

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL FOCUS

Return on Equity — Hsin Chong Construction Group Ltd. ("Company", together with its subsidiaries, "Hsin Chong") pays close attention to return on equity for both current businesses and new investment opportunities. Hsin Chong appreciates just being more profitable than other companies of the same industry may not be good enough for some investors. As a manager of public shareholders' capital, Hsin Chong aims to generate risk-adjusted returns on capital that are systematically acceptable to investors taking into account that construction is a cyclical industry. Historically, Hsin Chong's return on equity has ranged from 3.6% to 29.6% (except 1999 and 2002, which reported a loss on equity of 6.0% and 1.1% respectively). Due to declined turnover with operating loss from the building construction and civil engineering operation, higher business development costs expensed to the implementation of corporate strategies together with several incidental provisions, including impairment losses on property assets and staff benefits costs accrued in accordance with prevailing accounting standard, current year's loss on equity deteriorated to 43.8%.

Capital Structure — Hsin Chong historically adheres to a policy of conservative capital management. We believe a prudent balance sheet affords more opportunities upon an industry upturn, inspires greater confidence amongst its clients, bankers, sub-contractors, suppliers and employees. Furthermore since progress payments in the construction business inherently create high operating leverage, an overlay of high financial leverage over any extended period would not be prudent.

Executive Remuneration — Remuneration for executive directors and senior management of Hsin Chong is tied in a meaningful way to profitability. Your Board believes such incentive remuneration best motivates its staff, aligns management's interests with shareholders' and minimises fixed salary expenses.

ELEMENTS OF EXECUTIVE COMPENSATION

The compensation package for executive officers of Hsin Chong consists of the following basic elements:

Base Salary — The base salaries of executive officers of Hsin Chong are set on an individual basis and are designed to enhance Hsin Chong's ability to attract and retain highly qualified key executives. Salaries bear a direct relationship to the executive's level of responsibility and reflect his/her individual talents and skills.

Annual Bonus — The annual bonus paid to executive officers is a critical element of compensation designed to reward the achievement of corporate goals, as well as individual productivity and performance. Amount of bonus is based upon performance of Hsin Chong during the year and upon the value to Hsin Chong and its shareholders of significant corporate accomplishments during the year, as well as upon the contribution of the individual executive to such performance and accomplishments.

Share Options — Share option awards provide the most significant element of long-term compensation from middle management staff to senior executives. Share options provide compensation in a manner that is intrinsically related to long-term corporate performance and stockholder's value, since the value of share options is determined solely by Hsin Chong's share price over the term of the option. Share option awards are discretionary determined by a variety of factors, including the level of responsibility and performance of the executive and his/her ability to affect share value.

Retirement Plans — Hsin Chong has designed a retirement benefit program to provide executives and employees with retirement compensation and at the same time promotes staff stability. Under the program, the employee contributes 5% of his/her basic monthly salary which is matched by Hsin Chong's contribution of 5-10%, depending only on the length of service. The retirement benefit programme, first established in 1973 is fully-funded and has received appreciative remarks from both working and retired staff.

Hsin Chong has established Hsin Chong Group Mandatory Provident Fund Scheme in December 2000 to conform with the requirements as stipulated in the Mandatory Provident Fund Schemes Ordinance.

FINANCIAL POSITION

Hsin Chong maintains its policy of conservative capital management with debt to capitalization of 29% at the balance sheet date (2002: 24%). The increase in gearing ratio stems from reduced shareholders' equity that has been impacted significantly by the HK\$169.6 million impairment loss on property assets portfolio in the year. It is therefore the result of a more transparent and prudent balance sheet that always offer a more objective and fair view for shareholders, management and investors. Stripping out the provisions for assets impairment that do not affect cashflow, interest cover is at -4.2x (2002: 9.5x) with debt to cashflow cover of -12.2x (2002: -3.4x). The deterioration in coverage ratios is due to reduced profit contribution rather than increased debt level or debt-service levels. Total bank borrowing carried at weighted average interest rate of 3.4% per annum amounted to HK\$204.1 million (31st March, 2002: HK\$232.4 million), of which 54% (31st March, 2002: 81%) falls due after one year. Out of these borrowings, HK\$151.5 million are charged at a spread to HIBOR with the rest are denominated in Renminbi for which applicable interest rate are charged at a spread to the interest rate as prescribed by The People's Bank of China. Up to 30th June, 2003, total credit facilities (exclude construction finance for Guangzhou Wen Chang Court) available to Hsin Chong amounted to HK\$511.5 million with an undrawn balance of HK\$360.0 million. Land and buildings with a carrying value of HK\$68.5 million (31st March, 2002: HK\$203.6 million) have been pledged to secure the related mortgage loan. In respect of Guangzhou Wen Chang Court first phase development in which Hsin Chong has an effective interest of 42%, a construction bank loan of RMB130 million has been arranged and RMB27.2 million has been drawn down as of 30th June, 2003. Hsin Chong's other financing requirements for the coming year are expected to be met by available cash as at balance sheet date, cash generated from operations and bank credit facilities.

As of 31st March, 2003, net working capital amounted to HK\$247.8 million (31st March, 2002: HK\$333.5 million). Cash balances and short term investments are 8.3% lower at HK\$553.5 million compared with last year end (HK\$603.7 million) with 88% (31st March, 2002: 88%) as cash and cash equivalents.

FINANCIAL HEDGING AND OTHER OFF BALANCE SHEET FINANCIAL INSTRUMENTS

Hsin Chong's net borrowings and cash balances are primarily denominated in Hong Kong and US dollars, except the construction finance for the Guangzhou Wen Chang Court, which is denominated in Renminbi. Hsin Chong has no significant exposure to foreign currency fluctuations. In addition, Hsin Chong adopts hedging policies for mitigating interest rate risk and exchange rate risk associated with respective assets or liabilities, rights or obligations. Such policies ensure effective cost controls on construction cost as early as at the tendering stage and controllable borrowing cost for operation and investment needs.

Interest rate risk and exchange rate risk are risks to earnings or capital arising from movement of respective rates. The former mainly arises from bank borrowings by Hsin Chong and the latter comprises exposure due to currency needs from normal business operation for material procurements and services requirements. Hsin Chong has established policies and procedures to the assessment, booking and monitoring of all such off balance sheet financial instruments under limits approved by the Finance Committee. Such policies and procedures have been reviewed by the internal audit personnel and reported to the Audit Committee in March 2003. The controls and procedures governing such activities were overall considered adequate.

Gain or loss arising from relevant hedging transactions will be booked against profit and loss associated with underlying assets or liabilities. For example, any differential interest receipts and payments, arising from interest rate swap agreements are accrued so as to match the net income or cost of such agreement with the related finance expenses from the underlying borrowings.

Subsequent to the year end, Hsin Chong has entered into forward exchange contracts with tenor of two years to hedge HK\$100 million against US dollar. Besides, Hsin Chong also hedged 66% of its long-term borrowings (exclude borrowings for the construction of Guangzhou Wen Chang Court) for the HIBOR element by interest swap agreements with tenor of two years.



Contract signing ceremony of civil engineering contract of Sha Tin New Town, Stage II, Road T3 and Associated Roadworks awarded from Territory Development Department

OPERATIONAL REVIEW ON CONTRACTS

Property development and building infrastructure activity in Hong Kong have slowed substantially. This means not only fewer tendering opportunities, but also lower margins, owing to intensified competition. Hsin Chong has therefore sought to shift its focus to the mainland and the civil engineering fields. Three new contracts obtained during the year underscore this new focus:

- (1) a construction project to house the Headquarters of Hua Wei Technologies Co. Ltd. in Shenzhen with a contract sum of RMB620.8 million (HK\$585.0 million);
- (2) a civil engineering contract in respect of the construction of the San Tin Eastern Main Drainage Channel for the Drainage Services Department with a contract sum of HK\$319.0 million; and
- (3) a civil engineering contract in respect of Sha Tin New Town, Stage II, Road T3 and Associate Roadworks from the Territory Development Department with a contract sum of HK\$1,483.4 million in which Hsin Chong has 20% attributable interest.

SUBSIDIARIES

Over the past twelve months, the building construction arm received HK\$1,212.1 million of new contracts with 49% derived from the Mainland China. The award of the RMB620.8 million (HK\$585.0 million) construction project to house the Headquarters of Hua Wei Technologies Co. Ltd. in Shenzhen is a reflection of Hsin Chong's new focus on Mainland China. Four building construction contracts from the private sector were awarded in Hong Kong, including residential developments at No. 42 Island Road, 26 Belcher's Street, Kennedy Town, 31 Tin Hau Temple Road and a proposed alteration and addition works at Caroline Centre, 2-38 Yun Ping Road, Causeway Bay, with a total contract sum of HK\$304.0 million. A civil engineering contract from the Drainage Services Department in respect of the construction of the San Tin Eastern Main Drainage Channel of HK\$319.0 million was secured in the year. However, reduced builders' works and nominated subcontractor works, provisional sum and prime cost rate adjustments restricted the net increment to HK\$904.1 million for the building construction and civil engineering segment.



Headquarters of Hua Wei Technologies Co. Ltd. in Shenzhen, PRC

Contracts totalling HK\$1,177.3 million were completed with HK\$1,027.8 million derived from the building construction arm mainly for the residential development at Tuen Mun Area 4C TMTL 384 for the Hong Kong Housing Society and the redevelopment of Kwai Fong Estate Phase 7 and Kwai Shing East Estate Phase 7 for the Hong Kong Housing Authority. Other works completed included two civil projects totalling HK\$137.4 million, namely, the sewage treatment plant at Cyberport Development, Telegraph Bay and the slope remedial work for Shue Yan Secondary School, as well as HK\$12.1 million bored pile works at 377 Prince Edward Road from the ceased foundation operations.

Overall, consolidated orders on hand amounted to HK\$3,914.4 million, a 6.5% decrease over the preceding year.

The breakdown of outstanding contracts of Hsin Chong's construction subsidiaries is as follows:

	31/3/2002 HK\$ million	Received HK\$ million	Completed HK\$ million	31/3/2003 HK\$ million
Building Construction				
Hong Kong SAR	3,903.8	9.9	(1,025.6)	2,888.1
Mainland China	—	587.2	(2.2)	585.0
Civil Engineering				
Hong Kong SAR	271.7	305.2	(137.4)	439.5
Mainland China	—	1.8	—	1.8
	4,175.5	904.1	(1,165.2)	3,914.4
Foundations (discontinued business)	12.0	0.1	(12.1)	—
Total	4,187.5	904.2	(1,177.3)	3,914.4



Tseung Kwan O Area 73A Phase 4

The split of outstanding contracts at balance sheet date is as follows:

	Amount HK\$ million	%
Government	690.3	17.6
Housing Authority	763.3	19.5
Public, Charitable or Non-Profit Institutions	22.0	0.6
Private Developers	2,438.8	62.3
Total	3,914.4	100.0

BUILDING CONSTRUCTION AND CIVIL ENGINEERING

Both total turnover decreased by 14.3% to HK\$1,816.2 million and outstanding orders decreased by 6.3% to HK\$3,914.4 million for 2002/2003. Profit margins deteriorated from +6.2% in last year to -0.4% of this year.



Cambridge House at 981 King's Road, Quarry Bay

Major contracts received during the year include:

Contract	Location	Type	Amount HK\$ million
Headquarters of Hua Wei Technologies Co. Ltd.	Shenzhen, PRC	Commercial	585.0
San Tin Eastern Main Drainage Channel	Yuen Long, Hong Kong	Civil Work	319.0
Proposed Alteration and Addition Works at Caroline Centre	Causeway Bay, Hong Kong	Commercial	108.0
Proposed Residential Development at 26 Belcher's Street	Kennedy Town, Hong Kong	Residential	94.0
Proposed Residential Development at No. 42 Island Road	Repulse Bay, Hong Kong	Residential	64.0
Proposed Residential Development at 31 Tin Hau Temple Road	North Point, Hong Kong	Residential	38.0

Major contracts completed during the year include:

Contract	Location	Type	Amount HK\$ million
Tuen Mun Area 4C TMTL 384	Tuen Mun, Hong Kong	Residential	543.6
Kwai Fong Estate Phase 7	Kwai Fong, Hong Kong	Residential	290.8
Kwai Shing East Estate Phase 7	Kwai Shing, Hong Kong	Residential	168.9
Sewage Treatment Plant, Cyberport	Pokfulam, Hong Kong	Civil Work	167.9*



Cyberport Development at Telegraph Bay, Pokfulam, Hong Kong

* Include foundation work completed in last year.

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 Hsin Chong having regard to the current highly competitive and onerous contractual terms of such business. The foundation segment had completed all of its orders on hand by the end of May 2002. The sales and results of the foundation segment are set out in note 32 to the accounts.

JOINT VENTURE AND ASSOCIATES

Hsin Chong Aster (the 50% owned electrical and mechanical installation associate) decreased its order book by 56.3% over last year's level to HK\$261.6 million as at 31st March, 2003. Electrical and mechanical installation contracts amounting to HK\$100.0 million (net of contingency sum adjustment) were received with HK\$436.6 million completed. The principal awards included HK\$104.2 million subcontract for the construction of Building 7 & 8, Science Park at Pak Shek Kok Phase 1C, New Territories and HK\$5.5 million fire service installation subcontract for the Asia Satellite Earth Station in Tai Po Industrial Estate. Major completions included the electrical and mechanical installation works for the Cyberport Development at Telegraph Bay, Contract C1, the Student Hostels Phase 1 Development for the City University of Hong Kong, the Proposed Residential Development at TKOTL 51, Tseung Kwan O, Phase I & II and the Primary and Secondary Schools in Area 27 & 101 in Tin Shui Wai.



Electrical and mechanical installation work for Student Hostels Phase 1 of City University of Hong Kong

The MBH Joint Venture, in which Hsin Chong has 20% attributable interest, received a HK\$1,483.4 million civil engineering contract in respect of Sha Tin New Town, Stage II, Road T3 and Associated Roadworks from the Territory Development Department.

The breakdown of outstanding contracts of Hsin Chong's construction associates and joint venture are as follows:

	31/3/2002 HK\$ million	Received HK\$ million	Completed HK\$ million	31/3/2003 HK\$ million
Hsin Chong Aster	598.2	100.0	(436.6)	261.6
MBH Joint Venture	—	1,483.4	—	1,483.4

Note: The amounts shown above are gross figures and do not reflect Hsin Chong's net attributable share.

CONSTRUCTION RELATED PROPERTY DEVELOPMENTS

Lung Mun Oasis, Tuen Mun, Hong Kong

At the balance sheet date, 266 carparking spaces remain unsold with a carrying value of HK\$21.0 million. A further HK\$12.2 million provision for impairment in value was made in this year (accumulated provision of HK\$33.7 million) in light of the restricted selling market for the carparking spaces (limited to owners of the Private Sector Participation Scheme development). These carparking spaces are currently available either monthly or on an hourly basis for rental income.

No. 3 Lockhart Road, Wanchai, Hong Kong

The development is a 26-storey office building. Hsin Chong has a 20-year freely-assignable master lease for the 11th–30th floors, comprising approximately 77,000 square feet which is substantially let. Hsin Chong's cost thereof is amortised on a straight-line basis over 20 years. The residual lease term is around 11 years. Current carrying value stands at HK\$96.0 million after a further HK\$20.3 million provision for impairment in value of the development was made in this year (accumulated provision of HK\$30.3 million) in light of the unattractive market conditions.

Novotel Century Harbourview, Sai Wan, Hong Kong

The property is a 3-star hotel with 276 rooms (including 12 suites). Hsin Chong has an effective interest of 22.5% in the investment at a carrying value of HK\$34 million (2002: HK\$47.7 million). Novotel Century Harbourview's average occupancy rate of 85% was comparable to last year while average room rate improved by 3%. Since mid March 2003, the outbreak of atypical pneumonia has had a serious negative impact on the travel and tourism industry, coupled with the effect from depressed property market, an equity share of provision for impairment in value of HK\$15.0 million was made in the year (accumulated equity share of provision of HK\$68.4 million). Our hotel is no exception to the effect from the atypical pneumonia and contingency plans and cost cutting measures are under constant review by the management.

Hsin Chong Center, Kwun Tong, Hong Kong

The property has been used as headquarter of Hsin Chong since April 1999 with some office space taken up by certain related companies on market rental. A provision for impairment in value of the property of HK\$127.0 million was made in this year to reflect the severely depressed state of Hong Kong's property market, leaving the carrying cost at HK\$68.5 million at year end date.

18A La Salle Road, Kowloon Tong, Hong Kong

The luxury development, in which Hsin Chong holds a 25% interest, comprises six residential houses with gross floor area ranging from 5,544 square feet to 6,518 square feet each. In August 2002, the Sapphire House with gross floor area of 6,499 square feet was leased out for one year. In October 2002, the Amber House with gross floor area of 6,518 square feet was sold for HK\$31.2 million. Subsequent to the year end, the Emerald House and Pearl House were sold for HK\$29.5 million and HK\$29.0 million respectively, leaving one house remained vacant and unsold.

Guangzhou Wen Chang Court, PRC

The project, comprising a total site area of 18,215 square metres (approx. 196,000 square feet) which is bound on the East by Wen Chang Road North, on the South by Yao Hua Jie North, Guangzhou City, PRC, is to be developed into residential units and shops in phases. Phase I comprises a total floor area of approximately 39,242 square metres for sale with 99 carparks at an estimated cost of approximately HK\$340 million. Hsin Chong has an effective interest of 42% in the project.

During the year, a foundation contract of RMB28.2 million was signed and the construction work has been commenced. The project is scheduled to be completed in the 2nd quarter of 2005.

To date, Hsin Chong's investment amounts to HK\$149.7 million (2002: HK\$139.5 million). In light of the slight market oversupply in Guangzhou City, a cumulative provision for impairment in value of HK\$59.5 million had been booked in previous years.

Tianjin Taifeng Industrial Park, Tianjin, PRC

Hsin Chong has a 95% interest in the intended development of 'standard ready for use' light industry factory buildings in Tianjin Economic Development Zone, Tianjin, PRC. At the balance sheet date, the project's accumulated development cost amounted to HK\$24.0 million (2002: HK\$23.9 million) before a provision of HK\$9.0 million (2002: HK\$17 million) made for the impairment in value of the property interest.

Hsin Chong entered into an agreement on 8th April, 2003 to dispose of its interests in the development project at a consideration of RMB16.0 million. Hsin Chong therefore wrote back a provision of HK\$8.0 million for the impairment in value of the property interest in this year.

SuCasa Service Apartments, Kuala Lumpur, Malaysia

SuCasa is a 180-room service apartments development with dining, recreational and parking facilities which commenced operations in 1993. Hsin Chong has an attributable interest of 10% in SuCasa, carried at a value of HK\$10.1 million (2002: HK\$10.1 million). Contribution from the investment is insignificant to Hsin Chong.

Budi Ikhtiar, Kuala Lumpur, Malaysia

Hsin Chong has an attributable interest of 20% in the site, which is a joint venture with the Mandarin Oriental Hotel Group. At present, development plans have been put on hold. Total costs remain unchanged at HK\$10.7 million, which is lower than current market value.

MAJOR CONTRACTS AND PROJECTS SUBSEQUENT TO YEAR END

Consolidated

Subsequent to the year end, your Group was awarded HK\$124.6 million building construction contracts, including a 30-classroom Primary School at Diocesan Boys' School Campus at Argyle Street, Kowloon and a variation order for the Sewage Treatment Plant Deck Works for IL 8969 Cyberport Development at Telegraph Bay, Pokfulam, Hong Kong – Section 5 under Contract C3/C4 from the private sector. The civil engineering arm, on the other hand, received a new contract from the Civil Engineering Department of the Government of the Hong Kong SAR for a 10-Year Extended Landslip Preventive Measures Project, Phase 2, Package G-Landslip Preventive Works for Slopes and Retaining Walls in Lantau and Lamma Island at a contract sum of HK\$94.0 million. In conjunction with a civil engineering contract completed, total outstanding contracts increased from HK\$3,914.4 million at year end to HK\$4,120.6 million as of 30th June, 2003.

Also, Hsin Chong entered into a construction management agreement with Venetian Macau Limited for the Las Vegas Sands Project in the Macao, SAR. The agreement involves the provision of construction management services by Hsin Chong on the basis of a management fee, performance bonuses and reimbursement of staff and site organisation costs.

Associates

No significant jobs were received or completed subsequent to the year end.

China Development

The construction business in Hong Kong in this year continued to be under the impact of economic downturn and contraction of the construction industry. It is unlikely that the construction industry in Hong Kong will turnaround in the foreseeable future. Hsin Chong has therefore sought to shift its focus and resources to the Mainland China in 2002 in order to take advantage of more attractive business opportunities. To date, Hsin Chong has successfully identified and lined up several strong equity and operation business partners in the Mainland and have started the ground work for tendering a number of building and civil jobs, including certain infrastructure projects commissioned by municipal authorities. Hsin Chong will explore opportunities both as a contractor and equity partner in various types of project financing including Build-Operate-Transfer and Private Finance Initiatives projects.

Hsin Chong has restructured and strengthened its China operation management so as to ensure that the resources of Hsin Chong are being utilized efficiently and effectively to explore profitable business opportunities in the Mainland China.

Barring unforeseen circumstances, Hsin Chong expects that its investments in the Mainland China will continue to grow in 2003 and beyond. Likewise, although the investments in the Mainland China produced only 4.5% of Hsin Chong's turnover in 2002/2003, Hsin Chong expects that such investments will contribute an increasing share for the years to come.

SALE AND PURCHASE OF SHARES

During the financial year, the Company issued 404,423 shares under the Employee Share Subscription Scheme with a price at HK\$0.35 per share. Apart from this, there was no redemption, purchase, sale or cancellation of shares in the Company made by the Company or any of its subsidiaries during the financial year ended 31st March, 2003.

Changes in number of shares in issue are as follows:

Date	Number of Shares	Notes
1/4/2002	638,853,660	Shares in issue
9/7/2002	404,423	Shares issued under Employee Share Subscription Scheme at HK\$0.35 each
31/3/2003	639,258,083	Shares in issue