# INTERCHINA HOLDINGS COMPANY LIMITED

# 國中控股有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 202)**

## AUDITED FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2007

### RESULTS

The Board of Directors (the "Board") of Interchina Holdings Company Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2007 as follows:

**CONSOLIDATED INCOME STATEMENT**
*For the year ended 31 March 2007*

| | *NOTES* | **2007** *HK$'000* | 2006 *HK$'000* |
|---|---|---|---|
| Turnover | *3* | **33,213** | 134,740 |
| Cost of sales | | **(4,934)** | (88,445) |
| Other revenue | | **1,868** | 623 |
| Other operating income | | **1,448** | – |
| Reversal of impairment of trade receivable | | **15,561** | – |
| Interest income | | **4,881** | 421 |
| Staff costs | | **(25,989)** | (32,279) |
| Amortisation and depreciation | | **(13,178)** | (12,821) |
| Selling costs | | **(13,952)** | (16,690) |
| Administrative costs | | **(38,326)** | (42,036) |
| Other operating expenses | | **–** | (17,738) |
| Surplus arising from revaluation of investment properties | | **4,439** | 1,008 |
| Loss from operations | *5* | **(34,969)** | (73,217) |
| Finance costs | | **(36,453)** | (26,135) |
| Share of losses of associates | | **(6,164)** | (9,473) |
| Gain on disposal of subsidiaries | | **48,448** | 237 |

| | | | |
|---|---|---|---|
| Loss before taxation | | **(29,138)** | (108,588) |
| Taxation | *6* | **(2,010)** | (937) |
| Loss for the year | | **(31,148)** | (109,525) |
| Attributable to: | | | |
| Equity holders of the Company | | **(31,590)** | (108,312) |
| Minority interests | | **442** | (1,213) |
| | | **(31,148)** | (109,525) |
| Loss per share for loss attributable to the ordinary equity holders of the Company | *7* | | |
| Basic | | **HK 0.559 cents** | HK 2.166 cents |
| Diluted | | **N/A** | N/A |

**CONSOLIDATED BALANCE SHEET**
*At 31 March 2007*

| | *NOTES* | **2007** ***HK$'000*** | 2006 *HK$'000* |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Investment properties | | **65,852** | 60,694 |
| Interests in leasehold land and land use rights | | **38,638** | 75,722 |
| Property, plant and equipment | | **624,543** | 750,413 |
| Interests in associates | | **77,419** | 83,448 |
| Goodwill | | **2,846** | 2,846 |
| Other non-current assets | | **2,412** | 2,466 |
| | | **811,710** | 975,589 |
| **CURRENT ASSETS** | | | |
| Properties under development for sale | | **348,527** | 277,974 |
| Trade and other receivables and prepayments | *8* | **206,668** | 140,835 |
| Financial assets at fair value through profit or loss | | **169** | 172 |
| Tax recoverable | | **–** | 654 |
| Bank balances – trust and segregated accounts | | **86,410** | 5,277 |
| Cash and cash equivalents | | **159,430** | 16,894 |
| | | **801,204** | 441,806 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables and deposits received | *9* | **443,406** | 299,530 |
| Amount due to a related company | | **444** | 450 |
| Tax payable | | **382** | 5 |
| Bank borrowings, secured – due within one year | | **143,495** | 155,402 |
| Other borrowings, secured – due within one year | | **–** | 65,203 |
| Obligations under finance leases – due within one year | | **69** | 67 |
| | | **587,796** | 520,657 |
| **NET CURRENT ASSETS/(LIABILITIES)** | | **213,408** | (78,851) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,025,118** | 896,738 |

## CONSOLIDATED BALANCE SHEET (Continued)

*At 31 March 2007*

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| **EQUITY** | | |
| Share capital | **665,190** | 558,492 |
| Share premium and reserves | **119,305** | 128,799 |
| Equity attributable to ordinary equity shareholders of the Company | **784,495** | 687,291 |
| Minority interests | **23,317** | 21,704 |
| | **807,812** | 708,995 |
| **NON-CURRENT LIABILITIES** | | |
| Bank borrowings, secured – due after one year | **209,674** | 145,926 |
| Other borrowings, unsecured – due after one year | **–** | 40,000 |
| Obligations under finance leases – due after one year | **141** | 210 |
| Convertible notes | **4,587** | – |
| Deferred tax liabilities | **2,904** | 1,607 |
| | **217,306** | 187,743 |
| | **1,025,118** | 896,738 |

**NOTES:**

**1. BASIS OF PREPARATION**

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations ("Ints") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The measurement basis used in the preparation of the financial statement is historical cost as modified for the revaluation of certain financial assets and financial liabilities at fair value through profit or loss, investment properties which are carried at fair value.

The preparation of the financial statements requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements.

**2. IMPACT OF ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

In the current year, the Group and the Company have applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December, 2005 or 1 January, 2006. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

**3. TURNOVER**

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Sale of properties | **–** | 35,836 |
| Sale of land | **–** | 66,779 |
| Property rental and management fee | **2,968** | 3,724 |
| Brokerage commission income | **4,024** | 5,263 |
| Interest income from margin clients | **1,003** | 706 |
| Sewage treatment income | **25,218** | 22,432 |
| | **33,213** | 134,740 |

**4. SEGMENTAL INFORMATION**

For management purposes, the Group is currently organised into four (2006: four) operating divisions, namely environmental protection and water treatment operation, city development and investment operation, property investment operation, securities and financial operation. These divisions are on the basis on which the Group reports its primary segment information.

Principal activities are as follows:

| | | |
|---|---|---|
| Environmental protection and water treatment operation | – | development of environmental protection and water treatment operation |
| City development and investment operation | – | infrastructure construction for urbanisation operation and property development for sale |
| Property investment operation | – | leasing of rental property |
| Securities and financial operation | – | provision of financial services |

Segment information about these businesses is presented below:

| | **Environmental protection and water treatment operation** *HK$'000* | **City development and investment operation** *HK$'000* | **Property investment operation** *HK$'000* | **Securities and financial operation** *HK$'000* | **Elimination** *HK$'000* | **Consolidated total** *HK$'000* |
|---|---|---|---|---|---|---|
| **2007** | | | | | | |
| **TURNOVER** | | | | | | |
| External sales | **25,218** | **–** | **2,968** | **5,027** | **–** | **33,213** |
| Inter-segment sales | **–** | **–** | **426** | **–** | **(426)** | **–** |
| | **25,218** | **–** | **3,394** | **5,027** | **(426)** | **33,213** |
| **RESULTS** | | | | | | |
| Segment results | **(154)** | **(19,504)** | **6,299** | **(1,301)** | **–** | **(14,660)** |
| Interest income and unallocated gains | | | | | | **4,881** |
| Unallocated corporate expenses | | | | | | **(25,190)** |
| Loss from operations | | | | | | **(34,969)** |
| Finance costs | | | | | | **(36,453)** |
| Share of results of associates | | | | | | **(6,164)** |
| Gain on disposal of subsidiaries | | | | | | **48,448** |
| Loss before taxation | | | | | | **(29,138)** |
| Taxation | | | | | | **(2,010)** |
| Loss for the year | | | | | | **(31,148)** |

Inter-segment sales are charged at both agreed terms.

| | Environmental protection and water treatment operation *HK$'000* | City development and investment operation *HK$'000* | Property investment operation *HK$'000* | Securities and financial operation *HK$'000* | Elimination *HK$'000* | Consolidated total *HK$'000* |
|---|---|---|---|---|---|---|
| 2006 | | | | | | |
| TURNOVER | | | | | | |
| External sales | 58,268 | 66,779 | 3,724 | 5,969 | – | 134,740 |
| Inter-segment sales | – | – | 1,023 | – | (1,023) | – |
| | 58,268 | 66,779 | 4,747 | 5,969 | (1,023) | 134,740 |
| RESULTS | | | | | | |
| Segment results | (3,037) | (36,129) | 2,571 | (2,694) | – | (39,289) |
| Interest income and unallocated gains | | | | | | 421 |
| Unallocated corporate expenses | | | | | | (34,349) |
| Loss from operations | | | | | | (73,217) |
| Finance costs | | | | | | (26,135) |
| Share of results of associates | | | | | | (9,473) |
| Gain on disposal of subsidiaries | | | | | | 237 |
| Loss before taxation | | | | | | (108,588) |
| Taxation | | | | | | (937) |
| Loss for the year | | | | | | (109,525) |

Inter-segment sales are charged at both agreed terms.

Geographical segments:

The Group's operations are located in Hong Kong and the People's Republic of China other than Hong Kong (the "PRC").

The following table provides an analysis of the Group's sales by location of markets, irrespective of the origin of the goods/services:

| | Hong Kong | | The PRC | | Consolidated total | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Turnover | **5,567** | 6,419 | **27,646** | 128,321 | **33,213** | 134,740 |
| Segment results | **(263)** | (3,666) | **(14,397)** | (35,623) | **(14,660)** | (39,289) |
| Interest income and unallocated gains | | | | | **4,881** | 421 |
| Unallocated corporate expenses | | | | | **(25,190)** | (34,349) |
| Loss from operations | | | | | **(34,969)** | (73,217) |

## 5. LOSS FROM OPERATIONS

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss from operations has been arrived at after charging (crediting): | | |
| Depreciation | | |
| – Owned assets | **11,451** | 11,174 |
| – Assets held under finance leases | **52** | 52 |
| Amortisation of leasehold land and land use rights | **1,675** | 1,595 |
| | **13,178** | 12,821 |
| Gross rents from investment properties | **(2,968)** | (3,724) |
| Auditors' remuneration | **700** | 750 |
| Loss on disposal of property, plant and equipment | **153** | 40 |
| Operating lease rentals in respect of premises | **4,120** | 5,528 |
| Net foreign exchange loss | **139** | 3,508 |

## 6. TAXATION

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax: | | |
| Hong Kong | **786** | 520 |
| Provision for deferred tax liabilities | **1,224** | 417 |
| | **2,010** | 937 |

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profit for the year.

## 7. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the following data:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss attributable to ordinary equity holders for the purpose of basic loss per share | **31,590** | 108,312 |

**Number of shares**

| | **2007** | 2006 |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic loss per share | **5,655,988,454** | 5,000,348,290 |

Diluted loss per share amount for the year ended 31 March 2007 has not been presented as the convertible notes outstanding during the year ended had an anti-dilutive effect on the basic loss per share for the year ended 31 March 2007.

No diluted loss per share has been presented for the year ended 31 March 2006 as the Company had no potential dilutive ordinary shares for the year ended 31 March 2006.

## 8. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

The Group allows an average credit period of 60 days (2006: 60 days) to its trade customers. The aged analysis of trade receivables of HK$43,378,000 (2006: HK$26,893,000) included in trade and other receivables and prepayments is as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 – 30 days | **43,378** | 9,155 |
| 31 – 60 days | **–** | – |
| 61 – 90 days | **–** | – |
| Over 90 days | **–** | 17,738 |
| | **43,378** | 26,893 |
| Margin clients accounts receivables | **1,338** | 1,504 |
| Clearing houses, brokers and dealers | **66,238** | 961 |
| Prepayments and deposits | **20,369** | 49,826 |
| Other receivables | **75,345** | 79,389 |
| | **206,668** | 158,573 |
| Less: Impairment of trade receivable | **–** | (17,738) |
| | **206,668** | 140,835 |

Loans to margin clients are secured by client's pledged securities, repayable on demand and bear interest at commercial rates. No aged analysis is disclosed, as in the opinion of directors, the aged analysis does not give additional value in view of the nature of business of share margin financing.

The directors consider that the carrying amounts of the Group's trade and other receivables and prepayments approximate to their fair values.

## 9. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

The aged analysis of trade payables of HK$179,139,000 (2006: HK$4,704,000) included in trade and other payables and deposits received is as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables | | |
| 0 – 30 days | **179,139** | 4,704 |
| Accounts payable arising from the business of dealing in securities and equity options: | | |
| Margin clients | **606** | 8,043 |
| Accounts payable to clients arising from the business of dealing in futures and options | **–** | 1,432 |
| Other payables and deposits received | **263,661** | 285,351 |
| | **443,406** | 299,530 |

Amounts due to margin clients are repayable on demand. No aged analysis is disclosed, as in the opinion of directors, the aged analysis does not give additional value in view of the nature of business of share margin financing.

Accounts payables to clients arising from the business dealing in futures and options are margin deposits received from clients for their trading of futures and options. The excess of the outstanding amounts over the required margin deposits stipulated are repayable to clients on demand. No aged analysis is disclosed, as in the opinion of directors, the aged analysis does not give additional value in view of the nature of business of futures and options dealing.

Included in the trade payables are payable to a director of the Company and a related company of the Company amounting to HK$33,559,000 and HK$58,349,000 respectively.

Included in the other payables and deposit received are payables for construction works of approximately HK$84,611,000 (2006: HK$56,300,000) and deposits received for the pre-sales of properties approximately HK$68,776,000 (2006: HK$95,818,000).

The directors consider that the carrying amounts of the Group's trade and other payables and deposits received approximate to their fair values.

## DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 March 2007 (2006: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

The Group's turnover for the year ended 31 March 2007 (hereinafter referred to as the "Year") amounted to HK$33,213,000 (2006: HK$134,740,000), representing a decrease of 75.4% compared with the corresponding period of last year. Loss attributable to shareholders was HK$31,590,000 (2006: HK$108,312,000). Since a significant number of the Group's city development and investment projects, and environmental protection and water treatment projects in China were still under construction during the Year, no revenue had been recorded from them yet. At the same time, the Group had no income from the sales of land during the Year. Excluding the Group's turnover of HK$66,779,000 generated from the sales of land in the corresponding period last year, the Group's turnover during the Year decreased 51.1% as compared with the corresponding period last year.

As at 31 March 2007, total assets and net assets of the Group valued at HK$1,612,914,000 (2006: HK$1,417,395,000) and HK$784,495,000 (2006: HK$687,291,000) respectively, representing an increase of 13.8% and 14.1% respectively as compared with those as at 31 March 2006.

As at 31 March 2007, the Group's cash on hand and deposits in bank (including segregated and trust account) totaled approximately HK$245,840,000 (2006: HK$22,171,000), representing an increase of 10.1 times against the balance as at 31 March 2006. Approximately 89.1% of the deposits was denominated in Hong Kong dollars while the remainder in Renminbi. The Group's net current assets amounted to HK$213,408,000 (2006: net current liabilities HK$78,851,000). The Group's outstanding bank and other borrowings were HK$353,169,000 (2006: HK$406,531,000) which mainly comprised bank and other borrowings of approximately HK$143,495,000 repayable within a year, and HK$209,674,000 of bank and other borrowings repayable after one year. In addition, the Group's 2-year convertible notes amounted to HK$4,587,000 (2006: nil). The gearing ratio was 22.2% (total borrowings/ total assets).

As at 31 March 2007, approximately 8.7% 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 or fixed rate basis of which approximately 87.7% were secured by the Group's investment properties, property, plant and equipment and interests in leasehold land.

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

During the Year, the Group continued to accelerate the pace in the development of existing project according to the schedule of water treatment operation projects contracted for, and the progress of development was satisfactory. The Group also continued in adjusting the management structure of its environmental protection and water treatment operation to reduce its operating cost and enhance cost effectiveness. On the basis of cost effectiveness and feasibility of individual water supply and sewage treatment projects, our resources were focused on the development of water supply and sewage treatment projects with potential. The Group will also continue to regard environmental protection and water treatment operation as its core businesses.

Since the Group's sewage treatment plant located in the Haigang District of Qinhuangdao in Hebei Province commenced operation in 2004, the daily average processing capacity was increased from 100,000 tonnes to 120,000 tonnes, bringing a turnover of RMB25,218,000 (2006: RMB23,330,000) to the Group's environmental protection and water treatment operation during the Year. The Group expects that the right of price determination with respect to the water processed by the sewage treatment plant will be obtained by the end of this year, and by then the Group will have the flexibility to adjust its charges upward according to the price index. It is expected that this will bring more revenue to the Group.

Regarding the two sewage treatment projects in Ma'anshan and Changli, the aggregate sewage treatment capacity was 100,000 tonnes on average per day. The Ma'anshan sewage treatment project has been completed in May this year and commenced its trial run. The Group expects that the Ma'anshan sewage treatment project will make contribution to the Group's revenue in the near future. For Changli sewage treatment project, it is expected that it will be completed by the fourth quarter this year and commence operation in the first quarter next year.

Furthermore, the Group is still discussing with the Hanzhong Municipal Government about details on the operation of the water supply project in Hanzhong City ("Operation Details") and the progress of discussion is satisfactory. It is expected that the process relating to the Operation Details will be finalized and operation will commence by the end of this year, supplying approximately 100,000 tonnes of water to Hangzhong City per day.

In addition to the Qinghuangdao and Ma'anshan sewage treatment plants, it is expected that upon the commencement of operations of both Changli sewage treatment plants as well as the water supply plant in Hanzhong City in next year, the amount of water processed daily by the Group's environmental protection and water treatment operation will additionally increase by 140,000 tonnes to 320,000 tonnes, and the revenue from the Group's environmental protection and water treatment operation will substantially increase. Environmental protection and water treatment operation will be a major and stable source of revenue of the Group.

In addition to the existing environmental protection and water treatment project, the Group is negotiating with the Hanzhong Municipal Government over the acquisition of a water supply Company in Hanzhong City (the "Acquisition"). The water supply Company is currently the only one water supply Company in Hanzhong City. The Group had reached consensus with Hanzhong Municipal Government about the Acquisition. It is expected to be completed by the end of the year. In addition, the Group intends to acquire a company in China, through which it provides an additional financing platform for the environmental protection and water treatment operation of the Group and it would further expand the development scale of environmental protection and water treatment operation of the Group.

The Group will continue to seek opportunities of merger and acquisition of quality water treatment projects, to further increase the strength of investing in environmental protection and water treatment operation, so as to expand the development scale of environmental protection and water treatment operation of the Group continuously. It is also expected that the daily average processing capacity of environmental protection and water treatment operation of the Group will increase to 500,000 tonnes.

**City Development and Investment Operation**

The construction of the Interchina Mall, the Group's mega-scale luxurious residential and commercial complex in Changsha, was comprised of three phases. The total gross floor area of Wang Guo Commercial Plaza and four hotel equities in Interchina Mall (Phase One) is about 140,000 square meters. Civil engineering construction works were completed. The total undeveloped site area is about 215,000 square meters.

With a series of macro-economic control measures launched by the State on real estate developers, which increased uncertainties and unfavourable factors to the property development market in the PRC, the Group's property development operation in the PRC was affected to a certain extent. Competition within the property development market in the PRC became more intense, which cast more uncertainties to securing favourable returns. As a result, the Group considered that it an appropriate timing to dispose its property development projects in the PRC.

In May last year, the Group disposed its entire interests in and shareholders' loan due from a wholly-owned subsidiary, which held property development projects located in Xian, at a total consideration of HK$48,100,000. The disposal generated a gain of approximately HK$29,828,000 for the Group.

In October last year, the Group disposed its entire interests in and shareholders' loan due from three wholly-owned subsidiaries, which held property development projects located in Changsha and Shanghai, at a total consideration of HK$617,870,000 (the "Disposal"). Details of the Disposal were disclosed in the announcement dated 20 October 2006. However, since the Group made advances to the Changsha property development project during the period from 1 September 2006 up to 16 February 2007 in the total sum of approximately HK$86,000,000 (the "Advance") to support its normal operation, and requested buyer to repay the Advance upon completion of the Disposal. Finally, the Group reached an agreement with the buyer in March this year to cancel the Disposal and executed a new sale and purchase agreement for the disposal of the Group's entire interests in and shareholders' loan due from a wholly-owned subsidiaries, which held property development projects located in Shanghai, at a total consideration of HK$206,000,000 ("Disposal of Shanghai Property Development"). Details of the Disposal of Shanghai Property Development were disclosed in the announcement dated 28 March 2007. The Disposal of Shanghai Property Development was completed in March this year which generated a profit of approximately HK$18,620,000 for the Group. The Buyer had also paid approximately HK$1,448,000 to the Group as a compensation for cancelling the Disposal.

The Group will continue to develop the Changsha property development project and is negotiating with established developer for possible cooperation in various ways. However, the Group does not exclude the possibility of disposing the Changsha property development project if opportunity arises.

Furthermore, during last year, the Group has been uninterruptedly collecting the outstanding amount ("the Outstanding Amount") in respect to the disposal of the land located in Changsha, China last year (details as set out in 2006 annual report). The People's Court at Changsha made judgement in favour of the Group, and we were entitled to receive approximate RMB15,000,000 (the "Sum"). The Group had collected the Sum in full during the Year and therefore the bad debt provision for the Outstanding Amount had been written back during the Year.

**Property Investment Operation**

During the Year, the Group's rental income was mainly generated from investment properties located in Beijing, the PRC and Hong Kong. During the Year, the Group's rental income amounted to HK$2,968,000 (2006: HK$3,724,000), representing a decrease of 20.3% compared with the corresponding period of last year which was mainly due to the disposal of the Group's 60% controlling interest in a wholly-owned subsidiary (the "Subsidiary"), which held interests in an investment property located in Shanghai, the PRC, in 2005. At 31 March 2007, the Group's interest in associates was HK$77,419,000 (2006: HK$83,448,000). During the Year, the Group's share of loss in associates was HK$6,164,000, which was mainly attributable to the revaluation deficit of the investment property in Shanghai, the PRC. However, as the demand for prime properties remains strong in Shanghai, the PRC and we are optimistic about the prospect of the leasing market in Shanghai, the PRC, the Group has brought back such 60% controlling interest in the Subsidiary in June this year for a consideration of approximately HK$195,039,000 so as to increase the rental income of the Group.

**Securities and Financial Operation**

The Group's securities and future operation generated commission and interest income from margin clients amounting to HK$5,027,000 (2006: HK$5,969,000). 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 15.8% compared with the corresponding period last year.

## OUTLOOK

As the economy of the PRC is undergoing a rapid restructuring and becoming more open, the Group will capture the opportunities thus arise and seeks diversified developments in our four main businesses comprising of environmental protection and water treatment, city development and investment, property investment and securities and financial operation.

With the completion of the sewage treatment project in Changli, Hebei, the PRC and the water supply project in Hanzhong, Shaanxi, the PRC in next year, our environmental protection and water treatment operation will be further strengthened and will provide the Group with a source of stable income and contribute to a sustainable development of the Group. We will continue to increase our investment in the environmental protection and water treatment operation. As such industry will grow in line with the rapid expanding economy in the PRC, we are confident that it will bring us a snowballing income.

The booming PRC stock market has attracted international investors and even the United States has requested China to increase the quota of Qualified Foreign Institutional Investor program ("QFII") in the hope of entering such large and high-potential market. Despite there being lots of talks about the likely bursting of bubbles in the A share market, the Group remains optimistic about the financial market of the PRC as a whole. Therefore, we will continue in seeking various opportunities of financing and raise further capitals to provide flexibility for growth of the Group.

As for the city development and investment operation, although the government has taken macro-economic tightening measures to curb the overheating real estate market in the PRC, the Group will continue to develop its Changsha property development project. Nevertheless, we do not exclude the possibility of disposing such project to achieve a maximised investment return for the Group.

Looking ahead, the Group will endeavor to make more investment decisions with far-reaching vision and develop a diversified portfolio with a prudent approach. We will capitalise on the strength of China's economy and create the highest value for the Group and our shareholders.

**Liquidity and Financial Resources**

During the Year, the Group's financial resources mainly comprised cash inflow generated by its business operations, the proceeds of disposal of subsidiaries, bank and other borrowings and the issuance of convertible notes. 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 the shareholders of the Group and at minimum financial cost.

The Group disposed its entire interests in and shareholder's loan due from its wholly-owned subsidiary, which held a property development project located in Xian, at a consideration of HK$48,100,000 in May last year. The net proceeds of HK$48,000,000 (related expenses deducted) were mainly used as general working capital of the Group and the working capital of city development and investment operation, and environmental protection and water treatment operation.

In February this year, the Group completed the issuance of 2-year convertible notes bearing interest at 3.5% p.a. convertible into a total of 1,116,980,000 shares of HK$0.1 each among which 1,066,980,000 shares was converted. The proceeds in the sum of HK$111,348,000 (related expenses deducted) were mainly used as general working capital and the working capital of city development and investment operation.

In March this year, the Group also disposed its entire interests in and shareholders' loan due from a wholly-owned subsidiary, which held property development projects located in Shanghai, at a total consideration of HK$206,000,000. As at 31 March 2007, approximately HK$74,000,000 were mainly used as general working capital of the Group and the working capital of city development and investment operation.

**Pledge of Group's Assets**

As at 31 March 2007, the Group's assets were pledged as security for its liabilities, comprising investment properties with a net book value of HK$65,852,000 (2006: HK$60,694,000) and property, plant and equipment with a net book value of HK$400,864,000 (2006: HK$591,355,000) and interest in leasehold land with a net book value of HK$38,638,000 (2006: HK$75,722,000). As at 31 March 2007, there was no pledge for the property under development for sale of the Group (2006: HK$148,302,000).

### Employment and Remuneration Policy

As at 31 March 2007, the Group had a total of 168 employees in the PRC and Hong Kong. Staff costs for the Year amounted to HK$25,989,000 (2006: HK$32,279,000). 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.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and discussed internal control and the financial reporting matters including the audited consolidated financial statements for the year ended 31 March 2007.

The Audited Committee comprised Mr. Wong Hon Sum, Dr. Tang Tin Sek and Ms. Ha Ping, all are independent non-executive directors of the Company.

## COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

For the year ended 31 March 2007, the Company has complied with the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the CG Code") with deviations from the code provision A.4.1 and B.1.1 of the CG Code as summarized below:

i. The code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Currently, all directors of the Company (including executive and non-executive directors) are not appointed for any specific term. However, all directors are subject to retirement by rotation at each annual general meeting in accordance with the Company's Articles of Association and shall be eligible for re-election. The Board shall ensure that all directors shall be subject to retirement by rotation at least once every three years so as to accomplish the same purpose as a specific term of appointment.

ii. The code provision B.1.1 of the CG Code stipulates that a majority of the members of the remuneration committee should be independent non-executive directors. As Mr. Lee Peng Fei, Allen resigned as the member and Chairman of the Remuneration Committee on 1 March 2006, the Remuneration Committee consisted only 1 independent non-executive director and 1 non-executive director. On 19 June 2006, the Board appointed Mr. Wong Hon Sum, an independent non-executive director of the Company, as a member and also a Chairman of the Remuneration Committee so as to comply with the code provision B.1.1 of the CG Code.

iii. The code provision B.1.4 and C.3.4 of the CG Code stipulate that the Company should make available the terms of reference of the Remuneration Committee and the Audit Committee respectively on request and by including the information on the Company's website. At present, the terms of reference of the Remuneration Committee and the Audit Committee are available in writing upon request to the Company Secretary. However, the Company is in the process of setting up its own website and will post the terms of reference of these two committees on the Company's website once the website is in operation.

iv. The code provision E.1.2 of the CG Code stipulates that the Chairman of the Board should attend the 2006 annual general meeting of the Company ("2006 AGM"). The Chairman did not attend the 2006 AGM due to other business engagements.

## PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE'S WEBSITE

All information required by paragraphs 45(1) to 45(3) of Appendix 16 of Rules Governing the Listing of Securities on The Stock Exchange of the Hong Kong Limited will be published on the Exchange's website in due course.

## BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises of Mr. Zhang Yang, Mr. Chan Wing Yuen, Hubert and Mr. Lam Cheung Shing, Richard as executive directors and Mr. Wong Hon Sum, Ms. Ha Ping and Dr. Tang Tin Sek as independent non-executive directors.

By order of the Board
**Lam Cheung Shing, Richard**
*Director and Company Secretary*

Hong Kong, 15 June 2007

Please also refer to the published version of this announcement in The Standard.