

Management Discussion and Analysis

FINANCIAL REVIEW

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



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

As at 31 March 2007, the Group's cash on hand and deposits in bank (including segregated and trust account) totaled approximately HK\$245,840,000 (2006: HK\$22,171,000), representing



an increase of 10.1 times against the balance as at 31 March 2006. Approximately 89.1% of the deposits was denominated in Hong Kong dollars while the remainder in Renminbi. The Group's net current assets amounted to HK\$213,408,000 (2006: net current liabilities HK\$78,851,000). The Group's outstanding bank and other borrowings were HK\$353,169,000 (2006: HK\$406,531,000) which mainly comprised bank and other

borrowings of approximately HK\$143,495,000 repayable within a year, and HK\$209,674,000 of bank and other borrowings repayable after one year. In addition, the Group's 2-year convertible notes amounted to HK\$4,587,000 (2006: nil). The gearing ratio was 22.2% (total borrowings/total assets).

Management Discussion and Analysis

As at 31 March 2007, approximately 8.7% of the Group's bank and other borrowings were denominated in Hong Kong dollars while the rest in Renminbi. The Group's bank and other borrowings were arranged on both floating or fixed rate basis of which approximately 87.7% were secured by the Group's investment properties, property, plant and equipment and interests in leasehold land.



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

BUSINESS REVIEW AND PROSPECT

Environmental Protection and Water Treatment Operation

During the Year, the Group continued to accelerate the pace in the development of existing project according to the schedule of water treatment operation projects contracted for, and the progress of development was satisfactory. The Group also continued in adjusting the



management structure of its environmental protection and water treatment operation to reduce its operating cost and enhance cost effectiveness. On the basis of cost effectiveness and feasibility of individual water supply and sewage treatment projects, our resources were focused on the development of water supply and sewage treatment projects with potential. The Group

will also continue to regard environmental protection and water treatment operation as its core businesses.

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

Management Discussion and Analysis

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



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

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



In addition to the existing environmental protection and water treatment project, the Group is negotiating with the Hanzhong Municipal Government over the acquisition of a water supply Company in Hanzhong City (the "Acquisition"). The water supply Company is currently the only one water supply Company in Hanzhong City. The Group had reached consensus with Hanzhong Municipal Government about the

Acquisition. It is expected to be completed by the end of the year. In addition, the Group intends to acquire a company in China, through which it provides an additional financing platform for the environmental protection and water treatment operation of the Group and it would further expand the development scale of environmental protection and water treatment operation of the Group.

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

City Development and Investment Operation

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



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

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

In October last year, the Group disposed its entire interests in and shareholders' loan due from three wholly-owned subsidiaries, which held property development projects located in Changsha and Shanghai, at a total consideration of HK\$617,870,000 (the "Disposal"). Details of the Disposal were disclosed in the announcement dated 20 October 2006. However, since the Group made advances to the Changsha property development project during the period from 1 September 2006 up to 16 February 2007 in the total sum of approximately HK\$86,000,000 (the "Advance") to support its normal operation, and requested buyer to repay the Advance

Management Discussion and Analysis

upon completion of the Disposal. Finally, the Group reached an agreement with the buyer in March this year to cancel the Disposal and executed a new sale and purchase agreement for the disposal of the Group's entire interests in and shareholders' loan due from a wholly-owned subsidiaries, which held property development projects located in Shanghai, at a total consideration of HK\$206,000,000 ("Disposal of Shanghai Property Development"). Details of the Disposal of Shanghai Property Development were disclosed in the announcement dated 28 March 2007. The Disposal of Shanghai Property Development was completed in March this year which generated a profit of approximately HK\$18,620,000 for the Group. The Buyer had also paid approximately HK\$1,448,000 to the Group as a compensation for cancelling the Disposal.

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

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

Property Investment Operation

During the Year, the Group's rental income was mainly generated from investment properties located in Beijing, the PRC and Hong Kong. During the Year, the Group's rental income amounted to HK\$2,968,000 (2006: HK\$3,724,000), representing a decrease of 20.3% compared with the corresponding period of last year which was mainly due to the disposal of the Group's 60% controlling interest in a wholly-owned subsidiary (the "Subsidiary"), which held interests in an investment property located in Shanghai, the PRC, in 2005. At 31 March 2007, the Group's interest in associates was HK\$77,419,000 (2006: HK\$83,448,000).

During the Year, the Group's share of loss in associates was HK\$6,164,000, which was mainly attributable to the revaluation deficit of the investment property in Shanghai, the PRC. However, as the demand for prime properties remains strong in Shanghai, the PRC and we are optimistic



Management Discussion and Analysis

about the prospect of the leasing market in Shanghai, the PRC, the Group has brought back such 60% controlling interest in the Subsidiary in June this year for a consideration of approximately HK\$195,039,000 so as to increase the rental income of the Group.

Securities and Financial Operation

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

Outlook

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



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

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

Management Discussion and Analysis

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

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

Liquidity and Financial Resources

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

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



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

Management Discussion and Analysis

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

Pledge of Group's Assets

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



Employment and Remuneration Policy

As at 31 March 2007, the Group had a total of 168 employees in the PRC and Hong Kong. Staff costs for the Year amounted to HK\$25,989,000 (2006: HK\$32,279,000). To maintain the Group's competitiveness, salary adjustments and award of bonus for staff are subject to the performance of individual staff members. Apart from offering a retirement benefit scheme for its staff, the Group also provides staff with various training and development programs.