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# Directors' Report

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The directors present their annual report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 March 2004.

## **PRINCIPAL ACTIVITIES**

The Company acts as an investment holding company. The activities of its principal subsidiaries and an associate are set out in notes 42 and 16, respectively, to the financial statements.

## **RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended 31 March 2004 are set out in the consolidated income statement on page 30.

The directors do not recommend the payment of any dividend.

## **INVESTMENT PROPERTIES**

During the year, the Group acquired investment properties at a cost of HK\$42,611,000.

At 31 March 2004, all investment properties of the Group are revalued by the independent valuers on an open market value at HK\$477,871,000. The net surplus arising on the revaluation, which has been directly credited to income statement, amounted to HK\$24,978,000.

Details of these are set out in note 13 to the financial statements.

## **PROPERTY, PLANT AND EQUIPMENT**

Details of movements during the year in the property, plant and equipment of the Group and the Company are set out in note 14 to the financial statements.

## **MAJOR PROPERTIES**

Details of the major properties of the Group at 31 March 2004 are set out on page 80 of the annual report.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company are set out in notes 27 and 28 respectively to the financial statements. There was no movement in the Company's share capital during the year.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## DIRECTORS

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

### Executive directors:

Zhang Yang (*Chairman*)

Chan Wing Yuen, Hubert

Lam Cheung Shing, Richard

Liu Shunxin

(resigned on 17 September 2003)

Zhang Jiyei, Jack

(resigned on 14 February 2004)

### Non-executive director:

Hui Ho Ming, Herbert

### Independent non-executive directors:

Lee Peng Fei, Allen

Wu Wai Chung, Michael

Wong Hon Sum

Ha Ping

## DIRECTORS (continued)

In accordance with the Company's Articles of Association, all remaining directors retire and, being eligible, offer themselves for re-election.

Mr. Chan Wing Yuen, Hubert had entered into a service contract with the Company for a fixed term of three years from 8 March 2002.

Mr. Hui Ho Ming, Herbert has entered into a service contract with the Company for a term of one year from 1 August 2003 unless terminated by either party.

Other than as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' INTERESTS IN SECURITIES

As at 31 March 2004, the interests and short positions of the directors 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 ("SFO")) as recorded in the register maintained 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 ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Director	Capacity/ nature of interest	Number of ordinary shares/options held		Approximate percentage of interest
		Long position	Short position	
Mr. Zhang Yang	Corporate ( <i>Note</i> )	1,612,025,000	—	37.45%
	Personal	109,000,000	—	2.37%

*Note:* The ordinary shares were held through Wealth Land Development Corp., a company beneficially owned by Mr. Zhang Yang.

## DIRECTORS' INTERESTS IN SECURITIES (continued)

Save as disclosed above, as at 31 March 2004, none of the Directors, or their associates had any personal, family, corporate or other beneficial 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).

## SHARE OPTION SCHEME

The share option scheme (the "Old Share Option Scheme") which was adopted on 25 July 2000 was terminated in prior year and a new share option scheme (the "New Share Option Scheme") was adopted and approved by the shareholders of the Company at the annual general meeting held on 2 September 2002.

Particulars of the two share option schemes adopted by the Company are set out in note 28 to the financial statements.

The following table discloses the number of outstanding share options in the Company's Old Share Options Scheme which will continue to be valid under the provision of the Old Share Option Scheme:

Director	Date of grant	Exercise price per share HK\$	Exercise period	Number of share options Balance at 1.4.2003 and 31.3.2004
Zhang Yang	29.3.2001	0.161	1.4.2001 to 31.3.2005 (Note)	<u>109,000,000</u>

Note: No vesting period.

No options had been granted or exercised during the year.

## **CONVERTIBLE LOAN NOTES DUE 2006**

Convertible loan notes ("Notes") of HK\$40,600,000 issued on 30 January 2003 has been cancelled during the year. The Company entered into a cancellation deed with the holders of the Notes on 10 March 2004 pursuant to which the Company and the holders of the Notes agreed to cancel all of the outstanding Notes and the Company has repaid the amount of HK\$40,600,000 to the holders. Details of the Notes are set out in note 30 to the financial statements.

## **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

No contracts of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## **SUBSTANTIAL SHAREHOLDERS**

As at 31 March 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of directors interest in securities, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

### **Long positions – Ordinary shares of HK\$0.10 each of the Company**

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of the issued share capital of the Company</b>
Qiang Sheng (HK) Company Limited	Beneficial owner	279,070,000	6.10%

The Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 March 2004.

## **CONNECTED TRANSACTIONS**

The Group paid interest amounting to approximately HK\$1,174,000 and HK\$674,000 during the year to a company wholly-owned by Mr. Zhang Yang and Mr. Wong Yu Chiu, a director of subsidiaries of the Company respectively.

The Group had entered into certain construction agreements ("Construction Agreements") in prior year with an associate, Interchina Aihua (Tianjin) Municipal & Environmental Engineering Co., Ltd. ("IAH") (the associate became a subsidiary of the Group during the year, detail is set out in note 16 to the financial statements). IAH has been engaged in the establishment and operation of city development and environmental protection infrastructure construction. The total contract sum involved were amounting to HK\$160,717,000. As at 27 August 2003, the construction cost that has been incurred amounted to approximately HK\$115,651,000. As at 27 August 2003, the Group acquired additional interest of IAH, and IAH became the subsidiary of the Group.

The Group has entered into an agreement on 5 November 2003 for the acquisition of additional 30% interest of 長沙國中星城置業有限公司 from Changsha Municipal Land Development and Construction Company Limited, a minority interest of the Group. Details of the transaction have been disclosed in the Company's announcement on 5 November 2003.

## **POST BALANCE SHEET EVENTS**

Details of significant events occurring after the balance sheet date are set out in note 41 to the financial statements.

## **MAJOR CUSTOMERS AND SUPPLIERS**

The percentage of turnover attributable to the Group's five largest customers to the total turnover during the year was 44.98%. The percentage of turnover attributable to the Group's largest customer to the total turnover during the year was 30.19%.

The principal business of the Group is engaged in environmental protection and water treatment operation, city development and investment operation, property investment operation, securities and financial operation. There are no major suppliers in view of its nature of business.

## **MAJOR CUSTOMERS AND SUPPLIERS (continued)**

None of the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had an interest in any of the Group's five largest customers.

## **CODE OF BEST PRACTICE**

The Company has complied throughout the year ended 31 March 2004 with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

## **AUDITORS**

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**Zhang Yang**

*Chairman*

Hong Kong, 23 July 2004