

# Management Discussion and Analysis

## FINANCIAL REVIEW

The Group's turnover for the year ended 31 March 2006 (hereinafter referred to as the "Year") amounted to HK\$134,740,000 (2005: HK\$225,003,000), representing a decrease of 40.12% compared with the corresponding period of last year. Loss attributable to shareholders was HK\$108,312,000 (2005: restated HK\$70,656,000). There were certain city development and investment projects, and environmental protection and water treatment projects of the Group in China remaining under construction during the Year. No revenue had been recorded from such projects yet.



As at 31 March 2006, total assets and net assets of the Group valued at HK\$1,417,395,000 (31 March 2005: restated HK\$1,660,291,000) and HK\$687,291,000 (31 March 2005: restated HK\$693,410,000) respectively, representing a decrease of 14.63% and 0.88% respectively as compared with those as at 31 March 2005.

As at 31 March 2006, the Group's cash on hand and deposits in bank (including segregated and trust account) totaled approximately HK\$22,171,000 (31 March 2005: HK\$64,361,000), representing a decrease of 65.55% against the balance as at 31 March 2005. Approximately



68.37% of the deposits was denominated in Hong Kong dollars while the remainder in Renminbi. The Group's net current liabilities amounted to HK\$78,851,000 (31 March 2005: restated HK\$134,638,000). The Group's outstanding bank and other borrowings were HK\$406,531,000 (31 March 2005: HK\$562,869,000) which mainly comprised bank and other borrowings of approximately HK\$220,605,000 repayable within a year, and HK\$185,926,000 of bank and other borrowings repayable after one year. The gearing ratio was 28.71% (total borrowings/total assets).

As at 31 March 2006, approximately 17.98% of the Group's bank and other borrowings were denominated in Hong Kong dollars while the rest in Renminbi. The Group's bank and other borrowings were arranged on both floating and fixed rate basis of which approximately 90.16% were secured by the Group's investment properties, interests in leasehold land and land use rights and property, plant and equipment.



Since the Group's business is primarily based in China and Hong Kong, the Group's borrowings are designated in local currencies of the project investments in China and Hong Kong so as to match the corresponding payment currencies to mitigate exposure on exchange rate fluctuations.

## BUSINESS REVIEW AND PROSPECT

### Environmental Protection and Water Treatment Operation

Environmental protection and water treatment operation remained to be the core businesses of the Group. During the past year, the Group used its best endeavours to implement the prescribed water treatment operation projects. Various projects were implemented smoothly. Environmental protection and water treatment operation had also been undergoing continuous development and expansion.

Since the sewage treatment plant located in the Haigang District of Qinhuangdao in Hebei Province officially commenced operation in 2004, it continuously brought contributions to the earnings of the Group. During the Year, this sewage treatment plant brought turnover of RMB23,330,000 to the Group. The daily average processing capacity of the sewage treatment plant was increased from 100,000 tonnes in the last year to 120,000 tonnes this year. The Group will obtain the right of price determination with respect to the water processed by the sewage treatment plant in 2007. By then the group will positively revise the charges flexibly according to the price index. It is expected that this will bring more profit to the Group.

Qinhuangdao Sewage Treatment Plant has a comprehensive production and laboratory testing system, which provides reliable and stable assurances as well as control effects. This environmental sewage treatment plant development project not only laid a superior and solid foundation to the Group's water treatment operation in Hebei Province, but also allowed the Group to accumulate ample experiences in the operation of sewage treatment. This furnished a strong technical support to the Group's environmental protection and water treatment operation in future.

In 2004, the Group was granted the right by the Ma'anshan Municipal Government in Anhui Province and Qinhuangdao Municipal Government in Hebei Province, the PRC to construct and operate two sewage treatment projects in Ma'anshan and Changli respectively. These two projects were the Group's long term investment projects. The daily average processing capacity for these two projects will be 100,000 tonnes in aggregate. The processing capability of the



Ma'anshan Sewage Treatment Project will be 60,000 tonnes per day, whilst the processing capacity of the Changli Sewage Treatment Project will be 40,000 tonnes per day. Both sewage treatment projects will be completed by the end of this year, and will officially commence operation in the middle of next year. It is expected that after both sewage treatment plants commence operation, they will be another important and stable sources of revenue for the Group.

During the Year, the Group continued to discuss with the Hanzhong Municipal Government in Shaanxi Province of the PRC on finalising the details of operation of the water supply project in Hanzhong City, the process of which was smooth. It is expected that operation will commence in 2007 and will supply approximately 100,000 tonnes of water to Hanzhong per day. This water supply project will not only expand the scope of operation for the Group, but also facilitate the development of the Group's environmental protection and water treatment operation to a new height.

Growth in the national economy has been rapid. Standard of living for the people was improved and there has been rising concern for environmental protection problems. However, the corresponding investment in municipal sewage treatment facilities was far lagging behind the speed in the development of economic infrastructure. As such, the Group entered into a legally binding memorandum with an independent third party in May 2005 in relation to the acquisition of the entire equity interest in You Lian Group, which operates Zhuyuan First Sewage Treatment Plant in Pudong New District, Shanghai. Negotiation for this acquisition project is still undergoing. In the event the acquisition is successful, this will bring stable income to the Group. It will also facilitate the Group to consolidate its leading position in the environmental protection and water treatment industry in the PRC.

The Group terminated the cooperation agreements entered into with the People's Government of Xianyang City in Shaanxi Province and the People's Government of Zhuozhou City in Hebei Province of the PRC with respect to Xianyang Water Supply Project and Zhuozhou Sewage Treatment Project respectively. Details were set out in the announcements of the Company dated 26 June 2006 and 7 July 2006 respectively. The Board considered the terms of the two Termination Agreements above were fair and reasonable and were in the interests of the Company and the Shareholders as a whole. The Board also considered the termination of the Agreements would not have any material adverse effect on the operations of the Group.

The termination of the two water supply and sewage treatment projects above being entered into by the Group had taken into account the cost effectiveness and feasibility of the projects, and would not affect the usual operation of the Group. The Group can concentrate its resources to develop other water supply and sewage treatment projects with potentials hereafter. Therefore such termination laid the foundation for the sustainable development of the Group's earnings in future.

### City Development and Investment Operation

With the strong growth in the national economy and the gradual improving in the standard of living for the people, city development and investment has become an integral part to the development of the PRC. After years of investment and development, the Group's city development and investment operation has already set on its right track and the development project of Changsha New Sports City was completed successfully last year.



In September 2004, the Group disposed of a piece of land situated at R-06, Changsha New Sports City, the PRC at a consideration of RMB69,451,000. The land transfer procedures have been completed and the proceeds from the disposal of the land were recognized in this financial year. With respect to the disposal above, an amount of approximately RMB18,448,000 outstanding (hereinafter referred to as the "Outstanding Amount") was not yet recovered. As the Group has been managing its finance on a prudent basis, the Group had made provision on bad debts for the Outstanding Amount. The management will also continue to collect the Outstanding Amount so as to avoid any loss to be incurred by the Group.

The construction of the Interchina Mall, the Group's mega-scale luxurious residential and commercial complex in Changsha, was divided into three phases. The construction of Wang Guo Commercial Plaza in Interchina Mall (Phase One) was also near completion. The Group is now actively recruiting tenants for Wang Guo Commercial Plaza. The construction works of other four hotel equities are proceeding at full speed. The civil engineering construction works were nearly completed.

The development project locating at Hongkou District, Shanghai will be another key investment project of the Group. The site area is about 8,889 sq. m. and will be used for commercial and financial purposes. Hongkou District is situated at a prime geographical location and is a hub in



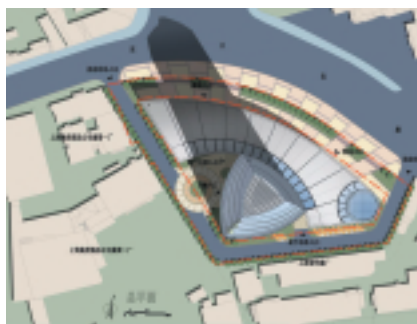
the middle of Shanghai with central business area, municipal urban area and industrial development area. Real estate sector at that district has been booming prosperously during the recent years. It is expected that the project will turn into another city development project of tremendous potential for the Group.

In order to finalise and complete the Group's existing city development and investment business development plans, the Group is now negotiating with developers with potentials for possibility to cooperate in various different forms, under the premises of protecting the best interests of the shareholders. It is expected that the shareholders will receive the greatest investment return.

In addition, the Group disposed of its subsidiary, New Experience Investments Limited, at a consideration of HK\$48,100,000 in May 2006 and expected to result in a gain of HK\$25,000,000.

## Property Investment Operation

During the Year, the Group's rental income amounted to HK\$3,724,000 (2005:HK\$22,953,000), representing a decrease of 83.78% compared with the corresponding period of last year. This was mainly attributable to the Group's disposal of 60% controlling interest in Money Capture Investments Limited ("Money Capture") in April last year, resulting in indirect disposal of the interest of the investment property held by Money Capture in Shanghai, the PRC. Furthermore,



with the series of macro-economic control measures launched by the State during the past year, together with the keen competition within the property rental market in Shanghai, it is expected that property prices and rental rates in Shanghai will be affected. This will result in the fall of property price and the return from rental will also decrease compared with last year. Therefore the Group's associate also recorded a loss during the year.

## Securities and Financial Operation

The Group's securities and future operation generated commission and interest income from margin clients amounting to HK\$5,969,000 (2005: HK\$13,529,000). Having continuously strengthened internal control over the borrowings to margin clients during the Year, especially in reducing the proportion of borrowings for non-index constituent stocks, the relevant commission and interest income from margin clients decreased by 55.88% compared with the corresponding period last year.

## Outlook

With the rapid growth of economy in the PRC, a huge market for environmental protection and water treatment operations has been developed. China will be entering into the era with rapid growth in the water treatment industries. As such, the Group will consolidate its existing environmental protection and water treatment operations and further increase its investment in this core business.



With respect to the environmental protection and water treatment operation, the profits to be deriving from Qinhuangdao Sewage Treatment Project, Ma'anshan and Changli Sewage Treatment Projects to be completed and Hanzhong Water Supply Project will accelerate the pace of the Group to achieve profitability. The Group will also continue to focus on the development of environmental protection and water treatment operation projects, seek opportunities and expand room for the steady and sustainable development of the Group, so as to enhance the profitability of its operation as a whole.

With respect to city development and investment operation, the real estate sector had been suffering from the macro-economic control measures being exerted by the State during the recent years. Notwithstanding the above, the Group will still invest and develop projects with cost effectiveness and development potential with cautious optimism, and also speed up to finalise construction works pending completion, in order to utilise the resources of the Group in an effective manner.



Looking forward into future, by combining its advantages in the capital market and foundation of development, the Group will provide better return to its shareholders with professional technologies and far-reaching vision.

## Liquidity and Financial Resources

During the Year, the Group's financial resources mainly comprised cash inflow generated by its business operations and the proceeds of disposal of subsidiaries as well as bank and other borrowings. Depending on the additional funding required for facilitating its current and future business development plans (including capital expenditure), the Group will make financial arrangements for the best interest of shareholders and at minimum financial cost.

In November 2005, the Group completed the issue to four subscribers of 3-year convertible notes bearing interest at 4.5% p.a. convertible into a total of 900,000,000 shares of HK\$ 0.1 each. The proceeds in the sum of HK\$90,000,000 were used as general working capital.

In addition, the Group disposed of 60% controlling interest in Money Capture and 100% equity interest in New Experience Investments Limited at a consideration of HK\$137,000,000 and HK\$48,100,000 in April 2005 and May 2006 respectively. The proceeds were used as general working capital of the Group and working capital of city development and investment operation, and environmental protection and water treatment operation.

### Contingent Liabilities

The Group provides a guarantee of RMB5,000,000 to Ma'anshan Municipal Government, the PRC, for the commitment to invest in the sewage treatment project in Ma'anshan, details as per announcement dated 21 May 2004.



At 31 March 2006, the Company had given unconditional guarantee to a bank to secure banking facilities available to a subsidiary to the extent of approximately HK\$29,300,000.

### Pledge of Group's Assets

As at 31 March 2006, the Group's assets were pledged as security for its liabilities, comprising investment properties with a net book value of HK\$60,694,000 (31 March 2005: HK\$394,325,000) and property, plant and equipment with a net book value of approximately HK\$591,355,000 (31 March 2005: restated HK\$597,827,000) and interest in leasehold land with a net book value of HK\$75,722,000 (31 March 2005: restated HK\$75,857,000) and property under development for sale with a book value of HK\$148,302,000 (31 March 2005: restated HK\$113,852,000).

### Employment and Remuneration Policy

As at 31 March 2006, the Group had a total of 248 employees in the PRC and Hong Kong. Staff costs for the Year amounted to HK\$32,279,000 (2005: HK\$31,577,000). To maintain the Group's competitiveness, salary adjustments and award of bonus for staff are subject to the performance of individual staff members. Apart from offering a retirement benefit scheme for its staff, the Group also provides staff with various training and development programs.