

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 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. During the year, the Group was engaged in the provision of electrical and mechanical engineering services, and property holding and investment.

Upon completion of the transactions as detailed in note 34(1) and 34(3) to the financial statements, the Group ceased to be engaged in the provision of electrical and mechanical engineering services. The principal activities of the Group and its associates have changed to distribution, supply and installation of piped natural gas and property holding and investment.

RESULTS

The Group's loss for the year ended 31 March 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 64.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published results and of the assets, liabilities and minority interests of the Group for the five financial years ended 31 March 2004.

	Year ended 31 March				
	2004	2003	2002	2001	2000
RESULTS	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	<u>38,243</u>	<u>31,136</u>	<u>19,117</u>	<u>14,095</u>	<u>29,353</u>
PROFIT/(LOSS) BEFORE TAX	(9,024)	(8,805)	(10,874)	33,760	(110,485)
Tax	<u>(135)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(89)</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	(9,159)	(8,805)	(10,874)	33,760	(110,574)
Minority interests	<u>27</u>	<u>45</u>	<u>14</u>	<u>5</u>	<u>—</u>
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	<u>(9,132)</u>	<u>(8,760)</u>	<u>(10,860)</u>	<u>33,765</u>	<u>(110,574)</u>

SUMMARY FINANCIAL INFORMATION (continued)

ASSETS, LIABILITIES AND MINORITY INTERESTS	2004 HK\$'000	As at 31 March			
		2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
TOTAL ASSETS	72,053	17,274	22,459	19,308	13,900
TOTAL LIABILITIES	(38,711)	(20,420)	(16,803)	(18,368)	(604,761)
MINORITY INTERESTS	(274)	(683)	(728)	(40)	–
NET ASSETS/(LIABILITIES)	<u>33,068</u>	<u>(3,829)</u>	<u>4,928</u>	<u>900</u>	<u>(590,861)</u>

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the year, together with the reasons therefor, are set out in note 27 to the financial statements. Details of the Company's share option scheme are set out in note 28 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.

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.

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 summary statement of changes in equity on page 23.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

At 31 March 2004, 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).

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 55% of the total sales for the year, and sales to the largest customer included therein amounted to approximately 18%. Purchases from the Group's five largest suppliers accounted for approximately 68% of the total purchases for the year, and purchases from the largest supplier included therein amounted to approximately 26%.

Apart from as disclosed under the heading "Connected Transactions" below, 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 suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Wang Ke Duan *(Chairman)*
Tjia Boen Sien *(Managing Director and Deputy Chairman)*
Wang Jing Ning
Keung Kwok Cheung
Kong Kwok Fai
Song Sio Chong
Mo Shikang *(appointed on 30 April 2004)*

Independent non-executive directors:

Siu Man Po
Wong Sin Yee

In accordance with clause 99 of the Company's bye-laws, Mr. Wang Jing Ning, Mr. Mo Shikang and Ms. Wong Sin Yee 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 of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Except as detailed in note 33 to the financial statements, no director had a material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Executive directors

WANG Ke Duan, aged 73, joined the Group in August 2000 and is the Chairman of the Group. He has over 49 years' experience in the construction engineering industry in Mainland China and Hong Kong. He is currently responsible for the daily operations of the Group.

TJIA Boen Sien, aged 60, 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 Mainland China. Mr. Tjia is well-respected and has established connections in the Mainland China construction industry through his extensive experience. He has over 21 years' experience in the construction industry in Mainland China 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, People's Republic of China; a corporate member of the Chartered Institute of Building and a professional member of The Royal Institution of Chartered Surveyors in the United Kingdom.

WANG Jing Ning, aged 48, joined the Group in August 2000 and is an executive director of the Group. Mr. Wang has over 24 years' experience in hotel management and construction engineering in Mainland China and Hong Kong. He is responsible for managing the Group's projects in Mainland China.

KEUNG Kwok Cheung, aged 46, joined the Group in September 2000. He is an executive director of the Group. He has over 22 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 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 42, joined the Group in September 2000. He is an executive director of the Group. He holds a Master 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 & Architectural Society of Guangdong Province, PRC, a member of the China Civil Engineering Society, PRC and is a member of the Hong Kong Institution of Engineers.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (Continued)

Executive directors (Continued)

SONG Sio Chong, aged 49, joined the Group in September 2000. He is an executive director of the Group. He has 25 years' professional experience in structural design, site supervision and contract management. He is a chartered structural engineer and registered professional engineer. Other than his academic qualification in civil and structural engineering, he holds LLB, LLM and LLD degree in PRC Law from Peking University.

MO Shikang, aged 46, joined the Group in April 2004. He is an executive director of the Group. He holds a Bachelor degree in Mathematics from Tianjin Education University and a Master degree in Economics from Tianjin College of Finance. Mr. Mo has substantial experience in the development and management of natural gas projects in Mainland China.

Independent non-executive directors

SIU Man Po, aged 66, obtained his Master of Science in Civil Engineering in 1963 from Auburn University in Auburn, Alabama, USA. Mr. Siu has extensive experience in construction field including construction of Tsing Yi Power Stations in 1966-1977, MTR stations in 1977-1987 and Hong Kong Baptist University campus development in 1989-1999. Mr. Siu is a Fellow Member of the Hong Kong Institution of Engineers, American Society of Civil Engineers, the Hong Kong Institute of Facility Management and the Hong Kong Institute of Directors. Mr. Siu is currently the Managing Director of Ho Wang Siu Mak Management Ltd.

WONG Sin Yee, aged 44, graduated from the University of Hong Kong in 1982. She has extensive experience in property and construction matters in Hong Kong and Mainland China. 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 the principal of Messrs. S.Y. Wong & Co. specialising in commercial and corporate law.

Senior Management

LO Wing Ling, aged 44, joined the Group in 1984. He is a director of Kenworth Engineering Limited and is 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 21 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 and a degree of Master of Science in Environmental Management. He is also a director of The Hong Kong Project Management Exchange Centre.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (Continued)

Senior Management (Continued)

WONG Chi Kwong, aged 44, joined the Group in September 2000. He is a general manager of the Group and is responsible for managing the whole engineering business development of the organisation. He has over 21 years' experience in the building services engineering field. He holds a Bachelor's 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 with grade C0.

ONG Chi King, aged 31, 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 a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Society of Accountants. Before joining the Group, he had several years' experience with an international accounting firm.

CHAN Kam Tong, aged 35, joined the Group in April 2001. He is an assistant general manager of Kenworth Engineering Ltd. and is responsible for tendering, project administration and business development. He has over 11 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, in the United Kingdom. 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. He is also the Chairman of Young Member Group of CIBSE, Hong Kong Branch.

KWOK Koon Keung, aged 36, 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 14 years' experience in the field. He holds a Bachelor of Science degree in Building from South Bank University in the United Kingdom. He is a professional associate member of The Royal Institute of Chartered Surveyors.

REPORT OF THE DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (Continued)

Senior Management (Continued)

WONG Ka Yan, aged 31, 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, Australia. She is a certified public accountant of CPA Australia. Before joining the Group, she had several years' experience with an international accounting firm.

LI Ngan Mei, aged 43, joined the Group in August 2000 and is the Administration Manager of the Group. She has more than 19 years' experience in personnel and administration management.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2004, the interests and short positions of the Company's directors in the issued share capital, share options and warrants of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which he would be deemed or taken to have under Sections 344 and 345 of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in ordinary shares share options and warrants of the Company and associated corporations

(a) The Company

Name of director	Capacity and nature of interest	Number of shares held	Number of share options held	Percentage of the Company's enlarged issued share capital
Tjia Boen Sien	Through controlled corporation (<i>Note</i>)	1,536,724,256	200,000,000	58.77
Wang Jing Ning	Through controlled corporation (<i>Note</i>)	1,536,724,256	200,000,000	58.77

Details of the Company's share option scheme are disclosed in note 28 to the financial statements.

Note: 1,536,724,256 shares, representing 58.77% of the enlarged 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 44.31% 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 90% and 10% of the issued share capital of Sparta Assets, respectively.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

(b) Associated corporations

Deson

Name of director	Capacity and nature of interest	Number of shares held	Number of warrants held	Percentage of the associated corporation's issued share capital
Tjia Boen Sien	Through controlled corporation (<i>Note</i>)	2,068,750,000	293,750,000	44.31
	Directly beneficially owned	276,230,000	24,894,000	5.92
Wang Jing Ning	Through controlled corporation (<i>Note</i>)	2,068,750,000	293,750,000	44.31
	Directly beneficially owned	15,330,000	3,066,000	0.33
Wang Ke Duan	Directly beneficially owned	1,569,600	1,120,000	0.03
Keung Kwok Cheung	Directly beneficially owned	6,997,278	–	0.15
Song Sio Chong	Directly beneficially owned	6,000,000	600,000	0.13
Siu Man Po	Directly beneficially owned	1,500,000	300,000	0.03

Note: Sparta Assets, a company incorporated in the British Virgin Islands, is beneficially interested in 2,068,750,000 shares of Deson. Mr. Tjia Boen Sien and Mr. Wang Jing Ning own 90% and 10% of the issued share capital of Sparta Assets, respectively.

Save as disclosed above, none of the directors had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SHARE OPTION SCHEME

Detailed disclosures relating to the Company's share option scheme (the "Option Scheme") are set out in note 28 to the financial statements.

At 31 March 2004, no share options were outstanding under the Option Scheme and none of the Company's directors or the Group's employees were granted share options during the year.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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. The movements of share options held by the directors of the Company during the year are as follows:

Name of director	At 1 April 2003	Lapsed during the year	Exercised during the year	At 31 March 2004	Date of grant of share options	Exercise period of options	Exercise price of share option HK\$
Wang Ke Duan	2,000,000	(2,000,000)	–	–	23 Oct 00	23 Apr 01 to 22 Apr 03	0.0384
	3,000,000	–	(3,000,000)	–	23 Jul 01	23 Jan 02 to 22 Jan 04	0.03088
	<u>5,000,000</u>	<u>(2,000,000)</u>	<u>(3,000,000)</u>	<u>–</u>			
Tjia Boen Sien	26,000,000	–	(26,000,000)	–	23 Jul 01	23 Jan 02 to 22 Jan 04	0.03088
	35,000,000	–	(35,000,000)	–	29 Aug 01	28 Feb 02 to 28 Feb 04	0.02864
	<u>61,000,000</u>	<u>–</u>	<u>(61,000,000)</u>	<u>–</u>			
Wang Jing Ning	3,000,000	(3,000,000)	–	–	23 Oct 00	23 Apr 01 to 22 Apr 03	0.0384
	5,000,000	–	(5,000,000)	–	23 Jul 01	23 Jan 02 to 22 Jan 04	0.03088
	<u>8,000,000</u>	<u>(3,000,000)</u>	<u>(5,000,000)</u>	<u>–</u>			
Keung Kwok Cheung	<u>5,000,000</u>	<u>–</u>	<u>(5,000,000)</u>	<u>–</u>	23 Jul 01	23 Jan 02 to 22 Jan 04	0.03088
Kong Kwok Fai	5,000,000	(5,000,000)	–	–	23 Oct 00	23 Apr 01 to 22 Apr 03	0.0384
	4,000,000	–	(4,000,000)	–	23 Jul 01	23 Jan 02 to 22 Jan 04	0.03088
	<u>9,000,000</u>	<u>(5,000,000)</u>	<u>(4,000,000)</u>	<u>–</u>			
Song Sio Chong	3,000,000	–	(3,000,000)	–	23 Jul 01	23 Jan 02 to 22 Jan 04	0.03088
	<u>91,000,000</u>	<u>(10,000,000)</u>	<u>(81,000,000)</u>	<u>–</u>			

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2004, according to the register maintained by the Company pursuant to Section 336 of the SFO, the following persons were, directly or indirectly, beneficially interested in 5% or more of the issued share capital and share options of the Company:

Name of shareholder	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's enlarged issued share capital	Number of share options held
Super Win	Directly beneficially owned (<i>note</i>)	1,536,724,256	58.77	200,000,000
Deson Development Holdings Limited	Through a controlled corporation (<i>note</i>)	1,536,724,256	58.77	200,000,000
Deson	Through a controlled corporation (<i>note</i>)	1,536,724,256	58.77	200,000,000
Sparta Assets	Through a controlled corporation (<i>note</i>)	1,536,724,256	58.77	200,000,000

Note: Super Win holds 1,536,724,256 shares and 200,000,000 share options in the Company. By virtue of Super Win being a wholly-owned subsidiary of Deson Development Holdings Limited ("DDHL"), and DDHL being a wholly-subsiary of Deson, and Sparta Assets being beneficially interested in 44.31% of the issued share capital of Deson, each of DDHL, Deson and Sparta Assets is deemed to be interested in the 1,536,724,256 shares and 200,000,000 share options held by Super Win.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

The Group had the following material connected transactions during the year:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Construction contracting revenue	6,422	7,808

CONNECTED TRANSACTIONS (Continued)

During the current year, electrical and mechanical engineering construction contracts with a total contract sum of HK\$10,960,000 were entered into under the terms and conditions set out in the construction contract between Deson Development Limited, a wholly-owned subsidiary of Deson, and the Group. The directors believe that these connected transactions enable the Group, Deson and its subsidiaries to achieve synergy through vertical integration and are for the mutual benefit of the two groups.

The Stock Exchange has granted conditional waivers to the Company from strict compliance with the connected transactions requirements as set out in the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) for the three financial years ended 31 March 2004. The connected transactions have been approved by the Company’s board of directors.

The independent non-executive directors of the Company have reviewed and confirmed that the aggregate revenue for the year ended 31 March 2004 did not exceed HK\$200 million for the connected transactions described above, and that such transactions were:

- (i) conducted on normal commercial terms and in the ordinary and usual course of business of the Group;
- (ii) conducted on terms no less favourable than those made available by the Group to independent third parties; and
- (iii) fair and reasonable as far as the shareholders of the Company were concerned.

The auditors of the Company (as required by the Stock Exchange in its letter dated 2 January 2002), have also reviewed the connected transactions and have confirmed that these transactions met the conditions imposed by the Stock Exchange under the conditional waiver.

On 6 March 2003, the Company entered into a provisional sales and purchase agreement (“Acquisition Agreement”) with Deson, the ultimate holding company of the Group, for the acquisition of the entire issued share capital of Billion Treasure Holdings Limited and its shareholder’s loan of HK\$40,236,066 for a total consideration of HK\$46,000,000. The total consideration was satisfied by way of issuing 657,142,857 shares of the Company to Deson.

Deson is a connected person of the Company by virtue of it being a controlling shareholder of the Company, owning approximately 55.62% indirect shareholding interest as at the acquisition date. Accordingly, the transaction constituted a major and connected transaction for the Company under the Listing Rules.

The acquisition was approved by the Company’s independent shareholders at a special general meeting on 12 May 2003 and was completed on 14 May 2003.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the “Code”), as set out in Appendix 14 of the Listing Rules of the Stock Exchange, throughout the accounting period covered by this annual report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company’s bye-laws.

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 an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

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
24 June 2004