

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the period under review, the Group recorded turnover of approximately HK\$16.7 million (2004: 29.4 million), while net profit attributable to equity holders of the Company amounted to approximately HK\$0.4 million (2004: loss of 8.2 million). The decrease in turnover of the Group was mainly attributed to the contraction of its electronic products segments as the Group has realigned its business strategies to focus on water supply businesses in the PRC. In the opinion of the Directors, water supply business will provide steady positive cash inflow and to a lesser extent affected by fluctuations in economic cycles. The Directors consider that the expansion in water supply business is in the interests of the Company and the Shareholders as a whole.

Liquidity and financial resources

On 4 April 2005, a substantial shareholder of the Company entered into a placing agreement with an independent placing agent for the placement of 57,600,000 ordinary shares of the Company owned by the substantial shareholder at a price of HK\$0.50 per share. Pursuant to a subscription agreement on the same date, the substantial shareholder has agreed to subscribe for 57,600,000 new ordinary shares of the Company at a price of HK\$0.50 per share. The placement of shares raised total consideration, before expenses of approximately HK\$28,800,000. The net proceed received by the Company under the subscription was approximately HK\$28.1 million of which 25.1 million was for investment in city water supply business in the PRC and the remaining HK\$3.0 million was utilised as general working capital for the Group.

As at 30 September 2005, the Group had utilised approximately HK\$3.0 million in general working capital and approximately HK\$19 million for investment in city water supply business in the PRC. The unused proceed of HK\$9.1 million was held by the Group as bank balances.

As at 30 September 2005, the Group had current assets of approximately HK\$50.1 million (31 March 2005: HK\$47.1 million) and current liabilities of approximately HK\$55.5 million (31 March 2005: HK\$58.6 million). The Group's current ratio is approximately 0.90 times as at 30 September 2005 as compared with approximately 0.80 times as at 31 March 2005. The Group had total assets of approximately HK\$140 million (31 March 2005: 112 million) and total liabilities of approximately HK\$55.5 million (31 March 2005: HK\$69.1 million) representing a gearing ratio (expressed as total liabilities to total assets) of approximately 40% as at 30 September 2005 as compared with approximately 62% as at 31 March 2005.

In light of the financial measures taken to date, the Group will have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future.

Prospects

As disclosed in the 2005 annual report of the Company, the Directors will continue devote their efforts in expanding the Group's business in water affairs. The Board considered that the water affairs projects will strengthen the Group's revenue base and generate steady revenue inflow to the Group. The Board believes that operating efficiency of the water affairs projects will be improved by capitalising on the expertise and experience in water affairs businesses of the senior management team.

Highlights on recent developments of water affairs projects of the Group *Henan Luyi Silver Dragon Water Supply Co., Ltd ("Luyi Silver Dragon")*

Luyi Silver Dragon is established in the PRC and 100% owned by the Group. Luyi Silver Dragon engaging in water supply business in Luyi County, Henan Province. Having operated for half a year since it commenced operation in February 2005, Luyi Silver Dragon fully commits itself to increase the fresh water supply coverage and implement a policy of reform under which a separate meter is to be installed for each household. As at late September 2005, the trunk pipelines and branch pipelines laid by Luyi Silver Dragon respectively totaled 7,010 metres and 2,091 metres in length. This development will alleviate the problem of the insufficient coverage of fresh water supply in an accelerating manner. According to the statistics of the Planning Committee of Luyi County, as at late November 2005, the population of the county was approximately 1,170,000; the urban population was approximately 151,000; and the number of urban households was approximately 35,000. Since the beginning of 2005, Luyi County has been stepping up its efforts to encourage the establishment of foreign investment industries, and has adopted a policy of preferential treatment to foreign investors. Under the Eleventh Five-Year Plan, a process of urbanization will result in an increase of urban population to 350,000, and an increase of urbanization area to approximately 50km². In view that Luyi County is carrying out a meter installation policy reform, whereby one meter is to be installed for each household, Luyi Silver Dragon has also accelerated its own pace of implementation. As at late September 2005, the urban household for which the meter installation reform has been carried out accounted for less than 5% of the total urban households, and Luyi Silver Dragon is making the best use of time in its effort to improve the completion rate of the reform. Under the abovementioned reform program, a separate meter will be installed for each household, and each installation will generate a cash income of approximately RMB400. Such cash income, being a satisfactory source of funds of Luyi Silver Dragon, will be used to increase the fresh water coverage rate. The directors consider that Luyi County offers much room for development, and the pipeline works, fresh water supply service, and meter installation works all have great potential for growth. Furthermore, the directors consider that other water supply plants of the Group in Wannian County and Dongxiang County in Jiangxi Province, the PRC and Renhua County, Guangdong Province, the PRC will also provide the Group with additional revenue from the related installation works.

Conseco Seabuckthorn Co., Ltd (“Conseco”)

On 15 July 2005, a non-wholly owned subsidiary of the Company entered into an investment agreement to invest RMB20 million in Conseco in exchange for a 50% interest in its equity. As at the date of this report, all relevant business license and approval from the relevant authorities in the PRC have been obtained.

Conseco will be jointly managed by China National Administration Center for Seabuckthorn Development and by the Company. With headquarter in Beijing, Conseco is engaged in the cultivation, processing, researching, developing as well as distribution of Seabuckthorn. It is the largest supplier of Seabuckthorn in the world and over 95% of the world’s total supply of Seabuckthorn is from China.

Seabuckthorn is a kind of perennial bushes or sub-arbor. Seabuckthorn plays an important part in the ecological cycle, especially in barren lands and deserts. It can retain huge amount of water as its roots are fast growing and the plant has lots of leaves and branches. Together with the fact that the plant can multiply at an alarming speed, thus, enables it to retain huge amount of water. These unique properties enable the plant to stabilize and fortify river banks, reduce river sediment and to lower the rate of water evaporation. It also serves to protect and beautify the environment at the same time.

Medicinally, Seabuckthorn reduces blood viscosity, increases tenacity of blood vessel, improve the immune system and with anti aging properties. It is an effective medicine which helps to improve blood circulation.

Biochemically, Seabuckthorn fruits contain more than 190 active ingredients including various kinds of vitamin, carotenoid, phosphate, flavone compounds, phenolic compounds, unsaturated fatty acid, microelements. etc. Its leaves can be used to produce tea and beverages whilst its trunk can be used in making high density board, compound fibreboard and for growing mushroom. Its fruits may also be used in making jam and jelly and its extraction for the manufacture of cosmetic and healthcare products. The economical and ecological value of Seabuckthorn must not be underestimated.

Advantages of Conseco

Conseco currently has seabuckthorn resource bases in Erdos Plateau, Loess Plateau, North-east Plain and Qinghai-Tibet Plateau. Such bases guarantee the supply of seabuckthorn. Conseco has also constructed seeding bases for the propagation of Seabuckthorn in Beijing, Inner Mongolia and Shaanxi Province. Advanced technologies and equipment have been imported from Germany with production procedures designed to conform to GMP. Conseco’s has the widest product range and is the largest supplier and manufacturer of Seabuckthorn products such as seabuckthorn juice, tea, oil and flavone soft capsule.

Employees and remuneration policies

As at 30 September 2005, the Group had approximately 310 full-time employees. Most of them station in the PRC while the remaining in Hong Kong. The remuneration package of the employees is determined by various factors including the employees' experience and performance, the market condition, industry practice and applicable employment law.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

At 30 September 2005, the interests and short positions of the directors and chief executives in the share capital of the Company and its associated corporations (within the meaning of Part XV of the securities and Futures Ordinance (the "SFO") (the "Associated Corporations") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") 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	139,862,301	0	25.95%
Mr. Tsui Chi Kin	Personal	26,950,000	0	5.00%

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	
		<i>(Note)</i>		
Mr. Duan Chuan Liang	Personal	1,600,000	0	0.33%
Mr. Tsui Chi Kin	Personal	3,500,000	0	0.73%
Mr. Chiu Shui 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

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

	At 1.4.2005	Granted	Exercised	Lapsed	At 30.9.2005	Date of grant	Exercise period	Exercise price HK\$
		during the period	during the period	during the period				
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 Shui 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			

Other than as disclosed in the sections headed "Directors' and chief executives' interests and short positions" 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 and short positions" 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.