

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 14 to the financial statements. There were no changes in the Group's principal activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to loss from operating activities by principal activity for the year ended 31 March 2001 is as follows:

	2001	2001	2000	2000
	Turnover	Contribution/ (absorption) to loss from operating activities	Turnover	Absorption to loss from operating activities
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
By principal activity:				
Provision of electrical and mechanical engineering services				
– Building services (single trade)	4,835	2,107	10,125	(22,508)
– Packaged/design and build contracts	4,062	(14,703)	7,182	(17,774)
– Environmental engineering services	5,198	(17,308)	12,046	(29,303)
	14,095	(29,904)	29,353	(69,585)

The operations outside Hong Kong contributed less than 10% of turnover and less than 10% of contribution to loss from operating activities and, accordingly, an analysis of such activities is not shown.

RESULTS

The Group's profit for the year ended 31 March 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 26 to 58.

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published results and of the assets and liabilities of the Group for the five financial years ended 31 March 2001, prepared on the basis as if the current Group structure had been in place throughout the financial years presented.

	Year ended 31 March				
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
RESULTS					
TURNOVER	14,095	29,353	195,618	865,578	569,706
OPERATING PROFIT/(LOSS)	33,760	(110,485)	(106,565)	(560,557)	59,296
Share of loss in an associate	—	—	—	(101)	—
PROFIT/(LOSS) BEFORE TAX	33,760	(110,485)	(106,565)	(560,658)	59,296
Tax	—	(89)	255	(30)	(7,228)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	33,760	(110,574)	(106,310)	(560,688)	52,068
Minority interests	5	—	—	—	—
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	33,765	(110,574)	(106,310)	(560,688)	52,068
	As at 31 March				
ASSETS AND LIABILITIES	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
TOTAL ASSETS	19,308	13,900	69,665	260,950	518,338
TOTAL LIABILITIES	(18,368)	(604,761)	(549,952)	(634,927)	(416,449)
MINORITY INTERESTS	(40)	—	—	—	—
NET ASSETS/(LIABILITIES)	900	(590,861)	(480,287)	(373,977)	101,889

FIXED ASSETS

Details of movements in the fixed assets of the Group are set out in note 13 to the financial statements.

SUBSIDIARIES AND ASSOCIATE

Particulars of the Company's subsidiaries and associate are set out in notes 14 and 15 to the financial statements, respectively.

BORROWINGS

Particulars of the Group's borrowings at the balance sheet date are set out in notes 19 and 20 to the financial statements.

CONVERTIBLE NOTES

Particulars of the Group's convertible notes at the balance sheet date are set out in note 22 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the share capital, share options and warrants of the Company during the year, together with the reasons therefor, are set out in note 24 to the financial statements.

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

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 25 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 March 2001, the Company did not have any reserves available for cash distribution and/or distribution in specie, as calculated in accordance with the Companies Act 1981 of Bermuda (as amended).

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PROVIDENT FUND SCHEME

Details of the provident fund scheme of the Group and the employer's contributions charged to the profit and loss account for the year are set out in notes 4 and 7 to the financial statements, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers, excluding the Government, accounted for approximately 42% (2000: less than 30%) of the total sales for the year, and sales to the largest customer included therein amounted to approximately 15%. Purchases from the Group's five largest suppliers accounted for approximately 38% (2000: 43%) of the total purchases for the year, and purchases from the largest supplier included therein amounted to approximately 11% (2000: 15%).

None of the directors of the Company, or any of their associates or any other 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 five largest suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this report are as follows:

Executive directors

Wang Ke Duan (<i>Chairman</i>)	(appointed on 14 August 2000)
Tjia Boen Sien (<i>Managing Director and Deputy Chairman</i>)	(appointed on 10 August 2000)
Wang Jing Ning	(appointed on 10 August 2000)
Keung Kwok Cheung	(appointed on 26 September 2000)
Kong Kwok Fai	(appointed on 26 September 2000)
Song Sio Chong	(appointed on 26 September 2000)
Leung Yat Tung	(resigned on 19 July 2000)
Chan Kim Leung	(resigned on 19 July 2000)
Tsim Wing Kong	(appointed on 5 June 2000 and resigned on 10 August 2000)
Tsim Yu Hon, Harris	(appointed on 5 June 2000 and resigned on 10 August 2000)
Lo Tat Kwong, Danny	(appointed on 5 June 2000 and resigned on 12 August 2000)

Non-executive director

Siu Kam Chau	(appointed as executive director on 26 September 2000 and redesignated as non-executive director on 2 May 2001)
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DIRECTORS (Continued)

Independent non-executive directors

Kwan Wan Fung	(appointed on 10 August 2000)
Wong Sin Yee	(appointed on 10 August 2000)
Tam Cham Kai	(appointed on 5 June 2000 and resigned on 10 August 2000)
Chong Yiu Chik	(appointed on 5 June 2000 and resigned on 10 August 2000)
Yuen Ming Fai	(resigned on 19 July 2000)
Leung Mee Chee, Mitzi	(resigned on 19 July 2000)

In accordance with clause 102(B) of the Company's bye-laws, all existing directors will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Except as detailed in note 29 to the financial statements, no director had a material beneficial interest in any contract of significance to the business of the Group to which the Company, or any of its holding companies, fellow subsidiaries or subsidiaries was a party during the year.

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

Executive directors

WANG Ke Duan, aged 70, joined the Group in August 2000 and is the Chairman of the Group. He has over 46 years' experience in the construction engineering industry in the PRC and Hong Kong. He is currently responsible for the daily operations of the Group.

TJIA Boen Sien, aged 57, joined the Group in August 2000. He is the Managing Director and Deputy Chairman of the Group. Mr. Tjia is responsible for the overall corporate strategy and the daily operations of the Group, including business development and overall management. He graduated from the Fujian Overseas Chinese University in the PRC. Mr. Tjia is well-respected and has established connections in the PRC construction industry through his extensive experience. He has over 18 years' experience in the construction industry in the PRC and Hong Kong. Mr. Tjia is the Vice Chairman and committee member of Zhan Tian You Civil Engineering Development for Science and Technology; a member of China Civil Engineering Society, PRC; a corporate member of the Chartered Institute of Building and a member within the Project Management Section, Architecture & Surveying Institute in the United Kingdom.

WANG Jing Ning, aged 45, joined the Group in August 2000 and is an executive director of the Group. Mr. Wang has over 21 years' experience in hotel management and construction engineering in the PRC and Hong Kong. He is currently responsible for managing the Group's projects in the PRC.

KEUNG Kwok Cheung, aged 43, joined the Group in September 2000. He is an executive director of the Group. He has over 19 years' experience in the field of civil and structural engineering and building project management. He also holds an Associateship in Civil and Structural Engineering from the Hong Kong Polytechnic University and a Master's degree in Business Administration from the University of East Asia in Macau. He is a member of Civil Engineering & Architectural Society of Guangdong Province, PRC and is a member of the China Civil Engineering Society, PRC.

KONG Kwok Fai, aged 39, joined the Group in September 2000. He is an executive director of the Group. He holds a Master's degree in civil and structural engineering from the University of Sheffield in the United Kingdom and is a member of the Association for Project Management in the United Kingdom; a member of the Civil Engineering Society of China, PRC and a member of the Civil Engineering & Architectural Society of Guangdong Province, PRC.

SONG Sio Chong, aged 46, joined the Group in September 2000. He is an executive director of the Group. He has 22 years' professional experience in structural design, site supervision and contract management. He is a Chartered Structural Engineer and Registered Professional Engineer. Other than academic qualification in Civil and Structural Engineering, he holds LLB, LLM and LLD in PRC Law from Peking University.

Non-executive director

SIU Kam Chau, aged 36, joined the Group in September 2000. He is now a non-executive director of the Company. He holds a Bachelor degree in accountancy from the City University of Hong Kong. He is a fellow of the Chartered Association of Certified Accountants and the Hong Kong Society of Accountants. He is also a certified public accountant. He has over 12 years' experience in accounting, auditing and finance.

Independent non-executive directors

WONG Sin Yee, aged 41, was graduated from the University of Hong Kong in 1982. She has extensive experience in property and construction matters in Hong Kong and the PRC. Miss Wong was admitted as a solicitor of the Supreme Court of Hong Kong in 1992 and has worked as an in-house lawyer and consultant since then. Miss Wong is now the principal of Messrs. S.Y. Wong & Co. specialising in commercial and corporate law.

KWAN Wan Fung, aged 52, is a qualified building services engineer and has joined several architectural and engineering consulting firms as the senior and chief engineer responsible for the design of several luxury hotels and high-class commercial building in the PRC and Hong Kong on electricity, fire services, HVAC, plumbing, drainage and the like, namely, Guangzhou Garden Hotel, Holiday Inn Shanghai and Beijing, as well as Shanghai Shartex Plaza.

Senior Management

LO Wing Ling, aged 41, joined the Group in 1984. He is a director of Kenworth Engineering Limited and in charge of the engineering division of the Group. He is responsible for the planning and co-ordination of projects which cover the co-ordination of engineering resources, progress monitoring and work performance. Mr. Lo has over 19 years' experience in environmental engineering and building services work. He holds a Bachelor of science degree in mechanical engineering and a Bachelor of arts degree in business studies. He is also a director of The Hong Kong Project Management Exchange Centre.

WONG Chi Kwong, aged 41, joined the Group in September 2000. He is the general manager of the Group and is responsible for managing the whole engineering business development of the organisation. He has over 19 years' experience in the building services engineering field. He holds a Bachelor degree in Electrical & Electronic Engineering from the Brighton Polytechnic University in the United Kingdom. He is a Chartered Engineer and Registered Professional Engineer in both electrical and building services disciplines. He is a member of Institution of Electrical Engineers, a member of Chartered Institution of Building Services Engineers, a member of Hong Kong Institution of Engineers, a member of Association for Project Management and an associate member of Association of British Theatre Technicians. He is also an EMSD Registered Electrical Worker.

Senior Management (Continued)

LI Ngan Mei, aged 40, joined the Group in August 2000 and is the administration manager of the Group. She has more than 16 years' experience in personnel and administration management.

ONG Chi King, aged 28, joined the Group in August 2000. He is the financial controller and company secretary of the Group. He is responsible for the overall supervision on the accounting, finance and company secretarial functions of the Group. He holds a Bachelor degree in business administration from the Hong Kong University of Science and Technology. He is an associate of the Association of Chartered Certified Accountants and an associate of the Hong Kong Society of Accountants.

WONG Yat Chor, aged 47, joined the Group in 1985. He is a manager of the Group and is responsible for monitor and review the daily operation of the maintenance department, make direct communication to customers on any business activity, review customer requirements and tender prices, communicate and negotiate with those customers, architects, consultants, developers and public utilities on daily business activities. He has over 25 years' experience in the field. He holds B Eng in fire engineering from the University of Central Lancashire, U.K. and higher certificate in building technology from the Hong Kong Polytechnic University.

KWOK Koon Keung, aged 33, joined the Group in August 2000. He is a deputy contracts manager of the Group and is responsible for tender preparation and submission, preparation of payment application, measurement and cost estimates and settlement of final account. He has over 11 years' experience in the field. He holds a Bachelor of Science degree in Building from South Bank University. He is a Professional Associate Member of The Royal Institute of Chartered Surveyors.

CHANG Yu Hong, aged 60, joined the Group in March 2001. He is a senior project manager of the Group and is responsible for examining contract documents, projects administration, and control project budgets. He has over 35 years' experience in the field. He holds a Master of science degree in engineering from the Hong Kong Polytechnic University. He is a Fellow of the Institution of Mechanical Engineers, Registered Professional Engineer, a member of the Institution of Engineers of Hong Kong and Chartered Mechanical Engineer.

Senior Management (Continued)

CHAN Kam Tong, aged 33, joined the Group in April 2001. He is a project manager of Kenworth Engineering Ltd. and is responsible for tendering, project administration and business development. He has over 10 years' experience in the building services field. He is procuring an Engineering Doctorate degree in electronic and information technology in the Hong Kong Polytechnic University. He holds a Master of Science degree in engineering from the University of Hong Kong and a Bachelor of Engineering degree in electrical & electronic engineering from the Newcastle Upon Tyne Polytechnic, U.K. He is a Chartered Engineer, registered electrical worker (Grade C0, H0) in EMSD, a member of the Institution of Electrical Engineers and the Hong Kong Institution of Engineers.

WONG Ka Yan, aged 28, joined the Group in April 2001. She is the assistant financial controller of the Group. She is responsible for assisting the financial controller in monitoring all of the Group's accounting and finance functions. She holds a Bachelor degree in commerce from the University of Adelaide. She is a certified public accountant of CPA Australia. Before joining the Group, she had several years' experience with an international accounting firm.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES

As at 31 March 2001, the interests of the Company's directors and their respective associates in the issued share capital of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

(a) The Company

Name of director	Nature of interest	Number of shares
Tjia Boen Sien	Other (<i>Note</i>)	400,000,000
Wang Jing Ning	Other (<i>Note</i>)	400,000,000

The interests of the directors in the share options of the Company are separately disclosed in the section "Directors' rights to acquire shares".

Note: 400,000,000 shares, representing 56.1% of the issued share capital of the Company, are held by Super Win Development Limited ("Super Win"), a wholly-owned subsidiary of Deson Development International Holdings Limited ("Deson"). Approximately 40.6% of the issued share capital of Deson is owned by Sparta Assets Limited ("Sparta Assets"), a company incorporated in the British Virgin Islands. Mr. Tjia Boen Sien and Mr. Wang Jing Ning own 80% and 10% of the issued share capital of Sparta Assets, respectively.

(b) Associated corporations

Deson

Name of directors	Nature of interest	Number of shares held	Number of warrants held
Tjia Boen Sien	Corporate (<i>Note</i>)	1,968,750,000	24,375,000
	Personal	94,120,000	200,000
Wang Jing Ning	Corporate (<i>Note</i>)	1,968,750,000	24,375,000
	Personal	15,330,000	—
Wang Ke Duan	Personal	11,600,000	—
Keung Kwok Cheung	Personal	5,000,000	110,000
Siu Kim Chau	Personal	5,000,000	50,000
Kong Kwok Fai	Personal	5,000,000	—
Song Sio Chong	Personal	1,500,000	—

Note: Sparta Assets, a company incorporated in the British Virgin Islands, was beneficially interested in 1,968,750,000 shares of Deson. Mr. Tjia Boen Sien and Mr. Wang Jing Ning own 80% and 10% of the issued share capital of Sparta Assets, respectively.

DIRECTORS' INTERESTS IN SHARES (Continued)

Save as disclosed above and in the section "Directors' rights to acquire shares", none of the directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Deson, the ultimate holding company of the Company, has granted options to acquire Deson's ordinary shares in favour of certain directors pursuant to Deson's share option scheme. Deson granted 28,500,000 share options to the directors of the Company during the year. The options are exercisable during the period from 23 April 2001 to 22 April 2003 with a subscription price of HK\$0.0384 each. As at 31 March 2001, all share options are outstanding.

The above share options to subscribe for ordinary shares of Deson, were granted to the following directors:

Name of director	Number of share options
Wang Ke Duan	2,000,000
Tjia Boen Sien	6,000,000
Wang Jing Ning	3,000,000
Keung Kwok Cheung	6,000,000
Kong Kwok Fai	5,000,000
Siu Kam Chau	5,000,000
Song Sio Chong	1,500,000
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	28,500,000
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All of the Company's share options lapsed during the year. Details of the Company's share option scheme are set out in note 24 to the financial statements.

Save as disclosed above, at no time during the year was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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SUBSTANTIAL SHAREHOLDERS

As at 31 March 2001, according to the register maintained by the Company pursuant to Section 16(1) of the SDI Ordinance, the following persons were, directly or indirectly, beneficially interested in 10% or more of the issued share capital of the Company.

Name of shareholder	Number of shares	Percentage of issued share capital
Super Win	400,000,000 (<i>Note</i>)	56.1%
Deson Development Holdings Limited	400,000,000 (<i>Note</i>)	56.1%
Deson	400,000,000 (<i>Note</i>)	56.1%
Sparta Assets	400,000,000 (<i>Note</i>)	56.1%

Note: Super Win holds 400,000,000 shares in the Company. By virtue of Super Win being a wholly-owned subsidiary of Deson Development Holdings Limited (“DDHL”), and DDHL being a wholly-owned subsidiary of Deson, and Sparta Assets being beneficially interested in 40.6% of the issued share capital of Deson, each of DDHL, Deson and Sparta Assets is deemed to be interested in the 400,000,000 shares held by Super Win.

Save as disclosed above, no person had registered as having an interest of 10% or more in the issued share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

CONNECTED TRANSACTIONS

On 5 July 2000, the Company executed a service contract (the “Service Contract”) with Sincere Place Limited (“Sincere Place”) which provides management and administrative services, in consultation with the board of the Company in respect of the Group’s debt restructuring, the schemes of arrangement of the Company and certain of its subsidiaries and any necessary court proceedings. Under the Listing Rules, Sincere Place is an associate of Leung Yat Tung, a former director of the Company. The Service Contract covers a period from 1 July 2000 to the completion of the Group’s debt restructuring. Under the Service Contract, Sincere Place’s services are charged to the Group at a monthly fee of HK\$300,000 with a lump sum payment of HK\$1,200,000 payable to Sincere Place upon the successful completion of the Group’s debt restructuring. In the opinion of the directors, the service fee is commensurate with the qualifications and experience of the team of individuals providing the management and administrative services.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited, throughout the accounting period covered by this Annual Report, except that the independent non-executive directors of the Company are not employed for specific terms, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Tjia Boen Sien

Managing Director and Deputy Chairman

Hong Kong
19 July 2001