

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. Current year's result was marginally profitable with return on equity of 0.3%. This was mainly due to declined turnover and margin contraction in the building construction and civil engineering operation together with the provision for impairment in Guangzhou Wen Chang Court but net off against the provision write back for Hsin Chong Center.

Capital Structure — Hsin Chong historically adheres to a policy of conservative capital management. We believe a strong 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 programme to provide executives and employees with retirement compensation and at the same time promotes staff stability. Under the programme, 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

Debt to capitalization stood at 35% on the balance sheet date (2003: 29%). Stripping out the provisions/write back for asset impairment which has no impact on cashflow, interest cover was 2.2x (2003: -4.2x) with debt to cashflow cover of 6.2x (2003: -12.2x). Total bank borrowing, at a weighted average interest cost of 3.4% per annum, amounted to HK\$238.8 million (31st March, 2003: HK\$204.1 million), of which 30% (31st March, 2003: 54%) falls due after one year. Out of these borrowings, HK\$170.8 million are charged at a spread to HIBOR with the rest denominated in Renminbi for which applicable interest rates are charged at a spread to the reference interest rate as prescribed by The People's Bank of China. Up to 30th June, 2004, total credit facilities (exclude construction finance for Guangzhou Wen Chang Court) available to Hsin Chong amounted to HK\$466.2 million (including a renewal for three years for HK\$250.0 million revolving term loan facility) with an undrawn balance of HK\$340.0 million. Land and buildings with a carrying value of HK\$125.6 million (31st March, 2003: HK\$68.5 million) have been pledged to secure mortgage loans. 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 RMB130.0 million has been arranged of which RMB58.6 million has been drawn down as of 30th June, 2004. Hsin Chong's other financing requirements for the coming year will be amply met by available cash as at balance sheet date, cash generated by operations and bank credit facilities.

As of 31st March, 2004, net working capital amounted to HK\$175.3 million (31st March, 2003: HK\$247.8 million). Cash balances and short term investments are 2.7% higher at HK\$568.6 million compared with last year end (HK\$553.5 million) with 91% (31st March, 2003: 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. 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.

At year end, Hsin Chong has outstanding forward exchange contracts with unexpired tenor of one year to hedge HK\$150 million against US dollar. No forward exchange contract was entered subsequent to year end. Besides, Hsin Chong also hedged 68% of its long term borrowings (exclude borrowings for the construction of Guangzhou Wen Chang Court) for the HIBOR element by interest swap agreements with unexpired tenor of one year.

OPERATIONAL REVIEW ON CONTRACTS

Subsidiaries

Over the past twelve months, the building construction arm received new contracts of HK\$1,726.7 million, or HK\$1,536.8 million net of adjustments for nominated subcontractor works and prime costs. These included three Hong Kong projects totalling HK\$1,481.0 million: (a) the construction of Main Building Works for Pok Oi Hospital Redevelopment and Expansion at Yuen Long, New Territories from the Hospital Authority; (b) Phase 7 Development Works for Hong Kong Polytechnic University; and (c) a 30-classroom Primary School at Diocesan Boys' School Campus at Argyle Street, Kowloon. In addition, Hsin Chong was awarded a contract of RMB354.5 million (HK\$332.4 million) by Shijiazhuang Jie Zheng Manufacture Limited for the construction of a 2-million ton steel plate manufacturing plant and its associated facilities at Jing Xing Kuang Qu, Shijiazhuang, Hebei Province, the People's Republic of China ("PRC"). Due to the ensuing macro-economic tightening policy implemented by the PRC Government subsequent to the award of the contract, the contract sum was significantly reduced to limit exposure.

The civil engineering arm received new contracts of HK\$108.4 million, mainly from the Civil Engineering Department of the Hong Kong Government for a 10-Year Extended Landslip Preventive Measures Project in Lantau and Lamma Island. Civil engineering joint ventures are described in the section 'Associate and Joint Venture' below.

Contracts totalling HK\$2,529.2 million were completed including HK\$2,392.5 million from building construction contracts mainly from (a) IL8969 Cyberport Development at Telegraph Bay, Pokfulam, Hong Kong; (b) Tseung Kwan O Area 73A, Phase 4; (c) Shek Lei Estate Phase 12; (d) Cambridge House at 981 King's Road, Quarry Bay; (e) Grosvenor Place at 117 Repulse Bay Road; and (f) Caroline Centre, Causeway Bay.

Civil engineering contracts totalling HK\$136.7 million were completed, including (a) Hung Shui Kiu North Phase 1; and (b) construction of Pok Wai Drainage Channel.

Overall, consolidated orders on hand amounted to HK\$3,030.4 million, a 22.6% decrease over the preceding year.

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

	31/3/2003 HK\$ million	Received HK\$ million	Completed HK\$ million	31/3/2004 HK\$ million
Building Construction				
Hong Kong SAR	2,888.1	1,565.0	(2,387.1)	2,066.0
Mainland China	585.0	(28.2)	(5.4)	551.4
Civil Engineering				
Hong Kong SAR	439.5	106.1	(132.6)	413.0
Mainland China	1.8	2.3	(4.1)	—
Total	3,914.4	1,645.2	(2,529.2)	3,030.4

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

	Amount HK\$ million	%
Government	687.0	22.7
Public, Charitable or Non-Profit Institutions	481.0	15.8
Hospitals	1,000.0	33.0
Private Developers	862.4	28.5
Total	3,030.4	100.0

Building Construction and Civil Engineering

Both turnover decreased by 18.9% to HK\$1,472.1 million and outstanding orders decreased by 22.6% to HK\$3,030.4 million for 2003/2004. Profit margins dropped from -0.4% in last year to -2.0% of this year.

Major contracts received during the year include:

Contract	Location	Type	Amount HK\$ million
Pok Oi Hospital Redevelopment	Yuen Long, Hong Kong	Hospital	1,000.0
Hong Kong Polytechnic University, Phase 7	Hunghom, Hong Kong	University	369.0
Diocesan Boys' School	Mongkok, Hong Kong	School	112.0
Extended Landslip Preventive Measures Project, Phase 2	Lantau and Lamma Island, Hong Kong	Civil Work	94.0

Major contracts completed during the year include:

Contract	Location	Type	Amount HK\$ million
Cyberport Development C3/C4	Pokfulam, Hong Kong	Commercial	1,003.7
Tseung Kwan O Area 73A Phase 4	Tseung Kwan O, Hong Kong	Residential	640.6
Cambridge House	Quarry Bay, Hong Kong	Commercial	368.2
Shek Lei Estate Phase 12	Shek Lei, Hong Kong	Residential	138.3
Grosvenor Place	Repulse Bay, Hong Kong	Residential	102.6
Alteration Works at Caroline Centre	Causeway Bay, Hong Kong	Commercial	98.1

Associate and Joint Venture

Hsin Chong Aster (the 50% owned electrical and mechanical installation associate) doubled its order book over last year's level to HK\$541.9 million as at 31st March, 2004. Electrical and mechanical installation contracts amounting to HK\$363.4 million were received with HK\$83.1 million completed. The principal award was HK\$271.4 million subcontract work for Pok Oi Hospital Redevelopment and Expansion at Yuen Long. Major completions included (a) Redevelopment of Lady Ho Tung Hall (Phase I & II) of The University of Hong Kong; (b) Senior Citizen Residence at Tseung Kwan O Area 44; and (c) IL8969 Cyberport Development at Telegraph Bay, Pokfulam, Hong Kong.

The Leighton-Hsin Chong Joint Venture, in which Hsin Chong has 50% interest, received a civil engineering contract of HK\$221.1 million for Contract P352 — SkyPlaza Advanced Works from the Hong Kong Airport Authority.

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

	31/3/2003 HK\$ million	Received HK\$ million	Completed HK\$ million	31/3/2004 HK\$ million
Hsin Chong Aster	261.6	363.4	(83.1)	541.9
MBH Joint Venture	1,483.4	—	—	1,483.4
Leighton-Hsin Chong Joint Venture	—	221.1	—	221.1
Total	1,745.0	584.5	(83.1)	2,246.4

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**

As at the balance sheet date, 261 car parking spaces remain unsold (last year: 266 spaces) with carrying value of HK\$20.6 million, net of impairment provision of HK\$33.1 million. These car parking 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 fully let. Hsin Chong's cost thereof is amortised on a straight-line basis over 20 years. The residual lease term is around 10 years. Current carrying value stands at HK\$87.4 million after accumulated provision of HK\$30.3 million.

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\$34.4 million (2003: HK\$34.0 million). Global Tourism Revival Campaign launched by The Hong Kong Tourism Board and the "Individual Visit Scheme" in the second half were insufficient to offset the adverse impact of the outbreak of Severe Acute Respiratory Syndrome (SARS) early in the year. Novotel Century Harbourview's average occupancy rate for the year was 73% as compared with last year's 85% while the average room rate improved by 4%.

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. In view of the improvement in property market, a write back for impairment in value of the property of HK\$60.0 million was made in this year leaving the carrying cost at HK\$125.6 million at year end date.

18A La Salle Road, Kowloon Tong, Hong Kong

The luxury development, in which Hsin Chong holds 25% interest, comprises six residential houses with gross floor area ranging from 5,544 square feet to 6,518 square feet each. As at the date of this report, the whole development had been disposed of.

Guangzhou Wen Chang Court, PRC

The project, which can be developed into residential units and shops in phases, comprising a total site area of 18,215 square metres (approx. 196,000 square feet) bound on the East by Wen Chang Road North and on the South by Yao Hua Jie North, Guangzhou City, PRC. Hsin Chong has an effective interest of 42% in the project.

Phase I comprises a total saleable floor area of approximately 40,620 square metres with 99 car parks at an estimated cost of approximately HK\$378.6 million. During the year, the foundation works was completed with development costs accumulated to HK\$190.4 million (2003: HK\$149.7 million). The keen competition of Guangzhou's property market and cost associated with additional educational facilities required by the Guangzhou municipal authorities led to a further provision of HK\$109.0 million. The cumulative provision for impairment in value is HK\$168.5 million (2003: HK\$59.5 million).

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 10% interest in SuCasa, carried at a value of HK\$10.2 million (2003: HK\$10.1 million).

Budi Ikhtiar, Kuala Lumpur, Malaysia

Hsin Chong has 20% interest 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. The project's partners have decided to solicit offers for the site.

MAJOR CONTRACTS AND PROJECTS SUBSEQUENT TO YEAR END**Consolidated**

Subsequent to the year end, Hsin Chong was awarded building construction contracts of HK\$579.0 million, including the Residential Redevelopment at STTL 526, No. 2 Lok Kwai Path, Area 43, Shatin, New Territories. In conjunction with building construction contract completed of HK\$64.1 million, total outstanding contracts increased from HK\$3,030.4 million at year end to HK\$3,545.3 million as of 30th June, 2004.

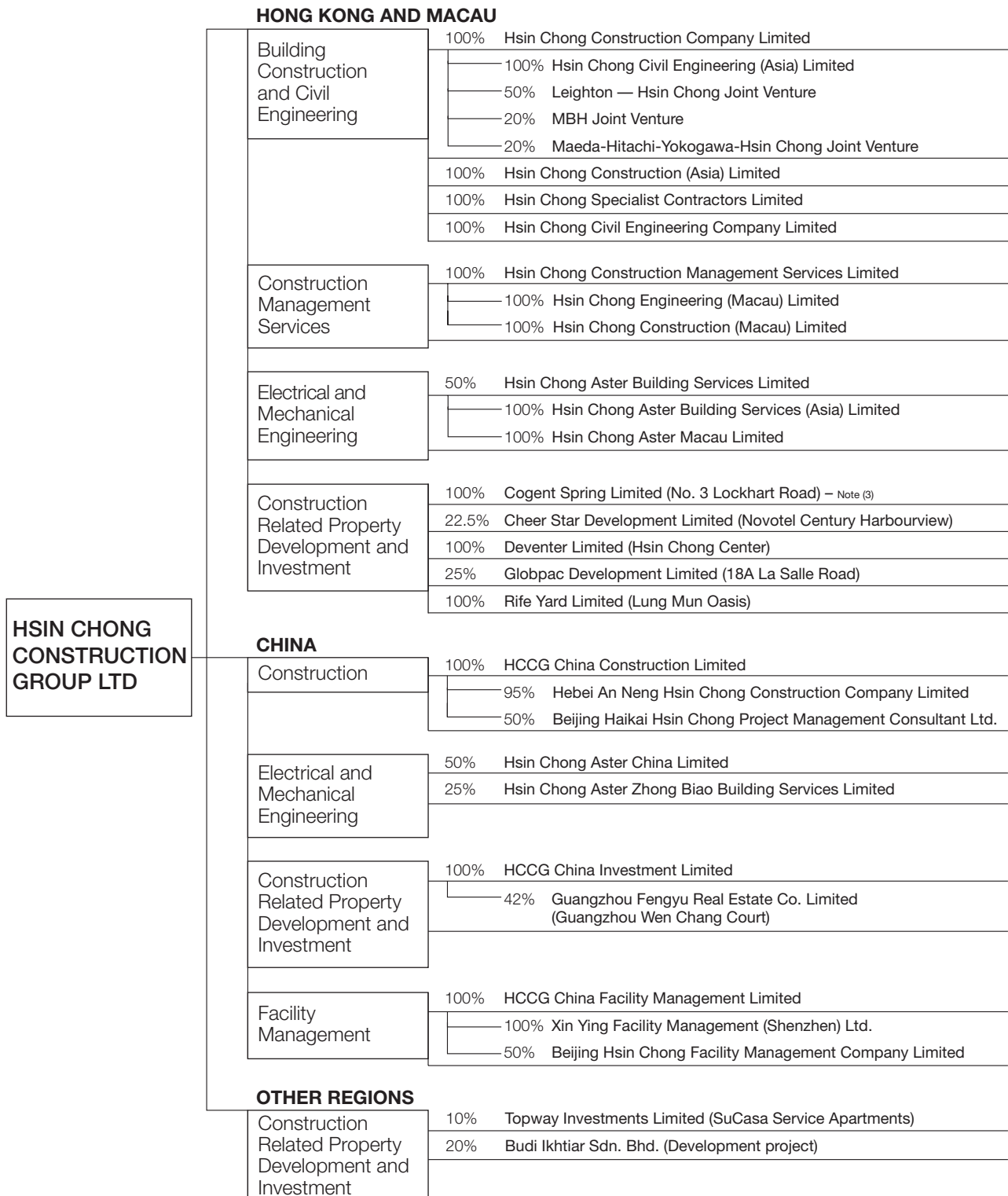
Associate and Joint Venture

Hsin Chong Aster received contracts of HK\$543.7 million, including design and installation of HVAC, Electrical, Fire Services, Steam, Plumbing and Drainage Systems at Beijing Morgan Center, Beijing, PRC and MVAC, Electrical and Fire Services Installation for Student Hostel Phase 3 Development at City University of Hong Kong. Contract completed at HK\$104.2 million mainly represented Building 7 and 8 of Hong Kong Science Park at Pak Shek Kok, Phase 1C, New Territories.

In April 2004, Hsin Chong's consortium with three renowned Japanese contractors, Maeda Corporation, Hitachi Zosen Corporation and Yokogawa Bridge Corporation namely Maeda-Hitachi-Yokogawa-Hsin Chong Joint Venture, was awarded the world's longest cable-stayed bridge contract — Stonecutters Bridge from Highways Department for HK\$2.7 billion. Hsin Chong has 20% interest in the said joint venture, equivalent to a contract sum of HK\$552.0 million.

In May 2004, Leighton-Hsin Chong Joint Venture, in which Hsin Chong has 50% interest, received additional civil engineering work of HK\$91.6 million for SkyPlaza Advance Works contract from the Hong Kong Airport Authority.

ORGANIZATIONAL STRUCTURE



Notes:

- (1) This chart is a simplified ownership diagram only, not all intermediate holding companies are shown.
- (2) A percentage figure indicates the ultimate percentage owned of that company within the Group.
- (3) This relates to a Build, Operate and Transfer project under which Cogent Spring Limited was granted a lease for a period of 20 years commencing in 1994.

HUMAN CAPITAL INVESTMENT

People are our Key to Success

As Hsin Chong continues to believe that the quality, commitment and experience of its employees are the most important factors in maintaining and improving its business position, heavy emphasis has continued on investing in people — our human capital.

Hsin Chong continues to offer competitive packages to attract high caliber people and those who can contribute to the success of our business. During the year, Hsin Chong has successfully attracted various senior professionals who are committed to realizing Hsin Chong's business strategies, within both Hong Kong and PRC top management teams. This remains a key strategy towards securing Hsin Chong's progress as a market leader in the industry.

Review and Restructure of the Human Resources Department

A Human Resources Director has been recruited to assist Hsin Chong upgrading the quality and professionalism of the human resources department. A number of initiatives have since been taken amongst which has been the recruitment of a professional Training and Development Manager, this appointment being aimed at strengthening our succession planning ability, staff training and development generally and to ensure our high potential staff are developed to meet with the business demands of today and tomorrow.

External Recognition

Hsin Chong has been awarded the Caring Company Logo for a second year by the Hong Kong Council of Social Service for consistent commitment to social obligations and voluntary work. The Hsin Chong Apprentice Group and some staff have continued to visit people in need such as the elderly, the handicapped or people who live alone etc., and have carried out various voluntary home maintenance work for them.

Hsin Chong has received apprentice awards granted by the Vocational Training Council and site safety awards granted by the Lighthouse Club. These external recognition awards confirm our continued outstanding contribution from our front line staff in their daily work performance.

Training and Development

Hsin Chong encourages staff to learn and develop. Staff are provided with wide ranging opportunities to attend courses aimed at improving job knowledge and skills and to enhance their professional qualifications. The qualifications of the Hsin Chong workforce as at 31st March, 2004 are summarized below:

Qualifications	Employees	
	Number	%
Master degree or above	36	3.8
Bachelor degree or equivalent professional qualification	171	17.9
Diploma and Higher Certificate holder	173	18.0
Certificate holder	209	21.8
Others	368	38.5
Total	957	100

Over 180 separate courses have been provided to staff (with more than 14,000 attendance hours) during the year.

HEALTH, SAFETY AND ENVIRONMENTAL MANAGEMENT

Health, Safety and Environment have always been the top priorities for Hsin Chong and they are acknowledged as being part of our corporate social responsibility. As one of our core corporate values, it is important that this and all related issues remain an integral part of our business culture.

Health and Safety

Health and Safety at work is not only Hsin Chong's legal and contractual obligation but also our moral duty to the Society at large. Hsin Chong is committed to reducing the number of industrial accidents and dangerous occurrences on our construction sites through the proper development and implementation of our safety management system.

This system includes measures for:

- enhancing workers' safety awareness by incentive schemes, site safety exhibition and promotion events;
- development of effective process control programmes such as electric arc welding training/licensing/work permit system; and
- nurturing a safety culture through active participation in external safety promotion activities — the Considerate Contractors Site Award Scheme, the Construction Industry Safety Award Scheme and Carnival, and the Hong Kong Occupational Safety & Health Award just to name a few,

all of which have been successfully executed in past years.

As a result of Hsin Chong's commitment to its core values, we hope to contribute towards reducing the financial liabilities on future generations and the burden on Society resulting from industrial injuries and help present the construction industry as a safe environment in which to work and thereby attract more young talent to join. We shall continue to devote our utmost effort in this regard and strive to achieve further improvement. In this connection, we believe that engineering methodology and structural design are two of the prime factors influencing site personnel and public safety particularly for civil and complex building projects, and as such, we maintain experienced technical, health and safety personnel on all our sites to monitor and advise our project teams on their performance in respect of these important elements of the contract.

Given our total commitment and proactive attitude, we have great confidence that we are an influential force in uplifting the standards in health and safety in the construction industry.

Environment

Hsin Chong is determined to participate in building a better environment through continuous contributions to environmental conservation and protection initiatives for our staff, site workers and the general public.

Hsin Chong's concern for the environment is reflected in both its project management and daily operations. Hsin Chong's environmental management system, which was certified to ISO 14001 in Year 2001, is incorporated into its project and quality management procedures which ensure environmental issues receive regular and close attention.

Hsin Chong recognises the environmental impact that can arise from construction activities and through its management of the daily operations is dedicated to mitigating and minimising such impact. In recent years, Hsin Chong has initiated and implemented the following in-house measures in this respect:

- Preventing pollution and continuously improving our environmental performance through design and installation of advanced wastewater treatment plant, erection of noise barriers, installation of automatic sprinkler for dust suppression as well as reduction, reuse and recycling of construction waste etc.;
- Enhancing environmental awareness of staff and workers by providing training in relation to our environmental policy and our environmental objectives and targets as well as in relation to the potential impacts arising from our operations; and
- Implementing procedures for prequalification and on-going assessment of suppliers and sub-contractors in line with ISO 14001 requirements.

We believe that with our continued corporate commitment to environmental protection, we can join with others in the industry to help making the construction sector more socially responsible and acceptable as we seek to achieve better pollution control in all cities and regions where we work, including Hong Kong.

SALE AND PURCHASE OF SHARES

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, 2004.