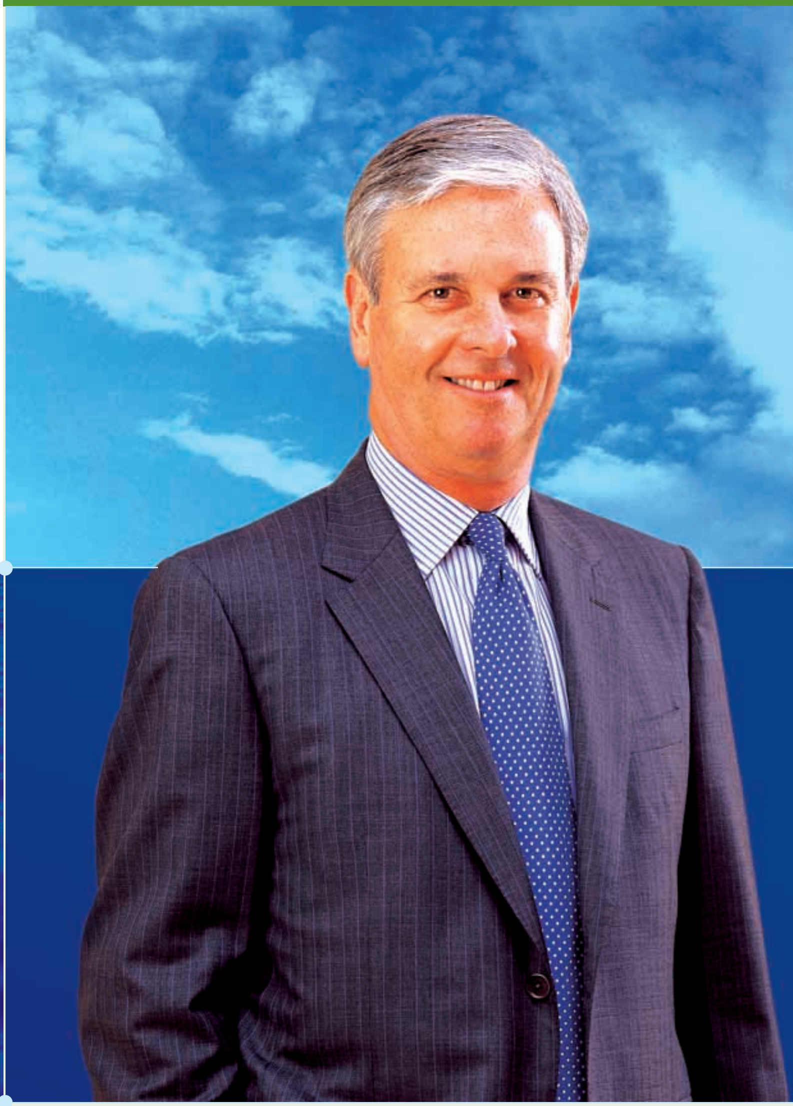

The Hsin Chong Construction Group remains committed to its strategy of cautious regional and sector growth through established technical and financial partnerships and seeks to expand the range of construction services available to its existing client base.

OPERATING RESULTS

For the year ended 31st March, 2003, Hsin Chong Construction Group Ltd. and its subsidiaries ("Group") achieved a turnover of HK$1,846.7 million and a gross profit of HK$164.9 million (2002: HK$2,169.8 million and HK$276.8 million respectively). The decline in turnover and gross profit were mainly caused by the intensified competition and declining tender prices for public and private contracts as a result of the continuing economic downturn and contraction of the construction market in Hong Kong. In such competitive operating environment, the Group has taken control measures to reduce the costs and overheads, including a substantial reduction in payroll cost and the implementation of continuous process improvement, which collectively resulted in a 12.4% decrease in overheads and other operating expenses as compared with last year. This is before the effect of a "one-off" provision of HK$26.1 million for accrued staff leave and retirement benefits. Due to a declining property market and poor economic environment, the Group has adopted a prudent approach in assessing the carrying value of its properties and as a result, total provisions (net) for impairment in value of property assets held by the subsidiaries and associated companies of HK$169.6 million have been made during the year. These provisions include HK$127.0 million for long term leasehold land and building located at Kwun Tong, Hong Kong (Hsin Chong Center) resulting from adopting a more prudent valuation basis, HK$20.3 million for an investment property located at Wanchai, Hong Kong, HK$12.2 million for unsold stock of carpark property of a completed Private Sector Participation Scheme project located at Tuen Mun, Hong Kong and HK$15.0 million representing the Group's share of loss in impairment in value of a hotel property at Sai Wan, Hong Kong. Consequently, the Group reported a loss before taxation of HK$206.5 million (2002: profit of HK$69.4 million) for the year.

SEGMENT ANALYSIS

(1) Building construction and civil engineering

Turnover for the building and civil engineering division was HK$1,816.2 million, a decrease of 14.3% as compared with last year. Loss after finance costs was HK$7.1 million (2002: profit of HK$131.8 million) for the year. This was mainly due to the erosion of returns from completed projects in the year and severely depressed margins for all current and new contracts in Hong Kong's depressed construction market. Your Group has implemented the main elements of its new business strategy with the expansion of its design and build capability and the establishment of the China operation which has resulted in higher start up and major project development costs, such as the recent Tamar Government Complex tender.

(2) Piling and foundations

As reported last year, on 18th June, 2002, the board of directors of the foundation subsidiaries unanimously resolved to cease the foundation operations of the Group having regard to the current highly competitive and onerous contractual terms of such business. Since then, foundation works form no part of the Group's core business and much of its surplus plant and machinery had been disposed in the year at a net loss of HK$3.2 million. Overall, foundation operations reported a reduced loss of HK$10.4 million (2002: HK$32.0 million) for the period with turnover decreased by 84.9% to HK$4.4 million.

(3) Electrical and mechanical engineering

Due to the difficult market conditions, orders on hand had halved from the beginning of the year. Turnover had declined and profit generated from Hsin Chong Aster was insufficient to cover its reduced overheads, resulting in a loss of HK$4.3 million (2002: profit of HK$3.4 million) for the year.

(4) Property development

The property development segment reported turnover of HK$2.7 million for the year. Loss of HK$3.4 million (2002: loss of HK$20.8 million) represented provision for impairment in value of the unsold carpark stock of a Private Sector Participation Scheme Project at Lung Mun Oasis of HK$12.2 million partly net off by a writeback of provision of HK$8.0 million for the impairment in value of the property development of 'standard ready for use' light industry factory buildings in Tianjin Taifeng Industrial Park, Tianjin, PRC. The writeback was occasioned by the sale of the land in Tianjin Economic and Technological Development Area to a China party and is not a revaluation exercise.

Loss from associated companies of HK$6.5 million mainly comprised trading losses of HK$3.4 million from the disposal of residential properties and HK$2.2 million provisions for impairment in value of unsold units at 18A La Salle Road due to depressed market conditions.

(5) Rental property

No. 3 Lockhart Road was substantially let with no significant lease expiry in the near term while renewal and new letting rentals were in line with market rate. Total rental income (including rental income from Hsin Chong Center not occupied by the Group) has increased by 10.5% to HK$21.6 million, mainly due to higher average occupancy rate of 93% in No. 3 Lockhart Road (2002: 74%). Nevertheless, the declining property market induced further provisions for impairment in value against Hsin Chong Center and No.3 Lockhart Road for HK$127.0 million and HK$20.3 million respectively, with a net loss after finance costs of HK$146.7 million for the year (2002: HK$14.3 million, including an impairment loss of HK$10.0 million against No. 3 Lockhart Road).

(6) Hotel operation

Novotel Century Harbourview's average occupancy rate and average room rate were slightly increased to 85% and HK$358.6 per room respectively (2002: 84% and HK$349.1 per room). However, in light of the far-reaching effect of the atypical pneumonia to the tourist industry and the depressing property market, a provision of HK$15.0 million was made for impairment in value. Besides, hotel contribution remained unable to cover depreciation and financial charges. Collectively, there was a loss of HK$16.2 million (2002: HK$2.2 million) for the year.

(7) Other operations

The establishment of a new Integrated Facility Management business in China has produced minimal turnover and reports a small operating loss in the year.

On consolidation, loss of equity deteriorated from -1.1% from last year to -43.8% of this year after deducting minorities interests of HK$45.8 million.

OUTLOOK

The Economy — There has been minimal good news for the Hong Kong economy during 2002 and we continued to experience increases in unemployment and cut backs in the Government spending programme up to the fourth quarter when there were the first signs of change and the potential for growth in the short to medium term. Private sector spending remained in the doldrums but there were signs of a return to more sensible pricing levels at a time when the Government began to revisit its capital expenditure programme. Then early in the new year we were all faced with a new threat to the future of our economy and our businesses with the arrival of the SARS Virus in Hong Kong. The individual and family tragedies that have resulted from this unknown virus will in time reduce in number but the long term tragedy for the Hong Kong economy at this particular time will be felt for many years to come.

The virus has now been contained but the slow recovery of regional markets following the 1997 financial crisis will have been dealt a further blow and we can anticipate there will be fewer opportunities available to us in Asean markets.

The US and European economies generally present an uncertain picture following the war on Iraq and we can anticipate a significant flow of funds into the Middle East in the aftermath as infrastructure and basic facilities require to be rebuilt and as other Arab countries enjoy improved growth with the prospect of a more peaceful political picture unfolds. The US and European political focus will be on rebuilding relationships and establishing a common position on the Middle East and the war on terrorism with an acknowledgement that economic recovery in the Far East is further delayed.

The potential for growth in the PRC market for aggressive Hong Kong companies remains significant and the increased amount of work to be done to prepare Beijing and other host cities in China for the 2008 Olympics as a result of the SARS epidemic will present further opportunities for the Hong Kong business community. The cost of the remedial measures that will have to be taken by the Beijing administration may however take some points off previous growth figures over the next two years.

The Industry — The statistics show a continued drop in sector output down over the period by 7.0% to HK$106.0 billion. We have seen a largely steady position in private sector spending this year but this compares with a further drop of 23.3% in public spending as compared with last year. The industry is set to face another difficult trading period and further business closures and corporate restructuring can be anticipated.

Despite the disappointing performance in this industry sector over the last year there has been little advance in the Government's plans to implement new procurement initiatives and the recent HK$2.75 billion programme of Private Finance Initiative / Public Private Partnership projects announced by the Financial Secretary is divided amongst several small projects of questionable viability. In the present adverse economic climate there is every reason for the Government to actively explore the part that the private sector can play in reactivating the economy and moving forward the essential elements of its infrastructure development programme, using live examples in Europe and elsewhere. Your Group is committed to working with other members of the Hong Kong Construction Association in the promotion of a "new deal" for the industry wherein we may work in true partnership with the Government to develop a road map out of this long period of recession.

The Group — As was reported last year our results in this period have begun to reflect the aggressive low margin / high risk market conditions in which we have been trading. Contract completions for this period total HK$1,177.3 million and we see continuing difficulty in maintaining our Hong Kong order book especially in the building division of our construction company.

Our construction management teams in Hong Kong continue to receive awards for safety and environmental performance on several sites and we have managed to move the emphasis of our business to a much broader base of construction management services with our dependence on public housing sector now down to 33% of consolidated turnover (2002: 44%). Significant advances have been made in the development of our "in house" Design and Build capability and this newly structured team lead our successful submission for the Tamar Site Government Complex and our construction companies selection in the last five bidders. This was a major achievement. However, the recent Government announcement to defer tendering (originally scheduled in early June 2003) for a period of six months now casts doubts on when and in what form this project will eventually proceed. In the more active civil engineering sector we have seen the benefits from the Group's decision to invest in this sector last year and our team has secured a number of new civil engineering projects since then.

The Group has made good progress in the establishment of its business in China and now has a representative office in Beijing and two new joint venture subsidiary companies providing construction management and integrated facility management services. We have progressed well with our first major construction project in Shenzhen which is due for completion by early next year and are now turning our attention to more investment lead projects that are available in the major cities of Beijing and Shanghai. The Group's strategy in China remains under constant review given the rapidly changing demands of this large economy.

The new direction set for the Group last year provided the management team with specific goals and performance targets in new business markets and resulted in changes in the organizational structure and operational procedures which will make us more efficient and will bring added value to our clients and our stakeholders. This strategic direction is subject to periodic review but at present remains on track. During the difficult period ahead your Group will continue to be committed to its core values of quality and integrity as we move forward with the development of our skill base and the training of our team to provide a better service to our clients and build a broader platform for future growth.

Rodney Gordon FRANKS

Managing Director

Hong Kong SAR, 4th July, 2003