

**HSIN CHONG CONSTRUCTION GROUP LTD:
A CAREFUL LOOK AT THE 2006 FINANCIAL RESULTS**

The Logical Fallacy: Figures Prove

While the Turnover of Hsin Chong Construction Group Ltd () (Code: 404, Main Board, The Stock Exchange of Hongkong Ltd) rose by \$HK1,122,255,000 in the 2006 Financial Year (Year ends March 31, 2006), an increase, Year-On-Year, of about 97.28 percent, actually, the Net Profit Attributable to Shareholders could hardly be considered exciting.

In fact, one may well wonder: What happened to the income from the core business of this company, namely, construction and related work?

On Friday, July 7, 2006, Hsin Chong released its financials for the 2006-Year, showing the following:

	Financial Year, Ended March 31		
	2006	2005	Percentage Change
	All Figures Are Denominated In \$HK'000		
Turnover	2,275,911	1,153,656	97.30
Cost Of Sales	(2,093,422)	(1,014,615)	106.30
Gross Profit	182,489	139,041	31.20
Other Income	33,438	19,570	70.90
General And Administrative Expenses	(124,315)	(135,420)	-8.20
Other Operating Expenses	(31,146)	(18,115)	71.90
Impairment Loss Reversal	87,780	24,860	253.10
Transfer From Deferred Income	Nil	21,425	-100.00
Operating Profit	148,246	51,361	188.60
Finance Costs	(7132)	(5,378)	32.60

Share Of (Losses Less Profits)/Profits Less Losses Of n Jointly Controlled Entities n -- Associated Companies	(25,035) 40,758	(52,553) 44,399	-52.40 -8.20
Profit Before Taxation	156,837	37,829	3.1x
Taxation	(6,488)	(4,510)	43.90
Profit For The Year	150,349	33,319	3.5x

At first glance, the above table appears to be a picture of financial health, however, on a more-careful inspection of the figures, there are a number of little matters that deserve investors' close attention, in **TARGET's** opinion.

The Operating Profit comprises, inter alia, an amount of about \$HK87.80 million, being described as '*Impairment loss reversal*'.

Without that one-off credit for the 2006-Year, the Operating Profit would have been reduced from about \$HK148.25 million to about \$HK60.47 million.

In the 2005-Year, there was that same notation, that time to the extent of about \$HK24.86 million.

There was, also, in the 2005-Year, a '*Transfer from deferred income*' of about \$HK21.43 million.

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