THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about 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 with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale 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)

VERY SUBSTANTIAL DISPOSAL

Independent financial adviser to the independent board committee and the shareholders of Interchina Holdings Company Limited

昱豐融資有限公司
CERES CAPITAL LIMITED
CERES

A letter from the board of directors of the Company is set out on pages 4 to 20 of this circular. A letter from the independent board committee of the Company is set out on page 21 of this circular. A letter from Ceres Capital Limited containing its advice to the independent board committee and the shareholders of the Company is set out on pages 22 to 46 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at Lavender Room, The Park Lane Hong Kong, 310 Gloucester Road, Hong Kong on 18 August 2009 at 9:45 a.m. is set out on pages 195 to 196 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 share registrar of the Company, Tricor Tengis Limited at 26th Floor, 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. The 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.

24 July 2009

CONTENTS

DEFINITIONS

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

"Agreement"	the agreement dated 10 December 2008 entered into between the Company and the Purchaser in respect of the Disposal
"Amended Agreement"	the Agreement (as amended and supplemented by the Supplemental Agreement and the Second Supplemental Agreement) in respect of the Disposal
"associates"	has the meanings ascribed thereto under the Listing Rules
"Board"	the board of Directors
"CIC"	長沙國中星城置業有限公司 (Changsha Interchina Star City Company Limited*), a company established in the PRC and a wholly-owned subsidiary of the Company
"Company"	Interchina Holdings Company Limited, a company incorporated in Hong Kong with limited liability, the issued Shares of which are listed on the Stock Exchange
"Completion"	completion of the Disposal
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Director(s)"	the director(s) of the Company
"Disposal"	the disposal of the Sale Interests and the Sale Loan by the Company to the Purchaser
"EGM"	an extraordinary general meeting of the Company to be convened and held to approve, among other matters, the Disposal and the transactions contemplated thereunder
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRSs"	the Hong Kong Financial Reporting Standards
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"ICIM"	國中(長沙)體育新城投資項目管理有限公司 (Interchina (Changsha) Investments and Management Company Limited*), a company established in the PRC and a wholly-owned subsidiary of the Company
"Independent Board Committee"	the independent committee of the Board established by the Company comprising all independent non-executive Directors, namely Ms. Ha Ping, Mr. Ho Yiu Yue, Louis, Mr. Ko Ming Tung, Edward and Dr. Fu Tao
"Land"	the land of a total site area of approximately 287,141.66 square metres and situated in Land Parcels R-11 West, R-11 East, R-18 South and R-18 North, New Sport City, Yuhua District, Changsha, Hunan Province, PRC, and the property under construction of an gross floor area of approximately 140,751.90 square meters upon completion of the construction work and situated in Interchina Mall and New Sport City Blocks 1-4 (for hotel and serviced apartment use), located at Land Parcel R-18 North, New Sport City, Yuhua District, Changsha, Hunan Province, PRC, all of which are wholly owned by CIC
"Latest Practicable Date"	20 July 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China
"PRC GAAP"	the generally accepted accounting principles in the PRC
"Purchaser"	上海方華實業發展有限公司 (Shanghai Fanghua Shiye Development Limited*), a company established in Shanghai, PRC and is a third party independent of the Company and its connected persons
"Remaining Group"	the Group immediately after Completion
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Interests"	being 100% equity interest of ICIM and 38.9% equity interest of CIC

* *for identification purpose only*

"Sale Loan"	the non-interest bearing loan due from ICIM to the Company amounted to RMB614.1 million as at 31 March 2009
"Second Supplemental Agreement"	the second supplemental agreement dated 16 July 2009 entered into between the Purchaser, the Company and CIC amending and supplementing the terms of the Agreement (as amended and supplemented by the Supplemental Agreement)
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.1 each in the capital of the Company
"Shareholder(s)"	the holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary"	has the meaning ascribed to it under the Listing Rules
"Supplemental Agreement"	the supplemental agreement dated 9 February 2009 entered into between the Purchaser, the Company and CIC amending and supplementing the terms of the Agreement
"%"	per cent

Conversion of RMB into HK$ is based on the exchange rate of RMB0.87 = HK$1.00

國中控股有限公司
INTERCHINA HOLDINGS COMPANY LIMITED
(incorporated in Hong Kong with limited liability)
(Stock Code: 202)

Executive Directors:
Ms. Wing Man Yi *(Chairman)*
Mr. Lam Cheung Shing, Richard *(Deputy Chairman)*
Mr. Zhu Yongjun *(Deputy Chairman)*
Dr. Mu Simon Xinming

Independent non-executive Directors:
Ms. Ha Ping
Mr. Ho Yiu Yue, Louis
Mr. Ko Ming Tung, Edward
Dr. Fu Tao

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

24 July 2009

To the Shareholders and, for information only,
holders of share options and convertible notes of the Company

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL

INTRODUCTION

The Board announced that on 10 December 2008, the Company entered into the Agreement with the Purchaser pursuant to which the Company has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Sale Interests and the Sale Loan at a total consideration of RMB330 million, which will be settled in cash. On 9 February 2009, the Company, the Purchaser and CIC entered into the Supplemental Agreement and the same parties entered into the Second Supplemental Agreement on 16 July 2009 to further amending and supplementing the terms of the Agreement.

Subsequent to the publication of the announcement of the Company dated 12 December 2008 (the "**Announcement**"), the Company was informed by the Stock Exchange on 7 January 2009 that the latter had received a complaint (the "**Complaint**") alleging, among others, (i) that CIC had applied to the local bureau of the Ministry of Commerce of the PRC in Changsha (長沙市商務局) for transfer of equity interests (股權過戶) before publication of the Announcement and such application had already been approved by the aforesaid local bureau; (ii) that at the time of the complaint letter, the registration of the transfer was being processed by the local bureau of the State Administration for Industry and Commerce of the PRC in Changsha (長沙市工商局); (iii) that the director and legal representative of CIC had been changed from Zhang Yang to a representative of the Purchaser, being a male with surname of Geng (耿姓男子) before publication of the Announcement; and (iv) that all of the above took place before Shareholders' approval on the Disposal has been obtained.

The Disposal constitutes a very substantial disposal of the Company under the Listing Rules. It will be subject to the approval of the Shareholders at the EGM. The Independent Board Committee comprising all independent non-executive Directors has been formed to recommend the Shareholders in this regard. Ceres Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Shareholders in relation to the Disposal.

The purpose of this circular is to provide you with further information of the Disposal and the Complaint and other information as required under the Listing Rules.

THE DISPOSAL

The Amended Agreement

Date: 10 December 2008 (as amended and supplemented by the Supplemental Agreement dated 9 February 2009 and the Second Supplemental Agreement dated 16 July 2009)

Parties:

(1) Vendor: the Company;

(2) Purchaser: 上海方華實業發展有限公司 (Shanghai Fanghua Shiye Development Limited*). To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner(s) are third parties independent of the Group and of its connected persons. As informed by the Purchaser, it is principally engaged in trading and investment activities in the PRC; and

(3) CIC (in relation to the Supplemental Agreement and the Second Supplemental Agreement only).

Assets to be disposed of

(i) The Sale Interests, being 100% equity interest of ICIM and 38.9% equity interest of CIC. CIC is owned as to 38.9% by the Company and as to 61.1% by ICIM.

(ii) The Sale Loan, being the non-interest bearing loan due from ICIM to the Company. As at 31 March 2009 and the Latest Practicable Date, the Sale Loan amounted to RMB614.1 million (equivalent to approximately HK$705,855,000).

* *for identification purpose only*

Consideration

The total consideration for the Disposal is RMB330 million of which:

(i) RMB35 million represents the consideration for 38.9% equity interest in CIC held directly by the Company (which also represents the initial investment costs of the Company);

(ii) RMB150 million represents the consideration for the 100% equity interest in ICIM held by the Company (which also represents the initial investment costs of the Company); and

(iii) RMB145 million represents the consideration for the Sale Loan.

The consideration shall be settled by the Purchaser in cash in the following manner:

(a) the Purchaser shall pay to the Company RMB200,000,000 within 30 days after the Disposal has been approved by the Shareholders at the EGM; and

(b) the Purchaser shall pay to the Company RMB130,000,000 within five months after the Disposal has been approved by the Shareholders at the EGM.

The consideration was determined after arm's length negotiations between the Purchaser and the Company with reference to (i) the unaudited combined net liabilities of ICIM and CIC prepared under HKFRSs as at 30 September 2008 of approximately HK$42,148,000 (which has included the amount of the Sale Loan as at 30 September 2008); (ii) the preliminary valuation of the Land, being the major asset of CIC, in the amount of RMB867,900,000 as at 30 September 2008, assessed by RHL Appraisal Limited, the independent professional valuers; (iii) the fact that the Sale Loan is unlikely to be repaid in view of the tight cashflow of ICIM; and (iv) the estimated further costs to be incurred to complete the construction work of Interchina Mall and New Sports City Blocks 1-4 (as set out below in the paragraph headed "Reasons for the Disposal"), which shall be situated on the Land. The preliminary valuation of the Land has been prepared assuming construction of the Interchina Mall and New Sports City Blocks 1-4 has been completed, using the direct comparison method and the depreciated replacement cost method.

Conditions Precedent

Completion shall be conditional upon:

1. the passing of the relevant resolution(s) at the EGM by the Shareholders for approving the Amended Agreement and transactions contemplated therein; and

2. all necessary approvals from the securities authorities having been obtained in relation to the Disposal and the announcement and circular of the Company in relation to the Disposal having been published.

The approvals from securities authorities referred to condition precedent 2 above include any approvals that might be required from the Stock Exchange or the Securities and Futures Commission of Hong Kong. If the conditions precedent above are not satisfied on or before 31 August 2009, the Amended Agreement shall lapse and neither party to the Amended Agreement will have any liabilities save for any antecedent breaches thereof.

Other terms of the Amended Agreement

1. Due diligence

The Purchaser shall appoint a firm of auditors conduct due diligence exercise on ICIM and CIC in respect of their respective assets and liabilities as at 31 March 2009 and such due diligence report shall be issued on or before 31 August 2009. For the avoidance of doubt, no adjustment will be made to the consideration of the Disposal upon completion of such due diligence exercise.

2. Execution of transfer documents

Subject to the satisfaction of the conditions precedent set out in the paragraph headed "Conditions precedent" above, within six months from the date of the EGM approving the Disposal and the transactions contemplated thereunder, the Company and the Purchaser shall execute the transfer documents regarding the Disposal for the purpose of registration of such transfer with the Government of Changsha in Hunan Province, the PRC.

Completion

Completion shall take place upon the registration of transfer of the respective Sale Interests in ICIM and CIC with the Government of Changsha in Hunan Province, the PRC. Such registration of transfer shall be conducted upon (i) the approval of the Disposal by the Shareholders at the EGM; and (ii) the receipt of the consideration in full by the Company. In the event Completion does not take place due to the fault of the Company or that the Sale Interests have been transferred to any other party prior to Completion, the Purchaser shall be entitled to demand for payment of an amount equivalent to 10% of the aggregate consideration of the Disposal.

THE COMPLAINT

On 9 January 2009, the Company established an independent investigation committee comprising the then independent non-executive Directors to investigate the matters raised pursuant to the Complaint.

On 12 and 13 January 2009, the Company engaged (i) Trend Associates Law Firm (a firm of PRC legal advisers) (the "**Advisers**"); and (ii) BDO Financial Services Limited (an international firm of financial advisory and accounting services) (the "**Financial Consultants**"), both being independent from the Group respectively by conducting certain agreed upon procedures and it was discovered that:

(a) on 6 November 2008, Zhang Yang (being Director and the chairman of the Company at that time) resigned as the legal representative and director of CIC and Dong Geng was appointed as legal representative and director of CIC;

(b) a financial arrangement agreement dated 25 November 2008 was executed by CIC and the Purchaser (the "**Financial Agreement**") whereby the Purchaser agreed to provide loan and financing to CIC to settle CIC's outstanding liabilities in the aggregate amount of RMB150,000,000 and that the entire registered capital of CIC should be transferred to the Purchaser as a means of security for the financing thus provided;

(c) the Purchaser executed (1) an undertaking dated 25 November 2008 in favour of the Company; and (2) an undertaking dated 25 November 2008 in favour of ICIM, both stating the Purchaser should return the equity interests in CIC to the Company and ICIM if funding to CIC had been repaid in full and that in the event the sale of CIC was not approved by the Shareholders, the Purchaser should return the equity interests in CIC to the Company and ICIM upon repayment in full of the funding advanced to CIC (the "**Undertakings**");

(d) (1) board resolutions of ICIM dated 25 November 2008 were passed to transfer all interests of ICIM in CIC to the Purchaser; and (2) board resolutions of the Company dated 25 November 2008 were passed to transfer all interests of the Company in CIC to the Purchaser;

(e) (1) a transfer agreement dated 25 November 2008 was executed by ICIM and the Purchaser for transfer of ICIM's interests in CIC to the Purchaser; and (2) a transfer agreement dated 25 November 2008 was executed by the Company and the Purchaser for transfer of the Company's interests in CIC to the Purchaser (the "**First Transfer Agreements**");

(f) shareholders' resolutions of CIC (being ICIM and the Company) dated 1 December 2008 were passed approving the transfer of CIC's equity interests to the Purchaser;

(g) (1) a transfer agreement dated 1 December 2008 was executed by ICIM and the Purchaser for transfer of ICIM's interests in CIC to the Purchaser; and (2) a transfer agreement dated 1 December 2008 was executed by the Company and the Purchaser for transfer of the Company's interests in CIC to the Purchaser (the "**Second Transfer Agreements**");

(h) Huang Yung and Ju Wei Dong were appointed as directors of CIC in accordance with the shareholder's resolutions dated 1 December 2008;

(i) on 11 December 2008, the local bureau of the Ministry of Commerce of the PRC in Changsha approved of the change in holder of CIC's equity interests; and

(j) on 18 December 2008, the local bureau of the State Administration for Industry and Commerce of the PRC in Changsha approved of the change in holder of CIC's equity interests and the CIC's directors, and issued the new business licence to CIC.

(items (d) to (g) above shall be referred to as the "**Ancillary Documents**")

Subsequent to the above findings, on 16 January 2009, the Group held meeting with the Purchaser to inquire about the allegation and discussed the possible change of terms of the Agreement.

Signatures of Directors and affixing of the Company's company chop

The Directors had not been informed of items (a) to (j) prior to the investigations of the allegation (save for Zhang Yang who was a Director and the chairman of the Company at that time was aware of such change of legal representative). In particular, they had not been informed regarding the change in holder of CIC's equity interests, nor had any Directors in fact signed on the Ancillary Documents, nor had any of them authorised the signing of the same. Based on investigations by the Company, it was discovered that the Directors' signatures on the Ancillary Documents were fraudulently made. It was suspected that one of the then employees of CIC (the "**Former Employee**", who was not the legal representative of ICIM or CIC, but was the authorised person appointed by CIC and ICIM's legal representatives to keep the company chops of these two companies) in the PRC had signed the Ancillary Documents in the name of the Directors.

The Company would like to state that its company chop is kept by its company secretary in Hong Kong and has never been delivered outside Hong Kong. According to the Company's records, the board resolutions of the Company dated 25 November 2008, the First Transfer Agreement dated 25 November 2008 entered into by the Company, the shareholders' resolutions of CIC dated 1 December 2008 and the Second Transfer Agreement dated 1 December 2008 entered into by the Company (all being part of the Ancillary Documents) had never been presented to the Board or the company secretary of the Company for affixing purpose. It was suspected that the Former Employee affixed a forged company chop of the Company on the aforesaid documents.

Affixing of CIC and ICIM's company chops

Based on the investigations by the Company, it was understood that at or around the time of signing the Financial Agreement, the First Transfer Agreements, the CIC's shareholders' resolutions and the Second Transfer Agreements, the company chops of CIC and ICIM were kept by the Former Employee, as appointed by the respective legal representatives of CIC and ICIM.

It was understood that the Former Employee affixed CIC's company chop on CIC's board resolutions and the Financial Agreement with the authority of CIC's legal representative. However, CIC's legal representative authorised the affixing of CIC's company chop based on the forged Ancillary Documents presented to him by such Former Employee.

As regards ICIM, it was believed that the Former Employee affixed the company chop of ICIM on ICIM's board resolutions, the First Transfer Agreement entered into by ICIM, the Second Transfer Agreement entered into by ICIM and CIC's resolutions without the authority of ICIM's legal representative.

Procedures governing the keeping of company chops

It has been the policy of the Group that (i) for the Company and its subsidiaries incorporated in Hong Kong, the company chops and common seals are kept by the company secretary in Hong Kong; and (ii) for subsidiaries established in the PRC, the company chops are kept by an authorised person appointed by the relevant legal representative of that company. As regards the affixing of the common seal of a Hong Kong Group company, approval of the relevant board would need to be required prior to affixing the common seal. As regards the affixing of the company chop of a Hong Kong Group company, approval of the relevant executive directors would need to be required prior to affixing the company chop. As regards PRC companies, any documents requiring the affixing of company chops have to be approved by the heads of individual department and further authorised by the legal representative of the relevant company before actually affixing the company chops on the relevant documents.

As at the Latest Practicable Date, the company chops of CIC and ICIM were still under the custody and control of the Group in the PRC.

Status of CIC at the material time

Based on the investigations by the Company, it was understood CIC was required to repay its liabilities imminently at that time and the aforesaid Former Employee made up the documents based on his personal judgment in order to facilitate cash inflow to CIC. The major assets of CIC were undeveloped land and certain properties under development only at the time of entering into the Financial Agreement. The undeveloped land had been pledged to a bank and the properties under development had not been completed and no title documents were available. Therefore, CIC had no chargeable assets.

The legal representative of CIC was changed from Zhang Yang to Dong Geng on 6 November 2008 as Zhang Yang had to devote more time to pursue his other business commitments. Dong Geng was introduced by the Purchaser and is an experienced businessman. According to the company search results on the Purchaser and also as confirmed by the Purchaser's management and Dong Geng, save that he had advanced RMB1,000,000 on behalf of the Purchaser (as set out in the paragraph headed "The Advances" below) for the transactions contemplated under the Financial Agreement, Dong Geng did not have other relationship with the Purchaser. His employment with the Group commenced from 6 November 2008. As informed by Dong Geng, prior to joining the Group, he was employed by various companies engaged in trading business in the PRC for over 15 years and has experience in business administration. Dong Geng had not been employed by the Purchaser and was still employed by CIC as at the Latest Practicable Date.

According to the Group's internal procedures, any change of the legal representative of its PRC subsidiaries would have to be approved by the relevant subsidiary's shareholder(s). In the present case, Zhang Yang in his capacity as the then executive Director and being responsible for management of the Group's business in the PRC, approved of such change. In order to enhance the procedures for change of PRC subsidiaries' legal representative, specific approval from the Board is required for such change with immediate effect.

As regards the appointment of Huang Yung and Ju Wei Dong as directors of CIC on 1 December 2008, they were appointed by the Purchaser to safeguard and supervise the use of the advance under the Financial Agreement. Huang Yung and Ju Wei Dong are deputy general managers of a shareholder of the Purchaser. Their employment with the Group commenced from 1 December 2008. As at 30 November 2008, CIC's board of directors comprised of Dong Geng, Lam Cheung Shing, Richard, Chan Wing Yuen, Hubert, Zhu Yongjun and Pan Yiming. Since 1 December 2008, CIC's board of directors comprised of Dong Geng, Huang Yung and Ju Wei Dong.

As regards the operations of CIC, Dong Geng is the chairman of the CIC's board, who is responsible for its daily operations and management. Dong Geng reports directly to the Group and the Company. The major responsibility of Huang Yung and Ju Wei Dong, another two directors of CIC, is to safeguard and supervise the use of the advances made under the Financial Agreement. These two directors do not participate in the daily operations of CIC. The change in the CIC's board composition on 1 December 2008 was not properly authorised by the Board and the Directors had no knowledge of such changes in CIC's board composition before carrying out the investigation.

Legal position

The Company has instructed the management of CIC to report the matter to the police in Changsha, the PRC – such being the suspicion that a Former Employee had forged the directors' signatures of CIC's shareholders and fraudulently made up documents causing a change in the holder of CIC's equity interest. The Company is at present considering taking further legal actions upon further advice from its PRC legal advisers.

Based on the PRC legal opinions received by the Company:

(a) the arrangement under the Financial Agreement and the Undertakings represented the taking of CIC's equity interests by way of security;

(b) the Financial Agreement, the Ancillary Documents, the Agreement and the Supplemental Agreement are legal as they have rectified the whole arrangement regarding the advance to CIC as well as the Disposal;

(c) due to the fact that, among others, (i) ICIM still remains as subsidiary of the Company; (ii) the EGM has yet been held to approve of the Disposal; (iii) the Purchaser has yet paid the aggregate consideration for the Disposal; and (iv) the Purchaser's written confirmation that CIC's is still under the Company's control, the Company still have actual control of CIC;

(d) after the transfer of the equity interests of CIC to the Purchaser, the title of such equity interests is still subject to the provisions of the Financial Agreement, the Supplemental Agreement and the Undertakings; and

(e) the Financial Agreement has not violated any laws and regulations of the PRC (including Article 73 of the Money Lending Code and the relevant statements made by the Supreme People's Court of the PRC on 23 September 1996).

The Company has been informed by the Purchaser that at the time of signing the Ancillary Documents, the Purchaser was not aware of their fraudulent nature. On or before 12 December 2008 (the date on which the Announcement was published), the Purchaser had not indicated or notified the Company about the Financial Agreement, the Undertakings and/ or the Ancillary Documents. It was only on 16 January 2009 when the Group had meeting with the Purchaser to discuss the allegations were the Purchaser aware of the fraudulent nature of the documents. Although the above documents had been signed without proper authority, as at the Latest Practicable Date, the Directors were satisfied that no assets of the Group had been dissipated or misapprehended.

As at the Latest Practicable Date, the Board considered completion of the Disposal had not yet taken place and CIC was still regarded as a subsidiary of the Company under its control. Such view has been formed based on:

(a) the execution of the Undertakings by the Purchaser, which is a strong evidence to show that completion of the Disposal has not yet taken place and that the Purchaser is still under obligation to transfer CIC's equity interests back to the Group once repayment has been made;

(b) the PRC legal opinions which confirm the arrangement under the Financial Agreement and the Undertakings represented the taking of CIC's equity interests by way of security only;

(c) the confirmation from the Purchaser confirming CIC's board is still under the control of the Company, and the supporting PRC legal opinion confirming the Company's control of CIC;

(d) the confirmation from the Purchaser confirming it shall cast its vote in accordance with the direction of the Company in any shareholders' meeting of CIC and shall not share any profits or receive any dividends declared by CIC prior to completion of the Disposal;

(e) the regular routine reporting (both financial and operational) from CIC to the Group has not been changed after the execution of the Related Documents (as defined below) or the Supplemental Agreement;

(f) the operations of CIC are still under the Group's instructions; and

(g) the confirmation from the auditors of the Company confirming the financial arrangement as set out in the Financial Agreement has not violated Hong Kong Accounting Standard 27 (which relates to control and subsidiary) as regards the Company's control of CIC.

Findings of the independent investigation committee

As set out above, an independent investigation committee comprising two then independent non-executive Directors and one independent non-executive Director was established in January 2009. According to the independent investigation committee, its objectives were to conduct fact-finding and to report the same to the Board. The independent investigation committee had submitted an investigation report dated 9 February 2009 to the Board, which specifically set out: since relevant reports and response had already been obtained by 5 February 2009, the independent investigation committee considered and confirmed the objectives had already been achieved.

As regards the fact-finding, the independent investigation committee considered it had preliminarily identified the Former Employee as the responsible person.

Below is a table charting the recommendations from the independent investigation committee and the actions taken by the Board as regards thereof:

	Recommendations of the independent investigation committee	Actions taken by the Board
1.	The Board needs to make further investigation as regards the financial arrangement under the Financial Agreement as to whether this would be in breach of the Listing Rules.	Subsequent to the receipt of the Complaint, the Board has obtained legal advice that the terms of the financial arrangement as set out in the Financial Agreement did not constitute a breach of the Listing Rules. However, the Stock Exchange is yet to determine whether the Disposal together with the financial arrangement under the Financial Agreement has constituted a breach of the Listing Rules.

	Recommendations of the independent investigation committee	Actions taken by the Board
2.	The independent investigation committee proposed Zhang Yang should take leave immediately.	The Board did request Zhang Yang to take leave during the investigation. However, Zhang Yang explained he was mainly focused on the transactions in relation to Heilongjiang Black Dragon Company Limited (including but not limited to the resumption of trading of its shares and arrange for additional financing, details of which are set out in the circular of the Company dated 31 January 2008), which was imperative to the Group's future operations. Accordingly, he refused to take any leave of absence. The Board would like to state that save for the meeting held on 29 March 2009 at which Zhang Yang explained the situation in person, Zhang Yang has abstained from attending any meeting of the Board regarding the present allegations in order to let the Board handle the matter independently. *(Note)*
3.	The independent investigation committee requested Zhang Yang to attend Board meetings to explain in person as regards the allegations.	The Board had requested Zhang Yang to explain the matter in person. On 29 March 2009, Zhang Yang attended a meeting with all then independent non-executive Directors to explain the situation in person.
4.	The independent investigation committee requested more personnel be sent to CIC to enhance its supervision.	The Board has appointed two designated persons to supervise the authorisation of affixing of CIC's company chop and the operations of CIC and ICIM.
5.	Appropriate legal action should be taken as regards the forgery of signatures on the Ancillary Documents.	The Board had instructed the management of CIC to report the matter to the police in Changsha, the PRC as set out above.

Note: Zhang Yang resigned as an executive Director and the chairman of the Company in May 2009.

The Advances

As at the Latest Practicable Date, an aggregate amount of approximately RMB127.8 million had been advanced by the Purchaser directly, except as indicated, for the purpose of the Financial Agreement. Details of such advances are set out as follows:

Date of receipt of advance	Amount of advance *(RMB)*
26 November 2008*	20,000,000
1 December 2008**	1,000,000
29 December 2008	17,577,119
29 December 2008	500,000
4 January 2009***	10,000,000
9 January 2009	200,000
12 January 2009	3,000,000
15 January 2009	10,000,000
20 January 2009	10,000,000
21 January 2009	10,000,000
4 February 2009	500,000
3 March 2009	500,000
26 March 2009	500,000
As at 31 March 2009	83,777,119
1 April 2009***	15,000,000
3 April 2009	22,000,000
18 May 2009	2,000,000
27 May 2009	5,000,000
Total:	127,777,119

* *This amount was advanced by 吉聯房地產開發經營有限公司 to CIC on behalf of the Purchaser*

** *This amount was advanced by Dong Geng on behalf of the Purchaser*

*** *These amounts were paid directly to CIC's creditors to settle CIC's outstanding liabilities*

Each of the advances above has been verified by the Financial Consultants.

According to the records of ICIM and CIC, of the above amounts, (i) approximately RMB37.4 million have been used to settle an outstanding bank loan; (ii) approximately RMB79.7 million have been used to settle the accounts payable of construction and consultancy fees; and (iii) approximately RMB10.7 million have been used to settle other payables and operating expenses. The above amounts have been verified by the Financial Consultants on a sampling of all payments over RMB200,000. The payee of one of the above payments in the amount of RMB1,000,000 was not specified in the bank statement in accordance with the procedures as set out by the Financial Consultants and accordingly, the Financial Consultants were unable to verify payment of this amount. However, the vouchers and the cheque stubs in relation to this RMB1,000,000 are kept by the Group showing the relevant payee. Accordingly, the Directors confirmed that the above amounts were all used to settle CIC's payments in relation to its ordinary course of business.

Some of the advances above were made to ICIM because it was the principal borrower in relation to a loan extended by a bank, pursuant to which CIC had mortgaged certain undeveloped land to secure such loan. Such loan was then on-lent to CIC for land acquisition.

Based on the fact that the Board did have intention to dispose of CIC, as evident from the execution of the Agreement, and that the Purchaser did make advances to CIC for settlement of its outstanding liabilities, the Company, CIC and the Purchaser entered into the Supplemental Agreement on 9 February 2009 to rectify the arrangements set out in the Financial Agreement, the Undertakings, the First Transfer Agreements and the Second Transfer Agreements (the "**Related Documents**") and to bring their terms in line with those of the Agreement. The long-stop date and the repayment date as set out in the Agreement (as amended and supplemented by the Supplemental Agreement) have expired but the Purchaser and the Company would like to proceed with the Disposal. Accordingly, the Purchaser, the Company and CIC entered into the Second Supplemental Agreement on 16 July 2009 to further amend the Agreement (as amended and supplemental by the Supplemental Agreement).

Other terms of the Supplemental Agreement and the Second Supplemental Agreement

(1) The Related Documents

The Company declared that it had not been informed of the execution of the Related Documents, nor had any Directors in fact signed on the Related Documents, nor had any of them authorised the signing of the same.

The Purchaser confirmed that save for the Agreement and the Related Documents, the Purchaser had not entered into any other formal or informal agreements regarding the Disposal and the Purchaser unconditionally and irrevocably agreed that it would not lodge any claims against the Company, CIC or ICIM based on documents other than the Agreement and the Related Documents.

(2) The Financial Agreement

The Company endorsed the contents of the Related Documents and authorised CIC to perform the obligations under the same (as amended and supplemented by the Supplemental Agreement and the Second Supplemental Agreement).

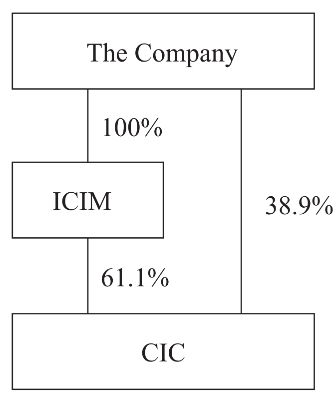
The Purchaser and CIC further agreed to clarify as follows:

(a) the Purchaser shall provide loan and financing to CIC in the aggregate amount of RMB150,000,000 under the Financial Agreement upon the written demand from CIC, which shall be non-interest bearing. The repayment date shall be 31 August 2009 or such later date as mutually agreed by CIC and the Purchaser in writing; and

(b) in the event that the Company had obtained the Shareholders' approval regarding the Disposal, the Purchaser shall have no right to demand for repayment of such loan under the Financial Agreement on or before the completion of the Disposal.

SHAREHOLDING STRUCTURE OF ICIM AND CIC

Set out below is the shareholding structure of ICIM and CIC as at the Latest Practicable Date:



INFORMATION ON ICIM

ICIM was established in the PRC on 24 May 2002. ICIM did not conduct any business activity or hold any asset except the holding of the 61.1% equity interest of CIC as at the Latest Practicable Date.

Set out below is the audited financial information (which has not been prepared on a consolidated basis) of ICIM for the three years ended 31 March 2009, which were prepared in accordance with PRC GAAP and as adjusted in accordance with HKFRSs:

	For the year ended 31 March 2009 *(HK$)*	**For the year ended 31 March 2008** *(HK$)*	**For the year ended 31 March 2007** *(HK$)*
Net loss before tax	4,793,000	5,041,000	5,642,000
Net loss after tax	4,793,000	5,041,000	5,642,000

The audited net assets value of ICIM prepared under HKFRSs was approximately HK$145,011,000 as at 31 March 2009. Approximately HK$63,218,000 represented the investment costs of the 61.1% equity interest in CIC.

INFORMATION ON CIC

CIC was established in the PRC on 23 September 2002. The principal business of CIC is properties investment and development in the PRC. As at the Latest Practicable Date, the main asset of CIC is the construction and development project of the Land. The Land was recorded in the CIC's accounts as interest in leasehold land and land use rights, property under development and property under development for sale in the book of the CIC respectively. The audited book value of the Land was approximately HK$558,913,000 as at 31 March 2009 and the valuation of the Land was RMB768,000,000 (equivalent to approximately HK$882,759,000) as at 30 April 2009, as set out in the valuation report on the Land in Appendix III to this circular.

Set out below is the audited financial information of CIC for the three years ended 31 March 2009 which was prepared in accordance with PRC GAAP and as adjusted in accordance with HKFRSs:

	For the year ended 31 March 2009 *(HK$)*	**For the year ended 31 March 2008** *(HK$)*	**For the year ended 31 March 2007** *(HK$)*
Net loss before tax	408,074,000	21,665,000	5,194,000
Net loss after tax	408,074,000	21,665,000	5,194,000

For the purpose of compliance with the HKFRSs, an impairment loss of HK$339,071,000 in relation to the Land (of which approximately HK$182,771,000 was impairment loss recognised in respect of the Interchina Mall and New Sport City Blocks 1-4 and approximately HK$216,300,000 was impairment loss recognised in respect of the undeveloped land due to the remeasurement to fair value less cost to sell) has been recognised in the net loss before and after tax of CIC for the year ended 31 March 2009 in accordance with HKFRSs. Apart from such adjustment, there would have been no other material difference if the net losses before and after tax of CIC were prepared under the accounting standards adopted by the Group.

The audited net liabilities value of CIC prepared under HKFRSs was approximately HK$407,130,000 as at 31 March 2009.

REASONS FOR THE DISPOSAL

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

CIC's major asset is the construction and development project of the Land. The construction costs of the Land have been financed by bank borrowings and advance from the Company. Taking into account the series of macroeconomic control measures on property developers in the PRC, CIC, being a small developer in the PRC, has been facing difficulties to obtain further funding through bank borrowings, the construction work of the Interchina Mall and New Sport City Blocks 1-4 have not been completed for almost five years since its construction work commenced at the end of 2003. During such 5-year period, the construction of the Interchina Mall has been carried on a continual basis but at a very slow pace and the construction of the New Sport City Blocks 1-4 was ceased at or around the middle of 2008. Based on the latest stage as well as the budget of the construction of the Interchina Mall and New Sport City Blocks 1-4 before entering into the Disposal Agreement, it is estimated that CIC should further invest approximately RMB254,600,000 to complete the construction. It mainly represents the construction costs payable to the construction contractors and material suppliers etc.. As at 30 September 2008, no construction or supply contracts have been signed for the purpose of such further investment. The Directors consider that in light of the introduction of macroeconomic control measures on property developers in the PRC and the recent stagnation in the economy, uncertainty of investment in property development in the PRC have increased. The huge capital needed to continue the development of the project also increased the risks of investment and reduced the financial resources available to other core business operation of the Group. The Directors believe that the Disposal at this stage is appropriate and will provide the Group with additional working capital for the existing environmental protection and water treatment operations.

The Directors (including the independent non-executive Directors) consider that the Amended Agreement is on normal commercial terms and the terms of which are fair and reasonable and the entering into of the Amended Agreement is in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECT OF THE DISPOSAL

Upon Completion, both ICIM and CIC will cease to be the subsidiaries of the Company and the Company will no longer have any interests in ICIM and CIC.

It estimated that there will be a loss of approximately HK$1,000,000 (subject to audit and after associated costs and other expenses) which is calculated based on (i) the net consideration of HK$378,310,000 (equivalent to approximately RMB329,130,000, representing the consideration of RMB330,000,000 less the estimated expenses to be incurred in connection with the Disposal of approximately HK$1,000,000); (ii) the combined net liabilities value of ICIM and CIC of approximately HK$326,545,000 as at 31 March 2009 as set out in Appendix I to this circular; and (iii) the amount of the Sale Loan of HK$705,855,000 upon Completion.

Based on the unaudited pro forma consolidated balance sheet of the Remaining Group as set out in Appendix II to this circular, after the Disposal, the total assets of the Remaining Group will decrease from approximately HK$3,065,296,000 to HK$2,853,926,000 and the total liabilities of the Remaining Group will decrease from approximately HK$1,190,145,000 to approximately HK$979,775,000.

USE OF PROCEEDS

The net proceeds of the Disposal is expected to amount to approximately RMB329,130,000, which is intended to be applied as additional working capital of the Group's environmental protection and water treatment operations as well as for general working capital purpose.

EGM

The EGM will be held at Lavender Room, The Park Lane Hong Kong, 310 Gloucester Road, Hong Kong on 18 August 2009 at 9:45 a.m.. The notice of the EGM is set out on pages 195 to 196 of this circular. The purpose of the EGM is to consider and, if thought fit, to approve the Disposal and the transactions contemplated thereunder.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you will be able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the share registrar of the Company, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof if you so wish.

RECOMMENDATION

The Disposal constitutes a very substantial disposal under the Listing Rules and is conditional upon the approval of the Shareholders at the EGM. As at the Latest Practicable Date, to the best knowledge of the Directors, no Shareholder had a material interest in the Disposal. Accordingly, no Shareholder is required to abstain from voting at the EGM. The ordinary resolution put to vote at the EGM will be decided by way of a poll as required by the Listing Rules.

The Directors are of the opinion that the terms of the Amended Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors recommend the Shareholders to vote in favour of the ordinary resolution as set out in the notice of the EGM to approve the Disposal and the transactions contemplated thereunder at the EGM.

GENERAL

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 of
Interchina Holdings Company Limited
Lam Cheung Shing, Richard
Chief Executive Officer and Executive Director

The following is the letter of advice from the Independent Board Committee setting out its recommendation to the Shareholders in respect of the Disposal:

國中控股有限公司

INTERCHINA HOLDINGS COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 202)

24 July 2009

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL

We refer to the circular dated 24 July 2009 to the Shareholders (the "Circular"), of which this letter forms a part. Terms used in this letter have the same meaning as defined in the Circular unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider the terms of the Disposal and to advise the Shareholders whether, in our opinion, the terms of the Disposal are fair and reasonable so far as the Shareholders are concerned. Ceres Capital Limited has been appointed to advise the Independent Board Committee and the Shareholders in respect of the Disposal.

Having taking into account the principal reasons and factors considered by and the advice of Ceres Capital Limited, we consider that the Disposal is in the ordinary and usual course of business of the Company and is in the interests of the Company and the Shareholders as a whole and the terms of the Disposal are on normal commercial terms and are, on balance, fair and reasonable. Accordingly, we recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Disposal.

Yours faithfully,
Independent Board Committee
Interchina Holdings Company Limited
Ms. Ha Ping
Mr. Ho Yiu Yue, Louis
Mr. Ko Ming Tung, Edward
Dr. Fu Tao

The following is the full text of the letter dated 24 July 2009 from Ceres Capital Limited, the independent financial adviser to the Independent Board Committee and the Shareholders in respect of the Disposal, prepared for the purpose of incorporation in this circular.

昱豐融資有限公司
CERES CAPITAL LIMITED

Unit C2, 15th Floor
United Centre
95 Queensway
Hong Kong

24 July 2009

To the Independent Board Committee and
the Shareholders of
Interchina Holdings Company Limited

Dear Sir/Madam,

VERY SUBSTANTIAL DISPOSAL

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Shareholders in respect of the Disposal. Details of the Disposal are set out in the letter from the Board (the "Letter from the Board") contained in the circular dated 24 July 2009 issued by the Company to the Shareholders (the "Circular"), of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Shareholders in respect of the Disposal. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

On 12 December 2008, the Board announced that the Company had entered into the Agreement with the Purchaser on 10 December 2008 pursuant to which the Company had conditionally agreed to sell, and the Purchaser had conditionally agreed to acquire, the Sale Interests and the Sale Loan at a total consideration of RMB330 million, which will be settled in cash. The Disposal constitutes a very substantial disposal of the Company under the Listing Rules.

On 27 April 2009, the Board further announced, among other things, that the Company, CIC and the Purchaser had entered into the Supplemental Agreement on 9 February 2009 to rectify the arrangements set out in the Related Documents and to amend the payment terms for the Disposal. The same parties also entered into the Second Supplemental Agreement on 16 July 2009 to further amend and supplement the terms of the Agreement in respect of, among others, the long-stop date for Completion and the repayment date of the advances by the Purchaser to CIC. The Disposal (as amended and supplemented by the terms of the Supplemental Agreement and the Second Supplemental Agreement) will be subject to approval of the Shareholders at the EGM and the Independent Board Committee, comprising all independent non-executive Directors, has been formed to recommend the Shareholders in this regard. At the request of the Stock Exchange, an independent financial adviser would be appointed to advise the Independent Board Committee and the Shareholders.

As the independent financial adviser to the Independent Board Committee and the Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Shareholders as to (i) whether the Disposal is on normal commercial terms, in the ordinary and usual course of business of the Company, and on terms that are fair and reasonable; (ii) whether the Disposal is in the interests of the Company and the Shareholders as a whole; and (iii) whether the Shareholders should vote in favour of the resolution to approve the Disposal.

Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee and the Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company. We are independent from the Company for the purposes of Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In forming our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, its advisers and the Directors. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, its advisers and the Directors and for which the Directors are solely and wholly responsible, were true and accurate at the time they were made and continue to be so at the date hereof. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. The Directors have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We consider that we have reviewed sufficient information which enables us to form a reasonable basis for our opinion. We also consider that we have performed all reasonable steps to ascertain the reliability of the information provided to us and to form our opinion. We have not, however, conducted any independent verification of the information provided, nor have we carried out any in-depth investigation into the business, financial results and positions and affairs of the Group or any parties involved in the Disposal, or the prospects of the market in which they respectively operate.

Our opinion is necessarily based upon economic, market and other conditions and circumstances existing on, and the facts, information and representations made available to us up to and including, the Latest Practicable Date. Although subsequent developments may affect our opinion, we do not have any obligation to update, revise or reaffirm our opinion contained herein.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the Disposal, we have taken into consideration the following principal factors:

I. Review of the Group's business operations

The Group's current principal activities can be categorized into four business segments as follows:

– Environmental protection and water treatment operation;

– Property investment operation;

– Securities and financial operation; and

– City development and investment operation.

The city development and investment operation of the Group is solely carried out by ICIM and CIC (the "ICIM Group") and, following the Disposal, it will become a discontinued operation. The following table summarizes the Group's audited results of operations by business segments for each of the two years ended 31 March 2008 (the "FYE 2008") and 31 March 2009 (the "FYE 2009"), which are extracted from the financial information of the Group contained in Appendix I to the Circular.

	Continuing operations				Discontinued operation	
	Environmental protection and water treatment operation	**Property investment operation**	**Securities and financial operation**	**Total**	**City development and investment operation**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 March 2009 (audited)						
Turnover	81,479	18,211	16,492	116,182	–	116,182
Segment results	34,974	(119,567)	11,564	(73,029)	(408,283)	(481,312)
Unallocated interest income				238	5	243
Unallocated corporate expenses				(34,754)	–	(34,754)
Loss from operations				(107,545)	(408,278)	(515,823)
Finance costs				(36,324)	(4,589)	(40,913)
Share of profit of associates				3,146	–	3,146
Loss on disposal of an associate				(225,146)	–	(225,146)
Taxation				14,491	–	14,491
Loss for the year				(351,378)	(412,867)	(764,245)

	Continuing operations				Discontinued operation	
	Environmental protection and water treatment operation	**Property investment operation**	**Securities and financial operation**	**Total**	**City development and investment operation**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 March 2008 (audited and restated) *Note*						
Turnover	71,238	18,107	13,662	103,007	–	103,007
Segment results	34,584	48,348	2,587	85,519	(20,640)	64,879
Unallocated interest income				2,868	8	2,876
Unallocated corporate expenses				(69,010)	(1,114)	(70,124)
Gain/(Loss) from operations				19,377	(21,746)	(2,369)
Finance costs				(23,240)	(4,960)	(28,200)
Share of profit of associates				2,608	–	2,608
Loss on disposal of subsidiaries				8,360	–	8,360
Taxation				(21,120)	–	(21,120)
Loss for the year				(14,015)	(26,706)	(40,721)

Note: The financial figures for the FYE 2008 are extracted from the financial information on the Company contained in Appendix I to the Circular and had been adjusted, where necessary, in accordance with the transitional provisions of HK(IFRIC)-Int 12 to present a consistent basis for comparison. Details and effects of the adjustments are described in the note headed "Impact on Adoption of New and Revised Hong Kong Financial Reporting Standards" to the financial information of the Group in Appendix I to the Circular.

For the FYE 2009, the Group reported total turnover of approximately HK$116.2 million, representing 12.8% growth from the FYE 2008. The major contributor was the business of environmental protection and water treatment operation which accounted for approximately 70% of the Group's total turnover. The remaining 30% of the total turnover was contributed by its property investment operation as to approximately 16% and the securities and financial operation as to approximately 14%. Such share of turnover by business segment was about the same as that for the FYE 2008. Despite the positive segment results of both the environmental protection and water treatment operation of approximately HK$35.0 million and the securities and financial operation of approximately HK$11.6 million, the Group reported a total segment loss of approximately HK$481.3 million primarily due to the loss of the city development and investment operation, i.e. the business carried out by the ICIM Group. The Group's property investment operation also recorded a segment loss of approximately HK$119.6 million. Such segment losses of the Group's two property related operations were mainly due to the loss on re-measurement of asset held to fair value less costs to sell, the impairment loss on property under development, and the fair value change in investment properties. After accounting for the finance costs of approximately HK$40.9 million and the loss on disposal of an associate (being the Group's interests in China Pipe Group Limited, details of which were set out in the Company's circular dated 2 January 2009) of approximately HK$225.1 million, the Group reported a loss for the year of approximately HK$764.2 million. Such loss was attributable to the Group's continuing operations as to approximately HK$351.4 million and the Group's discontinued operation as to approximately HK$412.9 million. This represented a significant deterioration in the Group's operating results compared with the loss of approximately HK$40.7 million for the FYE 2008.

II. Reasons for the Disposal

The Sale Interests are in effect 100% equity interest in CIC. The major asset of CIC is the construction and development project of the Land. As stated in the Letter from the Board, the construction costs of the Land have been financed by bank borrowings and advances from the Company. Taking into account the series of macroeconomic control measures on property developers in the PRC, CIC, being a small developer in the PRC, has been facing difficulties in obtaining further funding through bank borrowings. The construction work of the Interchina Mall and New Sports City Blocks 1-4 have been delayed from completion although its construction work commenced more than five years ago at the end of 2003. During such 5-year period, the construction of the Interchina Mall continued but at a very slow pace and the construction of the New Sports City Blocks 1-4 had ceased at or around the middle of 2008. Based on the latest stage as well as the budget of the construction of the Interchina Mall and New Sports City Blocks 1-4 before entering into the Agreement, it was estimated that CIC would need to further invest approximately RMB254,600,000 to complete the construction. It mainly represents the construction costs payable to the construction contractors and material suppliers etc. As at 30 September 2008, no construction or supply contracts have been signed for the purpose of such further investment. The Directors consider that in light of the introduction of macroeconomic control measures on property developers in the PRC and the recent downturn in the economy, uncertainty in property development in the PRC has increased. The large amount of capital needed to continue the development of the project also increased investment risks and reduced the financial resources available to other core business operations of the Group. The Directors believe that the Disposal at this stage is appropriate and will provide the Group with additional working capital for the existing environmental protection and water treatment operation, which is a profitable business.

Ever since mid 2005, the Company has announced its intention and negotiation regarding the possible disposal of assets relating to the non-core business of the Group, in particular the business of city development and investment operation. Between late 2004 and end of 2008, the Group has been divesting its interests in property development and investment operations. In particular, the Group had disposed of a land parcel in Changsha in September 2004, its property interests in Shanghai in April 2005, interests in land in Xian in May 2006, and leasehold land in Shanghai in March 2007. The Group had also attempted twice to dispose of its interests in the Land, or part of the Land, in October 2006 and August 2008, but was unsuccessful. All such moves as well as the proposed Disposal are consistent and in line with the stated business strategy of the Group to streamline its operations in order to focus its resources in its core business in environmental protection and water treatment operation.

The business of property development and investment is generally capital-intensive and also requires long-term commitment. Given the risks and uncertainties associated with the property development business in the PRC and the status of development of the Land, it would be beyond the Group's present financial capabilities to maintain its investment in the

Land and make further commitment for the development and completion of the property projects comprising the Land. To this end, we note from the audited consolidated balance sheet of the Group that as at 31 March 2009, the Group had cash and cash equivalents of approximately HK$34 million versus total indebtedness of approximately HK$524 million. On this basis, we concur with the Directors' view that the Disposal at this stage is appropriate so that the Group can realize its non-performing business or investments and direct its resources towards a focused line of business. We therefore consider that the Disposal is in the ordinary and usual course of business of the Company and is in the interests of the Company and the Shareholders as a whole.

III. The Disposal

1. Principal terms of the Agreement (as amended and supplemented by the terms of the Supplemental Agreement and the Second Supplemental Agreement)

Pursuant to the Agreement (as amended and supplemented by the terms of the Supplemental Agreement and the Second Supplemental Agreement), the Company has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Sale Interests (being 100% equity interest in ICIM and 38.9% equity interest in CIC) and the Sale Loan (being the non-interest bearing loan due from ICIM to the Company amounting to approximately RMB614.1 million as at 31 March 2009) at a total consideration of RMB330 million (the "Consideration"), which will be settled in cash.

As stated in the Letter from the Board, the Consideration was determined after arm's length negotiations between the Purchaser and the Company with reference to:

– the unaudited combined net liabilities of ICIM and CIC prepared under HKFRSs as at 30 September 2008 of approximately HK$42,148,000 (which has included the amount of the Sale Loan as at 30 September 2008);

– the preliminary valuation of the Land, being the major asset of CIC, in the amount of RMB867,900,000 as at 30 September 2008 assuming successful completion of the project, as assessed by RHL Appraisal Limited, the independent professional valuers;

– the fact that the Sale Loan is unlikely to be repaid in view of the tight cashflow of ICIM;

– the estimated further costs to be incurred to complete the construction work of Interchina Mall and New Sports City Blocks 1-4 (as set out in the paragraph headed "Reasons for the Disposal" above), which shall be situated on the Land.

Completion shall be conditional upon (i) the passing of the relevant resolution(s) at the EGM by the Shareholders for approving the Amended Agreement and transactions contemplated therein; and (ii) all necessary approvals from the securities authorities having been obtained in relation to the Disposal and the announcement and circular of the Company in relation to the Disposal having been published.

If the conditions precedent above are not satisfied on or before 31 August 2009, the Amended Agreement shall lapse and neither party to the Amended Agreement will have any liabilities save for any antecedent breaches thereof.

Completion shall take place upon the registration of transfer of the respective Sale Interests in ICIM and CIC with the Government of Changsha in Hunan Province, the PRC. Such registration of transfer shall be conducted upon (i) the approval of the Disposal by the Shareholders at the EGM; and (ii) the receipt of the consideration in full by the Company. In the event that Completion does not take place due to the fault of the Company or that the Sale Interests have been transferred to any other party prior to Completion, the Purchaser shall be entitled to demand for payment of an amount equivalent to 10% of the aggregate consideration of the Disposal.

A chart showing the shareholding structure of ICIM and CIC as at the Latest Practicable Date is set out in the Letter from the Board. Following completion of the Disposal, the Company will no longer have any equity interest in ICIM or CIC.

2. Information on ICIM, CIC and the Land

(i) General information relating to ICIM, CIC and the Land

As stated in the Letter from the Board, ICIM was incorporated in the PRC on 24 May 2002. ICIM did not conduct any business activity or hold any asset except the 61.1% equity interest in CIC as at the Latest Practicable Date. CIC was established in the PRC on 23 September 2002. The principal business of CIC is properties investment and development in the PRC. As at the Latest Practicable Date, the main asset of CIC was the construction and development project of the Land.

(ii) Financial information on ICIM and CIC

Set out below is a summary of the audited financial information of ICIM for each of the three years ended 31 March 2007, 2008 and 2009, which was prepared in accordance with PRC GAAP and adjusted in accordance with HKFRSs by the Company:

	Year ended 31 March		
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	–	–	–
Net loss for the year	4,793	5,041	5,642
Total assets	889,655	278,590	255,745
Total liabilities	744,643	133,779	119,515
Net assets	145,011	144,811	136,230

As indicated in the financial statements of ICIM, the assets of ICIM were primarily its interests in CIC and the amounts due from CIC, while the liabilities were primarily amounts due to the Company, short-term bank borrowings and other payables. As indicated above, ICIM had no business turnover for each of the past three financial years ended 31 March 2007, 2008 and 2009, indicating that it had not received any dividend income from its investment in CIC since CIC had not generated any income or profit from its investment in the Land. ICIM therefore had reported a net loss for all three financial years due primarily to finance costs which were incurred for its bank borrowings for onward advances to CIC. Since the principal asset of ICIM is the 61.1% interest in CIC, we set out below a summary of the audited financial information of CIC for each of the three years ended 31 March 2007, 2008 and 2009, which was prepared in accordance with PRC GAAP and adjusted in accordance with HKFRSs by the Company:

	Year ended 31 March		
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	–	–	–
Net loss for the year	408,074	21,665	5,194
Total assets	594,965	906,955	708,861
Total liabilities	1,002,095	906,043	688,337
Net assets/(liabilities)	(407,130)	912	20,524

As indicated above, CIC did not have any business turnover for all three financial years ended 31 March 2007, 2008 and 2009 as the development of the Land has not been completed and it had not generated any sales revenue or rental income. Therefore, CIC had reported an operating loss for the past three financial years due primarily to operating expenses. For the year ended 31 March 2009, CIC incurred an impairment loss of approximately HK$182.8 million in relation to its property under development, i.e. the Interchina Mall and the New Sports City Blocks 1-4, and the loss of approximately HK$216.3 million on re-measurement to fair value less costs to sell. CIC's net loss for the year ended 31 March 2009 thus increased significantly to approximately HK$408.1 million. The fact that CIC has continued to operate at a loss and would require significant capital for completion of the Interchina Mall and New Sports City Blocks 1-4 may suggest that CIC may not distribute any dividend to its shareholders in the very near future until its property project has been completed or sold and it has made some profit and accumulated a comfortable level of earnings. On this basis, the Company's direct and indirect interests in CIC do not appear to be a good investment in terms of returns and yields despite the fact that such investment has been carried for over five years.

The operations of CIC have been funded primarily by shareholder's loans from ICIM, which was in turn funded by shareholder's loans from the Company and bank borrowings, and other payables. Due to continuous operating losses, the net asset position of CIC has deteriorated year after year. With total liabilities reaching over HK$1,002 million, CIC went into a net liability of approximately HK$407.1 million as at 31 March 2009.

Since the disposal of the Sale Interests (being 100% equity interest in ICIM, which holds 61.1% equity interest in CIC, and 38.9% equity interest in CIC) is in effect the disposal of 100% interest in the ICIM Group, it is relevant to consider the combined financial results and position of the ICIM Group. Set out below is a summary of the audited combined financial information of the ICIM Group for each of the three years ended 31 March 2007, 2008 and 2009, which is extracted from the financial information on the Group contained in Appendix I to the Circular.

	Year ended 31 March		
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	–	–	–
Net loss for the year	412,867	26,706	10,836
Total assets	589,680	896,683	697,911
Total liabilities	916,225	813,278	597,883
Net assets/(liabilities)	(326,545)	83,405	100,028

As indicated, the ICIM Group had recorded no turnover but operating losses for all three financial years ended 31 March 2007, 2008 and 2009 due to operating expenses and finance costs over the years. Coupled with the impairment in value and the loss on re-measurement to fair value less costs to sell in relation to the Land, the net loss of the ICIM Group for the year ended 31 March 2009 had widened to approximately HK$412.9 million.

As mentioned above, the principal asset of the ICIM Group is the Land. As at 31 March 2009, the ICIM Group had total assets of approximately HK$589.7 million, of which approximately HK$558.9 million was represented by the book value of the Land and approximately $28.8 million by trade and other receivables and prepayments. The book value of the Land of approximately HK$558.9 million included approximately HK$490.8 million of properties under development for sale which was booked at fair value and approximately HK$68.1 million of undeveloped land which was booked at cost less amortization and impairment. We note in particular that as at 31 March 2009, the ICIM Group had cash and cash equivalents of approximately HK$276,000.

Of the total liabilities of ICIM Group as at 31 March 2009, shareholder's loans from the Company amounted to approximately HK$705.9 million and trade and other payables and deposits amounted to approximately HK$210.4 million. The shareholder's loans are non-interest bearing loans extended by the Company over the years to ICIM, which then financed the acquisition of the sites and the development and construction of the projects on the Land. The other payables included the short-term advances in the total amount of approximately RMB83.8

million (equivalent to approximately HK$96.3 million) by the Purchaser under the Financial Agreement to settle outstanding bank loans, trade payables and operating expenses of the ICIM Group in its ordinary business. As stated in the Letter from the Board, such advances by the Purchaser had increased to approximately RMB127.8 million (approximately HK$146.9 million as at the Latest Practicable Date.

As at 31 March 2009, the ICIM Group had net liabilities of approximately HK$326.5 million taking into account the retained loss of approximately HK$521.6 million.

(iii) Information on the Land

As described in the Letter from the Board and the report by RHL Appraisal Limited (the "Valuer"), an independent firm of property valuers, the Land comprises six parcels of land, including a commercial/residential complex under construction on one of the land parcels, all located at New Sports City, Yuhua District, Changsha, Hunan Province, the PRC. Changsha is the provincial capital city of Hunan, the PRC. Changsha City covers an area of 11,819 square kilometers and has a population of about 6 million. Changsha City has direct jurisdiction over five districts and located in its southeast is Yuhua District which has a population of about 800,000 including a permanent population of about 570,000.

The six parcels of land comprising the Land have a total site area of approximately 287,000 square metres. The commercial/residential complex under construction comprises a 3-storey commercial centre (known as Interchina Mall) and four blocks of commercial, residential and hotel buildings (known as New Sports City) and will have a total gross floor area of approximately 140,000 square metres upon completion. While the commercial/residential complex is being developed and built on one of the six parcels with a site area of approximately 50,000 square metres, the other five land parcels with a total site area of approximately 237,000 square metres are currently vacant and occupied with some temporary structures and the relocation of certain occupants are still in progress. In other words, only about 17% of the site area of the land parcels comprising the Land is being developed and such development, i.e. the aforesaid Interchina Mall and New Sports City, was commenced in 2003 and, after more than five years, is yet to be completed. According to the Company's initial plan, the development of the Land was intended to be carried out in several phases and the whole development was expected to be completed by the end of 2006. As advised by the Company, the prolonged construction time is primarily due to the increased uncertainties and unfavourable factors to property development in the PRC following a series of macroeconomic control measures taken by the PRC government in 2005 to dampen sectors considered to be overheated. The Group has since then focused its resources on the development of its core business of environmental protection and water treatment operation and, therefore, the Group's property development business has had limited financial infusion and thus its financial resources are stretched. As a result, the construction of the

Interchina Mall has continued at a very slow pace and the construction of the New Sports City Blocks 1-4 had ceased at or around the middle of 2008. Details and valuation of the Land are set out in the report by the Valuer contained in Appendix III to the Circular.

During our site visit of the Land, we noticed that much part of the exterior works for the Interchina Mall was in quite a rundown condition and needed refurbishment. Some uninstalled massive decorative features, supposedly grand and impressive, also seemed to have been left unattended for a long time and appeared to be decaying and obsolete. As for the New Sports City Blocks 1-4, two of the blocks were constructed up to the superstructure stage without any exterior wall, while the other two blocks had the superstructure and the exterior wall of only the upper floors constructed. We have discussed the construction progress with the management of CIC and the Valuer and have been advised that based on the current stage of construction, it would take at least six months to complete the exterior construction work and another 12 to 18 months for interior construction and fitting-out works for the New Sports City Blocks 1-4 if construction resumes at full speed. As advised by the Company, the estimated further cost of about HK$254,600,000 required for completing the construction work of Interchina Mall and New Sports City Blocks 1-4 do not include that for interior decoration which can vary significantly, depending on the design, style and grade of finishing used.

Despite a series of macroeconomic control measures taken by the PRC government in 2005 to dampen sectors considered to be overheated, economic growth in China surged by 10.7% in 2006, representing the fourth straight annual double-digit growth rate for China since 2003. The second quarter of 2006 registered an 11.5% growth over the same period in 2005, the highest in a decade, prompting the PRC government to take rapid and strong measures in 2007 to curb the overheated economy. In 2007, the People's Bank of China raised the benchmark interest rates of financial institutions six times and hiked the reserve requirement ratio seven times, all in a bid to curb the overheating economy and to tighten control over excessive monetary credit. In September 2007, the China Banking Regulatory Commission jointly with the People's Bank of China issued the Notice on Strengthening Commercial Property Credit Management, with a focus on strengthening management of property-related loans by stipulating strict criteria for lending, raising down payment requirements for both individual and commercial real estate loans, and restricting second mortgage and second-home mortgage loans. In his report to the National People's Congress on 5 March 2008, Premier Wen Jiabao said the government must rein in lending and curb inflation. In this connection, the Company has confirmed that since 2005, the ICIM Group has not been able to obtain additional bank financing for completion of the Interchina Mall and the New Sports City Blocks 1-4 despite repeated enquiries. The tightening monetary policy proved to be effective as evidenced by the significant drop in both property prices and transactions, particularly in the fourth quarter of 2008. There had also been an acceleration in the increase of new supply of properties as the new mortgage loan policies prompted the property developers to sell completed projects as soon as possible.

Meanwhile, since the third quarter of 2007 the global financial markets have experienced significant downturn. The condition of the U.S. financial market has continued to be burdened by the deteriorating state of the housing and credit markets, amidst signs of a spilling over into the consumer sector. Such conditions suggested that the U.S. was entering into a recession which would inevitably affect the global economy adversely. In mid September 2008, the People's Bank of China decided to cut RMB benchmark lending rates and the reserve requirement ratio for small and medium-sized financial institutions for the first time in six years amid growing turmoil in global financial markets. In early November 2008, the Chinese government announced a RMB4 trillion stimulus package aimed at countering any adverse effects of the financial crisis on China's still growing economy. Under the package, funds will be allocated for low-rent housing, roads, railways, airports, power grids, rural development and the speeding up of reconstruction after the May's earthquake in Sichuan province, etc. On 20 December 2008, the State Council General Affairs Office issued "Several Opinions on Promoting the Sound Development of the Real Estate Market" (關於促進房地產市場健康發展的若干意見) which sets out the Central Government's policies to strengthen the real estate market and, in particular, to promote increased construction of economic housing for low-income families and the renovation of rural homes that are in dangerous condition. According to latest figures from the National Bureau of Statistics, in May this year, housing prices in 70 big and medium cities dropped by 0.6% year-on-year, and the decline is 0.5 percentage point lower than that in April. Also, in May housing prices in these cities grew 0.6% over April, and such price increase is 0.2 percentage point higher than the month-on-month price increase in April. Among these 70 cities, 62 of them were seeing month-on-month price increase in May, and only six of them were seeing month-on-month price decline. Based on these figures, China's real estate market is apparently rebounding. There is, however, concern as to whether or not such rebound can last long and whether a real and sustainable recovery is around the corner. Some analysts have suggested that falling house prices and pent-up demand since the second half of 2008 and lower interest rates have helped spur the property market rebound in the first five months of 2009. The PRC real estate market is a policy-driven market. A primary objective of the government policies is to implement harmonized policies aimed at stimulating consumption at the lower sectors of society and socially inclusive economic development, as evidenced by the government's allocation of about 10% of the funding under the RMB4 trillion stimulus package to support further development of ordinary commercial housing (普通商品住房) so as to increase supply of housing at affordable prices for low-income groups. Apparently, the high-end residential, hotel and commercial projects are outside such category of affordable housing and are unlikely to receive any support or benefit from the government's current stimulus policies. On the contrary, the government has not spared any effort in preventing bubbles forming in the property market by curbing speculative activities and over-investments. According to the Circular of the State Council Concerning the Approval and Transmission of Suggestions on Deepening the Reform of the Economic System for 2009 by the National Development and Reform Commission (國務院批轉發展改革委關於2009年深化經濟體制改革工作意見的通知) published on 25 May 2009, the PRC government is considering to reform the tax system in the PRC real estate industry and will study the feasibility of levying a property tax. The release of the circular with the mention of property tax is generally seen as indicating the government is paying close attention to market trends and will take appropriate measures to prevent property prices from rising too rapidly and creating a speculative bubble. The property tax, if any, is also likely to be levied on non-residential properties and large and luxury housing, and is unlikely to be imposed on affordable housing which targets low-income groups and first-time home buyers.

Having considered the PRC government's policies towards the real estate market over the last few years as described above and that the Land under the Disposal comprises a luxurious residential/commercial complex and a few undeveloped lots, we consider that the Land is unlikely to enjoy any policy support from the Central Government. On the contrary, it could be adversely impacted by the property tax in the reformed tax system in the PRC real estate industry. Furthermore, in the event of a market recovery, the positive signs and impact of economic recovery on second- or third-tier cities, such as Changsha, in the PRC are usually not as immediate as those on major cities, such as Beijing and Shanghai. Given the size, location and the stage of development of the Land, we consider that the Company may have to wait for some time before the Land would receive any serious attention from other potential investors, if any.

3. Consideration for the Disposal and pricing basis

Pursuant to the Agreement, the total consideration for the Disposal is RMB330 million of which:

– RMB35 million represents the consideration for 38.9% equity interest in CIC held directly by the Company (which also represents the initial investment costs of the Company);

– RMB150 million represents the consideration for the 100% equity interest in ICIM held by the Company (which also represents the initial investment costs of the Company); and

– RMB145 million represents the consideration for the Sale Loan.

As stated in the Letter from the Board, the Consideration was determined after arm's length negotiations between the Purchaser and the Company with reference to (i) the unaudited combined net liabilities of ICIM and CIC prepared under HKFRSs as at 30 September 2008 of approximately HK$42,148,000 (which has included the amount of the Sale Loan as at 30 September 2008); (ii) the preliminary valuation of the Land, being the major asset of CIC, in the amount of RMB867,900,000 as at 30 September 2008, as assessed by the Valuer; and (iii) the fact that the Sale Loan is unlikely to be repaid in view of the tight cashflow of ICIM; (iv) the estimated further costs to be incurred to complete the construction work of Interchina Mall and New Sports City Blocks 1-4 (as set out above in the paragraph headed "Reasons for the Disposal"), which shall be situated on the Land. The preliminary valuation of the Land has been prepared assuming construction of the Interchina Mall and New Sport City Block 1-4 has been successfully completed, using the direct comparison method and the depreciated replacement cost method.

Based on the audited combined balance sheet of the ICIM Group as at 31 March 2009, the outstanding amount of the Sale Loan was approximately HK$705.9 million. Such amount remained the same as at the Latest Practicable Date. As the Sale Loan is not interest-bearing, any increase in the outstanding amount of the Sale Loan is due to additional funds advanced to the ICIM Group. As advised by the Company, it does not intend to commit any additional financial resources to the Land or the ICIM Group and, therefore, the outstanding amount of the Sale Loan is not expected to change materially up till completion of the Disposal.

Under the Amended Agreement, separate consideration has been provided for the disposal of the Company's interests in CIC and ICIM and the Sale Loan. As advised by the Company, the consideration for the Disposal has been negotiated on a lump sum basis and the breakdown of the consideration for the Company's interests in CIC and ICIM is primarily to reflect the initial investment costs and to facilitate accounting purpose. Since the disposal of the interests in CIC and ICIM and the Sale Loan form part and parcel of the Amended Agreement, we consider it more appropriate to assess the total consideration of RMB330 million for the disposal of the Sale Interests and the Sale Loan as one single transaction.

In assessing the total consideration of RMB330,000,000 under the Disposal, we have considered the financial position of the ICIM Group, the outstanding amount of the Sale Loan, and the status and value of the Land. We consider the historical operating results of the ICIM Group not relevant for the purpose of assessing the consideration as the ICIM Group is a property investment and holding group and has not generated any sale or rental income as its property project is still under development. As mentioned above, the major asset of the ICIM Group is the Land, which had a book value of approximately HK$558.9 million in the financial statements of the ICIM Group as at 31 March 2009. We note from the valuation report by the Valuer that the total market value of the Land as at 30 April 2009 amounted to approximately RMB768 million (equivalent to approximately HK$882.8 million). This represents a valuation surplus of approximately HK$323.8 million compared to the audited carrying value of the Land of approximately HK$558.9 million as at 31 March 2009. Taking into account (i) the net liabilities of the ICIM Group of approximately HK$326.5 million as at 31 March 2009, (ii) the valuation surplus of approximately HK$323.8 million in respect of the Land, and (iii) the outstanding amount of the Sale Loan of approximately HK$705.9 million as at 31 March 2009, the adjusted total value of the Sale Interests and the Sale Loan would be approximately HK$703.2 million. On this basis, the total consideration of RMB330 million for the Disposal (equivalent to approximately HK$379.3 million) appears to be relatively low as it represents a discount of approximately 46% to the adjusted book value of the Sale Interests and the Sale Loan of approximately HK$703.2 million.

As mentioned above, in determining the Consideration, the Company has also had regard to the fact that the Sale Loan is unlikely to be repaid in view of the tight cashflow of ICIM, and the estimated further costs to be incurred to complete the construction work on the Land. As advised by the Company, all the investment and construction costs in relation to the Land so far have been funded by the capital of the ICIM and CIC, the Sale Loan, bank loans and trade and other payables. Based on our review of the financial statements of the ICIM Group, the total investment costs of the Land have reached HK$1,090.3 million as at 31 March 2009 as represented by the Sale Loan, trade and other payables, and share capital of approximately HK$705.9 million, HK$210.4 million and HK$174.1 million, respectively. Despite the total investment of over HK$1,090.3 million, the Land was valued at only approximately HK$882.8 million as at 30 April 2009, even that at a successful completion basis. In other words, the Company has failed to maintain at least the face value of its investment in the Land through ICIM and CIC and has incurred a loss of approximately HK$207.5 million based on such face values. One main reason for the relatively high investment costs is due to the prolonged construction time which is primarily due to the increased uncertainties and unfavourable developments in the property market in the PRC following a series of macroeconomic control measures taken by the PRC government in 2005 to dampen sectors considered to be overheated. The Group has since then focused its resources on the development of its core business of environmental protection and water treatment operation and, therefore, the Group's property development business has had limited financial infusion and thus its financial resources are stretched.

We have reviewed and also discussed with the Valuer its valuation report on the Land. We note that the market value of the Land has been arrived at assuming that the properties currently under construction will be developed and completed in accordance with the Group's latest development proposal. We also understand that the Valuer has adopted the direct comparison method for the land parcels comprising the Land and has made reference to comparable land sale transactions as available in the relevant market as well as the latest benchmark land price published by the local government authority. As for the properties under construction, i.e. Interchina Mall and New Sports City Blocks 1-4, the Valuer has adopted the depreciated replacement cost method and used current replacement costs to arrive at the market value due to the lack of an established market upon which to base comparable transactions. Based on our discussion with the Valuer, we are of the view that the methodologies applied by the Valuer and the underlying basis for valuation of the Land are fair and reasonable. It should be noted, however, that construction of Interchina Mall and New Sports City Blocks 1-4 has commenced since late 2003 and during the past 5-year period, the construction of the Interchina Mall has continued at a very slow pace and the construction of the New Sports City Blocks 1-4 had ceased at or around the middle of 2008. Generally, the suspension of construction would cast a very negative impact on the marketability of a property and may even be an indication of non-marketability of the property. While the risks and uncertainties associated with an acquisition of a property under development are much higher than those associated with a completed property, an investment in a development which has been suspended would pose even greater concern for potential investors. Furthermore, prolonged suspension of construction may further impair the value of works completed, and hence the value of the Land, due to physical deterioration of works and materials, functional and technological obsolescence, wear and tear, and weather, etc. This may lead to unexpected maintenance or rectification costs and may also further increase construction risk. All these potential costs and risks associated with properties under construction cannot be quantified and have not been taken into account in the valuation of the Land, therefore the market value of the Land as appraised by the Valuer may not be achievable in reality if there is no willing buyer at the assessed value.

As a matter of fact, the Company had attempted to dispose of the Land or part of it since 2006, but was unsuccessful. In October 2006, the Company entered into an agreement to dispose of its interests in ICIM and CIC and the loan from the Company to ICIM (which amounted to approximately HK$221.4 million as at 3 January 2007) for a total consideration of HK$398,870,000 (the "First Disposal Attempt"). However, when the potential purchaser was requested to settle certain operating costs due to the Group by ICIM and CIC in the continuous development progress of the Land, the purchaser chose to back out from the acquisition. As a result, the Company had no choice but to agree to terminate the disposal in March 2007. As a condition to the termination, the potential purchaser agreed to proceed with the purchase of another property interest from the Company, but at a price much lower than that previously agreed. Then in August 2008, the Company identified another purchaser for three of the undeveloped land parcels comprising the Land and signed an agreement to dispose them for about RMB474 million (including relocation costs payable by CIC) (the "Second Disposal Attempt"). Although the Company intended to dispose of its entire interest in the Land, the potential purchaser was only interested in three of the land parcels and did not consider the Interchina Mall and the New Sports City Blocks 1-4 which were under construction. Unfortunately, such disposal fell through again after an extended due diligence review by the potential purchaser who failed to honour its payment obligations despite repeated requests and despite the fact that the Company had procured the satisfaction of all conditions precedent to the disposal. The Company was again left with no choice but to terminate the transaction in November 2008.

Although the exact reasons for the potential purchasers to back out from the acquisition are not known, the facts have indicated that a project under construction and the substantial amount of outstanding loan in relation to the Land were a burden to completion of the transactions. The repeated failure of the First Disposal Attempt and the Second Disposal Attempt has also resulted in extra uncertainty and difficulty for the Company in finding a purchaser for the Land. Coupled with the size and scale of the Land and the substantial development costs required in addition to the purchase price of the Land, it would not be easy for the Company to identify a willing buyer for its entire interest in the Land at the market value or anywhere near market value.

The Amended Agreement currently under consideration was initially signed in December 2008, just a few months after the failed Second Disposal Attempt in October 2008 and about two years after the failed First Disposal Attempt in October 2006. Both disposal attempts were arm's length transactions and were not connected transactions of the Company under the Listing Rules. The disposal considerations involved in the two disposal attempts of about RMB$474 million (including relocation costs payable by CIC) and HK$398,870,000, respectively, were apparently higher than that of RMB330 million (equivalent to approximately HK$379.3 million) under the Disposal. However, since the potential purchasers failed to complete the transactions and both disposals did not proceed, the considerations thereunder do not provide a good basis for comparison and may suggest that they were too high at the material time. Also, it is worth noting that in the First Disposal Attempt which involved exactly the same assets as in the Disposal and was made in October 2006 when the real estate market in the PRC was booming, the consideration of HK$398,870,000 was only about 5% higher than that of RMB330 million (equivalent to approximately HK$379.3 million) under the Disposal. The First Disposal Attempt fell through nevertheless.

The Consideration of RMB330 million represents a discount of approximately 46% to the adjusted book value of the Sale Interests and the Sale Loan of approximately HK$703.2 million. Such adjusted book value of the assets under the Disposal is calculated on the assumption that the Land can be realized at its full market value as at 30 April 2009 as appraised by the Valuer and the full amount of the Sale Loan can be recovered by the Company. As stated in the Letter from the Board, CIC had no chargeable assets to support its additional financing requirement and, as at 31 March 2009, the ICIM Group had cash and cash equivalents of only approximately HK$267,000 and, therefore, the Sale Loan is unlikely to be recoverable by the Company under the circumstances. Consequently, whether or not the Sale Loan can be recovered depends primarily on whether the Land or part of it can be realized and how much can be realized therefrom.

As discussed above, the market value of the Land of approximately HK$882.8 million as at 30 April 2009 was an appraised value by the Valuer based on the assumption that construction of the Interchina Mall and New Sport City Block 1-4 will be developed and completed in accordance with the Group's development plans. In reality, such development project may not be completed, and such market value may not be achievable if there is no willing buyer at such market value. Thus how much of the market value of the Land can be achieved will impact on the recoverability of the Sale Loan by the Company. The table below shows the percentage of recoverability of the Sale Loan under different scenarios where different percentages of the market value are achieved in the case of a sale of the Land.

	Sale price achievable as a percentage of the market value of the Land						
	100%	**90%**	**80%**	**70%**	**60%**	**50%**	**Disposal**
	(approximate figures in HK' million)						
Total assets as at 31 March 2009 of ICIM Group	519.9	519.9	519.9	519.9	519.9	519.9	
Achievable sale price of the Land	882.8	794.5	706.2	617.9	529.7	441.4	
Book value of Land as at 31 March 2009	558.9	558.9	558.9	558.9	558.9	558.9	
Surplus/(Deficit)	323.8	235.6	147.3	59.0	(29.3)	(117.5)	
Adjusted total assets of ICIM Group	843.7	755.4	667.2	578.9	490.6	402.3	
Other payables as at 31 March 2009	(210.4)	(210.4)	(210.4)	(210.4)	(210.4)	(210.4)	
Remaining assets for repayment of Sale Loan	633.3	545.1	456.8	368.5	280.2	191.9	379.3*
Sale Loan as at Latest Practicable Date	705.9	705.9	705.9	705.9	705.9	705.9	705.9
Recoverability	89.7%	77.2%	64.7%	52.2%	39.7%	27.2%	53.7%

* *Being the consideration of RMB330 million under the Disposal.*

As indicated in the table above, if the Land can be realized at its full market value as appraised by the Valuer, the Sale Loan can be recovered up to about 89.7%. If only 70% of the market value can be achieved in a sale of the Land, the recoverability of the Sale Loan will be approximately 52.2%. If the achievable sale price of the Land becomes lower, the recoverability of the Sale Loan will drop further. Under the Disposal, the consideration of RMB330 million (equivalent to approximately HK$379.3 million) provides a recoverability of approximately 53.7% of the Sale Loan. Such recoverability is substantially the same as the 52.2% recoverability in the event of a sale of the Land at 70% of its market value.

Given the fact that (i) the Land consists of properties under development and certain construction work has been suspended since August 2008 and certain sections of the buildings have begun to show deterioration; (ii) the Company has attempted to dispose of the Land or part of it since 2006 and both the First Disposal Attempt and the Second Disposal Attempts failed; (iii) the credit market for real estate development in the PRC has tightened following the macroeconomic control measures by the PRC government; (iv) the Group does not have the resources to complete the development of the Land based on its current financial position; and (v) the prolonged construction time and suspension of certain construction works in the Land have alerted the creditors of CIC to demand settlement of the outstanding payables, we would regard the disposal of the Land under such circumstances as a distress sale, under which the seller would generally receive a price significantly lower than the current market price. The Consideration represents a recoverability of approximately 53.7% of the Sale Loan which is largely equivalent to that in the event of a sale of the Land at 70% of its market value. We consider a sale price at 70% of the market value of the Land in a distress sale under the current circumstances and in the absence of a liquid market to be acceptable.

Shareholders should note that the above quantitative analysis is made for illustration purpose only and is not an indication or estimate of the sale price of the Land or the actual recoverability of the Sale Loan.

In summary, we have considered our above analysis, in particular the fact that (i) the real estate market has experienced a significant downturn since late 2007 and the future prospects remain unclear as there is no guarantee that the recent rebound will be sustainable; (ii) the PRC government policies continue to ensure a stable property market, but will take appropriate measures to prevent bubbles forming in the property market by curbing speculative activities and over-investments, in particular, in high-end residential, hotel and commercial properties; (iii) the risks and uncertainties associated with investment in the Land which comprises properties under development and which construction has been substantially suspended are relatively high; (iv) substantial development costs will be required in addition to the purchase price of the Land given its large size and scale; (v) the failures in the First Disposal Attempt and the Second Disposal Attempt for unknown reasons have resulted in extra uncertainty and difficulty for the Company in finding interested investors for the Land; (vi) it has been demonstrated by the failures in the First Disposal Attempt and the Second Disposal Attempt that a willing buyer was not readily available, and the Consideration under the Disposal reflects the market value of the Land offered by a willing buyer; (vii) since 2005, the ICIM Group has failed to obtain additional bank borrowings for completion of the Interchina Mall and the New Sports City Blocks 1-4 and was demanded to repay its outstanding bank loans; (viii) as far as the recoverability of the Sale Loan is concerned, the Consideration under the Disposal is equivalent to a sale of the Land at about 70% of its market value which, we consider, is acceptable in a distress sale and in the absence of a liquid market; and (ix) the Disposal provides a good opportunity for the Company to dispose of its entire interest in the Land and to be released from further financial commitments for the maintenance, development and construction of the Land. For such reasons and factors, we are of the view that the total consideration of RMB330,000,000 under the Disposal is fair and reasonable despite the fact that it represents a discount of approximately 46% to the adjusted book value of the Sale Interests and the Sale Loan of approximately HK$703.2 million which is calculated on the assumption that the Land can be realized at its full market value and the full amount of the Sale Loan can be recovered by the Company.

4. *Payment terms*

Pursuant to the Agreement, the Consideration shall be settled by the Purchaser in cash in the following manner:

– as to RMB70 million shall be paid within ten (10) business days after the signing of the Agreement as deposit and part payment of the consideration;

– as to RMB130 million shall be paid within five (5) business days after the approval of the Disposal by the Shareholders at the EGM as deposit and part payment of the consideration; and

– as to the remaining balance of RMB130 million shall be paid within five (5) months after the approval of the Disposal by the Shareholders at the EGM.

The above payment terms have been amended pursuant to the Supplemental Agreement as follows:

– the Purchaser shall pay to the Company RMB200,000,000 within 30 days after the Disposal has been approved by the Shareholders at the EGM; and

– the Purchaser shall pay to the Company RMB130,000,000 within five months after the Disposal has been approved by the Shareholders at the EGM.

As advised by the Company, the change in the payment terms above was due to the advances made by the Purchaser under the Financial Arrangement which have amounted to approximately RMB127.8 million as at the Latest Practicable Date. Such amount has well exceeded the part payment of RMB70 million originally payable by the Purchaser within 10 business days after signing of the Agreement.

We have reviewed the payment terms of property disposal transactions by the Group to independent third parties over the last few years, including the disposal of property interests in Shanghai in April 2005, and interests in land in Xian in May 2006, as well as the First Disposal Attempt in October 2006 and the Second Disposal Attempt in August 2008. We have noted that the consideration for most of the Group's property disposal transactions was usually settled by stage payments with credit terms for the major portion of the consideration ranging from one, three or six months, to up to 12 months after the date of the transaction agreement. Given the relatively large amount of the consideration involved in the Disposal, and that a total amount of approximately RMB127.8 million has been advanced by the Purchaser to CIC on non-interest bearing basis, and about 60% of the consideration is payable within 30 days after approval of the Shareholders, we are of the view that the payment term for the total consideration of RMB330 million under the Disposal as described above to be normal commercial terms and fair and reasonable.

IV. Other considerations

We note from the announcement of the Company dated 27 April 2009 that subsequent to the publication of the announcement on the Disposal, the Company was informed by the Stock Exchange that it had received a complaint alleging the Company, among others, of certain irregular acts involving the Disposal. Details of the Complaint and response of the Company (including the findings and remedial actions) are disclosed in the Letter from the Board.

We also note that the Supplemental Agreement was entered into as a result of the findings in relation to the Complaint so as to rectify the arrangements set out in the Financial Agreement, the Undertakings, the First Transfer Agreements and the Second Transfer Agreements (the "Related Documents") and to bring their terms in line with those of the Agreement. Details of the Related Documents and the Company's legal position are set out in the Letter from the Board. The long-stop date and the repayment date as set out in the Agreement (as amended and supplemented by the Supplemental Agreement) have expired but the Purchaser and the Company would like to proceed with the Disposal. Accordingly, the Purchaser, the Company and CIC entered into the Second Supplemental Agreement on 16 July 2009 to further amend the Agreement (as amended and supplemented by the Supplemental Agreement). Based on information contained in the Letter from the Board, we have summarized below certain facts which we consider are of relevance to the Disposal:

– The Financial Agreement was signed between CIC and the Purchaser whereby the Purchaser agreed to provide loan and financing to CIC to settle CIC's outstanding liabilities in the aggregate amount of RMB150,000,000 and that the entire registered capital of CIC should be transferred to the Purchaser as a means of security for the financing thus provided.

– The Purchaser shall provide loan and financing to CIC in the aggregate amount of RMB150,000,000 under the Financial Agreement upon the written demand from CIC, which shall be non-interest bearing. The repayment date shall be 31 August 2009 or such later date as mutually agreed by CIC and the Purchaser in writing.

– In the event that the Company had obtained the Shareholders' approval regarding the Disposal, the Purchaser shall have no right to demand for repayment of such loan under the Financial Agreement on or before the completion of the Disposal.

– The Undertakings were executed by the Purchaser in favour of the Company and ICIM, both stating the Purchaser should return the equity interests in CIC to the Company and ICIM if funding to CIC had been repaid in full and that in the event the sale of CIC was not approved by the shareholders of the Company. The Purchaser should return the equity interests in CIC to the Company and ICIM upon repayment in full of the funding advanced to CIC.

– Based on the PRC legal opinions received by the Company, the arrangements under the Financial Agreement and the Undertakings represent the taking of CIC's equity interests by way of security.

– As at the Latest Practicable Date, a total amount of approximately RMB127.8 million had been advanced by the Purchaser for the purpose of the Financial Agreement for settlement of bank loans of approximately RMB37.4 million, construction and consultancy fees of approximately RMB79.7 million, other payables and operating expenses of approximately RMB10.7 million. The Directors confirmed that the above amounts were all used to settle CIC's payments in relation to its ordinary business.

In this letter of advice, we do not comment on the Complaint. We advise in respect of the Disposal only and would therefore consider only the terms or impact, if any, of the Supplemental Agreement, the Second Supplemental Agreement and the Related Documents and the arrangements thereunder so far as the Disposal is concerned. To this end, we wish to draw the attention of the Shareholders that the outstanding advances made by the Purchaser are currently secured by 100% equity interest in CIC. If the Disposal is not approved by the Shareholders or does not proceed for any reason, CIC or the Company will have to repay in full the outstanding amount of advances (being approximately RMB127.8 million as at the Latest Practicable Date) by the Purchaser, failing which the Purchaser can enforce its rights as a secured creditor and the Company's interests in CIC and in the Land may be jeopardized. If such advances are repaid in full, the Purchaser should return the equity interests in CIC pursuant to the Undertakings and the Company's interests will not be affected. It should be noted that as at 31 March 2009, the Group had cash and cash equivalents of only approximately HK$34 million and that of the ICIM Group amounted to only HK$276,000. The Company has repeatedly stated that it intends to dispose of its city development and investment operation, which is carried out solely by the ICIM Group, and therefore does not intend to make further financial commitment to the ICIM Group. As stated in the Letter from the Board, the undeveloped land held by CIC had been pledged to a bank and the properties under development had not been completed and no title documents were available. Therefore, CIC had no chargeable assets to support its additional financing requirement. The Company has also confirmed that since 2005, the ICIM Group has not been able to obtain additional bank borrowings or financing, and was demanded to repay its outstanding bank borrowings. Under the circumstances, Shareholders are reminded that if the Disposal is not approved, the Company will not only miss an opportunity to realize its non-performing business operation and thereby generate working capital for its core business, but there will also be a pressing need for the Company to obtain financing for CIC to repay the advances by the Purchaser. In case of default by CIC, the Purchaser will enforce its right as a secured creditor and the Land may be put up by court order for public sale. Given the circumstances that both the First Disposal Attempt and the Second Disposal Attempt have failed and if the Disposal also falls through for whatever reason, the Company may receive an auction price less than the consideration under the Disposal. Furthermore, any sales proceeds, after costs, from such sale of the Land will have to be applied to settle the amounts due to the creditors of CIC before CIC can recover anything for its investments.

V. Financial effects of the Disposal

Presently, ICIM is a direct wholly-owned subsidiary of the Company, and CIC is an indirect wholly-owned subsidiary of the Company and their financial results have been consolidated into those of the Group. Following completion of the Disposal, the Company will no longer have any interest, direct or indirect, in ICIM and CIC and its financial results and position will not be affected in any way by that of ICIM and CIC. Due to the fact that the consideration for the Disposal represents a discount to the sum of the adjusted book value of the Sale Interests and the Sale Loan of approximately HK$703.2 million as discussed in the section headed "Consideration and pricing basis" above, the Group is expected to record a loss on the Disposal. The actual amount of loss and financial effects of the Disposal will depend on the actual financial position of the Group at the time when the Disposal takes place. The following discussion on the effects of the Disposal on the earnings and net asset value of the Group is provided based on the unaudited pro forma financial information on the Remaining Group set out in Appendix II to the Circular. Shareholders are reminded that such pro forma financial information has been prepared for illustration purposes only and because of its hypothetical nature, it may not give a true picture of the actual effects of the Disposal on the Group's financial position.

1. Earnings

Since the ICIM Group reported a net loss of approximately HK$412.9 million for the year ended 31 March 2009, such loss would have been excluded completely from the Group had the Disposal been completed on 1 April 2008. However, there would also have been a loss on Disposal of approximately HK$278.2 million attributable to the Remaining Group which was calculated based on the cash proceeds received for the Disposal of approximately HK$379.3 million less (i) the estimated transaction costs of approximately HK$1,000,000 to be incurred in connection with the Disposal; (ii) the net assets of the Disposal Group of approximately HK$83.4 million as at 1 April 2008; (iii) the release of exchange reserves of approximately HK$18.0 million as at 1 April 2008; and (iv) the release of the Sale Loan and other loan due to the Remaining Group in total of approximately HK$591.1 million as at 1 April 2008, assuming that the Disposal took place on 1 April 2008. As a result, the Remaining Group's loss for the year ended 31 March 2009 would have decreased by approximately HK$134.7 million to HK$629.5 million. Details of the adjustments made to the unaudited pro forma consolidated income statement of the Remaining Group are set out in section (ii) of Appendix II to the Circular.

2. Net asset value

As indicated in the unaudited pro forma consolidated balance sheet of the Remaining Group which has been prepared on the assumption that the Disposal had been completed on 31 March 2009 set out in Appendix II to the Circular, the total assets of the Group would have decreased by approximately HK$211.4 million due primarily to the adjustments of (i) approximately HK$589.7 million for exclusion of the assets of the ICIM Group as at 31 March 2009; and (ii) the net cash proceeds from the Disposal of approximately HK$378.1 million after deduction of the estimated transaction cost of HK$1 million. The total liabilities would also have decreased by approximately HK$210.4 million due to the reclassification of liabilities of the ICIM Group as held for sale. On this basis, the net asset value of the Group would have decreased by approximately HK$1 million to approximately HK$1,874.2 million. Details of the adjustments made to the unaudited pro forma consolidated balance sheet of the Remaining Group are set out in section (i) of Appendix II to the Circular.

3. Liquidity

As stated in the Letter from the Board, the net proceeds of the Disposal is expected to amount to approximately RMB329,130,000, which is intended to be applied as additional working capital of the Group's environmental protection and water treatment operation as well as for general working capital purpose. On such basis, the cash position and overall liquidity will improve significantly and the Group's current liabilities position will also improve as a result of the release of the trade debts and other payables by the ICIM and CIC from the Group following the Disposal.

Since the Land comprises properties under development as well as undeveloped land parcels, the Group will be completely released from all present and future financial obligations and commitments associated for the maintenance, development and construction of the Land after the Disposal. As a result, the Group can streamline its operations and focus its resources on its core business. In view of such long-term benefit to the Group's financial position, we consider the expected one-time loss on Disposal to be acceptable.

RECOMMENDATION

In forming our opinion on the Disposal, we have considered all the reasons and factors discussed above, in particular the following:

– The properties at Interchina Mall and the New Sports City Blocks 1-4 are still under construction after more than five years' development and construction and further investment estimated at about RMB254.6 million will be required for completion. Given the uncertainty of the real estate market in the PRC and the tight financial position of the Group, it will not be prudent for the Group to make further financial commitments to the development of the Land.

– Since 2005, the ICIM Group has not been able to obtain additional bank borrowings or financing for completion of the Interchina Mall and the New Sports City Blocks 1-4 and was demanded to repay its outstanding bank loans.

– The Group had attempted twice to dispose of its interests in the Land, but was unsuccessful. Such failed attempts have resulted in extra difficulty for the Group to find another investor for the Land. The fact that the construction of the properties comprising the Land has been suspended and there is substantial amount of loan and payables associated with the Land has also posed great concern for potential investor.

– Over 80% of the site area comprising the Land is undeveloped land and substantial financial resources and time will be required for development and completion of the construction. It would not be easy for the Group to find another interested investor to acquire its entire interest in the Land under the current market condition.

– If the Disposal is not approved, the construction of the Interchina Mall and the New Sports City Blocks 1-4 will likely continue to be suspended. Prolonged suspension of property construction may impair the value of works completed and hence, the market value of the Land.

– The Disposal is on normal commercial terms and the consideration and the payment mechanism under the Disposal are, on balance, fair and reasonable for factors and reasons as discussed in the sections headed "Consideration and pricing basis" and "Payment terms" above.

– If the Disposal does not proceed and the Company cannot find another purchaser, the Company will face a pressing obligation to finance the settlement of the outstanding trade debts and other payables by CIC, including the advances of about RMB127.8 million made by the Purchaser under the Financial Agreement. In the event of a default, the Company will face the threat of legal enforcement of security interest by the Purchaser.

– Despite the one-time loss on Disposal, the Group's cash position and overall liquidity will be improved significantly after the Disposal and the Group will be released from all present and future financial commitments associated with the maintenance, development and construction of the Land, and can then focus its resources on its core business, which is profitable.

Based on the above considerations, we are of the opinion that the Disposal is in the ordinary and usual course of business of the Company and is in the interests of the Company and the Shareholders as a whole The terms of the Disposal are normal commercial terms and are, on balance, fair and reasonable. Accordingly, we recommend the Independent Board Committee and the Shareholders that the Shareholders should vote in favour of the resolution to be proposed at the EGM to approve the Disposal.

Yours faithfully,
For and on behalf of
Ceres Capital Limited

Frank Moy
Managing Director

Jinny Mok
Executive Director

1. ACCOUNTANTS' REPORT ON THE GROUP

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

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

24 July 2009

The Directors
Interchina Holdings 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 Interchina Holdings Company Limited (the "Company") and its subsidiaries (herein collectively referred to as the "Group") set out in Section I and II below, for inclusion in the circular of the Company dated 24 July 2009 (the "Circular") pursuant to a proposed disposal of entire equity interest in 國中(長沙)體育新城投資項目管理有限公司 (Interchina (Changsha) Investments And Management Company Limited) ("ICIM"), a direct wholly owned subsidiary of the Company, 38.9% equity interest in 長沙國中星城置業有限公司 (Changsha Interchina Star City Company Limited) ("CIC"), an indirect owned subsidiary of the Company (collectively referred to as the "Disposal Group"), and a non-interest bearing shareholder loan owing by ICIM to the Company (the "ICIM Shareholder Loan"). The Financial Information comprises the consolidated balance sheets of the Group and the balance sheets of the Company as at 31 March 2007, 2008 and 2009 and the consolidated income statements, the consolidated statements of changes in equity and the consolidated cash flow statements for the years ended 31 March 2007, 2008 and 2009 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory notes.

The Company was incorporated in Hong Kong on 9 February 2000 as a limited company and is engaged in investment holdings.

As at the date of this report, the Company had direct and indirect interests in the principal subsidiaries as set out in note 51 of section I below. The Company and its subsidiaries have adopted 31 March as their financial year end date, except for the subsidiaries incorporated in the People's Republic of China which adopted 31 December as their financial year end date. We have acted as auditors of the Company and have audited the consolidated financial statements of the Group for the Relevant Periods.

Basis of preparation

The Financial Information has been prepared by the directors of the Company based on the audited consolidated financial statements of the Group for the years ended 31 March 2007, 2008 and 2009 on the basis set out in note 2 below. The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") which also include Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public of Accountants (the "HKICPA") and accounting principles generally accepted in Hong Kong.

Directors' responsibility for the Financial Information

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with the HKFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of 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.

Reporting Accountants' responsibility

Our responsibility is to express an opinion on the Financial Information based on our audit. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" (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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountants' judgment, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Financial Information for the purpose of this report, give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007, 2008 and 2009 and of the results and cash flows of the Group for the Relevant Periods.

I. FINANCIAL INFORMATION OF THE GROUP

CONSOLIDATED INCOME STATEMENT

		Year ended 31 March		
		2007	**2008**	**2009**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
		(restated)	*(restated)*	
Continuing operations				
Turnover	*8*	149,978	103,007	116,182
Cost of sales		(108,273)	(31,104)	(30,681)
Other revenue and other operating income	*9*	8,195	8,459	7,313
Staff costs	*10*	(24,203)	(58,572)	(26,369)
Amortisation and depreciation		(3,957)	(2,098)	(8,429)
Administrative costs		(34,448)	(35,650)	(34,229)
Impairment loss recognised in respect of goodwill	*21*	–	–	(11,006)
Fair value change in derivative financial instruments		–	(1,500)	16,629
Fair value change in investment properties	*15*	4,439	36,835	(136,955)
(Loss)/profit from operations	*11*	(8,269)	19,377	(107,545)
Finance costs	*12*	(30,913)	(23,240)	(36,324)
Share of results of associates		(6,164)	2,608	3,146
Loss on disposal of an associate		–	–	(225,146)
Gain on disposal of subsidiaries	*43*	48,448	8,360	–
Profit/(loss) before taxation		3,102	7,105	(365,869)
Taxation	*13*	(9,073)	(21,120)	14,491
Loss for the year from continuing operations		(5,971)	(14,015)	(351,378)
Discontinued operation				
Loss for the year from discontinued operation	*41*	(10,836)	(26,706)	(412,867)
Loss for the year		(16,807)	(40,721)	(764,245)

		Year ended 31 March		
		2007	2008	2009
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
		(restated)	*(restated)*	
Attributable to:				
Equity holders of the Company		(18,252)	(39,762)	(764,496)
Minority interests		1,445	(959)	251
		(16,807)	(40,721)	(764,245)
Loss per share for loss attributable to the ordinary equity holders of the Company – Basic and diluted	*14*			
From continuing and discontinued operations		HK(0.323 cents)	HK(0.402 cents)	HK(3.791 cents)
From continuing operations		HK(0.131 cents)	HK(0.132 cents)	HK(1.744 cents)

The accompanying notes form an integral part of this financial information.

CONSOLIDATED BALANCE SHEET

		As at 31 March		
		2007	**2008**	**2009**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
		(restated)	*(restated)*	
Non-current assets				
Investment properties	*15*	65,852	630,820	503,228
Interest in leasehold land and land use rights	*16*	38,638	41,938	–
Property, plant and equipment	*17*	307,487	239,849	20,092
Intangible assets	*19*	102,814	116,873	685,811
Other financial assets	*19*	295,411	350,098	444,805
Interests in associates	*20*	77,419	–	–
Goodwill	*21*	2,846	11,006	387,557
Other non-current assets	*22*	2,412	2,401	2,277
		892,879	1,392,985	2,043,770
Current assets				
Properties under development for sale	*23*	348,527	607,714	–
Inventories	*24*	–	844	4,198
Trade and other receivables and prepayments	*25*	206,668	735,907	282,577
Loan receivables	*26*	–	61,899	102,898
Financial assets at fair value through profit or loss	*27*	169	98	80
Tax recoverable		–	–	511
Bank balances – trust and segregated accounts	*28*	86,410	4,346	7,323
Cash and cash equivalents	*29*	159,430	30,193	34,259
		801,204	1,441,001	431,846
Assets classified as held for sale	*40*	–	–	589,680
		801,204	1,441,001	1,021,526

	Notes	As at 31 March 2007 HK$'000 (restated)	2008 HK$'000 (restated)	2009 HK$'000
Current liabilities				
Trade and other payables and deposits received	30	433,592	257,349	339,687
Amount due to a related company	31	444	78,564	–
Tax payable		382	2,297	9,660
Derivative financial instruments	32	–	22,736	–
Bank borrowings – due within one year	33	143,495	100,357	92,936
Other borrowings – due within one year	33	–	–	126,541
Obligation under finance leases – due within one year	34	69	–	–
		577,982	461,303	568,824
Liabilities classified as held for sale	40	–	–	210,370
		577,982	461,303	779,194
Net current assets		223,222	979,698	242,332
Total assets less current liabilities		1,116,101	2,372,683	2,286,102
Equity				
Share capital	37	665,190	1,728,619	2,028,619
Share premium and reserves		192,584	394,369	(309,154)
Equity attributable to ordinary equity shareholders of the Company		857,774	2,122,988	1,719,465
Minority interests		25,488	9,312	155,686
		883,262	2,132,300	1,875,151
Non-current liabilities				
Bank borrowing – due after one year	33	209,674	199,631	291,936
Other borrowings – due after one year	33	–	–	12,425
Obligation under finance leases – due after one year		141	–	–
Convertible notes	35	4,587	–	–
Deferred tax liabilities	36	18,437	40,752	106,590
		232,839	240,383	410,951
		1,116,101	2,372,683	2,286,102

The accompanying notes form an integral part of this financial information.

BALANCE SHEET

	Notes	As at 31 March 2007 HK$'000	2008 HK$'000	2009 HK$'000
Non-current assets				
Property, plant and equipment	*17*	581	–	–
Interests in subsidiaries	*18*	412,184	873,249	885,161
Interests in associates	*20*	45,008	–	–
Other non-current assets	*22*	380	380	380
		458,153	873,629	885,541
Current assets				
Trade and other receivables and prepayments	*25*	60,301	181,309	2,836
Amounts due from subsidiaries	*18*	704,219	1,130,627	1,378,188
Cash and cash equivalents	*29*	88,570	110	19
		853,090	1,312,046	1,381,043
Current liabilities				
Trade and other payables and deposits received	*30*	3,355	6,845	11,644
Amounts due to subsidiaries	*18*	568,979	349,540	385,863
Amount due to a related company	*31*	444	78,564	–
Derivative financial instruments		–	22,736	–
Other borrowings	*33*	–	–	123,000
		572,778	457,685	520,507
Net current assets		280,312	854,361	860,536
Total assets less current liabilities		738,465	1,727,990	1,746,077
Equity				
Share capital	*37*	665,190	1,728,619	2,028,619
Share premium and reserve	*38*	68,615	(629)	(282,542)
		733,805	1,727,990	1,746,077
Non-current liabilities				
Convertible notes	*35*	4,587	–	–
Deferred tax liabilities	*36*	73	–	–
		4,660	–	–
		738,465	1,727,990	1,746,077

The accompanying notes form an integral part of this financial information.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The Group	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 (Note 1)	Share options reserve HK$'000	Exchange reserve HK$'000	Convertible notes reserve HK$'000 (Note 2)	Accu-mulated losses HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total equity HK$'000
	Equity attributable to equity holders of the Company									
For the year ended 31 March 2007, 2008, 2009										
At 1 April 2006, as previously reported	558,492	282,741	571,996	–	12,951	–	(738,889)	687,291	21,704	708,995
Effect on adoption of new Accounting policy – HK(IFRIC) – Int 12	–	–	–	–	720	–	56,768	57,488	1,168	58,656
At 1 April 2006, as restated	558,492	282,741	571,996	–	13,671	–	(682,121)	744,779	22,872	767,651
Exchange differences on translation of overseas subsidiaries	–	–	–	–	23,959	–	–	23,959	1,171	25,130
Net income directly recognised in equity	–	–	–	–	23,959	–	–	23,959	1,171	25,130
Net loss for the year	–	–	–	–	–	–	(18,252)	(18,252)	1,445	(16,807)
Total recognised income/(expenses) for the year	–	–	–	–	23,959	–	(18,252)	5,707	2,616	8,323
Issue of convertible notes	–	–	–	–	–	10,303	–	10,303	–	10,303
Recognition of deferred tax for convertible notes	–	–	–	–	–	(124)	–	(124)	–	(124)
Conversion of convertible notes	106,698	–	–	–	–	(9,589)	–	97,109	–	97,109
At 31 March 2007 and 1 April 2007	665,190	282,741	571,996	–	37,630	590	(700,373)	857,774	25,488	883,262
At 1 April 2007, as previously reported	665,190	282,741	571,996	–	34,457	590	(770,479)	784,495	23,317	807,812
Effect on adoption of new Accounting policy – HK(IFRIC) – Int 12	–	–	–	–	3,173	–	70,106	73,279	2,171	75,450
At 1 April 2007, as restated	665,190	282,741	571,996	–	37,630	590	(700,373)	857,774	25,488	883,262
Exchange differences on translation of overseas subsidiaries	–	–	–	–	151,954	–	–	151,954	–	151,954
Net income directly recognised in equity	–	–	–	–	151,954	–	–	151,954	–	151,954
Net loss for the year	–	–	–	–	–	–	(39,762)	(39,762)	(959)	(40,721)
Total recognised income/(expenses) for the year	–	–	–	–	151,954	–	(39,762)	112,192	(959)	111,233

The Group	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 (Note 1)	Share options reserve HK$'000	Exchange reserve HK$'000	Convertible notes reserve HK$'000 (Note 2)	Accu-mulated losses HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total equity HK$'000
	Equity attributable to equity holders of the Company									
Issue of new shares	270,000	–	–	–	–	–	–	270,000	–	270,000
Issue of share options	–	–	–	32,986	–	–	–	32,986	–	32,986
Exercise of share options	37,149	43,605	–	(26,516)	–	–	–	54,238	–	54,238
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	(13,497)	(13,497)
Disposal of a subsidiary	–	–	–	–	–	–	–	–	(1,720)	(1,720)
Issue of convertible notes	–	–	–	–	–	288,269	–	288,269	–	288,269
Recognition of deferred tax for convertible notes	–	–	–	–	–	(90)	–	(90)	–	(90)
Conversion of convertible notes	756,280	40,108	–	–	–	(288,769)	–	507,619	–	507,619
At 31 March 2008 and 1 April 2008	1,728,619	366,454	571,996	6,470	189,584	–	(740,135)	2,122,988	9,312	2,132,300
At 1 April 2008, as previously reported	1,728,619	366,454	571,996	6,470	179,945	–	(822,960)	2,030,524	6,849	2,037,373
Effect on adoption of new Accounting policy – HK(IFRIC) – Int 12	–	–	–	–	9,639	–	82,825	92,464	2,463	94,927
At 1 April 2008, as restated	1,728,619	366,454	571,996	6,470	189,584	–	(740,135)	2,122,988	9,312	2,132,300
Exchange differences on translation of overseas subsidiaries	–	–	–	–	55,945	–	–	55,945	–	55,945
Net income directly recognised in equity	–	–	–	–	55,945	–	–	55,945	–	55,945
Net loss for the year	–	–	–	–	–	–	(764,496)	(764,496)	251	(764,245)
Total recognised income/(expenses) for the year	–	–	–	–	55,945	–	(764,496)	(708,551)	251	(708,300)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	146,123	146,123
Issue of convertible notes	–	–	–	–	–	32,027	–	32,027	–	32,027
Recognition of deferred tax for convertible notes	–	–	–	–	–	(5,284)	–	(5,284)	–	(5,284)
Conversion of convertible notes	300,000	5,028	–	–	–	(26,743)	–	278,285	–	278,285
At 31 March 2009	2,028,619	371,482	571,996	6,470	245,529	–	(1,504,631)	1,719,465	155,686	1,875,151

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

		Year ended 31 March		
		2007	2008	2009
	Notes	*HK$'000* *(restated)*	*HK$'000* *(restated)*	*HK$'000*
Operating activities				
Profit/(loss) before taxation from continuing operations		3,102	7,105	(365,869)
Loss before taxation from discontinued operation		(10,836)	(26,706)	(412,867)
Loss before taxation		(7,734)	(19,601)	(778,736)
Adjustments for:				
Depreciation of property, plant and equipment	*17*	3,525	2,699	2,658
Amortisation of interests in leasehold land, land use rights and intangible assets	*16*	1,675	607	6,850
Fair value change in investment properties	*15*	(4,439)	(36,835)	136,955
Impairment loss recognised in respect of goodwill	*21*	–	–	11,006
Loss on remeasurement of asset held for sale to fair value less costs to sell		–	–	216,300
Impairment loss recognised in respect of properties under development		–	–	182,770
Loss/(gain) on derivative financial instruments			1,301	(1,079)
Fair value change in derivative financial instruments		–	1,500	(16,629)
(Gain)/loss on disposal of property, plant and equipment		(118)	5	(565)
Written off of property, plant and equipment		–	640	–
Share-based payment expenses	*39*	–	32,986	–
Share of results of associates	*20*	6,164	(2,608)	(3,146)
Gain on disposal of subsidiaries	*43*	(48,448)	(8,360)	–
Loss on disposal of an associate		–	–	225,146
Discount on acquisition of a subsidiary	*42(d)*	–	(443)	–
Fair value change in financial assets at fair value through profit or loss		3	71	18
Interest income	*9*	(4,879)	(2,868)	(238)
Interest expenses	*12*	36,453	28,200	40,913

	Notes	Year ended 31 March 2007 HK$'000 (restated)	2008 HK$'000 (restated)	2009 HK$'000
Operating cash flows before movements in working capital		(17,798)	(2,706)	22,223
Increase in properties under development for sale		(56,514)	(107,407)	(44,905)
Increase in other financial assets		(140,322)	(30,155)	(5,991)
Decrease/(increase) in intangible assets		23,098	(14,059)	(10,439)
Decrease/(increase) in inventories		–	80	(480)
Increase in loan receivables		–	(61,899)	(40,999)
(Increase)/decrease in trade and other receivables and prepayments		(89,462)	(476,843)	613,883
Increase in amount due from an associate		(873)	(249,016)	–
(Increase)/decrease in bank trust and segregated accounts		(81,134)	82,064	(2,977)
Increase/(decrease) in trade and other payables and deposits received		259,671	(175,445)	157,702
(Decrease)/increase in amount due to a related company		(6)	78,120	(78,564)
Cash (used in)/generated from operations		(103,340)	(957,266)	609,453
Profits tax refund/(paid)		8,664	14,671	(26,567)
Interest received		4,879	2,868	238
Net cash (used in)/generated from operating activities		(89,797)	(939,727)	583,124
Investing activities				
Purchase of property, plant and equipment		(23,739)	(64,008)	(15,770)
Purchase of investment properties		–	–	(2,024)
Proceeds on disposal of property, plant and equipment		203	8,062	630
Acquisition of subsidiaries	*42(e)*	–	(118,396)	(706,146)
Acquisition of an associate	*20*	–	–	(296,000)
Proceeds on disposal of subsidiaries	*43*	254,073	31,421	–
Proceeds on disposal of an associate		–	–	74,000
Net refund in non-current assets		54	11	18
Net cash used in investing activities		230,591	(142,910)	(945,292)

	Notes	Year ended 31 March 2007 HK$'000 (restated)	2008 HK$'000 (restated)	2009 HK$'000
Financing activities				
Interest paid		(19,659)	(27,269)	(40,913)
New bank borrowings raised		78,788	–	33,317
New other borrowings raised		–	–	123,000
Repayment of obligations under finance leases		(66)	(210)	–
Repayment of bank borrowings		(125,483)	(53,181)	(69,108)
Repayment of other borrowings		(40,000)	–	–
Issue of new shares		–	270,000	–
Issue of new shares under the share options		–	54,238	–
Proceeds from issue of convertible note options		–	20,000	–
Proceeds from issue of convertible notes	*35*	111,698	650,000	300,000
Net cash generated from financing activities		5,278	913,578	346,296
Net increase/(decrease) in cash and cash equivalents		146,072	(169,059)	(15,872)
Cash and cash equivalents at beginning of the year		16,894	159,430	30,193
Effect of change in foreign exchange rate		(3,536)	39,822	20,214
Cash and cash equivalent included in assets of disposal group classified as held for sales		–	–	(276)
Cash and cash equivalent at end of the year		159,430	30,193	34,259
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances		245,840	34,539	41,582
Less: Bank balances – trust and segregated accounts	*29*	(86,410)	(4,346)	(7,323)
		159,430	30,193	34,259

The accompanying notes form an integral part of this financial information.

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL 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 located at 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, property investment operation, and securities and financial operation. Details of the principal activities of its subsidiaries are set out in note 51 to the Financial Information.

During the year, the Group discontinued its city development and investment operation. Details were set out in note 41 to the Financial Information.

The Financial Information are presented in thousands of units of Hong Kong dollars (HK$'000), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

The Financial Information 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, the Hong Kong Companies Ordinance and the applicable disclosure provisions of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Financial Information have been prepared under the historical cost convention, except for investment properties and certain financial instruments, which have been measured at fair value, as detailed in the accounting policies set out in note 5.

The preparation of the Financial Information in conformity with HKFRSs 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 are set out in note 6 to the Financial Information.

3. IMPACT ON ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group and the Company have adopted, for the first time, a number of new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA which are effective for the current accounting periods.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the above new HKFRSs did not have significant impact on the Group's results and financial position for the current or prior accounting period, except for the adoption of HK(IFRIC) – Int 12.

The following set out information on the significant changes in accounting policies in relation to the first adoption of HK(IFRIC) – Int 12 for the year in the Financial Information.

(a) Restatement of prior periods and opening balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of HK(IFRIC) – Int 12 to each of the line items in the consolidated income statements and the consolidated balance sheets as previously reported for the year ended 31 March 2007 and 2008.

Consolidated income statement for the year ended 31 March 2007

	2007 (as previously reported) *HK$'000*	**Effects of HK(IFRIC) – Int 12 increase/ (decrease)** *HK$'000*	**2007 (as restated)** *HK$'000*
Turnover	38,094	116,765	154,859
Cost of sales	(4,934)	(103,339)	(108,273)
Amortisation and depreciation*	(13,178)	7,978	(5,200)
Minority interests	442	1,003	1,445
Taxation	(2,010)	(7,063)	(9,073)
Total effects on the consolidated income statement	18,414	15,344	33,758
Effect on decrease in loss per share – Basic and diluted	HK$0.33 cents	HK$0.27 cents	HK$0.60 cents

* Included in amortisation and depreciation of approximately HK$1,243,000 were expenses under discontinued operation.

Consolidated balance sheet as at 31 March 2007

	2007 (as previously reported) *HK$'000*	**Effects of HK(IFRIC) – Int 12 increase/ (decrease)** *HK$'000*	**2007 (as restated)** *HK$'000*
Assets			
Property, plant and equipment	624,543	(317,056)	307,487
Intangible assets	–	102,814	102,814
Other financial assets	–	295,411	295,411
	624,543	81,169	705,712
Equity and liabilities			
Share premium and reserves	119,305	73,279	192,584
Minority interests	23,317	2,171	25,488
Trade and other payables and deposits received	443,406	(9,814)	433,592
Deferred tax liabilities	2,904	15,533	18,437
	588,932	81,169	670,101

Consolidated income statement for the year ended 31 March 2008

	2008 (as previously reported)	Effects of HK(IFRIC) – Int 12 increase/ (decrease)	2008 (as restated)
	HK$'000	*HK$'000*	*HK$'000*
Turnover	68,739	34,268	103,007
Cost of sales*	(11,532)	(23,136)	(34,668)
Amortisation and depreciation*	(11,593)	8,287	(3,306)
Minority interests	(1,251)	292	(959)
Taxation	(14,712)	(6,408)	(21,120)
Total effects on the consolidated income statement	29,651	13,303	42,954
Effect on decrease in loss per share – Basic and diluted	HK0.30 cents	HK0.13 cents	HK0.43 cents

* Included in cost of sales and amortisation and depreciation of approximately HK$3,564,000 and HK$1,208,000 were expenses under discontinued operation.

Consolidated balance sheet as at 31 March 2008

	2008 (as previously reported)	Effects of HK(IFRIC) – Int 12 increase/ (decrease)	2008 (as restated)
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Property, plant and equipment	608,661	(368,812)	239,849
Intangible assets	–	116,873	116,873
Other financial assets	–	350,098	350,098
	608,661	98,159	706,820
Equity and liabilities			
Share premium and reserves	301,905	92,464	394,369
Minority interests	6,849	2,463	9,312
Trade and other payables and deposits received	277,266	(19,917)	257,349
Deferred tax liabilities	17,603	23,149	40,752
	603,623	98,159	701,782

(b) Effect of changes in accounting policies for the current period

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement, the consolidated balance sheet and the consolidated cash flow statement for the year ended 31 March 2009 is higher or lower than it would have been had the previous policies still been applied in the current period, where it is practicable make such estimates.

Effects on the consolidated income statement for the year ended 31 March 2009

	Effects of HK(IFRIC) – Int 12 increase/ (decrease) *HK$'000*
Turnover	9,641
Cost of sales	(4,205)
Amortisation and depreciation	16,142
Minority interests	(37)
Taxation	(6,532)
Total effects on the consolidated income statement	15,009
Effect on decrease in loss per share – Basic and diluted	HK0.07 cents

Effects on the consolidated balance sheet as at 31 March 2009

	Effects of HK(IFRIC) – Int 12 increase/ (decrease) *HK$'000*
Assets	
Property, plant and equipment	(1,038,772)
Intangible assets	685,811
Other financial assets	444,805
	91,844
Equity and liabilities	
Share premium and reserves	81,989
Minority interests	2,426
Trade and other payables and deposits received	35,018
Deferred tax liabilities	(27,589)
	91,844

(c) Service concession arrangements (HK(IFRIC) – Int 12: Service concession arrangements)

In prior years, the Group recognised property, plant and equipment of certain of its build-operate-transfer ("BOT") arrangements as property, plant and equipment or other non-current assets.

During the Relevant Periods, the Group early adopted HK(IFRIC) – Int 12. With effective from 1 April 2008, in accordance with HK(IFRIC) – Int 12, the BOT arrangements of the Group, such as sewage water processing projects and tap water processing projects located in the People's Republic of China (the "PRC"), are service concession arrangements under HK(IFRIC) – Int 12. Infrastructure within the scope of HK(IFRIC) – Int 12 is not recognised as property, plant and equipment or other non-current assets as control of the infrastructure of the projects remain in public hands but the Group is responsible for construction or upgrade activities, as well as for operating and maintaining the public sector infrastructure.

As a result, the Group accounts for revenue and costs relating to construction or upgrade services of infrastructure in accordance with HKAS 11, "Construction contracts" for the construction and upgrade services of the plant. Considerations received or receivable by the Group for the construction or upgrade services are recognised at their fair values as financial assets (for sewage water processing projects and tap water processing projects) or an intangible asset. For financial assets recognised, they are reduced when payments, being a portion of the sewage water processing revenue and tap water processing revenue are received. Finance income on the financial assets is recognised using an estimate of the service concession grantors' incremental borrowing rate of interest. For intangible asset recognised, they are amortised over its estimated useful life ranged from 20 to 30 years.

Borrowing costs incurred for the construction and upgrade services are not capitalised and are expensed in the period in which they are incurred

The new accounting policy has been applied retrospectively with comparatives restated. The adjustments for each line of the Financial Information affected for the year ended 31 March 2007, 2008 and 2009 are set out in notes 3(a) and 3(b).

4. IMPACT ON ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group and the Company has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estates[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfer of Assets from Customers[6]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual period beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods beginning on or after 1 July 2008
5 Effective for annual periods beginning on or after 1 October 2008
6 Effective for transfer of assets from customers received on or after 1 July 2009.

The Group has already commenced an assessment of the impact of these new standards, amendments and interpretation but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

(i) Subsidiaries

The Financial Information include the financial statements of the Company and all its subsidiaries made up to 31 March.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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 consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. 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.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(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 consolidated 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 Relevant Periods. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

Revenue recognition

(i) 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.

(ii) Commission and brokerage income

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

(iii) Revenue from construction services

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(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 Relevant Periods.

(v) Finance income

Finance income is recognised as it accrues using the effective interest method.

(vi) Interest income

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

(vii) Dividend income

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

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 consolidated 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 consolidated 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 consolidated 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 consolidated 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.

Service concession arrangements

Consideration given by the grantor

A financial asset (receivable under service concession arrangement) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Group for the right to charge users of the public service; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (receivable under service concession arrangement) is accounted for in accordance with the policy set out for "Financial instruments" below.

An intangible asset (operating concession) is recognised to the extent that the Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible (operating concession) is accounted for in accordance with the policy set out for "Intangible assets" below.

If the Group is paid partly by a financial asset and partly by an intangible asset, in which case, each component of the consideration is accounted for separately and the consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

Construction or upgrade services

Revenue and costs relating to construction or upgrade services are accounted for in accordance with HKAS 11 "Construction Contract".

Operating services

Revenue and costs relating to operating services are accounted for in accordance with the policy for "Revenue recognition" above.

Contractual obligations to restore the infrastructure to a specified level of serviceability

The Group has contractual obligations which it must fulfill as a condition of its licence, including (a) to maintain the infrastructures it operates to a specified level of serviceability and/or (b) to restore the infrastructures to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the infrastructures, except for upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

Intangible asset

Intangible asset represents tap water processing operating rights under BOT arrangement. The intangible asset is stated in the consolidated balance sheet at cost less accumulated amortisation and impairment losses.

Amortisation of intangible asset is charged to the consolidated income statement on a straight-line basis over its estimated useful life. Both the period and method of amortisation are reviewed annually.

Interests in leasehold land and land use rights

Interests in leasehold land and land use rights represent 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 consolidated income statement in the Relevant Periods 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 consolidated income statement in the Relevant Periods in which the reversals are recognised.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

(i) Assets carried at amortised cost

If there is objective evidence that an impairment loss on receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in consolidated income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individual significant, and individually or collectively for financial assets that are not individual significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after impairment was recognised, the previous recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement, to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date.

(ii) Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

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 Relevant Periods, 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 consolidated 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 consolidated 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 as a separate intangible asset.

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

For the purpose 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 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. Any impairment loss for goodwill is not reversed in subsequent periods.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisition")

A discount on acquisition arising on an acquisition of a business for which an agreement date is on or after 1 April 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in the consolidated income statement.

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 consolidated 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 consolidated 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.

Other non-current assets

Other non-current assets are stated at cost, less any identified impairment losses.

Financial Instruments

Financial assets and financial liabilities are recognised on the consolidated 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 the consolidated 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 sale is 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 are 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 the consolidated 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 receivables 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 the consolidated 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 the income statement. Any impairment losses on available-for-sale financial assets are recognised in the consolidated 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 the consolidated 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 be reversed 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 the consolidated income statement in the period in which they arises.

Other financial liabilities

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

Convertible notes

Convertible notes issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

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 conversion option for the holder to convert the notes into equity, is included in equity (convertible notes reserve – 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 reserve – equity reserve until the conversion 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 reserve – equity reserve will be released to the retained profits. No gain or loss is recognised in the consolidated 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 reserve – 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 the consolidated 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 the consolidated 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 the consolidated income statement.

Properties under development for sale

Properties under development classified as non-current assets are stated at cost less any identified impairment losses. The cost of properties comprises development expenditure, other directly attributable expenses and, where appropriate, borrowing costs capitalised. Depreciation of buildings commences when they are available for use.

Property which is developed as an investment property is included in properties under development and is carried at cost less any impairment loss. Upon the completion of the development, the property is reclassified to investment properties and any difference between the fair value of the property at the time of reclassification and its previous carrying amount is recognised in the consolidated income statement.

When the leasehold land and buildings are in the course of development, the leasehold land component is classified as prepaid land lease payments and amortised over a straight line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of the cost of the property under development.

Properties under development for sale are stated at lower of cost and net realisable value, and are classified under current assets. Cost includes land cost, construction cost, interest, finance charges and other direct costs attributable to the development of the properties. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale, determined by management based on prevailing market conditions.

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 a 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 consolidated 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 consolidated income statement over the period of the borrowings using the effective interest method.

Borrowing costs

Borrowing costs directly attributable 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 the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges 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 the consolidated income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement 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 Group (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 the consolidated income statement in the period in which the foreign operation is disposed of.

Operating leases

Leases are classified as finance leases 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 the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Rentals payable under operating leases are charged to the consolidated income statements 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.

Share-based compensation

The fair value of the employee services received in exchange for the grant of the share options and restricted share awards is recognised as an expense in the consolidated income statement.

The total amount to be expensed over the vesting period is determined with reference to the fair value of the share options and restricted share awards granted. At each balance sheet date, the Company revises its estimates of the number of share options that are expected to become exercisable and the number of restricted share awards that become vested. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement, and a corresponding adjustment to equity in the consolidated balance sheet will be made over the remaining vesting periods.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium accounts where the share options are exercised and when the restricted are exercised and when the restricted share award are vested.

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.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment), or in providing products or services within a particular economic environmental (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise income and expenses of the Group which cannot be reasonably allocated to a specific business segment. The interest benefit of the capital of the Group is also included as unallocated income.

Disposal group classified as held for sale

A disposal group is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the disposal group is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of all individual assets and liabilities in a disposal group in brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held-for-sale and until disposal, the disposal group is recognised at the lower of its carrying amount and fair value less cost to sell.

Impairment loss on initial classification as held-for-sale, and on subsequent remeasurement under held-for-sale, is recognised in the consolidated income statement. As long as a disposal group is classified as held-for-sale, the non-current asset is not depreciated and amortised.

Discontinued operation

A discontinued operation is a component of the Group's business, the operation and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operation, or is a subsidiary acquired exclusively with a view to resale.

Classification as discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the consolidated income statement, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less cost to sell, or on disposal, of the assets or disposal group(s) constituting the discontinued operation

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments 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 5. 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 15, 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 judgment, 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

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 receivables 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 receivables to the consolidated income statement. Changes in the collectibility 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 financial assets and financial liabilities are accounted for or disclosed in the Financial Information. 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 Information.

Construction contracts

Revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached, the amounts due from customers for contract work will not include profit which the Group may eventually realise from the work to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the balance sheet date, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

Service concession arrangements

In prior years, the Group entered into BOT arrangements in respect of its sewage water treatment. The Group concluded that the BOT arrangements are service concession arrangements under HK(IFRIC) – Int 12, because the local government controls and regulates the services that the Group must provide with the infrastructure at a pre-determined service charge. In addition, upon expiry of concession right agreement, the infrastructure will be transferred to the local government at nil consideration. Details of the accounting policy have been set out in note 3(c).

7. SEGMENT INFORMATION

Business segments

For management purposes, the Group is organised into four operating divisions, namely environmental protection and water treatment operation, property investment operation, securities and financial operation, city development and investment 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)	Property investment operation	– leasing of rental property
(iii)	Securities and financial operation	– provision of financial services
(iv)	City development and investment operation	– infrastructure construction for urbanisation operation and property development for sale

The following tables provide an analysis of the Group's sales by its business segments:

	Continuing operations					Discontinued operation	
For the year ended 31 March 2007	**Environmental protection and water treatment operation** *HK$'000 (restated)*	**Property investment operation** *HK$'000*	**Securities and financial operation** *HK$'000*	**Elimination** *HK$'000*	**Total** *HK$'000*	**City development and investment operation** *HK$'000*	**Consolidated total** *HK$'000 (restated)*
Turnover							
External sales	141,983	3,394	5,027	(426)	149,978	–	149,978
Segment results	21,250	6,299	(1,301)	–	26,248	(5,298)	20,950
Unallocated interest income					4,879	2	4,881
Unallocated corporate expenses					(39,396)	–	(39,396)
Loss from operations					(8,269)	(5,296)	(13,565)
Finance costs					(30,913)	(5,540)	(36,453)
Share of results of associates					(6,164)	–	(6,164)
Gain on disposal of subsidiaries					48,448	–	48,448
Loss before taxation					3,102	(10,836)	(7,734)
Taxation					(9,073)	–	(9,073)
Loss for the year					(5,971)	(10,836)	(16,807)
Assets/liabilities							
Segment assets	450,152	50,871	240,508	–	741,531	739,907	1,481,438
Interests in associates	888	76,531	–	–	77,419	–	77,419
Unallocated corporate assets					135,226	–	135,226
Total assets					954,176	739,907	1,694,083
Segment liabilities	100,518	3,731	183,803	–	288,052	246,260	534,312
Unallocated corporate liabilities					382	–	382
Tax liabilities					276,127	–	276,127
Total liabilities					564,561	246,260	810,821
Other segment information							
Amortisation and depreciation	1,150	206	55	–	1,411	2,493	3,904
Unallocated amounts					1,296	–	1,296
					2,707	2,493	5,200
Capital expenditure	33	–	60	–	93	22,580	22,673
Unallocated amounts					1,086	–	1,086
					1,179	22,580	23,759
Fair value gain on investment properties	–	4,439	–	–	4,439	–	4,439

For the year ended 31 March 2008	Continuing operations: Environmental protection and water treatment operation HK$'000 (restated)	Continuing operations: Property investment operation HK$'000	Continuing operations: Securities and financial operation HK$'000	Continuing operations: Elimination HK$'000	Continuing operations: Total HK$'000	Discontinued operation: City development and investment operation HK$'000	Consolidated total HK$'000 (restated)
Turnover							
External sales	71,238	18,107	13,662	–	103,007	–	103,007
Segment results	34,584	48,348	2,587	–	85,519	(20,640)	64,879
Unallocated interest income					2,868	8	2,876
Unallocated corporate expenses					(69,010)	(1,114)	(70,124)
Gain/(loss) from operations					19,377	(21,746)	(2,369)
Finance costs					(23,240)	(4,960)	(28,200)
Share of results of associates					2,608	–	2,608
Gain on disposal of a subsidiary					8,360	–	8,360
Gain/(loss) before taxation					7,105	(26,706)	(19,601)
Taxation					(21,120)	–	(21,120)
Loss for the year					(14,015)	(26,706)	(40,721)
Assets/liabilities							
Segment assets	959,380	662,756	122,701	–	1,744,837	900,112	2,644,949
Unallocated corporate assets					189,037	–	189,037
Total assets					1,933,874	900,112	2,833,986
Segment liabilities	92,590	9,690	12,271	–	114,551	155,779	270,330
Unallocated corporate liabilities					388,307	–	388,307
Tax liabilities					43,049	–	43,049
Total liabilities					545,907	155,779	701,686
Other segment information							
Amortisation and depreciation	1,278	700	120	–	2,098	1,208	3,306
Capital expenditure	3,782	631	231	–	4,644	131,065	135,709
Unallocated amounts					2,193	–	2,193
					6,837	131,065	137,902
Fair value gain on investment properties	–	36,835	–	–	36,835	–	36,835

For the year ended 31 March 2009	Continuing operations: Environmental protection and water treatment operation HK$'000	Continuing operations: Property investment operation HK$'000	Continuing operations: Securities and financial operation HK$'000	Continuing operations: Elimination HK$'000	Continuing operations: Total HK$'000	Discontinued operation: City development and investment operation HK$'000	Consolidated total HK$'000
Turnover							
External sales	81,479	18,211	16,492	–	116,182	–	116,182
Segment results	34,974	(119,567)	11,564	–	(73,029)	(408,283)	(481,312)
Unallocated interest income					238	5	243
Unallocated corporate expenses					(34,754)	–	(34,754)
Loss from operations					(107,545)	(408,278)	(515,823)
Finance costs					(36,324)	(4,589)	(40,913)
Share of results of associates					3,146	–	3,146
Loss on disposal of an associate					(225,146)	–	(225,146)
Loss before taxation					(365,869)	(412,867)	(778,736)
Taxation					14,491	–	14,491
Loss for the year					(351,378)	(412,867)	(764,245)
Assets/liabilities							
Segment assets	1,799,741	541,553	127,937	–	2,469,231	589,680	3,058,911
Unallocated corporate assets					5,874	–	5,874
Tax recoverable					511	–	511
Total assets					2,475,616	589,680	3,065,296
Segment liabilities	299,792	9,922	14,024	–	323,738	210,370	534,108
Unallocated corporate liabilities					539,787	–	539,787
Tax liabilities					116,250	–	116,250
Total liabilities					979,775	210,370	1,190,145
Other segment information							
Amortisation and depreciation	7,517	205	128	–	7,850	1,079	8,929
Unallocated amounts					579	–	579
					8,429	1,079	9,508
Capital expenditure	20,480	3,443	10	–	23,933	49,065	72,998
Unallocated amounts					140	–	140
					24,073	49,065	73,138
Fair value loss on investment properties	–	136,955	–	–	136,955	–	136,955

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
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	*(restated)*
For the year ended 31 March 2007			
Turnover			
External sales			
Continuing operations	5,567	144,411	149,978
Discontinued operation	–	–	–
	5,567	144,411	149,978
Segment results			
Continuing operations	(263)	26,511	26,248
Discontinued operation	–	(5,298)	(5,298)
	(263)	21,213	20,950
Interest income			4,881
Unallocated corporate expenses			(39,396)
Loss from operations			(13,565)
For the year ended 31 March 2008			
Turnover			
External sales			
Continuing operations	14,203	88,804	103,007
Discontinued operation	–	–	–
	14,203	88,804	103,007
Segment results			
Continuing operations	236	85,283	85,519
Discontinued operation	–	(20,640)	(20,640)
	236	64,643	64,879
Interest income			2,876
Unallocated corporate expenses			(70,124)
Loss from operations			(2,369)

	Hong Kong *HK$'000*	The PRC *HK$'000*	Consolidated total *HK$'000*
For the year ended 31 March 2009			
Turnover			
External sales			
Continuing operations	16,492	99,690	116,182
Discontinued operation	–	–	–
	16,492	99,690	116,182
Segment results			
Continuing operations	11,565	(84,594)	(73,029)
Discontinued operation	–	(408,283)	(408,283)
	11,565	(492,877)	(481,312)
Interest income			243
Unallocated corporate expenses			(34,754)
Loss from operations			(515,823)

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
	HK$'000	*HK$'000*	*HK$'000*
For the year ended 31 March 2007 (restated)			
Carrying amounts of segment assets			
Continuing operations	448,578	505,598	954,176
Discontinued operation	–	739,907	739,907
	448,578	1,245,505	1,694,083
Additions to property, plant and equipment, investment properties, and intangible assets			
Continuing operations	1,146	1,075	2,221
Discontinued operation	–	21,538	21,538
	1,146	22,613	23,759
For the year ended 31 March 2008 (restated)			
Carrying amounts of segment assets			
Continuing operations	364,769	1,569,105	1,933,874
Discontinued operation	–	900,112	900,112
	364,769	2,469,217	2,833,986
Additions to property, plant and equipment, investment properties, and intangible assets			
Continuing operations	141	6,696	6,837
Discontinued operation	–	131,065	131,065
	141	137,761	137,902
For the year ended 31 March 2009			
Carrying amounts of segment assets			
Continuing operations	147,370	2,328,246	2,475,616
Discontinued operation	–	589,680	589,680
	147,370	2,917,926	3,065,296
Additions to property, plant and equipment, investment properties, and intangible assets			
Continuing operations	150	23,923	24,073
Discontinued operation	–	49,065	49,065
	150	72,988	73,138

8. TURNOVER

Turnover represents sewage treatment and tap water supply services income, finance income on other financial assets under service concession arrangements, property rental income, commission income generated from securities and commodities broking and interest income from margin clients, for the Relevant Periods, and are analysed as follows:

	Continuing operations			Discontinued operation			Consolidated total		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
	HK'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK'000*	*HK$'000*	*HK$'000*	*HK'000*
	(restated)	*(restated)*		*(restated)*	*(restated)*		*(restated)*	*(restated)*	
Sewage and water treatment income*	141,983	71,238	81,479	–	–	–	141,983	71,238	81,479
Property rental income	2,968	18,107	18,211	–	–	–	2,968	18,107	18,211
Brokerage commission income	4,024	9,562	3,014	–	–	–	4,024	9,562	3,014
Interest income from clients	1,003	4,100	13,478	–	–	–	1,003	4,100	13,478
	149,978	103,007	116,182	–	–	–	149,978	103,007	116,182

* *Finance income on other financial assets under service concession arrangement of HK$17,983,000 HK$35,139,000 and HK$40,930,000 as restated respectively in the year of 2007, 2008 and 2009 are included in the revenue derived from "Sewage and water treatment income" disclosed above.*

9. OTHER REVENUE AND OTHER OPERATING INCOME

	Continuing operations			Discontinued operation			Consolidated total		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
	HK'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK'000*	*HK$'000*	*HK$'000*	*HK'000*
	(restated)	*(restated)*		*(restated)*	*(restated)*		*(restated)*	*(restated)*	
Other revenue:									
Bank interest income	4,879	2,868	238	2	8	5	4,881	2,876	243
Dividend income	5	5	4	–	–	–	5	5	4
Technical consultancy service income	–	2,934	–	–	–	–	–	2,934	–
Government subsidies	–	–	5,172	–	–	–	–	–	5,172
Sundry income	1,863	2,209	1,899	–	–	–	1,863	2,209	1,899
	6,747	8,016	7,313	2	8	5	6,749	8,024	7,318
Other operating income:									
Compensation from termination of disposal contract	1,448	–	–	–	–	–	1,448	–	–
Discount on acquisition (note 42(d))	–	443	–	–	–	–	–	443	–
Other revenue and other operating income	8,195	8,459	7,313	2	8	5	8,197	8,467	7,318

10. STAFF COSTS

	Continuing operations			Discontinued operation			Consolidated total		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
	HK'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK'000*	*HK$'000*	*HK$'000*	*HK'000*
	(restated)	*(restated)*		*(restated)*	*(restated)*		*(restated)*	*(restated)*	
Salaries and allowances (including directors' remuneration)	22,836	24,090	25,116	1,680	1,753	2,408	24,516	25,843	27,524
Retirement benefit scheme contributions	1,367	1,496	1,253	106	125	242	1,473	1,621	1,495
Share-based payment expenses (note 39)	–	32,986	–	–	–	–	–	32,986	–
	24,203	58,572	26,369	1,786	1,878	2,650	25,989	60,450	29,019

(a) Directors' emoluments

The aggregate amount of emoluments payable to the directors of the Company for the year ended 31 March 2007, 2008 and 2009 were HK$10,327,000, HK$29,454,000 and HK$10,876,000 respectively.

The remuneration of every director during the Relevant Periods are shown as below:

	Directors' fees	Salaries and benefits-in -kind	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 March 2007				
Name of directors				
Executive directors				
Zhang Yang[6]	200	3,900	120	4,220
Chan Wing Yuen, Hubert[7]	200	2,746	120	3,066
Lam Cheung Shing, Richard	200	1,831	90	2,121
	600	8,477	330	9,407
Non-executive director				
Hui Ho Ming, Herbert[1]	250	–	–	250
	850	8,477	330	9,657
Independent non-executive directors				
Wu Wai Chung, Michael[1]	150	–	–	150
Wong Hon Sum[4]	200	–	–	200
Ha Ping	200	–	–	200
Tang Tin Sek[2]	120	–	–	120
	670	–	–	670
	1,520	8,477	330	10,327

	Directors' fees	Salaries and benefits-in -kind	Retirement benefit scheme contributions	Share option granted	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 March 2008					
Name of directors					
Executive directors					
Zhang Yang[6]	200	4,173	240	5,459	10,072
Chan Wing Yuen, Hubert[7]	200	3,589	240	5,459	9,488
Lam Cheung Shing, Richard	200	2,393	180	5,459	8,232
	600	10,155	660	16,377	27,792
Independent non-executive directors					
Wong Hon Sum[4]	200	–	–	354	554
Ha Ping	200	–	–	354	554
Tang Tin Sek[2]	200	–	–	354	554
	600	–	–	1,062	1,662
	1,200	10,155	660	17,439	29,454

	Directors' fees	Salaries and benefits-in -kind	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 March 2009				
Name of directors				
Executive directors				
Zhang Yang[6]	200	3,600	164	3,964
Chan Wing Yuen, Hubert[7]	200	2,925	164	3,289
Lam Cheung Shing, Richard	200	1,950	124	2,274
Zhu Youngjun[3]	176	562	11	749
	776	9,037	463	10,276
Independent non-executive directors				
Wong Hon Sum[4]	200	–	–	200
Ha Ping	200	–	–	200
Tang Tin Sek[2]	200	–	–	200
Ho Yiu Yue, Louis[5]	–	–	–	–
Ko Ming Tung, Edward[5]	–	–	–	–
	600	–	–	600
	1,376	9,037	463	10,876

1. Retired on 26 August 2006

2. Appointed on 26 August 2006 and resigned on 1 April 2009

3. Appointed on 19 May 2008

4. Resigned on 1 April 2009

5. Appointed on 2 April 2009

6. Resigned on 11 May 2009

7. Resigned on 11 June 2009

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 March 2007, 2008 and 2009 included three, three and three directors respectively whose emoluments are reflected in note (a) above and amounted to HK$9,407,000, HK$27,792,000 and HK$9,527,000 respectively. The emoluments payable to the remaining two, two and two individuals during the Relevant Periods were as follows:–

	For the year ended 31 March		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other benefits	1,159	1,749	2,645
Share-based payment expenses	–	2,729	–
Retirement benefit scheme contributions	38	28	40
	1,197	4,506	2,685

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

	For the year ended 31 March		
	2007	**2008**	**2009**
Nil to HK$1,000,000	2	1	1
HK$1,000,001 to HK$1,500,000	–	1	–
HK$1,500,001 to HK$2,000,000	–	–	–
HK$2,000,001 to HK$2,500,000	–	–	1
	2	2	2

11. (LOSS)/PROFIT FROM OPERATIONS

(Loss)/profit from operations has been arrived at after charging/(crediting):

	Continuing operations			Discontinued operation			Consolidated total		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
	HK'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK'000*	*HK$'000*	*HK$'000*	*HK'000*
	(restated)	*(restated)*		*(restated)*	*(restated)*		*(restated)*	*(restated)*	
Depreciation									
– Owned assets	2,815	2,072	2,245	658	601	413	3,473	2,673	2,658
– Assets held under finance Leases	52	26	–	–	–	–	52	26	–
Amortisation of leasehold land, land use rights and intangible assets	1,090	–	6,184	585	607	666	1,675	607	6,850
Auditors' remuneration	610	682	1,071	90	118	106	700	800	1,177
Loss on disposal of property, plant and equipment	153	5	–	–	–	–	153	5	–
Write-off of property, plant and equipment	–	640	111	–	–	–	–	640	111
Fair value change on financial instruments									
– Financial assets at fair value through profit or loss	–	71	18	–	–	–	–	71	18
– Derivative financial instruments	–	1,500	(16,629)	–	–	–	–	1,500	(16,629)
Impairment loss recognised in respect of other receivables	–	–	260	–	–	–	–	–	260
Operating lease rentals in respect of premises	4,120	2,463	2,211	–	–	–	4,120	2,463	2,211
Net foreign exchange loss	139	716	288	–	–	–	139	716	288
Gross rental income from investment properties	(2,968)	(18,107)	(18,211)	–	–	–	(2,968)	(18,107)	(18,211)
Less: direct operating expenses from investment properties that generated rental income during the year	592	840	2,716	–	–	–	592	840	2,716
direct operating expenses from investment properties that did not generate rental income during the year	180	180	180	–	–	–	180	180	180

12. FINANCE COSTS

	Continuing operations			Discontinued operation			Consolidated total		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
	HK'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK'000*	*HK$'000*	*HK$'000*	*HK'000*
	(restated)	*(restated)*		*(restated)*	*(restated)*		*(restated)*	*(restated)*	
Interest on:									
Bank loans and overdrafts wholly repayable:									
– within five years	6,492	5,052	15,861	5,540	4,960	4,589	12,032	10,012	20,450
– over five years	10,267	12,700	4,225	–	–	–	10,267	12,700	4,225
Other borrowings	17,054	6,953	16,238	–	–	–	17,054	6,953	16,238
Interest on obligations under finance leases	10	6	–	–	–	–	10	6	–
Interest on convertible notes	301	931	–	–	–	–	301	931	–
	34,124	25,642	36,324	5,540	4,960	4,589	39,664	30,602	40,913
Less: Amounts capitalised	(3,211)	(2,402)	–	–	–	–	(3,211)	(2,402)	–
	30,913	23,240	36,324	5,540	4,960	4,589	36,453	28,200	40,913

13. TAXATION

	Continuing operations			Discontinued operation			Consolidated total		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
	HK'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK'000*	*HK$'000*	*HK$'000*	*HK'000*
	(restated)	*(restated)*		*(restated)*	*(restated)*		*(restated)*	*(restated)*	
Current tax									
Hong Kong Profits Tax	–	–	303	–	–	–	–	–	303
The PRC Enterprise Income Tax	786	3,986	1,816	–	–	–	786	3,986	1,816
	786	3,986	2,119	–	–	–	786	3,986	2,119
Deferred tax	8,287	17,134	(16,610)	–	–	–	8,287	17,134	(16,610)
	9,073	21,120	(14,491)	–	–	–	9,073	21,120	(14,491)

Hong Kong Profits Tax is calculated at 17.5%, 17.5% and 16.5% of the estimated assessable profits of certain subsidiaries in Hong Kong for the year ended 31 March 2007, 2008 and 2009 respectively. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

No provisions for Hong Kong Profits Tax has been made for the year ended 31 March 2007 and 2008 in the Financial Information of the Group and the Company as there has no estimated assessable profits or its estimated assessable profits are wholly absorbed by the estimated tax losses brought forward.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax by Order No. 63 of the President of the People's Republic of China, which will change the tax rate from 33% to 25% for certain subsidiaries from 1 January 2008. Deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to respective years when the asset is realised or the liability is settled.

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profits tax rate by 1% to 16.5% effective from the year of assessment 2008-2009. Accordingly, Hong Kong Profits Tax is calculated at 17.5%, 17.5% and 16.5% of the estimated assessable profits for the year ended 2007, 2008 and 2009 respectively.

Reconciliation between tax expenses and accounting profit at applicable tax rates:

The Group – For the year ended 31 March 2007 (Restated)

	Hong Kong		**The PRC**		**Total**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
(Loss)/profit before taxation						
Continuing operations	(8,919)		12,021		3,102	
Discontinued operation	–		(10,836)		(10,836)	
	(8,919)		1,185		(7,734)	
Tax at the statutory tax rate	(1,561)	(17.5)	391	33.0	(1,170)	(15.1)
Tax effect of expenses not deductible for tax purpose	2,302	25.8	3,611	304.7	5,913	76.5
Tax effect of income not taxable for tax purpose	(9,599)	(107.6)	(4,431)	(373.9)	(14,030)	(181.4)
Tax effect of tax losses/ deferred tax assets not recognised	9,858	110.5	8,376	706.8	18,234	235.7
Underprovision for the year	126	1.4	–	–	126	1.6
Tax charge for the year	1,126	12.6	7,947	670.6	9,073	117.3

The Group – For the year ended 31 March 2008 (Restated)

	Hong Kong		**The PRC**		**Total**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
(Loss)/profit before taxation						
Continuing operations	(15,657)		22,762		7,105	
Discontinued operation	–		(26,706)		(26,706)	
	(15,657)		(3,944)		(19,601)	
Tax at the statutory tax rate	(2,740)	(17.5)	(730)	(18.5)	(3,470)	(17.7)
Tax effect of expenses not deductible for tax purpose	7,571	48.4	871	22.1	8,442	43.1
Tax effect of income not taxable for tax purpose	(5,505)	(35.2)	(2,793)	(70.8)	(8,298)	(42.3)
Tax effect of tax losses not recognised	11,106	70.9	13,199	334.6	24,305	124.0
Underprovision for the year	–	–	141	3.6	141	0.7
Tax charge for the year	10,432	66.6	10,688	271.0	21,120	107.8

The Group – For the year ended 31 March 2009

	Hong Kong		The PRC		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Loss before taxation						
Continuing operations	(321,460)		(44,409)		(365,869)	
Discontinued operation	–		(412,867)		(412,867)	
	(321,460)		(457,276)		(778,736)	
Tax at the statutory tax rate	(53,041)	(16.5)	(114,319)	(25.0)	(167,360)	(21.5)
Tax effect of expenses not deductible for tax purpose	11,004	3.4	31,395	6.9	42,399	5.4
Tax effect of income not taxable for tax purpose	(5,546)	(1.7)	(5,172)	(1.1)	(10,718)	(1.4)
Tax effect of tax losses not recognised	47,847	14.8	92,043	20.1	139,890	18
Effect of change in tax rate	–	–	(5,612)	(1.2)	(5,612)	(0.7)
Tax effect of unrecognised temporary differences	(7,862)	(2.4)	(5,228)	(1.2)	(13,090)	(1.7)
Tax credit for the year	(7,598)	(2.4)	(6,893)	(1.5)	(14,491)	(1.9)

14. LOSS PER SHARE

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

	For the year ended 31 March		
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
	(Restated)	*(Restated)*	
Loss for the year attributable to ordinary equity holders of the Company for the calculation of basic and diluted loss per share			
From continuing operations	7,416	13,056	351,629
From discontinued operation	10,836	26,706	412,867
	18,252	39,762	764,496
Number of shares			
Weighted average number of ordinary shares for the calculation of basic and diluted loss per share	5,655,988,454	9,893,806,897	20,167,015,550

Diluted loss per share for the years ended 31 March 2007, 2008 and 2009 were the same as the basic loss per share. The Company's outstanding convertible notes, share options and convertible note options were not included in the calculation of diluted loss per share because the effect of the Company's outstanding convertible notes, share options and convertible note options were anti-dilutive.

15. INVESTMENT PROPERTIES

	The Group As at 31 March		
	2007	2008	2009
	HK$'000	HK$'000	HK$'000
At beginning of the year	60,694	65,852	630,820
Exchange alignment	719	47,294	6,850
Acquisition of subsidiaries	–	480,839	489
Additions	–	–	2,024
Fair value change	4,439	36,835	(136,955)
At end of the year	65,852	630,820	503,228

The fair value of the Group's investment properties at 31 March 2007, 2008 and 2009 have been arrived at on the basis of a valuation carried out on that date by Messrs Savills Valuation and Professional Services Limited, 北京寶信房地產評估諮詢有限責任公司, Messrs Savills Valuation and Professional Services Limited and 上海房地產估價師事務所有限公司 respectively. All of them were independent qualified professional valuer did not connect with the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in similar location.

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

	The Group As at 31 March		
	2007	2008	2009
	HK$'000	HK$'000	HK$'000
Investment properties in Hong Kong, held on:			
Long term leases	13,800	15,000	13,500
Investment properties outside Hong Kong, held on:			
Medium-term lease	52,052	615,820	489,728
	65,852	630,820	503,228

As at 31 March 2007, 2008 and 2009, investment properties with carrying amount of approximately HK$65,852,000, HK$62,611,000 and HK$179,976,000 respectively have been pledged to secure banking facilities granted to the Group.

As at 31 March 2007, 2008 and 2009, the Group's investment properties amounting to HK$59,451,000, HK$611,290,000 and HK$474,835,000 are rented out under operating leases.

16. INTEREST IN LEASEHOLD LAND AND LAND USE RIGHTS

	The Group
	HK$'000
Cost	
At 1 April 2006	90,880
Exchange alignment	4,590
Disposal of subsidiaries	(54,490)
At 31 March 2007 and 1 April 2007	40,980
Exchange alignment	4,098
At 31 March 2008 and 1 April 2008	45,078
Exchange alignment	1,593
Transfer to assets classified as held for sale	(46,671)
At 31 March 2009	–
Accumulated amortisation	
At 1 April 2006	15,158
Exchange alignment	137
Charge for the year	1,675
Disposal of subsidiaries	(14,628)
At 31 March 2007 and 1 April 2007	2,342
Exchange alignment	191
Charge for the year	607
At 31 March 2008 and 1 April 2008	3,140
Exchange alignment	105
Charge for the year	666
Transfer to assets classified as held for sale	(3,911)
At 31 March 2009	–
Carrying amount	
At 31 March 2009	–
At 31 March 2008	41,938
At 31 March 2007	38,638

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

	The Group As at 31 March 2007 *HK$'000*	 2008 *HK$'000*	 2009 *HK$'000*
Land outside Hong Kong, held on:			
Long-term leases	38,638	41,938	–
	38,638	41,938	–

As at 31 March 2007, 2008 and 2009, all of the Group's interests in leasehold land and land use rights with an aggregate carrying amount of approximately HK$38,638,000, HK$41,938,000 and HK$Nil respectively were pledged to secure banking facilities granted to the Group.

Interests in leasehold land and land use rights comprise 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.

17. PROPERTY, PLANT AND EQUIPMENT

	Properties under development HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Equipment, motor vehicle and others HK$'000	Total HK$000 (restated)
The Group					
Cost					
At 1 April 2006	499,744	4,132	7,910	20,583	532,369
Additions	22,577	–	1,032	130	23,739
Exchange alignment	25,240	209	121	751	26,321
Disposal of subsidiaries	(249,480)	–	–	(295)	(249,775)
Disposals	–	–	–	(2,482)	(2,482)
At 31 March 2007 and at 1 April 2007	298,081	4,341	9,063	18,687	330,172
Exchange alignment	29,810	318	773	802	31,703
Additions	60,648	–	1,166	2,194	64,008
Acquisition of subsidiaries	–	–	1,803	76	1,879
Disposal of subsidiaries	–	–	(36)	(850)	(886)
Reclassification to properties under development for sale	(151,780)	–	–	–	(151,780)
Disposals	(7,042)	(2,064)	(480)	(4,844)	(14,430)
At 31 March 2008 and at 1 April 2008	229,717	2,595	12,289	16,065	260,666
Exchange alignment	7,921	89	324	454	8,788
Additions	8,207	–	1,560	6,003	15,770
Acquisition of subsidiaries	–	55	5	2,246	2,306
Transfer to assets classified as held for sale	(241,648)	(2,599)	(1,513)	(3,661)	(249,421)
Disposals	–	–	–	(803)	(803)
At 31 March 2009	4,197	140	12,665	20,304	37,306
Accumulated depreciation					
At 1 April 2006	–	3,493	4,519	12,387	20,399
Exchange alignment	–	176	57	368	601
Charge for the year	–	258	870	2,397	3,525
Disposal of subsidiaries	–	–	–	(38)	(38)
Elimination upon disposals	–	–	–	(1,802)	(1,802)
At 31 March 2007 and at 1 April 2007	–	3,927	5,446	13,312	22,685
Exchange alignment	–	277	479	400	1,156
Charge for the year	–	–	1,212	1,487	2,699
Elimination upon disposals	–	(1,609)	(389)	(3,725)	(5,723)
At 31 March 2008 and at 1 April 2008	–	2,595	6,748	11,474	20,817
Exchange alignment	–	89	219	342	650
Charge for the year	–	1	1,220	1,437	2,658
Transfer to assets classified as held for sale	–	(2,599)	(1,282)	(2,291)	(6,172)
Elimination upon disposals	–	–	–	(739)	(739)
At 31 March 2009	–	86	6,905	10,223	17,214
Carrying amount					
At 31 March 2009	4,197	54	5,760	10,081	20,092
At 31 March 2008	229,717	–	5,541	4,591	239,849
At 31 March 2007	298,081	414	3,617	5,375	307,487

	Leasehold improvements	Furniture and Fixtures	Equipment, motor vehicle and others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The Company				
Cost				
At 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 and 1 April 2007	1,982	447	2,900	5,329
Exchange alignment	82	32	37	151
Disposals	(2,064)	(479)	(2,937)	(5,480)
At 31 March 2008, 1 April 2008 and 31 March 2009	–	–	–	–
Accumulated depreciation				
At 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 and 1 April 2007	1,570	363	2,815	4,748
Exchange alignment	41	24	28	93
Disposals	(1,611)	(387)	(2,843)	(4,841)
At 31 March 2008, 1 April 2008 and 31 March 2009	–	–	–	–
Carrying amount				
At 31 March 2009	–	–	–	–
At 31 March 2008	–	–	–	–
At 31 March 2007	412	84	85	581

The carrying amount of the properties under development comprises:

	The Group As at 31 March		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
The Group			
Outside Hong Kong, held on:			
Long term leases	298,081	229,717	4,197

Properties under development of the Group are situated in the PRC. As at 31 March 2007, 2008 and 2009, properties under development of the Group included interest capitalised of HK$42,846,000, HK$40,400,000, and HK$Nil respectively.

As at 31 March 2007, 2008 and 2009, property, plant and equipment with the net book value of approximately HK$151,090,000, HK$Nil and HK$Nil respectively have been pledged to secure banking facilities granted to the Group.

As at 31 March 2007, 2008 and 2009, the carrying amount of equipment, motor vehicle and others included an amount of HK$243,000, HK$Nil and HK$Nil respectively in respect of assets held under finance leases.

18. INTERESTS IN SUBSIDIARIES

	The Company As at 31 March		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Unlisted shares, at cost	453,906	908,136	945,777
Impairment loss recognised	(41,722)	(34,887)	(60,616)
	412,184	873,249	885,161

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 2009 are set out in note 51.

19. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into a number of service concession arrangements with certain governmental authorities in the PRC on a BOT or a Transfer-Operate-Transfer ("TOT") basis in respect of its sewage and water treatment operations. These service concession arrangements generally involve the Group as an operator (i) constructing the infrastructures for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; (iii) operating and maintaining the infrastructures at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 20 to 30 years (the "Service Concession Periods"), and the Group will be paid for its services over the relevant periods of the service concession arrangements at prices stipulated through a pricing mechanism. The Group is entitled to, where appropriate, use all the property, plant and equipment of the infrastructures, however, the relevant governmental authorities as grantors will control and regulate the scope of services the Group must provide with the infrastructures, and retain the beneficial entitlement to any residual interest in the infrastructures at the end of the term of the Service Concession Periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authority in the PRC that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the infrastructures to a specified level of serviceability at the end of the Service Concession Periods, and arrangements for arbitrating disputes. The accounting policies in respect of the classification of the service concession arrangements between other financial assets (receivables under service concession arrangements) and intangible assets (operating concessions) are set out under the heading of "Service concession arrangements" in note 5 to the Financial Information.

The following is the summarised information of the Group's service concession arrangements under environmental protection and water treatment operation:

a) Intangible assets

The Group

	Concession intangible assets
	HK$'000
	(restated)
Cost	
At 1 April 2006, as previously reported	–
Effect on adoption of HK(IFRIC) – Int 12	125,912
At 1 April 2006, as restated	125,912
Exchange alignment	4,306
Adjustment upon finalisation of construction contract	(27,404)
At 31 March 2007 and 1 April 2007	102,814
Exchange alignment	9,253
Additions	4,806
At 31 March 2008 and 1 April 2008	116,873
Exchange alignment	4,030
Acquisition of subsidiaries	560,653
Additions	10,439
At 31 March 2009	691,995
Accumulated amortisation	
At 1 April 2006, as previously reported	–
Effect on adoption of HK(IFRIC) – Int 12	–
At 31 March 2006 as restated, 31 March 2007, 31 March 2008	–
Charge for the year	6,184
At 31 March 2009	6,184
Carrying amount	
At 31 March 2009	685,811
At 31 March 2008	116,873
At 31 March 2007	102,814

b) Other financial assets

	The Group As at 31 March 2007	2008	2009
	HK$'000 *(Restated)*	*HK$'000* *(Restated)*	*HK$'000*
Receivables under services concession arrangements	295,411	350,098	444,805

(c) Notes to the service concession arrangements

The Group has entered into a number of service concession arrangements with certain governmental authorities in the PRC on BOT basis in respect of their sewage treatment, water treatment and distribution businesses.

During the year 31 March 2009, the Group acquired Black Dragon Company Limited ("Black Dragon") and its subsidiaries (collectively referred to as the "Black Dragon Group") as further detailed in note 42(e) to the Financial Information. The subsidiaries of Black Dragon have also entered into a number of service concession arrangements with certain governmental authorities in the PRC on BOT and TOT basis in respect of their sewage treatment, water treatment and distribution businesses.

As at 31 March 2009, the Group, including the Black Dragon Group, had service concession arrangements on water treatment and distribution and on sewage treatment with various governmental authorities in the PRC. The following table list the major terms of the major service concession arrangements of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group.

Name of subsidiary	Location	Name of grantor	Type of service concession arrangement	Service concession period
青海雄越環保科技有限公司	中國西寧市	西寧市水務局	TOT	25 years from 2005 to 2030
西安航空科技產業園供排水有限公司	中國西安市	西安市閻良區水務局	TOT	20 years from 2008 to 2028
漢中市國中自來水有限公司	中國漢中市	漢中市漢台區人民政府建設局	TOT	30 years from 2008 to 2038
國水(馬鞍山)污水處理有限公司	中國馬鞍山市	馬鞍山市市政管理處	BOT	22 years from 2006 to 2028
國水(昌黎)污水處理有限公司	中國秦皇島市昌黎縣	秦皇島市昌黎人民政府	BOT	30 years from 2005 to 2035
Interchina (Qinhuangdao) Sewage Treatment Company Limited	中國秦皇島市	河北省秦皇島市人民政府	BOT	20 years from 2002 to 2022

Pursuant to the service concession agreements signed, the Group is granted the rights to use the property, plant and equipment of the sewage and water treatment plants and related land, which are generally registered under the names of the relevant companies in the Group during the Service Concession Periods, but the Group is generally required to surrender these property, plant and equipment to the grantors at a specified level of serviceability at the end of the respective Service Concession Periods.

During the year ended 31 March 2007 and 2008, the intangible assets of operating concession were under construction and no amortisation has been made.

The carrying amounts of the Group's assets under service concession arrangements were used to secured the Group's banking facilities as follow:

	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Intangible assets	–	116,873	293,916
Other financial assets	151,090	164,288	334,334
	151,090	281,161	628,250

Other financial assets, bear interest at rates ranging from 6.37% to 13.88%, represented the minimum guaranteed income from the relevant governmental authorities in the PRC, calculate with reference to forecast sewage treatment and water treatment capacity over the Service Concession Periods.

20. INTERESTS IN ASSOCIATES

	The Group			The Company		
	31 March 2007	31 March 2008	31 March 2009	31 March 2007	31 March 2008	31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost of investments	1,010	–	296,000	1	–	296,000
Share of post-acquisition reserves	74,045	–	3,146	–	–	3,146
Disposal	–	–	(299,146)	–	–	(299,146)
	75,055	–	–	1	–	–
Amount due from an associate	2,364	–	–	45,007	–	–
	77,419	–	–	45,008	–	–

For the year ended 31 March 2008

On 11 June 2007, the Group further acquired 60% interest in Money Capture Investments Limited ("Money Capture"). Money Capture was an associate of the Group before acquisition. Details of the assets and liabilities acquired are set out in note 41(b). Following the further acquisition of Money Capture, the Group has no associate as at 31 March 2008.

For the year ended 31 March 2009

On 15 July 2008, the Group completed the acquisition of 29.52% equity interest in China Pipe Group Limited ("China Pipe") at consideration of approximately HK$296,000,000, details of which were set out in the Company's circular dated 14 April 2008. Subsequently, the Group pledged its equity interest in China Pipe to secure loan facilities granted to the Group.

On 15 October 2008, the Group entered into a sale and purchase agreement with Singapore Zhongxin Investment Company Limited ("Singapore Zhongxin") to dispose the 29.52% equity interest in China Pipe at consideration of approximately HK$74,000,000 and details were set out in the Company's circular dated 2 January 2009. Disposal of China Pipe was completed on 23 January 2009 and a loss on disposal of an associate of approximately HK$225,146,000 was recognised in the consolidated income statement.

China Pipe is a company listed in Hong Kong with its financial year end date on 31 December and its interim financial year end date on 30 June. The Group has equity for its share of interest in China Pipe from the date of acquisition and up to 15 October 2008 (being the date the Group entering into an agreement for disposal of China Pipe) based on the net assets of China Pipe at 30 June 2008, after adjusting for any material transactions up to 15 October 2008.

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

	For the year ended 31 March		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	8,559	6,520	273,934
(Loss)/profit for the year	(39,158)	6,520	7,243
(Loss)/profit attributable to the Group	(6,164)	2,608	3,146

	As at 31 March		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	343,574	–	–
Total liabilities	(153,716)	–	–
Net assets	189,858	–	–
Net assets attributable to the Group	75,055	–	–

21. GOODWILL

	The Group
	HK$'000
Cost	
At 31 March 2006, 31 March 2007 and 1 April 2007	2,846
Additions *(note 42(a), (b), (c))*	8,160
At 31 March 2008	11,006
Addition *(note 42(e))*	387,557
At 31 March 2009	398,563
Impairment	
At 31 March 2006, 31 March 2007 and 31 March 2008	–
Impairment loss recognised	11,006
At 31 March 2009	11,006
Carrying amount	
At 31 March 2009	387,557
At 31 March 2008	11,006
At 31 March 2007	2,846

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

	As at 31 March		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
City development and investment operation	2,846	2,846	–
Environmental protection and water treatment operation	–	1,043	387,557
Property investment operation	–	7,117	–
	2,846	11,006	387,557

Addition of goodwill comprised of the following:

For the year ended 31 March 2008, the Group further acquired 4.67%, 60% and 100% of equity interest in Interchina (Tianjin) Water Treatment Company Limited ("Interchina Tianjin"), Money Capture and Success Flow International Limited ("Success Flow") respectively, and the goodwill has increased by approximately of HK$1,043,000, HK$3,682,000 and HK$3,435,000 accordingly.

For the year ended 31 March 2009, the Group completed the acquisition of Black Dragon and resulted an increase in goodwill of approximately HK$387,557,000.

Impairment test of goodwill

The recoverable amount of goodwill under city development and investment operation, environmental protection and water treatment operation and property investment operation were assessed by reference to value-in-use calculation based on a five year projection of the relevant cash-generating unit. A discount rate of 9.5% per annum was applied in the value-in-use model which uses cash flow projections based on financial forecasts approved by the directors of the Company (the "CGU Forecast") covering a five-year period. There are a number of assumptions and estimates involved for the preparation of the cash flow projections for the period covered by the CGU Forecast. Key assumptions included budgeted gross margin and discount rate which are determined by the management of the Group based on past experience and its expectation for market development.

The basis used to determine the value assigned to the budgeted gross margin is the average gross margin achieved in the year immediately before the budget year, increased for expected efficiency improvements. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

During the year ended 31 March 2009, the management of the Group expected that the property market and environmental protection would be less prosperous in the coming periods which the profitability would be significant reduced. In view of the deteriorating profitability, impairment loss of approximately HK$11,006,000 was made in accordance with the result of the discounted cash flow analysis.

22. OTHER NON-CURRENT ASSETS

	The Group			The Company		
	31 March 2007	**31 March 2008**	**31 March 2009**	**31 March 2007**	**31 March 2008**	**31 March 2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Contribution to the compensation fund and fidelity fund with the Stock Exchange	197	197	197	–	–	–
Admission fee paid to Hong Kong Securities Clearing Company Limited ("HKSCCL")	100	100	100	–	–	–
Guarantee fund contributions To HKSCCL	100	100	100	–	–	–
Statutory deposits with HKFE Clearing Corporation Limited	1,500	1,500	1,500	–	–	–
Club membership	515	504	380	380	380	380
	2,412	2,401	2,277	380	380	380

23. PROPERTIES UNDER DEVELOPMENT FOR SALE

	The Group As at 31 March		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
At beginning of the year	277,974	348,527	607,714
Exchange alignment	14,039	36,990	20,956
Additions	56,514	70,417	44,905
Impairment loss recognised	–	–	(182,770)
Transferred from property, plant and equipment	–	151,780	–
Transferred to assets classified as held for sale	–	–	(490,805)
At end of the year	348,527	607,714	–

The Group's properties under development for sale are situated in Changsha, the PRC and are situated on land held under land use rights expiring on 2073.

As at 31 March 2007, 2008 and 2009, included in the properties under development for sale is net interest capitalised of approximately HK$2,187,000, HK$2,406,000 and HK$2,406,000 respectively.

At 31 March 2009, the Group's properties under development for sale situated in Changsha, the PRC were reclassified as assets held for sale as the Group entered into an agreement in relation to disposal of subsidiaries in Changsha, the PRC and details were set out in note 40 to the Financial Information.

The directors of the Company reviewed the carrying amount of the properties under development for sale situated in Changsha, the PRC with reference to current market situation and the estimated selling price of the properties under development for sale provided by RHL Appraisal Limited, an independent professional qualified valuer and considered an impairment loss of approximately HK$182,770,000 was recognised in the consolidated income statement for the year ended 31 March 2009.

24. INVENTORIES

	The Group As at 31 March		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Finished goods	–	844	4,198

All consumables were carried at cost during the Relevant Periods.

25. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

The Group allows an average credit period of 60 days to its trade customers. As at 31 March 2007, 2008 and 2009, the aged analysis of trade receivables of HK$43,378,000, HK$49,190,000 and HK$31,417,000 respectively included in trade and other receivables and prepayments are as follows:

	The Group			The Company		
	31 March 2007	**31 March 2008**	**31 March 2009**	**31 March 2007**	**31 March 2008**	**31 March 2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(restated)	*(restated)*				
0-30 days	43,378	36,150	17,263	–	–	–
31-60 days	–	1,630	588	–	–	–
61-90 days	–	1,630	588	–	–	–
Over 90 days	–	9,780	12,978	–	–	–
	43,378	49,190	31,417	–	–	–
Margin clients account receivables	1,338	1,227	1,227	–	–	–
Clearing houses, brokers and dealers	66,238	1,502	3,346	–	–	–
Prepayments and deposits	20,369	661,716	164,370	431	175,273	2,692
Other receivables	75,345	22,272	82,477	59,870	6,036	144
	206,668	735,907	282,837	60,301	181,309	2,836
Less: Impairment of other receivables	–	–	(260)	–	–	–
	206,668	735,907	282,577	60,301	181,309	2,836

Movement on impairment of other receivables was as follow:

	The Group As at 31 March		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
At beginning of the year	17,738	–	–
Impairment loss recognised for the year	–	–	260
Reversal of impairment loss for the year	(15,561)	–	–
Trade receivables written off	(2,177)	–	–
At end of the year	–	–	260

The aged analysis of the trade receivables that are not considered to be impaired was as follow:

	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Neither past due nor impaired	43,378	37,780	17,851
Two to three months past due	–	1,630	588
Over three months past due	–	9,780	12,978
	43,378	49,190	31,417

Included in the Group's trade receivables balances are debtors with carrying amounts of approximately HK$Nil, HK$11,410,000 and HK$13,566,000 for the year ended 31 March 2007, 2008 and 2009 respectively which were past due for which the Group has not provided for impairment as there had not been a significant change in credit quality and the amounts were still considered recoverable. The Group does not hold any collateral over these balances.

Trade receivables within credit terms relate to a wide range of customers for whom there is no recent history of default. The maximum exposure to credit risk at the reporting date is the fair value. The Group does not hold any collateral over these balances.

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.

26. LOAN RECEIVABLES

	The Group As at 31 March		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Loan receivables	–	61,899	102,898

The loan is unsecured, carrying at the prevailing interest rate ranging from 7.50% to 15% per annum with fixed repayment terms for the year ended 31 March 2008 and 2009. The directors of the Company considered that the amount will be repaid within twelve months from the balance sheet date, and accordingly, the amount is shown as current.

The loan receivables with a carrying amount of approximately HK$61,899,000 and HK$102,898,000 for the year ended 31 March 2008 and 2009 is not past due and continuous settlement by instalments from borrowers have been received for the year ended 31 March 2008 and 2009 and after the balance sheet date. Therefore, the Group considers no impairment on loan receivables as the Group considers that the amount is recoverable in full.

The credit risk has been mentioned in note 50(ii) in determining the recoverability of the loan receivables.

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

		The Group	
		As at 31 March	
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Held for trading:			
Listed equity securities – Hong Kong, at market value	169	98	80

28. BANK BALANCES – TRUST AND SEGREGATED ACCOUNTS

		The Group	
		As at 31 March	
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Trust accounts	86,407	4,343	6,366
Segregated accounts	3	3	957
	86,410	4,346	7,323

Trust and segregated accounts earns interest at floating rates based on daily bank deposit rates. At 31 March 2007, 2008 and 2009, all trust and segregated accounts are denominated in Hong Kong dollar.

The amount represented bank balances held on behalf of customers for securities trading. The liability to customers were included under trade payables under current liabilities.

29. CASH AND CASH EQUIVALENTS

		The Group			**The Company**	
	31 March 2007	**31 March 2008**	**31 March 2009**	**31 March 2007**	**31 March 2008**	**31 March 2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	159,430	30,193	34,259	88,570	110	19

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

At 31 March 2007 and 2008 and 2009, cash and cash equivalents of approximately HK$26,861,000, HK$7,505,000 and HK$26,415,000 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.

30. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

The aged analysis of trade payables are as follows:

	The Group			The Company		
	31 March 2007	31 March 2008	31 March 2009	31 March 2007	31 March 2008	31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Restated)	*(Restated)*				
Trade payables:						
0-30 days	179,139	8,851	22,588	–	–	–
Accounts payable arising from the business of dealing in securities and equity options:						
Margin clients	606	95	100	–	–	–
Other payables and deposits received	253,847	248,403	316,999	3,355	6,845	11,644
	433,592	257,349	339,687	3,355	6,845	11,644

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 trade payables as at 31 March 2007 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, HK$124,562,000 and HK$46,981,000 and deposits received for the pre-sale of properties of approximately HK$68,776,000, HK$25,890,000 and HK$Nil and advance from the Purchaser of approximately HK$Nil, HK$Nil and HK$96,295,000 as at 31 March 2007, 2008 and 2009 respectively.

The directors 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.

31. 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 and who has resigned as director of Company on 11 May 2009.

32. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 March		
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Financial liabilities related to convertible note options	–	22,736	–

During the year ended 31 March 2008, the Group entered into subscription agreements with a director of the Company (the "Subscriber"), pursuant to which the Group, in return for its payment of a premium of HK$20,000,000, to granted to the Subscriber (i) an option (the "First Tranche Option") to subscribe for convertible notes of the Company up to an aggregate principal amount of HK$650,000,000 (the "First Tranche Convertible Notes"); and (ii) the other option (the "Second Tranche Option") to subscribe for convertible notes of the Company up to an aggregate principal amount of HK$1,200,000,000 (the "Second Tranche Convertible Notes").

The First Tranche Option may be exercised by the Subscriber at any time during the period commencing from the date of such grant and ending on 31 December 2007 and the Second Tranche Option may be exercised by the Subscriber at any time during the period commencing from the date of completion of subscription of the First Tranche Option in full and ending on 31 December 2008.

The value of each of the convertible note option was valued by BMI Appraisals Limited, an independent valuer, at the issue date, and at 31 March 2008, by using the Black-Scholes Option Pricing Model. The inputs into the model were as follows:

	At the date of issue	As at 31 March 2008	As at 31 March 2009
The First Tranche Option			
Spot price	HK$0.144	–	–
Conversion price	HK$0.1	–	–
Risk free rate	3.884%	–	–
Expected exercise period	0.25 years	–	–
Nature of the option	Call	–	–
Volatility	22.51%	–	–
The Second Tranche Option			
Spot price	HK$0.071	HK$0.073	–
Conversion price	HK$0.1	HK$0.1	–
Risk free rate	4.074%	1.287%	–
Expected exercise period	0.75 years	1.875 years	–
Nature of the option	Call	Call	–
Volatility	34.12%	80.66%	–

Expected volatility was measured at the standard deviation of expected share price returns based on statistical analysis of daily share average prices of comparable companies with similar business over the past years immediately preceding the grant dates. The expected life of call options used in the model represents management's best estimate, taking into account of non transferability, exercise restrictions and behavioral consideration.

The changes in fair value of convertible note options during the year ended 31 March 2008 and 2009 are as follows:

	As at 31 March 2008		As at 31 March 2009
	The First Tranche Option	The Second Tranche Option	The Second Tranche Option
	HK$'000	*HK$'000*	*HK$'000*
Derivative financial instruments			
At beginning of the year	–	–	22,736
At initial recognition	125	21,175	–
Fair value (decrease)/increase	(61)	1,561	(16,629)
Exercise upon issue of convertible notes	(64)	–	(5,028)
Derecognition upon expiry of the convertible note options	–	–	(1,079)
At end of the year	–	22,736	–

33. BANK AND OTHER BORROWINGS

	The Group			The Company		
	31 March 2007 HK$'000	31 March 2008 HK$'000	31 March 2009 HK$'000	31 March 2007 HK$'000	31 March 2008 HK$'000	31 March 2009 HK$'000
Bank borrowings, secured	309,735	252,210	277,031	–	–	–
Bank borrowings, unsecured	43,434	47,778	107,841	–	–	–
Total bank borrowings	353,169	299,988	384,872	–	–	–
Other borrowings, secured	–	–	120,000	–	–	120,000
Other borrowings, unsecured	–	–	18,966	–	–	3,000
Total other borrowings	–	–	138,966	–	–	123,000
Total borrowings	353,169	299,988	523,838	–	–	123,000
The maturity profiles are as follows:						
On demand or repayable within one year:						
bank borrowings	143,495	100,357	92,936	–	–	–
other borrowings	–	–	126,541	–	–	123,000
Portion classified as current liabilities	143,495	100,357	219,477	–	–	123,000
On demand or repayable in the second year:						
bank borrowings	25,664	41,239	55,759	–	–	–
other borrowings	–	–	1,816	–	–	–
	25,664	41,239	57,575	–	–	–
Bank borrowings repayable:						
in the third to fifth years, inclusive	103,535	99,842	170,718	–	–	–
after the fifth year	80,475	58,550	65,459	–	–	–
Other borrowing repayable:						
in the third to fifth years inclusive	–	–	5,448	–	–	–
after the fifth year	–	–	5,161	–	–	–
Portion classified as non-current liabilities	209,674	199,631	304,361	–	–	–
Total borrowings	353,169	299,988	523,838	–	–	123,000

The other borrowings bear interest at rates ranging from 7.75% to 36% as at 31 March 2009.

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%, 5.8% to 7.8% and 2.55% to 8.25% as at 31 March 2007, 2008 and 2009 respectively.

Secured bank borrowings comprise term loans and mortgage loans which bear interest at commercial rates. The term loans are secured by the assets of the Group with carrying values during the Relevant Periods as follows:

	31 March 2007	31 March 2008	31 March 2009
	HK$'000	*HK$'000*	*HK$'000*
Interest in leasehold land and land use rights	38,638	41,938	–
Intangible assets	–	116,873	293,916
Other financial assets	151,090	164,288	334,334
	189,728	323,099	628,250

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, HK$62,611,000 and HK$179,976,000 as at 31 March 2007, 2008 and 2009 respectively. 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		
	31 March 2007	31 March 2008	31 March 2009	31 March 2007	31 March 2008	31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong dollars	30,575	27,887	150,015	–	–	123,000
Renminbi	322,594	272,101	373,823	–	–	–
	353,169	299,988	523,838	–	–	123,000

34. OBLIGATIONS UNDER FINANCE LEASES

The Group

	Minimum lease payments			Present value of minimum lease payments		
	31 March 2007	31 March 2008	31 March 2009	31 March 2007	31 March 2008	31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:						
within one year	77	–	–	69	–	–
in the second to fifth years, inclusive	147	–	–	141	–	–
	224	–	–	210	–	–
Less: Future finance charges	(14)	–	–	–	–	–
Present value of finance leases	210	–	–	210	–	–
Less: Amount due for settlement within one year				(69)	–	–
Amount due for settlement after one year				141	–	–

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 were secured by the lessor's charge over the leased assets.

35. CONVERTIBLE NOTES

For the year ended 31 March 2007

a. On 12 February 2007, the Company issued convertible notes with principal amount of approximately HK$111,698,000 (the "2007 CN"). The 2007 CN carries interest at 3.0% and will be matured on 11 February 2009. The 2007 CN was denominated in Hong Kong dollars. The initial conversion price is HK$0.10 per share. The effective interest rate of the liability component is 8.57% per annum.

   Unless previously converted by the 2007 CN holder, the Company will redeem the convertible notes on the maturity date at the principal amount of the convertible notes then outstanding.

   On 2 March 2007, 14 March 2007 and 6 July 2007, the 2007 CN of approximately HK$60,000,000, HK$46,698,000 and HK$5,000,000 were converted into 600,000,000, 466,980,000 and 50,000,000 ordinary shares of HK$0.10 each of the Company.

For the year ended 31 March 2008

b. On 6 August 2007, the Company issued convertible notes with principal amount of approximately HK$132,677,000 (the "Money Capture CN") for the acquisition of Money Capture. The Money Capture CN was carried interest at 3.5% and will be matured on 5 August 2009. The Money Capture CN is denominated in Hong Kong dollars. The initial conversion price is HK$0.131 per share. The effective interest rate of the liability component is 8.57% per annum. Unless previously converted by the Money Capture CN holder, the Company will redeem the convertible notes on the maturity date at the principal amount of the convertible notes then outstanding.

   On 10 August 2007, the Money Capture CN of approximately HK$132,677,000 were converted into 1,012,800,000 ordinary shares of HK$0.131 each of the Company.

c. During the year ended 31 March 2008, the Group entered into a subscription agreement with the Subscriber pursuant to which the Company has agreed to grant to the Subscriber (i) the First Tranche Option to subscribe for the First Tranche Convertible Notes; and (ii) the Second Tranche Option to subscribe for the Second Tranche Convertible Notes.

d. During the year ended 31 March 2008, the Company issued the First Tranche Convertible Notes with principal amount of HK$650,000,000. The First Tranche Convertible Notes carry interest at 3.0% and will be matured on 4 July 2012. The First Tranche Convertible Notes are denominated in Hong Kong dollars. The initial conversion price is HK$0.10 per share. The effective interest rate of the liability component is 8.57% per annum.

   On 26 October 2007, 30 October 2007, 9 November 2007, 28 December 2007, 4 January 2008 and 30 January 2008, the First Tranche Convertible Notes of approximately HK$150,000,000, HK$50,000,000, HK$50,000,000, HK$300,000,000, HK$50,000,000 and HK$50,000,000 were converted into 1,500,000,000, 500,000,000, 500,000,000, 3,000,000,000, 500,000,000 and 500,000,000 ordinary shares respectively at HK$0.10 each of the Company. Following the conversion, 6,500,000,000 ordinary shares under the First Tranche Convertible Notes were issued.

For the year ended 31 March 2009

e. During the year ended 31 March 2009, the Company exercised the Second Tranche Option and issued part of the Second Tranche Convertible Notes with principal amount of HK$300,000,000. The Second Tranche Convertible Notes carry interest at 3.0% and will be matured on 4 July 2012. The Second Tranche Convertible Notes are denominated in Hong Kong dollars. The initial conversion price is HK$0.10 per share. The effective interest rate of the liability component is 8.57% per annum.

   On 2 April 2008, 16 April 2008 and 21 April 2008, the Second Tranche Convertible Notes of approximately HK$50,000,000, HK$200,000,000 and HK$50,000,000 were converted into 500,000,000, 2,000,000,000 and 500,000,000 ordinary shares respectively at HK$0.10 each of the Company. Following the conversion, 3,000,000,000 ordinary shares under the Second Tranche Convertible Notes were issued.

Reconciliation of the liability component of the convertible notes:

	As at 31 March		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Liability component at beginning of the year	–	4,587	–
Proceeds of issue upon exercise of convertible note options	111,698	782,677	305,028
Equity component	(10,303)	(288,269)	(32,027)
Liability component at date of issue	101,395	498,995	273,001
Imputed interest expense for the year	301	931	–
Conversion into ordinary shares	(97,109)	(499,926)	(273,001)
Liability component at end of the year	4,587	–	–

36. DEFERRED TAX LIABILITIES

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

The Group	Revaluation of properties	Convertible notes	Fair Value adjustments arising on acquisition subsidiaries	Temporary difference on assets recognised under HK (IFRIC) – Int 12	Other	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2006	1,607	–	–	8,213	–	9,820
Exchange alignments	–	–	–	257	–	257
Charge to consolidated income statement	1,224	–	–	7,063	–	8,287
Issue of convertible notes	–	73	–	–	–	73
At 31 March 2007 and 1 April 2007	2,831	73	–	15,533	–	18,437
Exchange alignments	9	–	–	1,208	–	1,217
Acquisition of subsidiaries	3,874	–	–	–	–	3,874
Charge/(credit) to consolidated income statement	10,889	(163)	–	6,408	–	17,134
Issue of convertible notes	–	50,447	–	–	–	50,447
Conversion of convertible notes	–	(50,357)	–	–	–	(50,357)
At 31 March 2008 and 1 April 2008	17,603	–	–	23,149	–	40,752
Exchange alignments	3	–	–	702	–	705
Acquisition of subsidiaries	–	–	81,819	–	(76)	81,743
Charge/(credit) to consolidated income statement	(17,606)	–	–	6,532	76	(10,998)
Effect of change in tax rate	–	–	–	(5,612)	–	(5,612)
Issue of convertible notes	–	5,284	–	–	–	5,284
Conversion of convertible notes	–	(5,284)	–	–	–	(5,284)
At 31 March 2009	–	–	81,819	24,771	–	106,590

The Group

At 31 March 2007, 2008 and 2009, the Group had unused estimated tax losses of approximately HK$502,621,000, HK$740,135,000 and HK$1,504,631,000 respectively available for offset against future profits. A reduction in deferred tax liabilities has been recognised in respect of fair value loss on investment properties of approximately HK$70,424,000 and no deferred tax asset has been recognised in respect of the remaining fair value loss on investment properties of approximately HK$66,531,000 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, HK$388,247,000 and HK$392,995,000 as at 31 March 2007, 2008 and 2009 respectively due to the unpredictability of future profit streams.

37. SHARE CAPITAL

	Number of shares			Nominal value		
	31 March 2007	**31 March 2008**	**31 March 2009**	**31 March 2007** *HK$'000*	**31 March 2008** *HK$'000*	**31 March 2009** *HK$'000*
Ordinary shares of HK$0.10 each						
Authorised: *(Note c)*	10,000,000,000	40,000,000,000	40,000,000,000	1,000,000	4,000,000	4,000,000
Issued and fully paid:						
At beginning of the year	5,584,923,632	6,651,903,632	17,286,193,632	558,492	665,190	1,728,619
Issue of new shares *(Note f)*	–	2,700,000,000	–	–	270,000	–
Exercise of share options *(Note b)*	–	371,490,000	–	–	37,149	–
Conversion of convertible notes *(Note d, e, g)*	1,066,980,000	7,562,800,000	3,000,000,000	106,698	756,280	300,000
At end of the year	6,651,903,632	17,286,193,632	20,286,193,632	665,190	1,728,619	2,028,619

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

Notes:

For the year ended 31 March 2007

(a) The holders of the 2007 CN with principal amounts of HK$106,698,000 were converted into shares at conversion price of HK$0.10 per share. 1,066,980,000 ordinary shares were issued upon the conversion of the 2007 CN.

For the year ended 31 March 2008

(b) The Company allotted and issued 371,490,000 new shares of HK$0.10 each pursuant to the exercise of share options granted to the Group's directors, employees and consultants. The exercise price was HK$0.146 per share.

(c) 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) The holder of part of 2007 CN and the First Tranche Convertible Notes with principal amounts of HK$5,000,000 and HK$650,000,000 respectively were converted into shares at conversion price of HK$0.10 per share. 6,550,000,000 ordinary shares were issued upon the conversion of the 2007 CN and the First Tranche Convertible Notes.

(e) The holder of the Money Capture CN with principal amounts of HK$132,677,000 was converted into shares at conversion price of HK$0.131 per share. 1,012,802,000 ordinary shares were issued upon conversion of the Money Capture CN.

(f) The Company entered into a subscription agreement for issuing an aggregate of 2,700,000,000 new shares at par value of HK$0.10 each.

For the year ended 31 March 2009

(g) The holder of the Second Tranche Convertible Notes with principal amounts of HK$300,000,000 were converted into shares at conversion price of HK$0.10 per share. 3,000,000,000 ordinary shares were issued upon the conversion of the Second Tranche Convertible Notes.

38. SHARE PREMIUM AND RESERVES

	Share premium HK$'000	Exchange reserve HK$'000	Convertible notes reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
The Company						
At 1 April 2006	282,741	–	–	–	(200,592)	82,149
Exchange alignment	–	(1,454)	–	–	–	(1,454)
Issue of convertible notes	–	–	10,303	–	–	10,303
Recognition of deferred tax for convertible notes	–	–	(124)	–	–	(124)
Conversion of convertible notes	–	–	(9,589)	–	–	(9,589)
Loss for the year	–	–	–	–	(12,670)	(12,670)
At 31 March 2007 and 1 April 2007	282,741	(1,454)	590	–	(213,262)	68,615
Exchange alignment	–	(3,336)	–	–	–	(3,336)
Issue of convertible notes	–	–	288,269	–	–	288,269
Recognition of deferred tax for convertible notes	–	–	(90)	–	–	(90)
Conversion of convertible notes	40,108	–	(288,769)	–	–	(248,661)
Issue of share options	–	–	–	32,986	–	32,986
Exercise of share options	43,605	–	–	(26,516)	–	17,089
Loss for the year	–	–	–	–	(155,501)	(155,501)
At 31 March 2008 and 1 April 2008	366,454	(4,790)	–	6,470	(368,763)	(629)
Exchange alignment	–	(345)	–	–	–	(345)
Issue of convertible notes	–	–	32,027	–	–	32,027
Recognition of deferred tax for convertible notes	–	–	(5,284)	–	–	(5,284)
Conversion of convertible notes	5,028	–	(26,743)	–	–	(21,715)
Loss for the year	–	–	–	–	(286,596)	(286,596)
At 31 March 2009	371,482	(5,135)	–	6,470	(655,359)	(282,542)

The Company did not have any reserves available for distribution to shareholders during the Relevant Periods.

39. 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, 2008 and 2009.

(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 the 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 the 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, 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.

The following share options were outstanding under the Option Scheme as at 31 March 2007, 2008 and 2009:

Name of category of participant	Outstanding as at 1 April 2007	Granted during the year	Exercised during the year	Outstanding as at 31 March 2008	Granted during the year	Exercised during the year	Outstanding as at 31 March 2009	Date of grant	Exercise period	Exercise price
	Number of share options									
										HK$
Directors										
Mr. Zhang Yang	–	77,000,000	(77,000,000)	–	–	–	–	28-08-2007	29-08-2007 to 02-09-2012	0.146
Mr. Chan Wing Yuen, Hubert	–	77,000,000	(77,000,000)	–	–	–	–	28-08-2007	29-08-2007 to 02-09-2012	0.146
Mr. Lam Cheung Shing, Richard	–	77,000,000	(77,000,000)	–	–	–	–	28-08-2007	29-08-2007 to 02-09-2012	0.146
Mr. Wong Hon Sum	–	5,000,000	–	5,000,000	–	–	5,000,000*	28-08-2007	29-08-2007 to 02-09-2012	0.146
Ms. Ha Ping	–	5,000,000	–	5,000,000	–	–	5,000,000	28-08-2007	29-08-2007 to 02-09-2012	0.146
Dr. Tang Tin Sek	–	5,000,000	–	5,000,000	–	–	5,000,000*	28-08-2007	29-08-2007 to 02-09-2012	0.146
Consultants										
In aggregate	–	58,000,000	(25,000,000)	33,000,000	–	–	33,000,000	28-08-2007	29-08-2007 to 02-09-2012	0.146
Employees										
In aggregate	–	155,490,000	(115,490,000)	40,000,000	–	–	40,000,000	28-08-2007	29-08-2007 to 02-09-2012	0.146
	–	459,490,000	(371,490,000)	88,000,000	–	–	88,000,000			

* Lapsed on 1 April 2009

(1) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

(2) The exercise price of the share options is subject to adjustment in the case of a capitalisation issue, rights issue, sub-division or consolidation of the Company's shares or reduction of the Company's share capital.

(3) The number of share options and exercised price had been adjusted following the completion of open offer. The fair values of the share options granted during the years ended 31 March 2008 were calculated, using the Binomial Option Pricing Model, by Savills Valuation and Professional Services Limited. The inputs into the model at the date of grant of options were as follows:

Date of grant:	28 August 2007
Total number of share options:	459,490,000
Option value:	HK$0.070891 (employees)
	HK$0.078000 (consultants)
Valuables	
– Maturity date	2 September 2012
– Annual risk free rate*	4.4%
– Stock price at the date of grant	HK$0.146
– Exercise price	HK$0.146
– Expected life	5 years
– Expected volatility	66%
– Expected ordinary dividend	Nil

* Risk free rate was interpolated from the yields to maturity of respective Hong Kong Exchange Fund Note with respective terms as at the date of grant

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 1 year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expense of HK$32,986,000 for the year ended 31 March 2008 in relation to share options granted by the Company.

The Company had 88,000,000 and 88,000,000 for the year ended 31 March 2008 and 2009 respectively share options outstanding under the New Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 88,000,000 additional ordinary shares of HK$0.10 each of the Company.

40. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

On 10 December 2008, the Company entered into a conditional sale and purchase agreement with 上海方華實業發展有限公司 (Shanghai Fanghua Shiye Development Limited), relating to the sale of (i) 100% equity interest in 國中(長沙)體育新城投資項目管理有限公司 (Interchina (Changsha) Investments and Management Company Limited) ("ICIM"), (ii) 38.9% equity interest in 長沙國中星城置業有限公司 (Changsha Interchina Star City Company Limited) ("CIC") and (iii) a non-interest bearing loan due from ICIM to the Company (collectively referred to as the "Disposal"), at a consideration of approximately RMB330,000,000. The consideration will be satisfied in cash. ICIM and CIC were principally engaged in city development and investment operation in Changsha, the PRC. Details of the Disposal were set out in the Company's announcements dated 12 December 2008 and 27 April 2009.

The major class of assets and liabilities classified as held for sale were as follows:

	HK$'000
Assets of disposal group classified as held for sale	
Interest in leasehold land and land use rights	42,760
Property, plant and equipment (Note 1)	243,249
Other non-current assets	106
Properties under development for sale	490,805
Other receivables and prepayments	28,784
Cash and cash equivalents	276
	805,980
Remeasurement to fair value less costs to sell (Note 2)	(216,300)
	589,680
Liabilities of disposal group classified as held for sale	
Other payables	210,370

Notes:

1. Included in the property, plant and equipment are properties under development of approximately HK$241,648,000.

2. The amount of HK$216,300,000 represented the loss on remeasurement to fair value less costs to sell, which is calculated based on the difference between the aggregate net asset value of ICIM and CIC as at 31 March 2009 and the cash consideration of RMB330,000,000 (approximately HK$379,310,000).

41. DISCONTINUED OPERATION

Upon the completion of the Disposal as detailed in note 40, ICIM and CIC will cease to be subsidiaries of the Company and the business of city development and investment operation which are solely carried out by ICIM and CIC will become a discontinued operation to the Group.

Loss for the year from city development and investment operation is presented below:

	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Interest income	2	8	5
Cost of sales	–	(3,564)	–
Staff cost	(1,786)	(1,878)	(2,650)
Reversal of impairment of trade receivables	15,561	–	–
Amortisation and depreciation	(1,243)	(1,208)	(1,079)
Selling costs	(13,952)	(9,961)	–
Administrative costs	(3,878)	(5,143)	(5,484)
Impairment loss for property under development	–	–	(182,770)
Finance costs	(5,540)	(4,960)	(4,589)
	(10,836)	(26,706)	(196,567)
Loss on remeasurement to fair value less costs to sell	–	–	(216,300)
Loss for the year from discontinued operation	(10,836)	(26,706)	(412,867)
Taxation	–	–	–
	(10,836)	(26,706)	(412,867)
Loss per share, basic and diluted	HK(0.192 cents)	HK(0.270 cents)	HK(2.047 cents)

The net cash flows incurred by city development and investment operation are presented below:

	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Operating activities	54,461	109,785	53,473
Investing activities	(21,527)	(83,095)	(132)
Financing activities	(35,008)	(32,859)	(56,188)
	(2,074)	(6,169)	(2,847)

42. ACQUISITION OF SUBSIDIARIES

For the year ended 31 March 2008

(a) On 30 April 2007, the Company further acquired 4.67% equity interest in Interchina (Tianjin) and its subsidiaries (the "Interchina (Tianjin) Group"). The fair value of the identifiable assets and liabilities of the Interchina (Tianjin) Group as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Acquiree's carrying amount before combination	**Adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Investment properties	12,835	–	12,835
Properties under development	234,070	–	234,070
Property, plant and equipment	97,835	–	97,835
Trade receivables	2,343	–	2,343
Deposits, prepayments and other receivables	167,340	–	167,340
Amount due from ultimate holding company	201,518	–	201,518
Amounts due from fellow subsidiaries	35,517	–	35,517
Cash and bank balances	43,092	–	43,092
Other payables	(60,546)	–	(60,546)
Amount due to ultimate holding company	(833)	–	(833)
Amount due to fellow subsidiaries	(212,783)	–	(212,783)
Borrowings	(224,467)	–	(224,467)
Deferred tax liabilities	(114)	–	(114)
Minority interests	(282,310)	–	(282,310)
	13,497	–	13,497
Goodwill			1,043
Consideration			14,540
Satisfied by:			
Cash			14,540
Net cash outflow arising from acquisition:			
Cash consideration paid			14,540

The Interchina (Tianjin) Group acquired during the year ended 31 March 2008 contributed HK$40,170,000 and HK$5,346,000 to the Group's turnover and profit for the period between the date of acquisition and 31 March 2008.

As the revenue and results of the Interchina (Tianjin) Group before the acquisition were not significant to the Group, the total group revenue and result, as if the acquisition had been completed on 1 April 2007, are not disclosed as the information does not give additional value.

(b) On 11 June 2007, the Company further acquired 60% equity interest in Money Capture and its subsidiaries (the "Money Capture Group"). The fair value of the identifiable assets and liabilities of the Money Capture Group as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Acquiree's carrying amount before combination	**Adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Investment properties	313,131	–	313,131
Property, plant and equipment	1,879	–	1,879
Inventories	924	–	924
Prepayments, deposits and other receivables	11,085	–	11,085
Cash and bank balances	62,279	–	62,279
Amounts due from fellow subsidiaries	62,989	–	62,989
Other payables	(8,908)	–	(8,908)
Amount due to a related company	(251,380)	–	(251,380)
	191,999	–	191,999
Reclassify from the Group's interest in associates			(76,800)
Goodwill			3,682
Consideration			118,881
Satisfied by:			
Fair value of convertible notes			118,881
Net cash inflow arising from acquisition:			
Cash and bank balances acquired			62,279

The Money Capture Group acquired during the year ended 31 March 2008 contributed HK$13,040,000 and HK$35,559,000 to the Group's turnover and profit for the period between the date of acquisition and 31 March 2008.

Had the acquisition taken place at the beginning of the year, the turnover and loss of the Group for the year ended 31 March 2008 would have been HK$75,259,000 and HK$47,212,000 respectively.

(c) On 5 October 2007, the Group acquired 100% equity interest in Success Flow and its subsidiaries (the "Success Flow Group"). The fair value of the identifiable assets and liabilities of the Success Flow Group as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Acquiree's carrying amount before combination	**Adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Investment properties	152,211	15,497	167,708
Cash and bank balances	1,713	–	1,713
Trade payables	(1,280)	–	(1,280)
Other payables and accruals	(702)	–	(702)
Amount due to a shareholder	(141,219)	–	(141,219)
Deferred tax liabilities	–	(3,874)	(3,874)
	10,723	11,623	22,346
Goodwill			3,435
Consideration			25,781
Consideration satisfied by:			
Cash			167,000
Shareholder's loan			(141,219)
			25,781
Net cash outflow arising from acquisition:			
Cash consideration paid			167,000
Cash and bank balances acquired			(1,713)
			165,287

The Success Flow Group acquired during the year ended 31 March 2008 contributed HK$1,824,000 and HK$8,708,000 to the Group's turnover and profit for the period between the date of acquisition and 31 March 2008.

As the revenue and results of the Success Flow Group before the acquisition were not significant to the Group, the total group revenue and result, as if the acquisition had been completed on 1 April 2007, are not disclosed as the information does not give additional value.

(d) On 12 March 2008, the Group acquired 100% equity interest in Wee On Development Limited ("Wee On"). The fair value of the identifiable assets and liabilities of Wee On as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Carrying amount and fair value
	HK$'000
Net assets acquired:	
Prepayment and deposits	1,291
Discount on acquisition	(443)
Consideration	848
Satisfied by cash	848

Wee On did not have any contribution to the Group's turnover and profit for the period between the date of acquisition and 31 March 2008.

As the revenue and results of the Wee On Group before the acquisition were not significant to the Group, the total group revenue and result, as if the acquisition had been completed on 1 April 2007, are not disclosed as the information does not give additional value.

For the year ended 31 March 2009

(e) In January 2009, the Group completed the acquisition of the Black Dragon Group. The acquisition was satisfied by cash. The fair value of the identifiable assets and liabilities of the Black Dragon Group as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Acquiree's carrying amount before combination	**Adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Investment properties	489	–	489
Property, plant and equipment	2,306	–	2,306
Intangible assets	287,455	273,198	560,653
Other financial assets	65,567	23,149	88,716
Deferred tax assets	76	–	76
Inventories	2,874	–	2,874
Trade and other receivables and prepayments	189,848	–	189,848
Cash and cash equivalents	14,715	–	14,715
Trade and other payables and deposits received	(135,006)	–	(135,006)
Tax payable	(32,516)	–	(32,516)
Bank borrowings	(130,909)	–	(130,909)
Deferred tax liabilities	(7,732)	(74,087)	(81,819)
	257,167	222,260	479,427
Minority interests			(146,123)
Goodwill			387,557
Consideration			720,861
Satisfied by:			
Cash			708,012
Transaction cost directly attributable to the acquisition			12,849
			720,861
Net cash outflow arising from acquisition:			
Cash consideration paid			377,549
Deposit paid			330,463
Transaction cost directly attributable to the acquisition			12,849
Cash and cash equivalents acquired			(14,715)
			706,146

The Black Dragon Group acquired during the year ended 31 March 2009 contributed HK$20,073,000 and HK$6,361,000 to the Group's turnover and profit for the period between the date of acquisition and 31 March 2009.

Had the acquisition taken place at beginning of the year, the turnover and loss of the Group for the year ended 31 March 2009 would have been HK$221,598,000 and HK$730,803,000 respectively.

43. DISPOSAL OF SUBSIDIARIES

During the Relevant Periods, the Group disposed certain subsidiaries to third parties. Details of the net assets of the subsidiaries at the respective date of disposals were as follows:

	As at 31 March		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Interests in associates	–	1,010	–
Interests in leasehold land and land use rights	39,862	–	–
Property, plant and equipment	249,737	886	–
Deposits, prepayments and other receivables	22,941	18,971	–
Cash and bank balances	27	3,427	–
Amount due from ultimate holding company	442	3,998	–
Other creditors and accruals	(106,575)	(84)	–
Amount due to associates	(782)	–	–
Minority interests	–	(1,720)	–
Net assets disposed of	205,652	26,488	–
Gain on disposal	48,448	8,360	–
Total consideration	254,100	34,848	–
Less: Cash and bank balances disposed	(27)	(3,427)	–
Net cash inflow arising from the disposals	254,073	31,421	–
Satisfied by:			
Cash	254,100	34,848	–

(a) For the year ended 31 March 2007

On 26 May 2006, China Field Investments Limited ("China Field"), a wholly-owned subsidiary of the Company entered into a disposal agreement in relation to 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 to China Field at an aggregate consideration of HK$48,100,000, which was satisfied by the third party in cash. During the year ended 31 March 2006, New Experience incurred a loss of approximately HK$4,184,000 to the Group.

On 28 March 2007, the Company entered into a disposal agreement in relation to disposal of 100% interests in Burlingame (Shanghai) Investment Limited ("BSI"), a wholly-owned subsidiary of the Group and a non-interest bearing shareholder loan owing by BSI to the Group at an aggregate consideration of HK$206,000,000, which was satisfied by the third party in cash. During the year ended 31 March 2007, BSI incurred a loss of approximately HK$19,567,000 to the Group.

(b) For the year ended 31 March 2008

On 27 April 2007, the Company entered into a disposal agreement in relation to disposal of 93% equity interest in Interchina Aihua (Tianjin) Municipal & Environmental Engineering Company Limited ("Interchina Aihua") at an aggregate consideration of HK$34,848,000, which was satisfied by cash. During the year ended 31 March 2008, Interchina Aihua incurred a loss of approximately HK$4,938,000 to the Group.

During the year ended 31 March 2008, the above subsidiary was engaged in environmental protection and water treatment operation and had not contributed turnover and profit before taxation to the Group.

44. CAPITAL COMMITMENTS

	The Group As at 31 March		
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Capital expenditure contracted for but not provided in the Financial Information in respect of:			
– acquisition of property, plant and equipment and properties under development for sale	282,181	110,375	109,087

45. COMMITMENTS

(a) During the Relevant Periods, 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 was as follow:

	The Group As at 31 March		
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Within one year	6,341	5,073	9,674
In the second to fifth year, inclusive	41,488	29,042	14,569
After five years	26,611	18,628	14,369
	74,440	52,743	38,612

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

(b) At 31 March 2007, 2008 and 2009, the Group had commitments to the property buyers of certain pre-sales properties that the Group would buy back the properties at 100% of the original property sales price on the request from the property buyers. The commitments are 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, HK$61,175,000 and HK$63,284,000 respectively.

46. OPERATING LEASE COMMITMENTS

The Group as lessee

At 31 March 2007, 2008 and 2009, 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 As at 31 March		
	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*
Within one year	2,802	2,906	2,920
In the second to fifth year inclusive	6,818	5,086	5,208
After five years	11,855	12,581	11,930
	21,475	20,573	20,058

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 ended 31 March 2007, 2008 and 2009 were HK$2,968,000, HK$18,107,000 and HK18,211,000 respectively. Some of the properties held have committed tenants for one to two years.

At 31 March 2007, 2008 and 2009, the Group had contracted with tenants for the following future minimum lease payments:

		The Group	
		As at 31 March	
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	1,732	9,341	9,647
In the second to fifth year, inclusive	62	20,627	14,342
After five years	–	–	1,046
	1,794	29,968	25,035

47. 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 for the year ended 31 March 2007, 2008 and 2009 respectively which are used to reduce the contributions during the Relevant Periods. The contributions are charged to the consolidated 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.

48. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these Financial Information, the Group entered into the following material transactions with related parties during the Relevant Periods:

(i) Transaction with related parties

For the year ended 31 March 2007

(a) The Group paid interest amounted to approximately HK$180,000 to a director of the Company's subsidiary.

(b) The Group paid interest amounted to approximately HK$953,000 to a related company of the Company.

(c) The Group received rental income approximately HK$540,000 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.

For the year ended 31 March 2008

(a) The Group paid interest amounted to approximately HK$5,295,000 to a related company of the Company.

(b) The Group received rental income amounted to approximately HK$540,000 from a director of the Company.

(c) The Group entered into an acquisition agreement with Maxable International Enterprises Limited, which is a company wholly-owned by Ms. Wing, the wife of the brother-in-law of Mr. Zhang Yang ("Mr. Zhang"), a director of the Company, for the acquisition of 29.52% of the issued share capital of China Pipe at a consideration of HK$296,000,000. Details of the transactions are set out in the Company's announcement and circular dated 18 December 2007 and 17 May 2008 respectively.

(d) The Company entered into a subscription agreement with Mr. Zhang, a director of the Company, in relation to share subscription and 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 premium of HK$20,000,000 after the completion of share subscription, being options to subscribe for the First Tranche Convertible Notes and the Second Tranche Convertible Notes at an initial conversion price.

For the year ended 31 March 2009

a) The Group paid interest amounted to approximately HK$56,000 to a related company of the Company.

b) The Group received rental income amounted to approximately HK$540,000 from a director 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 follow:

	For the year ended 31 March		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other short-term benefits	9,077	10,755	9,813
Share-based payment expenses	–	16,377	–
Pension scheme contributions	330	660	463
	9,407	27,792	10,276

Further details of directors' emoluments are included in note 10 to the Financial Information.

49. GOVERNMENT SUBSIDIES

During the year, the Group indirectly received government subsidies of HK$5,172,000 for the contribution towards the Black Dragon Group business in Xian, the PRC. The amount has been included in other revenue for the year.

50. FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and cash and cash equivalents, loan receivables, financial assets at fair value through profit or loss, trade and other payables, amount due to a related company, bank and other borrowings and derivative financial instruments. Details of 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.

Categories of financial instruments

	The Group As at 31 March		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
	(restated)		
Financial assets			
Loans and receivables (including cash and cash equivalents)	433,166	384,604	441,232
Financial assets at fair value through profit or loss	169	98	80
Financial liabilities			
Financial liabilities at fair value through profit or loss	–	22,736	–
Amortised cost	797,019	667,583	1,073,896

Financial risk factors

The Group is exposed 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, which resulted from both its operating and investing activities. 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 PRC and Hong Kong and majority of transactions are dominated in Renminbi and Hong Kong dollars. Therefore, the Group is exposed to foreign exchange risk arising from the exposure of Renminbi against Hong Kong dollars.

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in RMB. At 31 March 2007, 2008 and 2009, if there is a 5% increase or decrease in the Hong Kong dollars against the RMB with all other variables held constant, the Group's translation reserve would be increased or decreased by approximately HK$36,841,000, HK$53,820,000 and HK$54,141,000 respectively.

(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.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the balance sheet date.

At 31 March 2007, 2008 and 2009, if the prices of the respective equity instruments have been 5% higher or lower, loss before taxation for the Group would be decreased or increased by approximately HK$8,000, HK$5,000 and HK$4,000 respectively as a result of the changes of fair value of financial assets at fair value through profit or loss.

(ii) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise credit risk, the Group has policies in place in determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

(iii) Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves and considering of obtaining banking facilities to support the Group's short, medium and long-term funding and liquidity management requirements. In addition, the management of the Group continuously monitors forecast and actual cash flows and matches the maturity profiles of financial assets and liabilities.

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on weighted average effective interest rates) and the earliest date the Group can be required to pay:

	Weighted average effective interest rate	Less than 1 year	Between 2 and 5 years	Over 5 years	Total contractual undiscounted cash flow	Total carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2007						
Trade and other payables	–	291,025	148,454	3,927	443,406	443,406
Convertible notes	–	4,587	–	–	4,587	4,587
Amount due to a related company	6.0%	472	–	–	472	444
Obligations under finance leases	10%	76	148	–	224	210
Bank borrowings	6.2%	145,635	135,433	83,551	364,619	353,169
		441,795	284,035	87,478	813,308	801,816
At 31 March 2008						
Trade and other payables	–	159,579	93,843	3,927	257,349	257,349
Derivative financial instruments	–	22,736	–	–	22,736	22,736
Amount due to a related company	6.0%	83,271	–	–	83,271	78,564
Bank borrowings	6.6%	107,166	140,446	63,874	311,486	299,988
		372,752	234,289	67,801	674,842	658,637
At 31 March 2009						
Continuing operations						
Trade and other payables	–	295,977	39,458	4,252	339,687	339,687
Bank and other borrowings	12.73%	242,654	272,934	76,813	592,401	523,838
Discontinued operation						
Other payable	–	210,370	–	–	210,370	210,370
		749,001	312,392	81,065	1,142,458	1,073,895

(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.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For variable-rate borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease in HIBOR is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's loss for the year ended 31 March 2007, 2008 and 2009 would increase or decrease by approximately HK$7,175,000, HK$5,018,000 and HK$2,019,000 respectively. This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Fair value estimation

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

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

Capital risk management

The primary objective of the Group's capital management is to safeguard the entity's ability to continue as a going concern, so that it can continue to maximise returns to stakeholders.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the amount of issue new shares or sell assets to reduce debts.

The Group monitors its capital on the basis of the gearing ratio of borrowings over total equity. This ratio is calculated as borrowings divided by total equity. The Group aims to maintain the gearing ratio at a reasonable level.

The gearing ratios at the balance sheet date are as follows:

	The Group As at 31 March		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Total borrowings (note 33)	353,169	299,988	523,838
Less: Cash and cash equivalents	(159,430)	(30,193)	(34,259)
	193,739	269,795	489,579
Total equity	857,774	2,122,988	1,719,465
Gearing ratio	23%	13%	28%

51. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following table lists the subsidiaries of the Company which, in the opinion of the directors, 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	Paid-up issued ordinary shares/ registered capital*	Percentage of issued ordinary shares/ registered capital held by the Company Directly	Indirectly	Principal activity
		HK$ (unless Otherwise stated)	%	%	
Interchina (Tianjin) Water Treatment Company Limited	PRC	*RMB900,000,000	100	–	Environmental protection
Interchina Water Treatment Limited	BVI	US$10,000	–	100	Investment holding
黑龍江國中水務股份有限公司## (黑龍江黑龍股份有限公司)	PRC	*RMB327,225,000	–	70.21	Investment holding
漢中市國中自來水有限公司	PRC	*RMB60,000,000	–	70.21	Water supply
漢中市漢江供水實業有限責任公司	PRC	*RMB5,026,000	–	70.21	Water facilities construction
漢中市漢江水業發展有限責任公司	PRC	*RMB910,000	–	70.21	Distilled water supply
西安航空科技產業園供排水有限公司	PRC	*RMB40,000,000	–	69.51	Water supply
青海雄越環保科技有限責任公司	PRC	*RMB20,900,000	–	66.70	Sewage treatment
漢中市石門城市供水有限公司#	PRC	*RMB50,000,000	–	80	Water supply
Interchina (Qinhuangdao) Sewage Treatment Company Limited@	PRC	*US$4,091,003	–	100	Sewage treatment
國水(馬鞍山)污水處理有限公司@	PRC	*50,660,000	–	100	Sewage treatment
國水(昌黎)污水處理有限公司@	PRC	*RMB26,000,000	–	100	Sewage treatment
Money Capture Investment Limited	BVI	US$100	100	–	Investment holding
Equal Smart Profits Limited	BVI	US$1	–	100	Property letting
Shanghai Interchina Club Company Limited#	PRC	*US$769,210	–	100	Provision of club services
Success Flow International Limited	BVI	US$1	100	–	Investment holding
Guo Xin (China) Limited	Hong Kong	100	–	100	Investment holding
北京龍堡物業管理有限公司	PRC	*RMB45,000,000	–	100	Property management
Action Investments Limited	Hong Kong	100	100	–	Property letting
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
湖南泛星國際企業管理有限公司@	PRC	*RMB20,000,000	–	100	Property management
Interchina City Development & Investment Limited	The British Virgin Islands ("BVI")	US$10,000	100	–	Investment holding

Name of subsidiary	Place of incorporation/ registration and operation	Paid-up issued ordinary shares/ registered capital*	Percentage of issued ordinary shares/ registered capital held by the Company Directly	Indirectly	Principal activity
		HK$ (unless Otherwise stated)	%	%	
Interchina Securities Limited	Hong Kong	300,000,000	5	95	Securities brokerage
Interchina Futures Limited	Hong Kong	8,500,000	30	70	Commodities brokerage
Interchina Finance (H.K.) Limited	Hong Kong	10,000	–	100	Provision of financial services
Burlingame International Company Limited	Hong Kong	425,019,668	100	–	Investment holding
Best Plain Trading Limited	Hong Kong	310,000,000	–	100	Property letting
Interchina Corporate Services Limited	Hong Kong	10,000	100	–	Management services

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
Listed joint stock limited company

52. SUBSEQUENT EVENTS

(a) On 10 December 2008, the Company entered into an agreement with 上海方華實業發展有限公司 (Shanghai Fanghua Shiye Development Limited) for the conditional sale and purchase of the Disposal at a total consideration of RMB330,000,000 (equivalent to approximately HK$379,310,000). Details of the transactions are set out in the Company's announcement dated 12 December 2008 and 27 April 2009.

The Disposal Group principally engaged in property investment and development in the PRC and is under the city development and investment operation segment of the Company. ICIM does not conduct any business activity or hold any asset except the holding of the 61.1% equity interest in the capital of CIC. CIC is mainly holding the leasehold lands and properties under development situated in Changsha, the PRC. The Disposal constitutes a very substantial disposal for the Company under the Listing Rules and will be subjected to the approval of the shareholders.

(I) Included in the consolidated income statement of the Group are the following results attributable to the Disposal Group for the years ended 31 March 2007, 2008 and 2009:

	Year Ended 31 March		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Cost of sales	–	(3,564)	–
Interest income	2	8	5
Reversal of impairment of trade receivables	15,561	–	–
Staff costs	(1,786)	(1,878)	(2,650)
Amortisation and depreciation	(1,243)	(1,208)	(1,079)
Selling costs	(13,952)	(9,961)	–
Administrative costs	(3,878)	(5,143)	(5,484)
Impairment loss recognised in respect of property under development	–	–	(182,770)
Remeasurement to fair value less costs to sell *(note)*	–	–	(216,300)
Loss from operations	(5,296)	(21,746)	(408,278)
Finance costs	(5,540)	(4,960)	(4,589)
Loss before taxation	(10,836)	(26,706)	(412,867)
Taxation	–	–	–
Loss for the year	(10,836)	(26,706)	(412,867)

Note: The amount of HK$216,300,000 represented the loss on remeasurement to fair value less costs to sell, which is calculated based on the differences between the aggregate net asset value of ICIM and CIC as at 31 March 2009 and the cash consideration of RMB330,000,000 (approximately HK$379,310,000).

(II) Included in the consolidated balance sheets of the Group are the following assets and liabilities attributable to the Disposal Group as at 31 March 2007, 2008 and 2009:

	As at 31st March		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Interest in leasehold land and land use rights	38,638	41,938	42,760
Property, plant and equipment *(Note)*	300,845	231,520	26,949
Other non-current assets	135	125	106
	339,618	273,583	69,815
Current assets			
Properties under development for sale	348,527	607,714	490,805
Other receivables and prepayments	8,238	13,802	28,784
Cash and cash equivalents	1,528	1,584	276
	358,293	623,100	519,865
Current liabilities			
Other payables	186,050	172,342	210,370
Other borrowings – due within one year	77,778	49,879	–
Amount due to ultimate holding Company	334,055	591,057	705,855
	597,883	813,278	916,225
Net current liabilities	(239,590)	(190,178)	(396,360)
Total assets less current liabilities	100,028	83,405	(326,545)
Equity			
Share capital	174,089	174,089	174,089
Share premium and reserves	(74,061)	(90,684)	(500,634)
	100,028	83,405	(326,545)

Note: At 31 March 2009, property, plant and equipment of approximately HK$26,949,000 is calculated based on the carrying amount of property, plant and equipment of approximately HK$243,249,000 less the loss on remeasurement to fair value less costs to sell of approximately HK$216,300,000.

(III) Included in the consolidated cash flow statement of the Group are the following cash flow attributable to the Disposal Group for the years ended 31 March 2007, 2008 and 2009 :

	Year Ended 31st March		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
Operating activities			
Loss before taxation	(10,836)	(26,706)	(412,867)
Adjustments for:			
Depreciation of property, plant and equipment	686	651	522
Amortisation of interests in leasehold land, land use right and intangible assets	557	557	557
Impairment loss recognized in respect of property under development	–	–	182,770
Remeasurement to fair value less costs to sell *(Note)*	–	–	216,300
Interest income	(2)	(8)	(5)
Interest expenses	5,540	4,960	4,589
Operating cash flows before movements in working capital	(4,055)	(20,546)	(8,134)
Increase in properties under development for sale	(70,552)	(107,407)	(44,905)
Decrease/(increase) in trade and other receivables and prepayments	8,352	(5,564)	(14,983)
(Decrease)/increase in trade and other payables and deposits received	(12,901)	(13,708)	31,086
Increase in amount due to ultimate holding company	133,615	257,002	90,404
Cash generated from operations	54,459	109,777	53,468
Interest received	2	8	5
Net cash generated from operating activities	54,461	109,785	53,473
Investing activities			
Purchase of property, plant and equipment	(21,538)	(83,105)	(150)
Net refund in non-current assets	11	10	18
Net cash used in investing activities	(21,527)	(83,095)	(132)
Financing activities			
Interest paid	(5,540)	(4,960)	(4,589)
Repayment of other loans	(29,468)	(27,899)	(51,599)
Net cash used in financing activities	(35,008)	(32,859)	(56,188)
Net decrease in cash and cash equivalents	(2,074)	(6,169)	(2,847)
Cash and cash equivalents at the beginning of the year	129	1,528	1,584
Effect of foreign exchange rate changes	3,473	6,225	1,539
Cash and cash equivalent at the end of the year	1,528	1,584	276
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash	1,528	1,584	276

Note: The amount of HK$216,300,000 represented the loss on remeasurement to fair value less costs to sell, which is calculated based on the differences between the aggregate net asset value of ICIM and CIC as at 31 March 2009 and the cash consideration of RMB330,000,000 (approximately HK$379,310,000).

(IV) Included in the consolidated statement of changes in equity of the Group are the following combined changes in equity attributable to the Disposal Group for the years ended 31 March 2007, 2008 and 2009:

	Share capital	**Exchange reserve**	**Accumulated loss**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2006	174,089	2,578	(71,134)	105,533
Exchange difference arising on translating of overseas subsidiaries		5,331	–	5,331
Loss for the year	–	–	(10,836)	(10,836)
At 31 March 2007 and 1 April 2007	174,089	7,909	(81,970)	100,028
Exchange difference arising on translating of overseas subsidiaries		10,083	–	10,083
Loss for the year	–	–	(26,706)	(26,706)
At 31 March 2008 and 1 April 2008	174,089	17,992	(108,676)	83,405
Exchange difference arising on translating of overseas subsidiaries		2,917	–	2,917
Loss for the year	–	–	(412,867)	(412,867)
At 31 March 2009	174,089	20,909	(521,543)	(326,545)

(b) On 9 April 2009, Black Dragon, an indirect owned subsidiary of the Company whose shares were listed on the Shanghai Stock Exchange ("SSE"), obtained approval from SSE for resuming the Black Dragon's shares on SSE. Trading in the shares of Black Dragon was resumed on 17 April 2009.

(c) On 9 June 2009, the Company entered into an agreement to dispose of (i) its entire equity interest in Success Flow, a wholly-owned subsidiary of the Company, and (ii) an amount due from Success Flow to the Company at a consideration of HK$55,000,000. Details of which were set out in the Company's announcement dated 9 June 2009.

(d) On 9 June 2009, the Company entered into a subscription agreement with a third party for issuing a convertible note at principal amount of HK$35,000,000. Details of which were set out in the Company's announcement dated 9 June 2009.

(e) On 11 June 2009, the Company announced that Ms. Wing Man Yi was appointed as an executive director and member of the remuneration committee of the Company and Dr. Mu Simon Xinming was appointed as an executive director of the Company with effect from 11 June 2009. Details of which were set out in the Company's announcement dated 11 June 2009.

(f) On 16 June 2009, the Company announced that Dr. Fu Tao was appointed as an independent non-executive director of the Company and member of audit committee of the Company, Ms. Wing Man Yi was appointed as new chairman of the Company and resigned as member of remuneration committee of the Company, Mr. Lam Cheung Shing, Richard was appointed as chief executive officer and member of remuneration committee of the Company, re-designated as deputy chairman of the Company and resigned as company secretary of the Company and Mr. Lau Chi Lok was appointed as company secretary of the Company. Details of which were set out in the Company's announcement dated 16 June 2009.

II. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiary companies in respect of any period subsequent to 31 March 2009 and up to the date of this report. In addition, no dividend or distribution has been declared, made or paid by the Company or any of its subsidiary companies in respect of any period subsequent to 31 March 2009.

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

2. INDEBTEDNESS

Borrowings

As at the close of business on 31 May 2009 (being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular), the Group had outstanding borrowings of approximately HK$695,872,000 comprised of bank and other borrowings, (i) bank borrowing of approximately HK$33,333,000 which are guaranteed and secured, bank borrowing of approximately HK$50,181,000 which are guaranteed but not secured, bank borrowing of approximately HK$328,820,000 which are secured but not guaranteed, and (ii) other borrowings of approximately HK$18,967,000 which are unsecured and not guaranteed and other borrowings of approximately HK$264,571,000 which including of approximately HK$146,870,000 advanced from the Purchaser under the Financial Agreement which is secured and guaranteed.

Disclaimer

Save as referred to above and apart from intra-group liabilities, the Group did not have, as at 31 May 2009, any debt securities issued and outstanding or authorised or otherwise created but unissued, term loan, bank overdrafts, loan or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees, convertible bonds or other material contingent liabilities as at the close of business of 31 May 2009.

The Directors confirmed that there had been no material change in the indebtedness and contingent liabilities of the Group since 31 May 2009.

3. FINANCIAL AND TRADING PROSPECTS OF THE GROUP (INCLUDING ANY COMPANY WHICH WILL BECOME SUBSIDIARY OF THE COMPANY BY REASON OF AN ACQUISITION WHICH HAS BEEN AGREED OR PROPOSED SINCE 31 MARCH 2009, BEING THE DATE TO WHICH THE LATEST AUDITED CONSOLIDATED FINANCIAL STATEMENT OF THE COMPANY HAVE BEEN MADE UP)

During the year, the Group had continued to focus on environmental protection and water treatment operation as well as property development and investment and securities and financial operations. Therefore, the Disposal would not have any material effect to the principal businesses of the Group. Following Completion, the Group has no business operation and activities in the city development and investment operation and will concentrate its resources on development its environmental protection and water treatment operation. Given the Group's competitive advantages and expertise in environmental protection and water treatment operation, and the favourable government policies on environmental protection and water treatment industry, we expects that the environmental protection and water treatment operation will be a major and stable source of revenue of the Group and the profit contribution from its operations will grow steadily. The Group will continue to seek opportunities of merger and acquisition of quality water treatment projects and to further increase its investment in environmental protection and water treatment operation, so as to keep on expanding the development scale of environmental protection and water treatment operation of the Group.

4. DISCUSSION AND ANALYSIS OF PERFORMANCE OF THE REMAINING GROUP

The following information are based on the financial information on the Group as set out in Appendix I of the Circular and the unaudited pro forma financial information on the Remaining Group as set out in Appendix II of the Circular.

(1) Business review for the year ended 31 March 2007

Financial review

The Remaining Group's turnover for the year ended 31 March 2007 amounted to HK$149,978,000. The major contributor was the business of environmental protection and water treatment operation which accounted for approximately 95% of the Remaining Group's turnover. Loss attributable to shareholders was HK$5,971,000 for the year ended 31 March 2007.

Business review

Environmental Protection and Water Treatment Operation

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

Since the sewage treatment plant located in the Haigang District of Qinhuangdao in Hebei Province commenced operation in 2004, the daily average processing capacity was increased from 100,000 tonnes to 120,000 tonnes, bringing a total income of HK$141,983,000 to the Remaining Group's environmental protection and water treatment operation during the year under review. The Remaining Group expects that the right of price determination with respect to the water processed by the sewage treatment plant will be obtained by the end of this year, and by then the Remaining Group will have the flexibility to adjust its charges upward according to the price index. It is expected that this will bring more revenue to the Remaining Group.

Regarding the two sewage treatment projects in Ma'anshan and Changli, the aggregate sewage treatment capacity was 100,000 tonnes on average per day. The Ma'anshan sewage treatment project had been completed in May 2007 and commenced its trial run. It expects that the Ma'anshan sewage treatment project will make contribution to the Remaining Group's revenue in the near future. For Changli sewage treatment project, it is expected that it will be completed by the fourth quarter this year and commence operation in the first quarter next year.

Furthermore, the Remaining Group is still discussing with the Hanzhong Municipal Government about details on the operation of the water supply project in Hanzhong City ("Operation Details") and the progress of discussion is satisfactory. It is expected that the process relating to the Operation Details will be finalized and operation will commence by the end of 2007, supplying approximately 100,000 tonnes of water to Hangzhong City per day.

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

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

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

Property Investment Operation

During the year under review, the Remaining Group's rental income was mainly generated from investment properties located in Beijing, the PRC and Hong Kong. During the year under review, the Remaining Group's rental income amounted to HK$2,968,000 (2006: HK$3,724,000), representing a decrease of 20.3% compared with the corresponding period of last year which was mainly due to the disposal of the Remaining Group's 60% controlling interest in a wholly-owned subsidiary (the "Subsidiary"), which held interests in an investment property located in Shanghai, the PRC, in 2005.

At 31 March 2007, the Remaining Group's interest in associates was HK$77,419,000 (2006: HK$83,448,000). During the year under review, the Remaining Group's share of loss in associates was HK$6,164,000, which was mainly attributable to the revaluation deficit of the investment property in Shanghai, the PRC. However, as the demand for prime properties remains strong in Shanghai, the PRC and we are optimistic about the prospect of the leasing market in Shanghai, the PRC, the Remaining Group has brought back such 60% controlling interest in the Subsidiary in June this year for a consideration of approximately HK$195,039,000 so as to increase the rental income of the Remaining Group.

Securities and Financial Operation

The Remaining Group's securities and future operation generated commission and interest income from margin clients amounting to HK$5,027,000 (2006: HK$5,969,000). Having continuously strengthened internal control over the borrowings to margin clients during the year under review, especially in reducing the proportion of borrowings for non-index constituent stocks, the relevant commission and interest income from margin clients decreased by 15.8% compared with the corresponding period last year.

Significant disposal

In May 2006, the Remaining Group disposed its entire interests in and shareholders' loan due from its wholly-owned subsidiary, which held a property development project located in Xian, at a consideration of HK$48,100,000. Details of such disposal are set out in the circular of the Company dated 19 June 2006.

In March 2007, the Remaining Group also disposed its entire interests in and shareholders' loan due from a wholly-owned subsidiary, which held property development projects located in Shanghai, at a total consideration of HK$206,000,000. Details of such disposal are set out in the circular of the Company dated 18 April 2007.

Save as those disclosed above, during the year, the Remaining Group did not have other significant investment or acquisition or disposal of subsidiaries.

Capital structure, liquidity, financial resources and gearing ratio

As at 31 March 2007, the Remaining Group's total assets were HK$1,374,482,000 and the total liabilities were HK$546,993,000 and the equity reached HK$826,489,000.

As at 31 March 2007, the Remaining Group's cash on hand and deposits in bank (including segregated and trust accounts) totaled approximately HK$622,622,000. Approximately 35% of the deposits was denominated in Hong Kong dollars while the remainder in Renminbi. The Remaining Group's outstanding bank and other borrowings were HK$275,391,000 which mainly comprised of bank and other borrowings of approximately HK$65,717,000 repayable within a year, and HK$209,674,000 of bank and other borrowings repayable after one year. In addition, the Remaining Group's 2-year convertible notes amounted to HK$4,587,000 (2006: nil). The gearing ratio was 20% (total borrowings/total assets).

As at 31 March 2007, approximately 11% of the Remaining Group's bank and other borrowings were denominated in Hong Kong dollars while the rest in Renminbi. The Remaining Group's bank and other borrowings were arranged on both floating or fixed rate basis of which approximately 66% were secured by the Remaining Group's investment properties, intangible assets and other financial assets.

In February 2007, the Remaining Group completed the issuance of 2-year convertible notes bearing interest at 3.5% p.a. convertible into a total of 1,116,980,000 shares of HK$0.1 each among which 1,066,980,000 shares was converted. The proceeds in the sum of HK$111,348,000 (related expenses deducted) were mainly used as general working capital and the working capital of city development and investment operation.

Exchange rate exposure

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

Contingent liabilities

As at 31 March 2007, the Remaining Group did not have any material contingent liabilities.

Pledge of assets

As at 31 March 2007, the Remaining Group's assets were pledged as security for its liabilities, comprising investment properties with carrying amounts of HK$65,852,000, intangible assets with carrying amounts of HK$102,814,000 and other financial assets with carrying amounts of HK$145,765,000.

Detail of future plans for material investment or capital

As at 31 March 2007, the Remaining Group did not have any detail of future plans for material investment or capital.

Employment and remuneration policy

As at 31 March 2007, the Remaining Group had a total of 128 employees in the PRC and Hong Kong. To maintain the Group's competitiveness, salary adjustments and award of bonus for staff are subject to the performance of individual staff members. Apart from offering a retirement benefit scheme for its staff, the Remaining Group also provides staff with various training and development programs.

(2) Business review for the year ended 31 March 2008

Financial review

The Remaining Group's turnover for the year ended 31 March 2008 amounted to HK$103,007,000 (2007: HK$149,978,000), representing a decrease of 31% as compared with last year. The major contributor was the business of environmental protection and water treatment operation which accounted for approximately 69% of the Remaining Group's turnover. Loss attributable to shareholders for the year was HK$14,015,000 (2007: HK$5,971,000), representing an increase of 135% as compared with last year. The main reason was the recognition by the Company of a share-based payment expense of HK$32,986,000 (2007: Nil) based on the fair value of the share options granted in respect of the share option scheme during the year in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") 2 "Share-based Payment", for which loss attributable to the shareholders increased significantly as compared with last year. By excluding the share-based payment expenses, the Remaining Group recorded profit of HK$18,971,000.

Business review

Environmental Protection and Water Treatment Operation

During the year, the sewage treatment capacity for the environmental protection and sewage treatment projects of the Remaining Group that had commenced operation increased to 180,000 tonnes on average per day, which was mainly attributable to the commencement of operation in August 2007 of the sewage treatment plant located at Ma'anshan in Anhui Province with a daily treatment capacity of 60,000 tonnes. Besides, the water price with respect to the water processed by the sewage treatment plant located in the Haigang District of Qinhuangdao in Hebei Province increased approximately 9.0%, which further increased the turnover of environmental protection and water treatment operation.

In order to accelerate the pace of business development, the Remaining Group acquired 70.21% equity interest of Heilongjiang Black Dragon Company Limited ("Black Dragon") (stock code: 600187, its shares are listed on the Shanghai Stock

Exchange but are currently suspended for trading) during the year and engaged in a series of activities for the resumption of trading in the shares of Black Dragon. These activities included the grant of loans to Black Dragon for the acquisition of water treatment projects so as to complete the business restructuring, and conducted the share reform scheme for Black Dragon in the capacity as the potential substantial shareholder of Black Dragon. Upon the completion of the acquisition, Black Dragon will own two water treatment projects in Shaanxi Province, and one in Qinghai Province, with a daily aggregate sewage treatment capacity of 280,000 tonnes. The Remaining Group planned to provide an additional financing platform through the water treatment operations offered to the Remaining Group by Black Dragon, so as to further expand the scale of development in the environmental protection and water treatment operations of the Remaining Group. The relevant procedures for approving the acquisition of Black Dragon are in final stage. On the other hand, the Remaining Group continued to accelerate the pace in the development of existing projects according to the plans as set for the water operations project, the progresses for which had been satisfactory. The sewage treatment project located at Changli, Hebei Province, with a sewage treatment capacity of 40,000 tonnes on average per day, will be completed in October 2008, and commence trial operation in water treatment. It is expected to bring revenue to the Remaining Group in due course. Furthermore, the Remaining Group is still discussing with the Hanzhong Municipal Government about details on the operation of the water supply project in Hanzhong City ("Operation Details") and the progress of discussion is satisfactory. It is expected that the process relating to the Operation Details will be finalised and operation will commence in the first quarter next year, supplying approximately 100,000 tonnes of water to Hangzhong City per day. In addition to the Qinhuangdao and Ma'anshan sewage treatment plants as well as the water treatment projects owned by Black Dragon, it is expected that upon the commencement of operations of both Changli sewage treatment plant as well as the water supply plant in Hanzhong City, the treatment capacity of the Remaining Group's environmental protection and water treatment operation will increase to 600,000 tonnes per day, and the revenue from the Remaining Group's environmental protection and water treatment operation will substantially increase.

Environmental protection and water treatment operation will be a major and stable source of revenue of the Remaining Group. The Remaining Group will continue to seek opportunities for the merger and acquisition of quality water treatment projects, to further increase its investment in environmental protection and water treatment operation, so as to keep on expanding the development scale of environmental protection and water treatment operation of the Remaining Group.

Property Investment Operation

During the year, the Remaining Group's property investment operation is mainly comprised of the leasing of retail properties and offices in Beijing and Shanghai, the PRC. The turnover for this operation in 2008 was HK$18,107,000, representing an increase of 433.5% compared with last year.

During the year under review, the Remaining Group successfully acquired 60% equity interests in Money Capture Investments Limited ("MCI") and 100% equity interests in Success Flow International Limited ("Success Flow"), so that the leasable area for the Remaining Group's investment properties were increased to 24,000 square meters. The rental income of the Remaining Group was thus enhanced. MCI mainly holds a shopping mall of about 18,000 square meters in the CBD of Shanghai, the PRC, whereas Success Flow mainly holds a shopping mall of about 6,000 square meters in the CBD of Beijing, the PRC. All spaces in these two shopping malls were leased out.

As the Remaining Group is optimistic about the prospect of the leasing market in the PRC, the Remaining Group will continue to identify appropriate investment properties so as to provide and stable rental income to the Remaining Group.

Securities and Financial Operation

The Remaining Group's securities and financial operation generated commission and interest income from clients amounting to HK$13,662,000 (2007: HK$5,027,000), representing an increase of 171.8% as compared with the corresponding period last year, which is mainly attributable to the development of securities operation driven by the continuous economic growth in Hong Kong. However, the Remaining Group will continue to strengthen internal control over the borrowings to margin clients, especially in reducing the margin ratio for non-index constituent stocks, so as to reduce the risk resulted from the fluctuation of the securities market.

Significant acquisition

On 12 June 2007, the Company entered into a sale and purchase agreement with Mr. Li Gong Tao ("Mr. Li") in relation to the acquisition of the 60% equity interests Money Capture Investment Limited ("Money Capture") and the amount due from Money Capture to Mr. Li at the aggregate consideration of HK$195,039,455. Details of such acquisition are set out in the circular of the Company dated 6 July 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 the aggregate consideration of HK$167,000,000. Details of such acquisition are set out in the circular of the Company dated 26 October 2007.

On 17 May 2007, the Remaining Group entered into a sale and purchase agreement (as supplemented by the supplemental agreement dated 29 June 2007, the second supplemental agreement dated 15 November 2007 and the third supplemental agreement dated 17 December 2007) with Heilong Group Limited in relation to the sale and purchase of approximately 70.21% of the issued share capital of Black Dragon at the aggregate consideration of RMB420,000,000. 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. Its principal activities are manufacturing and marketing of paper products. Details of such acquisition are set out in the circular of the Company dated 31 January 2008.

On 18 December 2007, the Company entered into the Acquisition Agreement with the Maxable International Enterprises Limited in relation to the acquisition of the 3,700,000,000 shares of China Pipe Group Limited at the consideration of HK$296,000,000. Details of such acquisition are set out in the circular of the Company dated 15 April 2008.

Save as those disclosed above, during the year, the Remaining Group did not have other significant investment or acquisition or disposal of subsidiaries.

Capital structure, liquidity, financial resources and gearing ratio

As at 31 March 2008, the Remaining Group's total assets were HK$2,315,613,000 and the total liabilities were HK$479,465,000 and the equity reached HK$1,835,148,000.

As at 31 March 2008, the cash on hand and deposits in bank (including segregated and trust accounts) totaled approximately HK$411,265,000 (2007: HK$622,622,000), representing a decrease of 51% against the balance as at 31 March 2007. Approximately 99% of the deposits were denominated in Renminbi while the remaining balance in Hong Kong dollars. The outstanding bank borrowings were HK$250,109,000 (2007: HK$275,391,000) which mainly comprised bank borrowings of approximately HK$50,478,000 repayable within one year, and HK$199,631,000 of bank borrowings repayable after one year. In addition, the Group's 2-year convertible notes amounted to nil (2007: HK$4,587,000). The gearing ratio was 11% (total borrowings/ total assets).

As at 31 March 2008, approximately 11% of the Remaining Group's bank borrowings were denominated in Hong Kong dollars while the rest in Renminbi. The Remaining Group's bank borrowings were arranged on fixed or floating rate basis of which approximately 84.1% were secured by the Remaining Group's investment properties, intangible assets and other financial assets.

In August 2007, the Company completed the issuance of a total of 1,012,800,000 shares of HK$0.1 each upon conversion of the 2-year convertible notes bearing interest at 3.5% p.a. to settle the remaining consideration of HK$132,676,800 for the Group to buy back 60% controlling interest in a 40% owned associate which held interests in an investment property located in Shanghai, the PRC. The details of which were set out in the announcement issued on 7 August 2007. All the relevant convertible notes had been converted into share capital during the year.

In September 2007, the authorised share capital of the Company was increased from HK$1,000,000,000 divided into 10,000,000,000 shares to HK$4,000,000,000 divided into 40,000,000,000 shares. Pursuant to the share subscription agreement dated 5 July 2007, the Company completed the issue of 2,700,000,000 new shares of HK$0.1

each and granted options to subscribe for two tranches of convertible notes for a total of HK$1,850,000,000. Since October 2007 to 31 December 2007, the Company issued 5-year convertible notes bearing interest at 3% p.a. convertible into a total of 6,500,000,000 shares of HK$0.1 each in respect of the first tranche convertible note options, and all of the convertible notes had been converted into share capital during the year. The net proceeds in the sum of approximately HK$930,000,000 (after deducting expenses of issuing new shares and convertible notes) were mainly used as working capital for environmental protection and water treatment, city development operation and property investment. In addition, subsequent to the end of the year, and as of 30 June 2008, the Company issued 5-year convertible notes bearing interest at 3% p.a. convertible into a total of 3,000,000,000 shares of HK$0.1 each in respect of the second tranche convertible note options, and all of the convertible notes had been converted into share capital. The outstanding convertible note options amounted to HK$900,000,000. Details of which were set out in the convertible note monthly announcement published on 2 July 2008. The proceeds from the above issue were mainly applied as usual working capital.

During the year, a total of 459,490,000 share options were granted by the Company at an exercise price of HK$0.146 per share. During the year, a total of 371,490,000 share options granted were exercised, for which a total of 371,490,000 new shares were issued. The proceeds in the sum of HK$54,238,000 generated from the exercise of share options was used as general working capital of the Group.

Exchange rate exposure

The Remaining Group's assets, liabilities and transactions are mainly denominated either in Hong Kong dollar or Renminbi. As Renminbi becomes more volatile, the Remaining Group's operations and performances might thus be affected. Presently, the Remaining Group does not have any currency hedging policy but will closely monitor the fluctuation of Renminbi exchange rate and take appropriate measures to minimize any adverse impact that may be caused by such fluctuation.

Contingent liabilities

As at 31 March 2008, the Remaining Group did not have any material contingent liabilities.

Pledge of Assets

As at 31 March 2008, the Remaining Group's assets were pledged as security for its liabilities, comprising investment properties with carrying amounts of HK$62,611,000, intangible assets with carrying amounts of HK$116,873,000 and other financial assets with carrying amounts of HK$164,288,000.

Detail of future plans for material investment or capital

On 17 May 2007, the Group entered into a sale and purchase agreement (as supplemented by the supplemental agreement dated 29 June 2007, the second supplemental agreement dated 15 November 2007 and the third supplemental agreement dated 17 December 2007) with Heilong Group Limited in relation to the sale and purchase of approximately 70.21% of the issued share capital of Black Dragon at the aggregate consideration of RMB420,000,000. Black Dragon was established in the PRC on 3 November 1998 with limited liability and its A shares are listed on the Shanghai Stock Exchange. Its principal activities are manufacturing and marketing of paper products. Details of such acquisition are set out in the circular of the Company dated 31 January 2008. On 25 February 2008, the shareholders of the Company passed the ordinary resolution for the acquisition. As at 31 March 2008, the acquisition of 70.21% of Black Dragon has not been completed. As at 31 March 2008, part of consideration of RMB185,000,000 has been paid and the remaining balance of RMB235,000,000 will be paid upon completion of the acquisition by its internal resources.

Employment and Remuneration Policy

As at 31 March 2008, the Remaining Group had a total of 202 employees in the PRC and Hong Kong. To maintain the Group's competitiveness, salary adjustments and award of bonus for staff are subject to the performance of individual staff members. Apart from offering retirement benefit scheme, share option scheme and medical insurance for its staff, the Remaining Group also provides staff with various training and development programs.

(3) Business review for the year ended 31 March 2009

Financial review

During the year ended 31 March 2009, the Remaining Group's turnover was approximately HK$116,182,000 (2008: HK$103,007,000), representing an increase of 13% from last year. The increase in turnover is attributable to the Remaining Group sharing 3 months revenue of Heilongjiang Interchina which amounted of HK$20,483,000 as the acquisition of Heilongjiang Interchina was completed in December 2008.

During the year ended 31 March 2009, the Remaining Group's operating loss was HK$351,378,000 (2008:restated HK$14,015,000). The increase was mainly attributable to (i) a revaluation loss of approximately HK$136,955,000 arising on change in fair value of the Remaining Group's investment properties; and (ii) the loss on disposal of the Remaining Group's investment in an associate of approximately HK$225,146,000. By excluding the effects of the above losses, the Remaining Group recorded profit from its continuing operations of HK$10,723,000.

Business review, prospects, and material acquisition and disposal

Environmental Protection and Water Treatment Operation

At the end of March 2009, the Remaining Group's environmental protection and water treatment operation encompasses Hanzhong Shimen Water Supply Plant ("Hanzhong Project"), Qinhuangdao Sewage Treatment Plant ("Qinhuangdao Project"), Maanshan Sewage Treatment Plant ("Maanshan Project"), Changli Sewage Treatment Plant ("Changli Project"), Hanzhong Xingyuan Water Supply Plant ("Xingyuan Project"), Xian Yanliang Water Supply Plant ("Yanliang Project") and Qinghai Xiongyue Sewage Treatment Plant ("Qinghai Project"), with total average daily aggregate processing capacity of 600,000 tonnes, representing an increase of 280,000 tonnes from last year.

During the year under review, the Remaining Group further consolidated resources to focus on developing its core environmental protection and water treatment operation. In the year, the Group completed the acquisition of 229,725,000 shares, representing 70.21% equity interest of 黑龍江黑龍股份有限公司 (stock code: 600187, its shares are listed on the Shanghai Stock Exchange) and has changed its name to Heilongjiang Interchina Water Treatment Company Limited 黑龍江國中水務股份有限公司 ("Heilongjiang Interchina") in March 2009. The total consideration for the acquisition is approximately RMB627,149,000. The trading of its A shares has successfully resumed on 17 April 2009. As at 27 May 2009, the market capitalization of Heilongjiang Interchina was approximately RMB2.4 billion. Heilongjiang Interchina owns Xingyuan Project with daily aggregate processing capacity of 110,000 tonnes, Yanliang Project with daily aggregate processing capacity of 120,000 tonnes and Qinghai Project, with average daily aggregate processing capacity of 42,500 tonnes. The total average daily aggregate processing capacity of Heilongjiang Interchina is approximately 280,000 tonnes.

During the year ended 31 March 2009, total revenue of environmental protection and water treatment operation amounted to HK$81,479,000, an increase of 14% when compared with 2008. However, since the completion of acquisition of Heilongjiang Interchina in December 2008, the Remaining Group can only share 3 months revenue of Heilongjiang Interchina which amounted of HK$20,483,000. In view of this, we believe the acquisition of Heilongjiang Interchina has already laid a strong foundation for our business growth and prosperity in future years.

In March 2009, the Remaining Group's Changli Project located at Hebei Province, with a sewage treatment capacity of 40,000 tonnes on average per day, commenced trial operation. It expects that the Changli Project will make contribution to the Remaining Group's revenue in the coming year. Besides, the Remaining Group was granted to the right by the Dalada Qi Government to construct and operate a sewage treatment project in Dalada Qi, Ordos City, Inn Mongolia ("Ordos Project"). The daily average processing capacity of the project will be 70,000 tonnes. The project is in the early and preparatory stage. Taking into account the Hanzhong Project with daily aggregate processing capacity of 100,000 tonnes, Qinhuangdao Project with daily aggregate processing capacity of 120,000 tonnes and Manashan Project with daily aggregate processing capacity of 60,000 tonnes, the total average daily aggregate processing capacity is 280,000 tonnes. Upon completion of the construction of the Ordos Project, the Remaining Group had eight water treatment projects in China with a daily aggregate treatment capacity of 670,000 tonnes.

The Remaining Group planned to provide an additional financing platform through the water treatment operations offered to the Remaining Group by Heilongjiang Interchina, so as to further expand the scale of development in the environmental protection and water treatment operations of the Remaining Group. Heilongjiang Interchina intends to increase its share capital by issuing of new shares to original shareholders or strategic investors. The proposed increase of share capital is principally aimed to strengthen the capital base and provide additional funding for the merger and acquisition of any potential water treatment projects available to the Remaining Group in the future.

The Remaining Group expects that environmental protection and water treatment operation will be a major and stable source of revenue of the Remaining Group and the profit contribution from its operations will grow steadily.

Property Investment Operation

During the year ended 31 March 2009, total revenue of property investment operation amounted to HK$18,211,000 (2008: HK$18,107,000). Investment properties of the Remaining Group were valued at 31 March 2009 and recorded a revaluation loss of HK$136,955,000 as a result of the downturn of the property markets in China and Hong Kong.

Looking forward, sentiment in the property market will continue to be influenced by the impact of the financial crisis. Rental income from properties will inevitably be affected. Nevertheless, our properties located in the CBD of Shanghai and Beijing, the PRC will help secure a stable rental income stream and future profitability. The Remaining Group will carry out review from time to time on its retail properties for renovation potential in order to enhance rental income.

Securities and Financial Operation

During the year ended 31 March 2009, the revenue for securities and financial operation increased by 21% to HK$16,492,000, mainly due to increase in interest income. The Remaining Group will continue to strengthen internal control over the borrowings to margin clients, especially in reducing the margin ratio for non-index constituent stocks, so as to reduce the risk resulted from the fluctuation of the securities market.

Prospect

The slowdown of the global economy has brought forth many uncertainties over the operating environment of different industries. After the disposal of city development and investment operation, the Remaining Group will concentrate on the development of environmental protection and water treatment operation and property investment operation as the core businesses of the Remaining Group. Given the Remaining Group's competitive advantages and expertise in environmental protection and water treatment operation, and the favourable government policies on environmental protection and water treatment industry, we believe that the environmental protection and water treatment operation is less influenced by economy downturns. Challenges and opportunities will be abundant in the year 2009. The Directors are equipped with confidence to confront and resolve the setbacks arising from the financial crisis. Meanwhile, we will grasp this opportunity to effectively accomplish our established development strategies, with the aim to strengthen the foothold of the Remaining Group and maximize shareholders' benefit.

Significant disposal

On 21 January 2009, the Company held an extraordinary general meeting, during which the disposal of its 29.52% equity interest in an associate China Pipe Group Limited was approved by the Company's shareholders. Upon completion of the disposal, the Company ceased to have any interest in China Pipe since January 2009.

On 10 December 2008, the Company entered into a sale and purchase agreement with Shanghai Fanghua Shiye Development Limited for the disposal of the entire interest in Interchina (Changsha) Investments and Management Company Limited ("ICIM"), 38.9% interest in Changsha Interchina Star City Company Limited and a non-interest bearing shareholder's loan owing by ICIM to the Company at a total consideration of RMB330,000,000. Details of the transactions were set out in the Company's announcement dated 12 December 2008 and 27 April 2009 respectively.

Save as those disclosed above, during the year, the Remaining Group did not have other significant investment or acquisition or disposal of subsidiaries.

Capital structure, liquidity, financial resources and gearing ratio

As at 31 March 2009, the Remaining Group's total assets were HK$2,853,296,000 and the total liabilities were HK$979,775,000, and the equity reached HK$1,874,151,000.

As at 31 March 2009, the Remaining Group's cash on hand and deposits in bank (including segregated and trust accounts) totaled approximately HK$419,892,000.

As at 31 March 2009, the Remaining Group had outstanding borrowings of HK$523,838,000 (2008: HK$299,988,000) comprising secured bank and other borrowings of HK$397,031,000 (2008: HK$252,210,000) and unsecured bank borrowings of HK$126,807,000 (2008: HK$47,778,000) whereas 76% of the Remaining Group's outstanding borrowings carried interest on floating rate basis and the remaining 24% were at fixed interest rate. The gearing ratio was 18% (total outstanding borrowings/total assets). The maturity profile of the outstanding borrowings was spread over a period of more than five years with HK$219,477,000 repayable within one year, HK$233,741,000 repayable after one year but within five years and HK$70,620,000 repayable after the five years.

The Remaining Group's principal assets, liabilities, revenue and payments are denominated in Hong Kong dollars and Renminbi. As at 31 March 2009, 3% of the Remaining Group's cash on hand and deposits in bank was held in Hong Kong dollars and 97% in Renminbi; whereas 29% of the Remaining Group's outstanding borrowings was denominated in Hong Kong dollars and the rest in Renminbi. Pursuant to the Share Subscription Agreement dated 5 July 2007, in April 2008, the Company issued 5-year convertible notes bearing interest at 3% p.a. convertible into a total of 3,000,000,000 shares of HK$0.1 each in respect of the second tranche convertible note options, and all of the convertible notes had been converted into share capital during the year. The net proceeds were mainly applied as working capital.

Foreign Exchange Exposure

During the year ended 31 March 2009, the business activities of the Remaining Group were mainly denominated in Hong Kong dollars and Renminbi. The Board does not consider that the Remaining Group is significantly exposed to any foreign currency exchange risk. It is the Remaining Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Remaining Group. For the year ended 31 March 2009, the Remaining Group did not employ any financial instruments for hedging purpose and did not engage in foreign currency speculative activities.

Contingent liabilities

As at 31 March 2009, the Remaining Group did not have any material contingent liability.

Pledge of Assets

As at 31 March 2009, the Remaining Group's assets were pledged as security for its liabilities, comprising investment properties with carrying amounts of HK$179,976,000, intangible assets with carrying amounts of HK$293,916,000 and other financial assets with carrying amounts of HK$334,334,000. In addition, certain shares of subsidiaries held by the Remaining Group were also pledged to lender(s) to secure loan facilities granted to the Remaining Group.

Detail of future plans for material investment or capital

As at 31 March 2009, the Remaining Group did not have any detail of future plans for material investment or capital.

Employment and Remuneration Policy

As at 31 March 2009, the Remaining Group had a total of 795 employees in the PRC and Hong Kong. To maintain the Remaining Group's competitiveness, salary adjustments and award of bonus for staff are subject to the performance of individual staff members. Apart from offering retirement benefit scheme, share option scheme and medical insurance for its staff, the Remaining Group also provides staff with various training and development programs.

5. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, in the absence of unforeseeable circumstances and after taking into account of (i) the Group's present available internal resources, (ii) net proceeds from the Disposal, (iii) the Remaining Group after the Disposal with its existing loans on the assumption that they can be repaid on time in accordance with repayment schedule and (iv) issue of convertible note on 9 June 2009, the Group has sufficient working capital for its normal business for at least the next 12 months from the date of this circular.

The Directors, after due and careful enquiry, are of the opinion that, if the Disposal cannot be approved by the Shareholders, the Group will continue to negotiate with its borrowers regarding the extension of the existing loans as well as procuring other financing which might involve, inter alia, an element of convertible securities so as to ensure the Group has sufficient working capital for its normal business for at least the next 12 months from the date of this circular.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2009, being the date to which the latest published audited consolidated financial statements of the Group had been made up.

7. RECONCILIATION STATEMENT OF PROPERTIES

Set out below is a statement of reconciliation between the valuers of the properties which as stated in the valuation report and the Group's audited consolidated balance sheet as at 31 March 2009 in Appendix I and III of this circular respectively. The statement below was prepared in accordance with Rule 5.07 of the Listing Rules.

	HK$'000
Net book value of the properties as at 31 March 2009 *(Note 1)*	558,913
Adjustment:	
Surplus on value of property per properties valuation report as disclosed in Appendix III of this circular *(Note 2)*	323,846
As adjusted per property valuation report as disclosed in Appendix III of this circular *(Note 2)*	882,759

Notes:

1. The net book value of the properties as at 31 March 2009 of approximately HK$558,913,000 comprises of (i) interest in leasehold land and land use rights of approximately HK$42,760,000, (ii) properties under development after remeasurement to fair value less cost to sell of approximately HK$25,348,000 and (iii) properties under development for sale of approximately HK$490,805,000 as per note 40 respectively to the Group's consolidated financial statements for the year ended 31 March 2009 as reproduced in Appendix I to this circular.

2. Certain parcels of land were classified as (i) properties under development included in property, plant and equipment and (ii) interest in leasehold land and land use rights in the Group's consolidated audited balance sheet as at 31 March 2009 as reproduced in Appendix I to this circular which were not subjected to annual valuation. In accordance with the valuation report in Appendix III to this circular, the value of the properties was RMB768,000,000 which translated into Hong Kong dollars at the prevailing rate of HK$1 = RMB0.87 as at 30 April 2009 was approximately HK$882,759,000 which showed a surplus of HK$323,846,000 in light of improvement of the PRC property market in the past few months.

The following is the text of a report, prepared for the purpose of incorporation 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

24 July 2009

The Board of Directors
Interchina Holdings 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 financial information of Interchina Holdings Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), set out on pages 162 to 170 under the headings of "Unaudited Pro Forma Financial Information of the Remaining Group" (the "Unaudited Pro Forma Financial Information") in Appendix II of the Company's circular dated 24 July 2009 (the "Circular") in connection with the proposed disposal of entire equity interest in 國中(長沙)體育新城投資項目管理有限公司 (Interchina (Changsha) Investments And Management Company Limited) ("ICIM") (the "ICIM Sale Interest") a direct wholly owned subsidiary of the Company, 38.9% equity interest in 長沙國中星城置業有限公司 (Changsha Interchina Star City Company Limited) ("CIC") (the "CIC Sale Interest"), an indirect owned subsidiary of the Company (collectively referred to as the "Disposal Group") and a non-interest bearing shareholder loan owing by ICIM to the Company (the "Sale Loan") (the "Disposal"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Disposal might have affected the relevant financial information presented, for inclusion in Appendix II of the Circular. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page 162 of this 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 Unaudited 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 with reference to 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 Unaudited Pro Forma Financial Information and to report our opinion solely 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 Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issued.

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 source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involved independent examination of any of the 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 Unaudited 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 Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments 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:

– the financial position of the Remaining Group (the Group after the Disposal) as at 31 March 2009 or any future date, or

– the results and cash flows of the Remaining Group for the year ended 31 March 2009 or any future periods.

Opinion

In our opinion:

(a) the Unaudited 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 purpose of the Unaudited 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

INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

The unaudited pro forma financial information of the Remaining Group has been prepared to illustrate the effect of the Disposals.

The following is the unaudited pro forma financial information of the Remaining Group as if the Disposals had taken place on 31 March 2009 for the unaudited pro forma consolidated balance sheet and on 1 April 2008 for the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement.

The unaudited pro forma financial information of the Remaining Group should be read in conjunctions with the historical financial information of the Group as set out in Appendix I to this Circular and other financial information included elsewhere in this Circular.

The accompanying unaudited pro forma financial information of the Remaining Group is based on certain assumption, estimates, uncertainties and other currently available financial information, and is provided for illustrative purposes only because of its hypothetical nature, it may not give a true picture of the actual financial position and financial results of the Remaining Group's operations that would have been attained had the Disposals actually occurred on the dates indicated herein. Further, the accompanying unaudited pro forma financial information of the Remaining Group does not purport to predict the Group's future financial position or results of operations.

(i) Unaudited Pro Forma Consolidated Balance Sheet of the Remaining Group

The following is the unaudited pro forma consolidated balance sheet of the Remaining Group, assuming that the Disposal had been completed on 31 March 2009. The unaudited pro forma consolidated balance sheet is based on the audited consolidated balance sheet of the Group as at 31 March 2009 as set out in Appendix I to this Circular. Such information is adjusted to reflect the effect of the Disposal.

As the unaudited pro forma consolidated balance sheet of the Remaining Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Remaining Group as at the date to which it is made up to or at any future date.

	The Group as at 31 March 2009	Pro forma adjustment #1	Pro forma adjustment #2	The Remaining Group as at 31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Investment properties	503,228			503,228
Property, plant and equipment	20,092			20,092
Intangible assets	685,811			685,811
Other financial assets	444,805			444,805
Goodwill	387,557			387,557
Other non-current assets	2,277			2,277
	2,043,770			2,043,770
Current assets				
Inventories	4,198			4,198
Trade and other receivables and prepayments	282,577			282,577
Loan receivable	102,898			102,898
Financial assets at fair value through profit or loss	80			80
Tax recoverable	511			511
Bank balance – trust and segregated accounts	7,323			7,323
Cash and cash equivalents	34,259		378,310	412,569
	431,846			810,156
Assets classified as held for sale	589,680	(589,680)		–
	1,021,526			810,156

	The Group as at 31 March 2009	Pro forma adjustment #1	Pro forma adjustment #2	The Remaining Group as at 31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities				
Trade and other payables and deposits received	339,687			339,687
Tax payable	9,660			9,660
Amount due to remaining group	–	(705,855)	705,855	–
Bank borrowings – due within one year	92,936			92,936
Other borrowings – due within one year	126,541			126,541
	568,824			568,824
Liabilities classified as held for sale	210,370	(210,370)		–
	779,194			568,824
Net current assets	242,332			241,332
Total assets less current liabilities	2,286,102			2,285,102
Equity				
Share capital	2,028,619			2,028,619
Share premium and reserves	(309,154)	(20,909)	19,909	(310,154)
Equity attributable to ordinary equity shareholders of the Company	1,719,465			1,718,465
Minority interests	155,686			155,686
	1,875,151			1,874,151
Non-current liabilities				
Bank borrowings – due after one year	291,936			291,936
Other borrowings – due after one year	12,425			12,425
Deferred tax liabilities	106,590			106,590
	410,951			410,951
	2,286,102			2,285,102

Notes to the unaudited pro forma consolidated balance sheet

1. The adjustments reflect the exclusion of the assets, liabilities and reserves of the Disposal Group as at 31 March 2009, assuming the Disposal took place on 31 March 2009.

2. The adjustments reflect:

   (a) the net cash received of approximately HK$378,310,000, represented the cash consideration received of RMB330,000,000 for the Disposal, which translated into Hong Kong dollars at the prevailing rate of HK$1 = RMB0.87 as at 31 March 2009, and less the estimated transaction costs to be incurred in connection to the Disposals of approximately HK$1,000,000;

   (b) disposal of the Sale Loan and other loan as at 31 March 2009 amounted to approximately HK$705,855,000, assuming the Disposal took place on 31 March 2009; and

   (c) the gain on the Disposal of approximately HK$19,909,000, which was calculated based on the net cash proceeds from the Disposal of approximately HK$378,310,000 less (i) the net liabilities of the Disposal Group of approximately HK$326,545,000; (ii) the release of exchange reserves of approximately HK$20,909,000 and (iii) the release of the Sale Loan and other loan due to the Remaining Group in total of approximately HK$705,855,000, assuming the Disposals took place on 31 March 2009.

(ii) Unaudited Pro Forma Consolidated Income Statement of the Remaining Group

The following is the unaudited pro forma consolidated income statement of the Remaining Group, assuming that the Disposal had been completed on 1 April 2008. The unaudited pro forma consolidated income statement is based on the audited consolidated income statement of the Group for the year ended 31 March 2009 as set out in Appendix I to this Circular. Such information is adjusted to reflect the effect of the Disposal.

As the unaudited pro forma consolidated income statement of the Remaining Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the results of the Remaining Group after completion for the year ended to which it is made up to or for any future period.

	The Group for the year ended 31 March 2009	Pro forma adjustment #3	Pro forma adjustment #4	Pro forma adjustment #5	The Remaining Group for the year ended 31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations					
Turnover	116,182				116,182
Cost of sales	(30,681)				(30,681)
Other revenue and operating income	7,313				7,313
Staff costs	(26,369)				(26,369)
Amortisation and depreciation	(8,429)				(8,429)
Administrative costs	(34,229)				(34,229)
Impairment loss recognised in respect of goodwill	(11,006)				(11,006)
Fair value change in derivate financial instruments	16,629				16,629
Fair value change in investment properties	(136,955)				(136,955)
Loss from operations	(107,545)				(107,545)
Finance costs	(36,324)				(36,324)
Share of results of an associate	3,146				3,146
Loss on the Disposal	–			(278,160)	(278,160)
Loss on disposal of an associate	(225,146)				(225,146)
Loss before taxation	(365,869)				(644,029)
Taxation	14,491				14,491
Loss for the year from continuing operations	(351,378)				(629,538)
Discontinued operation					
Loss for the year from discontinued operation	(412,867)	216,300	196,567		–
Loss for the year	(764,245)				(629,538)

(iii) Unaudited Pro Forma Consolidated Cash Flow Statement for the Remaining Group

The following is the unaudited pro forma consolidated cash flow statement of the Remaining Group, assuming that the Disposal had been completed on 1 April 2008. The unaudited pro forma consolidated cash flow statement is based on the audited consolidated cash flow statement of the Group for the year ended 31 March 2009 as set out in Appendix I to this Circular. Such information is adjusted to reflect the effect of the Disposal.

As the unaudited pro forma consolidated cash flow statement of the Remaining Group has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the cash flow of the Remaining Group after completion of the Disposal for the year ended to which it is made up to or for any future period.

	The Group for the year ended 31 March 2009	Pro forma adjustment #6	Pro forma adjustment #7	Pro forma adjustment #8	The Remaining Group for the year ended 31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES					
Loss before taxation from continuing operations	(365,869)			(278,160)	(644,029)
Loss before taxation from discontinuing operation	(412,867)	216,300	196,567		–
Loss before taxation	(778,736)				(644,029)
Adjustments for:					
Depreciation of property, plant and equipment	2,658		(522)		2,136
Amortisation of interests in leasehold land, land use rights and intangible assets	6,850		(557)		6,293
Fair value change in investment properties	136,955				136,955
Impairment loss recognised in respect of goodwill	11,006				11,006
Loss on remeasurement of asset held for sale to fair value less costs to sell	216,300	(216,300)			–
Impairment loss recognised in respect of properties under development	182,770		(182,770)		–
Gain on derivative financial instruments	(1,079)				(1,079)
Gain on disposal of property, plant and equipment	(565)				(565)
Share of results of an associate	(3,146)				(3,146)
Loss on disposal of an associate	225,146				225,146
Loss on the Disposal	–			278,160	278,160
Fair value change in financial assets at fair value through profit or loss	18				18
Fair value change in derivate financial instruments	(16,629)				(16,629)
Interest income	(238)		5		(233)
Interest expenses	40,913		(4,589)		36,324

	The Group for the year ended 31 March 2009	Pro forma adjustment #6	Pro forma adjustment #7	Pro forma adjustment #8	The Remaining Group for the year ended 31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating cash flows before movements in working capital	22,223				30,357
Increase in properties under development for sale	(44,905)		44,905		–
Increase in other financial assets	(5,991)				(5,991)
Increase in intangible assets	(10,439)				(10,439)
Increase in inventories	(480)				(480)
Increase in loan receivables	(40,999)				(40,999)
Decrease in trade and other receivables and prepayments	613,883		14,983		628,866
Increase in bank trust and segregated accounts	(2,977)				(2,977)
Increase in trade and other payables and deposits received	157,702		(31,086)		126,616
Decrease in amount due to remaining group			(90,403)		(90,403)
Decrease in amount due to a related company	(78,564)				(78,564)
Cash generated from operations	609,453				555,986
Profits tax paid	(26,567)				(26,567)
Interest received	238		(5)		233
Net cash generated from operating activities	583,124				529,652
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	(15,770)		150		(15,620)
Purchase of investment properties	(2,024)				(2,024)
Proceeds on disposal of property, plant and equipment	630				630
Acquisition of subsidiaries	(706,146)				(706,146)
Acquisition of an associate	(296,000)				(296,000)
Proceeds on disposal of an associate	74,000				74,000
Net proceeds from the Disposal	–			378,310	378,310
Net refund in non-current assets	18		(18)		–
Net cash used in investing activities	(945,292)				(566,850)

	The Group for the year ended 31 March 2009	Pro forma adjustment #6	Pro forma adjustment #7	Pro forma adjustment #8	The Remaining Group for the year ended 31 March 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
FINANCING ACTIVITIES					
Interest paid	(40,913)		4,589		(36,324)
New bank loan raised	33,317				33,317
New other loan raised	123,000				123,000
Repayment of bank loans	(69,108)		51,598		(17,510)
Proceeds from issue of convertible notes	300,000				300,000
Net cash generated from financing activities	346,296				402,483
Net decrease in cash and cash equivalents	(15,872)		2,847	378,310	365,285
Cash and cash equivalents at beginning of the year	30,193		(1,584)		28,609
Effect of change in foreign exchange rate	20,214		(1,539)		18,675
Cash and cash equivalent included in assets of disposal group classified as held for sale	(276)		276		–
Cash and cash equivalents at end of the year	34,259				412,569
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balances	41,582			378,310	419,892
Less: Bank balances – trust and segregated accounts	(7,323)				(7,323)
	34,259				412,569

Notes to the unaudited pro forma consolidated income statement

3. The adjustment reflects the exclusion of the loss on remeasurement to fair value less costs to sell, which is calculated based on the difference between the aggregate net asset value of ICIM and CIC of approximately HK$595,610,000 as at 31 March 2009 and the cash consideration received of RMB330,000,000 (approximately HK$379,310,000).

4. The adjustment reflects the exclusion of all income and expenses classified as discontinued operation of the Disposal Group for the year ended 31 March 2009, assuming that if the Disposal had been completed on 1 April 2008.

5. The adjustments reflect the loss on the Disposal of approximately HK$278,160,000 attributable to the Remaining Group which was calculated based on the cash proceeds received for the Disposal of approximately HK$379,310,000 less (i) the estimated transaction costs to be incurred in connection to the Disposal of approximately HK$1,000,000; (ii) the net assets of the Disposal Group of approximately HK$83,405,000 as at 1 April 2008; (iii) the release of exchange reserves of approximately HK$17,992,000 as at 1 April 2008 and (iv) the release of the Sale Loan and other loan due to the Remaining Group in total of approximately HK$591,057,000 as at 1 April 2008, assuming that if the Disposal took place on 1 April 2008.

Notes to the unaudited pro forma consolidated cash flow statement.

6. The adjustment reflects the exclusion of the loss on remeasurement to fair value less cost to sell, which is calculated based on the difference between the aggregate net asset value of ICIM and CIC of approximately HK$595,610,000 as at 31 March 2009 and the cash consideration received of RMB330,000,000 (approximately HK$379,310,000).

7. The adjustments reflect the exclusion of all cash inflow and cash outflow of the Disposal Group for the year ended 31 March 2009, assuming that the Disposal had been completed on 1 April 2008.

8. The adjustment reflects the loss on the Disposal for the year ended 31 March 2009 and the net cash consideration received from the Disposal, assuming the Disposal had been completed on 1 April 2008.

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from RHL Appraisal Ltd., an independent valuer, in connection with its valuation as at 30 April 2009 of the property interests held and to be disposed of by Interchina Holdings Company Limited and its subsidiaries

永利行評值顧問有限公司
RHL Appraisal Limited
Corporate Valuation & Advisory

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F +852 2736 9284

Room 1010, 10/F, Star House
Tsimshatsui, Hong Kong

24 July 2009

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

Dear Sirs,

INSTRUCTIONS

In accordance with your instructions for us to value the properties (the "Properties") to be disposed of in which Interchina Holdings Company Limited (the "Company") and its subsidiaries (hereinafter together referred to as "the Group") have interests in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Properties as at 30 April 2009 (the "date of valuation").

This letter which forms part of our valuation report explains the basis and methodology of valuation, clarifying assumption, valuation considerations, title investigation and limiting conditions of this valuation.

BASIS OF VALUATION

Our valuations of the Properties represents their 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".

METHODOLOGY OF VALUATION

In the valuation of the Properties, the following valuation approaches were adopted to arrive at the market values of the Properties:

Direct Comparison Method – the "Direct Comparison Method" is applied assuming sale of the property in existing state with the benefit of immediate vacant possession and by making reference to comparable land sale transactions as available in the relevant market; as well as the latest benchmark land price published by the local government authority.

Depreciated Replacement Cost Method – Having regard to the special nature of the buildings and structures of the properties in the PRC, there are no market sales comparables readily available, the property interests have been valued on the basis of their depreciated replacement cost. The valuation from two approaches will be reconciled to arrive at our final opinion of value.

Depreciated replacement cost is defined as "the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization." This method has been used due to the lack of an established market upon which to base comparable transactions and is a method of using current replacement costs to arrive at the value to the business in occupation of the property as existing at the valuation date. In this approach, the land value of the property is derived from the land sale comparables in the locality and also by making reference to the benchmark land price as published by the local government authority.

VALUATION CONSIDERATIONS

In valuing the Properties, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by 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 effective from 1 January 2005.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

VALUATION ASSUMPTIONS

In valuing the property interests which are currently under construction, we have assumed that they will be developed and completed in accordance with the Group's latest development proposal provided to us. In arriving at our opinion of value, we have taken into account the construction costs and professional fees relevant to the stage of construction as at the valuation date and the remainder of the costs and fees to be expended to complete the developments.

Our valuations have been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

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

Other special assumptions of the Properties, if any, have been stated out in the footnotes of the valuation certificate attached herewith.

TITLE INVESTIGATION

We have been shown copies of various title documents including State-owned Land Use Rights Grant Contract, State-owned Land Use Rights Certificates and official plans relating to the Properties and have made relevant enquiries. However, we have not examined the original documents to verify the existing titles to the Properties in the PRC and any material encumbrances that might be attached to the Properties or any lease amendments. We have relied considerably on the information given by the Group and the Company's PRC legal adviser – Trend Associate Law Firm (上海創遠律師事務所), concerning the validity of the Group's titles to the Properties.

LIMITING CONDITIONS

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the Properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the Properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

EXCHANGE RATE

All monetary sums stated in this report are in Renminbi ("RMB").

Our valuations are summarized below and the valuation certificates are attached.

Yours faithfully,
For and on behalf of
RHL Appraisal Ltd.

Serena S. W. Lau	**Ian K. F. Ng**
FHKIS AAPI RPS(GP) MBA(HKU)	MBA BSc(EstMan) BSc MHKIS MRICS RPS(GP)
Managing Director	*Associate Director*

Ms. Serena S. W. Lau is a Registered Professional Surveyor with over 18 years' experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific Region. Ms. Lau is an Associate of Australian Property Institute, a Fellow of The Hong Kong Institute of Surveyors as well as a registered real estate appraiser in the PRC.

Mr. Ian K. F. Ng is a Registered Professional Surveyor with over 6 years' experience in valuation of properties in HKSAR, Macau SAR and mainland China. Mr. Ng is a Professional Member of The Hong Kong Institute of Surveyors as well as a chartered surveyor of The Royal Institution of Chartered Surveyors.

SUMMARY OF VALUES

Group I – Property interest held under development and to be disposed of by the Group in the PRC

	Property	Market Value in existing state as at 30 April 2009 *RMB*
1.	Interchina Mall and New Sports City Block Nos. 1 to 4, Lot No. 10L0158-2 located at Land Parcel R-18 North, New Sports City, Yuhua District, Changsha City, Hunan Province, The PRC	427,000,000
	Sub-total:	**427,000,000**

Group II – Property interests held for future development and to be disposed of by the Group in the PRC

2.	Three parcels of lands (Lot No. 1999983 located at Land Parcel R-18 South, Lot No. 1999985 located at Land Parcel R-11 West and Lot No. 1999986 located at Lands Parcel R-11 East, New Sports City) situated on the south of the City Sports Park, north of Qutang Road, west of Baishawan Road and east of Gaoling Road, Yuhua District, Changsha City, Hunan Province, The PRC	304,000,000
3.	Lot No. 10L0158-3 and temporary sales centre located at Land Parcel R-18 North New Sports City Yuhua District, Changsha City, Hunan Province, The PRC	17,300,000

	Property	Market Value in existing state as at 30 April 2009 *RMB*
4.	Lot No. 10L0158-1 located at Land Parcel R-18 North New Sports City Yuhua District, Changsha City, Hunan Province, The PRC	19,700,000
	Sub-total:	**341,000,000**
	Total:	**768,000,000**

VALUATION CERTIFICATE

Group I – Property interest held under development and to be disposed by the Group in the PRC

	Property	**Description and tenure**	**Particulars of occupancy**	**Market Value in existing state as at 30 April 2009** *RMB*
1.	Interchina Mall and New Sports City Block Nos. 1 to 4, Lot No. 10L0158-2 located at Land Parcel R-18 North, New Sports City, Yuhua District, Changsha City, Hunan Province, The PRC	The property comprises a parcel of land with a site area of approximately 49,859.70 sq. m., on which a commercial/residential complex comprising a 3-storey commercial centre (known as Interchina Mall) and 4 blocks of commercial/residential buildings (known as New Sports City Block Nos. 1 to 4) with a car parking basement is under construction and scheduled to be completed in 2010. According to the latest development proposal provided to us, the property will have a total gross floor area of approximately 140,751.90 sq. m. upon completion, the breakdown of which is summarized as follows:	The property is currently under construction.	427,000,000 (Renminbi Four Hundred Twenty Seven Million Only)

Level	**Use**	**Gross Floor Area** *Approx (sq.m.)*
Interchina Mall		
Basement 1	549 Car parking spaces	25,240.86
Levels 1-3	Commercial	29,562.71
	Other	1,463.56
	Sub-total	**56,267.13**
New Sports City Blocks 1 and 2		
Basement 1	Equipments	4,327.03
Levels 1-2	Commercial	7,434.12
Block 1	Hotel	15,052.27
Block 2	Residential	15,054.66
	Sub-total	**41,868.08**
New Sports City Blocks 3 and 4		
Basement 1	78 Car parking spaces and equipments	7,115.56
Levels 1-2	Commercial	4,603.85
Block 3	Hotel	16,018.23
Block 4	Residential	14,879.05
	Sub-total	**42,616.69**
Grand-total		**140,751.90**

The land use rights of the property were granted for a term of 70 years commencing on 20 February 2003 and expiring on 20 February 2073 for commercial/residential uses.

Notes:

1. Changsha Interchina Star City Company Limited (長沙國中星城置業有限公司) is a company incorporated in the PRC and a wholly owned subsidiary of the Company, 38.9% shareholding of which is owned directly by the Company and 61.1% shareholding of which is owned by Interchina (Changsha) Investments and Management Company Limited, a company incorporated in the PRC and is wholly owned by the Company.

2. Pursuant to a State-owned Land Use Rights Grant Contract – No. 2003066 dated 20 February 2003 entered into between Changsha City State Land Resources Bureau and Changsha Interchina Star City Company Limited (長沙國中星城置業有限公司) and a Construction Land Agreement dated 10 June 2003 entered into between Changsha City Land Development and Construction Company Limited and Changsha Interchina Star City Company Limited, the land use rights of 5 parcels of land (Land Parcels R-18 South, R-18 North, R-11 West, R-11 East and R-06 South) with a total site area of approximately 427,926.14 sq.m., including granted land of approximately 336,202.77 sq.m., were granted to Changsha Interchina Star City Company Limited (長沙國中星城置業有限公司) for a term of 70 years commencing from 20 February 2003 for commercial/residential use at a consideration of RMB288,848,000.

   As advised by the Group, the subject land of the property form part of the land as stipulated in the aforesaid State-owned Land Use Rights Grant Contract.

3. Pursuant to a State-owned Land Use Rights Certificate – Chang Guo Yong (2006) Di No. 030905 dated 9 August 2006 issued by Changsha City Municipal Government, the land use rights of a parcel of land with a site area of 49,859.70 sq. m. were granted to Changsha Interchina Star Company Limited (長沙國中星城置業有限公司) for a term of 70 years expiring on 20 February 2073 for residential use. The site has an additional road area of 11,832.50 sq. m. and a greenery area of 4,376.28 sq. m.

   This State-owned Land Use Rights Certificate has superseded a State-owned Land Use Rights Certificate Chang Guo Yong (2003) Di No. 005441, which was spilt into 3 State-owned Land Use Rights Certificates – Chang Guo Yong (2006) Di Nos. 030904, 030905 and 030906 on 9 August 2006.

4. Pursuant to Construction Land Planning Permit No. Chu (2003) 0015 dated 25 April 2005 issued by Changsha City Planning Management Bureau, the construction of (國中星城住宅小區) with a total planned gross floor area of approximately 352,607.71 sq. m., has been approved for construction.

5. Pursuant to two Construction Works Planning Permit both issued by the Changsha City Planning Management Bureau, the building with a total planned gross floor area of approximately 141,465.18 sq. m. has been approved for construction. The detailed are as follows:

Construction Works Planning Permit No.	**Date of Issue**	**Building**	**Planned Gross Floor Area** *approx. (sq.m.)*
Jian 2 (2004) Nos. 0137	31-Mar-05	Interchina Mall	85,198.05
Jian 2 (2004) Nos. 0138	19-Apr-04	Blocks 1– 4	56,267.13
		Total	**141,465.18**

6. Pursuant to a Planning Amendment Permit and the attached plan dated 16 June 2005 issued by the Changsha City Planning Management Bureau, Land Parcel M-09 has been approved for C2 use with plot ratio of 2.2, building density less than 35%, greenery area ratio greater than 45% and building height restriction less than 50 m.

7. Pursuant to three Commodity Housing Pre-Sales Permits, Changsha Interchina Star Company Limited (長沙國中星城置業有限公司) is permitted to pre-sell portion of the property with a total gross floor area of approximately 104,068.45 sq. m.. The detailed are as follow:

Commodity Housing Pre-Sales Permit No.	**Date of Issue**	**Building**	**Use**	**Gross Floor Area** *approx. (sq.m.)*
Chang Fang Shou Xu Zi (2004) Di No 2952	21-Apr-04	Interchina Mall	commercial	29,562.71
			other	1,463.56
			Sub-total	**31,026.27**
Chang Fang Shou Xu Zi (2005) Di No.3826	18-Ap-05	Portion of Block Nos. 3 and 4	residential	14,879.05
			commercial	4,603.85
			other	16,018.23
			Sub-total	**35,501.13**
Chang Fang Shou Xu Zi (2005) Di No 4197	22-Sep-05	Portion of Blocks 1 and 2	residential	15,054.66
			commercial	7,434.12
			other	15,052.27
			Sub-total	**37,541.05**
			Total	**104,068.45**

8. According to the information provided by the Group, the estimated total construction costs expended as at 30 April 2009 was approximately RMB423,200,000 and the outstanding construction costs to complete the development was approximately RMB254,600,000. In the course of our valuation, we have taken into account the aforesaid amounts.

9. The capital value of the property when completed as at the Valuation Date was RMB733,000,000.

10. In our valuation, we have made the following assumption:

    The construction works of the property are legally owned by Changsha Interchina Star Company Limited (長沙國中星城置業有限公司)

11. We have been provided with a legal opinion regarding the property by the Group's PRC legal advisers, which contains, *inter alia*, the following:

    (i) Changsha Interchina Star City Limited Company (長沙國中星城置業有限公司) is entitled to freely transfer, lease, mortgage the property within the residual term of its land use rights without payment of any additional land use rights grant fee and land premium;

    (ii) The land use rights of the property and the development rights of the construction of Interchina Star City Phase II are legally owned by Changsha Interchina Star City Limited Company (長沙國中星城置業有限公司);

    (iii) Changsha Interchina Star City Limited Company (長沙國中星城置業有限公司) has legal owned the property which is constructing in progress; and

    (iv) Changsha Interchina Star City Limited Company (長沙國中星城置業有限公司) has obtained from the PRC Government all requisite approvals in respect of the construction of the property

VALUATION CERTIFICATE

Group II – Property interests held for future development and to be disposed of by the Group in the PRC

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 April 2009 *RMB*
2.	Three parcels of land (Lot No. 1999983 located at Land Parcel R-18 South, Lot No. 1999985 located at Land Parcel R-11 West and Lot No. 1999986 located at Land Parcel R-11 East, New Sports City) situated on the south of the City Sports Park, north of Qutang Road, west of Baisgawan Road and east of Gaoling Road, Yuhua District, Changsha City, Hunan Province, The PRC	The property comprises three parcels of land with a total site area of approximately 214,254.87 sq.m. with the breakdown as follows: **Land Parcel** — **Site Area** *approx. (sq.m.)* R-18 South (Lot No. 1999983) — 42,770.92 R-11 West (Lot No. 1999985) — 86,694.82 R-11 East (Lot No. 1999986) — 84,789.13 **Total:** — **214,254.87** The land use rights of the property were granted for a term of 70 years expiring on 20 February 2073 for residential use.	The property is currently vacant occupied with some temporary structures. As advised by the Group, relocation of certain occupants are still in progress.	304,000,000 (Renminbi Three Hundred and Four Million Only)

Notes:

1. Changsha Interchina Star City Company Limited (長沙國中星城置業有限公司) is a company incorporated in the PRC and a wholly owned subsidiary of the Company, 38.9% shareholding of which is owned directly by the Company and 61.1% shareholding of which is owned by Interchina (Changsha) Investments and Management Company Limited, a company incorporated in the PRC and is wholly owned by the Company.

2. Pursuant to a State-owned Land Use Rights Grant Contract – No. 2003066 dated 20 February 2003 entered into between Changsha City State Land Resources Bureau and Changsha Interchina Star City Company Limited (長沙國中星城置業有限公司) and a Construction Land Agreement dated 10 June 2003 entered into between Changsha City Land Development and Construction Company Limited and Changsha Interchina Star City Company Limited, the land use rights of 5 parcels of land (Land Parcels R-18 South, R-18 North, R-11 West, R-11 East and R-06 South) with a total site area of approximately 427,926.14 sq.m., including granted land of approximately 336,202.77 sq.m., were granted to Changsha Interchina Star City Company Limited (長沙國中星城置業有限公司) for a term of 70 years commencing from 20 February 2003 for commercial/residential use at a consideration of RMB288,848,000.

   As advised by the Group, the property form part of the land as stipulated in the aforesaid State-owned Land Use Rights Grant Contract.

3. According to a Supplementary Agreement dated 16 November 2007, entered into between Changsha City Land Development and Construction Company Limited (Party A) and Changsha Interchina Star City Company Limited (Party B), the consideration for Land Parcels R-11 West, R-11 East and R-18 South is RMB65,000,000. (Remarks: The RMB65,000,000 is the apportioned consideration for the

above three parcels of land out of the total consideration of RMB288,848,000 as stated in note 2.) Party B agreed to pay an additional sum of RMB20,000,000 as the relocation and compensation costs. Party A has to complete the relocation on or before 30 October 2008 and handover the property to Party B on or before 31 December 2008.

4. Pursuant to three State-owned Land Use Rights Certificates dated 16 May 2003 issued by the Changsha City Land Resources Bureau, the land use rights of the Properties with a total site area of approximately 214,254.87 sq.m. were granted to Interchina Changsha Star City Limited Company (長沙國中星城置業有限公司) for a term of 70 years expiring on 20 February 2073 for residential use. The details are as follows:

State-owned Land Use Rights Certificate No.	**Land Parcel**	**Site Area** *approx. (sq.m.)*
Chang Guo Yong (2003) Zi Di No. 005442	R-18 South (Lot No. 1999983)	42,770.92
Chang Guo Yong (2003) Zi Di No. 005440	R-11 West (Lot No. 1999985)	86,694.82
Chang Guo Yong (2003) Zi Di No. 005439	R-11 East (Lot No. 1999986)	84,789.13
	Total	**214,254.87**

5. Pursuant to a Construction Land Planning Permit No. Chu (2003) 0015 issued by Changsha City Planning Management Bureau, the construction of Interchina Star City Residential Zone (國中星城住宅小區) with a total planned gross floor area of approximately 352,607.71 sq.m. has been approved for construction.

6. Pursuant to a Planning Amendment Permit and the attached plan dated 16 June 2005 issued by Changsha City Planning Bureau, the development parameters of the property are as follows:

Land Parcel	**Situated at Land Parcel**	**Portion of Site Area** *(sq.m.)*	**Use**	**Plot Ratio**	**Building Density**	**Height Restriction**	**Green Area Ratio**
R-18 South	M-07	42,770.92	R2	2.2	Less than 28%	50 m	Greater than 40%
R-11 West	M-06	86,694.82	R2	1.6	Less than 22%	Less than 60 m	Greater than 40%
R-11 East	M-06	73,539.13	R2	1.6	Less than 22%	Less than 60 m	Greater than 40%
	M-07	11,250.00	R2	2.2	Less than 28%	Less than 50 m	

* *R2-Residential Land Type 2*

7. Pursuant to the Document of Changsha City Development and Revolution Committee – Chang Fa Gai (2008) No. 114 dated 14 March 2008, portion of the land with a site area approximately 104,178.4 sq.m. situated at Land Parcels R-11 West and R-11 East and the construction project of Interchina Star City Phase II with a planned total gross floor area of approximately 156,841.13 sq.m. have been approved. The details are as follows:

Item/Use	**Gross Floor Area** *(approx.) (sq.m.)*
Superstructure	
– Low-rise residential	42,543.00
– High-rise residential	89,566.43
– Commercial shop	8,008.48
– Property management and community facilities	1,442.11
– Kindergarten	2,528.00
Basement	12,753.11
Total	**156,841.13**

8. We have been provided with a legal opinion regarding the property by the Group's PRC legal advisers, which contains, *inter alia*, the following:

(i) Changsha Interchina Star City Limited Company (長沙國中星城置業有限公司) is entitled to freely transfer, lease, mortgage the property within the residual term of its land use rights without payment of any additional land use rights grant fee and land premium;

(ii) The land use rights of the property and the development rights of the construction of Interchina Star City Phase II are legally owned by Changsha Interchina Star City Limited Company (長沙國中星城置業有限公司).

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 April 2009 *RMB*
3.	Lot No. 10L0158-3 and temporary sales centre located at Land Parcel R-18 North, New Sports City, Yuhua District, Changsha City, Hunan Province The PRC,	The property comprises a parcel of land with a site area of approximately 10,751.99 sq.m. on which a temporary 4-storey sales centre with a total gross floor area of 6,507.56 sq.m. was erected. The land use rights of the property were granted for a term of 70 years expiring on 20 February 2073 for residential uses.	The property is currently occupied as temporary sales office and the land parcel is currently vacant.	17,300,000 (Renminbi Seventeen Million and Three Hundred Thousand Only)

Notes:

1. Changsha Interchina Star City Company Limited (長沙國中星城置業有限公司) is a company incorporated in the PRC and a wholly owned subsidiary of the Company, 38.9% shareholding of which is owned directly by the Company and 61.1% shareholding of which is owned by Interchina (Changsha) Investments and Management Company Limited, a company incorporated in the PRC and is wholly owned by the Company.

2. Pursuant to a State-owned Land Use Rights Grant Contract – No. 2003066 dated 20 February 2003 entered into between Changsha City State Land Resources Bureau and Changsha Interchina Star City Company Limited (長沙國中星城置業有限公司) and a Construction Land Agreement dated 10 June 2003 entered into between Changsha City Land Development and Construction Company Limited and Changsha Interchina Star City Company Limited, the land use rights of 5 parcels of land (Land Parcels R-18 South, R-18 North, R-11 West, R-11 East and R-06 South) with a total site area of approximately 427,926.14 sq.m., including granted land of approximately 336,202.77 sq.m., were granted to Changsha Interchina Star City Company Limited (長沙國中星城置業有限公司) for a term of 70 years commencing from 20 February 2003 for commercial/residential use at a consideration of RMB288,848,000.

   As advised by the Group, the property form part of the land as stipulated in the aforesaid State-owned Land Use Rights Grant Contract.

3. Pursuant to a State-owned Land Use Rights Certificate – Chang Guo Yong (2006) Di No. 030906 dated 9 August 2006 issued by the Changsha City Municipal Government, the land use rights of a parcel of land with a site area of approximately 10,751.99 sq.m. was granted to Changsha Interchina Star City Company Limited (長沙國中星城置業有限公司) for a term expiring on 20 February 2073 for residential use. There is an additional road area of 7,725.25 sq.m.

4. Pursuant to a Construction Land Planning Permit No. Chu (2003) 0015 issued by Changsha City Planning Management Bureau, the construction of with a total planned gross floor area of approximately 352,607.71 sq.m. has been approved for construction on the land of the property.

5. Pursuant to a Planning Amendment Permit and the attached plan dated 16 June 2005 issued by the Changsha City Planning Management Bureau, Land Parcel M-09 has been approved for C2 use with plot ratio of 2.2, building density less than 35%, green area ratio greater than 45% and building height restriction less than 50 m.

6. As advised by the Group, the temporary sales centre, with a total gross floor area of approximately 6,507.56 sq.m. has not obtained any construction permit from the local government department and is for temporary sales use only. Therefore, the value of the temporary sales centre has not been included in our valuation of the whole property.

7. We have been provided with a legal opinion regarding the property by the Group's PRC legal advisers, which contains, *inter alia*, the following:

   (i) Changsha Interchina Star City Limited Company (長沙國中星城置業有限公司) is entitled to freely transfer, lease, mortgage the property within the residual term of its land use rights without payment of any additional land use rights grant fee and land premium;

   (ii) The land use rights of the property and the development rights of the construction of Interchina Star City Phase II are legally owned by Changsha Interchina Star City Limited Company (長沙國中星城置業有限公司).

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 April 2009 *RMB*
4.	Lot No. 10L0158-1 located at Land Parcel R-18 North, New Sports City, Yuhua District, Changsha City, Hunan Province, The PRC	The property comprises a parcel of land with a site area of approximately 12,275.10 sq.m. The land use rights of the property were granted for a term of 70 years expiring on 20 February 2073 for residential use.	The property is currently vacant.	19,700,000 (Renminbi Nineteen Million and Seven Hundred Thousand Only)

Notes:

1. Changsha Interchina Star City Company Limited (長沙國中星城置業有限公司) is a company incorporated in the PRC and a wholly owned subsidiary of the Company, 38.9% shareholding of which is owned directly by the Company and 61.1% shareholding of which is owned by Interchina (Changsha) Investments and Management Company Limited, a company incorporated in the PRC and is wholly owned by the Company.

2. Pursuant to a State-owned Land Use Rights Grant Contract – No. 2003066 dated 20 February 2003 entered into between Changsha City State Land Resources Bureau and Changsha Interchina Star City Company Limited (長沙國中星城置業有限公司) and a Construction Land Agreement dated 10 June 2003 entered into between Changsha City Land Development and Construction Company Limited and Changsha Interchina Star City Company Limited, the land use rights of 5 parcels of land (Land Parcels R-18 South, R-18 North, R-11 West, R-11 East and R-06 South) with a total site area of approximately 427,926.14 sq.m., including granted land of approximately 336,202.77 sq.m., were granted to Changsha Interchina Star City Company Limited (長沙國中星城置業有限公司) for a term of 70 years commencing from 20 February 2003 for commercial/residential use at a consideration of RMB288,848,000.

   As advised by the Group, the property form part of the land as stipulated in the aforesaid State-owned Land Use Rights Grant Contract.

3. Pursuant to a State-owned Land Use Rights Certificate – Chang Guo Yong (2006) Zi Di No. 030904 dated 9 August 2006 issued by the Changsha City Land Resources Bureau, the land use rights of a parcel of land with a site area of approximately 12,275.10 sq.m. was granted to Changsha Interchina Star City Company Limited (長沙國中星城置業有限公司) for a term of 70 years expiring on 20th February 2073 for residential use. There is an additional road area of 3,468.38 sq.m.

4. Pursuant to a Construction Land Planning Permit No. Chu (2003) 0015 issued by Changsha City Planning Management Bureau, the construction of with a total planned gross floor area of approximately 352,607.71 sq.m. has been approved for construction on the land of the property.

5. Pursuant to a Planning Amendment Permit and the attached plan dated 16 June 2005 issued by Changsha City Planning Management Bureau, Land Parcel M-09 has been approved for C2 use with maximum plot ratio of 2.2, building density less than 35%, greenery area ratio greater than 45% and building height restriction less than 50 m.

6. We have been provided with a legal opinion regarding the property by the Group's PRC legal advisers, which contains, *inter alia*, the following:

   (i) Changsha Interchina Star City Limited Company (長沙國中星城置業有限公司) is entitled to freely transfer, lease, mortgage the property within the residual term of its land use rights without payment of any additional land use rights grant fee and land premium;

   (ii) The land use rights of the property and the development rights of the construction of Interchina Star City Phase II are legally owned by Changsha Interchina Star City Limited Company (長沙國中星城置業有限公司)

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, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executive 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 Companies, 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 % of shareholding
Lam Cheung Shing, Richard	The Company	Beneficial owner	77,000,000 Shares (L)	0.38%
Ha Ping	The Company	Beneficial owner *(Note)*	5,000,000 Shares (L)	0.02%

(L) denotes the long position held in the Shares

Note: These Shares represent the Shares which may be allotted and issued to Ms. Ha Ping upon the exercise in full of the subscription rights attached to the options granted by the Company.

Save as disclosed above, none of the Directors or chief executive 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 Companies, to be notified to the Company and the Stock Exchange.

(b) Shareholders having 5% interests or more

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the persons (other than a Director or chief executive of the Company) who had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange 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 (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2009, being the date to which the latest audited consolidated accounts of the Company have been made up), and the amount of each of such person's interest in such securities or in any options in respect of such capital were as follows:

Name of Shareholder	Name of company in which interests or short positions were held	Nature of interests	Number of shares	Approximate % of shareholding
Chan Tim Shing	The Company	Beneficial owner	1,361,955,000 Shares (L)	6.71%
Zhang Yang	The Company	Interests of controlled corporation *(Note)*	103,495,000 Shares (L)	0.51%
	The Company	Beneficial owner	4,047,015,000 Shares (L)	19.94%

(L) denotes the long position held in the Shares

Notes: These Shares are held by Wealth Land Development Corp., which is wholly and beneficially owned by Mr. Zhang Yang, who is a substantial Shareholder. Thus, Mr. Zhang Yang is deemed to be interested in those Shares.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, no person (other than a Director or 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 and the Stock Exchange 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 (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2009, being the date to which the latest audited consolidated accounts of the Company have been made up), or had any option in respect of such capital.

3. MATERIAL INTERESTS

As at the Latest Practicable Date, none of the Directors or proposed Directors had any direct or indirect interests in any assets which have since 31 March 2009 (being the date to which the latest audited consolidated accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2009, being the date to which the latest audited consolidated accounts of the Company have been made up), or were proposed to be acquired or disposed of by or leased to any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2009, being the date to which the latest audited consolidated accounts of the Company have been made up). As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which was significant in relation to the business of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2009, being the date to which the latest audited consolidated accounts of the Company have been made up).

4. 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 (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2009, being the date to which the latest audited consolidated accounts of the Company have been made up) excluding contracts expiring or determinable by the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2009, being the date to which the latest audited consolidated accounts of the Company have been made up) within a year without payment of any compensation (other than statutory compensation).

5. DIRECTORS' INTERESTS IN COMPETING BUSINESS

To the best knowledge of the Directors, none of the Directors or their respective associates had any interests in any business which competed or might compete with the business of the Group as at the Latest Practicable Date.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered in the ordinary course of business) were entered into by members of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2009, being the date to which the latest audited consolidated accounts of the Company have been made up) within two years immediately preceding the Latest Practicable Date:

(a) the agreement entered into between the Company and Mr. Li Gong Tao 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;

(b) 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;

(c) the second supplemental agreement dated 15 November 2007 entered into between Interchina (Tianjin) Water Treatment Company Limited (a wholly-owned subsidiary of the Company) ("Interchina Tianjin") and 黑龍集團公司 (Heilong Group Limited*) ("Heilong Group") amending and supplementing the terms of the agreement signed by them on 17 May 2007 in relation to the acquisition of approximately 70.21% of the issued share capital of 黑龍江黑龍股份有限公司 (Heilongjiang Black Dragon Company Limited*) ("Black Dragon") at a total consideration of RMB420,000,000 ("Black Dragon Share Transfer Agreement") (as amended and supplemented by the supplemental agreement dated 29 June 2007 entered into among Interchina Tianjin, Heilong Group and Black Dragon);

(d) the agency agreement dated 15 November 2007 entered into among Interchina (Tianjin), Black Dragon and Heilong Group, whereby Black Dragon agreed to appoint Interchina (Tianjin) to act as its agent to handle the acquisition of 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 water projects;

(e) the termination agreement dated 15 November 2007 entered into between Interchina (Tianjin) and Black Dragon to terminate the Interchina Water Treatment Share Transfer Agreement;

(f) the third supplemental agreement dated 17 December 2007 entered into between Interchina (Tianjin) and Heilong Group further amending and supplementing the terms of the Black Dragon Share Transfer Agreement (as amended and supplemented by the supplemental agreement dated 29 June 2007 and the second supplemental agreement dated 15 November 2007);

(g) the acquisition agreement dated 18 December 2007 entered into between Maxable International Enterprises Limited and the Company in relation to the acquisition of 3,700,000,000 shares of China Pipe Group Limited ("China Pipe Shares") at the consideration of HK$296,000,000;

(h) the disposal agreement dated 3 August 2008 entered into between CIC and 廣州市廣域實業有限公司 (Guangzhou Guang Yu Enterprises Limited*) in relation to the disposal of three parcels of land located in Changsha, the PRC with an aggregate area of approximately 214,254.87 sq.m. at the consideration of RMB474,266,500 which was terminated on 31 October 2008;

(i) the sale and purchase agreement dated 15 October 2008 (as amended by a letter dated 27 October 2008) entered into between the Company and Singapore Zhongxin Investment Company Limited in relation to the disposal of the China Pipe Shares at a total consideration of HK$74,000,000;

(j) the Financial Agreement;

(k) the First Transfer Agreements;

(l) the Second Transfer Agreements;

(m) the Agreement;

(n) the Supplemental Agreement;

(o) the Second Supplemental Agreement;

(p) the disposal agreement dated 9 June 2009 entered into between the Company and Time Logistic Limited in relation to the disposal of the entire issued capital in Success Flow International Limited and the shareholders' loan at the consideration of HK$55,000,000; and

(q) the subscription agreement dated 9 June 2009 entered into between the Company and Favour City Limited in relation to the issue of convertible note in the principal amount of HK$35,000,000 at the conversion price of HK$0.1 per Share.

* *for identification purpose only*

7. LITIGATION

As at the Latest Practicable Date, so far as the Directors were aware, neither the Company nor any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2009, being the date to which the latest audited consolidated accounts of the Company have been made up) was engaged in any litigation or claims of material importance which were known to the Directors to be pending or threatened against any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2009, being the date to which the latest audited consolidated accounts of the Company have been made up).

8. QUALIFICATIONS AND CONSENT OF EXPERTS

The following are the qualifications of the experts who have given opinion or advice which is contained in this circular:

Name	Qualification
HLB Hodgson Impey Cheng	Chartered accountants and certified public accountants
Ceres Capital Limited	A licensed corporation under the SFO to carry on Type 6 (advising on corporate finance) regulated activity
RHL Appraisal Limited	Registered professional valuer
Trend Associates Law Firm	PRC legal advisers

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the opinion 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, none of the above experts had any shareholding in any member of the 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 Group, nor did they have any direct or indirect interest in any assets which had been, since 31 March 2009, being the date to which the latest published audited consolidated accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2009, being the date to which the latest audited consolidated accounts of the Company have been made up), or were proposed to be acquired or disposed of by or leased to any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2009, being the date to which the latest audited consolidated accounts of the Company have been made up).

9. MISCELLANEOUS

(a) The registered office and head office of the Company is at Room 701, 7/F, Aon China Building, 29 Queen's Road, Central, Hong Kong.

(b) The share registrar and transfer office of the Company is Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong.

(c) The secretary of the Company is Mr. Lau Chi Lok, Freeman who is member of Hong Kong Institute of Certified Public Accountants and CPA Australia.

(d) The English text of this circular shall prevail over the Chinese text.

10. 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 material contracts referred to in the paragraph headed "Material contracts" in this Appendix;

(c) the letter from the Independent Board Committee as set out in this circular;

(d) the letter from Ceres Capital Limited as set out in this circular;

(e) the accountants' report prepared by HLB Hodgson Impey Cheng, the text of which is set out in Appendix I to this circular;

(f) the report on unaudited pro forma financial information on the Remaining Group prepared by HLB Hodgson Impey Cheng, the text of which is set out in Appendix II to this circular;

(g) the valuation report on the Land prepared by RHL Appraisal Limited, the text of which is set out in Appendix III to this circular;

(h) the consent letters from RHL Appraisal Limited, HLB Hodgson Impey Cheng, Ceres Capital Limited and Trend Associates Law Firm referred to in the paragraph headed "Qualifications and consent of experts" in this Appendix;

(i) the legal opinions issued by Trend Associates Law Firm;

(j) the audited consolidated accounts of the Group for the two years ended 31 March 2009; and

(k) the circulars of the Company dated 15 April 2008, 26 August 2008 and 2 January 2009 respectively.

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 of Interchina Holdings Company Limited ("**Company**") will be held at Lavender Room, The Park Lane Hong Kong, 310 Gloucester Road, Hong Kong on 18 August 2009 at 9:45 a.m. (or an adjournment thereof) for considering, and if thought fit, passing the following resolution as ordinary resolution of the Company:

Ordinary Resolution

"**THAT**:

(a) the agreement dated 10 December 2008 entered into between Interchina Holdings Company Limited (the "**Company**") and 上海方華實業有限公司 (Shanghai Fanghua Shiye Development Limited*) (the "**Purchaser**"), the supplemental agreement dated 9 February 2009 entered into between the Company, the Purchaser and 長沙國中星城置業有限公司 (Changsha Interchina Star City Company Limited*) ("**CIC**") and the second supplemental agreement dated 16 July 2009 entered into between the Company, the Purchaser and CIC (collectively, the "**SP Agreement**"), in relation to the sale and purchase of 100% equity interest of 國中（長沙）體育新城投資項目管理有限公司 (Interchina (Changsha) Investments and Management Company Limited*) ("**ICIM**"), 38.9% equity interest of CIC and the non-interest bearing loan due from ICIM to the Company at a total consideration of RMB330 million, 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 the transactions contemplated thereunder."

By order of the Board of
Interchina Holdings Company Limited
Lam Cheung Shing, Richard
Chief Executive Officer and Executive Director

Hong Kong, 24 July 2009

* *for identification purpose only*

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

Notes:

1. A shareholder entitled to attend and vote at the above meeting may appoint one or more than one proxy 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 persons may vote at the meeting, 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 be present at the meeting 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 Shares 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 in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting.

4. As at the date of this notice, the executive Directors are Ms. Wing Man Yi, Mr. Lam Cheung Shing, Richard, Mr. Zhu Yongjun and Dr. Simon Mu Xinming and the independent non-executive Directors are Ms. Ha Ping, Mr. Ho Yiu Yue, Louis, Mr. Ko Ming Tung, Edward and Dr. Fu Tao.