

Management's Discussion and Analysis

Financial Position

The Group maintains its policy of conservative capital management with debt to capitalization of 33% at the balance sheet date (2005: 34%). Total bank borrowing carried at weighted average interest rates of 4.9% per annum amounted to HK\$280.3 million (31st March 2005: HK\$243.6 million), of which 36% (31st March 2005: 58%) falls due after one year. Out of these borrowings, HK\$142.0 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 2006, total credit facilities available to the Group amounted to HK\$466.0 million with an undrawn balance of HK\$325.0 million. In respect of Guangzhou Wen Chang Pavilion, first phase development in which the Group has an effective interest of 42%, the construction bank loan of RMB129.8 million under a credit facility of RMB130.0 million was fully repaid as of 30th June 2006. The Group's other financing requirements for the coming year will be amply met by available cash, cash generated by operations and bank facilities.

As of 31st March, 2006, net working capital amounted to HK\$281.9 million (31st March, 2005: HK\$298.5 million). Cash balances, held-to-maturity investments and financial assets at fair value through profit or loss are 33.6% higher at HK\$674.8 million compared with last year end (HK\$505.1 million) with 66% (31st March, 2005: 89%) held 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 23.7%. The increased profit was mainly due to a write back of HK\$61.4 million (net of minorities) from Wen Chang Pavilion project in Guangzhou, PRC and a total revaluation gain of HK\$45.0 million in respect of the Hsin Chong Center and Novotel Century Harbourview and then improved margins with additional income on completed building projects and the increase in construction management activities in the year. Absent revaluation gains and writebacks, the return on equity was 3.1%.

Capital Structure

The Group has historically adhered to a policy of conservative capital management, with a strong belief that a strong balance sheet would afford more opportunities upon any industry upturn, and instil 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 packages for executive directors and senior management of the Group are to be reviewed by the Remuneration Committee, starting from this financial year. In particular, the Committee will review and determine performance-based remuneration by reference to corporate goals and objectives resolved by the board of directors from time to time.

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Financial Hedging and Other Financial Instruments

The Group's net borrowings and cash balances are primarily denominated in Hong Kong dollar, US dollar and 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 cost 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 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\$77.0 million mainly against US dollar, GBP and Euro. Subsequent to year end, no material forward exchange contract has been entered into.

Operational Review on Contracts

Subsidiaries

Over the past twelve months, the Group's building construction arm received new contracts of HK\$621.7 million, including the contract for construction of Hong Kong Science Park Phase 2 Main Works (Area A), Pak Shek Kok, Tai Po (TPTL No. 182) from Hong Kong Science and Technology Parks Corporation, through collaboration with the electrical and mechanical division, and a proposed residential development at Lot No. 4784 in D.D. 104, Ngau Tam Mei, Yuen Long, New Territories from Firmwin Peak Limited, a subsidiary of Hsin Chong International Holdings Limited. However, reduced builders' work adjustment of HK\$53.2 million and elimination of inter-group construction work of HK\$601.7 million for contracts sub-contracted to or shared by Hsin Chong Aster led to an overall net amount HK\$33.2 million reversal of such building construction contracts received.

In Macau, the Group has undertaken certain significant additional construction management contracts with Venetian group for Sand's Podium and Tower, Parcel 2 and Parcels 5 & 6, Cotai, with a total contract sum of HK\$1,599.2 million. These contracts involve the provision of construction management services ranging from design development, value engineering, implementation of procurement policy to the management of the many companies and specialist organisations working on the projects. Overall, building construction and construction management contracts received in Hong Kong and Macau amounted to HK\$1,566.0 million.

In China, the Group received a new contract of HK\$494.1 million for the construction of Phase 3 of Central Park in Beijing. This is an extension of the Phase 2 Group II project awarded last year. Similarly, reduced nominated subcontractor work adjustment restricted the net contract value to HK\$471.1 million.

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Operational Review on Contracts *(continued)*

Subsidiaries *(continued)*

Additionally, the Group increased its shareholding in Hsin Chong Aster from 50% to an effective 100% during the year. This led to an overall HK\$1,094.1 million of electrical and mechanical installation contracts "booked" in this year, including a transfer of HK\$401.5 million to the opening balance and new contracts awarded of HK\$805.9 million. New contracts included Hong Kong Science Park Phase 2 Main Works (Area A, B and C), Pak Shek Kok, Tai Po from Hong Kong Science and Technology Parks Corporation and subcontract work for the Hong Kong side of Passenger Terminal Building at Shenzhen - Hong Kong Western Corridor.

Contracts totalling HK\$998.3 million were completed with HK\$793.2 million derived from the building construction arm mainly for Headquarters of Hua Wei Technologies Company Limited in Shenzhen and Phase 7 development works for Hong Kong Polytechnic University. Other works completed mainly included a civil engineering contract from the Civil Engineering and Development Department of the Hong Kong Government for a 10-Year Extended Landslip Preventive Measures Project in Lantau and Lamma Islands, as well as three electrical and mechanical installation contracts, namely the New Campus Development (Community College) for Lingnan University; Student Hostels Phase 3 Development at City University of Hong Kong; and Kwai Chung Container Port - Terminal 9 Development.

Overall, consolidated orders on hand amounted to HK\$6,727.8 million, a 37.7% increase over the previous year.

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

	31/03/2005 HK\$ Million	Contracts Received HK\$ Million	Contracts Completed HK\$ Million	31/03/2006 HK\$ Million
Building Construction/Construction Management				
Hong Kong and Macau	3,083.3	1,566.0	(323.1)	4,326.2
Mainland China	987.5	471.1	(470.1)	988.5
Civil Engineering				
Hong Kong	413.0	(4.2)	(89.8)	319.0
Mainland China	2.0	–	(2.0)	–
	4,485.8	2,032.9	(885.0)	5,633.7
Add: Acquiring full interest of				
Electrical and Mechanical Installation				
Hong Kong	401.5	805.9	(113.3)	1,094.1
Total	4,887.3	2,838.8	(998.3)	6,727.8

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Operational Review on Contracts *(continued)*

Subsidiaries *(continued)*

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

	Amount HK\$ Million	%
Government	325.4	4.8
Public, Charitable or Non-Profit Institutions	495.5	7.4
Hospital	1,000.0	14.9
Private Developers	4,906.9	72.9
Total	6,727.8	100.0

Building Construction and Civil Engineering

Total turnover and outstanding orders for 2005/06 are HK\$1,976.7 million and HK\$5,633.7 million, increases of 76.0% and 25.6% respectively. Profit margins improved to 1.9% this year from 1.7% of last year.

Major contracts awarded during the year include:

Contract	Location	Type	Amount HK\$ Million
Venetian Cotai Parcels 2, 5 & 6	Cotai Area, Macau	Commercial	1,514.9
Sand's Podium and Tower	Macau	Commercial	84.3
Central Park Phase 3	Chaoyang District, Beijing	Commercial and residential	494.1
Hong Kong Science Park Phase 2 Main Works (Area A)	Tai Po, Hong Kong	Office building	258.5*
Proposed Residential Development at Lot No. 4784 in D.D. 104, Ngau Tam Mei	Yuen Long, Hong Kong	Residential	151.7

* represent 55% of the gross contract sum of HK\$470.0 million, the balance of 45% is shared by Hsin Chong Aster

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Operational Review on Contracts *(continued)*

Building Construction and Civil Engineering *(continued)*

Major contracts completed during the year include:

Contract	Location	Type	Amount HK\$ Million
Headquarters of Hua Wei Technologies Company Limited	Shenzhen, PRC	Commercial	453.5
Hong Kong Polytechnic University, Phase 7	Hunghom, Hong Kong	University	316.4 [#]
Extended Landslip Preventive Measures Project, Phase 2	Lantau and Lamma Island, Hong Kong	Civil work	89.8

[#] Part of the contract has been sub-contracted to Hsin Chong Aster

Electrical and Mechanical Installation

During the year, the Group increased its shareholding in Hsin Chong Aster from 50% to 100%. This led to an overall HK\$1,094.1 million of E&M installation contracts booked in the year, together with HK\$279.4 million turnover and HK\$4.9 million profit contributed to the consolidated income statement.

Major contracts awarded during the year include:

Contract	Location	Type	Amount HK\$ Million
Hong Kong Science Park Phase 2 Main Works (Area B)	Tai Po, Hong Kong	Electrical and mechanical	257.1
Hong Kong Science Park Phase 2 Main Works (Area A)	Tai Po, Hong Kong	Electrical and mechanical	211.5*
The Hong Kong side of Passenger Terminal Building at Shenzhen – Hong Kong Western Corridor	Shenzhen, PRC	Electrical and mechanical	113.9
Hong Kong Science Park Phase 2 Main Works (Area C)	Tai Po, Hong Kong	Electrical and mechanical	86.5

* represent 45% of the gross contract sum of HK\$470.0 million, the balance of 55% is shared by a group company

Management's Discussion and Analysis

Operational Review on Contracts *(continued)*

Electrical and Mechanical Installation *(continued)*

Major contracts completed during the year include:

Contract	Location	Type	Amount HK\$ Million
Lingnan University	Tuen Mun, Hong Kong	Electrical and mechanical	36.0
Hong Kong Polytechnic University, Phase 7	Hunghom, Hong Kong	Electrical and mechanical	28.5 [^]
Student Hostels Phase 3 Development for City University of Hong Kong	Kowloon Tong, Hong Kong	Electrical and mechanical	19.8

[^] Sub-contract value being awarded by a group company

Joint Ventures

No contract was received or completed during the year. The breakdown of incomplete contracts of the Group's construction joint ventures is as follows:

	31/3/2005 HK\$ Million	Contracts Received HK\$ Million	Contracts Completed HK\$ Million	31/03/2006 HK\$ Million
MBH Joint Venture	1,483.4	–	–	1,483.4
Maeda – Hitachi – Yokogawa – Hsin Chong Joint Venture	2,760.0	–	–	2,760.0
Total	4,243.4	–	–	4,243.4

Notes:

- (1) The amounts shown above are gross figures and do not reflect the Group's net attributable share.
- (2) The opening balance in Hsin Chong Aster (previously under breakdown of associated companies and joint ventures) has been transferred to subsidiaries' order book after the Group acquired the full interest in the company during the year.

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Construction Related Property Development

(1) Lung Mun Oasis, Tuen Mun, Hong Kong

At the balance sheet date, 258 car parking spaces remain unsold (last year 260 spaces) with a carrying value of HK\$20.3 million, net of impairment provision of HK\$32.7 million. These car parking spaces are currently available for rental income either on a monthly or on an hourly basis.

(2) 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 has been substantially let. The residual lease term is now around 8 years. Current carrying value stands at HK\$70.2 million.

(3) 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\$105.7 million (2005: HK\$66.2 million) after an equity share of write-back of impairment in value of the property, of HK\$38.7 million made this year. Average occupancy rate reached 91% for the year (2005: 90%) with average room rate 11% higher than the rate recorded last year. These rates were also higher than the benchmark occupancy and average room rate for the medium tariff hotels in Hong Kong.

During the year the hotel received various expressions of interest by potential buyers, and as a result Savills was appointed as the sole agent to arrange for the potential disposal of the hotel. On 1st June, 2006, Cheer Star Development Limited (as Vendor), being a 22.5% associated company of the Group, entered into a binding agreement with an independent third party to dispose of Novotel Century Harbourview at a consideration of HK\$588.4 million. The Directors are of the view that the terms of the contract are fair and reasonable and in the interests of the Company and its shareholders as a whole. The completion of the sale and purchase shall take place on or before 29th September, 2006.

(4) 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. Under HKAS 40 "Investment Property", the area occupied by related companies is now classified as an investment property and resulted a revaluation gain of HK\$6.3 million recognised this year leaving the carrying cost at HK\$42.5 million at year end date. The remaining area occupied by the group companies is carried at cost less accumulated depreciation and impairment of HK\$102.9 million.

(5) 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 (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. The Group has an effective 42% interest in the project.

Phase I comprises a total saleable floor area of approximately 40,778 square metres with 99 car parks at an estimated cost of approximately HK\$371.2 million. To date, the Group's investment amounts to HK\$283.0 million (2005: HK\$217.1 million). In view of the improved property market in Guangzhou and the satisfactory sales achieved to date, a write-back of the impairment in value of the property of HK\$87.8 million (of which HK\$61.4 million was attributable to the Group's equity interest) was made this year leaving the carrying cost at HK\$202.3 million after accumulated provision of HK\$80.7 million.

Management's Discussion and Analysis

Construction Related Property Development *(continued)*

(5) **Guangzhou Wen Chang Pavilion, PRC** *(continued)*

Pre-sale of Phase 1 of Wen Chang Pavilion was launched in June, 2005. Of the 432 available units marketed, over 80 percent of the units have been sold by the end of March 2006 at an average selling price slightly above RMB7,000 per square metre. As of the date of the report, the construction work was substantially completed.

(6) **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\$10.7 million at year end date (2005: HK\$10.2 million).

Major Contracts and Projects Subsequent to Year End

Consolidated

Subsequent to the year end, the Group was awarded a civil engineering contract of HK\$30.5 million from the Hong Kong Jockey Club for the extension of existing underpass at Sha Tin Racecourse, Sha Tin. Overall, total incomplete contracts increased slightly to HK\$6,758.3 million as of 30th June, 2006.

Joint Ventures

No project was received or completed subsequent to the year end.

Human Capital Investment

We continue towards our goal for improvement of our employees and our longer term objective of becoming an 'employer of choice'. To this end, we have continued to support our Human Resources ("HR") Philosophy which seeks to attract, develop and retain staff of the highest calibre and competence levels.

This year has seen the introduction of new HR initiatives in Hong Kong as well as our international areas of operation. Each initiative has been aimed at providing employees with a more flexible and appropriate range of benefits whilst at the same time, we have sought to ensure our competitive position is maintained. These changes have been reflected in a further improvement in our staff retention ability, even in the face of the significant improvement within the Hong Kong economy and increased market demand for highly competent staff from within our Industry.

Our overseas HR policies are now much more aligned to those existing within our international competitor organisations and our ability to recruit specialist skills has been enhanced.

During the year 2005/2006, we have made changes to our incentive arrangements for senior management which are now based upon measurable individual targets and personal achievement. These principles will be maintained as we move forward.

The staff recreation committee continues to thrive and provide a platform for employee and family involvement outside of normal work arrangements.

Management's Discussion and Analysis

Human Capital Investment *(continued)*

External recognition

The Group received 8 awards from the Occupational Safety & Health Council including the Best Project Manager (Gold Award) to recognize our effort in promoting staff well-being at the workplace.

We remain committed to develop our young talent and have been presented with the 'Outstanding Apprentice / Trainee Award' from the Vocational Training Council and the Appreciation Award of 'Preferred Graduate Development Program' from the Hong Kong Polytechnic University.

For the 4th year in succession, the Company has been presented with the 'Caring Company' Logo from the Hong Kong Council of Social Service which reflects our consistent commitment to our social obligations.

Training & Development

The Group is committed to further investment for the development of its people. As part of this, a Training & Development Manager has been recruited to identify, train and develop talent within the Group.

We provide in-house management training courses and strongly support personal development by increasing the annual external education subsidy for all staff. This year, a degree course sponsorship has been introduced so as to encourage continuous learning. Over 180 in-house and external training programmes have been delivered and/or sponsored for staff, representing more than 15,700 training hours during the year (an increase of more than 50% over the previous year).

A staff development programme is to be introduced in the coming year to further enhance the competence of our staff.

An analysis of the educational background of our total employees shows:—

Qualifications	Employees	
	Number	%
Master Degree or above	101	9
Bachelor Degree or equivalent professional qualification	328	30
Diploma or Higher Certificate holder	229	21
Certificate holder	182	17
Others	257	23
Total	1,097	100

Management's Discussion and Analysis

Health, Safety and Environmental Management

Health and Safety

Along the policy established last year, to build an improved Safety Culture within the corporation and site communities, a large-scale "Site Safety Culture Campaign" was launched to reinforce this policy, notwithstanding the generally satisfactory site safety record already established. These activities will continue throughout 2006 as a constant reminder on our insistence on total Site Safety for all site staff. The benefit of pushing this Safety campaign will not only benefit the Group, but also to the society at large, as the site workers will include sub-contractors employees of other companies, who will themselves disseminate the credo to their fellow workers. This, in turn should encourage other construction industry employers and employees to adopt such a safety policy. the Group believes that nurturing a culture of safety amongst all members of the site communities, is a social responsibility that all contractors should adopt.

The general level of actual accidents on sites run by the Group, has continued to improve this year and the Occupational Health and Safety Awards gained reflects an encouraging record.

The Group will tirelessly strive to maintain this safety culture and promote it in the industry, so that it may become second nature to all construction workers. We hope by helping ourselves through constant improvement in overall Safety standards that those of the whole construction industry will also benefit.

Environment

The Group is also committed to building a better environment through continuous contributions to environmental protection by our staff, site workers and the general public. As such, aspects of environmental management have become an integral part of our business planning and daily operations.

Among all environmental pollution issues, poor air quality has become a key issue of grave concern to Hong Kong. Although construction activities are not a main source contributor to air pollution in Hong Kong, the Group is determined to play our part in reducing air pollution wherever possible.

As part of the requirements of our 14001 certified environmental management system, the Group has initiated and exercised good practices in air pollution control during our operations over the years. These include, but are not limited to, the following:

- Installation of automatic sprinkler system for dust suppression;
- Using effective dust extraction and filtering device during dusty operations;
- Using environmental friendly construction materials such as natural organic paint / thinner; and
- Storage of dusty materials in specially-designed sheltered areas.

Given our continuous efforts in air pollution control and other environmental aspects, the Group has been given the "Eco-Business Award" for four consecutive years since 2002. We shall continuously strive to improve our environmental performance and to strive for excellence. We believe that we can join with and encourage others in the industry to do their part to help make the air cleaner in Hong Kong.

Purchase, Sale and Redemption of Shares

During the financial year, the Company purchased a total of 662,000 shares of the Company at HK\$0.50 per share in December, 2005. All of the shares purchased were cancelled. 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, 2006.