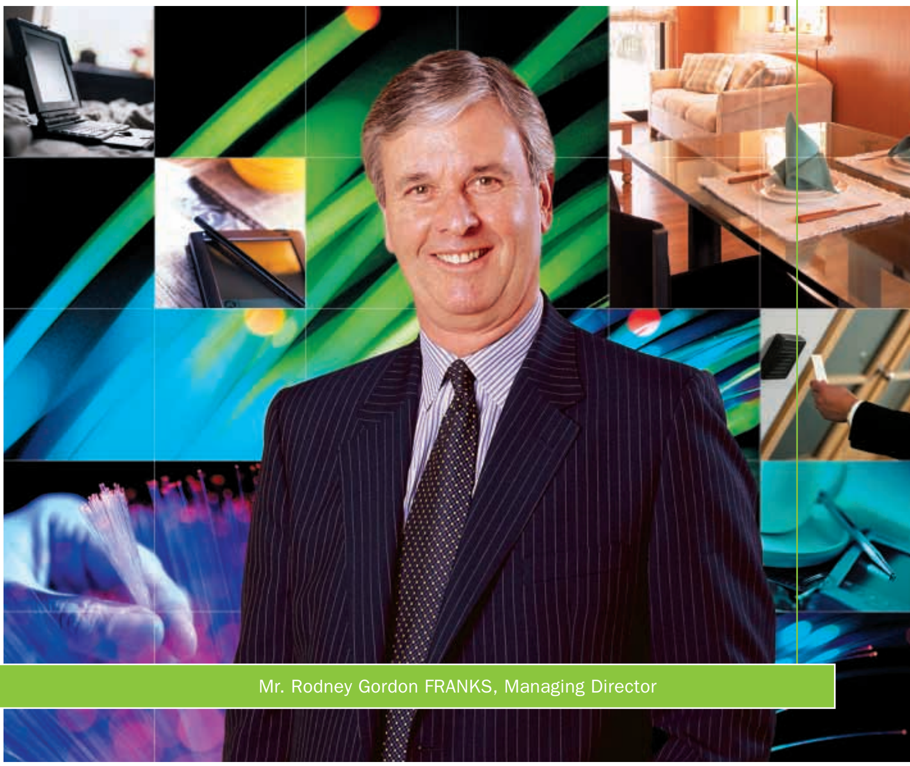
Hsin Chong Construction Group is committed to a strategy for 2010 anchored to growth, technology and service and plans to concentrate on its core business, develop new sector capability and focus its resources to become the "preferred business partner" of selected clients in Hong Kong and Mainland China.



Mr. Rodney Gordon FRANKS, Managing Director

OPERATING RESULTS

Profit before taxation increased sharply by 77.1% to HK$69.4 million though consolidated turnover decreased by 30.2% to HK$2,169.8 million. The increase of HK$30.2 million in profit before taxation is due principally to the improved operating results of Hsin Chong Construction Group Ltd. and its subsidiaries' ("Group") core business in building construction and civil engineering. During the year, this core business has furthered its operating margin with profit increased by HK$21.7 million to HK$131.8 million. Nonetheless, curtailment of scale of operation in the piling and foundation segment led to its inability to cover its fixed cost (including mainly non-cash expenses like depreciation of plant and machinery) with the consequential loss of HK$32.0 million for the year. Coupled with provisions of HK$31.9 million for impairment in value of the unsold stock and investment properties, these two elements substantially eroded nearly half of the contribution from the profitable construction business.

No. 3 Lockhart Road is now substantially let. However, with lower occupancy rate during the year and lower lease renewals, total rental income has dropped by 24.9% to HK$19.6 million. Overall, after taking into account of the impairment in the value of right of usage of the Wanchai premise and the mortgage interest cost in Hsin Chong Center, the rental segment reported a larger loss of HK$14.3 million against a loss of HK$0.4 million in last year.

Results from associates and joint ventures vary, with profits generated counter-balanced by losses incurred, end up with a combined profit of HK$0.1 million (2001: HK$4.0 million). Hsin Chong Aster, your Group's building services arm specialising in electrical and mechanical engineering work, made a profit of HK$3.4 million (2001: HK$3.3 million). Novotel Century Harbourview (formerly known as Century Harbour Hotel) — the hotel operation has further tightened up its costs though it remained unable to cover depreciation and financial charges with loss at HK$2.2 million (2001: HK$5.6 million).

On consolidation, return on equity deteriorated from +3.6% in last year to -1.1% of this year.

OUTLOOK

The Economy — As predicted, the Hong Kong economy has slowed and shows little indication of early recovery with the private sector, commercial development sector dormant and residential sales reflecting continued price deflation. The reported levels of unemployment indicate continued downward pressure on costs in most sectors which although regrettable should assist Hong Kong in becoming more competitive and if considered in tandem with other structural changes should contribute to an improved trading environment as regional markets recover.

Though the US economy has recovered well following the events of 9-11, the longer term picture remains less clear but with a low interest rate environment anticipated in the medium term combined with a slight weakening of the US dollar, the economic position of Hong Kong should be set to improve. There are however other issues closer to home that remain unresolved, namely the fiscal budget, the narrow base of the economy and the difficulty in determining Hong Kong SAR's long term role alongside a post WTO China. It is to be hoped that the Government of Hong Kong SAR will continue to take the initiative on these issues in order to lay the economic foundation for long term recovery, replacing lingering uncertainty with a clear framework for the future prosperity of our SAR.

The proximity of PRC market and the special relationship that Hong Kong SAR enjoys should provide the Group with significant opportunities for business in a mainland economy that has continued to enjoy robust growth under a Government that seems committed to meeting its obligations under WTO membership and which recognises the difficulties it will face with dismantling the existing state enterprise structure.

The Construction Industry — Statistics show a further fall in construction sector output of 6.7% this year to HK$113.9 billion. A slight increase of 3.1% in private sector spending this year has been more than offset by the significant 17.8% drop in public sector expenditure as compared with last year. This low public sector spending levels, rescheduled projects and the restructuring of the housing sector have provided one of the most difficult trading periods the industry has experienced.

Despite the rhetoric, there is little tangible evidence of a commitment to pushing through new procurement initiatives, as a matter of policy, which would capitalise on the good work done by Government and the industry to improve quality and performance over the last two to three years. Consequently the industry continues to face a fiercely competitive and adversarial bidding structure with only limited evidence of grade related selection being applied. Recommendations made by the Construction Industry Review Committee did lead to the formation of the Provisional Construction Industry Coordination Board in September 2001, but there is still no indication of a fundamental commitment to "international best practice" and a move towards value added procurement practice, in the absence of which the Government will continue to experience difficulties with overall sector quality and performance and will lag behind other comparable markets where meaningful benefits to all stakeholders are being realised.

Your Group is committed to playing an active part in seeking to improve the image and profile of the industry and promoting a business environment in which the customer and the contractor share greater understanding and realize the maximum benefit from a true partnering spirit for the future.

The Group — We anticipate that the current trend of improving profits from our core construction activities will change as we close out projects awarded during the 1999–2000 period and as we report against those projects that reflect the more aggressive market conditions that have prevailed. Contract completions for this period total HK$3,743.9 million with HK$1,137.8 million of that being with the Hong Kong Housing Authority ("HKHA").

Our construction management teams throughout the organization continue to achieve timely completions and a high level of customer satisfaction is regularly recorded in letters of commendation. Our sites also continue to receive highly valued certificates for quality, safety and best contractor awards for cleanliness, environmental considerations and public awareness. No less than 29 awards being received this year alone.

As an active member of the HKHA Premier League Scheme, your Group continues to be proactive in promoting a more "quality and value aware" culture to achieve real improvements in the service provided to customers enabling them to benefit fully from contracting with responsible counter-parties.

Contract awards at this point are significantly down on last year underlining the reduction in quality project opportunities and reflective of the aggressive cut-throat bidding levels that are becoming routine in the market with price still invariably heralded as the champion over quality at selection and award.

Since its relatively recent entry into the China market, the Group has established a good spread of activities and this year the team is being restructured and given greater regional and sector focus in the development of its business relations. This has resulted in the identification of some good quality public and private sector projects to which we shall be able to bring some added value and investment as well as exporting our Group's management skills and culture which remain centered around our five core values of Integrity, Quality, Service, Innovation and Social Responsibility.

A New Direction for the Group — The difficult trading conditions in our traditional market have registered the need for a fresh look at our core business and has presented us with an opportunity to explore and develop new markets where we may apply our skills, expand our activities and develop our resources.

Your Group has undertaken an in depth review of its core activities in Hong Kong and in developing our strategy spanning to 2010, we shall identify the means by which we may enhance and refocus our core business, improve efficiency and refine our cost control measures to provide a continuing platform for expansion of our domestic market. We intend to maintain our policy of establishing strategic alliances for the development of a credible market position in China with specific regional identity. Our success in the implementation of this multi-discipline approach will depend on our ability to identify and acquire the skills and capabilities necessary to support a sector focused approach to the vast infrastructure development market being created in Hong Kong according to policy statements of the Government of Hong Kong SAR and in Mainland China. The commitment we have made to this strategic approach applied throughout all parts of the Group will give new energy and direction to our team and provide the means by which they may fully participate and contribute to securing our future.

Rodney Gordon FRANKS
Managing Director

Hong Kong SAR, 5th July, 2002