OPERATING RESULTS

Your Group achieved a significant turn-around in its operating results for the year ended 31st March, 2004 with a profit of HK$1.1 million after tax and minorities compared with last year's loss of HK$246.9 million. Earnings per share was HK0.2 cents (2003: loss per share was HK38.6 cents).

For the year ended 31st March, 2004, turnover was HK$1,502.8 million (2003: HK$1,846.7 million) with a gross profit of HK$93.0 million (2003: HK$164.9 million). Continued weakness and sustained competitive operating environment in the industry led to the decrease in turnover and margin contraction. Cost cutting measures reduced overheads and other operating expenses by 22.9%, before the effect of a 'one-off' provision of HK$8.6 million for accrued staff leave last year. Due to keen competition of the Guangzhou property market and the necessary provision for the construction of additional educational facilities required by the Guangzhou municipal authorities, impairment in value of HK$109.0 million was made for our Guangzhou Wen Chang Court development. After netting off the write back of HK$60.0 million for Hsin Chong Center in light of the significant rebound in Hong Kong's property market, your Group reported an operating loss before taxation of HK$37.6 million (2003: HK$206.5 million) for the year.

SEGMENT ANALYSIS

(1) Building construction and civil engineering

The decrease in outstanding order on hand resulted in a 18.9% drop in turnover for the building and civil engineering divisions to HK$1,472.1 million. Loss after finance costs was HK$28.8 million (2003: HK$7.1 million) as margins narrowed further. Nevertheless, your Group's strategic diversification to the civil engineering sector, commenced around 18 months ago, manifested progress. To minimise the risks involved, your Group joint ventured with other construction companies. During that time, these joint ventures received two large-scale civil engineering contracts with total contract sum of HK$1,704.5 million from the Hong Kong Government. Current year's turnover from the two civil engineering joint venture contracts totalled HK$330.9 million (of which, HK$90.1 million was attributable to our equity share). The aforementioned turnover, however, was not consolidated in accordance with accounting regulations.

(2) Electrical and mechanical engineering

Through increased orders and slightly better margins, Hsin Chong Aster reduced its loss significantly, from last year's HK$4.3 million to HK$0.5 million this year.

(3) Property development

The segment recorded a loss of HK$108.0 million (2003: HK$3.4 million) mainly reflecting a provision of HK$109.0 million for Guangzhou Wen Chang Court due to keen competition of the property market and costs associated with additional educational facilities required by the Guangzhou municipal authorities.

Profit from associated companies of HK$5.0 million represented a write back for residential properties at 18A La Salle Road upon disposal of the remaining units.

(4) Rental property

At year end, No. 3 Lockhart Road was fully let with no significant lease expiries in the near term while renewal and new letting rentals were in line with market rates. Total rental income (including rental income from portions of Hsin Chong Center not occupied by the Group) was lowered by 11.5% to HK$19.1 million, due to a lower average occupancy rate of 91% in No. 3 Lockhart Road (2003: 93%). The firming of Hong Kong's property market led to a write back of HK$60.0 million for Hsin Chong Center, with a consequential net profit after finance cost of HK$65.4 million for the year (2003: loss of HK$146.7 million, including impairment losses of HK$20.3 million and HK$127.0 million against No. 3 Lockhart Road and Hsin Chong Center respectively).

(5) Hotel operations

Impacted by the outbreak of Severe Acute Respiratory Syndrome (SARS) on a full-year basis, Novotel Century Harbourview's occupancy averaged 73% (2003: 85%) while average room rates recorded a modest increase to HK$373 per room (2003: HK$359 per room). However, operating income was not yet sufficient to cover depreciation and financial charges, resulting in a loss of HK$0.8 million (2003: HK$16.2 million, including a provision for impairment of HK$15.0 million).

(6) Other operations

Other operations comprised integrated facility management ("IFM") in the People's Republic of China ("PRC") and the discontinued piling and foundations business. IFM reported turnover of HK$8.5 million with gross profit of HK$0.1 million for the year. In addition, a gain on the deconsolidation of subsidiaries under liquidation amounting to HK$32.3 million was recorded, as described in note 5 to the accounts. Results from other associates and joint ventures are minimal.

On consolidation, return of equity improved from -43.8% of last year to 0.3% of this year.

OUTLOOK

The Economy — In the course of the year we have seen a significant improvement in general market sentiment as confidence in a sustained economic recovery increased, driven in part by a relaxation in travel restrictions for mainland Chinese tourists which has boosted the retail and hotel sectors. There has also been a generally positive response from the services industry to the recent Closer Economic Partnership Arrangement (CEPA) initiative and a noticeable increase in the provision of value-added services into the PRC through Hong Kong based companies. The all important property sector benefited from some early mainland investor interest in medium and high end property, stimulating this sector of the market, which has in turn led to a steady upward pressure on prices offering some relief to many suffering with negative equity. Much of this interest has assisted in taking up some of the surplus in the residential property market but it has not been sustained sufficiently to encourage either the private or public sector to commence much in the way of new build. Overall we are seeing encouraging dynamics for the Hong Kong economy and provided the pace of growth in the PRC can be controlled effectively, we should see this trend continuing.

The Industry — Despite the continued drop in sector output and the extremely severe market conditions, there has been very little industry consolidation or restructuring. Public and private sectors' clients, with a few notable exceptions, have remained focused on low price as the sole benchmark for awarding new contracts in the early part of the year and we have seen acceptance prices driven to marginally viable levels. This is an unhealthy trend and must in time lead to unsatisfactory quality and performance, poor safety and environmental records and lower levels of commitment to training and development which will damage the reputation of the industry as a whole. Having said this, however, it is important to note that many companies like Hsin Chong still strive to maintain high standards and certain Government agencies have responded positively to appeal from industry associations for the introduction of a two envelope technical and commercial assessment system.

Typically the industry will be one of the last to benefit from any upturn in Hong Kong's improved economy and with significant over capacity remaining, we can expect pricing levels and output to continue to be depressed. Opportunities to add real value to the contractual process continue to be limited and the introduction of new procurement models such as design and build and private finance initiatives continue to be slow. There is however increased interest being shown by all stakeholders in the sector and your Group will continue to participate fully with its industry pier group to bring about some meaningful change.

The Group — The management has spent the last eighteen months refocusing the Group's business and addressing many of the operational and management issues that have affected our trading performance in recent years. We have reduced and simplified the structure of the organization to provide greater individual accountability and we have implemented new cost and credit control procedures to improve our cash flow and treasury management. We have also implemented a new cost/value reconciliation procedure that provides an accurate monthly assessment of project-level financial risk and profitability. This procedure also allows a quarterly review and assessment of forecasted final project out-turn by the Executive Committee and an accurate comparison with budgeted forecast data. These and associated changes in the business focus of the Group create a greater sense of ownership and have been instrumental in achieving the improved results for the period. This represents a significant turnaround over the year and is indicative of what has been achieved, even in such adverse market conditions, as a result of our three-year period of restructuring.

Your Group continues to be highly selective when developing new business opportunities and where possible we seek to achieve growth through strategic alliances with both investment and technical partners both in Hong Kong and the PRC. In our domestic building market, we maintain a stable order book of high profile quality projects which generate a modest return but more importantly provide the Group with a strategic resource in support of new initiatives. An example of this is our construction management division which was appointed to manage the construction and fitting-out of the 1 million square feet project — Venetian Sands Casino in May 2003 which was successfully handed over and opened for business within 12 months of taking over the site. Our civil engineering division has enjoyed similar success in the period and now has a good mix of work, some of which are in joint venture with other major domestic and international companies, the most significant of which has been the recent award of the HK$2.7 billion contract for Stonecutters Bridge to the Maeda-Hitachi-Yokogawa-Hsin Chong joint venture.

We continue to maintain a viable electrical and mechanical business in Hong Kong through an associate — Hsin Chong Aster Building Services Limited, through which we have been able to penetrate the PRC market with the acquisition of an established building services company. This recently re-classified Class 1 company will be fundamental to the development of our integrated approach to this major market.

The strategic redirection and business focus of the Group is now established, our restructured management teams are in place in Hong Kong, Macau and the PRC and we now have established technical and investment partners with whom we share our vision of the future. The way ahead is going to be very challenging but I am confident that we are in a position to deliver and sustain improved results next year and maintain the corporate culture and values that have served your Group so well in the past.

Your Board and the management are committed to success and growth of our core businesses. Sustained profitability from operations and excellence in execution toward this goal is our laser-like focus. We are satisfied, in so far as we are aware, that any material negative financial impact originating from the Group's non core activities have now been accurately provided for and today we are now looking at a 'clean slate' from which we can now move forward with confidence to build a sustained profitable future for your Company.

Rodney Gordon FRANKS
Managing Director

Hong Kong SAR, 9th July, 2004