Management's Discussion and Analysis

Financial Position

Hsin Chong Construction Group Ltd. ("Company", together with its subsidiaries, the "Group") maintains its policy of conservative capital management with debt to capitalization of 34% at the balance sheet date (2004: 35%). Total bank borrowing carried at a weighted average interest rate of 3.7% per annum amounted to HK$243.6 million (31st March, 2004: HK$238.8 million), of which 58% (31st March, 2004: 30%) falls due after one year. Out of these borrowings, HK$146.0 million are charged at a spread to HIBOR with the rest being 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, 2005, total credit facilities (excluding construction finance for Guangzhou Wen Chang Pavilion) available to the Group amounted to HK$445.0 million with an undrawn balance of HK$300.0 million. In respect of Guangzhou Wen Chang Pavilion first phase development, in which the Group has an effective interest of 42%, a construction bank loan of RMB130.0 million has been arranged of which RMB116.2 million has been drawn down as of 30th June, 2005. The Group's other financing requirements for the coming year will be met from internal resources as to available cash at balance sheet date, cash generated by future operations and bank credit facilities.

As of 31st March, 2005, net working capital amounted to HK$301.3 million (31st March, 2004: HK$175.3 million). Cash balances and short term investments are 11.2% lower at HK$505.1 million compared with last year end (HK$568.6 million) with 89% (31st March, 2004: 91%) as cash and cash equivalents.

Financial Focus

Return on Equity

The Group pays close attention to return on equity for both current businesses and new investment opportunities. The Group appreciates just being more profitable than other companies in the same industry may not be good enough for some investors. As a manager of public shareholders' capital, the Group aims to generate risk-adjusted returns on capital that are systematically acceptable to investors taking into account that construction is a cyclical industry. The current year's result was profitable with a return on equity of 5.1%. The increased profit was mainly due to improved margins as a result of cost savings on completed building projects, better managed building projects and the developing construction management activities, together with a total write-back of HK$54.6 million on previous property impairment provisions in respect of Hsin Chong Center and Novotel Century Harbourview.

Capital Structure

The Group historically adheres to a policy of conservative capital management. We believe a strong balance sheet affords more opportunities upon an industry upturn, and 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 the Group is tied in a meaningful way to profitability. The Board believes such incentive remuneration best motivates its staff, aligns management's interests with shareholders' and minimises fixed salary expenses.

Financial Hedging and Other Off Balance Sheet Financial Instruments

The Group's net borrowings and cash balances are primarily denominated in Hong Kong and US dollars, except the construction finance for Guangzhou Wen Chang Pavilion, which is denominated in Renminbi. The Group has no significant exposure to foreign currency fluctuations. In addition, the Group adopts hedging policies for mitigating interest rate risks and exchange rate risks associated with respective assets or liabilities, rights or obligations. Such policies ensure effective cost controls on construction costs as early as the tendering stage and controllable borrowing costs 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 the Group and the latter comprises exposure due to currency needs from normal business operation for material procurements and services requirements. The Group 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 considered overall to be adequate.

Gain or loss arising from relevant hedging transactions will be booked as a profit or loss associated with the 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, the Group has outstanding forward exchange contracts to hedge HK$161 million mainly against US Dollar and Euro. Subsequent to year end, a total HK$111 million of those contracts were closed and another HK$50 million undertaken.

Operational Review on Contracts

Subsidiaries

Over the past twelve months, the Building Construction Division received new contracts of HK$2,110.6 million (after netting off reduced nominated subcontractors' works and provisional sum adjustment of HK$42.0 million). Two building construction contracts were awarded in Hong Kong, including the residential redevelopment at STTL 526, No. 2 Lok Kwai Path, Area 43, Shatin, New Territories and the design and build contract for the design and construction of Tong Ren Tang Chinese Medicine Manufacturing Factory at Tai Po Industrial Estate, with a total contract sum of HK$674.0 million. In China, the Group received new contracts of HK$436.3 million. The principal award was the contract of HK$427.2 million for the construction of four high-rise apartment buildings, three multi-storey commercial and residential towers and a kindergarten at Phase 2 Group II of Central Park, Beijing.

Also, the Group entered into a construction management agreement with Venetian Cotai Limited for the Venetian Cotai Development in Macau. The agreement involves the Group in the management of a number of major trade contracts as well as the highly complex fit out and facade works packages and is scheduled for completion by the end of 2007. This project and its associated infrastructure works will provide a solid base for growing the Group's business in this expanding regional economy.

Contracts totalling HK$660.5 million were completed including (a) the construction work of Senior Citizen Residence at Jordan Valley for the Hong Kong Housing Society; (b) residential developments at No. 42 Island Road; (c) 26 Belcher's Street; (d) a 30-classroom Primary School for the Diocesan Boys' School Campus at Argyle Street, Kowloon; and (e) the construction management of Phase I and II of the Venetian Sands Casino Project in Macau.

Overall, consolidated orders on hand amounted to HK$4,485.8 million, a 48.0% increase over the preceding year.

The breakdown of outstanding contracts of the Group's construction subsidiaries is as follows:

	31/3/2004 HK$ Million	Contracts Received HK$ Million	Contracts Completed HK$ Million	**31/3/2005 HK$ Million**
Building Construction				
Hong Kong and Macau	2,066.0	1,674.3	(657.0)	**3,083.3**
Mainland China	551.4	436.3	(0.2)	**987.5**
Civil Engineering				
Hong Kong	413.0	3.3	(3.3)	**413.0**
Mainland China	—	2.0	—	**2.0**
Total	3,030.4	2,115.9	(660.5)	**4,485.8**

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

	Amount HK$ Million	%
Government	416.4	9.3
Public, Charitable or Non-Profit Institutions	369.0	8.2
Hospital	1,000.0	22.3
Private Developers	2,700.4	60.2
Total	4,485.8	100.0

Building Construction and Civil Engineering

Total turnover and outstanding orders for 2004/05 are HK$1,123.2 million and HK$4,485.8 million, a decrease of 23.7% and increase of 48.0% respectively. Profit margins improved to +1.7% this year from a loss of 2.0% last year.

Major contracts received during the year include:

Contract	Location	Type	Amount HK$ Million
Venetian Cotai Development	Cotai area, Macau	Commercial	1,001.4
Residential Redevelopment at STTL 526, No. 2 Lok Kwai Path, Area 43	Shatin, Hong Kong	Residential	579.0
Central Park Phase 2 Group II	Chaoyang District, Beijing	Commercial and Residential	427.2
Tong Ren Tang Chinese Medicine Manufacturing Factory at Tai Po Industrial Estate	Tai Po, Hong Kong	Design and Build	95.0

Major contracts completed during the year include:

Contract	Location	Type	Amount HK$ Million
Senior Citizen Residence	Jordan Valley, Hong Kong	Residential	251.6
Proposed Residential Development at 26 Belcher's Street	Kennedy Town, Hong Kong	Residential	99.3
Diocesan Boys' School	Mongkok, Hong Kong	School	96.2
Proposed Residential Development at No. 42 Island Road	Repulse Bay, Hong Kong	Residential	59.1

Associates and Joint Ventures

Hsin Chong Aster (the 50% owned electrical and mechanical installation associate) decreased its order book by 25.9% over last year's level to HK$401.5 million at 31st March, 2005. Electrical and mechanical installation contracts amounting to HK$66.0 million were received with HK$206.4 million completed. The principal awards included HK$21.8 million subcontract work for Centralized Science Laboratories at The Chinese University of Hong Kong and HK$20.6 million MVAC, Electrical and Fire Services Installation Subcontract for Student Hostels Phase 3 Development at City University of Hong Kong. Major completions included Building 7 and 8 of Hong Kong Science Park at Pak Shek Kok, Phase 1C, New Territories, Student Hostels Phase 2 Development for City University of Hong Kong and Tung Chung Station Development Package II Site 4 Phase 1.

The Maeda-Hitachi-Yokogawa-Hsin Chong Joint Venture, in which the Group has 20% interest, received a civil engineering contract of HK$2.7 billion for the world's longest cable-stayed bridge contract — Stonecutters Bridge from Highways Department. The substantial material requirements and long delivery schedule for this contract in a demand driven commodity market will make significant demands on the Joint Venture during the procurement period where fluctuating global price trends can be anticipated.

The Leighton-Hsin Chong Joint Venture, in which the Group has 50% interest, completed a civil engineering contract of HK$359.1 million for Contract P352 — SkyPlaza Advanced Works from the Hong Kong Airport Authority.

The breakdown of outstanding contracts of the Group's construction associates and joint ventures are as follows:

	31/3/2004 HK$ Million	Contracts Received HK$ Million	Contracts Completed HK$ Million	**31/3/2005 HK$ Million**
Hsin Chong Aster	541.9	66.0	(206.4)	**401.5**
MBH Joint Venture	1,483.4	—	—	**1,483.4**
Maeda — Hitachi — Yokogawa — Hsin Chong Joint Venture	—	2,760.0	—	**2,760.0**
Leighton — Hsin Chong Joint Venture	221.1	138.0	(359.1)	**—**
Total	2,246.4	2,964.0	(565.5)	**4,644.9**

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

Construction Related Property Development

Lung Mun Oasis, Tuen Mun, Hong Kong

At the balance sheet date, 260 car parking spaces remain unsold (2004: 261 spaces) with carrying value of HK$20.5 million, net of impairment provision of HK$33.0 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. The Group has a 20-year freely-assignable master lease for the 11th-30th floors, comprising approximately 77,000 square feet which is fully let. The Group's cost thereof is amortised on a straight-line basis over 20 years. The residual lease term is around 9 years. Current carrying value stands at HK$78.8 million after accumulated provision of HK$30.3 million.

Novotel Century Harbourview, Sai Wan, Hong Kong

Novotel Century Harbourview is a modern hotel with 276 rooms (including 12 suites which were converted from 24 standard rooms). The Group has an effective interest of 22.5% in the investment at a carrying value of HK$66.2 million (2004: HK$34.4 million) after an equity share of write-back of impairment in value of the property, of HK$29.7 million made this year. The hotel's average occupancy rate for the year increased to 90% (2004: 73%) while the average room rate also improved by 43%. This was mainly due to the recovery in the hotel and tourism industry in Hong Kong as well as the management's successful migration towards high-yield customer segments of the market.

Hsin Chong Center, Kwun Tong, Hong Kong

The property has been used as headquarters of the Group since April, 1999 with some office space taken up by certain related companies at market rentals. In view of the improvement in the Hong Kong property market, a write-back of the impairment in value of the property of HK$24.9 million was made this year leaving the carrying cost at HK$145.0 million at year end date. In April, 2005, the Group entered three tenancy agreements with three related companies after the master tenancy agreement signed in 1999 expired on 31st March, 2005. These tenancies will continue to provide the Group with stable rental income.

Guangzhou Wen Chang Pavilion, PRC

The project, can be developed into residential units and shops in phases, comprising a total site area of 18,215 square metres (approximately 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. The Group has an effective 42% interest in the project.

Phase I comprises a total saleable floor area of approximately 40,511 square metres with 99 car parks at an estimated cost of approximately HK$378.6 million. During the year, the superstructure construction work of first phase development has been commenced. The pre-sale of Phase I has been launched in June, 2005 and the construction work is progressing well and is expected to be completed in December, 2005.

To date, the Group's investment amounts to HK$217.1 million (2004: HK$190.4 million).

SuCasa Service Apartments, Kuala Lumpur, Malaysia

SuCasa is a 180-room service apartment development with dining, recreational and parking facilities which commenced operations in 1993. The Group has a 10% interest in SuCasa, carried at a value of HK$10.2 million (2004: HK$10.2 million).

Budi Ikhtiar, Kuala Lumpur, Malaysia

The Group has 20% interest in the site, which is a joint venture with the Mandarin Oriental Hotel Group. In October, 2004, the joint venture has disposed of the site for RM65 million (approximately HK$133.9 million). After the disposal, the joint venture has distributed the surplus assets to the partners as a return of capital. At present, the joint venture company is in liquidation.

Major Contracts and Projects Subsequent to Year End

Consolidated

Subsequent to the year end, the Group was awarded a construction contract of HK$151.7 million of building construction work from Firmwin Peak Limited, a subsidiary of Hsin Chong International Holdings Limited, for a proposed residential development at Lot No. 4784 in D.D. 104, Ngau Tam Mei, Yuen Long, New Territories. In conjunction with building construction contracts completed of HK$16.3 million, total outstanding contracts increased from HK$4,485.8 million at year end to HK$4,621.2 million as of 30th June, 2005.

Associate and Joint Ventures

In April, 2005, Hsin Chong — Hsin Chong Aster Joint Venture, a collaboration between the Group's construction arm and the Electrical and Mechanical Division, received a contract of HK$470.0 million for the construction of Hong Kong Science Park Phase 2 (Area A), Pak Shek Kok, Tai Po (TPTL No. 182) from Hong Kong Science and Technology Parks Corporation.

Hsin Chong Aster also successfully secured a contract of HK$257.1 million for the electrical and mechanical work of Hong Kong Science Park Phase 2 (Area B), Pak Shek Kok, Tai Po from Hong Kong Science and Technology Parks Corporation.

Organizational Structure

HSIN CHONG CONSTRUCTION GROUP LTD

HONG KONG

- Building Construction and Civil Engineering
  - 100% Hsin Chong Construction Company Limited
    - 100% Hsin Chong Civil Engineering (Asia) Limited
    - 20% MBH Joint Venture
    - 20% Maeda-Hitachi-Yokogawa-Hsin Chong Joint Venture
    - 55% Hsin Chong-Hsin Chong Aster Joint Venture
  - 100% Hsin Chong Construction (Asia) Limited
  - 100% Hsin Chong Specialist Contractors Limited
  - 100% Hsin Chong Civil Engineering Company Limited
- Construction Management Services
  - 100% Hsin Chong Construction Management Services Limited
    - 100% Hsin Chong Construction Management Limited
- Electrical and Mechanical Engineering
  - 50% Hsin Chong Aster Building Services Limited
    - 100% Hsin Chong Aster Building Services (Asia) Limited
    - 45% Hsin Chong-Hsin Chong Aster Joint Venture
- Construction Related Property Development and Investment
  - 100% Cogent Spring Limited (No. 3 Lockhart Road) – Note (3)
  - 22.5% Cheer Star Development Limited (Novotel Century Harbourview)
  - 100% Deventer Limited (Hsin Chong Center)
  - 100% Rife Yard Limited (Lung Mun Oasis)

MACAU

- Building Construction and Civil Engineering
  - 100% HCCG Building and Civil Engineering (Macau) Limited
  - 100% Ever Apex Construction (Macau) Company Limited
- Construction Management Services
  - 100% Hsin Chong Engineering (Macau) Limited
  - 100% Hsin Chong Construction (Macau) Limited
  - 100% Ever Gain Limited
- Electrical and Mechanical Engineering
  - 50% Hsin Chong Aster Macau Limited

CHINA

- Construction
  - 100% 新昌營造建築有限公司
  - 100% HCCG China Construction Limited
    - 95% Hebei An Neng Hsin Chong Construction Company Limited
    - 100% Beijing Hsin Chong Project Management Consultant Ltd.
- Electrical and Mechanical Engineering
  - 50% Hsin Chong Aster China Limited
  - 12.5% Hsin Chong Aster Zhong Biao Building Services Limited
- Construction Related Property Development and Investment
  - 100% HCCG China Investment Limited
    - 42% Guangzhou Fengyu Real Estate Co. Limited (Guangzhou Wen Chang Pavilion)
- Facility Management
  - 100% HCCG China Facility Management Limited
    - 50% Beijing Hsin Chong Facility Management Company Limited

OTHER REGIONS

- Construction Related Property Development and Investment
  - 10% Topway Investments Limited (SuCasa Service Apartments)

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

In line with our continuous improvement programs, our new Human Resources (“HR”) Philosophy was formally introduced in 2004 and now serves as a guiding principle for our human resources management — namely to attract, develop and retain people of the highest caliber and competence.

Review of the Human Resources Department

During the year, the Group implemented a number of new initiatives including the introduction of a grading system, a compensation and benefits’ review, the update of many HR policies, the introduction of a new staff handbook and improvements to our medical care arrangements.

Our performance management systems have also been improved with the introduction of a new electronically based appraisal system. Key changes to the process itself include the setting of agreed performance objectives, the identification of key competencies including areas for personal development and improvement together with a drive for ownership against specific tasks.

The Group has invested in improved employee communications and most notably introduced a much improved ‘Intranet Portal’. That for HR was the first to be introduced and become operational. Whilst the new portal is designed to improve communications between the Group and its employees, it will also serve as a platform for our staff to access news, documentation, policies, procedures — as well as a medium for exchanging employee news, new starter information and the dates of social gatherings and events.

A Recreation Committee has also been established to reinforce staff relationships and provide a focus for various internal/external employee activities.

External Recognition

The Group has won the 2004/2005 “Hearing Protection Device Design Competition” organised by the Occupational Deafness Compensation Board. The Company has again been awarded the Caring Company Logo 2004/2005 by The Hong Kong Council of Social Service which reflects our continuous commitment towards participation in social community services. The Group continues to support various good causes including the Construction Industry Charity in Hong Kong — the Lighthouse Club.

Training and Development

As outlined above, the Group is committed to developing our staff by providing training and development opportunities. Over 150 training courses have been sponsored for staff with in excess of 10,000 attendance hours during the year. This is set to increase further in the coming year.

	Employees	
Qualifications	Number	%
Master Degree or above	59	7
Bachelor Degree or equivalent professional qualification	233	27
Diploma or Higher Certificate holder	282	33
Certificate holder	138	16
Others	145	17
Total	857	100

Health, Safety and Environmental Management

Health, safety and environmental management are of paramount importance to a responsible corporation like the Group. They are inexplicable parts of the Group’s business which are treated as compulsory for all corporate and site personnel to observe at all times.

Health and Safety

In the past year, the Group has devoted much of its effort to build up a safety culture amongst members of its corporate and site communities and the outcome revealed positive signs that show a strengthening safety infrastructure.

As a substantial player in the construction management and contracting sector of the Greater China Region, the Group has successfully sustained its competitive edge where its enhanced health and safety performances have contributed to bolster its business development.

With an aim to allow health and safety concepts to thoroughly penetrate into various levels of the construction sites, ample resources have been invested into the construction industry such as the renowned pay for safety scheme, which has been gradually extended from the initial government contracts to private projects nowadays. It has already become a societal norm and the common goal of the members of the construction industry to achieve more effective control over site safety has hence been further reinforced.

Safety incentive schemes are good starts to establish a proper safety framework and by following this direction, members of construction sites will have health and safety concepts subliminally imprinted in their minds and in turn, each one will naturally be accountable to oneself and others on site. The Group will continue to cope with this framework and input the necessary resources to attain the health and safety goals of the construction industry as well as those of the society.

The health and safety perspective of the construction industry is a bright one, and one day, complete safe working environments and workers' safety conscience will eventually be realised even without any incentives.

Environment

The Group 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.

The Group's concern for the environment is reflected in both its project management and daily operations. The Group'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.

As learnt from the Environmental Protection Department of Hong Kong, the construction industry generates a huge quantity of waste everyday and this amounts to about 38% of the total waste intake of our landfills. It is predicted that existing operating landfills would be exhausted in 6 to 10 years. The Group recognizes the importance of sustainable development and conserving landfill capacity. Taking into account both our operation cost and social responsibilities, the Group has initiated and implemented the following waste management measures in recent years:

- Avoidance and minimization of waste generation through changing or improving design and practices, careful planning and good site management.

- The reuse and recycling of waste is practiced as far as possible. Construction and Demolition (C&D) materials are sorted into public fill (inert portion) and C&D waste (non-inert portion). The public fill is reused in earth filling, reclamation or site formation works. The C&D waste is reused or recycled and, as the last resort, disposed at landfills.

With our continuous effort in waste management and other environmental aspects, the Group was bestowed with the Outstanding Waste Management Performance Grand Award and the Hong Kong Eco-Business Award (Green Construction Contractor) in Year 2004. We shall continuously improve our environmental performance to strive for excellence and we believe that we can join with others in the industry to help making the construction sector more socially responsible.

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, 2005.