THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Interchina Holdings Company Limited** (the "Company"), you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale of the transfer was effected for transmission to the purchaser or transferee.

國中控股有限公司

INTERCHINA HOLDINGS COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 202)

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF THE EQUITY INTERESTS OF HEILONGJIANG BLACK DRAGON COMPANY LIMITED

A letter from the board of directors of the Company is set out on pages 6 to 23 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at Boardroom 3&4, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on 25 February 2008 at 2:30 p.m. is set out on pages 173 to 174 of this circular. A form of proxy for use at the extraordinary general meeting is enclosed with this circular.

Whether or not you are able to attend the extraordinary general meeting, you are advised to read the notice and to complete and return the enclosed form of proxy, in accordance with the instructions printed thereon, to the office of the Company's share registrar in Hong Kong, Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the extraordinary general meeting or any adjourned meeting in person if you so wish.

31 January 2008

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Agency Agreement"	an agency agreement dated 15 November 2007 entered into among Interchina (Tianjin), Black Dragon and the Vendor
"Amended Black Dragon Share Transfer Agreement"	the Black Dragon Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement) in respect of the Black Dragon Transfer
"Assets and Liabilities Transfer Agreement"	a conditional agreement entered into between Black Dragon and Hecheng on 16 May 2007 in relation to the transfer of Black Dragon's assets and liabilities
"Assets and Liabilities Transfer Second Supplemental Agreement"	a supplemental agreement dated 9 December 2007 entered into between Black Dragon and Hecheng further amending and supplementing the terms of the Assets and Liabilities Transfer Agreement (as amended and supplemented by the Assets and Liabilities Transfer Supplemental Agreement)
"Assets and Liabilities Transfer Supplemental Agreement"	an agreement entered into between Black Dragon and Hecheng on 9 July 2007 amending and supplementing the terms of the Assets and Liabilities Transfer Agreement
"Black Dragon"	黑龍江黑龍股份有限公司 (Heilongjiang Black Dragon Company Limited), a company established in the PRC and its A shares are listed on the Shanghai Stock Exchange
"Black Dragon Sale Shares"	229,725,000 domestic shares of Black Dragon of RMB1.00 each
"Black Dragon Share Transfer Agreement"	a conditional agreement entered into between Interchina (Tianjin) and the Vendor on 17 May 2007 in respect of the Black Dragon Transfer
"Black Dragon Transfer"	the transfer of the Black Dragon Sale Shares, representing approximately 70.21% of the issued share capital of Black Dragon, from the Vendor to Interchina (Tianjin) pursuant to the Amended Black Dragon Share Transfer Agreement
"Board"	the board of Directors

"Business Day"	a day, other than a Saturday and a day on which a tropical cyclone warning no. 8 or above or a "black rainstorm warning signal" is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m., on which licensed banks in Hong Kong are open for general banking business throughout their normal business hours
"Company"	Interchina Holdings Company Limited, a company incorporated in Hong Kong with limited liability and the issued Shares of which are listed on the Stock Exchange
"CSRC"	中國證券監督管理委員會 (China Securities Regulatory Commission)
"Director(s)"	director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be held by the Company at Boardroom 3&4, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on 25 February 2008 at 2:30 p.m. to consider and, if thought fit, approve the Amended Black Dragon Share Transfer Agreement and the transactions contemplated thereunder
"Enlarged Group"	the Group as enlarged by the Black Dragon Transfer
"First Announcement"	the announcement of the Company dated 24 August 2007 in respect of, amongst other things, the acquisition of the equity interests of Black Dragon
"Group"	the Company and its subsidiaries
"Hecheng"	黑龍江省鶴城建設投資發展有限公司 (Heilongjiang Hecheng Construction Investment and Development Company Limited), a company established in the PRC
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	(a) party(ies) who is/are not (a) connected person(s) (as defined in the Listing Rules) of the Company and who together with its/their ultimate beneficial owner(s) are independent of the Company and of connected persons (as defined in the Listing Rules) of the Group
"Interchina (Tianjin)"	國中(天津)水務有限公司 (Interchina (Tianjin) Water Treatment Company Limited), a company established in the PRC and is a wholly-owned subsidiary of the Company

"Interchina (Tianjin) Share Transfer Agreement"	a share transfer agreement dated 30 April 2007, pursuant to which 中國市政工程華北設計研究院 (North China Municipal Engineering Design & Research Institute) has agreed to sell 5.95% interest in Interchina (Tianjin) to the Company at a consideration of RMB14 million (equivalent to approximately HK$14.58 million)
"Interchina Water Treatment"	Interchina Water Treatment Limited, a company incorporated in the British Virgin Islands and is wholly-owned by Interchina (Tianjin)
"Interchina Water Treatment Share Transfer Agreement"	a conditional agreement entered into between Interchina (Tianjin) and Black Dragon on 17 May 2007 in respect of the transfer of the 10,000 shares of Interchina Water Treatment of US$1.00 each, representing the entire issued share capital of Interchina Water Treatment, from Interchina (Tianjin) to Black Dragon
"Latest Practicable Date"	28 January 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
"Letter"	a letter dated 20 July 2007 from the Vendor to Interchina (Tianjin) setting out the proposal whereby (i) the net assets in Black Dragon upon completion of the Assets and Liabilities Transfer Agreement (as amended by the Assets and Liabilities Transfer Supplemental Agreement) shall amount to RMB100 million (equivalent to approximately HK$104.17 million); (ii) due to the aforesaid assets arrangement, the consideration of the Black Dragon Transfer be adjusted from RMB350 million (equivalent to approximately HK$364.58 million) to RMB420 million (equivalent to approximately HK$437.50 million); and (iii) Interchina (Tianjin) is to contribute RMB320 million (equivalent to approximately HK$333.33 million) either in cash or assets into Black Dragon
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loan"	the loan in the maximum amount of approximately RMB173 million (equivalent to approximately HK$180 million) to be provided by Interchina (Tianjin) to Black Dragon for acquisition of the Water Projects pursuant to the Agency Agreement

"PRC"	People's Republic of China (for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
"Restructuring Proposal"	the restructuring proposal of Black Dragon in relation to the resumption of trading in its shares
"SASAC"	國務院國有資產監督管理委員會 (The State-owned Assets Supervision and Administration Commission of the State Council of the PRC)
"Second Announcement"	the announcement of the Company dated 15 November 2007 in respect of, amongst other things, the Second Supplemental Agreement and the Termination Agreement
"Second Supplemental Agreement"	a supplemental agreement dated 15 November 2007 entered into between the Vendor and Interchina (Tianjin) further amending and supplementing the terms of the Black Dragon Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement)
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share Segregation Reform"	公司股權分置改革 (Share Segregation Reform) of Black Dragon, being the conversion of the non-circulating Black Dragon Sale Shares into listed A shares
"Shareholder(s)"	holder(s) of the Shares
"Shares"	the shares of the Company of HK$0.10 each, which are listed on the Stock Exchange
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Agreement"	a supplemental agreement dated 29 June 2007 entered among the Vendor, Interchina (Tianjin) and Black Dragon to amend the terms of the Black Dragon Share Transfer Agreement and the Interchina Water Treatment Share Transfer Agreement
"Termination Agreement"	an agreement dated 15 November 2007 entered into between Interchina (Tianjin) and Black Dragon to terminate the Interchina Water Treatment Share Transfer Agreement

"Third Announcement"	the announcement of the Company dated 21 December 2007 in respect of, amongst other things, the Third Supplemental Agreement
"Third Supplemental Agreement"	a supplemental agreement dated 17 December 2007 entered into between the Vendor and Interchina (Tianjin) further amending and supplementing the terms of the Black Dragon Share Transfer Agreement (as amended and supplemented by the Supplemental Agreement and the Second Supplemental Agreement)
"Vendor"	黑龍集團公司 (Heilong Group Limited), a company established in the PRC
"Water Projects"	the water projects which are intended to be acquired by Black Dragon as part of the Restructuring Proposal
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	U.S. dollars, the lawful currency of United States
"%"	per cent.

In this circular, the English names of the PRC government authorities or entities are translations of their Chinese names and included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.

For the purpose of this circular, translations of RMB into HK$ have been calculated by using an exchange rate of HK$1.00=RMB0.96.

國中控股有限公司

INTERCHINA HOLDINGS COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 202)

Executive Directors:
Mr. Zhang Yang *(Chairman)*
Mr. Chan Wing Yuen, Hubert
Mr. Lam Cheung Shing, Richard

Independent non-executive Directors:
Mr. Wong Hon Sum
Ms. Ha Ping
Dr. Tang Tin Sek

Registered office:
Room 701, 7th Floor
Aon China Building
29 Queen's Road Central
Hong Kong

31 January 2008

To the Shareholders and, for information only,
holder(s) of outstanding share options, convertible note options and convertible notes of the Company

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF THE EQUITY INTERESTS OF HEILONGJIANG BLACK DRAGON COMPANY LIMITED

INTRODUCTION

References are made to the First Announcement, the Second Announcement and the Third Announcement. On 24 August 2007, the Board announced that, amongst other things, (i) Interchina (Tianjin), a then 94.05% owned subsidiary of the Company, entered into the Black Dragon Share Transfer Agreement with the Vendor on 17 May 2007, pursuant to which Interchina (Tianjin) has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Black Dragon Sale Shares, representing approximately 70.21% of the issued share capital of Black Dragon; (ii) Black Dragon entered into the Assets and Liabilities Transfer Agreement with Hecheng on 16 May 2007 in relation to the sale and purchase of the assets and liabilities of Black Dragon; (iii) Interchina (Tianjin), the Vendor and Black Dragon entered into the Supplemental Agreement on 29 June 2007 in relation to, amongst other things, the amendment and supplementation of the terms of the Black Dragon Share Transfer Agreement; and (iv) Interchina (Tianjin) further received the Letter from the Vendor on 20 July 2007 in relation to, amongst other things, the further amendment of the terms of the Black Dragon Share Transfer Agreement and the net assets of Black Dragon upon completion of the Assets and Liabilities Transfer Agreement (as amended and supplemented by the Assets and Liabilities Transfer Supplemental Agreement).

On 15 November 2007, the Board announced that, amongst other things, Interchina (Tianjin) and the Vendor entered into the Second Supplemental Agreement on 15 November 2007, pursuant to which (i) the consideration of the Black Dragon Transfer was revised to RMB420 million (equivalent to approximately HK$438 million); (ii) the settlement method of the consideration of the Black Dragon Transfer has been amended to payment of cash to the Vendor; (iii) the remaining net assets of Black Dragon immediately upon completion of the Assets and Liabilities Transfer Agreement shall amount to approximately RMB107 million (equivalent to approximately HK$111 million), which shall be a piece of land with a market value of not more than RMB107 million (equivalent to approximately HK$111 million); and (iv) Interchina (Tianjin) shall conduct the Share Segregation Reform at the consideration of a maximum of RMB173 million (equivalent to approximately HK$180 million).

On 21 December 2007, the Board announced that Interchina (Tianjin) and the Vendor entered into the Third Supplemental Agreement on 17 December 2007, pursuant to which the consideration of the Share Segregation Reform to be borne by Interchina (Tianjin) was revised from a maximum of RMB173 million (equivalent to approximately HK$180 million) to RMB192.5 million (equivalent to approximately HK$200.5 million), which will be satisfied by (i) waiving the Loan of RMB173 million (equivalent to approximately HK$180 million) in relation to the acquisition of the Water Projects by Black Dragon; and (ii) payment of RMB19.5 million (equivalent to approximately HK$20.3 million) in cash. The RMB19.5 million (equivalent to approximately HK$20.3 million) shall be deposited into an account of a bank designated by the Vendor before 26 December 2007. The abovementioned RMB19.5 million (equivalent to approximately HK$20.3 million) was determined on the basis of RMB0.2 (equivalent to approximately HK$0.21) for every A share of Black Dragon. As at the Latest Practicable Date, Black Dragon had 97.5 million A shares in issue.

The Black Dragon Transfer constitutes a major transaction of the Company under the Listing Rules and therefore is subject to approval by the Shareholders at the EGM under Rule 14.40 of the Listing Rules. As at the Latest Practicable Date, neither the Vendor nor any of its associates (as defined in the Listing Rules) held any Shares. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, they are not aware of any Shareholders who have a material interest in the Amended Black Dragon Share Transfer Agreement. Accordingly, no Shareholders are required to abstain from voting in respect of the resolution(s) to approve such agreements and the Black Dragon Transfer at the EGM.

The purpose of this circular is to provide the Shareholders, amongst other things, (i) details of the Amended Black Dragon Share Transfer Agreement; (ii) an accountants' report on Black Dragon; (iii) unaudited pro forma financial information on the Enlarged Group; (iv) a valuation report on the property interests of Black Dragon; (v) financial and other information of the Group; (vi) a valuation report of Black Dragon Sale Shares; and (vii) a notice of the EGM.

BACKGROUND

On 17 May 2007, Interchina (Tianjin), a then 94.05% owned subsidiary of the Company, entered into the Black Dragon Share Transfer Agreement with the Vendor in relation to the sale and purchase of the Black Dragon Sale Shares, representing approximately 70.21% of the issued share capital of Black Dragon.

Black Dragon is a company established in the PRC and its A shares are listed on the Shanghai Stock Exchange. Black Dragon had been operating at a loss for the three years ended 31 December 2005, therefore, as requested by the Shanghai Stock Exchange, A shares of Black Dragon commenced suspension of trading on the Shanghai Stock Exchange on 18 May 2006. The closing price per A share of Black Dragon as quoted on the Shanghai Stock Exchange on 27 April 2006, being the last trading day immediately prior to the suspension of trading in the A shares of Black Dragon, was RMB0.98 (equivalent to approximately HK$1.02).

Based on the information provided by Black Dragon, Black Dragon has submitted an application for resumption of trading in its shares to the Shanghai Stock Exchange on 14 May 2007, and received 《關於受理黑龍江黑龍股份有限公司恢復股票上市申請的通知》 ("Notice in relation to the acceptance of the application of resumption of trading of the shares of Heilongjiang Black Dragon Company Limited") and 《關於對黑龍股份有限公司恢復上市申請材料的補充意見函》 ("Letter of the supplemental comments on the application materials in relation to the resumption of trading in the shares of Heilongjiang Black Dragon Company Limited") from the Shanghai Stock Exchange on 21 May 2007 and 28 May 2007 respectively. Black Dragon also received 《關於恢復上市的監管意見函》("Supervision opinions on the resumption of trading") from the listing division of the Shanghai Stock Exchange on 25 October 2007.

On 28 December 2007, the board of directors of Black Dragon announced that, among other things, the holders of A shares of Black Dragon have approved the Amended Black Dragon Share Transfer Agreement, the Agency Agreement and the Share Segregation Reform.

Black Dragon is now in the process of preparing and finalising the materials for application of resumption of trading of its A shares.

As one of the conditions precedent to completion of the Black Dragon Transfer, the Restructuring Proposal should not have received any objection from the CSRC. As the Restructuring Proposal involves approvals to be obtained from the relevant PRC authorities, changes and adjustments have been made to the restructuring of Black Dragon. Apart from the Black Dragon Share Transfer Agreement, the below agreements have been entered to finalise the Restructuring Proposal.

I. The Amended Black Dragon Share Transfer Agreement

On 17 May 2007, Interchina (Tianjin), a then 94.05% owned subsidiary of the Company, entered into the Black Dragon Share Transfer Agreement with the Vendor in relation to the sale and purchase of the Black Dragon Sale Shares, representing approximately 70.21% of the issued share capital of Black Dragon. Pursuant to the Black Dragon Share Transfer Agreement, the initial consideration of RMB350 million (equivalent to approximately HK$365 million) for the Black Dragon Transfer would be determined with reference to the valuation of the Black Dragon Sale Shares, which shall be satisfied by Interchina (Tianjin) assuming the debts of the Vendor of up to RMB350 million (equivalent to approximately HK$365 million).

As the Restructuring Proposal involves approvals to be obtained from the relevant PRC authorities, changes and adjustments have been made to the restructuring of Black Dragon. At the request of the Vendor and after discussion among the parties, it is considered more commercially viable and in the interests of the parties to the Black Dragon Share Transfer Agreement (being Interchina (Tianjin) and the Vendor) to amend the terms of the Black Dragon Share Transfer Agreement. Accordingly, the Supplemental Agreement was executed among Interchina (Tianjin), the Vendor and Black Dragon on 29 June 2007, amending and supplementing, among other things, the terms of the Black Dragon Share Transfer Agreement. Pursuant to the Supplemental Agreement, among other things, a deposit of RMB 35 million (equivalent to approximately HK$36 million) shall be paid by Interchina (Tianjin) for the Black Dragon Transfer. As at the Latest Practicable Date, the above deposit has been paid.

Interchina (Tianjin) further received the Letter from the Vendor on 20 July 2007, setting out the proposal whereby (i) the net assets of Black Dragon upon completion of the Assets and Liabilities Transfer Agreement (as amended and supplemented by the Assets and Liabilities Transfer Supplemental Agreement) shall amount to RMB100 million (equivalent to approximately HK$104 million); (ii) due to the aforesaid assets arrangement, the consideration of the Black Dragon Transfer be adjusted from RMB350 million (equivalent to approximately HK$365 million) to RMB420 million (equivalent to approximately HK$438 million); and (iii) Interchina (Tianjin) is to contribute RMB320 million (equivalent to approximately HK$333 million) either in cash or assets into Black Dragon.

On 25 September 2007, the Company acquired an additional 5.95% equity interest of Interchina (Tianjin) and Interchina (Tianjin) became a wholly-owned subsidiary of the Company.

After further negotiation between the parties, on 15 November 2007, the Vendor and Interchina (Tianjin) entered into the Second Supplemental Agreement, further amending and supplementing the terms of the Black Dragon Share Transfer Agreement (as amended by the Supplemental Agreement). Pursuant to the Second Supplemental Agreement, (i) the consideration of the Black Dragon Transfer was revised to RMB420 million (equivalent to approximately HK$438 million); (ii) the settlement method of the consideration of the Black Dragon Transfer has been amended to payment of cash to the Vendor; (iii) the remaining net assets of Black Dragon immediately upon completion of the Assets and Liabilities Transfer Agreement (as amended and supplemented by the Assets and Liabilities Transfer

Supplemental Agreement) shall amount to approximately RMB107 million (equivalent to approximately HK$111 million), which shall be a piece of land with a market value of not more than RMB107 million (equivalent to approximately HK$111 million); and (iv) Interchina (Tianjin) shall conduct the Share Segregation Reform at the consideration of a maximum of RMB173 million (equivalent to approximately HK$180 million).

In response to the request of the holders of Black Dragon's A shares, on 17 December 2007, the Vendor and Interchina (Tianjin) entered into the Third Supplemental Agreement, increasing the consideration of the Share Segregation Reform to be borne by Interchina (Tianjin) to RMB192.5 million (equivalent to approximately HK$200.5 million).

II. The Interchina Water Treatment Share Transfer Agreement

On 17 May 2007, Interchina (Tianjin) entered into the Interchina Water Treatment Share Transfer Agreement with Black Dragon in relation to the sale and purchase of the entire issued share capital of Interchina Water Treatment.

As changes and adjustments have been made to the Restructuring Proposal, pursuant to the Supplemental Agreement, the Vendor, Black Dragon and Interchina (Tianjin) agreed that the Interchina Water Treatment Transfer may or may not proceed. Thus Black Dragon may acquire the Interchina Water Treatment Sale Shares or acquire other water treatment projects in the PRC.

After further negotiations between the parties, on 15 November 2007, Interchina (Tianjin) and Black Dragon entered into the Termination Agreement terminating the Interchina Water Treatment Share Transfer Agreement (as amended by the Supplemental Agreement).

III. The Agency Agreement

On 15 November 2007, the Vendor and Interchina (Tianjin) entered into the Agency Agreement, whereby Black Dragon agreed to appoint Interchina (Tianjin) to act as its agent to handle the acquisition of the Water Projects and Interchina (Tianjin) will provide the Loan not exceeding the amount of approximately RMB173 million (equivalent to approximately HK$180 million) to Black Dragon for payment of consideration of the Water Projects. Interchina (Tianjin) will pay the Loan directly to the vendors of the Water Projects if the acquisition of the Water Projects proceeds. The actual amount of the Loan will be the lower of the consideration of the acquisition of the Water Projects and the amount of RMB173 million (equivalent to approximately HK$180 million). As agent of Black Dragon, Interchina (Tianjin) shall only sign the agreement(s) for acquisition of the Water Projects while it shall be clearly set out in such agreement(s) that all liabilities would be borne by Black Dragon (being the beneficial owner of the Water Projects) and the Vendor (acting as guarantor of Black Dragon's obligations therein).

IV. The Assets and Liabilities Transfer Agreement

According to the information provided by Black Dragon, Black Dragon and Hecheng entered into the Assets and Liabilities Transfer Agreement and the Assets and Liabilities Transfer Supplemental Agreement on 16 May 2007 and 9 July 2007, respectively. Pursuant to the Assets and Liabilities Transfer Agreement and the Assets and Liabilities Transfer Supplemental Agreement, Black Dragon has agreed to transfer to Hecheng its assets and liabilities (together with all related contracts, rights and liabilities) as at the date on which the Assets and Liabilities Transfer Agreement (as amended and supplemented by the Assets and Liabilities Transfer Supplemental Agreement) has become unconditional.

After further negotiations between the parties, on 9 December 2007, Black Dragon and Hecheng entered into the Assets and Liabilities Transfer Second Supplemental Agreement, pursuant to which Black Dragon agreed to transfer (i) the assets and the liabilities (the "Disposed Assets") based on the interim report of Black Dragon for the six months ended 30 June 2007 prepared by 中准會計師事務所 (Zhong Zhun Certified Public Accountants Company); and (ii) all contracts, rights and obligations associated with the Disposed Assets as at the date on which the Assets and Liabilities Transfer Second Supplemental Agreement becomes effective, to Hecheng.

THE AMENDED BLACK DRAGON SHARE TRANSFER AGREEMENT

The principal terms of the Amended Black Dragon Share Transfer Agreement are as follows:

I. The Black Dragon Transfer

Date of the Black Dragon Share Transfer Agreement

17 May 2007

Date of the Supplemental Agreement

29 June 2007

Date of the Second Supplemental Agreement

15 November 2007

Date of the Third Supplemental Agreement

17 December 2007

Parties

Vendor:	黑龍集團公司 (Heilong Group Limited). As stated in the annual report of Black Dragon for the year ended 31 December 2006, the Vendor is principally engaged in design, manufacture and sale of sports goods for skating and skiing, pressure measuring instruments and plastic products. To the Directors' best knowledge, information and belief having made all reasonable enquiries, the Vendor and its ultimate beneficial owners are the Independent Third Parties.
Purchaser:	Interchina (Tianjin), a wholly-owned subsidiary of the Company.

Subject matter of the Black Dragon Transfer

The Vendor has conditionally agreed to sell and Interchina (Tianjin) has conditionally agreed to acquire the Black Dragon Sale Shares, representing approximately 70.21% of the issued share capital of Black Dragon. According to 上市公司股權分置改革管理方法 ("Measures on the Shares Segregation Reform of Listing Companies") issued by the CSRC on 4 September 2005, Interchina (Tianjin) is not allowed (i) to dispose any shares of Black Dragon within 12 months after the execution of the Share Segregation Reform (the "First Twelve Months"); or (ii) to dispose of more than 5% of the total issued share capital of Black Dragon within 12 months after the First Twelve Months; or (iii) to dispose of more than 10% of the total issued share capital of Black Dragon within 24 months after the First Twelve Months.

Consideration of the Black Dragon Transfer

As set out in the Second Supplemental Agreement, the consideration of the Black Dragon Transfer was RMB420 million (equivalent to approximately HK$438 million) with reference to the valuation of the Black Dragon Sale Shares. According to a valuation report dated 14 August 2007 prepared by 北京龍源智博資產評估有限責任公司 (Beijing Longyuan Zhibo Asset Valuation Company Limited), an independent PRC valuer, the Black Dragon Sale Shares were valued at approximately RMB420 million (equivalent to approximately HK$438 million) as at 30 June 2007 by using market approach. The Vendor engaged 北京龍源智博資產評估有限責任公司 (Beijing Longyuan Zhibo Asset Valuation Company Limited) to value the Black Dragon Sale Shares in determining the consideration of the Black Dragon Transfer. To provide more information to the Shareholders, the abovementioned valuation report is set out in Appendix VI to this circular. 北京龍源智博資產評估有限責任公司 (Beijing Longyuan Zhibo Asset Valuation Company Limited) has the qualifications to carry out assets valuation granted by the Ministry of Finance of the PRC (中華人民共和國財政部) and the CSRC. 北京龍源智博資產評估有限責任公司 (Beijing Longyuan Zhibo Asset Valuation Company Limited) has confirmed that the valuation report is prepared in accordance with the state regulations and professional standard.

Pursuant to the Second Supplemental Agreement, settlement method of the consideration of the Black Dragon Transfer is set out as follows:

(i) an amount of RMB35 million (equivalent to approximately HK$36 million) was paid to the Vendor on 10 July 2007 as part consideration of the Black Dragon Transfer;

(ii) in order to lift the judicial moratorium (司法凍結) on the Black Dragon Sale Shares, as to RMB150 million (equivalent to approximately HK$156 million) shall be payable to the Vendor within 10 Business Days after (a) a guarantee granted by Hecheng having been delivered to Interchina (Tianjin) in relation to the refund as set out below of such RMB150 million (equivalent to approximately HK$156 million) by the Vendor and Hecheng to Interchina (Tianjin); and (b) Interchina (Tianjin) having received a notification from the Vendor confirming (1) debt settlement agreements having been entered into among the Vendor, Black Dragon and the relevant creditors for the purpose of the Black Dragon Transfer; (2) settlement agreements having been entered into by the Vendor, Black Dragon and two banks for settlement of debt amounting to an aggregate amount of RMB150 million (equivalent to approximately HK$156 million) whereby the two banks would apply for the lifting of the judicial moratorium on the Black Dragon Sale Shares; and (3) settlement agreement having been entered into by the Vendor, Black Dragon and a creditor whereby such creditor would withdraw the pending application for judicial moratorium on the Black Dragon Sale Shares. To the best knowledge of the Directors, (a) the above mentioned creditors should be creditors of the Vendor and/or Black Dragon; and (b) Hecheng makes investment and finances infrastructure on behalf of the PRC provincial government. Thus, the Directors have confidence on the credit standing of Hecheng in giving the above guarantee;

(iii) as to RMB165 million (equivalent to approximately HK$172 million) shall be payable to the Vendor within 10 Business Days after the approvals in relation to the Black Dragon Transfer from the SASAC, 中華人民共和國商務部 (Ministry of Commerce of the People's Republic of China) and the CSRC having been obtained; and

(iv) as to RMB70 million (equivalent to approximately HK$73 million) shall be payable to the Vendor upon further agreement after obtaining approvals in relation to the Black Dragon Transfer from the SASAC, 中華人民共和國商務部 (Ministry of Commerce of the People's Republic of China), the CSRC and Shanghai Stock Exchange.

According to the best knowledge of the Directors, the judicial moratorium was imposed on the Black Dragon Sale Shares mainly due to legal actions taken by the creditors of the Vendor and/or Black Dragon arising from the default in repayment of debt owed by the Vendor and/or Black Dragon to those creditors. The consideration payment of RMB150 million (equivalent to approximately HK$156 million) shall be refunded by the Vendor or Hecheng to Interchina (Tianjin) in the event (i) the judicial moratorium of the Black Dragon Sale Shares could not be lifted due to default of the two banks or that the pending application for judicial moratorium of the Black Dragon Sale Shares (as set out in sub-paragraph (ii)(b)(3) above) could not be withdrawn; (ii) approvals in relation to the Black Dragon Transfer from the SASAC and the CSRC could not be obtained due to the judicial moratorium on the Black Dragon Sale Shares or due to reasons relating to other creditors; or (iii) transfer of the Black Dragon Sale Shares cannot be made at 上海證券登記結算公司 (Shanghai Securities Depository and Clearing Corporation Limited) due to judicial moratorium on the Black Dragon Sale Shares or due to reasons relating to other creditors or due to default of the Vendor or Black Dragon.

The deposit shall be refunded to Interchina (Tianjin) when:

(1) the transfer of the assets and liabilities of Black Dragon pursuant to the Assets and Liabilities Transfer Agreement (as amended and supplemented by the Assets and Liabilities Transfer Supplemental Agreement and the Assets and Liabilities Transfer Second Supplemental Agreement) shall not have been completed within 3 days after the effective date of the Amended Black Dragon Share Transfer Agreement, which is the date on which all conditions precedent to the Black Dragon Transfer have been fulfilled; or

(2) the duties and responsibilities of the Vendor under the Amended Black Dragon Share Transfer Agreement having been breached; or

(3) the termination of the Amended Black Dragon Share Transfer Agreement having been agreed by both parties to the Amended Black Dragon Share Transfer Agreement; or

(4) the Amended Black Dragon Share Transfer Agreement having been terminated other than mutually agreed between both parties to the Amended Black Dragon Share Transfer Agreement.

As requested by the Company, Hecheng (which is designated by the provincial government of the PRC) is the guarantor of the deposit.

It is intended that the consideration of the Black Dragon Transfer be partly funded by internal resources of the Group and partly by other means of financing including debt or equity financing, depending on the Group's and the then market situation. Further announcement will be made by the Company in compliance with the Listing Rules in the event that equity financing would be made.

Conditions precedent

The Amended Black Dragon Share Transfer Agreement is conditional upon, among other things, the following conditions:

(1) approvals having been obtained from the shareholders of Interchina (Tianjin), the Vendor and the Company for the Black Dragon Transfer, and the Black Dragon Transfer not having violated any rules and regulations of the Stock Exchange and the Shanghai Stock Exchange;

(2) all consents and other necessary approvals in respect of the Black Dragon Transfer having been obtained from the relevant state owned assets regulating departments of the PRC which, as advised by the Vendor, are the SASAC and its local management authorities in Heilongjiang Province; and

(3) the CSRC not having raised any objections within the statutory time limit after submission of the 上市公司收購報告書 (Acquisition Report of Listed Company), which includes the Restructuring Proposal. According to the 上市公司收購管理辦法 (The Management Measure on Acquisitions of Listed Companies) issued by the CSRC on 31 July 2007, the statutory time limit for the application for waiver of general offers, which is included in the 上市公司收購報告書 (Acquisition Report of Listed Company), should be 20 business days after the submission of the application.

The Amended Black Dragon Share Transfer Agreement shall become unconditional after satisfaction of all conditions precedent above.

上市公司收購報告書 (Acquisition Report of Listed Company) mentioned in condition (3) above was submitted to the CSRC on 9 November 2007 and the CSRC did not raise any objections within the statutory time limit after the submission. Thus condition (3) was fulfilled while other conditions had not been fulfilled as at the Latest Practicable Date. As at the Latest Practicable Date, 上市公司收購報告書 (Acquisition Report of Listed Company) was executed. **Pursuant to the Amended Black Dragon Share Transfer Agreement, the resumption of trading in the shares of Black Dragon is not a condition precedent of the Amended Black Dragon Share Transfer Agreement.**

The Amended Black Dragon Share Transfer Agreement shall be terminated if the parties agree or the relevant regulating departments indicate that any of the above approvals cannot be obtained.

Completion of the Black Dragon Transfer

Completion of the Black Dragon Transfer shall take place when the Black Dragon Sale Shares were registered under the name of Interchina (Tianjin) in 證券登記及結算機構 (the Securities Registration Settlement Institution).

Upon completion of the Black Dragon Transfer, the Company will be indirectly interested in 70.21% of the issued share capital of Black Dragon. Black Dragon will become a non wholly-owned subsidiary of the Company and the financial results of Black Dragon will be consolidated into the Group's financial statements.

II. Remaining net assets of Black Dragon immediately upon completion of the Black Dragon Transfer

As set out in the Second Supplemental Agreement, the Vendor warranted that the remaining net assets of Black Dragon immediately upon completion of the Black Dragon Transfer shall amount to approximately RMB107 million (equivalent to approximately HK$111 million), which shall be a piece of land (the "Land") with a market value of not more than RMB107 million (equivalent to approximately HK$111 million). The Land is 800 mu, located at the west of Nengjiang River of Qiqihaer City. The Land is appraised by 齊齊哈爾齊達土地估價事務所有限公司 (Qiqihaer Real Estate Valuation Company Limited), an independent PRC valuer. According to the valuation report dated 28 November 2006 prepared by 齊齊哈爾齊達土地估價事務所有限公司 (Qiqihaer Real Estate Valuation Company Limited), each square metre of the Land was valued at RMB200 (equivalent to approximately HK$208) as at 25 November 2006. As the Land consists of 535,000 square metres, the Land was valued at RMB107 million (equivalent to approximately HK$111 million). According to the Listing Rules, the Company has also engaged Savills Valuation and Professional Services Limited to value the Land. Details of the valuation report prepared by Savills Valuation and Professional Services Limited are set out in Appendix V to this circular. Based on the information provided by the Vendor, the Land is for commercial and residential use. According to the best knowledge of the Directors, Black Dragon has the legal title to the Land and the Land was vacant as at the Latest Practicable Date.

Black Dragon had an interest in leasehold land of 3,774,604 square metres as at 30 September 2007 and the Latest Practicable Date. The land of 3,239,604 square metres will be transferred to Hecheng before the completion of the Black Dragon Transfer. Thus upon the completion of the Black Dragon Transfer, only the Land will be held by Black Dragon. Disclosure of the reconciliation of the net book value of interest in leasehold land of Black Dragon as set out in Appendix II to this circular and the valuation of the Land as set out in Appendix V to this circular as required under Rule 5.07 of the Listing Rules is set out below:

	RMB '000	*HK$'000*
Net book value of interest in leasehold land, representing the land of 3,774,604 square metres, of Black Dragon as at 30 September 2007 as set out in Appendix II to this circular	743,597	774,580
Less: net book value of the land of 3,239,604 square metres, which will be transferred to Hecheng before the completion of the Black Dragon Transfer	636,597	663,122
Valuation of the Land as set out in Appendix V to this circular	107,000	111,458

The Vendor, whom according to the best knowledge of the Directors is an enterprise state-owned by the government of Heilongjiang Qiqihaer, further undertook to procure the government of Heilongjiang Qiqihaer to conduct assets exchange with Black Dragon, in that the government of Heilongjiang Qiqihaer would transfer its assets in equivalent market value (in the form of water treatment plants or financial assets such as equity interests in commercial banks) in exchange for the Land should Black Dragon so wish during the period from the date of the Second Supplemental Agreement to 6 months from the date of the resumption of trading in Black Dragon's A shares. It is intended that such assets exchange, if to be conducted, would only be carried out after completion of the Black Dragon Transfer. As Black Dragon will be a non wholly-owned subsidiary of the Company after completion of the Black Dragon Transfer, such assets exchange will constitute a possible notifiable transaction of the Company and the Company will comply with the Listing Rules if such assets exchange proceeds. To support the Restructuring Proposal, Black Dragon was given the above right of assets exchange by the government of Heilongjiang Qiqihaer.

III. Share Segregation Reform of Black Dragon

As at the Latest Practicable Date, Black Dragon had 229,725,000 non-circulating shares (being the Black Dragon Sale Shares) and 97,500,000 A shares in issue. As a condition to the resumption of trading of Black Dragon's A shares, Interchina (Tianjin) shall conduct the Share Segregation Reform (being the conversion of the non-circulating Black Dragon Sale Shares into listed A shares).

Pursuant to the Third Supplemental Agreement, the consideration of the Share Segregation Reform to be borne by Interchina (Tianjin) is RMB192.5 million (equivalent to approximately HK$200.5 million), which shall be satisfied by (i) waiving the Loan of RMB173 million (equivalent to approximately HK$180 million) in relation to the acquisition of the Water Projects by Black Dragon; and (ii) payment of RMB19.5 million (equivalent to approximately HK$20.3 million) in cash.

Pursuant to the Agency Agreement, Black Dragon agreed to appoint Interchina (Tianjin) to act as its agent to handle the acquisition of the Water Projects and Interchina (Tianjin) will provide the Loan not exceeding the amount of approximately RMB173 million (equivalent to approximately HK$180 million) to Black Dragon for payment of consideration of the Water Projects. The actual amount of the Loan will be the lower of the consideration of the acquisition of the Water Projects and the amount of RMB173 million (equivalent to approximately HK$180 million). Details of the Agency Agreement and the Loan was set out in the Third Announcement and the circular of the Company dated 3 December 2007.

As stated in the Second Supplemental Agreement, Black Dragon shall repay the Loan and the interest to Interchina (Tianjin) in cash within 15 Business Days after the 180th day after the date of the Agency Agreement if (i) the Restructuring Proposal is not approved by the CSRC within 180 days after the date of the Agency Agreement; or (ii) the Agency Agreement has been terminated by Black Dragon and Interchina (Tianjin).

The RMB19.5 million (equivalent to approximately HK$20.3 million) shall be deposited into an account of a bank designated by the Vendor before 26 December 2007. The abovementioned RMB19.5 million (equivalent to approximately HK$20.3 million) shall be paid to the holders of A shares of Black Dragon on the basis of RMB0.2 (equivalent to approximately HK$0.21) for every A share of Black Dragon. As at the Latest Practicable Date, the abovementioned RMB19.5 million had been deposited into an account of a bank designated by the Vendor but had not been paid to the holders of A shares of Black Dragon.

Pursuant to an undertaking from the Vendor and Black Dragon dated 20 December 2007, the Vendor and Black Dragon undertook that the Vendor or Black Dragon will refund the abovementioned RMB19.5 million (equivalent to approximately HK$20.3 million) to Interchina (Tianjin) at the request of Interchina (Tianjin) if, after the completion of the Share Segregation Reform, the Restructuring Proposal is suspended or is not completed within the time mentioned in the Agency Agreement, i.e. 180 days after the date of the Agency Agreement.

INFORMATION ON BLACK DRAGON

As stated in the annual report of Black Dragon as at 31 December 2006, Black Dragon was established in the PRC on 3 November 1998. Black Dragon is principally engaged in manufacturing and marketing of paper products and sporting goods. As at the Latest Practicable Date, the total number of issued shares of Black Dragon was 327,225,000 shares, among which 229,725,000 shares were held by the Vendor, and 97,500,000 shares were held by the other shareholders. As shown in the quarterly report of Black Dragon for the third quarter of 2007, save for the Vendor, no shareholder of Black Dragon held more than 1% equity interest of the total issued share capital of Black Dragon. The A shares of Black Dragon are listed on the Shanghai Stock Exchange.

As shown in Appendix II to this circular, both the audited profit before taxation and after taxation of Black Dragon for the year ended 31 December 2006 were approximately RMB31.18 million (equivalent to approximately HK$32.48 million) while both the audited loss before taxation and after taxation of Black Dragon for the year ended 31 December 2005 were approximately RMB340.04 million (equivalent to approximately HK$354.21 million). The audited net liabilities of Black Dragon as at 31 December 2006 was approximately RMB716.54 million (equivalent to approximately HK$746.40 million). As stated in Appendix II to this circular, Black Dragon recorded an unaudited net profit of approximately RMB606.09 million (equivalent to approximately HK$631.34 million) for the nine months ended 30 September 2007 mainly due to the reversal of impairment loss of approximately RMB754.9 million (equivalent to approximately HK$786.35 million) in respect of amount due from a fellow subsidiary of Black Dragon during the period. As a result, Black Dragon has reduced its net liabilities from approximately RMB716.54 million (equivalent to approximately HK$746.40 million) as at 31 December 2006 to approximately RMB110.45 million (equivalent to approximately HK$115.05 million) as at 30 September 2007.

The Directors have performed sufficient due diligence on Black Dragon to ensure that, up to the date of this circular, there is no material adverse change in the financial position or prospect of Black Dragon since 30 September 2007 and there is no event since 30 September 2007 which would materially affect the information shown in the Accountants' Report of Black Dragon as shown in Appendix II to this circular.

Based on the summary announcements of Black Dragon dated 25 April 2006, 28 April 2006 and 16 May 2006, (i) Black Dragon had been operating at a loss for the two years ended 31 December 2004, and it was expected that loss would continue to be recorded in the results for the year ended 31 December 2005 (the "**2005 Annual Results**"); (ii) in accordance with the requirements of the Shanghai Stock Exchange, trading in A shares of Black Dragon would have to be suspended from the date of announcement of the 2005 Annual Results and the Shanghai Stock Exchange would decide in 10 business days from the date of announcement of the 2005 Annual Results whether to suspend listing of Black Dragon's A shares on the Shanghai Stock Exchange; (iii) on 28 April 2006, Black Dragon announced the 2005 Annual Results and accordingly trading in its A shares was suspended in accordance with (ii) above; and (iv) Black Dragon subsequently received notification from the Shanghai Stock Exchange requiring the suspension of trading in its A shares from 18 May 2006. Accordingly, the A shares of Black Dragon commenced suspension in trading on the Shanghai Stock Exchange from 28 April 2006 and thereafter formal suspension in trading was requested by the Shanghai Stock Exchange, commencing from 18 May 2006. The closing price per A share of Black Dragon as quoted on the Shanghai Stock Exchange on 27 April 2006, being the last trading day immediately prior to the suspension of trading in the A shares of Black Dragon, was RMB0.98 (equivalent to approximately HK$1.02). The market capitalisation of Black Dragon as at 27 April 2006 amounted to approximately RMB320.68 million (equivalent to approximately HK$334.04 million). Black Dragon made a profit for the year ended 31 December 2006 and submitted a resumption of trading proposal to the Shanghai Stock Exchange on 14 May 2007. According to the announcement of Black Dragon dated 21 May 2007, Shanghai Stock Exchange has accepted the resumption of trading proposal of Black Dragon.

On 16 May 2007, Black Dragon entered into the Assets and Liabilities Transfer Agreement with Hecheng and on 9 July 2007, Black Dragon entered into the Assets and Liabilities Transfer Supplemental Agreement with Hecheng. Pursuant to the Assets and Liabilities Transfer Agreement (as amended and supplemented by the Assets and Liabilities Transfer Supplemental Agreement), Black Dragon has agreed to transfer to Hecheng its assets and liabilities (together with all related contracts, rights and liabilities) as at the date on which the Assets and Liabilities Transfer Agreement (as amended and supplemented by the Assets and Liabilities Transfer Supplemental Agreement) has become unconditional.

The Assets and Liabilities Transfer Agreement (as amended and supplemented by the Assets and Liabilities Transfer Supplemental Agreement) is conditional upon, among other things, the following conditions:

(1) the Amended Black Dragon Share Transfer Agreement becoming effective;

(2) the assets being transferred under the Assets and Liabilities Transfer Agreement (as amended and supplemented by the Assets and Liabilities Transfer Supplemental Agreement) having fulfilled the requirements on 上市公司重大資產重組 (the restructuring of material assets of listed company) issued by the CSRC; and

(3) all consents and other necessary approvals in respect of the assets being transferred under the Assets and Liabilities Transfer Agreement (as amended and supplemented by the Assets and Liabilities Transfer Supplemental Agreement) having been obtained.

After further negotiations between the parties, on 9 December 2007, Black Dragon and Hecheng entered into the Assets and Liabilities Transfer Second Supplemental Agreement, pursuant to which Black Dragon agreed to transfer (i) the assets and liabilities (the "Disposed Assets") based on the interim report of Black Dragon for the six months ended 30 June 2007 prepared by 中准會計師事務所 (Zhong Zhun Certified Public Accountants Company); and (ii) all contracts, rights and obligations associated with the Disposed Assets as at the date on which the Assets and Liabilities Transfer Second Supplemental Agreement becomes effective, to Hecheng.

To the best of the Directors' knowledge, Hecheng makes investment and finances infrastructure on behalf of the PRC government. Hecheng is assigned by the PRC government to take up most of the existing assets and liabilities of Black Dragon to facilitate the resumption of trading in shares of Black Dragon. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Hecheng is not a connected person (as defined in the Listing Rules) of and is independent of, and not connected with, the Company, any director(s), chief executive(s) or substantial shareholder(s) (as defined in the Listing Rules) of the Company and any of its subsidiaries or their respective associates (as defined in the Listing Rules).

INFORMATION ON THE GROUP

The Group is principally engaged in the investment in environmental and water treatment operation and city development and investment operation as well as strategic investment in Hong Kong and the PRC.

REASONS FOR AND BENEFITS OF THE BLACK DRAGON TRANSFER

The Directors consider that upon completion of the Black Dragon Transfer, the Company can use Black Dragon as a platform to pursue more investment in the PRC, which may generate new growth potentials to the Group. Also, the Directors believe that the Company can, through Black Dragon as a platform, access to the PRC stock market to raise funds when necessary, for further expansion of the Group's business, including but not limited to the water treatment operations. Based on the above, the Directors consider that the Black Dragon Transfer is in the interests of the Shareholders and the Company as a whole.

The Directors (including the independent non-executive Directors) considered that the terms of the Amended Black Dragon Share Transfer Agreement are on normal commercial terms and have been agreed after arm's length negotiations, the terms of which are fair and reasonable.

FINANCIAL EFFECTS OF THE BLACK DRAGON TRANSFER ON THE GROUP

Upon completion of the Black Dragon Transfer and Assets and Liabilities Transfer Agreement (as amended and supplemented by the Assets and Liabilities Transfer Supplemental Agreement and the Assets and Liabilities Transfer Second Supplemental Agreement), Black Dragon will become an indirectly non wholly-owned subsidiary of the Company and its results would be consolidated into the financial statements of the Group. According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, the unaudited pro forma total assets of the Enlarged Group would be approximately HK$1,964,223,000 and the unaudited pro forma total liabilities of the Enlarged Group would be approximately HK$897,208,000 as at 30 September 2007. As Black Dragon is expected to have great development potential and strong profitability, the Group's future earnings would be improved.

FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

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 existing environmental protection and water treatment projects, 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. The Black Dragon Transfer also will provide an additional platform to finance its investment in the environmental protection and water treatment operation. We will continue to increase our investment in the environmental protection and water treatment operation. As for the city development and investment operation, although the PRC 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. Looking ahead, the Group will endeavor to make more investment decisions with far-reaching vision and develop a diversified portfolio with a prudent approach.

The Group currently has sufficient financial resources and will make full use of this advantage to continue to identify quality investment opportunities. It will also review its existing capital and borrowing structures from time to time and consider plans to lower its funding and borrowing costs, so as to further increase the overall returns for its Shareholders.

IMPLICATIONS UNDER THE LISTING RULES

The Black Dragon Transfer constitutes a major transaction of the Company under Rule 14.06 of the Listing Rules. The EGM will be held to consider and, if thought fit, approve the Amended Black Dragon Share Transfer Agreement and the transactions contemplated thereunder. As at the Latest Practicable Date, the Vendor and its associates (as defined in the Listing Rules) did not hold any Shares. So far as is known to the Directors, no Shareholder is required to abstain from voting at the EGM.

A resolution will be proposed at the EGM to approve the Amended Black Dragon Share Transfer Agreement and the transactions contemplated thereunder.

EGM

The EGM will be held at Boardroom 3&4, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on 25 February 2008 at 2:30 p.m.. A notice convening the EGM is set out on pages 173 to 174 of this circular.

In order to be valid, the enclosed form of proxy, together with any power of attorney or other authority under which it is signed must be completed in accordance with the instructions printed thereon and delivered to the share registrar of the Company, Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in the EGM or any adjourned meeting in person if you so wish.

PROCEDURES FOR DEMANDING A POLL

Pursuant to article 73 of the articles of association of the Company, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by:

(a) the chairman of the meeting; or

(b) at least three Shareholders present in person or by proxy for the time being entitled to vote; or

(c) any Shareholder or Shareholders present in person or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(d) any Shareholder or Shareholders present in person or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which in aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

If voting has been conducted by way of poll, the result of the poll will be published on the Company and the Stock Exchange's websites on the Business Day following the EGM.

RECOMMENDATION

Having considered the above, the Directors (including the independent non-executive Directors) consider that the terms of the Amended Black Dragon Share Transfer Agreement are fair and reasonable and on normal commercial terms and the Black Dragon Transfer is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Amended Black Dragon Share Transfer Agreement and the transactions contemplated thereunder.

FURTHER INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Interchina Holdings Company Limited
Lam Cheung Shing, Richard
Director and Company Secretary

1. SUMMARY OF FINANCIAL INFORMATION FOR THE THREE YEARS ENDED 31 MARCH 2007

Set out below is a summary of financial results of the Group for the three year ended 31 March 2007 as extracted from the annual report of the Company for the year ended 31 March 2007.

	For the year ended 31 March		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
RESULTS			
Turnover	33,213	134,740	225,003
Loss from ordinary activities before taxation	(29,138)	(108,588)	(72,401)
Taxation charge	(2,010)	(937)	(100)
Loss after taxation	(31,148)	(109,525)	(72,501)
Minority interests	(442)	1,213	1,845
Net loss for the year	(31,590)	(108,312)	(70,656)

Assets and liabilities

	As at 31 March		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	1,612,914	1,417,395	1,660,291
Total liabilities	(805,102)	(708,400)	(944,398)
Minority interests	(23,317)	(21,704)	(22,483)
Shareholders' funds	784,495	687,291	693,410

2. AUDITED FINANCIAL INFORMATION OF THE GROUP FOR THE TWO YEARS ENDED 31 MARCH 2006 AND 2007

Set out below is the latest published audited consolidated financial statements of the Group for the year ended 31 March 2007, together with the accompanying notes relating thereto and the comparative figures for the year ended 31 March 2006, as extracted from the annual report of the Company for the year ended 31 March 2007.

Consolidated Income Statement
For the year ended 31 March 2007

	Notes	**2007** *HK$'000*	**2006** *HK$'000*
Turnover	*6*	33,213	134,740
Cost of sales		(4,934)	(88,445)
Other revenue	*7*	1,868	623
Other operating income	*8*	1,448	–
Reversal of impairment of trade receivable		15,561	–
Interest income		4,881	421
Staff costs	*9*	(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	*10*	(34,969)	(73,217)
Finance costs	*11*	(36,453)	(26,135)
Share of losses of associates		(6,164)	(9,473)
Gain on disposal of subsidiaries	*35*	48,448	237
Loss before taxation		(29,138)	(108,588)
Taxation	*12*	(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			
Basic	*13*	HK0.559 cents	HK2.166 cents
Diluted	*13*	N/A	N/A

All of the Group's activities are classed as continuing.

The accompanying notes form an integral part of these financial statements.

Consolidated Balance Sheet
At 31 March 2007

	Notes	**2007** *HK$'000*	**2006** *HK$'000*
Non-current assets			
Investment properties	*14*	65,852	60,694
Interests in leasehold land and land use rights	*15*	38,638	75,722
Property, plant and equipment	*16*	624,543	750,413
Interests in associates	*18*	77,419	83,448
Goodwill	*19*	2,846	2,846
Other non-current assets	*20*	2,412	2,466
		811,710	975,589
Current assets			
Properties under development for sale	*21*	348,527	277,974
Trade and other receivables and prepayments	*22*	206,668	140,835
Financial assets at fair value through profit or loss	*23*	169	172
Tax recoverable		–	654
Bank balances – trust and segregated accounts	*24*	86,410	5,277
Cash and cash equivalents	*25*	159,430	16,894
		801,204	441,806
Current liabilities			
Trade and other payables and deposits received	*26*	443,406	299,530
Amount due to a related company	*27*	444	450
Tax payable		382	5
Bank borrowings, secured – due within one year	*28*	143,495	155,402
Other borrowings, secured – due within one year	*28*	–	65,203
Obligations under finance leases – due within one year	*29*	69	67
		587,796	520,657
Net current assets/(liabilities)		213,408	(78,851)
Total assets less current liabilities		1,025,118	896,738

	Notes	2007 HK$'000	2006 HK$'000
Equity			
Share capital	31	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	28	209,674	145,926
Other borrowings, unsecured – due after one year	28	–	40,000
Obligations under finance leases – due after one year	29	141	210
Convertible notes	30	4,587	–
Deferred tax liabilities	33	2,904	1,607
		217,306	187,743
		1,025,118	896,738

Balance Sheet
At 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	16	581	1,585
Investments in subsidiaries	17	412,184	412,184
Interests in associates	18	45,008	68,705
Other non-current assets	20	380	380
		458,153	482,854
Current assets			
Trade and other receivables and prepayments	22	60,301	76,849
Amounts due from subsidiaries	17	704,219	780,152
Cash and cash equivalents	25	88,570	38
		853,090	857,039
Current liabilities			
Trade and other payables and deposits received	26	3,355	14,254
Amounts due to subsidiaries	17	568,979	644,548
Amount due to a related company	27	444	450
		572,778	659,252
Net current assets		280,312	197,787
Total assets less current liabilities		738,465	680,641
Equity			
Share capital	31	665,190	558,492
Share premium and reserves	32	68,615	82,149
		733,805	640,641
Non-current liabilities			
Deferred tax liabilities	33	73	–
Convertible notes	30	4,587	–
Other borrowings, unsecured – due after one year	28	–	40,000
		4,660	40,000
		738,465	680,641

Consolidated Statement of Changes in Equity

For the year ended 31 March 2007

The Group	Share capital	Share premium	Special reserve	Exchange reserve	Convertible notes reserve	Accumulated losses	Sub-total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000* (Note1)	*HK$'000*	*HK$'000* (Note2)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2005	468,492	282,459	571,996	1,040	–	(630,577)	693,410	22,483	715,893
Exchange differences on translation of overseas subsidiaries not recognised in the income statement	–	–	–	11,911	–	–	11,911	434	12,345
Issue of convertible notes	–	–	–	–	6,354	–	6,354	–	6,354
Conversion of convertible notes	90,000	282	–	–	(6,354)	–	83,928	–	83,928
Net loss for the year	–	–	–	–	–	(108,312)	(108,312)	(1,213)	(109,525)
At 31 March 2006 and 1 April 2006	558,492	282,741	571,996	12,951	–	(738,889)	687,291	21,704	708,995
Exchange differences on translation of overseas subsidiaries not recognised in the income statement	–	–	–	21,506	–	–	21,506	1,171	22,677
Issue of convertible notes	–	–	–	–	10,303	–	10,303	–	10,303
Conversion of convertible notes	106,698	–	–	–	(9,589)	–	97,109	–	97,109
Recognition of deferred tax for convertible notes	–	–	–	–	(124)	–	(124)	–	(124)
Net loss for the year	–	–	–	–	–	(31,590)	(31,590)	442	(31,148)
At 31 March 2007	665,190	282,741	571,996	34,457	590	(770,479)	784,495	23,317	807,812

Notes:

1) The special reserve of the Group represents mainly the difference between the nominal value of shares of Burlingame International Limited ("Burlingame") and the nominal value of shares issued for the swap of the shares of Burlingame pursuant to the scheme of arrangement as set out in the document issued by the company and Burlingame dated 27 July 2000.

2) Under HKAS 32, convertible notes issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value which is determined using market interest rate for equivalent non-convertible notes and attributing to the equity component the difference between the proceeds from issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the convertible notes reserve until the notes are either converted (in which case it is transferred to share premium) or the notes are redeemed (in which case it is released directly to accumulated losses.)

Consolidated Cash Flow Statement

For the year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES			
Loss before taxation		(29,138)	(108,588)
Adjustments for:			
Depreciation and amortisation of property, plant and equipment	*16*	11,503	11,227
Amortisation of interests in leasehold land and land use rights	*15*	1,675	1,595
Impairment of trade receivables		–	17,738
Surplus arising on revaluation of investment properties	*14*	(4,439)	(1,008)
Share of losses of associates		6,164	9,473
(Gain)/loss on disposal of property, plant and equipment		(118)	40
Gain on disposal of subsidiaries	*35*	(48,448)	(237)
Interest income		(4,881)	(421)
Interest expenses		36,153	26,135
Operating cash flows before movements in working capital		(31,529)	(44,046)
Increase in properties under development for sale		(56,514)	(2,143)
Increase in trade and other receivables and prepayments		(89,462)	(77,024)
(Increase)/decrease in amount due from an associate		(873)	4,822
Decrease/(increase) in financial assets at fair value through profit or loss		3	(18)
(Increase)/decrease in bank trust and segregated accounts		(81,134)	3,347
Decrease in construction contract under progress		–	3,266
Increase/(decrease) in trade and other payables and deposits received		269,484	(2,046)
Decrease in amount due to a related company		(6)	(40,105)
Decrease in loan receivable		–	8,200
Cash generated from/(used in) operations		9,969	(145,747)
Profits tax refunded/(paid)		193	(277)
Interest received		4,881	421
Net cash generated from/(used in) operating activities		15,043	(145,603)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(125,705)	(33,275)
Proceeds on disposal of property, plant and equipment		203	23
Proceeds on disposal of subsidiaries	*35*	254,073	131,233
Net refund in other non-current assets		54	362
Net cash generated from investing activities		128,625	98,343

	Notes	2007 HK$'000	2006 HK$'000
FINANCING ACTIVITIES			
Interest paid		(19,359)	(20,094)
New bank loan raised		78,788	28,846
Repayment of obligations under finance leases		(66)	(64)
Repayment of bank loans		(125,483)	(25,991)
Repayment of other loans		(40,000)	(65,000)
Proceeds from issue of convertible notes	30	111,698	90,000
Net cash generated from financing activities		5,578	7,697
Net increase/(decrease) in cash and cash equivalents		149,246	(39,563)
Cash and cash equivalents at 1 April 2006/2005		16,894	55,737
Effect of foreign exchange rate changes		(6,710)	720
Cash and cash equivalents at 31 March		159,430	16,894
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		245,840	22,171
Less: Bank balances – trust and segregated accounts	24	(86,410)	(5,277)
		159,430	16,894

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 March 2007

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is Room 701, 7th Floor, Aon China Building, 29 Queen's Road Central, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries are principally engaged in environmental protection and water treatment operation, city development and investment operation, property investment operation and securities and financial operation.

2.1 BASIS OF PREPARATION

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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.

2.2 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.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segment[2]
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC) – Int 8	Scope of HKFRS 2[4]
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC) – Int 11	HKFRS2 – Group and Treasury Share Transactions[7]
HK(IFRIC) – Int 12	Service Concession Arrangements[8]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 March 2006
4 Effective for annual periods beginning on or after 1 May 2006
5 Effective for annual periods beginning on or after 1 June 2006
6 Effective for annual periods beginning on or after 1 November 2006
7 Effective for annual periods beginning on or after 1 March 2007
8 Effective for annual periods beginning on or after 1 January 2008

The directors of the Company anticipate that the application of these standards or amendments will have no material impact on the financial statements of the Company.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies followed by the Group and the Company in the preparation of the financial statements is set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

(i) Subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

All significant inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any impairment losses) identified in acquisition.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the premium paid on acquisition in so far as it has not already been amortised to the income statement, less any identified impairment loss. When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associates are accounted for by the Company on the basis of dividends received or receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

Revenue recognition

(i) Sale of properties

Revenue arising from the development of properties for sale are recognised upon the sale of properties or the issue of an occupation permit or a completion certificate by the relevant government authorities, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under current liabilities.

(ii) Rental income

Rental income, including rentals invoiced in advance, from properties under operating leases is recognised on a straight-line basis over the term of the relevant lease.

(iii) Commission and brokerage income

Commission and brokerage income are recognised on a trade date basis when the service is provided.

(iv) Sewage treatment income

Revenue arising from sewage treatment is recognised based on actual sewage treated from meter readings or the amount billed in accordance with terms of contractual agreements where applicable during the year.

(v) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment, other than properties under development and construction in progress, are stated at cost less accumulated depreciation and impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Properties under development are stated at cost, less any impairment loss. Cost includes land cost, construction cost, interest, finance charges and other direct costs attributable to the development of the properties. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Construction in progress is stated at cost, less any impairment loss. Cost includes construction cost, interest, finance charges and other direct cost attributable to the construction. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of property, plant and equipment, other than properties under development and construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following principal annual rates:

Buildings	Over the estimated useful lives of 50 years or over the terms of the leases, if less than 50 years
Leasehold improvement	Over the terms of the leases
Plant and machinery	5%-10%
Furniture and fixtures	15%
Equipment, motor vehicle and others	20%

The gain or loss arising from disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Asset held under a finance lease is depreciated over its expected useful live on the same basis as owned assets.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated on an arm's length basis.

Investment properties are stated at their fair value at balance sheet date. Any gain or loss arising from a change in the fair value of the investment properties is recognised directly in the income statement. Gain or loss on disposal of investment properties is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement upon disposal.

The fair value of investment property is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the property being valued. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Interests in leasehold land and land use rights

Interests in leasehold land and land use rights represents prepaid lease payment made for leasehold land. Interests in leasehold land and land use rights are stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The cost of interests in leasehold land and land use rights are amortised on a straight-line basis over the shorter of the relevant interest in leasehold land or the operation period of the relevant company.

Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the year in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant policy for that revalued asset.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the higher of its net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of any asset and from its disposal at the end of its useful life. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of asset that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been change in the estimates used to determine the recoverable amount. An impairment loss of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates the reversal effect of that specific event. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on the acquisition of associates is included in the carrying amount of the associates. Goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash –generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Provision

A provision is recognised when the Group has a present legal or constructive obligation, as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value money is material, the amount of a provision is the present value at the balance sheet date of the expenditures expected to be required to settle the obligation.

Financial Instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in income statement.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchase or sales are purchases or sales of financial assets that requires delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in income statement in the period in which they arise.

Loans and receivables

Loans and receivables (including advance to associates, advance to an investee company, loan receivables, pledged deposits, securities trading receivable and deposits, time deposits, bank balances and cash) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in income statement. Any impairment losses on available-for-sale financial assets are recognised in income statement. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. They are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the asset of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in income statement in the period in which they arises.

Other financial liabilities

Other financial liabilities including creditors and accruals, securities trading and margin payable, deposits and receipts in advance, bank and other borrowings, amounts due to associates and amounts due to minority shareholders are subsequently measured at amortised cost, using the effective interest rate method.

Convertible notes

Convertible notes issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the notes into equity, is included in equity (convertible notes – equity reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes - equity reserve until the embedded option is exercised (in which case the balance stated in convertible notes – equity reserve will be transferred to share capital and share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible notes – equity reserve will be released to the retained profits. No gain or loss is recognised in income statement upon conversion or expiration of the option. Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to convertible notes – equity reserve. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of debt instrument. A financial guarantee contract issued by the Group and not designed as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Derivative financial instruments that do not qualify for hedge accounting

Derivatives that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in income statement.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in income statement. For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in income statement.

Properties under development for sale

Properties under development for sale is stated at lower of cost and net realisable value, and is classified under current assets. Cost includes land cost, construction cost, interest, finance charges and other direct costs attributable to the development of the properties.

Assets held under finance leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair value at the date of acquisition. The corresponding liability, net of interest charges, is included in the balance sheet as an finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease or contract so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals are charged to the income statement on a straight-line basis over the relevant lease term.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowing costs

Borrowing costs directly attributable to the acquisition to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing cost ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Operating leases

Leases are classified as finance whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Retirement benefits costs

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme'') under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee-administered funds.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, with the employees' contributions subject to a cap of monthly relevant income of HK$20,000. The Group's contributions to the scheme are expensed as incurred are vested in accordance with the scheme's vesting scales. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or entities and include entities which are controlled or under the significant influence or related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

3. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk and cash flow and fair value interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group's treasury function operates as a centralised service for managing financial risks and for providing cost efficient funding to the Group.

(i) Market risk

(1) Foreign exchange risk

The Group operates mainly in both the People's Republic of China and Hong Kong and majority of transactions are dominated in Renminbi and Hong Kong dollars. Fluctuations in exchange rates between the Renminbi and other currencies in which the Group conducts business may affect its financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

(2) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as financial assets at fair value through profit or loss which are measured at fair value at each balance sheet date. The Group manages the price risk exposure by maintaining a portfolio of investments with different risk profiles.

(ii) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales and services are made to customers with an appropriate credit history. The exposures to these credit risks are monitored on an ongoing basis.

(iii) Liquidity risk

The Group manages its liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet the Group's liquidity requirements in the short and long term.

(iv) Cash flow and fair value interest rate risk

Long term borrowings at variable interest rates expose the Group to cash flow interest rate risk and those at fixed rates expose the Group to fair value interest rate risk. The Group monitors the interest rate risk exposure on a continuous basis and adjusts the portfolio of borrowings where necessary.

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of goodwill

The Group performs annual tests on whether there has been impairment of intangible assets in accordance with the accounting policy stated in note 2.4. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

Estimate of fair value of investment properties

As described in note 14, the investment properties were revalued at the balance sheet date on market value existing use basis by independent professional valuers. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions at each balance sheet date.

Impairment of properties under development

Included in the consolidated balance sheet at 31 March 2007 are properties under development with an aggregate carrying amount of approximately HK$298 million. Management assessed the recoverability of these amounts based on an estimation of the net realisable value of the underlying properties which involves, inter-alia, considerable analysis of current market price of properties of a comparable standard and location, construction costs to be incurred to complete the development and a forecast of future sales. If the actual net realisable values of the underlying properties are more or less than expected as a result of changes in market condition and/or significant variation in the budgeted development cost, material reversal of or provision for impairment losses may result.

Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

Trade debtors

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectivity of trade receivables for which provisions are not made could affect the results of operations.

Fair values of other financial assets and liabilities

The fair values of loans and receivables and financial liabilities are accounted for or disclosed in the financial statements. The calculation of fair values requires the Group to estimate the future cash flows expected to arise from those assets and liabilities and suitable discount rates. Variations in the estimated future cash flows and the discount rates used may result in adjustments to the carrying amounts of these assets and liabilities and the amounts disclosed in the financial statements.

5. SEGMENT INFORMATION

Business segments

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:

(i)	Environmental protection and water treatment operation	–	development of environmental protection and water treatment operation
(ii)	City development and investment operation	–	infrastructure construction for urbanisation operation and property development for sale
(iii)	Property investment operation	–	leasing of rental property
(iv)	Securities and financial operation	–	provision of financial services

The following table provides an analysis of the Group's sales by its business segments:

For the year ended 31 March 2007	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
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
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)
Assets/liabilities						
Segment assets	368,983	739,907	50,871	240,508	–	1,400,269
Interests in associates	888	–	76,531	–	–	77,419
Unallocated corporate assets						135,226
Total assets						1,612,914
Segment liabilities	94,799	246,260	3,731	183,803	–	528,593
Unallocated corporate liabilities						276,127
Tax liability						382
Total liabilities						805,102

For the year ended 31 March 2007	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*
Other segment information						
Depreciation and amortisation	9,128	2,493	206	55	–	11,882
Unallocated amounts						1,296
						13,178
Capital expenditure	101,979	22,580	–	60	–	124,619
Unallocated amounts						1,086
						125,705
Impairment loss recognised in the income statement	–	–	–	–	–	–
Changes in fair value of investment properties	–	–	4,439	–	–	4,439

For the year ended 31 March 2006	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
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
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)
Assets/liabilities						
Segment assets	263,767	907,177	107,866	27,940	–	1,306,750
Interests in associates	840	–	82,608	–	–	83,448
Unallocated corporate assets						27,197
Total assets						1,417,395
Segment liabilities	64,544	222,219	4,748	18,031	–	309,542
Unallocated corporate liabilities						398,858
Total liabilities						708,400

For the year ended 31 March 2006	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
Other segment information						
Depreciation and amortisation	8,846	2,725	298	243	–	12,112
Unallocated amounts						709
						12,821
Capital expenditure	13,369	16,858	1,162	40	–	31,429
Unallocated amounts						1,846
						33,275
Impairment loss recognised in the income statement	–	17,738	–	–	–	17,738
Changes in fair value of investment properties	–	–	1,008	–	–	1,008

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 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'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)

The following is an analysis of the carrying amounts of segment assets, and additions to property, plant and equipment, investment properties and intangible assets, analysed by the geographical area in which the assets are located:

	Hong Kong		The PRC		Consolidated total	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amounts of segment assets	448,578	194,741	1,164,336	1,222,654	1,612,914	1,417,395
Additions to property, plant and equipment, investment properties, and intangible assets	1,146	1,431	124,559	31,844	125,705	33,275

6. TURNOVER

Turnover represents the amount received and receivable for sale of properties, property rental, management fee, commission income generated from securities and commodities broking, interest income from margin clients, and sewage treatment business for the year, and is analysed as follows:

	2007	**2006**
	HK$'000	*HK$'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

7. OTHER REVENUE

	2007	**2006**
	HK$'000	*HK$'000*
Dividend income	5	5
Gain on sales of cash coupon	–	58
Water damage insurance claim	–	8
Sundry income	1,863	552
	1,868	623

8. OTHER OPERATING INCOME

	2007	**2006**
	HK$'000	*HK$'000*
Compensation from termination of disposal contract	1,448	–

9. STAFF COSTS

	2007	2006
	HK$'000	*HK$'000*
Salaries and allowances (including directors' remuneration)	24,516	30,455
Retirement benefit scheme contributions	1,473	1,824
	25,989	32,279

(a) Directors' emoluments

The Company's Board is currently composed of three executive directors and three independent non-executive directors. The aggregate amount of emoluments payable to the directors of the Company during the year was HK$10,327,000 (2006: HK$11,066,000).

The remuneration of every director of the Company for the year ended 31 March 2007 and 31 March 2006 is shown as below:

Name of directors	Directors' Fees		Salaries and benefits-in-kind		Retirement benefit scheme contributions		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors								
Zhang Yang	200	200	3,900	3,900	120	120	4,220	4,220
Chan Wing Yuen, Hubert	200	200	2,746	2,455	120	66	3,066	2,721
Lam Cheung Shing, Richard	200	200	1,831	1,635	90	90	2,121	1,925
	600	600	8,477	7,990	330	276	9,407	8,866
Non-executive director								
Hui Ho Ming, Herbert (Retired on 26 August 2006)	250	600	–	–	–	–	250	600
	850	1,200	8,477	7,990	330	276	9,657	9,466
Independent non-executive directors								
Lee Peng Fei, Allen (Resigned on 1 March 2006)	–	600	–	–	–	–	–	600
Wu Wai Chung, Michael (Retired on 26 August 2006)	150	600	–	–	–	–	150	600
Wong Hon Sum	200	200	–	–	–	–	200	200
Ha Ping	200	200	–	–	–	–	200	200
Tang Tin Sek (Appointed on 26 August 2006)	120	–	–	–	–	–	120	–
	670	1,600	–	–	–	–	670	1,600
	1,520	2,800	8,477	7,990	330	276	10,327	11,066

During the year, no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any emoluments during the year.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2006: three) directors whose emoluments are reflected in note (a) above and amounted to HK$9,407,000 (2006: HK$8,866,000). The emoluments payable to the remaining two (2006: two) individuals during the year were as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Salaries and other benefits	1,159	1,122
Retirement benefit scheme contributions	38	42
	1,197	1,164

The number of non-director, highest paid individuals whose remuneration fell within the following bands is as follows:

	2007	**2006**
Nil to HK$1,000,000	2	2

10. 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

11. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Interests on:		
Bank loans and overdrafts and other loans wholly repayable:		
within five years	12,032	9,037
over five years	10,267	9,636
Other borrowings	17,054	8,359
Interest on obligations under finance leases	10	12
Interest on convertible notes	301	282
	39,664	27,326
Less: Amounts capitalised	(3,211)	(1,191)
	36,453	26,135

12. TAXATION

	2007 HK$'000	2006 HK$'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. Taxation in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

A reconciliation of the tax expense applicable to loss before tax using the statutory rates for the countries in which the Company and majority of its subsidiaries are domiciled to the tax (expense) at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

THE GROUP – Year Ended 31 March 2007

	Hong Kong		The PRC		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Loss before taxation	8,919	–	20,219	–	29,138	–
Tax at the statutory tax rate	1,561	17.5	6,672	33.0	8,233	28.3
Tax effect of expenses not deductible for tax purpose	(2,302)	(25.8)	(3,611)	(17.9)	(5,913)	(20.3)
Tax effect of income not taxable for tax purpose	9,599	107.6	–	–	9,599	32.9
Tax effect of tax losses/ deferred tax assets not recognised	(9,858)	(110.5)	(3,945)	(19.5)	(13,803)	(47.4)
Over-provision for previous year	(126)	(1.4)	–	–	(126)	(0.4)
Tax charge for the year	(1,126)	(12.6)	(884)	(4.4)	(2,010)	(6.9)

THE GROUP – Year Ended 31 March 2006

	Hong Kong		The PRC		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Loss before taxation	63,893	–	44,695	–	108,588	–
Tax at the statutory tax rate	11,181	17.5	14,749	33.0	25,930	23.9
Tax effect of expenses not deductible for tax purpose	(1,765)	(2.8)	(5,661)	(12.7)	(7,426)	(6.8)
Tax effect of income not taxable for tax purpose	111	0.2	–	–	111	0.1
Tax effect of tax losses/ deferred tax assets not recognised	(10,464)	(16.4)	(9,088)	(20.3)	(19,552)	(18.0)
Tax charge for the year	(937)	(1.5)	–	–	(937)	(0.8)

13. 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 purpose of basic loss per share	5,655,988,454	5,000,348,290
	HK cents	*HK cents*
Basic	0.559	2.166

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.

14. INVESTMENT PROPERTIES

	THE GROUP	
	2007	**2006**
	HK$'000	*HK$'000*
Valuation at 1 April 2006/2005	60,694	394,325
Exchange alignment	719	267
Revaluation surplus	4,439	1,008
Eliminated upon disposal of subsidiaries	–	(334,906)
Valuation at 31 March	65,852	60,694

Investment properties were valued at their open market value at 31 March 2007 by Messrs. Savills Valuation and Professional Services Limited, an independent professional valuers and 北京寶信房地產評估諮詢有限責任公司, an independent PRC professional valuers. These valuations gave rise to a revaluation surplus of HK$4,439,000 (2006: HK$1,008,000) which the whole amount has been credited to income statement in accordance of HKAS 40.

The Group's investment properties at their net book values are analysed as follows:

	THE GROUP	
	2007	**2006**
	HK$'000	*HK$'000*
Investment properties in Hong Kong, held on:		
Long-term leases	13,800	12,300
Investment properties outside Hong Kong, held on:		
Medium-term leases	52,052	48,394
	65,852	60,694

Investment properties with the carrying amount of approximately HK$65,852,000 (2006: HK$60,694,000) have been pledged to secure banking facilities granted to the Group.

The Group's investment properties, amounting to HK$59,451,000 (2006: HK$54,900,000) are rented out under operating leases.

15. INTERESTS IN LEASEHOLD LAND AND LAND USE RIGHTS

	THE GROUP
	HK$'000
Cost	
At 1 April 2005	89,165
Exchange alignment	1,715
At 31 March 2006 and 1 April 2006	90,880
Exchange alignment	4,590
Eliminated upon disposal of subsidiaries	(54,490)
At 31 March 2007	40,980
Accumulated amortisation	
At 1 April 2005	13,308
Exchange alignment	255
Charge for the year	1,595
At 31 March 2006 and 1 April 2006	15,158
Exchange alignment	137
Charge for the year	1,675
Eliminated upon disposal of subsidiaries	(14,628)
	2,342
Carrying amount	
At 31 March 2007	38,638
At 31 March 2006	75,722

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book value is analysed as follows:

	2007	2006
	HK$'000	*HK$'000*
Land outside Hong Kong, held on:		
Long-term leases	38,638	37,338
Medium-term leases	–	38,384
	38,638	75,722

At 31 March 2007, all of the Group's interests in leasehold land and land use rights with an aggregate net book value of approximately HK$38,638,000 (2006: HK$75,722,000) were pledged to secure banking facilities granted to the Group.

Interests in leasehold land and land use rights comprised cost of acquiring rights to use certain land which are all located in the PRC over fixed periods. Cost of prepaid lease for land use rights is amortised on a straight-line basis over the unexpired period of rights.

16. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Properties under development *HK$'000*	Construction in progress *HK$'000*	Buildings *HK$'000*	Leasehold improvements *HK$'000*	Furniture and fixtures *HK$'000*	Equipment, motor vehicle and others *HK$'000*	Plant and machinery *HK$'000*	Total *HK$'000*
Cost								
At 1 April 2005	345,731	127,573	4,233	4,054	11,550	20,659	127,835	641,635
Exchange alignment	6,650	1,969	81	78	139	480	2,404	11,801
Reclassification from properties under development for sale	128,868	–	–	–	–	–	–	128,868
Eliminated upon disposal of subsidiaries	–	–	(4,314)	–	(5,065)	(1,087)	–	(10,466)
Additions	18,495	9,464	–	–	1,287	624	3,405	33,275
Disposals	–	–	–	–	(1)	(93)	(23,020)	(23,114)
At 31 March 2006 and 1 April 2006	499,744	139,006	–	4,132	7,910	20,583	110,624	781,999
Exchange alignment	25,240	6,227	–	209	121	751	5,776	38,324
Eliminated upon disposal of subsidiaries	(249,480)	–	–	–	–	(295)	–	(249,775)
Additions	22,577	74,841	–	–	1,032	130	313	98,893
Disposals	–	–	–	–	–	(2,482)	–	(2,482)
At 31 March 2007	298,081	220,074	–	4,341	9,063	18,687	116,713	666,959
Accumulated depreciation								
At 1 April 2005	–	–	508	3,118	6,959	10,543	3,332	24,460
Exchange alignment	–	–	10	60	75	120	64	329
Charge for the year	–	–	12	315	711	2,396	7,792	11,226
Eliminated upon disposal of subsidiaries	–	–	(530)	–	(3,226)	(643)	–	(4,399)
Eliminated upon disposals	–	–	–	–	–	(30)	–	(30)
At 31 March 2006 and 1 April 2006	–	–	–	3,493	4,519	12,386	11,188	31,586
Exchange alignment	–	–	–	176	57	369	565	1,167
Charge for the year	–	–	–	258	870	2,397	7,978	11,503
Eliminated upon disposal of subsidiaries	–	–	–	–	–	(38)	–	(38)
Eliminated upon disposals	–	–	–	–	–	(1,802)	–	(1,802)
At 31 March 2007	–	–	–	3,927	5,446	13,312	19,731	42,416
Net book value								
At 31 March 2007	298,081	220,074	–	414	3,617	5,375	96,982	624,543
At 31 March 2006	499,744	139,006	–	639	3,391	8,197	99,436	750,413

THE COMPANY

	Leasehold improvements *HK$'000*	Furniture and fixtures *HK$'000*	Equipment, motor vehicle and others *HK$'000*	Total *HK$'000*
Cost				
At 1 April 2005	1,852	378	3,549	5,779
Exchange alignment	35	7	68	110
Additions	–	40	135	175
At 31 March 2006 and 1 April 2006	1,887	425	3,752	6,064
Exchange alignment	95	22	189	306
Disposals	–	–	(1,041)	(1,041)
At 31 March 2007	1,982	447	2,900	5,329
Accumulated depreciation				
At 1 April 2005	1,225	208	2,790	4,223
Exchange alignment	23	4	54	81
Charge for the year	–	40	135	175
At 31 March 2006 and 1 April 2006	1,248	252	2,979	4,479
Exchange alignment	64	12	151	227
Charge for the year	258	99	444	801
Disposals	–	–	(759)	(759)
At 31 March 2007	1,570	363	2,815	4,748
Net book value				
At 31 March 2007	412	84	85	581
At 31 March 2006	639	173	773	1,585

The carrying amounts of the properties under development comprises:

	2007 *HK$'000*	**2006** *HK$'000*
THE GROUP		
Outside Hong Kong, held on:		
Long-term leases	298,081	276,474
Medium-term leases	–	223,270
	298,081	499,744

Properties under development of the Group are located in the PRC. At 31 March 2007, properties under development of the Group included interest capitalised of HK$42,846,000 (2006: HK$42,071,000).

Construction in progress represents the construction work of a water supply plant and a sewage treatment plant. At 31 March 2007, construction in progress of the Group included interest capitalised of HK$5,439,000 (2006: HK$3,003,000).

At 31 March 2007, the net book value of equipment, motor vehicle and others included an amount of HK$243,000 (2006: HK$295,000) in respect of assets held under finance leases.

17. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2007	**2006**
	HK$'000	*HK$'000*
Unlisted shares, at cost	453,906	453,906
Impairment loss recognised	(41,722)	(41,722)
	412,184	412,184

The carrying amount of the investments in subsidiaries is reduced to their recoverable amounts which are determined by reference to the estimation of future cash flows expected to be generated from the respective subsidiaries.

The amounts due from/to subsidiaries are unsecured, non-interest bearing and are repayable on demand. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

Details of the Company's principal subsidiaries at 31 March 2007 are set out in note 41.

18. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost of investments, unlisted	1,010	962	1	1
Share of post-acquisition profits or losses	74,045	81,335	–	–
Amount due from an associate	2,364	1,151	45,007	68,704
	77,419	83,448	45,008	68,705

The amount due from an associate is unsecured, non-interest bearing and has no fixed repayment terms. The carrying amount of the amount due from an associate approximates to its fair value.

In the opinion of the directors of the Company, the amounts due from associates will not be repayable within twelve months of the balance sheet date and accordingly, the amounts have been classified as non-current assets.

Details of the principal associates at 31 March 2007 are set out in note 42.

The summarised financial information in respect of the Group's associates is set out below:

	2007	2006
	HK$'000	*HK$'000*
Turnover	8,559	5,005
Loss for the year	(39,158)	417
Loss attributable to the Group	(6,164)	(9,473)
Total assets	343,574	272,342
Total liabilities	(153,716)	(40,750)
Net assets	189,858	231,592
Net assets attributable to the Group	75,055	82,297

19. GOODWILL

	THE GROUP
	HK$'000
Cost	
At 1 April 2005	22,142
Elimination of accumulated amortisation and impairment upon adoption of HKFRS 3	(19,296)
At 31 March 2006, 1 April 2006 and 31 March 2007	2,846
Accumulated amortisation	
At 1 April 2005	19,296
Amortised for the year	(19,296)
At 31 March 2006, 1 April 2006 and 31 March 2007	–
Carrying amount	
At 31 March 2007	2,846
At 31 March 2006	2,846

Goodwill is allocated to the Group's cash generating unit ("CGU") identified according to a business as follows:–

	2007	2006
	HK$'000	*HK$'000*
City development & investment operation	2,846	2,846

The directors of the Company reassessed the recoverable amount of goodwill as at 31 March 2007 by reference to the valuation as at 31 March 2007 performed by Hunan Licheng Certified Public Accountants Limited, an independent professional PRC valuer. The recoverable amount of the CGU determined by the valuer, at a discount rate of 7% and assumed no growth, which is based on the present value of the expected future revenue arising from sales of properties and the market value of the properties.

Based on the impairment testing of goodwill, in the opinion of the directors of the Company, no impairment provision is considered necessary for the balance of the Group's goodwill.

20. OTHER NON-CURRENT ASSETS

Other non-current assets mainly include contribution to the compensation fund and fidelity fund with the Stock Exchange, admission fee and guarantee fund contribution to Hong Kong Securities Clearing Company Limited and statutory deposits with HKFE Clearing Corporation Limited.

21. PROPERTIES UNDER DEVELOPMENT FOR SALE

	THE GROUP	
	2007	**2006**
	HK$'000	*HK$'000*
Land cost	56,555	53,836
Development and construction costs	289,785	222,794
Finance costs	2,187	1,344
	348,527	277,974

At 31 March 2007, no properties under development for sale were pledged to secure bank loans (2006: HK$148,302,000).

22. 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:

	THE GROUP		**THE COMPANY**	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*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	431	10,079
Other receivables	75,345	79,389	59,870	66,770
	206,668	158,573	60,301	76,849
Less: Impairment of trade receivable	–	(17,738)	–	–
	206,668	140,835	60,301	76,849

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 of the Company, the aged analysis does not give additional value in view of the nature of business of share margin financing.

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

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	THE GROUP	
	2007	**2006**
	HK$'000	*HK$'000*
Held for trading:		
Listed equity securities – Hong Kong, at market value	169	172

24. BANK BALANCES – TRUST AND SEGREGATED ACCOUNTS

	THE GROUP	
	2007	**2006**
	HK$'000	*HK$'000*
Segregated accounts	3	517
Trust accounts	86,407	4,760
	86,410	5,277

25. CASH AND CASH EQUIVALENTS

	THE GROUP		THE COMPANY	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	159,430	16,894	88,570	38

Cash at banks earns interest at floating rates based on daily bank deposit rates.

26. 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:

	THE GROUP		THE COMPANY	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*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	3,355	14,254
	443,406	299,530	3,355	14,254

Amounts due to margin clients are repayable on demand. No aged analysis is disclosed, as in the opinion of directors of the Company, 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 of 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 of the Company, 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 deposits received are payables for construction works of approximately HK$84,611,000(2006: HK$56,300,000) and deposits received for the pre-sale of properties of approximately HK$68,776,000 (2006: HK$95,818,000).

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

27. AMOUNT DUE TO A RELATED COMPANY – THE GROUP AND THE COMPANY

The amount due to a related company is unsecured, interest bearing at Hong Kong Inter Bank Offered Rate plus 1.75% and repayable on demand.

The related company is wholly owned by Mr. Zhang Yang, a director of the Company.

28. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings, secured	353,169	301,328	–	–
Other borrowings:				
secured	–	65,203	–	–
unsecured	–	40,000	–	40,000
Total other borrowings	–	105,203	–	40,000
Total borrowings	353,169	406,531	–	40,000
The maturity profile is as follows:				
On demand or repayable within one year:				
bank borrowings	143,495	155,402	–	–
other borrowings	–	65,203	–	–
Portion classified as current liabilities	143,495	220,605	–	–
On demand or repayable in the second year:				
bank borrowings	25,664	18,102	–	–
other borrowings	–	40,000	–	40,000
	25,664	58,102	–	40,000
Bank borrowings repayable:				
in the third to fifth years, inclusive	103,535	59,531	–	–
after the fifth year	80,475	68,293	–	–
Portion classified as non-current liabilities	209,674	185,926	–	40,000
Total borrowings	353,169	406,531	–	40,000

All the bank borrowings are variable-rate borrowings, thus exposing the Group to cash flow interest rate risk. The effective interest rate on bank borrowings denominated in Hong Kong dollars is based on Hong Kong Inter Bank Offered Rate plus a specified margin. The effective interest rates on bank borrowings denominated in Renminbi range from 5.5% to 6.9% (2006: 4.5% to 6.6%) per annum.

The directors of the Company consider that the carrying amounts of the bank and other borrowings approximate to their fair values.

Secured bank borrowings comprise term loans and mortgage loans which bear interest at commercial rates. The term loans are secured by the property, plant and equipment and interests in leasehold land held by the Group with carrying values of approximately HK$400,864,000 (2006: HK$368,084,000) and HK$38,638,000 (2006: HK$37,338,000) respectively. The mortgage loans are secured by the Group's investment properties in both the PRC and Hong Kong with carrying values of approximately HK$65,852,000 (2006: HK$60,694,000). The term loans are repayable on agreed repayment schedule and the mortgage loans are repayable in instalments over a period of 1 to 20 years.

The Group's borrowings are denominated in the following currencies:

	THE GROUP		THE COMPANY	
	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong dollars	30,575	73,074	–	40,000
Renminbi	322,594	333,457	–	–
Total	353,169	406,531	–	40,000

29. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:				
within one year	77	77	69	67
in the second to fifth years, inclusive	147	223	141	210
	224	300	210	277
Less: Future finance charges	(14)	(23)	–	–
Present value of finance leases	210	277	210	277
Less: Amount due for settlement within one year			(69)	(67)
Amount due for settlement after one year			141	210

It is the Group's policy to lease certain of its equipment and motor vehicles under finance leases. The average lease term is 3 to 5 years. Interest rates are charged at commercial rates and fixed at the respective contract dates. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

30. CONVERTIBLE NOTES

On 12 February 2007, the Group entered into subscription agreements with the subscribers, pursuant to which the Company agreed to issue and the subscribers agreed to subscribe for the convertible notes for an aggregate principal amount of HK$111,698,000 (the "New Convertible Notes"). The New Convertible Notes are convertible into shares at the conversion price, which is equal to HK$0.10 per share.

On 2 March 2007 and 14 March 2007, the holders of the New Convertible Notes converted their convertible notes with principal amounts of HK$60,000,000 and HK$46,698,000 respectively into shares at the conversion price. 1,066,980,000 ordinary shares were issued upon the conversion of the New Convertible Notes.

Upon the application of HKAS 32, the New Convertible Notes were split between the liability and equity elements. The equity element is presented in equity heading "convertible notes – equity reserve". The effective interest rate of the liability component is 8.57%.

On 14 October 2005, the Group entered into subscription agreements with the subscribers, pursuant to which the Company agreed to issue and the subscribers agreed to subscribe for the convertible notes for an aggregate principal amount of HK$90,000,000 (the "Old Convertible Notes"). The Old Convertible Notes are convertible into shares at the conversion price, which is equal to HK$0.10 per share.

On 7 November 2005, the Group completed the issue of the convertible notes. On 9 November 2005, 1 December 2005 and 16 December 2005, the holders of the Old Convertible Notes converted their convertible notes with principal amounts of HK$44,000,000, HK$23,000,000 and HK$23,000,000 respectively into shares at the conversion price. 900,000,000 ordinary shares were issued upon the conversion of the Old Convertible Notes.

The movement of the liability component of the notes for the years is set out below:

	2007	**2006**
	HK$'000	*HK$'000*
Proceeds of issue	111,698	90,000
Equity component	(10,303)	(6,354)
Liability component at date of issue	101,395	83,646
Converted to ordinary share	(97,109)	(83,646)
Imputed interest expense for the year	301	–
Liability component at 31 March	4,587	–

31. SHARE CAPITAL

	Number of shares		**Nominal value**	
	2007	**2006**	**2007**	**2006**
			HK$'000	*HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each	10,000,000,000	10,000,000,000	1,000,000	1,000,000
Issued and fully paid:				
At beginning of the year	5,584,923,632	4,684,923,632	558,492	468,492
Conversion of convertible notes *(Note a, b)*	1,066,980,000	900,000,000	106,698	90,000
At end of the year	6,651,903,632	5,584,923,632	665,190	558,492

All shares issued by the Company rank pari passu with the then existing shares in all respects.

Notes:

(a) On 2 March 2007 and 14 March 2007, the holders of the New Convertible Notes converted principal amounts of HK$60,000,000 and HK$46,698,000 into shares respectively at the conversion price of HK$0.10 per share. 1,066,980,000 ordinary shares were issued upon the conversion of the New Convertible Notes.

(b) On 9 November 2005, 1 December 2005 and 16 December 2005, the holders of the Old Convertible Notes converted principal amounts of HK$44,000,000, HK$23,000,000 and HK$23,000,000 into shares respectively at the conversion price of HK$0.10 per share. 900,000,000 ordinary shares were issued upon the conversion of the Old Convertible Notes.

32. SHARE PREMIUM AND RESERVES

	Share premium *HK$'000*	Exchange reserve *HK$'000*	Convertible notes reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
THE COMPANY					
At 1 April 2005	282,459	–	–	(289,939)	(7,480)
Issue of convertible notes	–	–	6,354	–	6,354
Conversion of convertible notes	282	–	(6,354)	–	(6,072)
Profit for the year	–	–	–	89,347	89,347
At 31 March 2006 and 1 April 2006	282,741	–	–	(200,592)	82,149
Exchange difference	–	(1,454)	–	–	(1,454)
Issue of convertible notes	–	–	10,303	–	10,303
Conversion of convertible notes	–	–	(9,589)	–	(9,589)
Recognition of deferred tax for convertible notes	–	–	(124)	–	(124)
Loss for the year	–	–	–	(12,670)	(12,670)
At 31 March 2007	282,741	(1,454)	590	(213,262)	68,615

The Company did not have any reserves available for distribution to shareholders at 31 March 2007.

33. DEFERRED TAX LIABILITY

THE GROUP

The followings are the major deferred tax liabilities recognised by the Group and movements thereon:

	Revaluation of properties *HK$'000*	Convertible notes *HK$'000*	Total *HK$'000*
At 1 April 2005	1,190	–	1,190
Charge to income statement	417	–	417
At 1 April 2005 and 31 March 2006	1,607	–	1,607
Charge to income statement	1,224	–	1,224
Issue of convertible notes	–	73	73
At 31 March 2007	2,831	73	2,904

At 31 March 2007, the Group had unused estimated tax losses of approximately HK$502,621,000 (2006: HK$462,340,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

THE COMPANY

No deferred tax asset has been recognised in respect of estimated tax losses of approximately HK$315,692,000 (2006: HK$311,341,000) due to the unpredictability of future profit streams.

34. SHARE OPTIONS

Details of the share option schemes adopted by the Group are as follows:

(a) Old Share Option Scheme

The share option scheme of the Company (the "Old Share Option Scheme") that was adopted on 25 July 2000 was terminated on 2 September 2002 and was substituted by a new option scheme.

No option under the Old Share Option Scheme remained outstanding at 31 March 2007 and 31 March 2006.

(b) New Share Option Scheme

The Company has, in accordance with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), terminated the Old Share Option Scheme and adopted a new share option scheme (the "New Share Option Scheme"), as approved by the shareholders of the Company at the annual general meeting held on 2 September 2002.

The New Share Option Scheme permits the Company to grant options to a wider category of participants as defined in the Company's circular issued on 30 July 2002 (the "Participants"), and not just the eligible grantees as under the Old Share Option Scheme (the "Eligible Grantees"). Under the rules of the New Share Option Scheme, the Board has discretion to set a minimum period for which an option has to be held before the exercise of the subscription rights attaching thereto. This discretion allows the Board to provide incentive to a Participant during such period. This discretion, couple with the power of the Board to impose any performance target as it considers appropriate before any option can be exercised, enable the Group to provide incentives to the Participants to use their best endeavours in assisting the growth and development of the Group. Although the New Share Option Scheme does not provide for the granting of options with right to subscribe for the shares of the Company ("Shares") at a discount to trading price of the Shares on the Stock Exchange, the directors of the Company are of the view that the flexibility given to the Board in granting options to Participants, other than the Eligible Grantees and to impose minimum period for which the options have to be held and performance targets that have to be achieved before the options can be exercised, will place the Group in a better position to attract human resources that are valuable to the growth and development of the Group as whole, than the Old Share Option Scheme.

The subscription price for Shares under the New Share Option Scheme shall be a price determined by the directors of the Company, but shall not be less than the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a Share.

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the New Share Option Scheme and any other share option scheme of the Company (including exercised, cancelled and outstanding options) to each Participant in any 12-month period shall not exceed 1% of the issued share capital of the Company in issue (the "Individual Limited"). Any further grant of options in excess of the Individual Limited in any 12-month period up to and including the date of such further grant, shall be subject to the issue of a circular to the shareholders and the shareholders' approval in general meeting of the Company with such Participant and his associates abstaining from voting.

No option has been granted under the New Share Option Scheme since its inception.

35. DISPOSAL OF SUBSIDIARIES

The net assets of the wholly owned subsidiaries at the date of disposal were as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Investment properties	–	334,906
Interests in leasehold land and land use rights	39,862	–
Property, plant and equipment	249,737	6,016
Inventories	–	604
Trade receivables	–	9,742
Deposits, prepayments and other debtors	22,941	1,180
Cash and bank balances	27	5,767
Other creditors and accruals	(106,575)	(18,783)
Amount due to ultimate holding company	442	(5,973)
Amount due to associates	(782)	–
Bank loans	–	(105,521)
Net assets disposed of	205,652	227,938
Less: remaining share of net assets held by the Group as associated companies	–	(91,175)
	205,652	136,763
Gain on disposal	48,448	237
Total consideration	254,100	137,000
Less: Cash and bank balances of disposed subsidiaries	(27)	(5,767)
Net cash flow from disposals of subsidiaries	254,073	131,233
Satisfied by:		
Cash	254,100	137,000

On 28 March 2007, the Company entered into a disposal agreement in relation to the disposal of 100% interests in Burlingame (Shanghai) Investment Limited, a wholly-owned subsidiary of the Group ("BSI") and a non-interest bearing shareholder loan owing by BSI to the Group at an aggregate consideration of HK$206,000,000, which satisfied by the third party in cash. During the year, BSI incurred a loss of approximately HK$19,567,000 to the Group.

On 26 May 2006, China Field Investments Limited, a wholly-owned subsidiary of the Company entered into a disposal agreement in relation to the disposal of the entire issued share capital of New Experience Investments Limited ("New Experience") and the shareholder's loan amounted to HK$20,750,000 due and owing by New Experience Investments Limited to China Field Investments Limited at an aggregate consideration of HK$48,100,000, which satisfied by the third party in cash. During the year, New Experience incurred a loss of approximately HK$4,184,000 to the Group.

On 23 April 2005, the Company entered into the disposal agreement in relation to the disposal of 60% interests in Money Capture Investments Limited ("Money Capture") (a wholly-owned subsidiary of the Group) and its principal asset is its interests in the Property, which is held as an investment property by Equal Smart Profits Limited ("Equal Smart") (a wholly-owned subsidiary of Money Capture), at an aggregate consideration of HK$137,000,000, which shall be satisfied by the third party in cash.

36. CAPITAL COMMITMENTS

	THE GROUP	
	2007	**2006**
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– acquisition of property, plant and equipment and properties under development for sale	282,181	512,054

37. COMMITMENTS

(a) At 31 March 2007, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of the Group's guarantee lease arrangement for the pre-sale properties. The lease commitment of the Group will be as follows:

	THE GROUP	
	2007	**2006**
	HK$'000	*HK$'000*
Within one year	6,341	13,097
In the second to fifth year inclusive	41,488	44,124
After five years	26,611	31,008
	74,440	88,229

Leases are negotiated for an average term of eight to ten years.

(b) At 31 March 2007, the Group has written certain repurchase options for the pre-sale properties to the property buyers. The options give the right to the property buyers that they can request the Group to buy back the properties at 100% of the original property sales price on the option exercise date. The exercise date of the options is six years after the completion date of the sale and purchase agreements of the properties with the total contract sum of approximately HK$120,889,000 (2006: HK$127,460,000).

38. OPERATING LEASE COMMITMENTS

The Group as lessee

At 31 March 2007, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	2007	**2006**
	HK$'000	*HK$'000*
Within one year	2,802	3,479
In the second to fifth year inclusive	6,818	5,565
After five years	11,855	8,043
	21,475	17,087

Operating lease payments represent rentals payable by the Group for certain of its office properties and land use rights in the PRC. Leases for the office properties are negotiated for an average term of three years. Lease for land use rights in the PRC is negotiated for 20 years.

The Group as lessor

Property rental income earned during the year was HK$2,968,000 (2006: HK$3,724,000). Some of the properties held have committed tenants for one to two years.

At 31 March 2007, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2007	**2006**
	HK$'000	*HK$'000*
Within one year	1,732	1,921
In the second to fifth year inclusive	62	315
	1,794	2,236

39. RETIREMENT BENEFITS SCHEMES

(a) The Group operates Mandatory Provident Fund Scheme ("MPF Scheme") under rules and regulations of Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong. All the employees of the Group in Hong Kong are required to join the MPF Scheme. The MPF Scheme comprises statutory and voluntary contribution. The Company contributes 5% of eligible employees' relevant aggregate income. No forfeited contributions (2006: Nil) are used to reduce the contributions for the year ended 31 March 2007. The contributions are charged to income statements as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administrative fund. The Group's employer contributions vest ranging from 30% to 100% with the employees according to the years of employment except those employer contributions which are under the statutory requirement.

(b) The employees of subsidiaries in the PRC are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

40. MATERIAL RELATED PARTY TRANSACTIONS

The Group

The Group entered into the following material transactions with related parties during the year:

(i) Transactions with related parties

(a) During the year, the Group paid interest amounting to HK$180,000 (2006: HK$167,000) to a director of the Company's subsidiary.

(b) During the year, the Group paid interest amounting to HK$953,000 (2006: HK$2,928,000) to a related company of the Company.

(c) During the year, the Group received rental income approximately HK$540,000 (2006: HK$450,000) from a director of the Company.

(d) At 31 March 2007, the Group has outstanding amounting to HK$33,559,000 and HK$58,349,000 due to a director of the Company and a related company of the Company.

(ii) Compensation of key management personnel

Compensation for key management personnel, including amount paid to the Company's directors and the senior executives is as follows:–

	2007	2006
	HK$'000	*HK$'000*
Salaries and other short-term benefits	9,077	11,912
Pension scheme contributions	330	318
	9,407	12,230

Further details of directors' emoluments are included in note 9 to the financial statements.

The Company

At 31 March 2007, the Company had given unconditional guarantee to a bank to secure banking facilities available to subsidiaries to the extent of approximately HK$23,532,000 (2006: HK$29,300,000).

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, results in particulars of excessive length.

	Name of subsidiary	Place of incorporation/ registration and operation	Class of share held	Paid-up issued ordinary shares/ registered capital*	Percentage of issued ordinary shares/registered capital held by the Company		Principal activity
				HK$ (unless otherwise stated)	*Directly %*	*Indirectly %*	
	Action Investments Limited	Hong Kong	Ordinary	100	100	–	Property letting
	Burlingame International Company Limited	Hong Kong	Ordinary	425,019,668	100	–	Investment holding
	Interchina City Development & investment Limited	The British Virgin Islands ("BVI")	Ordinary	US$10,000	100	–	Investment holding
	Interchina Corporate Services Limited	Hong Kong	Ordinary	10,000	100	–	Management services
!	Interchina Aihua (Tianjin) Municipal & Environmental Engineering Company Limited ("Interchina Aihua")	PRC	–	*RMB50,000,000	93	–	Environmental protection
!	Interchina (Tianjin) Water Treatment Company Limited	PRC	–	*RMB200,000,000	93	–	Environmental protection
@	Interchina (Changsha) Investment & Management Company Limited	PRC	–	*US$18,080,000	100	–	Property development
!	長沙國中星城置業有限公司	PRC	–	*RMB90,000,000	38.89	61.11	Property development

	Name of subsidiary	Place of incorporation/ registration and operation	Class of share held	Paid-up issued ordinary shares/ registered capital*	Percentage of issued ordinary shares/registered capital held by the Company		Principal activity
				HK$ (unless otherwise stated)	*Directly* %	*Indirectly* %	
!	漢中市石門城市供水有限公司	PRC	–	*RMB50,000,000	–	74.4	Water supply
	Interchina Futures Limited	Hong Kong	Ordinary	8,500,000	30	70	Commodities brokerage
	Interchina Securities Limited	Hong Kong	Ordinary	300,000,000	5	95	Securities brokerage
	Best Plain Trading Limited	Hong Kong	Ordinary	310,000,000	–	100	Property letting
	Interchina Environmental Protection Company Limited	BVI	Ordinary	US$1	–	100	Investment holding
@	Interchina (Qinhuangdao) Sewage Treatment Company Limited	PRC	–	*US$4,091,003	–	93	Sewage treatment
	Interchina Water Treatment Limited	BVI	Ordinary	US$10,000	–	93	Investment holding
	Interchina Property Agency Limited	Hong Kong	Ordinary	1	–	100	Real estate agency
@	國水(昌黎)污水處理有限公司	PRC	–	*RMB26,000,000	–	93	Sewage treatment
@	國水(馬鞍山)污水處理有限公司	PRC	–	42,860,000	–	93	Sewage treatment
@	湖南泛星國際企業管理有限公司	PRC	–	*RMB20,000,000	–	100	Property management

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

! Sino foreign equity joint venture

@ Wholly-owned foreign enterprise

42. PARTICULARS OF PRINCIPAL ASSOCIATES

The following table lists the associates of the Group which, in the opinion of the directors of the Company, principally affected the results and assets of the Group. To give details of other associates would, in the opinion of directors of the Company, result in particulars of excessive length.

Name of associate	Place of incorporation/ registration and operation	Class of share held	Paid-up issued ordinary shares/ registered capital*	Percentage of issued ordinary shares/registered capital held by the Company		Principal activity
			HK$ (unless otherwise stated)	*Directly* %	*Indirectly* %	
Money Capture Investments Limited	BVI	Ordinary	US$100	40	–	Investment holding
Equal Smart Profits Limited	BVI	Ordinary	US$1	–	40	Property letting
天津水與燃氣信息技術開發有限公司	PRC	–	RMB5,000,000	–	18.6	Environmental services

None of the associates had any debt securities outstanding at the end of the year or at any time during the year.

43. SUBSEQUENT EVENTS

(a) On 27 April 2007, Beijing Capital (Hong Kong) Limited ("Beijing Capital") and the Company entered into a sale and purchase agreement, pursuant to which the Company agreed to sell and Beijing Capital agreed to buy the 93% equity interests held in Interchina Aihua at a consideration of RMB 34,500,000.

(b) On 11 June 2007, Mr. Lee Kung Tao ("Mr. Lee") and the Company entered into a sale and purchase agreement in relation to the acquisition of 60% equity interests in Money Capture at an aggregate consideration of approximately HK$195,039,000, which shall be satisfied in cash of approximately HK$132,681,000 and settlement of amount owing to the Company by Mr. Lee amounted to approximately HK$62,358,000. Upon completion of acquisition, Money Capture and Equal Smart (a wholly-owned subsidiary of Money Capture) will become wholly-owned subsidiaries of the Group.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 June 2007.

3. FINANCIAL INFORMATION OF THE GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006 AND 2007

Set out below is the latest published unaudited consolidated financial statements of the Group for the six months ended 30 September 2007, together with the accompanying notes relating thereto and the comparative figures for the six months ended 30 September 2006, as extracted from the interim report of the Company for the six months ended 30 September 2007.

Condensed Consolidated Income Statement

		For the six months ended 30 September	
		2007	**2006**
	Notes	*HK$'000*	*HK$'000*
		(Unaudited)	(Unaudited)
Turnover	*3*	25,644	14,817
Cost of sales		(2,728)	(2,280)
Other revenue		1,547	858
Interest income		3,196	1,122
Staff costs		(11,993)	(14,027)
Amortisation and depreciation		(5,629)	(5,937)
Selling costs		(8,774)	(8,140)
Administrative costs		(24,124)	(18,066)
Loss from operations	*4*	(22,861)	(31,653)
Share-based payment expense	*5*	(32,986)	–
Finance costs		(14,775)	(12,120)
Share of results of associates		2,608	4,663
Gain on disposal of subsidiaries	*19*	8,360	29,828
Loss before taxation		(59,654)	(9,282)
Taxation	*6*	(535)	(284)
Loss for the period		(60,189)	(9,566)
Attributable to:			
Equity holders of the Company		(59,521)	(8,985)
Minority interests		(668)	(581)
		(60,189)	(9,566)
Loss per share for loss attributable to the equity holders of the Company			
Basic	*7*	HK(0.85) cents	HK(0.16) cents
Diluted	*7*	N/A	N/A

All of the Group's activities are classed as continuing.

The accompanying notes form an integral part of these financial statements.

Condensed Consolidated Balance Sheet

	Notes	At 30 September 2007 *HK$'000* (Unaudited)	At 31 March 2007 *HK$'000* (Audited)
Non-current assets			
Investment properties	*9*	379,003	65,852
Interests in leasehold land and land use rights	*10*	39,543	38,638
Property, plant and equipment	*11*	687,379	624,543
Interests in associates		–	77,419
Goodwill		7,571	2,846
Other non-current assets		2,404	2,412
		1,115,900	811,710
Current assets			
Properties under development for sale	*12*	391,477	348,527
Inventories		821	–
Trade and other receivables and prepayments	*13*	243,598	206,668
Financial assets at fair value through profit or loss		186	169
Bank balances – trust and segregated accounts		5,931	86,410
Cash and cash equivalents		119,423	159,430
		761,436	801,204
Current liabilities			
Trade and other payables and deposits received	*14*	282,216	443,406
Amount due to a related company	*15*	280,924	444
Taxation		474	382
Bank borrowings, secured – due within one year	*16*	97,104	143,495
Other borrowings, unsecured – due within one year	*16*	30,000	–
Obligations under finance leases – due within one year		71	69
		690,789	587,796
Net current assets		70,647	213,408
Total assets less current liabilities		1,186,547	1,025,118

	Notes	At 30 September 2007 HK$'000 (Unaudited)	At 31 March 2007 HK$'000 (Audited)
Equity			
Share capital	*17*	800,919	665,190
Share premium and reserves		172,176	119,305
Equity attributable to equity holders of the Company		973,095	784,495
Minority interests		7,033	23,317
		980,128	807,812
Non-current liabilities			
Bank borrowings, secured – due after one year	*16*	203,480	209,674
Obligations under finance leases – due after one year		108	141
Convertible notes		–	4,587
Deferred tax liabilities		2,831	2,904
		206,419	217,306
		1,186,547	1,025,118

Approved by the Board of Directors on 21 December 2007 and signed on its behalf by:

Zhang Yang	**Lam Cheung Shing, Richard**
Director	*Director*

The accompanying notes form an integral part of these financial statements.

Condensed Consolidated Statement of Changes in Equity

For the period ended 30 September 2007

The Group	Share capital	Share premium	Special reserve	Share option reserve	Exchange reserve	Convertible notes reserve	Accumulated losses	Sub-total	Minority interests	Total equity
	Equity attributable to equity holders of the Company									
	HK$'000	HK$'000	HK$'000 (Note 1)	HK$'000	HK$'000	HK$'000 (Note 2)	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2006	558,492	282,741	571,996	–	12,951	–	(738,889)	687,291	21,704	708,995
Net loss for the period	–	–	–	–	–	–	(8,985)	(8,985)	(581)	(9,566)
At 30 September 2006	558,492	282,741	571,996	–	12,951	–	(747,874)	678,306	21,123	699,429
At 1 April 2007	665,190	282,741	571,996	–	34,457	590	(770,479)	784,495	23,317	807,812
Exchange difference on translation of overseas subsidiaries not recognised in the income statement	–	–	–	–	27,172	–	–	27,172	–	27,172
Net loss for the period	–	–	–	–	–	–	(59,521)	(59,521)	(668)	(60,189)
Total recognised income and expenses for the period	–	–	–	–	27,172	–	(59,521)	(32,349)	(668)	(33,017)
Issue of convertible notes	–	–	–	–	–	11,259	–	11,259	–	11,259
Conversion of convertible notes	106,280	39,028	–	–	–	(11,849)	250	133,709	–	133,709
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	(13,896)	(13,896)
Disposal of a subsidiary	–	–	–	–	–	–	–	–	(1,720)	(1,720)
Issue of share options	–	–	–	32,986	–	–	–	32,986	–	32,986
Exercise of share options	29,449	34,603	–	(21,057)	–	–	–	42,995	–	42,995
At 30 September 2007	800,919	356,372	571,996	11,929	61,629	–	(829,750)	973,095	7,033	980,128

Note:

1) The special reserve of the Group represents mainly the difference between the nominal value of shares of Burlingame International Limited ("Burlingame") and the nominal value of shares issued for the swap of the shares of Burlingame pursuant to the scheme of arrangement as set out in the document issued by the company and Burlingame dated 27 July 2000.

2) Under HKAS 32, convertible notes issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value which is determined using market interest rate for equivalent non-convertible notes and attributing to the equity component the difference between the proceeds from issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the convertible notes reserve until the notes are either converted (in which case it is transferred to share premium) or the notes are redeemed (in which case it is released directly to accumulated losses).

Condensed Consolidated Cash Flow Statement
For the period ended 30 September 2007

	For the six months ended 30 September	
	2007	**2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(62,064)	(47,746)
Net cash generated from investing activities	3,001	39,370
Net cash generated from financing activities	22,293	12,604
(Decrease)/increase in cash and cash equivalents	(36,770)	4,228
Cash and cash equivalents at beginning of period	159,430	16,894
Effect of foreign exchange rate change	(3,237)	–
Cash and cash equivalents at end of period	119,423	21,122
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	125,354	24,816
Less: Bank balances – trust and segregated accounts	(5,931)	(3,694)
	119,423	21,122

The accompanying notes form an integral part of these financial statements.

Notes to the Condensed Consolidated Financial Statements

For the period ended 30 September 2007

1. CORPORATE INFORMATION

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is Room 701, 7/F., Aon China Building, 29 Queen's Road Central, Hong Kong.

The Company is an investment holding company. Its subsidiaries are principally engaged in environmental protection and water treatment operation, city development and investment operation, property investment operation and securities and financial operation.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

The measurement basis used in the preparation of these unaudited condensed consolidated financial statements 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 accounting policies used in the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2007.

In the current interim period, the Group has applied, for the first time, a new standard, amendment and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1 April 2007.

The adoption of these new HKFRSs had no material effect on the results and the financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new or revised standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new or revised standards or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 23 (Revised)	Borrowing Cost [1]
HKFRS 8	Operating Segments [1]
HK(IFRIC) – Int 12	Service Concession Arrangement [2]
HK(IFRIC) – Int 13	Customer Loyalty Programmes [3]
HK(IFRIC) – Int 14	HKAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction [2]

[1] Effect for annual periods beginning on or after 1 January 2009
[2] Effect for annual periods beginning on or after 1 January 2008
[3] Effect for annual periods beginning on or after 1 July 2008

3. SEGMENT INFORMATION

Business segments

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:

(i)	Environmental protection and water treatment operation	–	development of environmental protection and water treatment operation
(ii)	City development and investment operation	–	infrastructure construction for urbanisation operation and property development for sale
(iii)	Property investment operation	–	leasing of rental property
(iv)	Securities and financial operation	–	provision of financial services

Segment information about these businesses for the six months ended 30 September 2007 and 2006 is as follows:

	Environmental protection and water treatment operation	**City development and investment operation**	**Property investment operation**	**Securities and financial operation**	**Elimination**	**Consolidated total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2007						
TURNOVER						
External sales	15,967	–	4,956	4,721	–	25,644
SEGMENT RESULTS	1,101	(16,728)	1,993	1,671	–	(11,963)
Interest income						3,196
Unallocated corporate expenses						(14,094)
Loss from operations						(22,861)
2006						
TURNOVER						
External sales	12,036	–	1,101	1,680	–	14,817
Inter-segment sales	–	–	426	–	(426)	–
	12,036	–	1,527	1,680	(426)	14,817
SEGMENT RESULTS	323	(18,374)	(460)	(1,149)	–	(19,660)
Interest income						1,122
Unallocated corporate expenses						(13,115)
Loss from operations						(31,653)

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	4,990	1,950	20,654	12,867	25,644	14,817
Segment results	1,478	(1,620)	(13,441)	(18,040)	(11,963)	(19,660)
Interest income					3,196	1,122
Unallocated corporate expenses					(14,094)	(13,115)
Loss from operations					(22,861)	(31,653)

4. LOSS FROM OPERATIONS

	For the six months ended 30 September	
	2007	2006
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss from operations has been arrived at after charging/(crediting):		
Depreciation		
– Owned assets	5,301	5,087
– Assets held under finance leases	26	52
Amortisation of leasehold land and land use rights	302	798
	5,629	5,937
Rents from investment properties	(4,956)	(1,101)
Auditors' remuneration	588	581
Operating lease rentals in respect of premises	1,619	2,201
Net foreign exchange loss	160	57

5. SHARE-BASED PAYMENT EXPENSE

The fair value of the share options granted during the period was approximately HK$32,986,000. The Company recognised a share option expense of HK$32,986,000 during the six months ended 30 September 2007 (2006: Nil).

The Company had 165,000,000 share options outstanding under the New Share Option Scheme as at 30 September 2007. The exercise in full of the share options would, under the present capital structure of the Company, result in issue of 165,000,000 additional ordinary shares of the Company and an additional share capital of HK$16,500,000 and share premium of HK$7,590,000.

6. TAXATION

	For the six months ended 30 September	
	2007	**2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong	535	284

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits of certain subsidiaries in Hong Kong for the period. Taxation in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

At 30 September 2007, the Group had unused estimated tax losses of approximately HK$562,275,000 (31 March 2007: HK$502,621,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

7. LOSS PER SHARE

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

	For the six months ended 30 September	
	2007	**2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss attributable to ordinary equity holders for the purpose of basic loss per share	59,521	8,985

	At 30 September	
Number of Shares	**2007**	**2006**
Weighted average number of ordinary shares for the purpose of basic loss per share	6,987,914,452	5,584,923,632

The computation of diluted loss per share amount for the six months ended 30 September 2007 did not assume the exercise of the Company's share options as the effect of the assumed exercise of the Company's outstanding share options would be anti-dilutive.

No diluted loss per share has been presented for the six months ended 30 September 2006 as the Company had no potential dilutive ordinary shares for the six months ended 30 September 2006.

8. INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 September 2007 (2006: Nil).

9. INVESTMENT PROPERTIES

Investment properties with the carrying amount of approximately HK$50,673,000 (31 March 2007: HK$65,852,000) have been pledged to secure banking facilities granted to the Group.

10. INTERESTS IN LEASEHOLD LAND AND LAND USE RIGHTS

	HK$'000
Carrying amount	
At 1 April 2007	38,638
Exchange alignment	1,207
Amortisation	(302)
At 30 September 2007	39,543

Interests in leasehold land and land use rights with an aggregate net book value of approximately HK$39,543,000 (31 March 2007: HK$38,638,000) were pledged to secure banking facilities granted to the Group.

11. PROPERTY, PLANT AND EQUIPMENT

	HK$'000
Net book value	
At 1 April 2007	624,543
Exchange alignment	19,868
Additions	47,684
Acquisition of subsidiaries	1,879
Disposals of subsidiaries	(886)
Disposal	(382)
Depreciation	(5,327)
At 30 September 2007	687,379

As a result of disposal of equity interests in a 93% owned subsidiary during the period, the property, plant and equipment reduced by HK$886,000.

As at 30 September 2007, the net book value of property, plant and equipment comprised of the followings:

	HK$'000
Net book value	
Property under development	347,112
Construction in progress	232,756
Leasehold improvement	427
Furniture and fixtures	5,353
Equipment, motor vehicles and others	6,404
Plant and machinery	95,327
	687,379

Certain of the Group's property, plant and machinery with a net book value of approximately HK$254,770,000 (31 March 2007: HK$400,864,000) were pledged to secure bank loans.

12. PROPERTIES UNDER DEVELOPMENT FOR SALE

	HK$'000
Net book value	
At 1 April 2007	348,527
Exchange alignment	10,891
Additions	32,059
At 30 September 2007	391,477

At 30 September 2007, no properties under development for sale were pledged to secure bank loans (31 March 2007: Nil).

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

The Group allows an average credit period of 60 days to its trade customers. The aged analysis of trade receivables of HK$21,265,000 (31 March 2007: HK$43,378,000) included in trade and other receivables and prepayments is as follow:

	As at 30 September 2007	**As at 31 March 2007**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables:		
0-30 days	21,265	43,378
Margin clients accounts receivables	1,227	1,338
Clearing houses, brokers and dealers	12,392	66,238
Prepayments and deposits	179,835	20,369
Other receivables	28,879	75,345
	243,598	206,668

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.

14. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

The aged analysis of trade payables of HK$16,787,000 (31 March 2007: HK$179,139,000) included in trade and other payables and deposits received is as follow:

	As at 30 September 2007 *HK$'000* (Unaudited)	As at 31 March 2007 *HK$'000* (Audited)
Trade payables:		
0 – 30 days	16,787	179,139
Accounts payable arising from the business of dealing in securities and equity options:		
Margin clients	4,169	606
Other payables and deposits received	261,260	263,661
	282,216	443,406

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.

Included in the other payables and deposits received are payables for construction works of approximately HK$113,538,000 (31 March 2007: HK$84,611,000) and deposits received for the pre-sale of properties approximately HK$32,984,000 (31 March 2007: HK$68,776,000).

15. AMOUNT DUE TO A RELATED COMPANY

The amount due to a related company is unsecured, interest bearing at Hong Kong Inter Bank Offered Rate plus 1.75% and repayable on demand.

The related company is wholly-owned by Mr. Zhang Yang, a director of the Company.

16. BANK AND OTHER BORROWINGS

	As at 30 September 2007 *HK$'000* (Unaudited)	**As at 31 March 2007** *HK$'000* (Audited)
Bank borrowings, secured	300,584	353,169
Other borrowings, unsecured	30,000	–
Total borrowings	330,584	353,169
The maturity profile is as follows:		
On demand or repayable within one year:		
bank borrowings	97,104	143,495
other borrowing	30,000	–
Portion classified as current liabilities	127,104	143,495
On demand or repayable in the second year:		
bank borrowings	26,504	25,664
Bank borrowings repayable:		
in the third to fifth years, inclusive	96,440	103,535
after the fifth year	80,536	80,475
Portion classified as non-current liabilities	203,480	209,674
Total borrowings	330,584	353,169

All the bank borrowings are variable-rate borrowings, thus exposing the Group to interest rate risk. The effective interest rate on bank borrowings denominated in Hong Kong dollars is based on the Prime Rate less a specified margin. The effective interest rates on bank borrowings denominated in Renminbi range from 5.5% to 6.9% (31 March 2007: 5.5% to 6.9%) per annum.

The other borrowing is unsecured, interest bearing at 10% per annum and repayable on demand.

The Group's borrowings are denominated in the following currencies:

	As at 30 September 2007 *HK$'000* (Unaudited)	**As at 31 March 2007** *HK$'000* (Audited)
Hong Kong dollars	59,242	30,575
Renminbi	271,342	322,594
Total	330,584	353,169

17. SHARE CAPITAL

	Number of shares		Nominal value	
	30 September 2007	**31 March 2007**	**30 September 2007** *HK$'000*	**31 March 2007** *HK$'000*
Ordinary shares of HK$0.10 each				
Authorised: *(note c)*	40,000,000,000	10,000,000,000	4,000,000	1,000,000
Issued and fully paid:				
At beginning of period	6,651,903,632	5,584,923,632	665,190	558,492
Conversion of convertible notes *(notes a & b)*	1,062,800,000	1,066,980,000	106,280	106,698
Exercise of share options *(note d)*	294,490,000	–	29,449	–
	8,009,193,632	6,651,903,632	800,919	665,190

(a) On 6 July 2007, 50,000,000 ordinary shares of HK$0.10 each were issued upon the conversion of the convertible notes with principal amount of HK$5,000,000 issued by the Company on 19 March 2007.

(b) On 10 August 2007, 1,012,800,000 ordinary shares of HK$0.10 each at HK$0.131 per share were issued upon the conversion of the convertible notes with principal amount totalling HK$132,676,800 issued by the Company on 9 August 2007 for the purpose of satisfying payment of the balance of consideration of HK$132,676,800 arising from the acquisition of 60% equity interests in Money Capture Investments Limited.

(c) On 1 September 2007, the Company increased the authorised share capital from HK$1,000,000,000 to HK$4,000,000,000 by the creation of an additional 30,000,000,000 new ordinary shares of HK$0.10 each.

(d) During the period, certain option holders exercised their option rights to subscribe for an aggregate of 294,490,000 shares at an exercise price of HK$0.146 per share. The net proceeds from the exercise of option rights amounted to approximately HK$42,995,540.

18. BUSINESS COMBINATION

On 9 August 2007, the Group acquired remaining 60% equity interests in Money Capture Investments Limited and its subsidiaries (the "Money Capture Group") from an independent third party.

The fair value of the identifiable assets and liabilities of Money Capture Group as at the date of acquisition were as follows:

	Fair value
	HK$'000
Investment properties	313,131
Property, plant and equipment	1,879
Inventories	924
Deposits, prepayments and other debtors	11,085
Cash and bank balances	62,279
Amount due from fellow subsidiaries	62,989
Other creditors and accruals	(8,908)
Amount due to related companies	(251,380)
Net assets acquired	191,999
Less: remaining share of net assets held by the Group as associated companies	(76,800)
	115,199
Goodwill	3,682
	118,881
Satisfied by:	
Issue of convertible notes	118,881
Net cash inflow in respect of the acquisition of subsidiaries:	
Bank balances and cash acquired	62,279

The corresponding carrying amount of the identifiable assets and liabilities are at fair value at the date of acquisition.

The subsidiary acquired during the period contributed approximately HK$3,260,000 to the Group's turnover and profit after taxation and minority interests of approximately HK$3,260,000 to the Group's profit for the period.

If the acquisition had been completed on 1 April 2007, total restated group turnover for the six months ended 30 September 2007 would have been HK$32,164,000 and restated loss for the six months ended 30 September 2007 would have been HK$53,048,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 April 2007, nor is it intended to be a projection of future results.

19. DISPOSAL OF SUBSIDIARIES

The net assets of the 93% owned subsidiary at the date of disposal were as follows:

	For the six months ended 30 September	
	2007	**2006**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest in associates	1,010	–
Property, plant and equipment	886	256
Deposits, prepayments and other debtors	18,971	22,906
Cash and bank balances	3,427	26
Amount due from ultimate holding company	3,998	442
Other creditors and accruals	(84)	(4,662)
Amount due to an associate	–	(696)
	28,208	18,272
Minority interest	(1,720)	–
Net assets disposed of	26,488	18,272
Gain on disposal	8,360	29,828
Total consideration	34,848	48,100
Less: Cash and bank balances of disposed subsidiary	(3,427)	(26)
Net cash flow from disposals of subsidiary	31,421	48,074
Satisfied by:		
Cash	34,848	48,100

On 27 April 2007, Beijing Capital (Hong Kong) Limited ("Beijing Capital") and the Company entered into a sale and purchase agreement, pursuant to which the Company agreed to sell and Beijing Capital agreed to buy the 93% equity interests held in Interchina Aihua (Tianjin) Municipal & Environmental Engineering Company Limited at a consideration of RMB34,500,000. During the period ended 30 September 2007, Interchina Aihua (Tianjin) Municipal and Environmental Engineering Company did not contribute any turnover to the Group and incurred a loss for the period of approximately HK$4,938,000.

On 26 May 2006, China Field Investments Limited, a wholly-owned subsidiary of the Company entered into a disposal agreement in relation to the disposal of the entire issued share capital of New Experience Investments Limited and the shareholder's loan amounting to HK$20,750,000 owing by New Experience Investments Limited to China Field Investments Limited at an aggregate consideration of HK$48,100,000, which shall be satisfied by the vendor in cash.

20. CAPITAL COMMITMENTS

	As at 30 September 2007	**As at 31 March 2007**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Capital expenditure contracted for but not provided in the financial statements in respect of: development expenditure of properties	251,414	282,181

21. COMMITMENTS

(a) At 30 September 2007, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of the Group's guarantee lease arrangement for the pre-sale properties. The lease commitment of the Group will be as follows:

	As at 30 September 2007 *HK$'000* (Unaudited)	As at 31 March 2007 *HK$'000* (Audited)
Within one year	5,695	6,341
In the second to fifth year inclusive	36,442	41,488
After five years	22,630	26,611
	64,767	74,440

Leases are negotiated for an average term of eight to ten years.

(b) At 30 September 2007, the Group has written certain repurchase options for the pre-sale properties to the property buyers. The option gives the right to the property buyers that they can request the Group to buy back the properties at 100% of the original property sales price on the option exercise date. The exercise date of the options is six years after the completion date of the sale and purchase agreements of the properties with the total contract sum of approximately HK$106,788,000 (31 March 2007: HK$120,889,000).

22. OPERATING LEASE COMMITMENTS

The Group as lessee

At 30 September 2007, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	As at 30 September 2007 *HK$'000* (Unaudited)	As at 31 March 2007 *HK$'000* (Audited)
Within one year	2,692	2,802
In the second to fifth year inclusive	5,766	6,818
After five years	11,871	11,855
	20,329	21,475

The Group as lessor

At 30 September 2007, the Group had contracted with tenants for the following future minimum lease payments:

	As at 30 September 2007 *HK$'000* (Unaudited)	As at 31 March 2007 *HK$'000* (Audited)
Within one year	1,384	1,732
In the second to fifth year inclusive	109	62
	1,493	1,794

23. MATERIAL RELATED PARTY TRANSACTIONS

(a) During the period, the Group paid interest amounting to HK$106,000 (2006: HK$90,000) to a director of the Company's subsidiary.

(b) During the period, the Group paid interest amounting to HK$3,305,000 (2006: HK$380,000) to a related company of the Company.

(c) During the period, the Group received rental income approximately HK$270,000 (2006: HK$270,000) from a director of the Company.

(d) Key management personnel compensation

Compensation for key management personnel, including amount paid to the Company's directors and the senior executives is as follows:–

	For the six months ended 30 September	
	2007 *HK$'000* (Unaudited)	2006 *HK$'000* (Unaudited)
Salaries and other short-term benefits	4,763	4,995
Pension scheme contributions	165	182
Share-based payment	5,459	–
	10,387	5,177

(e) On 5 July 2007, the Company entered into a subscription agreement ("Subscription Agreement") with Mr. Zhang Yang ("Mr. Zhang"), a director of the Company, in relation to share subscription and the grant of convertible note options.

Pursuant to the Subscription Agreement, the Company had conditionally agreed to (i) allot and issue the subscription shares (being a total 2,700,000,000 new shares) at the share subscription price (equivalent to HK$0.10 per subscription share) to Mr. Zhang and (ii) grant of the convertible note options at the premium of HK$20,000,000 after the completion of share subscription, being options to subscribe for the first tranche convertible notes (up to the aggregate principal amount of HK$650,000,000) and the second tranche convertible notes (up to the aggregate principal amount of HK$1,200,000,000) at an initial conversion price (equivalent to HK$0.10 per conversion share).

Upon completion of the share subscription and the exercise in full of the conversion rights attached to the first tranche convertible notes and the second tranche convertible notes, an aggregate of 21,200,000,000 new shares will be allotted and issued by the Company.

24. SUBSEQUENT EVENTS

(a) On 17 May 2007 and 29 June 2007, Interchina (Tianjin) Water Treatment Limited ("Interchina (Tianjin)"), a then 94.05% owned subsidiary of the Company, entered into a conditional agreement and a supplemental agreement with Heilong Group Limited (the "Heilong") for the sale and purchase of 229,725,000 domestic shares of Heilongjiang Black Dragon Company Limited ("Black Dragon"), representing approximately 70.21% of issued share capital of Black Dragon at a consideration of approximately RMB350,000,000 (the "Acquisition"). On 15 November 2007, Interchina (Tianjin) and Heilong entered into a supplemental agreement for amending the total consideration for the Acquisition to RMB420,000,000. In addition, Interchina (Tianjin) and Heilong entered into the agency agreement, whereby Black Dragon agreed to appoint Interchina (Tianjin) to act as its agent to handle the acquisition of the water projects which are intended to be acquisition by Black Dragon (the "Water Projects") and Interchina (Tianjin) will provide the loan not exceeding the amount of approximately RMB173,000,000 to Black Dragon for payment of consideration of the Water Projects. Details of the transactions are set out in the Company's announcement dated on 24 August 2007 and 15 November 2007 respectively.

(b) On 3 October 2007, pursuant to the Subscription Agreement as disclosed in Note 23 (e) on page 21 of this report, the Company issued and allotted 2,700,000,000 ordinary shares of the Company to Mr. Zhang at HK$0.10 each. The subscription resulted in increase in share capital of HK$270,000,000.

(c) On 5 October 2007, the Company entered into a sale and purchase agreement with Mega Winner Investments Limited ("Mega Winner") in relation to the acquisition of the entire issued share capital of Success Flow International Limited ("Success Flow") and the amount due from Success Flow to Mega Winner at a total consideration of HK$167,000,000. Details of the transactions are set out in the Company's announcement dated 5 October 2007.

(d) Pursuant to the Subscription Agreement as disclosed in Note 23 (e) on page 21 of this report, the Company issued part of the first tranche convertible notes in the aggregate principal amount of HK$200,000,000 and HK$50,000,000 in October 2007 and November 2007 respectively. On 26 October 2007, 30 October 2007 and 8 November 2007, the holders of the first tranche convertible notes converted principal amount of HK$150,000,000, HK$50,000,000 and HK$50,000,000 into shares respectively at the conversion price of HK$0.10 per share. 2,500,000,000 ordinary shares were issued upon the conversion of the first tranche convertible notes. Details of the transactions are set out in the Company's monthly announcement in relation to the conversion of convertible notes on 7 November 2007 and 5 December 2007.

(e) On 18 December 2007, the Company entered into the acquisition agreement with Maxable International Enterprises Limited in relation to the acquisition of 29.52% of the issued share capital of China Pipe Group Limited at a consideration of HK$296,000,000. Details of the transactions are set out in the Company's announcement dated 18 December 2007.

4. INDEBTEDNESS

As at 30 November 2007, being the latest practicable date prior to the printing of this circular for ascertaining information for inclusion in this statement of indebtedness, the Enlarged Group had outstanding secured bank and other borrowings of approximately HK$1,329,569,000 comprising bank loans of approximately HK$831,711,000, other loan of approximately HK$497,694,000 and obligation under finance lease of approximately HK$164,000. As at 30 November 2007, the Enlarged Group had the amounts due to related companies of approximately HK$77,111,000. As at 30 November 2007, the Enlarged Group did not have any material contingent liability.

As at 30 November 2007, the Enlarged Group's secured bank and other borrowings were secured by the Enlarged Group's assets with carrying values of approximately HK$371,650,000 comprising investment properties of approximately HK$50,673,000, property, plant and equipment of approximately HK$284,000,000 and interest in leasehold land of approximately HK$36,977,000.

Saved as aforesaid and apart from intra-group liabilities, the Enlarged Group did not have any outstanding mortgages, charges, debentures, loan capital, debt securities, loans, bank overdraft or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or guarantees or other material contingent liabilities as at the close of business on 30 November 2007.

For the purpose of the above statement of indebtedness, foreign currency amounts have been translated into Hong Kong dollars at the approximately exchange rates prevailing at the close of business on 30 November 2007.

Saved as disclosed above, the Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Enlarged Group since 30 November 2007.

5. LITIGATION

A writ of summons and statement of claim was made by 中鋼設備公司 (China Steel Company) against Black Dragon in respect of development contract over the property under development of Black Dragon amounting to approximately RMB30,000,000 (equivalent to approximately HK$31,250,000). The litigation is related to leasehold land of Black Dragon with a net book value of RMB636,597,000 (equivalent to approximately HK$663,122,000) (which is not related to the Land) leasehold land. In the opinion of the directors of Black Dragon, the outcome of this case is yet to be certain and considered no provision should be made. Please refer to the paragraph headed "Litigation" in Appendix VII to this circular for the details of the litigation.

6. WORKING CAPITAL

The Directors are satisfied after due and careful enquiry that after taking into account the financial resources available to the Enlarged Group including internally generated funds, the present cash and bank balance and other facilities, the Enlarged Group will have sufficient working capital for at the next twelve months from the date of this circular.

7. NO MATERIAL ADVERSE CHANGE

The Directors confirmed that there is no material adverse change in the financial or trading prospect of the Group since 31 March 2007, the date of the latest published audited consolidated accounts of the Group were made up and up to the Latest Practicable Date.

8. MATERIAL ACQUISITION SINCE 31 MARCH 2007

On 5 October 2007, the Company entered into a sale and purchase agreement with Mega Winner Investments Limited ("Mega Winner") in relation to the acquisition of the entire issued share capital of Success Flow International Limited ("Success Flow") and the amount due from Success Flow to Mega Winner at a total consideration of HK$167,000,000. Success Flow is principally engaged in investment holding which is indirectly interested in the entire equity interest of 北京龍堡物業管理有限公司 which is holder of the 23 retail units situated in 國中商業大厦 (Guo Zhong Commercial Building) on no. 33 Dongshikou Avenue, Dongcheng District, Beijing, the PRC of a total gross floor area of approximately 5,807.57 sq.m.. Details of the transaction are disclosed in the announcement of the Company dated 5 October 2007.

On 18 December 2007, the Company entered into the acquisition agreement with Maxable International Enterprises Limited in relation to the acquisition of 3,700,000,000 shares of China Pipe Group Limited ("China Pipe"), representing approximately 29.52% of the issued share capital of China Pipe at a consideration of HK$296,000,000. China Pipe is an investment holding company and its issued shares are listed on the Stock Exchange. The principal activities of China Pipe and its subsidiaries are trading and distribution of construction materials, mainly water pipes and fittings. Details of the transaction are disclosed in the announcement of the Company dated 18 December 2007.

There has been no variation to the aggregate remuneration payable to and benefits in kind receivable by the directors of Success Flow and China Pipe in consequence of such acquisitions.

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

31 January 2008

The Directors
Interchina Holding Company Limited
Room 701, 7/F., Aon China Building
29 Queen's Road,
Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of 黑龍江黑龍股份有限公司 (Heilongjiang Black Dragon Co., Ltd) (hereinafter referred to as "Black Dragon") for each of the three years ended 31 December 2004, 2005 and 2006 and nine months ended 30 September 2006 and 2007 (hereinafter collectively referred to as the "the Relevant Periods") for inclusion in the circular of Interchina Holding Company Limited (the "Company") dated 31 January 2008 (the "Circular") in connection with the proposed acquisition of the 70.21% equity interest of Black Dragon by Interchina (Tianjin) Water Treatment Company Limited (the "Interchina (Tianjin)").

Black Dragon was established in the People's Republic of China (the "PRC") on 3 November 1998 with limited liability under the Company Law of the PRC and it's A shares are listed on Shanghai Stock Exchange and is principally engaged in manufacturing and marketing of paper products. Black Dragon has adopted 31 December as its financial year end date.

The statutory financial statements of Black Dragon are prepared in accordance with relevant accounting principles and financial regulations applicable to PRC enterprises ("PRC GAAP") and audited by 中准會計師事務所 (Zhong Zhun Certified Public Accountants Company), Certified Public Accountants registered in the PRC for the Relevant Period.

For the purpose of this report, the directors of the Company have prepared the financial statements of Black Dragon for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have audited the HKFRS financial statements of Black Dragon for each of the three years ended 31 December 2004, 2005 and 2006 and for the nine months ended 30 September 2007 in accordance with the Hong Kong Standards on Auditing issued by HKICPA.

The Financial Information has been prepared based on the HKFRS financial statements of Black Dragon for the Relevant Periods with no adjustment made thereon.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of Black Dragon during the Relevant Periods are responsible for the preparation and the true and fair of the PRC GAAP accounts of Black Dragon for the Relevant Periods in accordance with PRC GAAP. The directors of the Company are responsible for the preparation and the true and fair presentation of the HKFRS financial statement of Black Dragon for the Relevant Periods and the Financial Information in accordance with HKFRS. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and the true and fair presentation the financial statements and the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors of the Company are responsible for the contents of the Circular in which this report in included.

REPORTING ACCOUNTANTS' RESPONSIBIILITY

For the financial information for each of the years ended 31 December 2004, 2005 and 2006 and the nine months ended 30 September 2007, our responsibility is to express an opinion on the Financial Information based on our examination and to report our opinion to you. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA and carried out additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountants" (Statement 3.340) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

For the unaudited financial information of Black Dragon including the comparative income statement, statement of changes in equity and cash flow statement for the nine months period ended 30 September 2006 together with the notes thereto (the "Comparative Financial Information"), our responsibility is to express a conclusion on the financial information based on our review and to report our conclusion to you. We conducted our review in accordance with Statement of Auditing Standards 700 "Engagement to review interim financial reports" issued by the HKICPA. A review consist principally of making enquiries of company management and applying analytical procedures Comparative financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on Comparative Financial Information.

OPINION AND REVIEW CONCLUSION

In our opinion, the financial information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the Black Dragon as at 31 December 2004, 2005 and 2006 and 30 September 2007 and of the results and cash flows of Black Dragon for each of the three years ended 31 December 2004, 2005 and 2006 and the nine months ended 30 September 2007.

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the Comparative Financial Information.

Material uncertainty relating to going concern basis of Black Dragon

Without qualifying our opinion, we draw attention to Note 3(a) of Section II of the Financial Information which indicates that Black Dragon's total liabilities exceeded its total assets by RMB407,676,000, RMB747,719,000, RMB716,539,000 and RMB110,449,000 as at 31 December 2004, 2005, 2006 and 30 September 2007 respectively. These conditions, along with other matter as set forth in Note 3, indicate the existence of a material uncertainty which may cast significant doubt about Black Dragon's ability to continue as a going concern.

I. INCOME STATEMENT

		Year ended 31 December			Nine months ended 30 September	
		2004	2005	2006	2006	2007
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Turnover	*6*	210,648	–	–	–	–
Cost of sales		(208,144)	–	–	–	–
Gross profit		2,504	–	–	–	–
Other revenue	*7*	2,070	1,502	4,677	4,673	23,499
Other income	*8*	3,385	–	197,700	197,700	754,904
Selling and marketing expenses		(34,472)	–	–	–	–
Administrative expenses		(865,786)	(264,811)	(92,607)	(68,883)	(113,783)
(Loss)/profit from operations	*10*	(892,299)	(263,309)	109,770	133,490	664,620
Finance costs	*11*	(82,046)	(76,734)	(78,590)	(61,048)	(60,130)
Gain on disposal of available-for-sale financial assets		–	–	–	–	1,600
(Loss)/profit before tax		(974,345)	(340,043)	31,180	72,442	606,090
Income tax expense	*12*	–	–	–	–	–
(Loss)/profit for the year/period		(974,345)	(340,043)	31,180	72,442	606,090
Attributable to:						
Equity holders of Black Dragon		(974,345)	(340,043)	31,180	72,442	606,090
Dividend		–	–	–	–	–
(Losses)/earnings per share attributable to equity holders of Black Dragon						
– Basic	*13*	RMB(2.98)	RMB(1.04)	RMB0.10	RMB0.22	RMB1.85

II. BALANCE SHEET

	Notes	As at 31 December 2004 RMB'000	As at 31 December 2005 RMB'000	As at 31 December 2006 RMB'000	As at 30 September 2007 RMB'000
Non-current assets					
Property, plant and equipment	14	858,009	761,950	695,774	641,100
Interests in leasehold land	15	–	–	–	743,597
Available-for-sale financial assets	16	2,000	2,000	2,000	–
		860,009	763,950	697,774	1,384,697
Current assets					
Inventories	17	22,084	–	–	–
Trade and other receivables	18	54,280	38,158	30,483	24,175
Amounts due from fellow subsidiaries	19	171,515	28,896	22,445	–
Cash and cash equivalents	20	2,145	982	993	499
		250,024	68,036	53,921	24,674
Current liabilities					
Trade and other payables	21	340,359	401,927	448,116	499,702
Amount due to a related company	22	–	50,428	50,428	50,428
Taxation		16,094	16,094	16,094	16,094
Bank and other borrowings – due within one year	23	1,098,096	1,048,096	953,596	953,596
		1,454,549	1,516,545	1,468,234	1,519,820
Net current liabilities		1,204,525	1,448,509	1,414,313	1,495,146
Total assets less current liabilities		(344,516)	(684,559)	(716,539)	(110,449)
Capital and reserve					
Share capital	24	327,225	327,225	327,225	327,225
Reserve		(734,901)	(1,074,944)	(1,043,764)	(437,674)
Equity attributable to equity holders of the parent		(407,676)	(747,719)	(716,539)	(110,449)
Non-current liabilities					
Bank and other borrowings – due after one year	23	63,160	63,160	–	–
		(344,516)	(684,559)	(716,539)	(110,449)

III. STATEMENT OF CHANGES IN EQUITY

	Issued share capital	Share premium account	Revaluation reserve	Statutory reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Note)*	*RMB'000*	*RMB'000*
At 1 January 2004	327,225	321,993	22,899	25,682	(131,130)	566,669
Loss for the year	–	–	–	–	(974,345)	(974,345)
At 31 December 2004 and 1 January 2005	327,225	321,993	22,899	25,682	(1,105,475)	(407,676)
Loss for the year	–	–	–	–	(340,043)	(340,043)
At 31 December 2005 and 1 January 2006	327,225	321,993	22,899	25,682	(1,445,518)	(747,719)
Profit for the year	–	–	–	–	31,180	31,180
At 31 December 2006 and 1 January 2007	327,225	321,993	22,899	25,682	(1,414,338)	(716,539)
Profit for the period	–	–	–	–	606,090	606,090
At 30 September 2007	327,225	321,993	22,899	25,682	(808,248)	(110,449)

Note:

Statutory reserve

As stipulated by the relevant PRC laws and regulations, Black Dragon established in the PRC shall set aside 10% of its net profit after taxation for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the Black Dragons' paid-up capital). The reserve fund can only be used, upon approval by the board of directors and by the relevant authority, to offset accumulated losses or increase capital.

IV. CASHFLOW STATEMENT

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
OPERATING ACTIVITES					
(Loss)/profit before tax	(974,345)	(340,043)	31,180	72,442	606,090
Adjustment for:					
Interest income	(1,504)	(2)	(13)	(9)	–
Interest expense	82,046	76,734	78,590	61,048	60,130
Impairment loss on property, plant and equipment	21,236	100	1,919	1,919	–
Impairment loss on available-for-sale financial assets	50,000	–	–	–	–
Impairment loss on inventories	–	9,243	2,746	2,746	16,225
Impairment loss on trade and other receivables	105,971	–	3,119	3,119	–
Impairment loss on amounts due from fellow subsidiaries	632,919	140,951	6,450	6,450	–
Reversal of impairment loss on inventories	(3,385)	–	–	–	–
Reversal of impairment loss on amounts due from fellow subsidiaries	–	–	(197,700)	(197,700)	(754,904)
Depreciation of property, plant and equipment	71,157	70,870	68,851	53,153	51,697
Amortisation of interests in leasehold land	–	–	–	–	11,324
Gain on disposals of property, plant and equipment	(16)	–	–	–	–
Gain on disposals of available-for-sale financial assets	–		–	–	(1,600)
Operating (loss)/profit before working capital changes	(15,921)	(42,147)	(4,858)	3,168	(11,038)
Decrease/(increase) in inventories	35,368	12,841	(2,746)	(2,746)	(16,225)

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Decrease in trade and other receivables	99,772	16,122	4,556	3,987	6,307
Decrease/(increase) in amounts due from fellow subsidiaries	(145,880)	1,668	197,701	197,701	777,349
Increase in trade and other payables	55,288	61,568	46,189	20,875	51,587
Increase in amount due to related companies	–	50,428	–	–	–
Cash generated from operation activities	28,627	100,480	240,842	222,985	807,980
Net tax paid	(98)	–	–	–	–
NET CASH FROM OPERATING ACTIVITIES	28,529	100,480	240,842	222,985	807,980
INVESTING ACTIVITIES					
Interest received	1,504	2	13	9	–
Interest paid	(82,046)	(76,734)	(78,590)	(61,048)	(60,130)
Proceeds from disposal of available-for-sale assets	–	–	–	–	3,600
Proceeds from disposal of property, plant and equipment	36,942	26,978	1,207	1,207	3,552
Purchase of interests in leasehold land	–	–	–	–	(754,921)
Purchase of property, plant and equipment	(6,793)	(1,889)	(5,801)	(5,801)	(575)
NET CASH USED IN INVESTING ACTIVITIES	(50,393)	(51,643)	(83,171)	(65,633)	(808,474)
FINANCING ACTIVITIES					
Repayment of bank and other borrowings	(30,100)	(50,000)	(157,660)	(157,660)	–

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
NET CASH USED IN FINANCING ACTIVITIES	(30,100)	(50,000)	(157,660)	(157,660)	–
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	(51,964)	(1,163)	11	(308)	(494)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	54,109	2,145	982	982	993
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	2,145	982	993	674	499
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS					
Time deposits, bank balances and cash	2,145	982	993	674	499

V. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Heilongjiang Black Dragon Co., Ltd ("Black Dragon") was established in the People's Republic of China (the "PRC") on 3 November 1998 with limited liability and its A shares are listed on the Shanghai Stock Exchange. Black Dragon's principal activities are manufacturing and marketing of paper products. The principle place of business of Black Dragon's 27 Changqing Road, Xinli Street, Longsha District, Qiqihaer City, Heilongjiang Province, China.

The Financial Information is presented in Renminbi ("RMB"), and all other values are rounded to the nearest thousand.

2. ADOPTION OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS

The Financial Information set out in this report has been prepared in accordance with Hong Kong Accounting Standards ("HKAS(s)") and Hong Kong Financial Reporting Standards ("HKFRS(s)") and interpretation ("INT(s)") (herein collectively referred to as "HKFRSs") issued by the HKICPA.

During the Relevant Periods, the HKICPA issued a number of new and revised HKFRSs (herein collectively referred to as "new HKFRSs"). For the purpose of preparing and presenting the Financial Information of the Relevant Periods, the Black Dragon has consistently applied all these new HKFRSs over the Relevant Periods.

At the date of this report, the HKICPA issued the following new and revised standards and INTs that have been issued but are not yet effective. The Black Dragon has not early adopted these new and revised standards and INTs. The directors of Black Dragon anticipate that the application of these new and revised standards and INTs will not have material impact on the results and financial position of the Black Dragon.

HKFRS 8	*(Note a)*	Operating Segments
HKAS 23 (Revised)	*(Note a)*	Borrowing Costs
HK(IFRIC) – INT 11	*(Note b)*	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – INT 12	*(Note c)*	Service Concession Arrangements
HK(IFRIC) – INT 13	*(Note d)*	Customer Loyalty Programmes
HK(IFRIC) – INT 14	*(Note c)*	The limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction

Notes:

a. *Effective for accounting periods beginning on or after 1 January 2009.*

b. *Effective for accounting periods beginning on after 1 March 2007.*

c. *Effective for accounting periods beginning on or after 1 January 2008.*

d. *Effective for accounting periods beginning on or after 1 July 2008.*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The Financial Information has been prepared under historical cost basis, except for certain properties and financial instruments which are measured at fair value in accordance with the following accounting policies which conforms with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The preparation of the Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Black Dragon's accounting policies.

As at 30 September 2007, Black Dragon's total liabilities exceeded its total assets by approximately RMB110,449,000. Notwithstanding the above results, the Financial Information have been prepared on a going concern basis, the validity of which is dependent upon the success of the Black Dragon's future operations, its ability to generate adequate cash flows in order to meet its obligations as and when fall due and its ability to refinance or restructure its borrowings such that the Black Dragon can meet its future working capital and financing requirements.

The Financial Information have been prepared on a going concern basis as (i) Black Dragon entered into the Assets and Liabilities Transfer Agreement, Assets and Liabilities Transfer Supplemental Agreement and Assets and Liabilities Transfer Second Supplemental Agreement with 黑龍江省鶴城建設投資發展有限公司 ("Heilongjiang Hecheng Construction Investment and Development Company Limited") ("Hecheng") and (ii) Interchina (Tianjin) and 黑龍集團公司 (Heilong Group Limited) ("Heilong") entered into second supplemental agreement and (iii) Interchina (Tianjin) and Heilong entered into third supplemental agreement.

On 16 May 2007, Black Dragon entered into the Assets and Liabilities Transfer Agreement with Hecheng and on 9 July 2007, Black Dragon entered into the Assets and Liabilities Transfer Supplemental Agreement with Hecheng. Pursuant to the Assets and Liabilities Transfer Agreement (as amended by the Assets and Liabilities Transfer Supplemental Agreement and Assets and Liabilities Transfer Second Supplemental Agreement), Black Dragon has agreed to transfer to Hecheng its assets and liabilities (together with all related contracts, rights and liabilities) as at the date on which the Assets and Liabilities Transfer Agreement (as amended by the Assets and Liabilities Transfer Supplemental Agreement and Assets and Liabilities Transfer Second Supplemental Agreement) has become unconditional. Pursuant to the proposal set out in the Letter, it is intend that upon completion of the Assets and Liabilities Transfer Agreement, the net assets of Black Dragon should amount to approximately RMB107,000,000. As the terms of the Assets and Liabilities Transfer Agreement (as amended by the Assets and Liabilities Transfer Supplemental Agreement and Assets and Liabilities Transfer Second Supplemental Agreement) are still subject to further amendments, further announcement will be made by the Company when the terms of the Assets and Liabilities Transfer Agreement have been finalised.

On 15 November 2007, Interchina (Tianjin) and Heilong entered into Second Supplemental Agreement, pursuant to which both parties agree to revised the consideration of the Black Dargon Sale Shares to RMB420,000,000 (equivalent to approximately HK$437,500,500).

On 17 December 2007, Interchina (Tianjin) and Heilong entered into Third Supplemental Agreement, agreed to increase the consideration of the Share Segregation Reform to be borne by Interchina (Tianjin) from a maximum of RMB173,000,000 to RMB192,500,000, which will be satisfied by (i) waiving the Loan of RMB173,000,000 in relation to the acquisition of the Water Projects by Black Dragon; and (ii) payment of RMB19,500,000 shall be paid to the holders of A Shares of Black Dragon on the basis of RMB0.2 for every A share of Black Dragon.

Accordingly the directors of Black Dragon are satisfied that is appropriate to prepare the Financial Information on a going concern basis.

(b) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to Black Dragon and when the revenue can be measured reliably, on the following base:

(i) Sales of goods are recognised when Black Dragon has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured;

(ii) Rental income is recognised to the relevant tenancy agreement; and

(iii) Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

(c) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses.

Construction in progress represents the direct costs of construction incurred of property, plant and equipment less any impairment losses. No provision for depreciation is made on construction in progress until such time the relevant assets are completed and put into use. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Depreciation is provided to write off the cost of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following principal annual rates:

Building	:	2.11% to 4.32%
Computer	:	9.50% to 13.57%
Plant and machinery	:	6.79% to 10.56%
Motor vehicles	:	7.92%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An assets' carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 3).

The gain or loss arising from disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

(d) Interests in leasehold land

Interests in leasehold land represents prepaid lease payments made for leasehold land. Interests in leasehold land is stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The cost of leasehold land is amortised on a straight-line basis over the shorter of the relevant leasehold land or the operation period of the relevant company.

(e) Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated selling prices less any estimated costs expected to be incurred to completion and disposal.

(f) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that Black Dragon will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy of financial reorganisation, and default or delinquency in payments are considered indicators that the trade and other receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement. Subsequent recoveries of amounts previously written off are credited in the income statement.

(g) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(h) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the year in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant policy for that revalued asset.

i. Calculation of recoverable amount

The recoverable amount of an asset is the higher of its net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of any asset and from its disposal at the end of its useful life. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest of asset that generates cash inflows independently (i.e. a cash-generating unit).

ii. Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been change in the estimates used to determine the recoverable amount. An impairment loss of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates the reversal effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(i) Retirement benefits costs

Payments to defined contribution retirement benefit plans and state-managed retirement benefit schemes are charged as expenses when employees have rendered services entitling them to the contributions.

(j) Borrowing

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless Black Dragon has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(k) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when an entity of Black Dragon becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in income statement.

(i) Financial assets

The Black Dragon's financial assets are classified into loans and receivables or available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including debtors, deposits and prepayments) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets in equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost less impairment. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss.

(ii) Financial liabilities and equity

Financial liabilities and equity instruments issued by a Black Dragon entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the asset of the Black Dragon after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, bank and other borrowings, amount due to fellow subsidiaries are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by Black Dragon are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Black Dragon has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in income statement.

(l) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable and deductible. The Black Dragon's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to income statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the entity intends to settle its current tax assets and liabilities on a net basis.

(m) Leasing

Leases are classified as finance whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Black Dragon as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

Black Dragon as lessee

Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

(n) Foreign currencies

The Financial Information is presented in Renminbi ("RMB"), which is the Black Dragon's functional and presentation currency. Exchange differences arising on the settlement of monetary items, and on the translation of monetary items are recognised in profit or loss in the period which they arise.

(o) Provisions

A provision is recognised when Black Dragon has a present legal or constructive obligation, as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value money is material, the amount of a provision is the present value at the balance sheet date of the expenditures expected to be required to settle the obligation.

(p) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Black Dragon. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of Black Dragon. A contingent asset is not recognised but is disclosed in the notes to the Financial Information when an inflow of economics benefits is probable. When inflow is virtually certain, an asset is recognised.

(q) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they subject to common control or common significant influences. Related parties may be individuals (being member of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of Black Dragon where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of Black Dragon or of any entity that is related party of Black Dragon.

A transaction is considered to be a related party transaction where there is a transfer of resources or obligations between related parties.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Nevertheless, the resulting accounting estimates will seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives and residual value of property, plant and equipment

Black Dragon's management determines the residual value, useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual residual value and useful lives of plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and keen competitions from competitors. Management will increase the depreciation charge where residual value or useful lives are less than previously estimated, or it will write-off or write-down technically obsolete assets.

Estimate impairment of trade and other receivables

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Management reassesses the adequacy of impairment on a regular basis. Where the actual cash flows are less than expected, a material impairment loss may arise. The movements of the impairment recognised during the Relevant Periods are set out in Note 18.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience and selling goods of similar nature. It could change significantly as a result of change in market condition. Management will reassess the estimations at the balance sheet date.

5. FINANCIAL INSTRUMENT

a. Financial risk management objectives and policies

The Black Dragon's major financial instruments include debtors, deposits and prepayments, amount due from/to related parties, bank balances, creditors and accruals, deposits and receipts in advance. The details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The carrying amount of trade and other receivables included in the balance sheet represents the Black Dragon's maximum exposure to credit risk in relation to its financial assets. Black Dragon has put in place policies to ensure that sales of products are made to customers with an appropriate credit history and Black Dragon performs periodic credit evaluations of its customers. Black Dragon's historical experience in collection of trade and other receivables falls within the recorded allowances and the Directors are of the opinion that adequate provision for uncollectible receivables has been made in the accounts.

Black Dragon also makes advances to fellow subsidiaries under the instruction from the equity owner. There are no credit limits for related parties.

Foreign exchange risk

Black Dragon mainly operates in the PRC with most of the transactions settled in Renminbi and does not have significant exposure to foreign exchange risk during the Relevant Periods. The conversion of Renminbi into foreign currencies is subject to the rules and regulation of the foreign exchange control promulgated by the PRC government.

Liquidity risk

Black Dragon has net liabilities of approximately RMB110,449,000 as at 30 September 2007. Bank Dragon secures liquidity by keeping adequate committed and uncommitted credit facilities as well as cash on hand and at banks.

The liquidity risk is under continuous monitoring by management. Reports with maturity dates of bank borrowings and thus the liquidity requirement are provided to management for review periodically. Management will contact the bankers for renewals of bank borrowings whenever necessary.

The following tables detail the Black Dragon's remaining contractual maturity for its non-derivate financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Black Dragon can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2004					
Trade and other payables	N/A	340,359	–	–	–
Amount due to a related company	N/A	–	–	–	–
Bank and other borrowings	6.49%	1,098,096	–	–	63,160
		1,438,455	–	–	63,160

	Weighted average effective interest rate	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2005					
Trade and other payables	N/A	401,927	–	–	–
Amount due to a related company	N/A	50,428	–	–	–
Bank and other borrowings	6.49%	1,048,096	–	–	63,160
		1,500,451	–	–	63,160

	Weighted average effective interest rate	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2006					
Trade and other payables	N/A	448,116	–	–	–
Amount due to a related company	N/A	50,428	–	–	–
Bank and other borrowings	7.67%	953,596	–	–	–
		1,452,140	–	–	–

	Weighted average effective interest rate	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 30 September 2007					
Trade and other payables	N/A	499,702	–	–	–
Amount due to a related company	N/A	50,428	–	–	–
Bank and other borrowings	7.67%	953,596	–	–	–
		1,503,726	–	–	–

Interest rate risk

Black Dragon has no significant interest-bearing assets, Black Dragon's income and operating cash flow are substantially independent of change in market interest rates.

Black Dragon's interest rate risk mainly arises from bank and other borrowings. Borrowings issued at variable rates expose Black Dragon to cash flow interest rate risk. Black Dragon has not used any interest rate swaps to hedge its exposure to interest rate risk during the Relevant Periods.

The table below analyses the effect on Black Dragon's financial cost in the income statement arising from bank borrowings in the next year should the interest rate be changed.

	Change of financial cost Increase/(decrease) of interest rate by 0.5%
	RMB'000
For the year ended 31 December 2004	Increase/(decrease) by 5,490
For the year ended 31 December 2005	Increase/(decrease) by 5,248
For the year ended 31 December 2006	Increase/(decrease) by 4,768
For the period ended 30 September 2007	Increase/(decrease) by 4,768

There has been no change to Black Dragon's exposure to market risks or the manner in which it manages and measure the risks.

b. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The directors of Black Dragon consider that the carrying amounts of financial assets and financial liabilities at amortised cost in the Financial Information approximate their fair values.

The carrying amounts of significant financial assets and liabilities are approximate their respective fair values as at 31 December 2004, 2005, 2006 and 30 September 2007 because of the short maturities of these instruments.

c. Capital risk management

Black Dragon manages its capital to ensure that entity will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

The capital structure of Black Dragon consists of debt, which includes the bank and other borrowings disclosed in Note 23 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained profits/(losses).

The directors of Black Dragon review the capital structure on an annual basis. As a part of this review, the directors of Black Dragon consider the cost of capital and other sources of funds other than issuance of shares, including borrowings from related parties. Based on the recommendation of the directors of Black Dragon, Black Dragon will balance its overall capital structure through raising or repayment of borrowings. No changes were made in the objectives, policies or processes during the Relevant Periods.

d. Fair value estimation

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The directors of Black Dragon consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

The carrying amounts of significant financial assets and liabilities are approximate their respective fair values as at 31 December 2004, 2005, 2006 and 30 September 2007 because of the short maturities of these instruments.

6. TURNOVER AND SEGMENT INFORMATION

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Turnover – sale of goods	210,648	–	–	–	–

No segment information analysis of Black Dragon by business or geographical segments is presented as Black Dragon are solely engaged in trading and marketing of paper products and Black Dragon's segment revenue and assets are derived from operations carried out in the PRC during the Relevant Periods.

7. OTHER REVENUE

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Rental income	–	1,500	4,500	4,500	–
Interest income	1,504	2	13	9	–
Sale of scrape material	550	–	–	–	–
Gain on disposal on property, plant and equipment	16	–	–	–	–
Donation income	–	–	–	–	23,466
Others	–	–	164	164	33
	2,070	1,502	4,677	4,673	23,499

8. OTHER INCOME

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Reversal of provision on inventories	3,385	–	–	–	–
Reversal of impairment loss in respect of amounts due from fellow subsidiaries	–	–	197,700	197,700	754,904
	3,385	–	197,700	197,700	754,904

9. STAFF COSTS

	Year ended 31 December			Nine months ended 30 September	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Salaries and allowance	3,817	1,390	1,390	1,043	1,043
Retirement benefit scheme contributions	508	149	149	112	112
	4,325	1,539	1,539	1,155	1,155

(a) Directors' emoluments

Fees and other emoluments paid or payable to each of the directors during the Relevant Periods were as follows:

	Salaries and allowance	Retirement benefit contribution	Total
	RMB'000	*RMB'000*	*RMB'000*
For the year ended 31 December 2004			
Executive directors			
Mr. Zhang Wei Dong	45	6	51
Mr. Cheng De Hui	40	6	46
Mr. Si Guang Cheng	35	5	40
Mr. Li Guo Min	35	5	40
Mr. Peng Wen Jie	–	–	–
Mr. Zheng Yi Shan	35	5	40
Mr. He Li Xin	35	5	40
Independent non-executive directors			
Mr. Wang Yu Wei	30	4	34
Mr. Zhou Ji Ming	30	4	34
	285	40	325

	Salaries and allowance	Retirement benefit contribution	Total
	RMB'000	*RMB'000*	*RMB'000*
For the year ended 31 December 2005			
Executive directors			
Mr. Zhang Wei Dong	45	5	50
Mr. Huo Jun	40	4	44
Mr. Chen Mao Si	35	4	39
Mr. He Li Xin	35	4	39
Mr. Gao Yong Hong	35	4	39
Mr. Li Bao Zhong	–	–	–
Independent non-executive directors			
Mr. Wang Yu Wei	30	3	33
Mr. Zhou Ji Ming	30	3	33
Mr. Qian Yan Min	30	3	33
	280	30	310

	Salaries and allowance	Retirement benefit contribution	Total
	RMB'000	*RMB'000*	*RMB'000*
For the year ended 31 December 2006			
Executive directors			
Mr. Zhang Wei Dong	45	5	50
Mr. He Li Xin	35	4	39
Mr. Pan Jian Hong	35	4	39
Mr. Wu Mo Jie	35	4	39
Mr. Li Xi Hua	35	4	39
Mr. Yu Hai Tao	35	4	39
Independent non-executive directors			
Mr. Wang Yu Wei	30	3	33
Mr. Zhou Ji Ming	30	3	33
Mr. Qian Yan Min	30	3	33
	310	34	344

	Salaries and allowance *RMB'000*	Retirement benefit contribution *RMB'000*	Total *RMB'000*
For the year ended 30 September 2006 (Unaudited)			
Executive directors			
Mr. Zhang Wei Dong	34	4	38
Mr. He Li Xin	26	3	29
Mr. Pan Jian Hong	26	3	29
Mr. Wu Mo Jie	26	3	29
Mr. Li Xi Hua	26	3	29
Mr. Yu Hai Tao	26	3	29
Independent non-executive directors			
Mr. Wang Yu Wei	23	2	25
Mr. Zhou Ji Ming	23	2	25
Mr. Qian Yan Min	23	2	25
	233	25	258

	Salaries and allowance *RMB'000*	Retirement benefit contribution *RMB'000*	Total *RMB'000*
For the year ended 30 September 2007			
Executive directors			
Mr. Zhang Wei Dong	34	4	38
Mr. He Li Xin	26	3	29
Mr. Pan Jian Hong	26	3	29
Mr. Wu Mo Jie	26	3	29
Mr. Li Xi Hua	26	3	29
Mr. Yu Hai Tao	26	3	29
Independent non-executive directors			
Mr. Wang Yu Wei	23	2	25
Mr. Zhou Ji Ming	23	2	25
Mr. Qian Yan Min	23	2	25
	233	25	258

(b) Five highest paid individuals

The emoluments of the five highest paid or payable individuals of Black Dragon during the Relevant Periods were as follows:

	Year ended 31 December			Nine months ended 30 September	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Salaries and other benefits	190	190	185	138	138
Retirement benefits scheme contributions	27	21	21	16	16
	217	211	206	154	154

The remuneration for five highest paid individuals were all fell within the Nil to RMB1,000,000 band during the Relevant Period.

(c) During the Relevant Periods, no emolument was paid by Black Dragon to five highest paid individuals (including directors and employees) as an inducement to join or upon joining Black Dragon as compensation for loss of office. None of the directors waived any emoluments during the Relevant Periods.

10. (LOSS)/PROFIT FROM OPERATION

	Year ended 31 December			Nine months ended 30 September	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
(Loss)/profit for the year/the period has been arrived at after charging:					
Auditors' remuneration	300	300	300	–	–
Depreciation of property, plant equipment	71,157	70,870	68,851	53,153	51,697
Amortisation of interest in leasehold land	–	–	–	–	11,324
Impairment loss on property, plant and equipment	21,236	100	1,919	1,919	–
Impairment loss on available-for-sale financial assets	50,000	–	–	–	–
Impairment loss on inventories	–	9,243	2,746	2,746	16,225
Impairment loss on trade and other receivables	105,971	–	3,119	3,119	–
Impairment loss on amounts due from fellow subsidiaries	632,919	140,951	6,450	6,450	–

11. FINANCE COSTS

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Interest expenses on bank and other borrowings wholly repayable within five years	80,510	75,198	78,590	61,048	60,130
Interest expenses on bank and other borrowing not wholly repayable within five years	1,536	1,536	–	–	–
	82,046	76,734	78,590	61,048	60,130

12. INCOME TAX EXPENSE

	Year ended 31 December			Nine months ended 30 September	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Current income tax in PRC	–	–	–	–	–
Deferred tax	–	–	–	–	–
	–	–	–	–	–

Hong Kong Profits Tax has not been provided as Black Dragon did not generate any assessable profits in Hong Kong during the Relevant Periods.

The PRC income tax is calculated at the applicable rate in accordance with the relevant laws and regulation in PRC. Pursuant to the relevant laws and regulations in Mainland China, the statutory enterprise income tax rate of 33% is applied to Black Dragon.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law"). The New CIT Law introduces a wide range of changes which standardises the corporate income tax rate to 25% with effect from 1 January 2008. The New CIT Law also provides that further detailed measures and regulations on the determination of taxable profit, tax incentives and grandfathering provisions will be issued by the State Council in due course. As and when the Sate Council announces the additional regulations, Black Dragon will assess their impact, if any, and account for any change in accounting estimates.

The taxation for the Relevant Periods can be reconciled to the (loss)/profit for the year/period per the income statements as follows:

	Year ended 31 December			Nine months ended 30 September	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
(Loss)/Profit before tax	(974,345)	(340,043)	31,180	72,442	606,090
Tax at domestic income tax rate of 33%	(321,534)	(112,214)	10,289	23,906	200,010
Tax effect of expenses not deductible for tax purpose	310,812	49,597	3,791	3,791	13,078
Tax effect of income not taxable for tax purpose	(1,117)	–	(65,241)	(65,241)	(213,088)
Tax effect of tax loss not recognised	11,839	62,617	51,161	37,544	–
Tax charge for the year/period	–	–	–	–	–

No deferred tax asset has been recognized in respect of unused tax losses due to the unpredictability of future profit streams.

13. (LOSS)/EARNINGS PER SHARE

For the three years ended 31 December 2004, 2005 and 2006 and the nine months ended 30 September 2006 and 2007, the calculation of the basic loss per share is based on the (loss)/profit for the year/period attributable to equity holders of the parent of approximately RMB(974,345,000), RMB(340,043,000), RMB31,180,000, RMB72,442,000 (unaudited) and RMB606,090,000, respectively, and on the number of shares in issue of 327,225,000 shares during the three years ended 31 December 2004, 2005 and 2006 and the nine months ended 30 September 2006 and 2007.

No diluted loss per share has been presented for the year ended 31 December 2004, 2005 and 2006 and the nine months ended 30 September 2006 and 2007 because the Company has no potential ordinary shares outstanding for the three years ended 31 December 2004, 2005 and 2006 and the nine months ended 30 September 2006 and 2007.

14. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress *RMB'000*	Building *RMB'000*	Computer *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Cost						
At 1 January 2004	19,917	162,631	5,665	986,098	4,342	1,178,653
Additions	1,319	2,812	11	200	2,451	6,793
Disposals	–	–	–	–	(550)	(550)
At 31 December 2004 and 1 January 2005	21,236	165,443	5,676	986,298	6,243	1,184,896
Additions	100	–	3	–	1,786	1,889
Disposals	–	–	–	(38,116)	(696)	(38,812)
At 31 December 2005 and 1 January 2006	21,336	165,443	5,679	948,182	7,333	1,147,973
Additions	1,919	–	10	874	2,998	5,801
Disposals	–	–	–	–	(1,224)	(1,224)
At 31 December 2006 and 1 January 2007	23,255	165,443	5,689	949,056	9,107	1,152,550
Additions	–	–	12	–	563	575
Disposals	–	(2,568)	–	–	(2,059)	(4,627)
At 30 September 2007	23,255	162,875	5,701	949,056	7,611	1,148,498
Accumulated depreciation and impairment						
At 1 January 2004	–	22,571	4,780	206,432	827	234,610
Charge for the year	–	5,874	179	64,689	415	71,157
Eliminated on disposals	–	–	–	–	(116)	(116)
Impairment loss recognised	21,236	–	–	–	–	21,236
At 31 December 2004 and 1 January 2005	21,236	28,445	4,959	271,121	1,126	326,887
Charge for the year	–	5,977	179	64,258	456	70,870
Eliminated on disposals	–	–	–	(11,646)	(188)	(11,834)
Impairment loss recognised	100	–	–	–	–	100
At 31 December 2005 and 1 January 2006	21,336	34,422	5,138	323,733	1,394	386,023
Charge for the year	–	5,958	180	62,101	612	68,851
Eliminated on disposals	–	–	–	–	(17)	(17)
Impairment loss recognised	1,919	–	–	–	–	1,919
At 31 December 2006 and 1 January 2007	23,255	40,380	5,318	385,834	1,989	456,776
Charge for the period	–	4,473	136	46,605	483	51,697
Eliminated on disposals	–	(140)	–	–	(935)	(1,075)
At 30 September 2007	23,255	44,713	5,454	432,439	1,537	507,398
Net book value						
At 30 September 2007	–	118,162	247	516,617	6,074	641,100
At 31 December 2006	–	125,063	371	563,222	7,118	695,774
At 31 December 2005	–	131,021	541	624,449	5,939	761,950
At 31 December 2004	–	136,998	717	715,177	5,117	858,009

As at 31 December 2004, 2005 and 2006 and nine months ended 30 September 2007, buildings with carrying values amounted to approximately RMB13,284,000, RMB13,278,000, RMB10,555,000 and RMB9,194,000 and plant and machine with carrying values amounted to approximately RMB49,151,000, RMB42,640,000, RMB36,177,000 and RMB20,876,000 were pledged as collateral for the Black Dragon's borrowings, respectively.

Details of property, plant and equipment pledged are set out in Note 25.

15. INTEREST IN LEASEHOLD LAND

	As at 31 December			As at 30 September
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost				
Beginning of the year/period	–	–	–	–
Addition	–	–	–	754,921
End of the year/period	–	–	–	754,921
Accumulated amortisation				
Beginning of the year/period	–	–	–	–
Addition	–	–	–	11,324
End of the year/period	–	–	–	11,324
Net book value				
End of the year/period	–	–	–	743,597

Interests in leasehold land are all located in the PRC for 50 years since January 2007 and held under medium-term leases. Land use rights is amortised on a straight-line basis over the unexpired period of rights.

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December			As at 30 September
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Investment in unlisted securities in PRC, at cost	52,000	52,000	52,000	50,000
Less: impairment loss	(50,000)	(50,000)	(50,000)	(50,000)
	2,000	2,000	2,000	–

As at the balance sheet date, all available-for-sale financial assets represents investments in unlisted equity securities issued by private entities incorporated in the PRC. The unlisted equity investments are stated at cost less any impairment losses, rather than at fair value. The directors of Black Dragon considered that the fair value of unlisted equity investments cannot be reliably measured because (i) the variability in the range of reasonable fair value estimates is significant for that investment; or (ii) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating the fair value. Accordingly, such equity investments are stated at cost less any impairment losses.

During the Relevant Period, The amounts will not be repayable within twelve months from the balance sheet date. Accordingly, the amounts are shown as non-current.

Particulars of the Black Dragon's unlisted securities as at each balance sheet date are as follows:

Name of company	Place operation	Particulars of issued and paid-up registered capital	Percentage of equity attribute to the Black Dragon	Principal activity
黑龍江省宇華擔保投資股份有限公司 (Heilongjiang Province Yu Hua Guarantee Investment Co Ltd) ("Yu Hua")	the PRC	RMB50,000,000	16.67%	Provision of corporate financial advisory service, funding management, financial planning and broking service
哈爾濱報達印務有限公司 (Harbin Bao Da Printing Co Ltd) ("Bao Da Printing")	the PRC	RMB2,000,000	10%	Provision of printing service

During the Relevant Period, Black Dragon holds 16.67% of the issued share capital of Yu Hua and 10% of Bao Da Printing, which controls 16.67% and 10% of the voting power in general meeting. However, the other shareholders significantly control the composition of the board of directors of Yu Hua and Bao Da Printing. Therefore the directors of Black Dragon consider that Black Dragon does not exercise significant influence on Yu Hua and Bao Da Printing.

As at the balance sheet date, the directors of Black Dragon considered that the amount of the available-for-sale investment approximate to their fair value.

17. INVENTORIES

	As at 31 December			As at 30 September
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw material	20,888	8,961	11,707	24,322
Finished good	1,328	414	414	4,024
	22,216	9,375	12,121	28,346
Less: Provision of obsolete inventories	(132)	(9,375)	(12,121)	(28,346)
	22,084	–	–	–

Movement in accumulated provision of obsolete inventories in aggregate during the Relevant Period are as follow:

	As at 31 December			As at 30 September
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year/period	3,517	132	9,375	12,121
Reversal of provision	(3,385)	–	–	–
Provision recognised during the year/period	–	9,243	2,746	16,225
At end of the year/period	132	9,375	12,121	28,346

18. TRADE AND OTHER RECEIVABLES

	As at 31 December			As at 30 September
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	147,995	124,774	101,787	97,596
Less: accumulated impairment loss on trade receivables	(97,596)	(97,596)	(97,596)	(97,596)
	50,399	27,178	4,191	–
Other receivable	23,465	30,564	48,995	46,878
Less: accumulated impairment loss on other receivables	(19,584)	(19,584)	(22,703)	(22,703)
	54,280	38,158	30,483	24,175

The aged analysis of trade receivable is as follow:

	As at 31 December			As at 30 September
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	42,839	–	–	–
Between one year and two years	7,560	27,178	–	–
Between two years and three years	–	–	4,191	–
Between three years and four years	–	–	–	–
Between four years and five years	–	–	–	–
At end of the year/period	50,399	27,178	4,191	–

Movement in accumulated impairment loss of trade and other receivables in aggregate during the Relevant Period are as follow:

	As at 31 December			As at 30 September
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year/period	11,209	117,180	117,180	120,299
Impairment loss recognised during the year/period	105,971	–	3,119	–
At end of the year/period	117,180	117,180	120,299	120,299
Attributable to:				
Trade receivables	97,596	97,596	97,596	97,596
Other receivables	19,584	19,584	22,703	22,703
	117,180	117,180	120,299	120,299

19. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

The amounts due from fellow subsidiaries are unsecured, interest-free and recoverable on demand.

The directors of Black Dragon considered that the carrying amounts of the amount due from related are approximate to their fair value.

20. CASH AND CASH EQUIVALENTS

	As at 31 December			As at 30 September
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank balance and cash	2,145	982	993	499

As at 31 December 2004, 2005 and 2006 and 30 September 2007, substantially all of the cash and cash equivalents are denominated in Renminbi. Renminbi is not freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

Bank balances and cash comprised of bank deposit with short maturity at market interest rate and cash on hand.

21. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	As at 31 December			As at 30 September
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	945	–	–	–
Between one year to two years	8,261	945	–	–
Between two years to three years	–	8,261	815	–
More than three years	–	–	8,261	9,067
Total trade payables	9,206	9,206	9,076	9,067
Accruals	6,207	6,952	5,717	5,809
Interest payables	120,183	196,260	253,126	313,256
Other payables	204,763	189,509	180,197	171,570
	340,359	401,927	448,116	499,702

The directors of Black Dragon consider that the carrying amounts of trade and other payables were approximate to their fair value.

22. AMOUNT DUE TO A RELATED COMPANY

The amount due to a related company is unsecured, interest-free and repayable on demand.

The directors of Black Dragon considered that the carrying amounts of the amount due to a related company are approximate to its fair value.

23. BANK AND OTHER BORROWINGS

	As at 31 December			As at 30 September
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current				
Other loan – secured	63,160	63,160	–	–
Current				
Bank loan – unsecured	911,920	861,920	821,920	525,810
Bank loan – secured	126,676	126,676	126,676	–
Other loan – secured	–	–	–	427,786
Trust receipt loan	59,500	59,500	5,000	–
	1,098,096	1,048,096	953,596	953,596

The maturity profile of the above loan is as follows:

	As at 31 December			As at 30 September
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
On demand or within one year	1,098,096	1,048,096	953,596	953,596
Between one year and two years	–	–	–	–
Between two year and three years	–	–	–	–
More than three years	63,160	63,160	–	–
	1,161,256	1,111,256	953,596	953,596
Less: Amounts due for settlement within one year shown under current liabilities	(1,098,096)	(1,048,096)	(953,596)	(953,596)
Amount due for settlement after one year	63,160	63,160	–	–
Analysis of borrowings by currency:				
– denominated in RMB	1,161,256	1,111,256	953,596	953,596

During the Relevant Period, Black Dragon has breached certain conditions of the loan agreement with bank and as such Black Dragon did not have an unconditional right to defer its settlement for at least twelve months after the balance sheet date, accordingly, the borrowings were classified as current liabilities.

Borrowing are charged at the interest rates ranging from 5.31% to 7.67%, 5.31% to 7.67%, 7.67% and 7.67% per annum for the years ended 31 December 2004, 2005 and 2006 and the period from 1 January 2007 to 30 September 2007 (1 January 2006 to 30 September 2006: 7.67%), respectively.

Other loan represent loan advanced by independent third parties and carry at a fixed interest rate of 6.67%.

Parts of borrowings were guaranteed by ultimate holding company, fellow subsidiaries and independent third parties and were also secured by the assets owned by Black Dragon. Details of the assets pledged by Black Dragon and the corporate guarantees given by related parties in favour of the Black Dragon's borrowings are set in Note 25.

24. SHARE CAPITAL

	Number of shares				Share capital			
	As at 31 December			As at 30 September	As at 31 December			As at 30 September
	2004	2005	2006	2007	2004	2005	2006	2007
	'000	*'000*	*'000*	*'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Ordinary shares of RMB 1 each								
Authorised	327,225	327,225	327,225	327,225	327,225	327,225	327,225	327,225
Issued and fully paid	327,225	327,225	327,225	327,225	327,225	327,225	327,225	327,225

25. PLEDGE OF ASSETS

At the balance sheet date, the carrying amount of the assets pledged by the Black Dragon to secure general banking and other loans facilities granted to the Black Dragon are analysed as follows:

	As at 31 December			As at 30 September
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	62,435	55,918	46,732	30,070

26. MAJOR NON-CASH TRANSACTIONS

As at 12 January 2007, Black Dragon acquire a interest in leasehold land at a consideration of approximately RMB754,921,000 (Note 15), which satisfied by current accounts of: (i) 齊齊哈爾造紙有限公司 (Qiqihaer Paper Manufacturing Co Ltd) of amount approximately RMB722,172,000; (ii) 齊齊哈爾冰刀工業有限公司 (Qiqihaer Skate Industrial Co Ltd) of amount approximately RMB8,177,000 and (iii) 黑龍江黑龍紙業有限公司 (Heilongjiang Heilong Paper Co Ltd) of amount approximately RMB24,555,000.

27. COMMITMENT

Operating lease commitment

As lessor

At the balance sheet date, Black Dragon had contracted with tenants for the following future minimum lease payments for its plant and machine as follows:

	As at 31 December			As at 30 September
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Less than one year	–	4,500	–	–
More than one year	–	–	–	–
	–	4,500	–	–

28. RETIREMENT BENEFIT SCHEMES

The employees of Black Dragon in the PRC are members of the state-managed retirement benefits scheme operated by the PRC government. Black Dragon is required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the with respect to the retirement benefits scheme is to make the required contributions under the scheme.

29. SIGNIFICANT RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions entered into the ordinary course of business between Black Dragon and its related parties, including other state-owned enterprises, during the Relevant Periods.

(a) Amounts due from fellow subsidiaries

	As at 31 December 2004 RMB'000	2005 RMB'000	2006 RMB'000	As at 30 September 2007 RMB'000
齊齊哈爾造紙有限公司 (Qiqihaer Paper Manufacturing Co Ltd)	922,188	919,872	722,172	–
黑龍第一印刷廠 (Heilong First Printing Factory)	1,400	1,400	1,400	1,400
齊齊哈爾冰刀工業有限公司 (Qiqihaer Skate Industrial Co Ltd)	8,177	8,177	8,177	–
黑龍江黑龍紙業有限公司 (Heilongjiang Heilong Paper Co Ltd)	23,907	24,555	24,555	–
	955,672	954,004	756,304	1,400

(b) Material related party transactions

Company	Nature of transactions	Year ended 31 December 2004 RMB'000	2005 RMB'000	2006 RMB'000	Nine months ended 30 September 2006 RMB'000	2007 RMB'000
齊齊哈爾造紙 (Qiqihaer Paper Manufacturing)	Purchase of raw material	99,634	–	–	–	–
齊齊哈爾造紙 (Qiqihaer Paper Manufacturing)	Payable of expenses	23,224	–	–	–	–
齊齊哈爾造紙 (Qiqihaer Paper Manufacturing)	Acquisition of interest in leasehold land	–	–	–	–	754,921
齊齊哈爾造紙 (Qiqihaer Paper Manufacturing)	Repayment of bank and other loans	–	–	197,700	197,700	–

(c) Key management compensation

Key management of Black Dragon are all directors whose remunerations were disclosed in Note 9.

30. LITIGATION

A writ of summons and statement of claim was made by 中鋼設備公司 (China Steel Company) for a claim of approximately RMB30,000,000 development contract over the property under development. The amount was seized by the rights or interest in leasehold land. In the opinion of the directors of Black Dragon, the outcome of this case is yet to be certain and considered no provision should be made. Please refer to the paragraph headed "Litigation" in Appendix VII to this circular for the details of the litigation.

31. SUBSEQUENT EVENTS

No significant subsequent event took place subsequent to 30 September 2007.

VI. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Black Dragon in respect of any period subsequent to 30 September 2007.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

Set out below is the management discussion and analysis on Black Dragon for the three financial years ended 31 December 2004, 2005 and 2006 and the nine months ended 30 September 2007:

1. Business review for the year ended 31 December 2004

Financial review

The turnover of Black Dragon was approximately RMB210,648,000 (equivalent to approximately HK$219,425,000) for the year ended 31 December 2004. The loss of Black Dragon was approximately RMB974,345,000 (equivalent to approximately HK$1,014,943,000) for the year ended 31 December 2004. During the year, Black Dragon provided impairment provision of RMB632,919,000 (equivalent to approximately HK$659,291,000) for the amount due from 齊齊哈爾造紙有限公司 (Qiqihaer Paper Manufacturing Limited), a fellow subsidiary of Black Dragon, that further deteriorated Black Dragon's overall result.

Liquidity, financial resources and gearing ratio

As at 31 December 2004, the total assets and net liabilities of Black Dragon valued at approximately RMB1,110,033,000 (equivalent to approximately HK$1,156,284,000) and RMB407,676,000 (equivalent to approximately HK$424,663,000) respectively. Black Dragon's cash and bank balances as at 31 December 2004 amounted to approximately RMB2,145,000 (equivalent to approximately HK$2,234,000), and there is approximately RMB1,161,256,000 (equivalent to approximately HK$1,209,642,000) bank and other borrowings, of which approximately RMB1,098,096,000 (equivalent to approximately HK$1,143,850,000) repayable within a year and approximately RMB63,160,000 (equivalent to approximately HK$65,792,000) repayable after one year. All cash and bank balances, and bank and other borrowings are denominated in RMB. Bank and other borrowings bear fixed interest at prevailing market rates. The gearing ratio was approximately 104.6% (total borrowings/total assets).

Exchange rate exposure

The transactions of Black Dragon were denominated in RMB. Therefore, the exposure of Black Dragon to foreign currency fluctuation was low. Black Dragon did not entered into any financial instrument for hedging purposes.

Business review, prospect, and material acquisition and disposals

2004 was the toughest year for Black Dragon. As the lowering of import duty on newsprint paper brought a serious impact to the newsprint paper market in China, the problem of supply exceeding demand became obvious and the market remained in the doldrums. Energy and raw material markets were under more pressure and prices of relevant products continued to rise, as a result, the production and operation of Black Dragon was at its hardest time ever. In addition, factors such as special loans for technological upgrade becoming due and the issue of appropriation of capital by major shareholders remaining unresolved also caused the production costs of Black Dragon to remain high and hindered the production and sale. In order to reduce loss and avoid huge operating loss, Black Dragon ceased production since July 2004. As the profits of major activities were significantly hampered by various factors, Black Dragon recorded a loss in the year of 2004.

Facing a more intense competition in the newsprint paper industry, Black Dragon had requested higher standard of management in various aspects. In order to ensure the product quality, Black Dragon focused on issues such as efficiency of new projects, marketing and management, as well as technological breakthroughs based on the operational objectives set out in the beginning of the year. Black Dragon also made timely adjustment on its production plan to reduce the loss incurred by operational and sales setback. Without affecting its contractual obligations with customers, Black Dragon minimized its costs through the production downscaling, actively recovered the capital appropriated by major shareholders, explored and formulated a sales incentive mechanism to secure a stable customer base and further strengthened management to reduce costs.

Black Dragon did not have any significant investments, material acquisition and disposals during the year.

Treasury policies

Black Dragon had no formal treasury policy and did not entered into any form of financial arrangement for hedging during the year ended 31 December 2004.

Capital structure

Black Dragon is a state-owned enterprise established in the PRC on 3 November 1998 with registered and paid up capital of RMB327,225,000.

Contingent liabilities

Black Dragon did not have any material contingent liabilities as at 31 December 2004.

Pledged of assets

As at 31 December 2004, assets of Black Dragon of approximately RMB62,435,000 (equivalent to approximately HK$65,036,000) were pledged to secure bank loan and banking facilities granted to Black Dragon.

Employment and remuneration policy

As at 31 December 2004, Black Dragon and its subsidiaries had a total of 1,942 employees. All of these employees were located in PRC. Total staff costs for the year ended 31 December 2004 amounted to approximately RMB1,779,000 (equivalent to approximately HK$1,853,000). Pursuant to the relevant policies of Qiqihaer Municipal Government, Black Dragon, in addition to basic salary, offers to its employee's social insurances covering medical, unemployment and pension insurances.

2. Business review for the year ended 31 December 2005

Financial review

Since Black Dragon was dormant during the year, no revenue had been recorded for the year ended 31 December 2005. The loss of Black Dragon was approximately RMB340,043,000 (equivalent to approximately HK$354,211,000) for the year ended 31 December 2005. It was mainly due to the impairment provision of RMB140,951,000 (equivalent to approximately HK$146,824,000) due from 齊齊哈爾造紙有限公司 (Qiqihaer Paper Manufacturing Limited), a fellow subsidiary of Black Dragon.

Liquidity, financial resources and gearing ratio

As at 31 December 2005, the total assets and net liabilities of Black Dragon valued at approximately RMB831,986,000 (equivalent to approximately HK$866,652,000) and RMB747,719,000 (equivalent to approximately HK$778,874,000) respectively. Black Dragon's cash and bank balances as at 31 December 2005 amounted to approximately RMB982,000 (equivalent to approximately HK$1,023,000), and there is approximately RMB1,111,256,000 (equivalent to approximately HK$1,157,558,000) bank and other borrowings, of which approximately RMB1,048,096,000 (equivalent to approximately HK$1,091,767,000) repayable within a year and approximately RMB63,160,000 (equivalent to approximately HK$65,792,000) repayable after one year. All cash and bank balances, and bank and other borrowings are denominated in RMB. Bank and other borrowings bear fixed interest at prevailing market rates. The gearing ratio was approximately 133.6%(total borrowings/total assets).

Exchange rate exposure

The transactions of Black Dragon were denominated in RMB. Therefore, the exposure of Black Dragon to foreign currency fluctuation was low. Black Dragon did not entered into any financial instrument for hedging purposes.

Business review, prospect, and material acquisition and disposals

During the year, Black Dragon still faced difficulties and was basically dormant. With a view to maintaining a stable business condition and supporting the living of the employees, the board of directors of Black Dragon convened a meeting on 28

September 2005 and resolved that all production and operational assets of Black Dragon would be leased to Qiqihaer ZhongZhi Industrial Development Co., Ltd ("ZhongZhi Industrial").

Significant investments, material acquisition and disposal

Black Dragon did not have any significant investments, material acquisition and disposal during the year ended 31 December 2005.

Treasury policies

Black Dragon had no formal treasury policy and did not enter into any form of financial arrangement for hedging during the year ended 31 December 2005.

Capital structure

Black Dragon is a state-owned enterprise established in the PRC on 3 November 1998 with registered and paid up capital of RMB327,225,000.

Contingent liabilities

Black Dragon did not have any material contingent liabilities as at 31 December 2005.

Pledged of assets

As at 31 December 2005, assets of Black Dragon of approximately RMB55,918,000 (equivalent to approximately HK$58,248,000) were pledged to secure bank loan and banking facilities granted to Black Dragon.

Employment and remuneration policy

As at 31 December 2005, Black Dragon and its subsidiaries had a total of 1,919 employees. All of these employees were located in PRC. Total staff costs for the year ended 31 December 2005 amounted to approximately RMB1,539,000 (equivalent to approximately HK$1,603,000). Pursuant to the relevant policies of Qiqihaer Municipal Government, Black Dragon, in addition to basic salary, offers to its employee's social insurances covering medical, unemployment and pension insurances.

3. Business review for the year ended 31 December 2006

Financial review

Since Black Dragon was dormant during the year, no revenue had been recorded for the year ended 31 December 2006. The profit of Black Dragon was approximately RMB31,180,000 (equivalent to approximately HK$32,479,000) for the year ended 31 December 2006. It was mainly due to the reversal of impairment loss of

RMB197,700,000 (equivalent to approximately HK$205,938,000) in respect of amount due from 齊齊哈爾造紙有限公司 (Qiqihaer Paper Manufacturing Ltd), a fellow subsidiary of Black Dragon during the year.

Liquidity, financial resources and gearing ratio

As at 31 December 2006, the total assets and net liabilities of Black Dragon valued at approximately RMB751,695,000 (equivalent to approximately HK$783,016,000) and RMB716,539,000 (equivalent to approximately HK$746,395,000) respectively. Black Dragon's cash and bank balances as at 31 December 2006 amounted to approximately RMB993,000 (equivalent to approximately HK$1,034,000), and there is approximately RMB953,596,000 (equivalent to approximately HK$993,329,000) bank and other borrowings repayable within a year. All cash and bank balances, and bank and other borrowings are denominated in RMB. Bank and other borrowings bear fixed interest at prevailing market rates. The gearing ratio was approximately 126.86% (total borrowings/total assets).

Exchange rate exposure

The transactions of Black Dragon were denominated in RMB. Therefore, the exposure of Black Dragon to foreign currency fluctuation was low. Black Dragon did not entered into any financial instrument for hedging purposes.

Business review, prospect, and material acquisition and disposals

During the year, Black Dragon still faced difficulties and was basically dormant. With a view to activating the enterprise, eliminating the risk of delisting, maintaining a stable business condition and supporting the living of the employees, the board of directors of Black Dragon convened a meeting on 28 September 2005 and resolved that all production and operational assets of Black Dragon would be leased to ZhongZhi Industrial, the Independent Third Party. On 18 October 2006, Black Dragon and ZhongZhi Industrial discharged (terminated) the lease agreement entered into between both parties on 26 September 2005 through amiable negotiation. On 15 May 2006, the listing of Black Dragon was suspended by the Shanghai Stock Exchange. Black Dragon is now actively restructuring its assets in an effort to resume listing.

Black Dragon did not have any significant investments, material acquisition and disposals during the year.

Treasury policies

Black Dragon had no formal treasury policy and did not entered into any form of financial arrangement for hedging during the year ended 31 December 2006.

Capital structure

Black Dragon is a state-owned enterprise established in the PRC on 3 November 1998 with registered and paid up capital of RMB327,225,000.

Contingent liabilities

Black Dragon did not have any material contingent liabilities as at 31 December 2006.

Pledged of assets

As at 31 December 2006, assets of Black Dragon of approximately RMB46,732,000 (equivalent to approximately HK$48,679,000) were pledged to secure bank loan and banking facilities granted to Black Dragon.

Employment and remuneration policy

As at 31 December 2006, Black Dragon and its subsidiaries had a total of 1,919 employees. All of these employees were located in PRC. Total staff costs for the year ended 31 December 2006 amounted to approximately RMB1,539,000 (equivalent to approximately HK$1,603,000). Pursuant to the relevant policies of Qiqihaer Municipal Government, Black Dragon, in addition to basic salary, offers to its employee's social insurances covering medical, unemployment and pension insurances.

4. Business review for the period ended 30 September 2007

Financial review

Since Black Dragon was dormant during the period, no revenue had been recorded for the period ended 30 September 2007. The profit of Black Dragon was approximately RMB606,090,000 (equivalent to approximately HK$631,344,000) for the period ended 30 September 2007. It was mainly due to the reversal of impairment loss of RMB754,904,000 (equivalent to approximately HK$786,358,000) in respect of amount due from 齊齊哈爾造紙有限公司 (Qiqihaer Paper Manufacturing Limited), a fellow subsidiary of Black Dragon during the period.

Liquidity, financial resources and gearing ratio

As at 30 September 2007, the total assets and net liabilities of Black Dragon valued at approximately RMB1,409,371,000 (equivalent to approximately HK$1,468,095,000) and RMB110,449,000 (equivalent to approximately HK$115,051,000) respectively. Black Dragon's cash and bank balances as at 30 September 2007 amounted to approximately RMB499,000 (equivalent to approximately HK$520,000), and there is approximately RMB953,596,000 (equivalent to approximately HK$993,329,000) bank and other borrowings repayable within a year.

All cash and bank balances, and bank and other borrowings are denominated in RMB. Bank and other borrowings bear fixed interest at prevailing market rates. The gearing ratio was approximately 67.7% (total borrowings/total assets).

Exchange rate exposure

The transactions of Black Dragon were denominated in RMB. Therefore, the exposure of Black Dragon to foreign currency fluctuation was low. Black Dragon did not entered into any financial instrument for hedging purposes.

Business review, prospect, and material acquisition and disposals

During the period, Black Dragon still faced difficulties and was basically dormant. With a view to activating the enterprise, eliminating the risk of delisting, on 17 May 2007, the Vendor, the major shareholder of Black Dragon, entered into the Black Dragon Share Transfer Agreement with Interchina (Tianjin) in relation to the sale and purchase of the Black Dragon Sale Shares, representing approximately 70.21% of the issued share capital of Black Dragon. During the period, Black Dragon has submitted an application for resumption of trading in its A shares to the Shanghai Stock Exchange and received 《關於受理黑龍江黑龍股份有限公司恢復股票上市申請的通知》 ("Notice in relation to the acceptance of the application of resumption of trading of the shares of Heilongjiang Black Dragon Company Limited") and 《關於對黑龍股份有限公司恢復上市申請材料的補充意見函》 ("Letter of the supplemental comments on the application materials in relation to the resumption of trading in the shares of Heilongjiang Black Dragon Company Limited") from the Shanghai Stock Exchange on 21 May 2007 and 28 May 2007 respectively. Black Dragon also received 《關於恢復上市的監管意見函》 ("Supervision opinions on the resumption of trading") from the listing division of the Shanghai Stock Exchange on 25 October 2007. Black Dragon has intended to acquire several Water Projects and Interchina (Tianjin) will provide a loan not exceeding the amount of approximately RMB173 million (equivalent to approximately HK$180 million) to Black Dragon for payment of consideration of the Water Projects. Black Dragon is now actively restructuring its assets and liabilities and confident that the trading of its A shares can be resumed soon.

Black Dragon did not have any significant investments, material acquisition and disposals during the period ended 30 September 2007.

Treasury policies

Black Dragon had no formal treasury policy and did not entered into any form of financial arrangement for hedging during the period ended 30 September 2007.

Capital structure

Black Dragon is a state-owned enterprise established in the PRC on 3 November 1998 with registered and paid up capital of RMB327,225,000.

Contingent liabilities

Black Dragon did not have any material contingent liabilities as at 30 September 2007.

Pledged of assets

As at 30 September 2007, assets of Black Dragon of approximately RMB30,070,000 (equivalent to approximately HK$31,323,000) were pledged to secure bank loan and banking facilities granted to Black Dragon.

Employment and remuneration policy

As at 30 September 2007, Black Dragon and its subsidiaries had a total of 1,919 employees. All of these employees were located in PRC. Total staff costs for the period ended 30 September 2007 amounted to approximately RMB1,155,000 (equivalent to approximately HK$1,203,000). Pursuant to the relevant policies of Qiqihaer Municipal Government, Black Dragon, in addition to basic salary, offers to its employee's social insurances covering medical, unemployment and pension insurances.

1. LETTER FROM INDEPENDENT REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F Gloucester Tower,
The Landmark
11 Pedder Street, Central
Hong Kong

31 January 2008

The Directors
Interchina Holding Company Limited
Room 701, 7/F., Aon China Building
29 Queen's Road Central
Hong Kong

Dear Sirs,

We report on the unaudited pro forma statement of adjusted combined assets and liabilities, the "Pro Forma Financial Information" of Interchina Holding Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and 黑龍江黑龍股份有限公司 (Heilongjiang Black Dragon Co., Ltd) ("Black Dragon") (hereinafter collectively referred to as the "Enlarged Group"), which has been prepared by the directors of the Company for illustrative purpose only, to provide information about how the proposed acquisition of 70.21% equity interest in Black Dragon (the "Acquisition") might have affected the financial information presented, for inclusion in Appendix IV of the circular date 31 January 2008 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out in Appendix IV to the Circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the sources documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of financial position of the Enlarged Group as 30 September 2007 or any future date.

OPINION

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

2. UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

The following is a summary of the Pro Forma Financial Information of the Enlarged Group which has been prepared on the basis of notes set out below assuming that the Acquisition had been completed as at 30 September 2007 for the purpose of illustrating how the Acquisition might have affected the financial position of the Group.

The Pro Forma Financial Information of the Enlarged Group has been prepared based on the unaudited consolidated balance sheet of the Group as at 30 September 2007 as extracted from the interim report of the Company for the six months ended 30 September 2007 and audited balance sheet of Black Dragon as at 30 September 2007 as set out in Appendix II to this circular, after making pro forma adjustments relating to the acquisition that are (i) directly attributable to the Acquisition; and (ii) factually supportable as if the Acquisition had been completed on 30 September 2007.

The Pro Forma Financial Information is prepared to provide financial information of Enlarged Group as a result of the completion of the Acquisition. As it is prepared for illustrative purpose only. It is prepared based on a number of assumptions, estimates, uncertainties and currently available information and because of its nature it may not purport to present what the assets and liabilities of the Enlarged Group are on the completion of the Acquisition. The Pro Forma Financial Information may not be indicative of the financial position of the Enlarged Group as at the date to which they are made up or at any future date.

For the purpose of preparing the Pro Forma Financial Information of Enlarged Group, the presentation currency of the financial information of Black Dragon is converted from Renminbi to Hong Kong Dollars.

	The Group as at 30 September 2007	Black Dragon as at 30 September 2007	Sub Total	Adjustments #2	Adjustments #5	The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets						
Investment properties	379,003	–	379,003			379,003
Interests in leasehold land and land use rights	39,543	774,580	814,123	(663,122)		151,001
Property, plant and equipment	687,379	667,813	1,355,192	(667,813)		687,379
Goodwill	7,571	–	7,571		436,243	443,814
Other non-current assets	2,404	–	2,404			2,404
	1,115,900	1,442,393	2,558,293			1,663,601
Current assets						
Properties under development for sale	391,477	–	391,477			391,477
Inventories	821	–	821			821
Trade and other receivables and prepayments	243,598	25,182	268,780	(25,182)	(36,458)	207,140
Financial assets at fair value through profit or loss	186	–	186			186
Bank balances – trust and segregated accounts	5,931	–	5,931			5,931
Cash and cash equivalents	119,423	520	119,943	(520)	(424,356)	(304,933)
	761,436	25,702	787,138			300,622
Current liabilities						
Trade and other payables and deposits received	282,216	520,523	802,739	(520,523)		282,216
Amount due to a related company	280,924	52,529	333,453	(52,529)		280,924
Taxation	474	16,765	17,239	(16,765)		474
Bank borrowings, secured – due within one year	97,104	993,329	1,090,433	(993,329)		97,104
Other borrowings, unsecured – due within one year	30,000	–	30,000			30,000
Obligations under finance leases – due within one year	71	–	71			71
	690,789	1,583,146	2,273,935			690,789
Net current assets/(liabilities)	70,647	(1,557,444)	(1,486,797)			(390,167)
Total assets less current liabilities	1,186,547	(115,051)	1,071,496			1,273,434
Equity						
Share capital	800,919	340,859	1,141,778		(340,859)	800,919
Share premium and reserves	172,176	(455,910)	(283,734)	226,509	229,401	172,176
Equity attributable to equity holders of the Company	973,095	(115,051)	858,044			973,095
Minority interests	7,033	–	7,033		86,887	93,920
	980,128	(115,051)	865,077			1,067,015
Non-current liabilities						
Bank borrowings, secured – due after one year	203,480	–	203,480			203,480
Obligations under finance leases – due after one year	108	–	108			108
Convertible notes	–	–	–			–
Deferred tax liabilities	2,831	–	2,831			2,831
	206,419	–	206,419			206,419
	1,186,547	(115,051)	1,071,496			1,273,434

Notes to the unaudited pro forma statement of adjusted combined assets and liabilities:

1. The figures are extracted from the financial information set out in Appendix II to this circular and translated into HK$ at exchange rate of RMB0.96 to HK$1.

2. On 17 May 2007 and 29 June 2007, Interchina (Tianjin) Water Treatment Company Limited ("Interchina (Tianjin)"), 94.05% owned subsidiary of the Company, entered into conditional agreement and a supplemental agreement with 黑龍集團公司 (Heilong Group Limited) (the "Heilong") for acquisition of the entire 70.21% of the issued share capital of Black Dragon. As a condition for the Acquisition, Black Dragon and 黑龍江省鶴城建設投資發展有限公司 (Heilongjiang Hecheng Construction Investment and Development Company Limited) ("Hecheng") entered into the asset and liabilities transfer agreement on 16 May 2007 and assets and liabilities transfer supplementary agreement on 9 July 2007 (the "Asset and Liabilities Transfer Agreement").

   Pursuant to the Assets and Liabilities Transfer Agreement, Black Dragon has agreed to transfer to Hecheng its assets and liabilities (together with all related contracts, rights and liabilities) as at the date on which the Assets and Liabilities Transfer Agreement has become unconditional. Pursuant to the proposal set out in the Letter, it is intended that upon completion of the Assets and Liabilities Transfer Agreement, the net assets of Black Dragon amount to RMB107,000,000 (equivalent to approximately HK$ 111,457,000)

3. On 15 November 2007, Interchina (Tianjin) and Heilong entered into second supplemental agreement, pursuant to which both parties agree to revised the consideration of the Black Dargon sale shares to RMB420,000,000 (equivalent to approximately HK$437,500,000).

4. On 17 December 2007, Interchina (Tianjin) and Heilong entered into third supplemental agreement, agreed to increase the consideration to be borne by Interchina (Tianjin) from a maximum of RMB173,000,000 (equivalent to approximately HK$180,208,000) to RMB192,500,000 (equivalent to approximately HK$200,521,000), which will be satisfied by (i) waiving the Loan of RMB173,000,000 (equivalent to approximately HK$180,208,000) in relation to the acquisition of the Water Projects by Black Dragon; and (ii) payment of RMB19,500,000 (equivalent to approximately HK$20,313,000) shall be paid to the holders of A Shares of Black Dragon on the basis of RMB0.2 (equivalent to approximately HK$0.21) for every A share of Black Dragon (the consideration of "Share Segregation Reform").

5. The adjustment represent goodwill arising from the acquisition 70.21% equity interest in Black Dragon base on the consideration of the acquisition paid over the fair value of the identifiable assets and liabilities of Black Dragon as at 30 September 2007. Under HKFRS 3 Business Combination ("HKFRS 3") the Group will apply the purchase method to account for the acquisition of Black Dragon. In applying the purchase method, the identifiable assets, liabilities and contingent liabilities of Black Dragon will be recorded on the consolidated balance sheet of the Group at their fair value at the date of completion of the Acquisition. Any goodwill or discount arising on the acquisition will be determined as the excess or deficit of the purchase price to be incurred by the Group over the Group's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities of Black Dragon at the date of completion of the Acquisition. Negative goodwill resulting from the business combinations should be recognised immediately in the consolidated income statement.

(i) Goodwill of approximately HK$436,243,000 arising from the Acquisition, which is derived from the calculation as follow:

	As at 30 September 2007
	HK$'000
Fair value of net assets of Black Dragon	291,665
Minority interests (29.79% share of fair value of Black Dragon)	(86,887)
	204,778
Goodwill	436,243
Cash consideration for the Black Dragon sale shares	641,021
Cash consideration	604,563
Deposit of acquisition	36,458
Total consideration	641,021

(ii) The total consideration for the Black Dragon Sale Shares is represented by HK$437,500,000 in accordance with second supplemental agreement (note 3); HK$200,521,000 in accordance with the third supplemental agreement (Note 4); and the transaction cost directly attributable to the Black Dragon Transfer amount to approximately HK$3,000,000.

(iii) The pro forma adjustment of cash and cash equivalent of approximately HK$604,563,000 represents cash of approximately HK$401,042,000 paid as part of the consideration of the Acquisition, HK$200,521,000 paid as the consideration of Share Segregation Reform of which the Loan of RMB173,000,000 (equivalent to approximately HK$180,208,000) should be eliminated up to the consolidation and transaction cost directly attributable to the Acquisition amounted to approximately HK$3,000,000. The pro forma adjustment of deposit of HK$36,458,000 represents an amount of RMB35 million (equivalent to approximately HK$36 million) paid to the Vendor on 10 July 2007 as part consideration of the Acquisition.

6. After making the above pro forma adjustments, the pro forma consolidated balance sheet showed a shortfall cash and cash equivalents of HK$304,933,000. The shortfall will be settled by internal resources of the Group such as the Company entered into the subscription agreement in relation to the share subscription and grant of the convertible note options as announced by the Company on 8 July 2007 to ensure that the Group has sufficient working capital to proceed the Acquisition. Pursuant to the subscription agreement, the Company agree to (i) allot and issue a total of 2,700,000,000 ordinary share of the Company at HK$0.10 per share to Mr. Zhang Yang and (ii) grant of the convertible note options at the premium of HK$20,000,000, being options to subscribe for the first tranche convertible note options for an aggregate principal amount of HK$650,000,000 and the second tranche convertible notes for an aggregate principal amount of HK$1,200,000,000 at the conversion price of HK$0.10 per conversion share. Subsequent to the balance sheet date, on 3 October 2007, the Company issued and allotted 2,700,000,000 ordinary shares of the Company at HK$0.1 each to Mr. Zhang Yang. Also during the period from 1 October to 31 December 2007, the first tranche option has been exercised in full and all first tranche convertible notes in aggregate principal amount of HK$650,000,000 have been issued by the Company.

The following is the text of a property valuation report received from Savills Valuation and Professional Service Limited in connection with its valuation of the property of Black Dragon as at 31 December 2007 prepared for the purpose of incorporation in this circular.

savills
第一太平戴維斯

T: (852) 2801 6100
F: (852) 2501 5590

23/F Two Exchange Square
Central, Hong Kong

EA Licence: C-023750
savills.com

The Directors
Interchina Holdings Company Limited
Room 701, 7/F.
Aon China Building
29 Queen's Road Central
Hong Kong

31 January 2008

Dear Sirs,

Re: A parcel of land situated at west of Nengjiang River, Jiangxi Project Zone, Qiqihaer, Heilongjiang Province, the People's Republic of China (the "property")

In accordance with instructions from Interchina Holdings Company Limited (the "Company") for us to value the property held by Heilongjiang Black Dragon Company Limited ("Black Dragon") and to be acquired by the Company in the People's Republic of China ("the PRC"), we confirm that we have carried out an inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of value of the property as at 31 December 2007.

Our valuation of the property is our opinion of its market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

In valuing the property in the PRC, unless otherwise stated, we have assumed that transferable land use rights in respect of the property for its specific term at nominal annual land use fee have been granted and that any land grant premium payable has already been fully paid. We have also assumed that Black Dragon has an enforceable title to the property and has free and uninterrupted right to use, occupy or assign the property for the whole of the unexpired term as granted.

In the course of our valuation, we have valued the property by direct comparison approach by making reference to comparable sales transactions as available in the market assuming sale with the benefit of vacant possession.

We have been provided with copies of title document relating to the property. We have not, however, inspected the original documents to verify ownership or to ascertain the existence of any amendments which do not appear on the copies handed to us. We have relied to a considerable extent on information given by the Company and its legal adviser, Zhong Lun Law Firm, on PRC laws, regarding the title to the property. We have also accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, particulars of occupancy, site area and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the Company and are therefore only approximations. No on-site measurements have been taken. We have no reason to doubt the truth and accuracy of the information provided to us by the Company which is material to our valuation. We were also advised by the Company that no material facts have been omitted from the information provided.

We have inspected the exterior of the property. We have not carried out investigations on site to determine the suitability of the ground conditions and the services, etc. for further development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

In valuing the property, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Unless otherwise stated, all monetary amounts stated are in Renminbi.

Our valuation certificate is attached herewith.

Yours faithfully,
For and on behalf of
Savills Valuation and Professional Services Limited
Charles C K Chan
MSc FRICS FHKIS MCIArb RPS(GP)
Managing Director

Note: Charles C K Chan, Chartered Estate Surveyor, MSc, FRICS, FHKIS, MCIArb, RPS(GP), has about 18 years' experience in the valuation of properties in the PRC.

VALUATION CERTIFICATE

Property to be acquired by the Company in the PRC

Property	**Description and tenure**	**Particulars of occupancy**	**Market value in existing state as at 31 December 2007**
A parcel of land situated at the west of Nengjiang River, Jiangxi Project Zone, Qiqihaer City, Heilongjiang Province, PRC	The property comprises an irregular shaped land with a site area of approximately 535,000 sq.m. (5,758,740) sq.ft.). The land use rights of the property have been granted for a term expiring on 9 January 2057 for residential uses.	The property is currently vacant covered with scrubs and vegetations.	RMB107,000,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate Heilong Qi Tu Ji Guo Yong (2007) Di 0100012 Hao (黑龍齊土籍國用(2007)第0100012號), the land use rights of a parcel of land with a total site area of 3,774,604 sq m have been granted to Heilongjiang Black Dragon Co., Ltd. (黑龍江黑龍股份有限公司) ("Black Dragon") for a land use term expiring on 9 January 2057 for residential uses.

   As advised by the Company, the property forms part of the land of the aforesaid State-owned Land Use Rights Certificate.

2. As advised by the Company, the property is acquired by Black Dragon from asset exchange. The Black Dragon thus is not required to pay land premium for the property. As confirmed by the Company, there is no planning restrictions or requirements imposed on the property by the relevant authority. The Company also has no proposed use for the property.

3. We have been provided with legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, inter alia, the following information:–

   (i) Black Dragon has been granted with the land use rights of the property and acquired the relevant Land Use Rights Certificate for a parcel of land with a site area of approximately 3,774,604 sq.m.;

   (ii) Black Dragon is entitled to transfer, lease, mortgage or dispose of by any other means the land use rights of the land with Land Use Rights Certificate; and

   (iii) there is no substantial legal impediment for Black Dragon to apply for a separate Land Use Rights Certificate for the land of the property with a site area of 535,000 sq.m.

4. According to the advice and information provided by the Company, we have made the assumption in our valuation that the property is free from litigation, encumbrance, restrictions and outgoings of an onerous nature which could affect its value.

The following is the text of a valuation report received from 北京龍源智博資產評估有限公司 (Beijing Longyuan Zhibo Asset Valuation Company Limited) in connection with its valuation of the Black Dragon Sale Shares as at 30 June 2007 prepared for the purpose of incorporation in this circular.

Letter of Undertaking of Asset Valuation Institution and Registered Asset Valuer

Heilongjiang Black Dragon Company Limited:

We are engaged by your Company to conduct an earnest review, determine the valuation procedures as well as prepare an asset valuation report in respect of the equities involved in the Company's valuation. Assuming that the underlying conditions are established, we make the following undertakings on the asset valuation results and bear the corresponding liabilities:

1. The scope of asset valuation is consistent with the asset scope involved in the economic behavior;

2. A reasonable review is conducted on all the equities in relation to the valuation;

3. The valuation approach is appropriate and the reference data and information selected are reliable;

4. Factors affecting the evaluated asset value are taken into account in detail;

5. The evaluated asset value is fair and accurate;

6. The valuation work is conducted independently without any human interference.

Responsible Person of the Valuation Institution: Jin Yu Rong

Signature of the Registered Asset Valuer: Wang Ju

Signature of the Registered Asset Valuer: Zhao Wei Guo

北京龍源智博資產評估有限公司
(Beijing Longyuan Zhibo Asset Valuation Company Limited)

14 August 2007

Transfer of the 229,725,000 state-owned legal person shares of 黑龍江黑龍股份有限公司 (Heilongjiang Black Dragon Company Limited) held by 黑龍集團公司 (Heilong Group Limited)

Summary of Asset Valuation Report

Long Yuan Zhi Bo Zi Bao Zi [2007] No. 1007

北京龍源智博資產評估有限公司 (Beijing Longyuan Zhibo Asset Valuation Company Limited) is engaged by Heilongjiang Black Dragon Company Limited (hereinafter referred to as Black Dragon Company Limited) to conduct a valuation on the 229,725,000 state-owned legal person shares of Black Dragon Company Limited held by the Heilong Group Limited, to fairly reflect the value shown by the 229,725,000 state-owned legal person shares as at the Valuation Reference Date (as defined below) in accordance with the generally accepted asset valuation methods under the principle of independence, objectivism, scientism and professionalism to provide a value reference for the share transfer.

The method of valuation used is the current market approach.

During the valuation process, 北京龍源智博資產評估有限公司 (Beijing Longyuan Zhibo Asset Valuation Company Limited) has conducted necessary review and market research analysis over the assets within the valuation scope and implemented the necessary asset valuation procedures. Upon valuation, assuming that the shares included in the valuation scope are shares of a company with on-going operation, the fair value shown on the Valuation Reference Date (i.e. 30 June 2007) was RMB420,390,000 (RMB Four hundred and twenty million three hundred and ninety thousand), or RMB1.83 per share.

In accordance with the prevailing State requirements, the asset valuation report is valid for one year, commencing from the Valuation Reference Date (i.e. 30 June 2007) to 29 June 2008.

The report is for the sole purpose of valuation of Black Dragon Company Limited and for submission to the competent department for examination. Without the permission of Black Dragon Company Limited, 北京龍源智博資產評估有限公司 (Beijing Longyuan Zhibo Asset Valuation Company Limited) shall not provide the report to others or disclose it to the public. Without the consent of the 北京龍源智博資產評估有限公司 (Beijing Longyuan Zhibo Asset Valuation Company Limited), Black Dragon Company Limited shall not publish the content of the report on any public media in whole or in part; the 北京龍源智博資產評估有限公司 (Beijing Longyuan Zhibo Asset Valuation Company Limited) shall not be liable for any legal responsibilities for the consequences arising from any inappropriate application of valuation results on the part of Black Dragon Company Limited in other economic behavior.

The above content has been extracted from the asset valuation report. Should you wish to understand the whole picture of the valuation project, you should carefully read the text of the asset valuation report.

(No main text on this page)

Responsible Person of the Valuation Institution: Jin Yu Rong

Signature of the Registered Valuer: Wang Ju

Signature of the Registered Valuer: Zhao Wei Guo

北京龍源智博資產評估有限公司
(Beijing Longyuan Zhibo Asset Valuation Company Limited)

14 August 2007

In this Black Dragon Sale Shares valuation report, the content is the translation of the Chinese version and included herein for illustration purpose only. In the event of any inconsistency, the Chinese version shall prevail.

Transfer of the 229,725,000 state-owned legal person shares of 黑龍江黑龍股份有限公司 (Heilongjiang Black Dragon Company Limited) held by 黑龍集團公司 (Heilong Group Limited)

Asset Valuation Report

Long Yuan Zhi Bo Ping Bao Zi [2007] No. 1007

北京龍源智博資產評估有限公司 (Beijing Longyuan Zhibo Asset Valuation Company Limited) is engaged by Heilongjiang Black Dragon Company Limited (hereinafter referred to as Black Dragon Company Limited) to conduct an valuation on the 229,725,000 state-owned legal person shares of Black Dragon Company Limited held by the Heilong Group Limited, to fairly reflect the value shown by the 229,725,000 state-owned legal person shares as at the Valuation Reference Date (as defined below) in accordance with the generally accepted asset valuation methods under the principle of independency, objectiveness, scientificness and professionalism to provide a value reference for the share transfer. The asset valuation details and the valuation results are reported as follows:

I. Brief introduction of the engaging party and the asset owner

(i) Engaging party

Name: Heilongjiang Black Dragon Company Limited

(ii) Asset Owner

Name: Heilong Group Limited

Address: No. 168, Zhong Hua Xi Road, Jian Hua District, Qiqihaer

Company legal representative: Zhang Wei Dong

Economic nature: Wholly state-owned enterprise

Registered capital: RMB550,000,000

Scope of operation: Principally engaged in winter sports equipment, roller skating sports equipment, pressure measuring instrument, plastic products; exports of ice sports equipment produced by its own such as skates, skate shoes and sports goods such as rollers and skate boards.

Company history: the Heilong Group Limited was established in August 1993 as a wholly state-owned enterprise under the State-owned Assets Supervision and Administration Commission of Qiqihaer. It is the sole legal person of Black Dragon Company Limited and holds its shares on behalf of the nation. As at 30 June 2007, it held 229,725,000 shares of Black Dragon Company Limited, representing 70.21% of the total capital of Black Dragon Company Limited.

II. Valuation purpose

This valuation is to provide a value as reference for the transfer of the 229,725,000 state-owned legal person shares of Black Dragon Company Limited held by Heilong Group Limited.

III. Valuation target and valuation scope

The 229,725,000 state-owned legal person shares of Black Dragon Company Limited held by the Heilong Group Limited.

IV. Valuation Reference Date

The valuation reference date of the asset valuation (the "Valuation Reference Date") is 30 June 2007.

The Valuation Reference Date is determined with reference to the overall restructuring progress of the 229,725,000 state-owned legal person shares of Black Dragon Company Limited held by the Heilong Group Limited.

The pricing benchmark of the project is the valid pricing benchmark as at the Valuation Reference Date.

V. Valuation principles

The valuation is conducted in an objective and fair manner by adhering to the working principles of independence, objectiveness, scientificness and professionalism, as well as the principle of contribution, the principle of substitution, the principle of anticipation, etc. No specific principle has been adopted during the valuation.

VI. Valuation background

Black Dragon Company Limited entered into a loan contract (the "Loan Contract") with Bank of Communications Company Limited Qiqihaer Branch in an accumulated amount of RMB150,500,000. Bank of Communications Company Limited Qiqihaer Branch subsequently filed a lawsuit to the Higher People's Court of Heilongjiang Province for the failure of performing the repayment obligations in accordance with the Loan Contract on the part of Black Dragon Company Limited. The Higher People's Court of Heilongjiang Province delivered the civil judgment (2004) Hei Shang Chu Zi No. 11 on 2 June 2004, deciding that Black Dragon Company Limited should repay the loan from Bank of Communications Company Limited Qiqihaer Branch in the principal amount of RMB150,500,000 together with interest of RMB3.5 million within 10 days after the judgment coming into force. As the Heilong Group Limited, the controlling shareholder, provided guarantee in respect of the abovementioned loan, the 229,725,000 state-owned legal person shares of Black Dragon Company Limited it held were frozen by the Higher People's Court of Heilongjiang Province.

As announced by Black Dragon Company Limited: the Heilong Group Limited entered into a Share Transfer Agreement with Interchina (Tianjin) Water Treatment Limited (hereinafter referred to as Interchina Water Treatment) on 16 May 2007, pursuant to which Heilong Group Limited agreed to transfer 70.21% of the shares of Black Dragon Company Limited (representing 229,725,000 state-owned legal person shares) it held to Interchina Water Treatment. It is mutually agreed that the proposed share transfer transaction shall be valued with reference to the valuation value of the shares and Interchina Water Treatment shall pay the transfer consideration to the Heilong Group Limited in the form of assuming Black Dragon Company Limited's debts, and Interchina Water Treatment shall be liable to the debts of the Heilong Group Limited in an amount not exceeding RMB350 million. Owing to the loan dispute between the Heilong Group Limited and its subsidiaries and Bank of Communications Company Limited Haerbin Branch (hereinafter referred to the Haerbin Branch), all the 229,725,000 legal person shares of Black Dragon Company Limited held by Heilong Group Limited were frozen according to the Court's judgment. Upon negotiation between the Heilong Group Limited and the Haerbin Branch, the Haerbin Branch conditionally agreed to lift the seal up for the abovementioned legal person shares of Black Dragon Company Limited. Upon the completion of the abovementioned share transfer, Interchina Water Treatment held 229,725,000 shares of Black Dragon Company Limited and became its controlling shareholder. As a condition of the acquisition offer, the abovementioned share transfer was subject to the approval of the China Securities Regulatory Commission; the purchaser should also submit the acquisition report and its summary to the higher government authority in accordance with the requirements.

VII. Valuation basis

The national, local and departmental laws and regulations followed in this asset valuation work, as well as the reference document information in the valuation mainly comprise:

(i) Behavioral basis

The engagement letter entered into between Black Dragon Company Limited and 北京龍源智博資產評估有限公司 (Beijing Longyuan Zhibo Asset Valuation Company Limited).

(ii) Regulatory basis

1. The Ministry of Finance of the PRC Cai Ping Zi [1999] No. 91 "Notice regarding the Publication of the Provisional Regulations in relation to the Basic Content and Format of Asset Valuation Report";

2. The "Standard Operating Opinion for Asset Appraisal (For Trial Implementation)" as promulgated by the China Appraisal Society;

3. The "Directive Opinions of the Registered Asset Valuer concerning the Legal Ownership of the Valuation Target" as promulgated by the Chinese Institute of Certified Public Accountants;

4. "Asset Valuation Standards – Basic Standards" and "Asset Valuation Ethical Standards – Basic Standards" as promulgated by the Ministry of Finance;

5. The Transfer Law of the People's Republic of China; and

6. Other laws and regulations in relation to the asset valuation.

(iii) Basis of ownership

The Article of Association of Black Dragon Company Limited

(iv) Pricing basis

1. The 2005 annual financial report of Black Dragon Company Limited;

2. The 2007 interim financial report of Black Dragon Company Limited;

3. The investment website of legal person shares (http://www.e-farengu.com);

4. Share information from the QUOTE.STOCKSTAR.COM;

5. Public transaction information in relation to part of the legal person shares collected by the valuers;

6. Panorama Network (全景網絡) of Securities Times – Listed Company Information;

7. business.sohu.com information;

8. finance.sina.com.cn information; and

9. cninfo.com.cn information

(v) Additional information

1. Information such as the company history, operating condition, and significant events as provided by the Heilong Group Limited and collected by the valuers through public media;

2. Announcements of Black Dragon Company Limited;

3. Announcement on the reminder of risk of temporary listing suspension of shares of Black Dragon Company Limited;

4. Information regarding the transfer of the relevant listed legal person shares and stock closing price as collected by the valuers;

5. Gathered information by 北京龍源智博資產評估有限公司 (Beijing Longyuan Zhibo Asset Valuation Company Limited).

VIII. Valuation methods

There are three methods for valuation, namely, the cost approach, the income approach and the market approach. This valuation is for non-floating shares. Although the shares have not been floated in the market, it is difficult for the cost approach and income approach to apply since it is affected by the stock market factors. At the same time, the net profit of Black Dragon Company Limited (a turnaround from loss into profit was achieved in 2006) and the net assets in recent years were all negative, limiting the use of the cost approach and the income approach. Therefore, the current market approach has been adopted in this valuation.

Pursuant to the requirements of Rule 44 of the "Detailed Rules for Provisions on State-owned Asset Valuation Management", the current market approach refers to "through market research, choosing one or several asset(s) which is/ are identical or similar to the evaluated assets as the comparative target(s), analysing the price(s) and transaction conditions of the comparative target(s), making comparative adjustments and determining the methods for computing the asset value."

Given that Black Dragon Company Limited suffered losses in 2003, 2004 and 2005 consecutively, the listing of shares of Black Dragon Company Limited was ceased from 18 May 2006, and the market price at that time was RMB0.98 per share. During the trading suspension of Black Dragon Company Limited, it continued to perform the relevant obligations of listed companies. In 2006, Black Dragon Company Limited returned to profit, and received a relevant notice from the Shanghai Stock Exchange, stating that it decided to accept the application of Black Dragon Company Limited for resumption of trading of its shares. If during the prescribed term Black Dragon Company Limited's resumption of trading is not approved by the Shanghai Stock Exchange, the shares of Black Dragon Company Limited shall be withdrawn from listing.

Since the valuer believes that for comparison purpose, it is best to select cases of legal person share transfer transactions of other listed companies which are identical or similar to those of Black Dragon Company Limited from public information as announced by the listed companies, and from which to derive a ratio between the legal person share transfer price and the current stock market price of each transaction case for calculation and obtaining an average ratio, to be compared against the current share transaction price of Black Dragon Company Limited as at the Valuation Reference Date. After taking into account the economic efficiency of Black Dragon shares in recent years and the Listing Rules of the Shanghai Stock Exchange, the state-owned share transfer reference price can be determined after considering the above factors. (For details, please refer to the section on valuation description).

For determining the transaction price of the shares of Black Dragon Company Limited as at the Valuation Reference Date, the valuer complied statistics on the increase in the overall market prices of the shares during the period from the transaction date on which the listing of the shares of Black Dragon Company Limited was ceased until the Valuation Reference Date, and made adjustments to the price when the listing was suspended on 18 May 2006 and adopted the similar transaction prices of the proposed ordinary listing transaction as at the Valuation Reference Date.

IX. Valuation procedures

Upon the acceptance of the engagement from Black Dragon Company Limited, 北京龍源智博資產評估有限公司 (Beijing Longyuan Zhibo Asset Valuation Company Limited) contacted Black Dragon Company Limited immediately to understand the asset condition, negotiate matters relating to the valuation and arrange all preparatory work of the valuation.

(i) Preparatory work

The valuer conducted an investigation of the assets for valuation by collecting all updated information from websites. With reference to the asset condition and the purpose of this valuation, an valuation work schedule was proposed, covering the formulation of the asset valuation scheme, choice of asset valuation approaches, ascertaining the asset valuer and schedule arrangement.

(ii) Market Research

Conducting market research, inspecting the production, operation and the financial position of the owner of the assets and Black Dragon Company Limited. Checking websites like Stockstar.com, the website of the China Securities Regulatory Commission, cnstock.com and JRJ.com for preliminary collection of the relevant valuation information, and obtaining the fundamental data and information necessary for the valuation.

(iii) Computation

Commencing the valuation analysis and value computation work in accordance with the asset type and the corresponding valuation methods previously selected.

(iv) Report Submission

Analyzing the asset valuation conclusion and drafting the asset valuation report based on the valuation procedures and the work sheet so formulated. Formal asset valuation report was issued after going through the three stages of internal review.

X. Valuation conclusion

The valuer, 北京龍源智博資產評估有限公司 (Beijing Longyuan Zhibo Asset Valuation Company Limited), has determined the valuation value of the 229,725,000 state-owned legal person shares of Black Dragon Company Limited held by the Heilong Group Limited to be RMB420,390,000 (Renminbi Four hundred and twenty million three hundred and ninety thousand), with RMB1.83 per share on average as at the Valuation Reference Date (i.e. 30 June 2007).

XI. Special Issues

(i) Under the engagement by Black Dragon Company Limited, the scope of this valuation is limited to the assets entrusted by Black Dragon Company Limited.

(ii) This valuation is fairly conducted under the principle of independence, objectiveness, scientificness and professionalism. 北京龍源智博資產評估有限公司 (Beijing Longyuan Zhibo Asset Valuation Company Limited) and all the staff members participating in this valuation work do not have any special interest in the relevant parties concerned in the assets valuation. The valuers have strictly followed the professional ethnics and standards during valuation.

(iii) Since Black Dragon Company Limited has negative net assets, it is not appropriate to adopt the net asset approach when conducting the valuation. The market comparison approach has been adopted in this valuation. Black Dragon Company Limited should note that the valuation value may vary from the valuation value obtained by using the comprehensive valuation method.

(iv) The target of this valuation is the non-floating state-owned legal person shares of Black Dragon Company Limited held by Heilong Group Limited. The type of value of valuation is the fair value of the listed company state-owned shares which is illiquid in nature and under special transaction conditions, so it is special in this respect as compared with the share prices of ordinary companies.

(v) For the purpose of providing a basis for transfer, the valuers make their professional judgment based on the information provided by Black Dragon Company Limited and any relevant public information and data, and have not conducted any on-site investigation into the valuation target. Therefore, this valuation work itself and the valuation report so formed shall not be construed as any opinions expressed by us in relation to the truthfulness and completeness of the existing assets of Black Dragon Company Limited (including fixed assets, current assets).

(vi) The valuation results shall only serve as the basis of reference for the base price of the transfer of the 229,725,000 state-owned legal person shares of Black Dragon Company Limited held by the Heilong Group Limited, without taking into account the influence over its valuation value arising from the possible pledges, guarantee issues and any additional value which may be offered by special interested parties in the future, and without considering the changes over the national macroeconomic policies and the influence over the valuation value arising from natural force and other events of force majeure. Should there are any changes in the abovementioned conditions and the on-going basis followed during the valuation, the valuation results will normally become invalid.

(vii) The 2007 interim accounting report as provided by Black Dragon Company Limited has been audited by 中准會計師事務所有限公司 (Zhong Zhun Shen Zi [2007] No. 2204) which shall be responsible for its truthfulness and accuracy.

(viii) The report contains certain attachments, and the attachments shall constitute an important portion of the report, and shall have the same legal effect as that of the main text of this report.

XII. Post Valuation Reference Date's Events

(i) During the valid term after the Valuation Reference Date, should there are any changes in the asset quantity, the asset value shall be adjusted accordingly based on the original valuation method.

(ii) During the valid term after the Valuation Reference Date, should there are any changes in the asset pricing standards which obviously affect the asset valuation value, Black Dragon Company Limited shall employ Valuation Institution to conduct a re-valuation.

(iii) During the valid term after the Valuation Reference Date, owing to the changes in the asset quantity and the price standard, Black Dragon Company Limited shall give sufficient thought during the actual pricing of the assets and make corresponding adjustments.

XIII. Legal force of the valuation report

(i) Other conditions for the valuation conclusion to be valid

The valuation conclusion aims at reflecting the prevailing fair market value of the valuation target for the purpose of this valuation, based on the open market value principle, and without taking into account the influence over its valuation value arising from the possible pledges, guarantee issues and any additional which may be offered by special interested parties in the future. At the same time, the report does not consider the changes over the national macroeconomic policies and the influence over the valuation value arising from natural force and other events of force majeure.

Should there are any changes in the abovementioned conditions and any principles followed during the valuation, the valuation results will normally become invalid.

(ii) Valid term of the valuation conclusion

Pursuant to the prevailing State requirements, the valid term of the Asset Valuation Report shall be one year, commencing from the Valuation Reference Date (i.e. 30 June 2007) to 29 June 2008. Should the valuation purpose is realized during the valid term, the valuation conclusion shall serve as the base price or pricing basis (incorporating the adjustments of the post Valuation Reference Date's events). The assets shall be re-valued after one year.

(iii) The scope of the asset valuation report

This report is made for the purpose as stated in this report at the request of Black Dragon Company Limited and used for valuation by Black Dragon Company Limited. Without the permission of Black Dragon Company Limited, the report shall not be provided to the units and individuals other than Black Dragon Company Limited and the department for examining the valuation report. The whole of or part of the content in this report shall not be disclosed to any public media, except for the disclosure as required by the relevant State regulations.

XIV. Date of Issuing the Valuation Report

The Valuation Report is issued on 14 August 2007.

Responsible person of the Valuation Institution: Jin Yu Rong

Signature of the Registered Valuer: Wang Ju

Signature of the Registered Valuer: Zhao Wei Guo

北京龍源智博資產評估有限公司
(Beijing Longyuan Zhibo Asset Valuation Company Limited)

14 August 2007

In this valuation report of the Black Dragon Sale Shares, the content is the translation of the Chinese version and included herein for illustration purpose only. In the event of any inconsistency, the Chinese version shall prevail.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

		HK$
Authorised		
40,000,000,000	Shares of HK$0.1 each	4,000,000,000.00
Issued and fully paid or credited as fully paid:		
16,786,193,632	Shares of HK$0.1 each	1,678,619,363.20

3. MANAGEMENT PROFILE

The profiles of the Directors and senior management of the Company are as follows:

Executive Directors

Mr. ZHANG Yang, aged 44, was appointed as a Director in March 2000 and became the chairman of the Group in September 2000. Mr. Zhang was also appointed as a director and chairman of Kai Yuan Holdings Limited (formerly known as Guo Xin Group Limited), the shares of which are listed on the Stock Exchange, during the period from December 2001 to April 2007. Mr. Zhang was also appointed as honourable chairman of China Pipe Group Limited (formerly known as World Trade Bun Kee Ltd.), the shares of which are listed on the Stock Exchange, in July 2007. Mr. Zhang had studied in Industrial Automation Department of Shanghai Second Staff University. He has over twenty years experience in industrial investment and management. Mr. Zhang is responsible for the strategic planning and overall management control of the Group.

Mr. CHAN Wing Yuen, Hubert, aged 49, was appointed as a Director and chief executive officer of the Company in March 2002 and November 2003, respectively. Mr. Chan was also appointed as an executive director of China Pipe Group Limited (formerly known as World Trade Bun Kee Ltd.), the shares of which are listed on the Stock Exchange, since June 2007. Mr. Chan received a Higher Diploma from the Hong Kong Polytechnic University in 1982. Mr. Chan is an associate of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. Mr. Chan is also a member of the Hong Kong Securities Institute and the

Hong Kong Institute of Directors Ltd. Prior to joining the Group, Mr. Chan spent over ten years with the Stock Exchange where he held the position of director of Mainland Affairs Department of the Listing Division. Mr. Chan also spent two and a half years as a director and deputy general manager of Guangdong Investment Limited. Mr. Chan was the company secretary and director of compliance of Sunevision Holdings Limited. In addition, Mr. Chan was an independent non-executive director of Rising Development Holdings Limited.

Mr. LAM Cheung Shing, Richard, aged 49, was appointed as a Director and the deputy chief executive officer of the Company in August 2001. In addition, he was appointed as a company secretary of the Company in March 2004. Mr. Lam was appointed as a director of Kai Yuan Holdings Limited (formerly known as Guo Xin Group Limited) ("Kai Yuan"), the shares of which are listed on the Stock Exchange since December 2001 and also the chief executive officer of Kai Yuan during the period from December 2001 to April 2007. Mr. Lam was appointed as an executive director of China Pipe Group Limited (formerly known as World Trade Bun Kee Ltd.), the shares of which are listed on the Stock Exchange, since June 2007. Mr. Lam is a fellow member of both Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. Mr. Lam was admitted to the Master Degree of Business Administration in the Chinese University of Hong Kong in year 2006. Mr. Lam spent over ten years in PriceWaterhouseCoopers, an international accounting firm and promoted to a senior audit manager, and is equipped with extensive experience in accountancy, taxation and corporate finance. Prior to joining the Group, Mr. Lam held senior positions in a number of listed companies in Hong Kong, including Sun Hung Kai & Co., Limited, Kingsway SW Asset Management Limited and U-Cyber Technology Holdings Limited. Mr. Lam was also appointed as an independent non-executive director of Leadership Publishing Group Limited, a listed company in Hong Kong during the period from April 2004 to March 2005.

Independent Non-executive Directors

Mr. WONG Hon Sum, aged 49, was appointed as an independent non-executive Director in May 2000. Mr. Wong is a certified public accountant in Hong Kong. He has over twenty years of experience in the field of audit, accountancy, finance, taxation and business advisory. Mr. Wong is a fellow member of the Association of Chartered Certified Accountants, Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He is also a member of the Hong Kong Securities Institute. Mr. Wong was an independent non-executive director of China Mining Resources Group Limited (formerly known as INNOMAXX Biotechnology Group Limited) since January 2007, the shares of which are listed on the Stock Exchange.

Ms. HA Ping, aged 43, was appointed as an independent non-executive Director in May 2000. Ms. Ha received her Honorary Doctorate from Queen's University of Brighton. Ms. Ha is the chairman of All Leaders Publication Group Limited and was an independent non-executive director of a Smart Energy Finance (Holdings) Limited during the period from June 2000 to May 2007, the shares of which are listed on the Stock Exchange.

Dr. TANG Tin Sek, aged 49, was appointed as an independent non-executive Director in August 2006. Dr. Tang is a certified public accountant and a partner of Terence Tang & Partners. Dr. Tang has over 26 years of experience in corporate finance, business advisory, financial management and auditing. Dr. Tang is also a member of The Chinese Institute of Certified Public Accountants, The Institute of Chartered Accountants in Australia and Chartered Association of Certified Accountants in the United Kingdom. Dr. Tang obtained a bachelor of science degree from The University of Hong Kong in 1980, a master of business administration degree from The University of Sydney, Australia in 1990 and a doctorate in accountancy from The Hong Kong Polytechnic University in 2004. Dr. Tang is also an independent non-executive director of CEC International Holdings Limited, Sinofert Holdings Limited (formerly known as Sinochem Hong Kong Holdings Limited), New Smart Energy Group Limited (formerly known as New Smart Holdings Limited) and Frankie Dominion International Limited, the shares of all of which are listed on the Stock Exchange. Dr. Tang was as an independent non-executive director of China Mining Resources Group Limited (formerly known as INNOMAXX Biotechnology Group Limited) for the period from May 2000 to May 2007, the issued shares of which are listed on the Stock Exchange.

4. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executives of the Company

As at the Latest Practicable Date, the interests or short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company and 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 Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive was taken or deemed to have under such 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, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange were as follows:

Name	Name of company in which interests or short positions were held	Nature of interests	Number of shares	Approximate percentage of shareholding
Mr. Zhang Yang	The Company	Interests of controlled corporation *(Note 1)*	103,495,000 (L)	0.62%
		Beneficial owner *(Note 2)*	14,601,465,000 (L)	86.98%
Mr. Lam Cheung Shing, Richard	The Company	Beneficial owner	77,000,000 (L)	0.46%
Mr. Chan Wing Yuen, Hubert	The Company	Beneficial owner	77,000,000 (L)	0.46%

Name	Name of company in which interests or short positions were held	Nature of interests	Number of shares	Approximate percentage of shareholding
Ms. Ha Ping	The Company	Beneficial owner *(Note 3)*	5,000,000 (L)	0.03%
Mr. Wong Hon Sum	The Company	Beneficial owner *(Note 4)*	5,000,000 (L)	0.03%
Dr. Tang Tin Sek	The Company	Beneficial owner *(Note 5)*	5,000,000 (L)	0.03%

(L) denotes the long position held in the Shares

Notes:

1. These Shares are held by Wealth Land Development Corp., which is wholly and beneficially owned by Mr. Zhang Yang, a Director and the chairman of the Company.

2. These Shares represent (i) 2,101,465,000 Shares held by Mr. Zhang Yang; (ii) 500,000,000 Shares to be allotted and issued to Mr. Zhang Yang upon the exercise in full of the conversion rights attaching to the convertible notes issued by the Company on 28 December 2007 and (iii) 12,000,000,000 Shares to be allotted and issued to Mr. Zhang Yang upon the exercise in full of the conversion rights attaching to the convertible notes to be issued by the Company, details of which are set out in the announcement of the Company dated 6 July 2007.

3. These Shares represent the Shares which may be allotted and issued to Ms. Ha Ping upon the exercise in full of the subscription rights attaching to the options granted by the Company.

4. These Shares represent the Shares which may be allotted and issued to Mr. Wong Hon Sum upon the exercise in full of the subscription rights attaching to the options granted by the Company.

5. These Shares represent the Shares which may be allotted and issued to Dr. Tang Tin Sek upon the exercise in full of the subscription rights attaching to the options granted by the Company.

Save as disclosed above, none of the Directors or chief executives of the Company had, as at the Latest Practicable Date, any interests or short positions in the shares, underlying shares and debentures of the Company and 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 Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive was taken or deemed to have under such 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, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

(b) Person having 5% or more shareholding

As at the Latest Practicable Date, so far as was known to the Directors or the chief executive of the Company, the following persons (other than a Director or a chief executive of the Company) had an interest or a short position in the Shares and 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 or had any option in respect of such capital:

Name of shareholder	Capacity	Number of shares held	Approximate percentage of issued share capital
Mr. Chan Tim Shing	Beneficial owner	1,555,000,000 (L)	9.26%
The Vendor	Beneficial owner	229,725,000 domestic shares in Black Dragon (L)	70.21%

(L) denotes the long position held in the shares

Save as disclosed above, so far as was known to the Directors or chief executive of the Company, as at the Latest Practicable Date, there was no other persons (other than a Director or a chief executive of the Company) had an interest or a short position in the Shares and 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 Company or had any option in respect of such capital.

(c) Interests of substantial Shareholders in other members of the Enlarged Group

As at the Latest Practicable Date, the Directors were not aware of any other person (other than a Director or chief executive of the Company) 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 Enlarged Group.

(d) Material interests

As at the Latest Practicable Date, none of the Directors and proposed Directors had any direct or indirect interests in any assets which had since 31 March 2007 (being the date to which the latest published audited consolidated accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group. Save for the subscription agreement dated 5 July 2007 in relation to the allotment and issue of 2,700,000,000 new Shares at the subscription price of HK$0.10 per subscription share to Mr. Zhang Yang and grant of the convertible note options at the premium of HK$20,000,000, being options to subscribe for two tranches of convertible notes at an aggregate principal amount of HK$1,850,000,000 at the conversion price of HK$0.1 per conversion Share, none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Enlarged Group.

5. SERVICE CONTRACT

As at the Latest Practicable Date, there was no existing or proposed service contract between any of the Directors or proposed Directors and the Company or any member of the Group, excluding contracts expiring or determinable by the Group within a year without payment of any compensation (other than statutory compensation).

6. DIRECTORS' INTERESTS IN COMPETING BUSINESS

To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, none of the Directors or their respective associates (within the meaning defined in the Listing Rules) were considered to have any interests in businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Group as at the Latest Practicable Date.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business carried out by the Enlarged Group) have been entered into by members of the Enlarged Group within two years immediately preceding the Latest Practicable Date:

(a) the sale and purchase agreement dated 26 May 2006 entered into between Mr. Hu Yishi and China Field Investments Limited (a wholly-owned subsidiary of the Company) in relation to the disposal of the entire issued capital of a subsidiary of the Company and the shareholder's loan amounting to HK$20,750,000 due and owing by such subsidiary to China Field Investments Limited at an aggregate consideration of HK$48,100,000;

(b) the termination agreement entered into between the Company and the People's Government of Xianyang City, Shaanxi Province on 23 June 2006, in relation to the water treatment plant project in Xianyang, Shaanxi Province, the PRC;

(c) the termination agreement entered into between Interchina Water Treatment and the People's Government of Zhuozhou, Hebei Province on 6 July 2006, in relation to granting an exclusive right to finance, design, construct, own, manage, maintain and operate two sewage treatments plants in Zhuozhou, Hebei Province, the PRC for 25 years;

(d) the framework agreement ("Framework Agreement") dated 19 October 2006 entered into between the Company and Shanghai Lam Hong (Group) Company Limited ("Lam Hong") for the sale and purchase of the entire equity interest in Burlingame (Shanghai) Investment Limited ("BSI"), the entire equity interest in Interchina (Changsha) Investments And Management Company Limited ("ICIM"), 38.9% equity interest in Changsha Interchina Star City Company Limited ("CIC"), the shareholder's loan ("BIC Shareholder Loan") owing by BSI to Burlingame International Company Limited ("BIC"), the shareholder's loan ("CAI Shareholder Loan") owing by BSI to Chinese Asial Investments Limited ("CAI") and the shareholder's loan ("ICIM Shareholder Loan") owing by ICIM to the Company at a total consideration of HK$617,870,000;

(e) the sale and purchase agreement ("BSI Agreement") dated 19 October 2006 entered into between BIC, CAI and Mr. Zhang Yang ("Mr. Zhang") in relation to the disposal of the entire equity interest in BSI, the BIC Shareholder Loan and the CAI Shareholder Loan at a total consideration of HK$219,000,000;

(f) the two sale and purchase agreements ("ICIM and CIC Agreements") dated 19 October 2006 entered into between the Company and Tangible Wealth Investments Limited ("TWI") in relation to the disposal of the entire equity interest in ICIM, the 38.9% equity interest in CIC and the ICIM Shareholder Loan at a total consideration of HK$398,870,000;

(g) the subscription agreement dated 12 February 2007 entered into between the Company and Mr. Sun Yi in relation to (i) tranche 1 convertible note in an aggregate principal amount of HK$60,000,000; and (ii) tranche 2 convertible note in an aggregate principal amount of HK$51,698,000, both at the conversion price of HK$0.10 per Share;

(h) the termination agreement dated 28 March 2007 entered into between the Company, Lam Hong, BIC, CAI, Mr. Zhang and TWI for the termination of the Framework Agreement, the BSI Agreement and the ICIM and CIC Agreements;

(i) the head sale and purchase agreement entered into between the Company and Lam Hong on 28 March 2007 in relation to the disposal of 100% equity interest in the capital of BSI together with the BIC Shareholder Loan and the CAI Shareholder Loan at a total consideration of HK$206,000,000;

(j) the sale and purchase agreement entered into between BIC, CAI and Mr. Zhang on 28 March 2007 in relation to the disposals of the entire equity interest in the capital of BSI, the BIC Shareholder Loan and the CAI Shareholder Loan at a total consideration of HK$206,000,000;

(k) the sale and purchase agreement dated 11 June 2007 entered into between the Company and Mr. Li Gong Tao ("Mr. Li") in relation to the acquisition of a 60% equity interest in Money Capture Investments Limited together with Mr. Li's interest in shareholder's loan at a total consideration of HK$195,039,455;

(l) the subscription agreement dated 5 July 2007 entered into between the Company and Mr. Zhang in relation to (i) the allotment and issue of 2,700,000,000 new Shares at the share subscription price of HK$0.10 per Share and (ii) grant of the convertible note options at the premium of HK$20,000,000, being options to subscribe for the first tranche convertible notes, up to the aggregate principal amount of HK$650,000,000, and the second tranche convertible notes, up to the aggregate principal amount of HK$1,200,000,000, at the conversion price of HK$0.10 per Share;

(m) the agreement entered into between the Company and Mr. Li on 6 August 2007 whereby the Company shall (i) pay an amount of HK$4,189 in cash; and (ii) issue the convertible notes in principal amount of HK$132,676,800 at the conversion price of HK$0.131 per Share in order to satisfy balance payment of the Company's acquisition of 60% equity interest in Money Capture Investments Limited;

(n) the sale and purchase agreement dated 5 October 2007 entered into between the Company and Mega Winner Investments Limited in relation to the acquisition of the entire issued share capital of Success Flow International Limited and the shareholder's loan at an aggregate consideration of HK$167,000,000;

(o) the Black Dragon Share Transfer Agreement;

(p) the Interchina (Tianjin) Share Transfer Agreement;

(q) the Interchina Water Treatment Share Transfer Agreement;

(r) the Supplemental Agreement;

(s) the Second Supplemental Agreement;

(t) the Agency Agreement;

(u) the Termination Agreement;

(v) the Third Supplemental Agreement; and

(w) the acquisition agreement entered into between the Company and Maxable International Enterprises Limited on 18 December 2007 in relation to the acquisition of 3,700,000,000 shares of China Pipe Group Limited at a consideration of HK$296,000,000.

8. LITIGATION

As at the Latest Practicable Date, a writ of summons and statement of claim dated 2 February 2007 was made by 中鋼設備公司 (China Steel Company), a Black Dragon's supplier, against Black Dragon in respect of a claim for a development contract over the property under development of Black Dragon (which is not related to the Land) amounting to approximately RMB30,000,000 (equivalent to approximately HK$31,250,000). The litigation is related to leasehold land of Black Dragon with a net book value of RMB636,597,000 (equivalent to approximately HK$663,122,000) (which is not related to the Land). Thus the Directors consider that Black Dragon has free and uninterrupted right to use, occupy or assign the Land. No settlement had been reached up to the Latest Practicable Date. The Directors are of the opinion that pursuant to the Assets and Liabilities Transfer Agreement (as amended and supplemented by the Assets and Liabilities Transfer Supplemental Agreement and the Assets and liabilities Transfer Second Supplemental Agreement), such liabilities (together with all related contracts, rights and liabilities) of Black Dragon will be transferred to Hecheng upon completion of the Black Dragon Transfer. As a result, it would not have any implication on completion of acquisition of Black Dragon Sale Shares or any material adverse impact on the financial position of the Enlarged Group.

Save as disclosed above, so far as the Directors were aware, neither the Company nor any member of the Enlarged Group was engaged in any litigations, or arbitrations or claims of material importance and the Directors were not aware of any litigations or claims of material importance pending or threatened against any member of the Enlarged Group.

9. QUALIFICATION AND CONSENT OF EXPERTS

The following are the qualifications of the experts who have given opinion or advice which are contained in this circular:

Name	Qualification
HLB Hodgson Impey Cheng	Chartered accountants Certified public accountants
Savills Valuation and Professional Service Limited	Registered professional surveyor
Zhong Lun Law Firm	Legal advisers of PRC Laws
北京龍源智博資產評估有限公司 (Beijing Longyuan Zhibo Asset Valuation Company Limited)	Registered valuer of PRC

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the expert's statement included in the form and context in which it is included and the references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the above experts did not have any shareholding, direct or indirect, in any member of the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group, nor did they have any direct or indirect interest in any assets which had been, since 31 March 2007, being the date of the latest published audited consolidated accounts of the Company were made up, acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

10. MISCELLANEOUS

(a) The registered office of the Company is at Room 701, 7/F, Aon China Building, 29 Queen's Road Central, Hong Kong.

(b) The share registrar of the Company is Tricor Tengis Limited situated at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong.

(c) The secretary of the Company is Mr. Lam Cheung Shing, Richard, who is a fellow member of both Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants.

(d) The qualified accountant of the Company is Mr. Lau Chi Lok, Freeman who is a member of Hong Kong Institute of Certified Public Accountants and CPA Australia (as required under Rule 3.24 of the Listing Rules).

(e) Save for the valuation report on the Black Dragon Sale Shares as set out in Appendix VI to this circular, the English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at Room 701, 7/F, Aon China Building, 29 Queen's Road, Central, Hong Kong during 9:00 a.m. to 6:00 p.m. on any Business Day, from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for the two years ended 31 March 2007 and the interim report of the Company for the six months ended 30 September 2007;

(c) the accountants' report on Black Dragon, the text of which is set out in Appendix II to this circular;

(d) the report regarding the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(e) the property valuation report on the property interest of Black Dragon, the text of which is set out in Appendix V to this circular;

(f) the valuation report on Black Dragon Sale Shares, the text of which is set out in Appendix VI to this circular;

(g) the PRC legal opinion issued by Zhong Lun Law Firm;

(h) the consent letters referred to in the paragraph headed "Qualification and consent of experts" in this Appendix;

(i) the material contracts referred to in the section headed "Material contracts" in this Appendix;

(j) this circular; and

(k) a copy of each circular issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which has been issued since 31 March 2007, being the date of the latest published audited consolidated accounts of the Company were made up.

國中控股有限公司

INTERCHINA HOLDINGS COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 202)

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the "**EGM**") of Interchina Holdings Company Limited (the "**Company**") will be held at Boardroom 3&4, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on 25 February 2008 at 2:30 p.m. for the purpose of considering and, if thought fit, passing the following resolution, with or without amendments, as ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**:

(a) (i) the sale and purchase agreement dated 17 May 2007 entered into between Interchina (Tianjin) Water Treatment Limited ("**Interchina (Tianjin)**"), a wholly-owned subsidiary of the Company, and Heilong Group Limited (the "**Vendor**"); (ii) the supplemental agreement dated 29 June 2007 entered into between the Vendor, Interchina (Tianjin) and Heilongjiang Black Dragon Company Limited ("**Black Dragon**"); (iii) the second supplemental agreement dated 15 November 2007 entered into between the Vendor and Interchina (Tianjin); and (iv) the third supplemental agreement dated 17 December 2007 entered into between the Vendor and Interchina (Tianjin) (collectively, the "**SP Agreement**"), all in relation to the sale and purchase of 229,725,000 domestic shares in Black Dragon, copies of which have been produced to this meeting marked "A" and signed by the chairman of this meeting for the purpose of identification, be and are hereby approved, confirmed and ratified; and

(b) the directors of the Company be and are hereby authorised to do all things and acts and sign all documents which they may consider necessary, desirable or expedient to implement and/or give effect to any matters relating to or in connection with the SP Agreement and any of the transactions contemplated thereunder."

By order of the Board
Interchina Holdings Company Limited
Lam Cheung Shing, Richard
Director and Company Secretary

Hong Kong, 31 January 2008

Registered office:

Room 701, 7th Floor
Aon China Building
29 Queen's Road Central
Hong Kong

Notes:

1. A shareholder entitled to attend and vote at the EGM may appoint one or more proxies to attend and to vote in his stead. A proxy need not be a shareholder of the Company.

2. Where there are joint registered holders of any share of the Company (the "Share"), any one such person may vote at the EGM, either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders is present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Share shall alone be entitled to vote in respect thereof.

3. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the office of the Company's share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.

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