

The directors herein present their report and the audited financial statements of the Company and of the Group for the year ended 31 March 2005.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed by the shareholders in the special general meeting held on 6 December 2004, the Company changed its name from "China Silver Dragon Group Limited" to "China Water Affairs Group Limited" to reflect the change in the business focus of the Group. The certificate of incorporation on change of name issued by the Registrar of Companies in Bermuda has certified that the Company's name was changed and registered with effect from 10 December 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 13 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 March 2005 and the state of affairs of the Group and of the Company at that date are set out in the financial statements on pages 20, 21 and 26 respectively.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated results and of the assets, liabilities and minority interests of the Group prepared on the bases set out in the note below. This summary does not form part of the audited financial statements.

RESULTS

| | Year ended 31 March | | | | |
|--|---------------------|------------------|------------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 |
| TURNOVER | <u>48,467</u> | <u>33,187</u> | <u>123,464</u> | <u>256,546</u> | <u>275,622</u> |
| (LOSS)/PROFIT FROM OPERATIONS BEFORE TAXATION | <u>(29,802)</u> | <u>(99,338)</u> | <u>(268,317)</u> | <u>(65,359)</u> | <u>9,769</u> |
| Taxation | <u>(1,185)</u> | <u>–</u> | <u>2,520</u> | <u>934</u> | <u>(2,364)</u> |
| (LOSS)/PROFIT FROM OPERATIONS AFTER TAXATION | <u>(30,987)</u> | <u>(99,338)</u> | <u>(265,797)</u> | <u>(64,425)</u> | <u>7,405</u> |
| Minority interests | <u>1,718</u> | <u>1,720</u> | <u>2,387</u> | <u>1,030</u> | <u>180</u> |
| (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS | <u>(29,269)</u> | <u>(97,618)</u> | <u>(263,410)</u> | <u>(63,395)</u> | <u>7,585</u> |

ASSETS, LIABILITIES AND MINORITY INTERESTS

| | At 31 March | | | | |
|--|------------------|------------------|------------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 |
| NON-CURRENT ASSETS | 64,568 | 87,343 | 119,658 | 162,841 | 176,970 |
| CURRENT ASSETS | 47,077 | 10,880 | 26,516 | 197,497 | 177,940 |
| CURRENT LIABILITIES | (58,639) | (39,702) | (82,796) | (64,259) | (123,646) |
| NET CURRENT ASSETS/(LIABILITIES) | (11,562) | (28,822) | (56,280) | 133,238 | 54,294 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | 53,006 | 58,521 | 63,378 | 296,079 | 231,264 |
| NON-CURRENT LIABILITIES | (10,480) | (28,446) | (9,000) | (16,589) | (12,924) |
| MINORITY INTERESTS | (7,476) | (9,791) | – | (2,387) | (3,417) |
| | 35,050 | 20,284 | 54,378 | 277,103 | 214,923 |

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 12 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 28 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda where the Company continued registration as an exempted company which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively. Details of the distributable reserves of the Company are set out in note 29 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sale to the Group's five largest customers accounted for approximately 72% of the total sales for the year and sales to the largest customer included therein amounted to approximately 57%. Purchases from the Group's five largest suppliers accounted for approximately 60% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 31%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The directors of the Company during the year were as follows:

Executive Directors

Mr. Duan Chuan Liang (*Chairman*)

Mr. Tsui Chi Kin

Non-executive directors

Mr. Chiu Shun Pui, Andrew

Mr. Zhao Hai Hu

Mr. Zhou Wen Zhi (appointed on 19 October 2004)

Independent non-executive directors

Mr. Chan Chi Shing (appointed on 30 September 2004)

Mr. Chen Lizhong

Ms. Huang Shao Yun

In accordance with clause 87 of the Company's Bye-laws, Mr. Tsui Chi Kin and Mr. Chiu Shun Pui, Andrew, Mr. Chen Lizhong will retire at the forthcoming Annual General Meeting and Mr. Tsui Chi Kin and Mr. Chen Lizhong, being eligible, will offer themselves for re-election. Apart from Mr Duan Chuan Liang, all the other directors of the Company, including the independent non-executive directors, are subject to retirement by rotation and re-election in accordance with the provisions of the Company's Bye-laws.

DIRECTORS' BIOGRAPHICAL DETAILS

Biographical details of the directors of the Company and the senior management of the Group are set out on page 9 and 10 of this annual report.

DIRECTORS' SERVICE CONTRACTS

As at 31 March 2005, none of the Directors has entered into any service contracts with the Company or any other member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed in notes 24 and 33 to the financial statements, no director had a material interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31 March 2005, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong ("SFO")) which had been notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Division 7 & 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transaction by Directors of Listing Companies to be notified to the Company and the Stock Exchange were as follows:

(a) Shares

| Name of Director | Capacity/ Nature of interest | Number of Shares | | Approximately percentage of shareholding in the Company |
|--------------------------------------|------------------------------------|------------------|----------------|--|
| | | Long position | Short position | |
| Mr. Duan Chuan Liang (<i>Note</i>) | Corporate | 129,432,301 | 0 | 26.89% |
| Mr. Tsui Chi Kin | Personal | 11,250,000 | 0 | 2.34% |

Note: These Shares are beneficially owned by and registered in the name of Asset Full, a company incorporated in the British Virgin Islands, whose entire issued share capital is wholly and beneficially owned by Duan Chuan Liang, an executive director and chairman of the Company.

(b) Underlying shares

| Name of Director | Capacity/ Nature of interest | Number of Shares | | Approximately percentage of shareholding in the Company |
|---------------------------|------------------------------------|------------------|----------------|--|
| | | Long position | Short position | |
| Mr. Duan Chuan Liang | Personal | 1,600,000 | 0 | 0.33% |
| Mr. Tsui Chi Kin | Personal | 3,500,000 | 0 | 0.73% |
| Mr. Chiu Shun Pui, Andrew | Personal | 2,200,000 | 0 | 0.46% |
| Mr. Zhao Hai Hu | Personal | 2,600,000 | 0 | 0.54% |
| Mr. Zhou Wen Zhi | Personal | 870,000 | 0 | 0.18% |

Note: Options to acquire ordinary shares of the Company, further details of which are set out in the section headed "Share Option Schemes" below.

SHARE OPTION SCHEMES

Details of the Company's share option schemes are set out in note 28 to the financial statements.

The following table discloses movements in the Company's share options during the year:

| | At 1.4.2004 | Granted during the year | Exercised during the year | Lapsed during the year | At 31.3.2005 | Date of grant | Exercise period | Exercise price HK\$ |
|-----------------------|----------------|-------------------------------|---------------------------------|------------------------------|-----------------|------------------|-----------------------|---------------------------|
| Directors | | | | | | | | |
| Duan Chuan Liang | - | 1,600,000 | - | - | 1,600,000 | 1.2.2005 | 1.8.2005 to 31.1.2007 | 0.41 |
| Tsui Chi Kin | - | 3,500,000 | - | - | 3,500,000 | 1.2.2005 | 1.8.2005 to 31.1.2007 | 0.41 |
| Chiu Shun Pui, Andrew | - | 2,200,000 | - | - | 2,200,000 | 1.2.2005 | 1.8.2005 to 31.1.2007 | 0.41 |
| Zhao Hai Hu | - | 2,600,000 | - | - | 2,600,000 | 1.2.2005 | 1.8.2005 to 31.1.2007 | 0.41 |
| Zhou Wen Zhi | - | 870,000 | - | - | 870,000 | 1.2.2005 | 1.8.2005 to 31.1.2007 | 0.41 |
| Other Employees | - | 4,540,000 | - | - | 4,540,000 | 1.2.2005 | 1.8.2005 to 31.1.2007 | 0.41 |
| Total | - | 15,310,000 | - | - | 15,310,000 | | | |

The closing price of the shares immediately before the date of the grant was HK\$0.395.

The directors do not consider appropriate to disclose value of the options granted to the directors and employees because of the absence of a ready available market value of the share options on the ordinary shares of the Company and a number of subjective assumptions of expected future performance input to the theoretical model. Therefore, the directors were unable to arrive an accurate assessment of the value of these share options.

Other than as disclosed in the sections headed "Directors' and chief executives' interests in equity or debt securities" and "Share Option Schemes" above, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO) including interests or short positions which the Directors and the chief executives were taken or deemed to have under the provisions of the SFO or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed in the sections headed "Directors' and chief executives' interests in equity or debt securities" and "Share Option Schemes" above, at no time during the year was the Company, its subsidiaries or its fellow subsidiaries a party to any arrangements to enable the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in or debt securities (including debentures) of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2005, so far as is known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

| Name of Director | Capacity/ Nature of interest | Number of Shares | | Approximately percentage of shareholding in the Company |
|------------------------------|------------------------------------|------------------|----------------|--|
| | | Long position | Short position | |
| Asset Full Resources Limited | Beneficial | 129,432,301 | 0 | 26.89% |

Note: These Shares are beneficially owned by and registered in the name of Asset Full Resources Limited, a company incorporated in the British Virgin Islands, whose entire issued capital is wholly and beneficially owned by Duan Chuan Liang, an executive director and chairman of the Company.

Save as disclosed above, as at 31 March 2005, so far as is known to any Director or chief executive of the Company, no person (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or who was directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such capital.

MANAGEMENT CONTRACTS

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in note 33 to the financial statements.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2005 with the Code of Best Practice (the "Code") as set out in Appendix 14 (in force prior to 1 January 2005) of the Listing Rules, except that non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election in accordance with the Company's Bye-laws.

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of the directors and all directors confirmed they have complied with the required standard set out in the Model Code during the year ended 31 March 2005.

The Company has received, from each of the independent non-executive directors, annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors as independent.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, the directors confirmed that the Company has maintained a sufficient public float throughout the year ended 31 March 2005.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 34 to the financial statements.

AUDIT COMMITTEE

The Company has set up an audit committee (the "Audit Committee"). The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the audited financial statements for the year ended 31 March 2005. The members of the Audit Committee comprise three independent non-executive directors, namely Mr. Chan Chi Shing, Ms. Huang Shao Yun and Mr. Chen Lizhong.

AUDITORS

In April 2004, the Company's former auditors Messrs. Ernst & Young resigned, and Messrs. RSM Nelson Wheeler were appointed as auditors of the Company. Apart from this, there has been no change in auditors of the Company in any of the three preceding years. A resolution will be submitted to the annual general meeting to re-appoint Messrs. RSM Nelson Wheeler as auditors of the Company.

On behalf of the board

Duan Chuan Liang

Chairman

Hong Kong, 27 July 2005