

FORWARDS

I have pleasure to present to the Shareholders the Group's annual report for the year ended 31 March 2004.

BUSINESS REVIEW

BUSINESS AND SEGMENT INFORMATION REVIEW

The Group's turnover for the year was HK\$38,243,000. This represented an increase of 22.8% as compared with that of last year. The net loss attributable to shareholders amounted to approximately HK\$9,132,000. Basic loss per share was approximately HK0.63 cents.

Discontinued operation in Electrical and Mechanical Engineering Services

Market sentiment was, during the year under review, adversely affected by the unfavourable economic conditions in Hong Kong due to SARS, rising unemployment rate and other negative factors. However, based on the relationship and support by Deson Development International Holdings Limited ("Deson"), the Group can still achieve a turnover of HK\$38 million. Turnover in Building Services (single-trade) and Packaged/Design and Build Contracts projects contributed to 26.43% and 69.12% of the total turnover, respectively. More time and efforts are required to pick up the comparatively lower market share of Environment Engineering Services upon restructuring, as the Group had to rebuild and beef up the confidence of customers in this field.

The Hong Kong economy is on the gradual pickup and that the confidence is being built up in the Government of the HKSAR in these few months, the Group was awarded several engineering projects during this year including the installation of Trunk Sewers and Effluent Export Pipeline in Ngong Ping Sewage Treatment Plant, Lantau Island, New Territories, Buildings Services Installation for a secondary school at Nam Fung Road, Aberdeen, Hong Kong and several school improvement works. As at the date of this report, the Group had projects on hand with a total contract sum of over HK\$300 million.

Property Holding And Investment

To strengthen the financial and asset positions, the Group acquired the 24th, 27th and 28th floors of Zhongda Square, Shanghai ("Zhongda Square"), the People's Republic of China ("PRC") together with 19 carparks in May 2003 at a total consideration of HK\$46,000,000. The consideration was satisfied by the issue of 657,142,857 shares of the Company at HK\$0.07 each. During this year, this segment contributed a revenue and profit of HK\$1,351,000 and HK\$904,000, respectively to the results of the Group.

CHAIRMAN'S STATEMENT

POST BALANCE SHEET EVENTS

- 1 On 18 February 2004, the Group entered into agreements with independent third parties to acquire an aggregate 49% equity interest in Xin Hua Resources Investment Limited (“Xin Hua”) and its related shareholders’ loans for HK\$29,500,000 (the “Xin Hua Acquisition Agreement”). The consideration was satisfied by way of issuing 295,000,000 shares of the Company at HK\$0.10 each.
- 2 On 18 February 2004, the Group entered into an agreement with Deson to acquire the entire issued share capital of Penmark Limited (“Penmark”) and its related shareholder’s loan at a consideration of HK\$7,500,000 (the “Penmark Acquisition Agreement”). The consideration was satisfied by issuing 75,000,000 shares of the Company at HK\$0.10 each. The Company also granted Deson an option to subscribe for one option share for every two shares issued at the option exercise price of HK\$0.105 per option share.
- 3 On 18 February 2004, the Group entered into an agreement with Deson to dispose of the entire issued share capital of Kenworth Group Limited and its shareholder’s loan for HK\$7,000,000 to Deson (the “Kenworth Disposal Agreement”). The consideration was paid by Deson in cash.
- 4 On 18 February 2004, the Company entered into a placing agreement with a placing agent to place up to 800,000,000 new shares at a price of HK\$0.10 each (the “Placing Agreement”). The placing agent agreed to place to not less than six independent placees i) 200,000,000 placing shares on a fully underwritten basis and ii) 600,000,000 placing shares on a best endeavours basis. An aggregate of 400,000,000 placing shares were successfully placed. Pursuant to the Placing Agreement, the Company granted each placee a placing option which will entitle the placee to subscribe for one option share for every two placing shares subscribed for by the placee at the option exercise price of HK\$0.105 per option share.
- 5 On 18 February 2004, the Company entered into a subscription agreement with Super Win Development Limited (“Super Win”), the immediate holding company of the Company (the “Subscription Agreement”). The Company will issue 325,000,000 new shares to Super Win at a price of HK\$0.10 each for an aggregate consideration of HK\$32,500,000. Pursuant to the subscription agreement, Super Win will be entitled to subscribe for one option share for every two shares subscribed for at the option exercise price of HK\$0.105 per option share.

All the above transactions were approved by the independent shareholders and shareholders of the Company at a special general meeting on 16 April 2004 and completed on 30 April 2004.

PROSPECTS

The Directors note that the Group had for a number of years been principally engaged in the provision of electrical and mechanical engineering services. During the past few years, the Group has experienced difficult market conditions owing to the weak local economy and the keen

competition in the construction industry. In order to turnaround the difficulties faced by the Group and to strengthen its financial condition, the Directors have been exploring new business opportunities which will generate revenue and cash flow and provide a reliable source of income to the Group.

On 18 February 2004, the Group signed the following conditional agreements to further strengthen its financial position and operation:–

- a) the Xin Hua Acquisition Agreement;
- b) the Penmark Acquisition Agreement;
- c) the Kenworth Disposal Agreement;
- d) the Placing Agreement; and
- e) the Subscription Agreement.

Xin Hua is an investment holding company and is beneficially interested in the entire equity interest in Beijing Zhong Min Gas Company Limited (“Zhong Min”). Zhong Min is beneficially interested in 33% of each of Mian Zhu City Hong Sen Natural Gas Co., Limited (“Hong Sen”) and Mian Zhu City Long Teng Gas Installation Co., Limited (“Long Teng”). Hong Sen is principally engaged in the distribution and supply of piped natural gas in the PRC whilst Long Teng is principally engaged in the installation of natural gas distribution facilities in the PRC.

Penmark is principally engaged in the business of property investment and owns a unit on 3A floor of Zhongda Square which has a total gross floor areas of 533.71 m².

The above transactions were completed on 30 April 2004. After the completion of the transactions, the principal activities of the Group and its associates are distribution, supply and installation of piped natural gas and property holding and investment.

Natural Gas Business

The PRC has historically relied heavily on coal as its primary energy source, but the PRC government in recent years has strongly encouraged the use of other more environmentally friendly forms of fuel such as natural gas to combat the pollution and environmental damage caused by coal combustion. The natural gas market now only contributed less than 10% of the total energy source supply in PRC and the Directors are of the view that this business segment has a high potential for future growth.

Property Holding And Investment

During the year, the Group acquired the 24th, 27th and 28th floor together with 19 car parks of Zhongda Square, Shanghai, PRC. On 30 April 2004, the Group further acquired a unit on 3A floor of Zhongda Square. The Group now has a total of 3,489.64 m² of Zhongda Square together with 19 car parks as the reserve for property investment purpose. The Directors believe that this business segment will generate continuous cash flow and revenue to the Group in the coming years.

CHAIRMAN'S STATEMENT

LIQUIDITY AND CAPITAL RESOURCES

As at 31 March 2004, the Group had total assets of HK\$72,053,000, and current liabilities, long term liabilities, shareholders' equity and minority interests of HK\$31,279,000, HK\$7,432,000, HK\$33,068,000 and HK\$274,000 respectively.

The Group had a low gearing ratio of 18.23% as at 31 March 2004 which was calculated based on the long term borrowings of HK\$7,432,000 and long term capital of HK\$40,774,000. No gearing ratio is calculated as the Group did not have any long term liabilities as at 31 March 2003.

As at 31 March 2004, the cash balances and bank borrowings were principally denominated in Hong Kong dollars. Hence, there is no significant exposure to foreign exchange rate fluctuation.

CAPITAL STRUCTURE

The Group's long term capital comprised of shareholders' equity which is confirmed with the low gearing ratio as discussed in the section "Liquidity and capital resources" above.

RISK OF CURRENCY FLUCTUATION

The Group's receivables and payables were denominated mainly in Hong Kong dollars and Renminbi. Since Hong Kong dollars and Renminbi are relatively stable, the exchange risk is not significant.

CONTINGENT LIABILITIES

Details of the contingent liabilities of the Group are set out in note 31 to the financial statements.

CAPITAL COMMITMENTS

Details of the capital commitments of the Group are set out in note 32 to the financial statements.

EMPLOYEE SCHEMES

As at 31 March 2004, the Group had 69 employees, all of whom were based in the Hong Kong.

The remuneration policy and package of the Group's employees are reviewed and approved by the Directors. Apart from pension funds, discretionary bonuses are linked to individual performance as recognition of and reward for value creation.

CHARGES ON GROUP ASSETS

The Group's banking facilities are secured by the Group's properties held for sale of HK\$46,569,000 (2003: Nil) and time deposits of HK\$5,283,000 (2003: HK\$5,122,000).

ACKNOWLEDGEMENT

On behalf of the directors, I would like to express my heartfelt thanks to our Shareholders for their continued support and to our staff for their hard work. We will carry on dedicating our efforts towards the Group's long term development.

On behalf of the board

Tjia Boen Sien

Managing Director and Deputy Chairman

Hong Kong

24 June 2004