

Report of the Directors

The directors (the “Directors”) have pleasure in submitting their report together with the audited accounts of the Company and its subsidiaries (together, the “Group”) for the financial year ended 31st March, 2006.

Principal Activities

The principal activity of the Company is that of a holding company. The principal activities of the Company’s subsidiaries are building construction, civil engineering, renovation and fitting-out, building repair and maintenance, construction management, property investment, property rental, property development, contractor finance and undertaking projects on a “Build, Operate and Transfer” basis. An analysis of the Group’s performance for the year by business and geographical segments is set out in note 5 to the accounts.

Results and Dividends

The results of the Group for the financial year ended 31st March, 2006 are set out in the Consolidated Income Statement on page 88.

The Directors recommended the payment of a final dividend of HK3.0 cents per share and a special dividend of HK6.0 cents per share for the year ended 31st March, 2006. Subject to shareholders’ approval at the forthcoming Annual General Meeting, the proposed final and special dividends will be paid on 22nd August, 2006 to shareholders whose names appear on the register of members of the Company on 28th July, 2006. Together with an interim dividend of HK3.0 cents per share already paid in the year, the total dividends for the year (including the special dividend of HK6.0 cents per share) will amount to HK12.0 cents per share (2005: final dividend of HK2.0 cents per share) which is a payout ratio of 63.8% on the earnings for the year.

Reserves

Movements in the reserves of the Group and the Company during the financial year are set out in note 35 to the accounts.

Donations

During the financial year, donations by the Company and its subsidiaries amounted to HK\$166,000 (2005: HK\$ 87,000).

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group are set out in note 16 to the accounts.

Group’s Properties

A summary of the Group’s major properties is included in the section of the annual report entitled “Major Properties.”

Retirement Scheme

The Group operates two defined contribution schemes, namely Hsin Chong Group Retirement Fund Scheme and Hsin Chong Group Mandatory Provident Fund Scheme. Particulars of these retirement schemes are out in note 2(s) to the accounts.

Report of the Directors

Share Capital

Details of the movements in share capital of the Company are set out in note 34 to the accounts.

No restriction against pre-emptive rights exist in Bermuda in which the Company is incorporated.

Sale and Purchase of Own Shares

Pursuant to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and according to the provisions of the Bye-Laws of the Company relating to share repurchase, the Directors intend to seek the shareholders' approval at the forthcoming Annual General Meeting for the grant of an unconditional general mandate to purchase shares of the Company to an extent not exceeding 10% of the issued share capital of the Company at the date of passing the resolution approving the mandate for share repurchase.

During the financial year, the Company purchased a total of 662,000 shares of the Company in December 2005, all at HK\$0.50 each, on the Stock Exchange for an aggregate consideration of HK\$331,000. All of the repurchased shares were cancelled. Details of shares purchased are shown in note 34 to the accounts.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the financial year.

Directors

The Directors in office during the financial year and up to the date of this report are:

V-nee YEH
 Rodney Gordon FRANKS
 Tobias Josef BROWN*
 Ho-ming Herbert HUI*
 Kin-fung Jeffrey LAM*
 Kwok-kuen Peter LAU*
 Ki-chi KWONG**
 Barry John BUTTIFANT (Alternate director to V-nee YEH)

* Independent Non-Executive Director

** Non-Executive Director

Mr. Kwok-kuen Peter LAU shall retire by rotation at the forthcoming Annual General Meeting in accordance with Bye-Laws nos. 98(A) and 182(iv) of the Company's Bye-Laws and, being eligible, offer himself for re-election at the forthcoming Annual General Meeting.

Mr. Ki-chi KWONG, Non-Executive Director, and Messrs. Ho-ming Herbert HUI, Kin-fung Jeffrey LAM, Kwok-kuen Peter LAU and Tobias Josef BROWN, Independent Non-Executive Directors, were appointed for a term of two years subject to retirement by rotation as stipulated in the Company's Bye-Laws.

Mr. Rodney Gordon FRANKS has tendered his resignation as a Director and the Managing Director of the Company with effect from 12th July, 2006.

Biographical details of the Directors and senior management are set out on pages 28 to 31.

Report of the Directors

Directors' Interests

At 31st March, 2006, the interests/short positions of each of the directors in the shares, underlying shares and debentures of the Company or any of the Company's associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of Part XV of the SFO, are set out below:

(i) Long position in the shares, underlying shares and debentures of the Company and its associated corporations

	Personal Interests	Number of Shares Held Family Interests	Corporate Interests	Other Interests	Percentage interest in the Company's issued share capital
V-nee YEH*	16,108,352	–	–	113,350,819 (Note 1)	20.26

* Mr. V-nee YEH holds 768,000 options to subscribe for shares in the Company under the Company's Executive Share Option Scheme ("ESOS").

Note 1: The share interests are held by GHY Company Limited acting as trustee of a trust in which Mr. V-nee YEH has a beneficial interest.

Mr. V-nee YEH was a participant of the Employee Share Subscription Scheme ("ESSS") of the Company for the Operating Periods from 1st January, 2005 to 30th June, 2005 ("Operating Period I") and from 1st July, 2005 to 31st December, 2005 ("Operating Period II"). 143,565 shares and 138,527 shares of the Company were issued on 4th July, 2005 and 3rd January, 2006 at unit price of HK\$0.50 and HK\$0.52 respectively under the Operating Period I and the Operating Period II of the ESSS of the Company during the financial year.

Save as disclosed above, none of the other directors had interests in the shares, underlying shares and debentures of the Company and its associated corporations as at 31st March, 2006.

(ii) Short position in the shares, underlying shares and debentures of the Company and its associated corporations

None of the Directors had short positions in respect of the shares, underlying shares and debentures of the Company and its associated corporations as at 31st March, 2006.

Report of the Directors

Substantial Shareholders' Interests

As at 31st March, 2006, the interests/short positions of substantial shareholders (other than directors or chief executives of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of Part XV of the SFO are set out below:

(i) Long position in the shares and underlying shares of the Company

The Company had been notified of the following Substantial Shareholders' interests in the shares as at 31st March, 2006.

Shareholder's Name	Number of Shares Held	Percentage Interest in the Company's Issued Share Capital
Meou-tsen Geoffrey YEH	187,186,064 (<i>Note 1</i>)	29.29
Hsin Chong International Holdings Limited	183,130,508 (<i>Note 1</i>)	28.66
V-nee YEH	129,459,171 (<i>Note 2</i>)	20.26
GHY Company Limited	113,350,819 (<i>Note 2</i>)	17.74
Shai-yun TUNG	80,074,576 (<i>Note 3</i>)	12.53
Howay Investment Ltd.	80,074,576 (<i>Note 3</i>)	12.53
J.P. Morgan Trust Company (Jersey) Limited	80,074,576 (<i>Note 3</i>)	12.53
HSBC International Trustee (BVI) Limited	113,350,819 (<i>Note 4</i>)	17.74
HSBC International Trustee Limited	113,350,819 (<i>Note 4</i>)	17.74

Note 1: These share interests include 183,130,508 shares held by Hsin Chong International Holdings Limited ("HCIH") in which Dr. Meou-tsen Geoffrey YEH has a controlling interest pursuant to the SFO.

Note 2: These share interests include 113,350,819 shares held by GHY Company Limited ("GHY") acting as trustee of a trust in which Mr. V-nee YEH has a beneficial interest.

Note 3: These share interests represent 80,074,576 shares held by Howay Investment Ltd. which is wholly owned by a trust. Ms Shai-yun TUNG is the founder and has beneficial interests in the trust. J.P. Morgan Trust Company (Jersey) Limited is the trustee of the trust.

Note 4: These share interests represent 113,350,819 shares held by GHY acting as trustee of a trust in which Mr. V-nee YEH has a beneficial interest as mentioned in above Note 2. HSBC International Trustee (BVI) Limited is controlled by HSBC International Trustee Limited and both of them are the trustees of the trusts.

(ii) Short position in the shares and underlying shares of the Company

As at 31st March, 2006, the Company had not been notified of any short position being held by any substantial shareholder (other than directors or chief executives of the Company) in the shares and underlying shares of the Company.

Report of the Directors

Public Float

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

Directors' Interests in Contracts

During or at the end of the financial year, none of the Directors had a material interest in any significant contracts with the Company or its subsidiaries.

Connected Transactions/Continuing Connected Transactions

Under Chapter 14A of the Listing Rules, the following transactions between the Company with its subsidiaries and subsidiaries of Hsin Chong International Holdings Limited ("HCIH") constituted continuing connected transactions during the financial year by virtue of HCIH being the substantial shareholder of the Company. They were covered under a business services agreement entered into between the Company and HCIH on 22nd July, 2004:

- (a) During the financial year, the Company and its subsidiaries engaged Summit Insurance (Asia) Limited ("Summit") and HCG Insurance Services Limited ("HCG Insurance"), both are the subsidiaries of HCIH, for provision of various insurance services to cover potential insurable risks arising from the daily operations (e.g. contractors' all risk, fire, public liability, property all risk, employee compensation, travelling) with an aggregate insurance premiums and agency fee of approximately HK\$2,676,324 were paid to Summit and HCG Insurance on normal commercial terms. Summit also refunded HK\$16,702,334 to the Company and its subsidiaries for cancellation of certain insurance policies.
- (b) On 3rd January, 1993, a management agreement was entered into between Cogent Spring Limited ("Cogent Spring"), a subsidiary of the Company and Hsin Chong Real Estate Management Limited (now known as Synergis Management Services Limited ("SMS")), a subsidiary of HCIH whereby Cogent Spring appointed SMS as the property manager for provision of property management services to No. 3 Lockhart Road, Wanchai, Hong Kong ("No. 3 Lockhart Road") with a management fee of 10% on monthly budgeted expenses. A total management fee of HK\$295,584 was paid to SMS during the financial year.

On 3rd January, 1994, Cogent Spring entered into an agency agreement with Hsin Chong Real Estate Agency Limited ("HCREA"), a subsidiary of HCIH whereby Cogent Spring appointed HCREA as sole agent relating to sub-letting of the leased premises at No.3 Lockhart Road with an agency fee of 3.5% of rental income and licence fees. A total agency fee of HK\$580,787 was paid to HCREA during the financial year.

- (c) On 9th May, 1996, Anber Limited ("Anber"), a subsidiary of the Company entered into a project management consultancy contract with Hsin Chong (Project Management) Limited ("HCPM"), a subsidiary of HCIH whereby Anber appointed HCPM as the project manager of the development of the proposed service apartments at 179 Nguyen Cu Trinh Street, District 1, Ho Chi Minh City, Vietnam ("Vietnam Development") with a project management fee of 2.5% of the total construction cost of the Vietnam Development and a bonus equivalent to 15% of the profit from the sale of the Vietnam Development.

On 1st April, 1998, Easeway Thaison Co. Limited ("Easeway"), a subsidiary of the Company entered into an agreement with HCPM whereby Easeway appointed HCPM to provide logistic services for the Vietnam Development.

Due to the suspension of the Vietnam Development, no fees were paid for any project management and logistic services during the financial year.

Report of the Directors

Connected Transactions/Continuing Connected Transactions *(continued)*

- (d) On 15th July, 1996, Rife Yard Limited ("Rife Yard"), a subsidiary of the Company entered into an agency agreement with HCREA whereby Rife Yard appointed HCREA as the selling agent for the commercial areas of Tuen Mun Town Lot No.395 Private Sector Participation Scheme ("Lung Mun Oasis") with an agency fee of 1% of the selling price and a further incentive bonus with rates ranging from 2.5% to 10% for sales exceeding HK\$400,000,000. A total agency fee of HK\$1,480 was paid to HCREA during the financial year.

- (e) On 10th January, 2003, Guangzhou Fengyu Real Estate Co. Ltd. ("GZFRE"), a subsidiary of the Company entered into an agreement with HCPM whereby GZFRE appointed HCPM as the project manager of the development of Guangzhou Wen Chang Pavilion (Phase I), Guangzhou City, PRC ("Guangzhou Development") with a project management fee of 3% of the total construction cost of the Guangzhou Development.

On 3rd November, 2003, Glenwell Orient Limited ("Glenwell"), a subsidiary of the Company entered into an agreement with HCPM whereby Glenwell appointed HCPM to provide logistic services for the Guangzhou Development with a fee of HK\$5,000 per month.

As HCPM had not rendered any project management or logistic services, no fees were paid during the financial year.

- (f) On 13th November, 2001, Deventer Limited ("Deventer"), a subsidiary of the Company entered into an agreement with HCREA whereby Deventer appointed HCREA to handle tenancy matters for the property at 107-109 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong ("Hsin Chong Center") with a fee of HK\$10,000 per annum. No fee was paid during the financial year and the agreement was terminated with effect from 1st April, 2005.

On 14th December, 2004, Deventer entered into a management agreement with SMS whereby Deventer appointed SMS as property manager in respect of management and maintenance of Hsin Chong Center for the period from 1st September, 2004 to 31st March, 2006 with a management fee of 5% on actual monthly expenses and administration fee of HK\$9,900 per month. A total fee of HK\$325,816 was paid to SMS during the financial year.

On 14th December, 2004, the Company entered into another management agreement with SMS whereby the Company appointed SMS to provide office administration services at Hsin Chong Center for the period from 1st September, 2004 to 31st March, 2006 with a management fee of 5% on actual monthly expenses. A total fee of HK\$145,817 was paid to SMS during the financial year.

- (g) On 10th September, 2002, Hsin Chong Construction Company Limited ("HCC"), a subsidiary of the Company entered into an agreement with Hsin Shing Security Services Limited ("HSSS"), a subsidiary of HCIH, whereby HCC appointed HSSS to provide security services to HCC for a godown in Hong Kong with a fee of HK\$8,500 per month. The fee was revised to approximately HK\$8,800 per month with effect from 16th June, 2004 pursuant to an agreement dated 9th June, 2004. A total fee of HK\$187,320 was paid to HSSS during the financial year.
- (h) On 8th April, 2005, Hsin Chong Construction (Asia) Limited entered into a residential development contract with Firmwin Peak Limited ("Firmwin"), a subsidiary of HCIH for a contract sum of HK\$151,688,000 for the construction work at No.4784 in D.D. 104, Ngau Tam Mei, Tuen Long for the period from 3rd May, 2005 to 26th June, 2006. Total fees of HK\$71,904,000 was received from Firmwin during the financial year.

Connected Transactions/Continuing Connected Transactions *(continued)*

- (i) On 1st April, 2005, Deventer as landlord entered into respective new tenancy agreements with Summit, SMS and Hsin Chong Holdings (H.K.) Limited ("HCH"), a subsidiary of HCIH, (for other subsidiaries of HCIH) as tenants ("Tenants") respectively whereby the Tenants rented certain portions of Hsin Chong Center as headquarters with the monthly rent of HK\$34,514, HK\$128,302 and HK\$14,039 respectively for the period from 1st April, 2005 to 31st March, 2008. On 21st November, 2005, HCH surrendered part of the tenancy and by a supplemental agreement of same date, continue to lease the remaining premise in Hsin Chong Center for the period from 21st November, 2005 to 31st March, 2008 with the monthly rent of HK\$4,144. A total rent of HK\$2,079,396 was received from the Tenants during the financial year.

The Independent Non-Executive Directors of the Company have reviewed the said transactions and confirmed that they are conducted in the ordinary and usual course of business of the Group; on normal commercial terms or on terms no less favourable than terms available to (or from) independent third parties; fair and reasonable and in the interests of the shareholders of the Company as a whole. Based on the work performed, the auditors of the Company have confirmed that the aforesaid continuing connected transactions as mentioned in above paragraphs (a) to (i) have been (1) approved by the Board of Directors of the Company; (2) have been entered into in accordance with the terms on the relevant agreements governing the transactions; (3) have been entered into in accordance with the pricing policies of the Group; (4) are within the cap amounts as disclosed in the previous announcements dated 20th August, 2004 and 4th April, 2005.

The following transactions are relating to granting of financial assistance by the Group to its non wholly owned subsidiaries:

- (j) On 21st September, 1995, a joint venture agreement was entered into between Glenwell, Guangzhou Free Trade Zone Dongjing Property Co. Ltd. ("Dongjing"), both in which the Group has 70% equity interest (after taking into account the changes in shareholding of Glenwell and Dongjing subsequent to 21st September, 1995), and Guangzhou Hongkang Real Estate Co. Ltd. ("PRC Party") for setting up a joint venture known as GZFRE for the Guangzhou Development. GZFRE is owned as to 60% by Glenwell and 40% by the PRC Party. Pursuant to the terms of the said joint venture agreement, Glenwell has agreed to make financial arrangements for any additional working capital for the Guangzhou Development in excess of the initial registered capital of GZFRE of HK\$80,000,000. However, such additional working capital will not exceed HK\$120,000,000 (of which Dongjing will provide a maximum of HK\$48,000,000) and will be arranged either by way of shareholders' loan or external borrowings. The details have been disclosed in the announcement dated 21st September, 1995. Accordingly, the Group entered into the following transactions:
- (i) As at 31st March, 2006, Glenwell advanced a total of HK\$45,010,000 to GZFRE which carries interest at 3% over the Hong Kong prime rate per annum.
 - (ii) In December 2004, Glenwell arranged a one-year refinancing loan facility with a financial institution in PRC of RMB2,500,000 on the condition that each drawdown is to be secured by a collateral deposit of Glenwell. The loan facility was further extended for six months in December 2005. At 31st March, 2006, the said facility was fully drawn.
 - (iii) In December 2004, Dongjing extended a loan facility for a tenor of six months with a financial institution in PRC of RMB10,800,000 on the condition that each drawdown is to be secured by a collateral deposit of Dongjing. The loan facility was further extended for six months in June 2005 and December 2005 respectively. As at 31st March, 2006, the said facility was fully drawn.

Report of the Directors

Connected Transactions/Continuing Connected Transactions *(continued)*

On 28th November, 2002, the Company had provided parent company guarantee ("Guarantee") to the extent of 70% in favour of The Hongkong and Shanghai Banking Corporation Limited, Shenzhen Branch in respect of a construction finance facility of RMB130,000,000 granted to GZFRE ("Facility"). The purpose of the Facility is to finance the construction and development costs of Guangzhou Development. In consideration for the Guarantee provided, a commission at 1% per annum on the amount guaranteed will be charged to GZFRE, with total maximum amount not exceeding RMB3,900,000. As at 31st March, 2006, the drawdown of the Facility amounted to RMB129,780,000.

Save as aforementioned, there were no other connected transactions which were required to be disclosed under the Listing Rules, entered into between the Company or any of its subsidiaries and a connected person in respect of and subsequent to the financial year.

Directors' Interests in Competing Business

Mr. Ki-chi KWONG is a non-executive director of the Company and Synergies Holdings Limited ("SHL") of which both have subsidiaries engaged in facility management. Hence, Mr. Ki-chi KWONG is regarded as having interest in a business which competes or is likely to compete, either directly or indirectly, with the Group's business.

The Company's management team is separate and independent from that of SHL. The Directors always perform fiduciary duties and provides its oversight to safeguard the interests of the shareholders of the Company.

Contracts of Significance

No contracts of significance to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

Directors' Service Contract

None of the Directors who are proposed for re-election at the forthcoming Annual General Meeting have entered into any service contract with the Company, which is not determinable by the employer within one year without payment of compensation other than statutory compensation.

Report of the Directors

Executive Share Option and Employee Share Subscription Schemes

The Company operates an Executive Share Option Scheme ("ESOS") and an Employee Share Subscription Scheme ("ESSS"). Summaries of the ESOS and ESSS are included in the section of the annual report entitled "Summary of Share Schemes".

During the financial year, movements of the options granted under the ESOS are set out below:

Name of participant	Date of grant	Options held as at	Changes during the financial year				Options held as at	Exercise price	Exercisable period
		1/4/2005	Lapsed	Granted	Exercised	Cancelled	31/3/2006	(HK\$)	
Director and / or Substantial Shareholder									
V-nee YEH	25/9/1996	384,000	–	–	–	–	384,000	0.80	25/9/1998 – 24/9/2008
	25/9/1996	384,000	–	–	–	–	384,000	0.80	25/9/1999 – 24/9/2009
Employees (in aggregate)	25/9/1996	266,000	–	–	–	–	266,000	0.80	25/9/1997 – 24/9/2007
	25/9/1996	1,992,000	–	–	–	–	1,992,000	0.80	25/9/1998 – 24/9/2008
	25/9/1996	1,988,000	–	–	–	–	1,988,000	0.80	25/9/1999 – 24/9/2009
		5,014,000	–	–	–	–	5,014,000		

During the financial year, Mr. V-nee YEH was a participant of the ESSS of the Company for the Operating Periods from 1st January, 2005 to 30th June, 2005 ("Operating Period I") and from 1st July, 2005 to 31st December, 2005 ("Operating Period II"). 143,565 shares and 138,527 shares of the Company were issued on 4th July, 2005 and 3rd January, 2006 at unit price of HK\$0.50 and HK\$0.52 respectively under the Operating Period I and the Operating Period II of the ESSS of the Company.

Save as mentioned in the preceding paragraphs, at no time during the year was the Company or its subsidiaries, a party to any other arrangements to enable the Directors or Chief Executive or any of their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company, its subsidiaries or any other body corporate.

Management Contract

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the financial year.

Report of the Directors

Bank Loans, Overdrafts and Other Borrowings

The particulars of bank loans, overdrafts and other borrowings of the Company and its subsidiaries at 31st March, 2006 are as follows:

	2006 HK\$'000	2005 HK\$'000
Short term bank loan, secured	2,417	2,355
Long term bank loans for which an analysis of the repayment schedule is set out in note 32 to the accounts		
– secured	235,931	195,274
– unsecured	42,000	46,000
	280,348	243,629

Five Year Financial Information

The published results and the assets and liabilities of the Group for the last five years are included in the section of the annual report entitled “Five Year Financial Summary”.

Proforma Combined Balance Sheet of Affiliated Companies

A proforma combined balance sheet of certain affiliated companies with major financial assistance and the Group's attributable interest in these affiliated companies are shown on page 165 pursuant to Chapter 13 of the Listing Rules.

Major Customers and Suppliers

During the financial year, the Group's five largest customers accounted for 73% of the Group's total turnover. None of the Directors, their associates, or any shareholder which, to the knowledge of the Directors, owns more than 5% of the Company's share capital has any interest in any of the Group's five largest customers. The Group's largest customer accounted for 25% of the Group's total turnover for the year.

During the financial year, the Group's five largest suppliers accounted for less than 14% of the Group's total purchases. The Group's largest supplier accounted for 3% of the Group's total purchases for the year.

Auditors

The accounts have been audited by PricewaterhouseCoopers who shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment at a fee to be determined by the Board.

On behalf of the Board

V-nee YEH

Chairman

Hong Kong SAR, 7th July, 2006