

DIRECTORS' REPORT

The directors herein present their report and the audited financial statement of the Company and of the Group for the year ended 31 March 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 14 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year save for certain subsidiaries are involved in water supply and sewage treatment business during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 March 2004 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 17 to 60.

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				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
TURNOVER	<u>33,187</u>	<u>123,464</u>	<u>256,546</u>	<u>275,622</u>	<u>366,830</u>
PROFIT/(LOSS) FROM OPERATIONS BEFORE TAXATION	<u>(99,338)</u>	<u>(268,317)</u>	<u>(65,359)</u>	<u>9,769</u>	<u>63,938</u>
Taxation	<u>–</u>	<u>2,520</u>	<u>934</u>	<u>(2,364)</u>	<u>(6,940)</u>
PROFIT/(LOSS) FROM OPERATIONS AFTER TAXATION	<u>(99,338)</u>	<u>(265,797)</u>	<u>(64,425)</u>	<u>7,405</u>	<u>56,998</u>
Minority interests	<u>1,720</u>	<u>2,387</u>	<u>1,030</u>	<u>180</u>	<u>(59)</u>
PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	<u>(97,618)</u>	<u>(263,410)</u>	<u>(63,395)</u>	<u>7,585</u>	<u>56,939</u>

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SUMMARY FINANCIAL INFORMATION (Continued)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	At 31 March				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
NON-CURRENTS ASSETS	87,343	119,658	162,841	176,970	99,190
CURRENT ASSETS	10,880	26,516	197,497	177,940	209,202
CURRENT LIABILITIES	(39,702)	(82,796)	(64,259)	(123,646)	(106,289)
NET CURRENT ASSETS/(LIABILITIES)	(28,822)	(56,280)	133,238	54,294	102,913
TOTAL ASSETS LESS CURRENT LIABILITIES	58,521	63,378	296,079	231,264	202,103
NON-CURRENT LIABILITIES	(28,446)	(9,000)	(16,589)	(12,924)	(11,614)
MINORITY INTERESTS	(9,791)	–	(2,387)	(3,417)	(3,597)
	20,284	54,378	277,103	214,923	186,892

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.

CONVERTIBLE NOTE

Details of convertible note of the Group and Company as at 31 March 2004 are set out in note 28 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 30 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.

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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 31 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 31 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sale to the Group's five largest customers accounted for approximately 85% of the total sales for the year and sales to the largest customer included therein amounted to approximately 52%. Purchases from the Group's five largest suppliers accounted for approximately 65% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 33%.

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. Tong Yiu Lun (resigned on 28 April 2003)

Mr. Tsui Chi Kin (appointed on 28 April 2003)

Non-executive directors

Mr. Chiu Shui Pui, Andrew (appointed on 25 October 2003)

Mr. Zhao Hai Hu (appointed on 28 July 2003)

Independent non-executive directors

Mr. Chen Lizhong

Ms. Huang Shao Yun (appointed on 28 July 2003)

Ms. Choi Yik Ling, Kathy (retired on 1 September 2003)

In accordance with clause 87 of the Company's Bye-laws, Mr. Zhao Hai Hu and Ms. Huang Shao Yun retire by rotation and, being eligible, offer himself/herself for re-election at the forthcoming Annual General Meeting. 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' AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

Biographical details of the directors of the Company and the senior management of the Group are set out on page 7 of this annual report.

DIRECTORS' REPORT

DIRECTORS' SERVICE CONTRACTS

As at 31 March 2004, 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 26 and 35 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 2004, 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 Futures 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 of short positions which they were taken or deemed to have under such provision of 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:

Name of Directors	Capacity/ Nature of interests	Number of Shares		Approximate percentage of shareholding in the Company
		Long position	Short position	
Mr. Duan Chuan Liang (<i>Note</i>)	Corporate	61,996,666	0	21.23%
Mr. Tsui Chi Kin	Personal	7,500,000	0	2.57%

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

Save as disclosed above, as at 31 March 2004, 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 of 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' REPORT

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

Particulars of the Company's share option scheme adopted on 6 September 2002 are set out in note 30 to the financial statements.

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 or debt securities (including debentures) of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2004, 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 Shareholder	Capacity/ Nature of interest	Number of Shares		Approximate percentage of shareholding in the Company
		Long position	Short position	
Asset Full Resources Limited	Beneficial	61,996,666	0	21.23%

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 capital is wholly and beneficially owned by Mr. Duan Chuan Liang, an executive director and chairman of the Company.

Save as disclosed above, as at 31 March 2004, 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 into or existed during the year.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in note 35 to the financial statements.

DIRECTORS' REPORT

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in the Listing Rules, throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation 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 36 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 two independent non-executive directors of the Company.

AUDITORS

On 23 April 2004, Ernst and Young tendered their resignation as the auditors of the Company. On the same day, RSM Nelson Wheeler were appointed as auditors of the Company by the Board to fill in the casual vacancy. A resolution to re-appoint the retiring auditors, RSM Nelson Wheeler, will be put at the forthcoming Annual General Meeting.

On behalf of the board

Duan Chuan Liang

Chairman

Hong Kong
23 July 2004