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 your 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, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or the transfer was effected for transmission to the purchaser or transferee.

國中控股有限公司

INTERCHINA HOLDINGS COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 202)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

WALLBANCK BROTHERS Securities (Hong Kong) Limited

A letter from the independent board committee of Interchina Holdings Company Limited (the "**Company**") is set out on page 11 of this circular. A letter from Wallbanck Brothers Securities (Hong Kong) Limited containing its advice to the independent board committee and the independent shareholders of the Company is set out on pages 12 to 29 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at The Laurel, level 3, Renaissance Kowloon Hotel, 22 Salisbury Road, Tsimshatsui, Kowloon, Hong Kong on 17 May 2008 at 9:00 a.m. is set out on pages 317 to 318 of this circular. Whether or not you are able to attend the extraordinary general meeting, you are requested to complete the accompanying form of proxy in accordance with instructions printed thereon and return it to the office of the share registrar of the Company in Hong Kong, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible but in any event not later than 48 hours before the time for holding the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjournment thereof should you so wish.

15 April 2008

CONTENTS

DEFINITIONS

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

"Acquisition"	the acquisition of the Sale Shares by the Company pursuant to the Acquisition Agreement
"Acquisition Agreement"	the acquisition agreement dated 18 December 2007 entered into between the Vendor and the Company in relation to the Acquisition
"associates"	has the meaning ascribed to it under the Listing Rules
"Black Dragon"	黑龍江黑龍股份有限公司 (Heilongjiang Black Dragon Company Limited), a company established in the PRC and its A shares are listed on the Shanghai Stock Exchange
"Board"	the board of Directors
"Business Day(s)"	means a day (other than Saturday or Sunday and days on which a tropical cyclone warning No. 8 or above or a "black rainstorm warning signal" is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are open for general banking business
"China Pipe"	China Pipe Group Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange
"China Pipe Group"	China Pipe and its subsidiaries
"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 Acquisition in accordance with the Acquisition Agreement
"Completion Date"	the third Business Day after all conditions precedent contained in the Acquisition Agreement have been fulfilled or waived (as the case may be), or such other date as the Vendor and the Company may agree in writing
"connected persons"	has the meaning ascribed to it under Rule 1.01 and as extended by Rule 14A.11 of the Listing Rules

"Consideration"	the total consideration for the Acquisition, being HK$296,000,000, which shall be satisfied in cash pursuant to the terms of the Acquisition Agreement
"Director(s)"	director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened and held at The Laurel, level 3, Renaissance Kowloon Hotel, 22 Salisbury Road, Tsimshatsui, Kowloon, Hong Kong on 17 May 2008 at 9:00 a.m. for the Independent Shareholders to consider and, if thought fit, approve the Acquisition Agreement and the transactions contemplated thereunder
"Group"	the Company and its subsidiaries
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent committee of the Board established by the Company comprising two independent non-executive Directors, namely Ms. Ha Ping and Dr. Tang Tin Sek
"Independent Shareholders"	Shareholder(s), other than Mr. Zhang, the Vendor and its ultimate beneficial owner(s), and their respective associates, who are entitled to vote at the EGM pursuant to the Listing Rules
"Latest Practicable Date"	10 April 2008, being the latest practicable date prior to the bulk-printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	30 September 2008 or such other date as may be agreed by the Vendor and the Company in writing
"Mr. Zhang"	Zhang Yang, an executive Director and the chairman of the Company
"Ms. Wing"	Wing Man Yi, the beneficial owner of the entire issued share capital of the Vendor
"PRC"	the People's Republic of China, excluding Hong Kong, the Macau and Taiwan for the purpose of this circular
"Sale Shares"	the 3,700,000,000 shares of HK$0.002 each in the capital of China Pipe held by the Vendor

"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	share(s) of the Company
"Share Charge"	the legal charge over the Sale Shares executed by the Vendor (as chargor) in favour of the Company (as chargee)
"Shareholder(s)"	holder(s) of Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Vendor"	Maxable International Enterprises Limited, a company incorporated in the British Virgin Islands
"Wallbanck Brothers"	Wallbanck Brothers Securities (Hong Kong) Limited, a licensed corporation to carry out types 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"%"	per cent.

國中控股有限公司

INTERCHINA HOLDINGS COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 202)

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

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

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

15 April 2008

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

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

INTRODUCTION

It was announced on 18 December 2007 that on the same date, the Company entered into the Acquisition Agreement with the Vendor, pursuant to which the Company has conditionally agreed to acquire the Sale Shares, representing approximately 29.52% of the then issued share capital of China Pipe, from the Vendor at the Consideration, being HK$296,000,000. The shares of China Pipe are listed on the Stock Exchange.

The Vendor is a company wholly-owned by Ms. Wing, the wife of the brother-in-law of Mr. Zhang, an executive Director and the chairman of the Company. Thus, the Vendor is regarded as a connected person of the Company under Chapter 14A of the Listing Rules. The Acquisition constitutes a very substantial acquisition and a connected transaction of the Company under Chapters 14 and 14A of the Listing Rules which requires the approval by the Independent Shareholders at the EGM by way of poll.

The Independent Board Committee has been established to consider the Acquisition and to provide recommendations to the Independent Shareholders in this regard. Wallbanck Brothers has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition.

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, to approve the Acquisition Agreement and the transactions contemplated thereunder. The purpose of this circular is to provide you with further information of the Acquisition and other information as required under the Listing Rules.

THE ACQUISITION AGREEMENT

Date: 18 December 2007

Parties: Vendor: the Vendor, an investment holding company.

As at the Latest Practicable Date, the Vendor was a company wholly-owned by Ms. Wing, the wife of the brother-in-law of Mr. Zhang, an executive Director and the chairman of the Company. Thus, the Vendor is regarded as a connected person of the Company under Chapter 14A of the Listing Rules. Immediately prior to the execution of the Acquisition Agreement, the Vendor was interested in approximately 71.82% of the issued share capital of China Pipe. Ms. Wing is the executive director and chairman of China Pipe and Mr. Zhang is the non-executive director of China Pipe. Mr. Chan Wing Yuen, Hubert and Mr. Lam Cheung Shing, Richard, both executive Directors, are also executive directors of China Pipe.

Purchaser: The Company

Assets to be acquired

The Sale Shares, being 3,700,000,000 shares of China Pipe (which has taken into account the share subdivision of China Pipe effective on 31 August 2007), representing approximately 29.52% of the issued share capital of China Pipe as at the Latest Practicable Date. The issued shares of China Pipe are listed on the Stock Exchange (stock code: 380). Immediately prior to the execution of the Acquisition Agreement, the Company did not hold any shares of China Pipe.

The Vendor acquired (i) 180,000,000 shares of China Pipe (equivalent to 9,000,000,000 shares of China Pipe after its share subdivision having become effective on 31 August 2007) pursuant to an acquisition agreement dated 29 April 2007 at the consideration of HK$333,000,000 or HK$1.85 per share of China Pipe, details of which are set out in the joint announcement of the Vendor and China Pipe dated 8 May 2007; and (ii) a further 30,000 shares of China Pipe (equivalent to 1,500,000 shares of China Pipe after its share subdivision having become effective on 31 August 2007) at the consideration of HK$55,500 or HK$1.85 per share of China Pipe pursuant to the unconditional mandatory cash offer made by Sun Hung Kai International Limited on behalf of the Vendor for all issued shares of China Pipe (other than those already owned or agreed to be acquired by the Vendor or parties acting in concert with it), details of which are set out in the joint announcement of the Vendor and China Pipe dated 3 July 2007.

Consideration and payment terms

The Consideration, being HK$296,000,000, shall be satisfied in cash and payable as follows:

(a) as to HK$170,000,000 (the "**Deposit**") payable as deposit and part payment of the Consideration immediately upon the signing of the Acquisition Agreement by the Company to the Vendor; and

(b) as to the remaining balance of HK$126,000,000 payable within 30 Business Days after the Completion Date by the Company to the Vendor.

As at the Latest Practicable Date, the Deposit had been paid by the Company. In the event the conditions set out below have not been satisfied or waived on or before the Long Stop Date, or Completion does not take place in accordance with the terms of the Acquisition Agreement, the Vendor shall refund the Deposit (with interest) to the Company within five Business Days thereafter.

The Consideration per Sale Share of HK$0.08 represents (i) a discount of approximately 9.09% to the closing price of HK$0.088 per share of China Pipe as quoted on the Stock Exchange on 18 December 2007, being the date of the Acquisition Agreement; (ii) a discount of approximately 10.11% to the average closing price of HK$0.089 per share of China Pipe as quoted on the Stock Exchange for the five consecutive trading days up to and including 18 December 2007; and (iii) a discount of approximately 18.37% to the closing price of HK$0.098 per share of China Pipe as quoted on the Stock Exchange as at the Latest Practicable Date.

The Consideration has been arrived at after arm's length negotiations, taking into account the then performance of the shares of China Pipe. The Board considers the Consideration fair and reasonable.

The Company shall pay the Consideration by its internal resources.

Conditions precedent

Completion is conditional upon:

(i) the passing by the Independent Shareholders (by way of poll) of ordinary resolution(s) at the EGM approving the Acquisition Agreement and the transactions contemplated thereunder in accordance with the provisions of the Listing Rules;

(ii) all necessary approvals and consents in respect of the Acquisition Agreement and the transactions contemplated thereunder required by China Pipe or any of its subsidiaries and the Vendor being obtained; and

(iii) all warranties, representations and undertakings given by the Vendor under the Acquisition Agreement remaining true and accurate in all material respects and not misleading in any material respect as of the Completion Date by reference to the facts and circumstances subsisting as at the Completion Date.

The Company shall be entitled, at any time by written notice to the Vendor, to waive any of the above conditions (save and except condition (i), which cannot be waived) either in whole or in part. The Company has no present intention to waive any of the above conditions.

If any of the above conditions has not been fulfilled (or waived by the Company) on or before 5:00 p.m. on the Long Stop Date, the Acquisition Agreement shall cease and determine and the parties to the Acquisition Agreement shall not have any obligations and liabilities hereunder save for any antecedent breaches of the terms hereof.

Completion

Subject to fulfilment or waiver (as the case may be) of the above conditions precedent, Completion shall take place on the Completion Date. No director will be appointed to China Pipe by the Company upon Completion.

SHARE CHARGE

Immediately upon the execution of the Acquisition Agreement, the Vendor has executed the Share Charge in favour of the Company to secure its obligations in relation to refund of the Deposit.

INFORMATION ON CHINA PIPE

China Pipe is an exempted company incorporated under the laws of Bermuda with limited liability on 25 September 2000. China Pipe is an investment holding company and its issued shares are listed on the Stock Exchange. The principal activities of China Pipe Group are trading and distribution of construction materials, mainly water pipes and fittings. China Pipe is seeking different investment opportunities and will diversify into business segment which are expected to show significant growth in the future. On 11 September 2007, China Pipe entered into a sale and purchase agreement with an independent third party in relation to acquisition of 15 retails units of a commercial podium located in Shanghai, details of which are set out in the announcement of China Pipe dated 11 September 2007. On 29 February 2008, China Pipe entered into a provisional sale and purchase agreement with another independent third party to acquire a floor and two car parking spaces at Bowen Road, Hong Kong, details of which are set out in the announcement of China Pipe dated 5 March 2008.

Set out below is the unaudited consolidated financial information of China Pipe for the six months ended 30 June 2007 and the audited consolidated financial information of China Pipe for the two years ended 31 December 2006:

	For the six months ended 30 June 2007 (unaudited) *HK$'000*	**For the year ended 31 December 2006 (audited)** *HK$'000*	**For the year ended 31 December 2005 (audited)** *HK$'000*
Turnover	274,792	617,556	522,921
Profit before taxation	27,776	71,616	51,113
Profit after taxation	22,508	59,302	42,524
Total assets	496,376	522,782	425,261
Net assets	352,935	339,864	292,655

FINANCIAL EFFECT OF THE ACQUISITION

Upon Completion, China Pipe will be treated as an associate of the Company. Thus, the financial results of China Pipe and its net assets will be equity accounted for in the consolidated financial statements of the Group upon Completion.

Based on the unaudited pro forma balance sheet of the Group as set out in the Appendix IV to this circular, the Acquisition would not have any impact on the total assets, total liabilities and net assets value of the Group after Completion.

Based on the unaudited pro forma combined income statement of the Group after Completion as set out in Appendix IV to this circular, the Group's net loss would decrease by HK$17,506,000 should the Acquisition be completed at the beginning of the year ended 31 March 2007.

INFORMATION ON THE GROUP

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

REASONS FOR THE ACQUISITION

In order to improve the earnings of the Group in the long run, the Group has been looking for investment opportunities. The Company takes initiative in identifying investment opportunities that will broaden its revenue sources. The Company is optimistic about the prospect of the environmental and water treatment market in the PRC and the Acquisition represents an attractive opportunity to the Group as it enables the Group to diversify its investment segments which are expected to show significant growth in the future. The Directors consider that the Acquisition will strengthen the earning base of the Group and is in the best interests of the Group and the Shareholders as a whole.

In view of the above, the Board considers the terms of the Acquisition are of normal commercial terms and are in the interest of the Company and the Shareholders as a whole. The Board also consider that the terms of the Acquisition Agreement are fair and reasonable.

LISTING RULES IMPLICATIONS

The Vendor is a company wholly-owned by Ms. Wing, the wife of the brother-in-law of Mr. Zhang, an executive Director and the chairman of the Company. Thus, the Vendor is regarded as the connected person of the Company under Chapter 14A of the Listing Rules. The Acquisition constitutes a very substantial acquisition and a connected transaction for the Company under Chapters 14 and 14A of the Listing Rules which requires the approval by the Independent Shareholders at the EGM by way of poll.

As at the Latest Practicable Date, Mr. Wong Hon Sum ("**Mr. Wong**"), one of the independent non-executive Directors, was interested in approximately 0.11% of the issued share capital of China Pipe. Thus, he is considered not sufficiently independent to become members of the Independent Board Committee. Accordingly, the Independent Board Committee, comprising two independent non-executive Directors, namely Ms. Ha Ping and Dr. Tang Tin Sek, has been established to consider the Acquisition and to provide recommendations to the Independent Shareholders. Wallbanck Brothers has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition.

Mr. Zhang and his associates, in aggregate control or are entitled to exercise control over 2,492,625,000 Shares, representing approximately 14.42% of the issued share capital and voting rights of the Company as at the Latest Practicable Date, are required to abstain from voting for the resolution at the EGM in approving the Acquisition Agreement and the transactions contemplated thereunder. As at the Latest Practicable Date, Mr. Wong, an independent non-executive Director, held options to subscribe for 5,000,000 Shares. In the event that Mr. Wong exercised the subscription rights attached to such options to subscribe for Shares, Mr. Wong is also required to abstain from voting for the resolution at the EGM in approving the Acquisition Agreement and the transactions contemplated thereunder. Save as disclosed, no Shareholder has a material interest in the Acquisition and thus no Shareholder is required to abstain from voting for the resolution at the EGM in approving the Acquisition Agreement and the transactions contemplated thereunder.

PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

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

(a) the chairman of the meeting; or

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

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

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

RECOMMENDATION

The Directors consider the terms and conditions of the Acquisition Agreement to be fair and reasonable and the Acquisition is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder.

FURTHER INFORMATION

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

Yours faithfully,
for and on behalf of the Board
Lam Cheung Shing, Richard
Director and Company Secretary

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Acquisition:

國中控股有限公司

INTERCHINA HOLDINGS COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 202)

15 April 2008

To the Independent Shareholders

Dear Sir or Madam

VERY SUBSTANTIAL ACQUISITION
AND
CONNECTED TRANSACTION

We have been appointed as members of the Independent Board Committee to advise you in connection with the Acquisition, details of which are set out in the section headed "Letter from the Board" contained in this circular (the "**Circular**"). Terms defined in the Circular shall have the same meanings herein, unless the context otherwise requires.

Having taking into account of the advice and recommendation of Wallbanck Brothers as set out on pages 12 to 29 of the Circular, we are of the opinion that the terms and conditions of the Acquisition are fair and reasonable so far as the Independent Shareholders are concerned, and it is in the interests of the Company and the Independent Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder.

Yours faithfully,

Ha Ping **Tang Tin Sek**

Independent Board Committee

The following is the full text of a letter of advice from Wallbanck Brothers, the independent financial adviser to the Independent Board Committee and the Independent Shareholders regarding the Acquisition, for the purpose of incorporation into this circular.

WALLBANCK BROTHERS
Securities (Hong Kong) Limited
1005B, Tower 1, Lippo Centre,
89 Queensway, Central,
Hong Kong

15 April 2008

To the independent board committee and
the independent shareholders of
Interchina Holdings Company Limited

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION
AND
CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board (the "Letter from the Board") contained in the circular to the Shareholders dated 15 April 2008 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires the otherwise.

It was announced on 18 December 2007 that on the same date, the Company entered into the Acquisition Agreement with the Vendor, pursuant to which the Company has conditionally agreed to acquire the Sale Shares, representing approximately 29.52% of the issued share capital of China Pipe from the Vendor at the Consideration, being HK$296,000,000. The shares of China Pipe are listed on the Stock Exchange.

The Vendor is a company wholly-owned by Ms. Wing, the wife of the brother-in-law of Mr. Zhang, an executive Director and the chairman of the Company. Thus, the Vendor is regarded as the connected person of the Company under Chapter 14A of the Listing Rules. The Acquisition constitutes a very substantial acquisition and a connected transaction for the Company under Chapters 14 and 14A of the Listing Rules which requires the approval by the Independent Shareholders at the EGM.

An Independent Board Committee comprising Ms. Ha Ping and Dr. Tang Tin Sek (both being independent non-executive Directors) has been formed to advise the Independent Shareholders on (i) whether the terms of the Acquisition Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the Acquisition is usual and ordinary course of business of the Company and is in the interests of the Company and the Shareholders as a whole. We, Wallbanck Brothers, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have relied on the accuracy of the information, opinions and representations provided to us by the Directors and management of the Company, and have assumed that all information, opinions and representations contained or referred to in this circular were true and accurate at the time when they were made and will continue to be accurate at the Latest Practicable Date. We have also assumed that all statements of belief, opinion and intention made by the Directors in this circular were reasonably made after due enquiry. We have no reasons to doubt that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. We consider that we have received sufficient information to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in this circular to provide a reasonable basis for our opinions and recommendations. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in this circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and management of the Company, nor have we conducted an independent investigation into the business and affairs of the Company.

In formulating our opinion, we have relied on the financial information provided by the Company, particularly, on the accuracy and reliability of financial statements and other financial data of the Company. We have not audited, compiled nor reviewed the said financial statements and financial data. We shall not express any opinion or any form of assurance on them. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. The Directors have also advised us that no material facts have been omitted from the information to reach an informed view, and we have no reason to suspect that any material information has been withheld. We have not carried out any feasibility study on any past, and forthcoming investment decision, opportunity or project undertaken or be undertaken by the Company. Our opinion has been formed on the assumption that any analysis, estimation, forecast, anticipation, condition and assumption provided by the Company are valid and sustainable. Our opinions shall not be constructed as to give any indication to the validity, sustainability and feasibility of any past, existing and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Company.

In formulating our opinion, we have not considered the taxation implications on the Independent Shareholders arising from the Acquisition as these are particular to the individual circumstances of each Shareholder. It is emphasized that we will not accept responsibility for any tax effect on or liability of any person resulting from his or her decision to the Acquisition. In particular, the Independent Shareholders who are overseas residents or are subject to overseas taxation or Hong Kong taxation on securities dealings should consult their own tax positions, and if in any doubt, should consult their own professional advisers.

Our opinions are necessarily based upon the financial, economic, market, regulatory and other conditions as they existed on, and the facts, information, representations, and opinions made available to us as of, the Latest Practicable Date.

Our opinions are formulated only and exclusively for the purpose of the Acquisition and shall not be used for any other purpose in any circumstance nor for any comparable purpose with any other opinions.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Independent Board Committee in respect of the Acquisition, we have taken into consideration the following principal factors and reasons:

1. The Acquisition Agreement

A) Date

18 December 2007

B) Parties

Vendor: the Vendor, an investment holding company.

As stated in the Letter from the Board, the Vendor was a company wholly-owned by Ms. Wing, the wife of the brother-in-law of Mr. Zhang, an executive Director and the chairman of the Company. Thus, the Vendor is regarded as a connected person of the Company under Chapter 14A of the Listing Rules. Immediately prior to the execution of the Acquisition Agreement, the Vendor was interested in approximately 71.82% of the issued share capital of China Pipe. Ms. Wing is the executive director and chairman of China Pipe and Mr. Zhang is the non-executive director of China Pipe. Mr. Chan Wing Yuen, Hubert and Mr. Lam Cheung Shing, Richard, both executive Directors, are also executive directors of China Pipe.

Purchaser: the Company.

C) Assets to be acquired

As stated in the Letter from the Board, the Sale Shares, being 3,700,000,000 shares of China Pipe (which has taken into account the share subdivision of China Pipe effective on 31 August 2007), representing approximately 29.52% of the issued share capital of China Pipe as at the Latest Practicable Date. The issued shares of China Pipe are listed on the Stock Exchange (stock code: 380). Immediately prior to the execution of the Acquisition Agreement, the Company did not hold any shares of China Pipe.

The Vendor acquired (i) 180,000,000 shares of China Pipe (equivalent to 9,000,000,000 shares of China Pipe after its share subdivision effective on 31 August 2007) pursuant to an acquisition agreement dated 29 April 2007 at the consideration of HK$333,000,000 or HK$1.85 per share of China Pipe, details of which are set out in the joint announcement of the Vendor and China Pipe dated 8 May 2007; and (ii) a further 30,000 shares of China Pipe (equivalent to 1,500,000 shares of China Pipe after its share subdivision effective on 31 August 2007) at the consideration of HK$55,500 or HK$1.85 per share of China Pipe pursuant to the unconditional mandatory cash offer made by Sun Hung Kai International Limited on behalf of the Vendor for all issued shares of China Pipe (other than those already owned or agreed to be acquired by the Vendor or parties acting in concert with it), details of which are set out in the joint announcement of the Vendor and China Pipe dated 3 July 2007.

D) Consideration and payment terms

As stated in the Letter from the Board, the Consideration, being HK$296,000,000, shall be satisfied in cash payable as follows:

(i) as to HK$170,000,000 (the "**Deposit**") payable as deposit and part payment of Consideration immediately upon the signing of the Acquisition Agreement by the Company to the Vendor; and

(ii) as to the remaining balance of HK$126,000,000 payable within 30 Business Days after the Completion Date by the Company to the Vendor.

As at the Latest Practicable Date, the Deposit had been paid by the Company. In the event the conditions set out below have not been satisfied or waived on or before the Long Stop Date, or Completion does not take place in accordance with the terms of the Acquisition Agreement, the Vendor shall refund the Deposit (with interest) to the Company within five Business Days thereafter.

The Consideration per Sale Share of HK$0.08 represents (i) a discount of approximately 9.09% to the closing price of HK$0.088 per share of China Pipe as quoted on the Stock Exchange on 18 December 2007, being the date of the Acquisition Agreement; (ii) a discount of approximately 10.11% to the average closing price of HK$0.089 per share of China Pipe as quoted on the Stock

Exchange for the five consecutive trading days up to and including 18 December 2007; and (iii) a discount of approximately 18.37% to the closing price of HK$0.098 per share of China Pipe as quoted on the Stock Exchange at the Latest Practicable Date.

E) Conditions precedent

As stated in the Letter from the Board, Completion is conditional upon:

(i) the passing by the Independent Shareholders (by way of poll) of ordinary resolution(s) at the EGM approving the Acquisition Agreement and the transactions contemplated thereunder in accordance with the provisions of the Listing Rules;

(ii) all necessary approvals and consents in respect of the Acquisition Agreement and the transactions contemplated hereunder required by China Pipe or any of its subsidiaries and the Vendor being obtained; and

(iii) all warranties, representations and undertakings given by the Vendor under the Acquisition Agreement remaining true and accurate in all material respects and not misleading in any material respect as of the Completion Date by reference to the facts and circumstances subsisting as at the Completion Date.

The Company shall be entitled, at any time by written notice to the Vendor, to waive any of the above conditions (save and except condition (i), which cannot be waived) either in whole or in part. The Company has no present intention to waive any of the above conditions.

If any of the above conditions has not been fulfilled (or waived by the Company) on or before 5:00 p.m. on the Long Stop Date, the Acquisition Agreement shall cease and determine and the parties to the Acquisition Agreement shall not have any obligations and liabilities hereunder save for any antecedent breaches of the terms hereof.

F) Completion

As stated in the Letter from the Board, subject to fulfillment or waiver (as the case may be) of the above conditions precedent, Completion shall take place on the Completion Date. No director will be appointed to China Pipe by the Company upon Completion.

2. Share Charge

As stated in the Letter from the Board, immediately upon the execution of the Acquisition Agreement, the Vendor has executed the Share Charge in favour of the Company to secure its obligations in relation to refund of the Deposit.

3. Reasons for the Acquisition

As stated in the Letter from the Board, in order to improve the earnings of the Group in the long run, the Group has been looking for investment opportunities. The Company takes initiative in identifying investment opportunities that will broaden its revenue sources. The Company is optimistic about the prospect of the environmental and water treatment market in the PRC and the Acquisition represents an attractive opportunity to the Group as it enables the Group to diversify its investment segments which are expected to show significant growth in the future.

The Directors consider that the Acquisition will strengthen the earning base of the Group and is in the best interests of the Group and the Shareholders as a whole.

In view of the above, the Board considers the terms of the Acquisition are of normal commercial terms and are in the interest of the Company and the Shareholders as a whole. The Board also considers that the terms of the Acquisition Agreement are fair and reasonable.

4. Business review of the Group

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

Table 1: Financial performance of the Group

	For the six months ended 30 September		**For the year ended 31 March**		
	2007	**2006**	**2007**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited) (Restated)
Turnover	25,644	14,817	33,213	134,740	225,003
Gross profit	22,916	12,537	28,279	46,295	51,211
Gross profit margin (%)	89.36	84.61	85.14	34.36	22.76
Loss from operations	(22,861)	(31,653)	(34,969)	(73,217)	(37,910)
Loss before taxation	(59,654)	(9,282)	(29,138)	(108,588)	(72,401)
Loss after taxation	(60,189)	(9,566)	(31,148)	(109,525)	(72,501)

	As at 30 September 2007 HK$'000 (Unaudited)	As at 31 March 2007 HK$'000 (Audited)	2006 HK$'000 (Audited)	2005 HK$'000 (Audited) (Restated)
Cash and cash equivalents	119,423	159,430	16,894	55,737
Bank balances – trust and segregated accounts	5,931	86,410	5,277	8,624
Net assets	973,095	784,495	687,291	693,410
Gearing ratio (total borrowings/ total assets)	32.6%	22.2%	28.7%	33.9%

Source: Company's annual reports for the two years ended 31 March 2007 and the interim report for the six months ended 30 September 2007

From the above table, the Group recorded consolidated turnover of approximately HK$134.740 million for the financial year ended 31 March 2006, representing a decrease of approximately 40.12% from HK$225.003 million for the financial year ended 31 March 2005. Loss after taxation increased from approximately HK$72.501 million for the financial year ended 31 March 2005 to approximately HK$109.525 million for the financial year ended 31 March 2006.

According to the annual report for the year ended 31 March 2006, there were certain city development and investment projects, and environmental protection and water treatment projects of the Group in China remaining under construction during the financial year ended 31 March 2006. No revenue had been recorded from such projects yet.

For the year ended 31 March 2006, the net assets of the Group valued at HK$687,291,000 (31 March 2005: restated 693,410,000), representing a decrease of 0.88% as compared with those as at 31 March 2005. As at 31 March 2006, the Group's cash on hand and deposits in bank (including segregated and trust account) totalled approximately HK$22,171,000 (31 March 2005: HK$64,361,000), representing a decrease of 65.55% against the balance as at 31 March 2005. The gearing ratio was 28.7% (total borrowings/total assets) as at 31 March 2006.

For the financial year ended 31 March 2007, the Group recorded consolidated turnover of approximately HK$33.213 million, representing a decrease of approximately 75.35% from HK$134.740 million for the financial year ended 31 March 2006. Loss after taxation decreased from approximately HK$109.525 million for the financial year ended 31 March 2006 to approximately HK$31.148 million for the financial year ended 31 March 2007.

According to the annual report for the year ended 31 March 2007, 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 financial year ended 31 March 2007. 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 financial year ended 31 March 2007 decreased 51.1% as compared with the corresponding period last year.

For the financial year ended 31 March 2007, the net assets of the Group as at 31 March 2007 valued at HK$784,495,000 (31 March 2006: HK$687,291,000), representing an increase of 14.1% 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 (31 March 2006: HK$22,171,000), representing an increase of 10.1 times against the balance as at 31 March 2006. The gearing ratio was 22.2% (total borrowings/ total assets) as at 31 March 2007.

According to the interim report for the six months ended 30 September 2007, the Group's turnover for the six months ended 30 September 2007 (the "Period") amounted to HK$25,644,000 (unaudited) (2006: HK$14,817,000 (unaudited)), representing an increase of 73.1% as compared with the corresponding period last year. Loss after taxation was HK$60,189,000 (2006: HK$9,566,000), representing an increase of 529.2% as compared with the corresponding period last year. During the Period, although turnover of the Group increased as compared with the corresponding period last year, as the Company recognized share-based payment expense of HK$32,986,000(unaudited) (2006: nil) based on the fair value of the share options granted in respect of the share option scheme during the Period in accordance with the Hong Kong Financial Reporting Standards 2 "Share-based Payment", loss attributable to the shareholders increased significantly from the corresponding period last year. Also, loss attributable to the shareholders last year included recognized gain of HK$29,828,000(unaudited) on disposal of subsidiaries, loss attributable to the shareholders decreased 10.1% as compared with the corresponding period last year excluding the share-based payment expense and the gain on disposal of subsidiaries.

As at 30 September 2007, net assets of the Group valued at HK$973,095,000 (unaudited) (31 March 2007: HK$784,495,000), representing an increase of 24% as compared with those as at 31 March 2007.

As at 30 September 2007, the Group's cash on hand and deposits in bank (including segregated and trust accounts) totalled approximately HK$125,354,000 (31 March 2007: HK$245,840,000), representing a decrease of 49% against the balance as at 31 March 2007. The gearing ratio was 32.6% (total borrowings/total assets) as at 30 September 2007.

5. Business review of China Pipe

China Pipe is an exempted company incorporated under the laws of Bermuda with limited liability on 25 September 2000. China Pipe is an investment holding company and its issued shares are listed on the Stock Exchange. The principal activities of China Pipe Group are trading and distribution of building materials, mainly pipes and fittings.

The following are summaries of the audited consolidated financial information of China Pipe Group for the three years ended 31 December 2006 and the unaudited consolidated financial information for the six months periods ended 30 June, 2006 and 2007:

Table 2: Financial performance of China Pipe Group

	For the six months ended 30 June		For the year ended 31 December		
	2007	**2006**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
Turnover	274,792	303,602	617,556	522,921	445,260
Gross profit	73,576	82,105	167,382	131,069	124,651
Gross profit margin (%)	26.78	27.04	27.10	25.06	28.00
Profit from operations	29,173	35,041	76,169	53,414	61,053
Profit before taxation	27,776	33,017	71,616	51,113	60,236
Profit after taxation	22,508	27,260	59,302	42,524	50,275

	As at 30 June	As at 31 December		
	2007	**2006**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Audited)	(Audited)
Bank balances and cash	54,950	101,219	63,824	66,538
Net assets	352,935	339,864	292,655	262,224
Gearing ratio (total debts/ total assets)	16%	24%	17%	17%

Source: China Pipe's annual reports for the two years ended 31 December 2006 and the interim report for the six months ended 30 June 2007

From the above table, China Pipe Group recorded consolidated turnover of approximately HK$522.921 million for the financial year ended 31 December 2005 ("2005"), representing an increase of approximately 17.44% from approximately HK$445.260 million for the financial year ended 31 December 2004 ("2004"). Profit after taxation decreased by approximately 15.42% from approximately HK$50.275 million in 2004 to approximately HK$42.524 million in 2005.

According to the annual report for the year ended 31 December 2005 (the "2005 Annual Report"), China Pipe Group had recorded a decrease of 15.68% in profit attributable to shareholders to HK$42,524,000 for the year ended 31 December 2005. The decrease in the profit attributable to the shareholders for the period was due to the inclusion of the gain on the disposal of investment property and insurance claim income amounted to HK$21,507,000 in 2004.

The net assets of China Pipe Group as at 31 December 2005 valued at HK$292,655,000 (2004: HK$262,224,000), representing an increase of 11.60% as compared with those as at 31 December 2004. In 2005, China Pipe Group's bank balances and cash totalled approximately HK$63,824,000 (2004: HK$66,538,000), representing a decrease of 4.08% against the balance in 2004. The gearing ratio was approximately 17% (total debts/total assets).

For the financial year ended 31 December 2006 ("2006"), China Pipe Group recorded consolidated turnover of approximately HK$617.556 million in 2006, representing an increase of approximately 18.10% from HK$522.921 million in 2005. Profit after taxation increased by approximately 39.46% from approximately HK$42.524 million in 2005 to approximately HK$59.302 million in 2006.

The net assets of China Pipe Group as at 31 December 2006 valued at HK$339,864,000 (2005: HK$292,655,000), representing an increase of 16.13% as compared with those as at 31 December 2005. As at 31 December 2006, China Pipe Group's bank balances and cash totalled approximately HK$101,219,000 (2005: HK$63,824,000), representing an increase of 58.59% against the balance as at 31 December 2005. The gearing ratio was 24% (total debts/ total assets).

According to the unaudited interim report for the six months ended 30 June, during the six months ended 30 June 2007, China Pipe Group's unaudited turnovers decreased to HK$274,792,000 from HK$303,602,000 for the same period of 2006, representing a decrease of approximately 9.49% in turnover. The drop of turnover in the first half of 2007 was primarily attributable to the slowdown of Macau project as the next stage of Macau project will start to commence in the last quarter of 2007. During the period under review, both selling and distribution cost and administrative expenses had dropped when compared with the same period of 2006, which is in line with the drop of turnover and gross profit. Unaudited profit attributable to shareholders of China Pipe Group decreased by 17.43% to HK$22,508,000 (2006: HK$27,260,000).

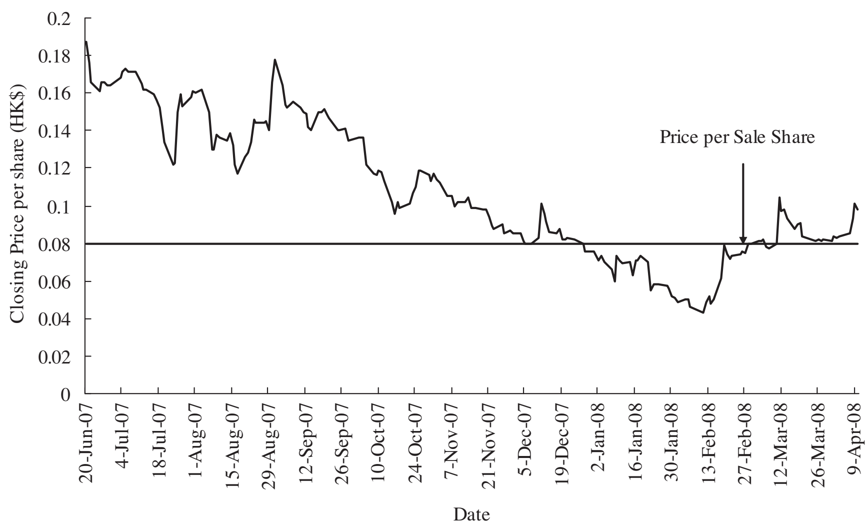
6. Review on share price performance of China Pipe

As stated in the Letter from the Board, the Consideration per Sale Share of HK$0.08 represents (i) a discount of approximately 9.09% to the closing price of HK$0.088 per share of China Pipe as quoted on the Stock Exchange on 18 December 2007, being the date of the Acquisition Agreement; (ii) a discount of approximately 10.11% to the average closing price of HK$0.089 per share of China Pipe as quoted on the Stock Exchange for the five consecutive trading days up to and including 18 December 2007; and (iii) a discount of approximately 18.37% to the closing price of HK$0.098 per share of China Pipe as quoted on the Stock Exchange at the Latest Practicable Date.

The Consideration has been arrived at after arm's length negotiations, taking into account the recent performance of the shares of China Pipe.

Chart 1 below shows the price per Sale Share and the historical closing prices of the shares of China Pipe as quoted on the Stock Exchange during the period commencing from 19 June 2007 (six months before 18 December 2007, being the date of announcement of the Acquisition (the "Announcement")) up to and including the Latest Practicable Date (the "Review Period"):

Chart 1: Historical share price performance of China Pipe



Notes:

1. Trading of the shares of China Pipe was suspended from 3 October 2007 and 4 October 2007, pending the release of a relevant announcement.

2. On market days when the shares of China Pipe are not traded, the closing price equals to that of the preceding trading days.

3. Share subdivision became effective on 31 August 2007.

Source: Stock Exchange website

The reason for using six months before the date of the Announcement up to and including the Latest Practicable Date as the Review Period is due to the fact that it is a better reflection of the market sentiment of the Hong Kong stock market as the stock market have been rapidly fluctuating within the last six months.

The closing price of China Pipe was generally declining for the whole Review Period. The share price was fluctuated in the range of HK$0.043 on 11 February 2008 to HK$0.187 on 20 June 2007.

Shares of China Pipe had been traded above the price of the Sale Share of HK$0.08 per Sale Share from the beginning of the Review Period to 24 December 2007. Following the release of the Announcement, the closing price of China Pipe continuous to drop to HK$0.043 on 11 February 2008 which was the lowest closing price during the entire Review Period and thereafter, it climbed back to HK$0.10 on 11 March 2008 and closed at HK$0.098 at the Latest Practicable Date.

In view of the fact that the shares of China Pipe had been traded above the price per Sale Share during majority of the Review Period and China Pipe has been improving its turnover and net profit in recent years, it is reasonable to infer that the Consideration of the Sale Share of HK$0.08 is not unfair and unreasonable.

7. Review on trading liquidity of shares of China Pipe

Table 3 below sets out the average daily turnover per month and the respective percentages of the shares' average daily turnover as compared to the total number of China Pipe' shares in issue as at the Latest Practicable Date and the total number of shares held by the independent shareholders as at the Latest Practicable Date of China Pipe during the Review Period:

Table 3: Trading liquidity of the shares of China Pipe

Month	**Average daily turnover** *(in number of China Pipe's shares)*	**Percentage of average daily turnover to total number of China Pipe's shares in issue** *(Note 1)* *(%)*	**Percentage of average daily turnover to total number of shares of China Pipe held by the independent shareholders** *(Note 2)* *(%)*
2007			
June *(from 19 June to 30 June)*	600,250	0.24%	0.85%
July	782,667	0.31%	1.11%
August	1,265,391	0.50%	1.79%
September	32,867,368	0.26%	0.93%
October	78,191,515	0.62%	2.21%
November	12,513,182	0.10%	0.35%
December	50,823,158	0.41%	1.44%
2008			
January	24,509,545	0.20%	0.69%
February	19,879,936	0.16%	0.56%
March	93,282,105	0.74%	2.64%
April *(up to and including the Latest Practicable Date)*	164,991,429	1.32%	4.67%

Notes:

1. Based on 12,532,700,000 total issued shares of China Pipe as at the Latest Practicable Date (equivalent to 250,654,000 shares before 31 August 2007 when the share subdivision became effective on 31 August 2007)

2. Based on the total number of shares held by the independent shareholders of 3,531,714,860 shares of China Pipe as at the Latest Practicable Date (equivalent to 70,634,297 shares before 31 August 2007 when the share subdivision became effective on 31 August 2007)

3. Trading in the shares of China Pipe was suspended from 3 October 2007 to 4 October 2007, pending the release of relevant announcement.

Source: Stock Exchange website

Save and except for suspension of trading on 3 October 2007 and 4 October 2007, none of the trading days during the Review Period recorded nil trading volume.

The trading volume was in general thin. Save and except for the month of April 2008 (up to and including the Latest Practicable Date), the shares of China Pipe were traded well below 1% of the total issued shares of China Pipe for the whole Review Period. Save and except for the months of July, August, October and December of 2007 and March and April of 2008, less than 1% of the issued shares of China Pipe held by the independent shareholders were traded during the Review Period. The maximum daily trading occurred on 12 March 2008, with a trading volume of 681,200,000 shares and accounted for approximately 5.44% and 19.29% of the total issued shares and shares held by the independent shareholders respectively.

The aggregate amount of Shares owned by the independent shareholders as at the Latest Practicable Date represents approximately 97 times of the average daily trading volume for the Review Period. Based on the above, we consider that the trading of the shares of China Pipe was relatively thin and inactive during the Review Period.

8. Indicative valuation benchmarks of China Pipe

(a) Net asset values

The Consideration per Sale Share of HK$0.08 represents a premium of approximately 186% over China Pipe's unaudited net assets of approximately HK$0.028 per share of China Pipe as at 30 June 2007, calculated based on the net assets of approximately HK$352.935 million as at 30 June 2007 and 12,532,700,000 in issue as at 29 February 2008.

For reference purpose, the offer price of HK$1.85 per offer share of the unconditional mandatory cash offer (the "Offer") announced on 19 April 2007 and 8 May 2007 represents a premium of approximately 31.2% over China Pipe's audited consolidated net assets of approximately HK$1.41 per share (before 31 August 2007 when the share subdivision of China Pipe became effective) of China Pipe as at 31 December 2006, calculated based on the difference between the total assets and liabilities of China Pipe's audited consolidated financial statements for the year ended 31 December 2006, being approximately HK$339.9 million, and 241,854,000 shares of China Pipe in issue as at 31 December 2006.

(b) Price to earnings multiples

The price to earnings multiple of China Pipe as at the Latest Practicable Date is approximately 20.00 times, as quoted from the Stock Exchange's website. The Consideration per Sale Share of HK$0.08 represents a price to earnings multiple of approximately 16.33 times, calculated based on an adjusted earnings per share of HK$0.0049 after adjustment for share subdivision effective on 31 August 2007 (equivalent to an earnings per share of HK$0.2452 before adjustment as disclosed in the annual report for the year ended 31 December 2006).

For reference purpose, on 9 May 2007, being the trading day immediately after the date of joint announcement dated 8 May 2007 in relation to the Offer, the adjusted share price of China Pipe was HK$0.103 (which has taken into account the share subdivision of China Pipe effective on 31 August 2007). The price to earnings multiple was 21.02 times calculated based on the adjusted share price of HK$0.103 of China Pipe on 9 May 2007 and an adjusted earnings per share of HK$0.0049 after adjustment for share subdivision effective on 31 August 2007 (equivalent to an earnings per share of HK$0.2452 before adjustment as disclosed in the annual report for the year ended 31 December 2006).

(c) Dividend yield

China Pipe has paid a final dividend of HK$0.04 per ordinary share for the year ended 31 December 2006, as stated in the announcement of China Pipe dated 29 May 2007, equivalent to HK$0.0008 per share of China Pipe after its share subdivision effective on 31 August 2007. The Consideration per Sale Share of HK$0.08 represent approximately 100.00 times of the issued dividend when taken into account the effect of share subdivision of China Pipe.

For reference purpose, as stated in the announcement of China Pipe dated 15 June 2006, China Pipe has paid a final dividend of HK$0.03 per ordinary share for the year ended 31 December 2005, equivalent to HK$0.0006 per share of China Pipe after its share subdivision effective on 31 August 2007. The Consideration per Sale Share of HK$0.08 represent approximately 133.33 times of the issued dividend when taken into account the effect of share subdivision of China Pipe.

9. Industry outlook for the business of trading and distribution of building materials in Hong Kong

China Pipe is principally engaged in trading and distribution of building materials, mainly including pipes and fittings.

We cannot identify any company listed on the Stock Exchange whose principal business is identical with China Pipe's.

We have consulted the management of China Pipe in regarding the industry outlook of trading and distribution of building materials in Hong Kong. The management of China Pipe represented that the said business is highly correlated with the performance of the construction industry.

According to a press released by the Census and Statistics Department of the Hong Kong Special Administrative Region dated 13 March 2008 regarding the construction output for the fourth quarter and the whole year of 2007, the gross value of construction works performed at private sector sites totalled $28.8 billion in 2007, up by 15.7% in nominal terms as compared with 2006. In real terms, it increased by 11.5%. The increase was mainly associated with the progressive stepping up of works at some large commercial building sites. The gross value of construction works performed at public sector sites amounted to $14.4 billion in 2007, down by 15.9% in nominal terms as compared with 2006. In real terms, it decreased by 16.4%. The decrease was mainly due to completion of works on some large transport projects.

The management of China Pipe represented that China Pipe is one of the largest construction materials trader and distributor in Hong Kong and can provide a variety range of products than its peer group. Although the fluctuation in raw material price may increase the cost of sales, they are optimistic about the performance of the construction industry in the near future and will involve in various projects to widen the revenue base.

10. Future Prospects of China Pipe

As stated in the China Pipe's unaudited interim report for the six months ended 30 June 2007, contracts on hand amounted to approximately HK$167 million for the China Pipe as at 30 June 2007. The major projects which the China Pipe will supply pipes, fittings and/or other related accessories in various projects in relation to railways, hotels and other developments.

China Pipe is seeking different investment opportunities and will diversify into business segment which are expected to show significant growth in the future. On 11 September 2007, China Pipe entered into a sale and purchase agreement with an independent third party in relation to the acquisition of 15 retails units of a commercial podium located in Shanghai, details of which are set out in the announcement of China Pipe dated 11 September 2007. On 29 February 2008, China Pipe entered into another provisional sale and purchase agreement with another independent third party to acquire a floor and two car parking spaces at Bowen Road, Hong Kong, details of which are set out in the announcement of China Pipe dated 5 March 2008. However, the management of China Pipe represented that China Pipe's principal business will remain focused on the trading and distribution of construction materials in Hong Kong.

China Pipe has generated profits for the recent three years. The Directors consider that the Acquisition will strengthen the earning base of the Group and is in the best interests of the Group and the Shareholders as a whole.

11. Future Prospects of the Group

As stated in the unaudited interim report of the Group for the six months ended 30 September 2007, the Group continued to accelerate the pace in the development of existing projects 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, the Group's 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. Environmental protection and water treatment operation will be a major and stable source of revenue of the Group. The Group will continue to seek opportunities of 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 Group.

12. Financial effects of the Acquisition on the Group

Upon Completion, The Company will acquire 29.52% of the issued share capital of China Pipe. China Pipe will be treated as an associate of the Company and its results and net assets will be equity accounted for in the consolidated financial statements of the Company after Completion. It is expected that there will not be significant impact on the total assets, total liabilities and net assets value of the Group after Completion.

A) Earnings

An unaudited pro forma income statement of the Group after the Completion (the "Enlarged Group") is shown in the Appendix IV to the Circular. Assuming the Acquisition has been completed on 1 April 2006, the Acquisition would reduce the unaudited pro forma net loss of the Group by approximately HK$17.506 million to approximately HK$13.642 million from an audited consolidated net loss of approximately HK$31.148 million of the Group for the year ended 31 March 2007.

B) Net asset values

An unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to the Circular was prepared based on the unaudited consolidated balance sheet of the Group as at 31 March 2007 and adjusted by the Acquisition. Based on the aforesaid, upon Completion, the unaudited pro forma net assets of the Enlarged Group would remain the same as the Group's net assets before the Acquisition and stay at approximately HK$784.495 million.

C) Working capital

According to Appendix IV to the Circular, the Group had unaudited net current assets of approximately HK$213.408 million as at 31 March 2007. On a pro forma basis, due to the cash Consideration paid under the Acquisition for the Sale Shares which would be consolidated as non-current asset of the Group upon Completion, the Group will change to a net current liability of approximately HK$82.59 million from a net current assets of approximately HK$213.408 million as at 31 March 2007.

13. Listing Rules Implications

The Vendor is a company wholly-owned by Ms. Wing, the wife of the brother-in-law of Mr. Zhang, an executive Director and the chairman of the Company. Thus, the Vendor is regarded as the connected person of the Company under Chapter 14A of the Listing Rules. The Acquisition constitutes a very substantial acquisition and a connected transaction for the Company under Chapters 14 and 14A of the Listing Rules which requires the approval by the Independent Shareholders at the EGM.

As at the Latest Practicable Date, Mr. Wong Hon Sum ("Mr. Wong"), one of the independent non-executive Directors, was interested in approximately 0.11% of the issued share capital of China Pipe. Thus, he is considered not sufficiently independent to become members of the Independent Board Committee. Accordingly, the Independent Board Committee, comprising two independent non-executive Directors, namely Ms. Ha Ping and Dr. Tang Tin Sek, has been established to consider the Acquisition and to provide recommendations to the Independent Shareholders.

Mr. Zhang and his associates, in aggregate control or are entitled to exercise control over 2,492,625,000 Shares, representing approximately 14.42% of the issued share capital and voting rights of the Company as at the Latest Practicable Date, are required to abstain from voting for the resolution at the EGM in approving the Acquisition Agreement and the transactions contemplated thereunder. As at the Latest Practicable Date, Mr. Wong, an independent non-executive Director, held options to subscribe for 5,000,000 Shares. In the event that Mr. Wong exercised the subscription rights attached to such options to subscribe for Shares, Mr. Wong is also required to abstain from voting for the resolution at the EGM in approving the Acquisition Agreement and the transactions contemplated thereunder. Save as disclosed, no Shareholder has a material interest in the Acquisition and thus no Shareholder is required to abstain from voting for the resolution at the EGM in approving the Acquisition Agreement and the transactions contemplated thereunder.

RECOMMENDATION

Having considered the principal factors and reasons as discussed above and as summarized below:

(i) the loss-making nature of the Group for three consecutive years ended 31 March 2007;

(ii) the profit-making nature of China Pipe for three consecutive years ended 31 December 2006;

(iii) The Consideration per Sale Share of HK$0.08 is in line with the recent share price performance of China Pipe; and

(iv) the Acquisition would reduce the unaudited pro forma net loss of the Group by approximately HK$17.506 million to approximately HK$13.642 million from an audited consolidated net loss of approximately HK$31.148 million of the Group for the year ended 31 March 2007 after Completion.

Having considered the above factors and reasons and Directors' representations, on balance, we are of opinion that in such circumstances of the Group, the terms of the Acquisition Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the Acquisition, even though may not be in the ordinary and usual course of business of the Company, is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the forthcoming EGM to approve the Acquisition Agreement and the transactions contemplated therein and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,
For and on behalf of
WALLBANCK BROTHERS
Securities (Hong Kong) Limited
Phil Chan
Chief Executive Officer

1. SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the three financial years ended 31 March 2007, as extracted from the audited financial statements, is set out below:

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

Assets and liabilities

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

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 MARCH 2007

The following are the audited consolidated financial statements of the Group for the year ended 31 March 2007 as extracted from the annual report of the Company for the year ended 31 March 2007:

Consolidated Income Statement
For the year ended 31 March 2007

	Notes	**2007** *HK$'000*	**2006** *HK$'000*
Turnover	*6*	33,213	134,740
Cost of sales		(4,934)	(88,445)
Other revenue	*7*	1,868	623
Other operating income	*8*	1,448	–
Reversal of impairment of trade receivable		15,561	–
Interest income		4,881	421
Staff costs	*9*	(25,989)	(32,279)
Amortisation and depreciation		(13,178)	(12,821)
Selling costs		(13,952)	(16,690)
Administrative costs		(38,326)	(42,036)
Other operating expenses		–	(17,738)
Surplus arising from revaluation of investment properties		4,439	1,008
Loss from operations	*10*	(34,969)	(73,217)
Finance costs	*11*	(36,453)	(26,135)
Share of losses of associates		(6,164)	(9,473)
Gain on disposal of subsidiaries	*35*	48,448	237
Loss before taxation		(29,138)	(108,588)
Taxation	*12*	(2,010)	(937)
Loss for the year		(31,148)	(109,525)
Attributable to:			
Equity holders of the Company		(31,590)	(108,312)
Minority interests		442	(1,213)
		(31,148)	(109,525)
Loss per share for loss attributable to the ordinary equity holders of the Company			
Basic	*13*	HK0.559 cents	HK2.166 cents
Diluted	*13*	N/A	N/A

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

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

Consolidated Balance Sheet
At 31 March 2007

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

	Notes	2007 HK$'000	2006 HK$'000
Equity			
Share capital	31	665,190	558,492
Share premium and reserves		119,305	128,799
Equity attributable to ordinary equity shareholders of the Company		784,495	687,291
Minority interests		23,317	21,704
		807,812	708,995
Non-current liabilities			
Bank borrowings, secured – due after one year	28	209,674	145,926
Other borrowings, unsecured – due after one year	28	–	40,000
Obligations under finance leases – due after one year	29	141	210
Convertible notes	30	4,587	–
Deferred tax liabilities	33	2,904	1,607
		217,306	187,743
		1,025,118	896,738

Balance Sheet
At 31 March 2007

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

Consolidated Statement of Changes in Equity

For the year ended 31 March 2007

The Group	Share capital	Share premium	Special reserve	Exchange reserve	Convertible notes reserve	Accumulated losses	Sub-total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Note 1)		*(Note 2)*				
At 1 April 2005	468,492	282,459	571,996	1,040	–	(630,577)	693,410	22,483	715,893
Exchange differences on translation of overseas subsidiaries not recognised in the income statement	–	–	–	11,911	–	–	11,911	434	12,345
Issue of convertible notes	–	–	–	–	6,354	–	6,354	–	6,354
Conversion of convertible notes	90,000	282	–	–	(6,354)	–	83,928	–	83,928
Net loss for the year	–	–	–	–	–	(108,312)	(108,312)	(1,213)	(109,525)
At 31 March 2006 and 1 April 2006	558,492	282,741	571,996	12,951	–	(738,889)	687,291	21,704	708,995
Exchange differences on translation of overseas subsidiaries not recognised in the income statement	–	–	–	21,506	–	–	21,506	1,171	22,677
Issue of convertible notes	–	–	–	–	10,303	–	10,303	–	10,303
Conversion of convertible notes	106,698	–	–	–	(9,589)	–	97,109	–	97,109
Recognition of deferred tax for convertible notes	–	–	–	–	(124)	–	(124)	–	(124)
Net loss for the year	–	–	–	–	–	(31,590)	(31,590)	442	(31,148)
At 31 March 2007	665,190	282,741	571,996	34,457	590	(770,479)	784,495	23,317	807,812

Notes:

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

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

Consolidated Cash Flow Statement
For the year ended 31 March 2007

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

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

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

Notes to the Financial Statements

For the year ended 31 March 2007

1. GENERAL

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

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

2.1 BASIS OF PREPARATION

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

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

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

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

2.2 IMPACT OF ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

(i) Subsidiaries

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

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

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

(ii) Associates

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

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

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

Revenue recognition

(i) Sale of properties

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

(ii) Rental income

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

(iii) Commission and brokerage income

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

(iv) Sewage treatment income

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

(v) Interest income

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

Property, plant and equipment

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

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

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

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

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

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

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

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

Investment properties

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

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

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

Interests in leasehold land and land use rights

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

Impairment of assets

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

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment losses

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

Taxation

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

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

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

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

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

Goodwill

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

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

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

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

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

Trade and other receivables

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

Cash and cash equivalents

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

Provision

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

Financial Instruments

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

Financial assets

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Available-for-sale financial assets

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

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

Financial liabilities and equity

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

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

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

Convertible notes

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

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

Equity instruments

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

Financial guarantee contracts

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

Derivative financial instruments that do not qualify for hedge accounting

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

Derecognition

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

Properties under development for sale

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

Assets held under finance leases

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

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

Borrowings

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

Borrowing costs

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

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

Foreign currencies

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

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

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

Operating leases

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

The Group as lessor

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

The Group as lessee

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

Retirement benefits costs

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

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

Related parties

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

3. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

(i) Market risk

(1) Foreign exchange risk

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

(2) Price risk

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

(ii) Credit risk

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

(iii) Liquidity risk

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

(iv) Cash flow and fair value interest rate risk

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

Fair value estimation

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Estimated impairment of goodwill

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

Estimate of fair value of investment properties

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

Impairment of properties under development

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

Useful lives of property, plant and equipment

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

Trade debtors

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

Fair values of other financial assets and liabilities

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

5. SEGMENT INFORMATION

Business segments

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

Principal activities are as follows:

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

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

For the year ended 31 March 2007	Environmental protection and water treatment operation HK$'000	City development and investment operation HK$'000	Property investment operation HK$'000	Securities and financial operation HK$'000	Elimination HK$'000	Consolidated total HK$'000
TURNOVER						
External sales	25,218	–	2,968	5,027	–	33,213
Inter-segment sales	–	–	426	–	(426)	–
	25,218	–	3,394	5,027	(426)	33,213
SEGMENT RESULTS	(154)	(19,504)	6,299	(1,301)	–	(14,660)
Interest income and unallocated gains						4,881
Unallocated corporate expenses						(25,190)
Loss from operations						(34,969)
Finance costs						(36,453)
Share of results of associates						(6,164)
Gain on disposal of subsidiaries						48,448
Loss before taxation						(29,138)
Taxation						(2,010)
Loss for the year						(31,148)
Assets/liabilities						
Segment assets	368,983	739,907	50,871	240,508	–	1,400,269
Interests in associates	888	–	76,531	–	–	77,419
Unallocated corporate assets						135,226
Total assets						1,612,914
Segment liabilities	94,799	246,260	3,731	183,803	–	528,593
Unallocated corporate liabilities						276,127
Tax liability						382
Total liabilities						805,102

For the year ended 31 March 2007	Environmental protection and water treatment operation HK$'000	City development and investment operation HK$'000	Property investment operation HK$'000	Securities and financial operation HK$'000	Elimination HK$'000	Consolidated total HK$'000
Other segment information						
Depreciation and amortisation	9,128	2,493	206	55	–	11,882
Unallocated amounts						1,296
						13,178
Capital expenditure	101,979	22,580	–	60	–	124,619
Unallocated amounts						1,086
						125,705
Impairment loss recognised in the income statement	–	–	–	–	–	–
Changes in fair value of investment properties	–	–	4,439	–	–	4,439

For the year ended 31 March 2006	Environmental protection and water treatment operation HK$'000	City development and investment operation HK$'000	Property investment operation HK$'000	Securities and financial operation HK$'000	Elimination HK$'000	Consolidated total HK$'000
TURNOVER						
External sales	58,268	66,779	3,724	5,969	–	134,740
Inter-segment sales	–	–	1,023	–	(1,023)	–
	58,268	66,779	4,747	5,969	(1,023)	134,740
SEGMENT RESULTS	(3,037)	(36,129)	2,571	(2,694)	–	(39,289)
Interest income and unallocated gains						421
Unallocated corporate expenses						(34,349)
Loss from operations						(73,217)
Finance costs						(26,135)
Share of results of associates						(9,473)
Gain on disposal of subsidiaries						237
Loss before taxation						(108,588)
Taxation						(937)
Loss for the year						(109,525)
Assets/liabilities						
Segment assets	263,767	907,177	107,866	27,940	–	1,306,750
Interests in associates	840	–	82,608	–	–	83,448
Unallocated corporate assets						27,197
Total assets						1,417,395
Segment liabilities	64,544	222,219	4,748	18,031	–	309,542
Unallocated corporate liabilities						398,858
Total liabilities						708,400

For the year ended 31 March 2006	Environmental protection and water treatment operation HK$'000	City development and investment operation HK$'000	Property investment operation HK$'000	Securities and financial operation HK$'000	Elimination HK$'000	Consolidated total HK$'000
Other segment information						
Depreciation and amortisation	8,846	2,725	298	243	–	12,112
Unallocated amounts						709
						12,821
Capital expenditure	13,369	16,858	1,162	40	–	31,429
Unallocated amounts						1,846
						33,275
Impairment loss recognised in the income statement	–	17,738	–	–	–	17,738
Changes in fair value of investment properties	–	–	1,008	–	–	1,008

Geographical segments

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

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

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

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

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

6. TURNOVER

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

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

7. OTHER REVENUE

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

8. OTHER OPERATING INCOME

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

9. STAFF COSTS

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

(a) Directors' emoluments

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

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

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

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

(b) Five highest paid individuals

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

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

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

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

10. LOSS FROM OPERATIONS

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

11. FINANCE COSTS

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

12. TAXATION

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

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

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

THE GROUP – Year Ended 31 March 2007

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

THE GROUP – Year Ended 31 March 2006

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

13. LOSS PER SHARE

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

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

Number of shares	**2007**	**2006**
Weighted average number of ordinary shares for the purpose of basic loss per share	5,655,988,454	5,000,348,290
	HK cents	*HK cents*
Basic	0.559	2.166

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

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

14. INVESTMENT PROPERTIES

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

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

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

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

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

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

15. INTERESTS IN LEASEHOLD LAND AND LAND USE RIGHTS

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

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

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

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

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

16. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

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

THE COMPANY

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

The carrying amounts of the properties under development comprises:

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

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

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

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

17. INVESTMENTS IN SUBSIDIARIES

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

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

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

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

18. INTERESTS IN ASSOCIATES

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

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

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

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

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

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

19. GOODWILL

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

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

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

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

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

20. OTHER NON-CURRENT ASSETS

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

21. PROPERTIES UNDER DEVELOPMENT FOR SALE

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

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

22. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

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

	THE GROUP		**THE COMPANY**	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 – 30 days	43,378	9,155	–	–
31 – 60 days	–	–	–	–
61 – 90 days	–	–	–	–
Over 90 days	–	17,738	–	–
	43,378	26,893	–	–
Margin clients accounts receivables	1,338	1,504	–	–
Clearing houses, brokers and dealers	66,238	961	–	–
Prepayments and deposits	20,369	49,826	431	10,079
Other receivables	75,345	79,389	59,870	66,770
	206,668	158,573	60,301	76,849
Less: Impairment of trade receivable	–	(17,738)	–	–
	206,668	140,835	60,301	76,849

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

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

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

24. BANK BALANCES – TRUST AND SEGREGATED ACCOUNTS

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

25. CASH AND CASH EQUIVALENTS

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

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

26. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

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

	THE GROUP		THE COMPANY	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables				
0 – 30 days	179,139	4,704	–	–
Accounts payable arising from the business of dealing in securities and equity options:				
Margin clients	606	8,043	–	–
Accounts payable to clients arising from the business of dealing in futures and options	–	1,432	–	–
Other payables and deposits received	263,661	285,351	3,355	14,254
	443,406	299,530	3,355	14,254

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

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

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

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

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

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

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

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

28. BANK AND OTHER BORROWINGS

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

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

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

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

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

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

29. OBLIGATIONS UNDER FINANCE LEASES

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

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

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

30. CONVERTIBLE NOTES

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

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

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

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

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

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

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

31. SHARE CAPITAL

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

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

Notes:

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

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

32. SHARE PREMIUM AND RESERVES

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

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

33. DEFERRED TAX LIABILITY

THE GROUP

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

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

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

THE COMPANY

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

34. SHARE OPTIONS

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

(a) Old Share Option Scheme

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

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

(b) New Share Option Scheme

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

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

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

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

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

35. DISPOSAL OF SUBSIDIARIES

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

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

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

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

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

36. CAPITAL COMMITMENTS

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

37. COMMITMENTS

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

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

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

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

38. OPERATING LEASE COMMITMENTS

The Group as lessee

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

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

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

The Group as lessor

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

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

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

39. RETIREMENT BENEFITS SCHEMES

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

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

40. MATERIAL RELATED PARTY TRANSACTIONS

The Group

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

(i) Transactions with related parties

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

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

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

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

(ii) Compensation of key management personnel

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

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

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

The Company

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

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

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

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

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

! Sino foreign equity joint venture

@ Wholly-owned foreign enterprise

42. PARTICULARS OF PRINCIPAL ASSOCIATES

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

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

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

43. SUBSEQUENT EVENTS

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

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

44. APPROVAL OF THE FINANCIAL STATEMENTS

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

3. UNAUDITED CONSOLIDATED FINANCIAL STATEMETNS OF THE GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

The following are the unaudited consolidated financial statements of the Group for the six months ended 30 September 2007:

Condensed Consolidated Income Statement

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

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

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

Condensed Consolidated Balance Sheet

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

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

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

Condensed Consolidated Statement of Changes in Equity

For the period ended 30 September 2007

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

Note:

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

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

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the period ended 30 September 2007

1. CORPORATE INFORMATION

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

3. SEGMENT INFORMATION

Business segments

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

Principal activities are as follows:

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

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

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

Geographical segments

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

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

	Hong Kong		The PRC		Consolidated Total	
	2007	2006	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	4,990	1,950	20,654	12,867	25,644	14,817
Segment results	1,478	(1,620)	(13,441)	(18,040)	(11,963)	(19,660)
Interest income					3,196	1,122
Unallocated corporate expenses					(14,094)	(13,115)
Loss from operations					(22,861)	(31,653)

4. LOSS FROM OPERATIONS

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

5. SHARE-BASED PAYMENT EXPENSE

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

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

6. TAXATION

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

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

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

7. LOSS PER SHARE

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

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

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

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

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

8. INTERIM DIVIDEND

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

9. INVESTMENT PROPERTIES

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

10. INTERESTS IN LEASEHOLD LAND AND LAND USE RIGHTS

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

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

11. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

12. PROPERTIES UNDER DEVELOPMENT FOR SALE

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

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

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

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

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

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

14. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

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

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

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

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

15. AMOUNT DUE TO A RELATED COMPANY

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

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

16. BANK AND OTHER BORROWINGS

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

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

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

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

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

17. SHARE CAPITAL

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

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

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

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

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

18. BUSINESS COMBINATION

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

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

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

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

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

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

19. DISPOSAL OF SUBSIDIARIES

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

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

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

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

20. CAPITAL COMMITMENTS

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

21. COMMITMENTS

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

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

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

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

22. OPERATING LEASE COMMITMENTS

The Group as lessee

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

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

The Group as lessor

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

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

23. MATERIAL RELATED PARTY TRANSACTIONS

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

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

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

(d) Key management personnel compensation

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

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

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

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

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

24. SUBSEQUENT EVENTS

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

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

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

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

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

4. INDEBTEDNESS

As at the close of business on 29 February 2008 (being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular), 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 2007, being the date to which the latest audited consolidated financial statements of the Company have been made up) had outstanding borrowings and commitments of approximately HK$1,354,924,000 and HK$280,741,000 respectively, details of which are as follows:

Borrowings

As at 29 February 2008, the Group had secured bank loans of approximately HK$865,277,000, other secured borrowings of approximately HK$464,480,000, unsecured obligations under finance lease of approximately HK$159,000 and unsecured amount due to a related company of approximately HK$25,008,000.

The secured bank loan of approximately HK$570,912,000 and other secured borrowings of approximately HK$464,480,000 at the close of business on 29 February 2008 were guaranteed by 黑龍集團公司 (Heilong Group Limited), the ultimate holding company of Black Dragon, 齊齊哈爾造紙有限公司 (Qiqihaer Paper Manufacturing Co Ltd), a fellow subsidiary of Black Dragon and independent third parties of Group. Pursuant to an "Assets and Liabilities Transfer Agreement" dated 16 May 2007 and an "Assets and Liabilities Transfer Supplementary Agreement" dated 9 July 2007 entered into by Black Dragon and Heilongjiang Hecheng Construction Investment and Development Company Limited ("Hecheng"), Hecheng would take up the aforesaid secured bank loan of approximately HK$570,912,000 and other secured borrowings of approximately HK$464,480,000 upon completion of acquisition of 70.21% of the issued share capital of Black Dragon by the Group.

The other secured bank loans of approximately HK$294,365,000, unsecured obligations under finance lease of approximately HK$159,000 and unsecured amount due to a related company of approximately HK$25,008,000 were not guaranteed.

Save as disclosed above, the Group did not have any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments.

Commitments

As at 29 February 2008, the Group had commitments in respect of the acquisition of property, plant and equipment in the amount of approximately HK$280,741,000 which were not provided for in the consolidated financial statements.

Pledge of assets

As at 29 February 2008, the Group's secured bank loan and other borrowings were secured by the Group's assets with carrying values of approximately HK$361,154,000 comprising investment properties of approximately HK$50,673,000, property, plant and equipment of approximately HK$269,323,000 and interest in leasehold land of approximately HK$41,158,000.

Debt securities

As at 29 February 2008, save as disclosed above, the Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, and term loans.

Mortgages and charges

As at 29 February 2008, save as disclosed above, the Group did not have any mortgages and charges.

Contingent liabilities

As at 29 February 2008, save as disclosed above, the Group did not have any material contingent liabilities and guarantees.

Save as disclosed above and apart from intra-group liabilities, the Group did not have any (i) debt securities issued and outstanding, and authorised or otherwise created but unissued, and term loans; (ii) other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments; (iii) mortgages and charges; and (iv) material contingent liabilities and guarantees as at the close of business of 29 February 2008.

The Directors confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 29 February 2008.

5. FINANCIAL AND TRADING PROSPECTS 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 2007, BEING THE DATE TO WHICH THE LATEST AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY HAVE BEEN MADE UP)

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

With the completion of the existing environmental protection and water treatment projects, our environmental protection and water treatment operation will be further strengthened and will provide the Group with a source of stable income and contribute to a sustainable development of the Group. The acquisition of Black Dragon also will provide an additional platform to finance its investment in the environmental protection and water treatment operation. We will continue to increase our investment in the environmental protection and water treatment operation. As for the city development and investment operation, although the government has taken macro-economic tightening measures to curb the overheating real estate market in the PRC, the Group will continue to develop its Changsha property development project. Looking ahead, the Group will endeavor to make more investment decisions with far-reaching vision and develop a diversified portfolio with a prudent approach.

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

6. DISCUSSION AND ANALYSIS OF PERFORMANCE

(1) Business review for the year ended 31 March 2005

Financial review

The Group's turnover for the year ended 31 March 2005 amounted to HK$225,003,000 (2004: HK$89,422,000), representing a rise of 151.62% as compared with last year. Loss attributable to shareholders was HK$69,193,000 for the year ended 31 March 2005 (2004: HK$26,300,000). 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, no revenue had been recorded for the year ended 31 March 2005 from them yet. For the year ended 31 March 2004, the Changsha city development project was completed and the sewage plant in Qinhuangdao City, Hebei Province started service, generating revenue for the Group. Expected to be completed in late 2005, the "Wang Guo Commercial Plaza" located in Phase One of "Interchina Mall" in Changsha also commenced pre-sale. It will bring to the Group profitable returns.

As at 31 March 2005, total assets and net assets of the Group valued at HK$1,673,599,000 (31 March 2004: restated HK$1,614,957,000) and HK$706,686,000 (31 March 2004: HK$761,422,000), representing an increase of 3.63% and a decrease of 7.19% respectively against those of the previous year.

Capital structure, liquidity, financial resources and gearing ratio

As at 31 March 2005, the Group's cash on hand, deposits in bank (including segregated and trust account) and deposits in other financial institutions totaled approximately HK$64,361,000 (31 March 2004: HK$58,494,000), representing an increase of 10.03% against the balance as at 31 March 2004. Approximately 41.81% of the deposits was denominated in Hong Kong dollars while the remainder in Renminbi. The Group's net current liabilities amounted to HK$134,638,000 (31 March 2004: restated net current assets of HK$5,231,000). The Group's outstanding bank and other borrowings were HK$562,869,000 (31 March 2004: HK$599,485,000) which mainly comprised bank and other borrowings of approximately HK$315,293,000 repayable within a year, and HK$247,576,000 of bank and other borrowings repayable after more than one year. The gearing ratio (total borrowings/total assets) was 36.06%.

During the year under review, the Group's financial resources comprised mainly cash income generated by its business operations as well as bank and other borrowings. With the best interest of shareholders in mind and at minimum financial cost, the Group will make financial arrangements (including capital investment) to facilitate its current and future business development plans.

Of the net amount of HK$126,400,000 from selling property received by the Group in August 2004, HK$80,941,000 was used to repay bank loans and the rest was applied as the Group's operational capital.

As at 31 March 2005, approximately 24.97% 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 and fixed rate basis of which approximately 81.35% were secured by the Group's investment property, property, plant and equipment and properties under development for sale.

Exchange rate exposure

Since the Group's business is primarily based in China and Hong Kong, and during the year under review, there were no significant fluctuations in the exchange rate of Renminbi against Hong Kong dollar, the Group was not exposed to material risk in foreign exchange fluctuations, requiring no corresponding hedging provision. The Group had not used any financial instrument for hedging purposes and any instrument for hedging against foreign currency investment.

Business review, prospect, and material acquisitions and disposals

Environmental Protection and Water Treatment Operation

The development of the Group's water treatment and environmental protection projects was encouraging. All of the Group's construction projects went smoothly during the year under review. Construction of the plant and installation of the sewage treatment facility located in Haigang District, Qinghuangdao City, Hebei Province was completed in September 2004. It commenced operation in December last year. For the year ended 31 March 2005, it generated HK$6,966,000 in turnover for the Group's environmental protection and water treatment business. The plant currently processes on average 100,000 tonnes of sewage per day, and the production capacity will be gradually enhanced to 120,000 tonnes per day in the future.

The strategic alliance between Interchina Water Treatment Limited and North China Municipal Engineering Design & Research Institute (中國市政工程華北設計研究院) enabled the Group to enjoy the benefits of cost integration over the Qinghuangdao Sewage Treatment Plant project, which was clearly demonstrated from its infrastructure and operation. Besides building the first BOT sewage treatment facility in the Hebei Province, the work of the alliance also helped foster planning and construction of sewage treatment plants in the cities of the Hebei Province. This highly productive operation mode created a solid foundation for the development of the Group's sewage treatment business in Hebei Province.

The Qinghuangdao Sewage Treatment project of the Group also adopted a comprehensive production and monitoring system that promises reliable and impeccable quality control. And, this sophisticated testing facility can serve as the research and development and operational training center of Interchina Aihua (Tianjin) Municipal & Environmental Engineering Company Limited, providing the Group strong technical support in the future.

Meanwhile, the Group was granted the right for a period of 22 years by the Ma'anshan Municipal Government to invest, construct and operate a sewage treatment plant and redevelop an existing sewage treatment plant in May 2004. The total daily sewage processing capacity of the plants will be 60,000 tonnes. In addition, in May 2004, the Group entered an agreement with the Changli Municipal Government in Hebei Province to establish a sewage treatment plant that can handle 40,000 tonnes of sewage per day. Both projects are in their early and preparatory stages.

For the Group's water supply project in Hanzhong City, Shaanxi Province, the PRC, the Group is formulating the details of operations with the Hanzhong Municipal Government. It is scheduled to start operations by the end of 2005.

The Group is negotiating with the Xianyang Municipal Government in Shaanxi Province, the PRC regarding the future operations of the water supply project in Xianyang City.

Apart from accelerating its water treatment and environmental protection projects, including the Sewage Treatment Plants in Ma'anshan City and Changli City and Water Supply Plants in Hanzhong City and Xianyang City, the Group has been actively seeking potential and quality merger and acquisition opportunities to further consolidate its development foundation and boost operational scale.

In early May 2005, the Group entered into an cooperation agreement with the People's Government of Zhuozhou, Hebei Province, the PRC, which granted the Group the exclusive right to finance, design, construct, own, manage, maintain and operate two sewage treatment plants (each processing 40,000 tonnes of sewage per day) in Zhuozhou City, Hebei Province for 25 years.

The Group also entered into a legally binding memorandum with another Independent Third Party in mid April 2005 in relation to the acquisition of the entire equity interest in Shanghai You Lian Enterprise (Holdings) Limited ("You Lian Enterprise"). You Lian Enterprise runs Asia's largest sewage treatment plant – Zuyuan First Sewage Treatment Plant – in Pudong New Area, Shanghai. The plant, a major sewage treatment facility in Shanghai, has a daily sewage treatment capacity of 1,700,000 tonnes, which is the highest in Asia. Upon the completion of the acquisition, the plant will generate annual income no less than RMB110,000,000 for the Group. The Group's daily sewage processing capacity by then will reach more than 2,000,000 tonnes and thus will be a paramount force in China's environmental protection and water treatment industry. The Group will make use of You Lian Enterprise as a platform for water treatment investment and financing to facilitate the construction of quality infrastructure, and establish a solid foundation for it to explore other potential areas for development.

City Development and Investment Operation

Riding on its years of experience investing in and building infrastructures, the Group's city development projects yielded returns during the Year. It completed the construction of Changsha New Sports City and its related stadium and facilities had been in service, generating an income of HK$179,132,000 and a profit of HK$9,321,000 to the Group respectively. By participating in this project, the Group will increase its premium, high growth value land reserve at fixed price for the future property development operation in the PRC.

Nevertheless, the Wang Guo Commercial Plaza, located in the Interchina Mall (Phase One), a mega-scale luxurious residential and commercial complex in Changsha, received overwhelming response since its sale started in August 2004. As at the reporting date, over 700 shop premises were sold and over HK$200 million was liquefied. Other hotel equities are now under construction. The construction of Wang Guo Commercial Plaza of Interchina Mall (Phase One) is expected to be completed in late 2005 with the certificate of compliance to be granted shortly. The pre-sale permit of two hotel equities in Phase One of the project was obtained. Open sale began in April 2005 and more than 35% of the flats were already sold. The Group will offer more flats later in response to the market demand.

With sales scaling new heights, the Changsha Interchina Mall not only established prominence as a property brand name in China, but also provided an example to follow for urban construction industry in China. In early February 2005, at RMB235,000,000, the Group bought four plots of land of total area 378.53 hectares in the New Industrial Park of the Xian Hi-tech Industrial Zone (高新技術產業開發區新型工業園) in Shaanxi Province. The Group will plan to establish another Interchina Mall in Xian adopting the proven operational and development mode of the Changsha project, and subsequently also introduce it to other provincial cities or municipalities, developing a chain operation.

In September 2004, the Group sold the land situated at R-06, in Changsha New Sports City. The 49,571 square metres lot was sold at the consideration of RMB69,526,000. The land transfer is being processed and the income from this sale will be recognised in the next fiscal year.

Apart from Changsha City and Xian City, in November 2004, the Group entered an agreement with the Economic Development Management Committee (漢中經濟開發區管理委員) of Hanzhong City, Shaanxi Province to develop supplementary infrastructure for the city's Commercial Administrative Tourist Region (Northern Region). The project will cover 4.3 square kilometers of land. According to the agreement, the Group will undertake the construction of various infrastructures including roads, lighting and electric supply, water supply network and land flattening. The Group is also allowed to undertake development projects in other aspects such as real estate development, and has priority in obtaining permits for land use.

Property and Other Investment Operation

During the year under review, the Group's rental income amounted to HK$22,953,000 (2004: HK$30,187,000), representing an decrease of 23.96% compared with the corresponding period last year. With competition in the leasing market in Shanghai continued to intensify, the Group recorded lower rental returns from its leased property in Shanghai compared with last year. In Hong Kong, the Group sold the office building at 18-22 Cheung Lok Street, Yaumatei, Kowloon in August 2004 at a consideration of HK$127,180,000, resulting in a profit of HK$1,180,000.

The Group entered a conditional purchase agreement with Shanghai Qiangsheng Group Co. Ltd in October 2003 to acquire 39,772,732 issued shares of the latter at RMB178,977,294. However, the agreement was terminated automatically by its first anniversary when approval for purchase was not granted by the authority concerned. The termination of the agreement will not have any material adverse effect to the Group. Details of the termination were given in the announcement dated 28 October 2004. The Group will look into other business opportunities with Shanghai Qiangsheng Group.

In late April 2005, the Group disposed 60% controlling interest in Money Capture Investments Limited, amounting to approximately HK$137,000,000 (will be accounted for in the next fiscal year). The move evidenced the Group's determination in focusing on its core business lines of developing environmental protection and water treatment, and city development and investment.

Securities and Financial Operation

The Group's securities and future operation generated an income of HK$13,529,000 (2004: HK$59,235,000), constituting commission and interest income from margin clients. Having strengthened internal control over the borrowings to margin clients during the year under review, especially in reducing the proportion of borrowings for non-index constituents stock, income generated by the securities and future operation lowered by 77.16% compared with the same period last year.

Contingent liabilities

During the year under review, with reference to the repurchase and loan agreements it signed with a bank in April 2003, the Group bought back 31 units of properties from the purchaser. As a result, the corporate guarantee to a bank for its mortgage loans was released. As at 31 March 2005, the Group had no contingent liabilities (31 March 2004: HK$100,000,000) to the purchaser of the Group's property.

The Group provides a guarantee of RMB5,000,000 to Ma'anshan Government, PRC, for the commitment to invest in Ma'anshan, details as per announcement dated 21 May 2004.

During the year under review, a bank guarantee of HK$5,000,000 of HKFE Clearing Corporation Limited has been terminated and released.

Pledge of Group's assets

As at 31 March 2005, the Group's assets were pledged as security for liabilities, comprising investment property with a book value of HK$394,325,000 (31 March 2004: HK$455,511,000) and property, plant and equipment with book value of HK$687,086,000 (31 March 2004: restated HK$518,535,000) and property under development for sale with a book value of HK$86,903,000 (31 March 2004: Nil).

Employment and remuneration policy

As at 31 March 2005, the Group had a total of 388 employees in the PRC and Hong Kong. Staff costs for the year ended 31 March 2005 amounted to HK$31,577,000 (2004: HK$31,846,000). 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 and a share options scheme for its staff, the Group also provides staff with various training and development programs.

(2) Business review for the year ended 31 March 2006

Financial review

The Group's turnover for the year ended 31 March 2006 amounted to HK$134,740,000 (2005: HK$225,003,000), representing a decrease of 40.12% compared with the corresponding period of last year. Loss attributable to shareholders was HK$108,312,000 (2005: restated HK$70,656,000). There were certain city development and investment projects, and environmental protection and water treatment projects of the Group in China remaining under construction during the year ended 31 March 2006. No revenue had been recorded from such projects yet.

As at 31 March 2006, total assets and net assets of the Group valued at HK$1,417,395,000 (31 March 2005: restated HK$1,660,291,000) and HK$687,291,000 (31 March 2005: restated HK$693,410,000) respectively, representing a decrease of 14.63% and 0.88% respectively as compared with those as at 31 March 2005.

Capital structure, liquidity, financial resources and gearing ratio

As at 31 March 2006, the Group's cash on hand and deposits in bank (including segregated and trust account) totaled approximately HK$22,171,000 (31 March 2005: HK$64,361,000), representing a decrease of 65.55% against the balance as at 31 March 2005. Approximately 68.37% of the deposits was denominated in Hong Kong dollars while the remainder in Renminbi. The Group's net current liabilities amounted to HK$78,851,000 (31 March 2005: restated HK$134,638,000). The Group's outstanding bank and other borrowings were HK$406,531,000 (31 March 2005: HK$562,869,000) which mainly comprised bank and other borrowings of approximately HK$220,605,000 repayable within a year, and HK$185,926,000 of bank and other borrowings repayable after one year. The gearing ratio was 28.71% (total borrowings/total assets).

As at 31 March 2006, approximately 17.98% 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 and fixed rate basis of which approximately 90.16% were secured by the Group's investment properties, interests in leasehold land and land use rights and property, plant and equipment.

During the year under review, the Group's financial resources mainly comprised cash inflow generated by its business operations and the proceeds of disposal of subsidiaries as well as bank and other borrowings. 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 shareholders and at minimum financial cost.

In November 2005, the Group completed the issue to four subscribers of 3-year convertible notes bearing interest at 4.5% p.a. convertible into a total of 900,000,000 shares of HK$0.1 each. The proceeds in the sum of HK$90,000,000 were used as general working capital.

In addition, the Group disposed of 60% controlling interest in Money Capture and 100% equity interest in New Experience Investments Limited at a consideration of HK$137,000,000 and HK$48,100,000 in April 2005 and May 2006 respectively. The proceeds were used as general working capital of the Group and working capital of city development and investment operation, and environmental protection and water treatment operation.

Exchange rate exposure

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, prospect, and material acquisitions and disposals

Environmental Protection and Water Treatment Operation

Environmental protection and water treatment operation remained to be the core businesses of the Group. During the past year, the Group used its best endeavours to implement the prescribed water treatment operation projects. Various projects were implemented smoothly. Environmental protection and water treatment operation had also been undergoing continuous development and expansion.

Since the sewage treatment plant located in the Haigang District of Qinhuangdao in Hebei Province officially commenced operation in 2004, it continuously brought contributions to the earnings of the Group. During the year under review, this sewage treatment plant brought turnover of RMB23,330,000 to the Group. The daily average processing capacity of the sewage treatment plant was increased from 100,000 tonnes in the last year to 120,000 tonnes this year. The Group will obtain the right of price determination with respect to the water processed by the sewage treatment plant in 2007. By then the group will positively revise the charges flexibly according to the price index. It is expected that this will bring more profit to the Group.

Qinhuangdao Sewage Treatment Plant has a comprehensive production and laboratory testing system, which provides reliable and stable assurances as well as control effects. This environmental sewage treatment plant development project not only laid a superior and solid foundation to the Group's water treatment operation in Hebei Province, but also allowed the Group to accumulate ample experiences in the operation of sewage treatment. This furnished a strong technical support to the Group's environmental protection and water treatment operation in future.

In 2004, the Group was granted the right by the Ma'anshan Municipal Government in Anhui Province and Qinhuangdao Municipal Government in Hebei Province, the PRC to construct and operate two sewage treatment projects in Ma'anshan and Changli respectively. These two projects were the Group's long term investment projects. The daily average processing capacity for these two projects will be 100,000 tonnes in aggregate. The processing capability of the Ma'anshan Sewage Treatment Project will be 60,000 tonnes per day, whilst the processing capacity of the Changli Sewage Treatment Project will be 40,000 tonnes per day. Both sewage treatment projects will be completed by the end of this year, and will officially commence operation in the middle of next year. It is expected that after both sewage treatment plants commence operation, they will be another important and stable sources of revenue for the Group.

During the year under review, the Group continued to discuss with the Hanzhong Municipal Government in Shaanxi Province of the PRC on finalising the details of operation of the water supply project in Hanzhong City, the process of which was smooth. It is expected that operation will commence in 2007 and will supply approximately 100,000 tonnes of water to Hanzhong per day. This water supply project will not only expand the scope of operation for the Group, but also facilitate the development of the Group's environmental protection and water treatment operation to a new height.

Growth in the national economy has been rapid. Standard of living for the people was improved and there has been rising concern for environmental protection problems. However, the corresponding investment in municipal sewage treatment facilities was far lagging behind the speed in the development of economic infrastructure. As such, the Group entered into a legally binding memorandum with an independent third party in May 2005 in relation to the acquisition of the entire equity interest in You Lian Group, which operates Zhuyuan First Sewage Treatment Plant in Pudong New District, Shanghai. Negotiation for this acquisition project is still undergoing. In the event the acquisition is successful, this will bring stable income to the Group. It will also facilitate the Group to consolidate its leading position in the environmental protection and water treatment industry in the PRC.

The Group terminated the cooperation agreements entered into with the People's Government of Xianyang City in Shaanxi Province and the People's Government of Zhuozhou City in Hebei Province of the PRC with respect to Xianyang Water Supply Project and Zhuozhou Sewage Treatment Project respectively. Details were set out in the announcements of the Company dated 26 June 2006 and 7 July 2006 respectively. The Board considered the terms of the two Termination Agreements above were fair and reasonable and were in the interests of the Company and the Shareholders as a whole. The Board also considered the termination of the Agreements would not have any material adverse effect on the operations of the Group.

The termination of the two water supply and sewage treatment projects above being entered into by the Group had taken into account the cost effectiveness and feasibility of the projects, and would not affect the usual operation of the Group. The Group can concentrate its resources to develop other water supply and sewage treatment projects with potentials hereafter. Therefore such termination laid the foundation for the sustainable development of the Group's earnings in future.

City Development and Investment Operation

With the strong growth in the national economy and the gradual improving in the standard of living for the people, city development and investment has become an integral part to the development of the PRC. After years of investment and development, the Group's city development and investment operation has already set on its right track and the development project of Changsha New Sports City was completed successfully last year.

In September 2004, the Group disposed of a piece of land situated at R-06, Changsha New Sports City, the PRC at a consideration of RMB69,451,000. The land transfer procedures have been completed and the proceeds from the disposal of the land were recognized in this financial year. With respect to the disposal above, an amount of approximately RMB18,448,000 outstanding (hereinafter referred to as the "Outstanding Amount") was not yet recovered. As the Group has been managing its finance on a prudent basis, the Group had made provision on bad debts for the Outstanding Amount. The management will also continue to collect the Outstanding Amount so as to avoid any loss to be incurred by the Group.

The construction of the Interchina Mall, the Group's mega-scale luxurious residential and commercial complex in Changsha, was divided into three phases. The construction of Wang Guo Commercial Plaza in Interchina Mall (Phase One) was also near completion. The Group is now actively recruiting tenants for Wang Guo Commercial Plaza. The construction works of other four hotel equities are proceeding at full speed. The civil engineering construction works were nearly completed.

The development project locating at Hongkou District, Shanghai will be another key investment project of the Group. The site area is about 8,889 sq. m. and will be used for commercial and financial purposes. Hongkou District is situated at a prime geographical location and is a hub in the middle of Shanghai with central business area, municipal urban area and industrial development area. Real estate sector at that district has been booming prosperously during the recent years. It is expected that the project will turn into another city development project of tremendous potential for the Group.

In order to finalise and complete the Group's existing city development and investment business development plans, the Group is now negotiating with developers with potentials for possibility to cooperate in various different forms, under the premises of protecting the best interests of the shareholders. It is expected that the shareholders will receive the greatest investment return.

In addition, the Group disposed of its subsidiary, New Experience Investments Limited, at a consideration of HK$48,100,000 in May 2006 and expected to result in a gain of HK$25,000,000.

Property Investment Operation

During the year under review, the Group's rental income amounted to HK$3,724,000 (2005:HK$22,953,000), representing a decrease of 83.78% compared with the corresponding period of last year. This was mainly attributable to the Group's disposal of 60% controlling interest in Money Capture Investments Limited ("Money Capture") in April last year, resulting in indirect disposal of the interest of the investment property held by Money Capture in Shanghai, the PRC. Furthermore, with the series of macro-economic control measures launched by the State during the past year, together with the keen competition within the property rental market in Shanghai will be affected. This will result in the fall of property price and the return from rental will also decrease compared with last year. Therefore the Group's associate also recorded a loss during the year under review.

Securities and Financial Operation

The Group's securities and future operation generated commission and interest income from margin clients amounting to HK$5,969,000 (2005: HK$13,529,000). 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 55.88% compared with the corresponding period last year.

Contingent liabilities

The Group provides a guarantee of RMB5,000,000 to Ma'anshan Municipal Government, the PRC, for the commitment to invest in the sewage treatment project in Ma'anshan, details as per announcement dated 21 May 2004.

At 31 March 2006, the Company had given unconditional guarantee to a bank to secure banking facilities available to a subsidiary to the extent of approximately HK$29,300,000.

Pledge of Group's assets

As at 31 March 2006, the Group's assets were pledged as security for its liabilities, comprising investment properties with a net book value of HK$60,694,000 (31 March 2005: HK$394,325,000) and property, plant and equipment with a net book value of approximately HK$591,355,000 (31 March 2005: restated HK$597,827,000) and interest in leasehold land with a net book value of HK$75,722,000 (31 March 2005: restated HK$75,857,000) and property under development for sale with a book value of HK$148,302,000 (31 March 2005: restated HK$113,852,000).

Employment and remuneration policy

As at 31 March 2006, the Group had a total of 248 employees in the PRC and Hong Kong. Staff costs for the year ended 31 March 2006 amounted to HK$32,279,000 (2005: HK$31,577,000). 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.

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

Financial review

The Group's turnover for the year ended 31 March 2007 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 under review, 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 under review. 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 under review 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.

Capital structure, liquidity, financial resources and gearing ratio

During the year under review, 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 2006. 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 2007, the Group completed the issuance of 2-year convertible notes bearing interest at 3.5% p.a. convertible into a total of 1,116,980,000 shares of HK$0.1 each among which 1,066,980,000 shares was converted. The proceeds in the sum of HK$111,348,000 (related expenses deducted) were mainly used as general working capital and the working capital of city development and investment operation.

In March 2007, 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.

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

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

Exchange rate exposure

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, prospects, and material acquisitions and disposals

Environmental Protection and Water Treatment Operation

During the year under review, 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 under review. The Group expects that the right of price determination with respect to the water processed by the sewage treatment plant will be obtained by the end of this year, and by then the Group will have the flexibility to adjust its charges upward according to the price index. It is expected that this will bring more revenue to the Group.

Regarding the two sewage treatment projects in Ma'anshan and Changli, the aggregate sewage treatment capacity was 100,000 tonnes on average per day. The Ma'anshan sewage treatment project has been completed in May 2007 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 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 Group's environmental protection and water treatment operation will additionally increase by 140,000 tonnes to 320,000 tonnes, and the revenue from the Group's environmental protection and water treatment operation will substantially increase. Environmental protection and water treatment operation will be a major and stable source of revenue of the Group.

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

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

City Development and Investment Operation

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

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

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

In October last year, the Group disposed its entire interests in and shareholders' loan due from three wholly-owned subsidiaries, which held property development projects located in Changsha and Shanghai, at a total consideration of HK$617,870,000 (the "Disposal"). Details of the Disposal were disclosed in the announcement dated 20 October 2006. However, since the Group made advances to the Changsha property development project during the period from 1 September 2006 up to 16 February 2007 in the total sum of approximately HK$86,000,000 (the "Advance") to support its normal operation, and requested buyer to repay the Advance upon completion of the Disposal. Finally, the Group reached an agreement with the buyer in March 2007 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 2007 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 in 2006 (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 under review and therefore the bad debt provision for the Outstanding Amount had been written back during the year under review.

Property Investment Operation

During the year under review, the Group's rental income was mainly generated from investment properties located in Beijing, the PRC and Hong Kong. During the year under review, 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 under review, the Group's share of loss in associates was HK$6,164,000, which was mainly attributable to the revaluation deficit of the investment property in Shanghai, the PRC. However, as the demand for prime properties remains strong in Shanghai, the PRC and we are optimistic about the prospect of the leasing market in Shanghai, the PRC, the Group has brought back such 60% controlling interest in the Subsidiary in June this year for a consideration of approximately HK$195,039,000 so as to increase the rental income of the Group.

Securities and Financial Operation

The Group's securities and future operation generated commission and interest income from margin clients amounting to HK$5,027,000 (2006: HK$5,969,000). Having continuously strengthened internal control over the borrowings to margin clients during the year 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.

Contingent liabilities

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

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 ended 31 March 2007 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.

(4) Business review for the six months ended 30 September 2007

Financial Review

The Group's turnover for the six months ended 30 September 2007 (the "Period") amounted to HK$25,644,000 (2006: HK$14,817,000), representing an increase of 73.1% as compared with the corresponding period last year. Loss attributable to shareholders was HK$59,521,000 (2006: HK$8,985,000), representing an increase of 562.4% as compared with the corresponding period last year. During the Period, although turnover of the Group increased as compared with the corresponding period last year, as the Company recognised share-based payment expense of HK$32,986,000 (2006: nil) based on the fair value of the share options granted in respect of the share option scheme during the Period in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") 2 "Share-based Payment", loss attributable to the shareholders increased significantly from the corresponding period last year. Also, loss attributable to the shareholders last year included recognised gain of HK$29,828,000 on disposal of subsidiaries, loss attributable to the shareholders decreased 10.1% as compared with the corresponding period last year excluding the share-based payment expense and the gain on disposal of subsidiaries.

As at 30 September 2007, total assets and net assets of the Group valued at HK$1,877,336,000 (31 March 2007: HK$1,612,914,000) and HK$973,095,000 (31 March 2007: HK$784,495,000) respectively, representing an increase of 16.4% and 24% respectively as compared with those as at 31 March 2007.

Capital structure, liquidity, financial resources and gearing ratio

During the Period, the Group's financial resources mainly comprised cash inflow generated by its business operations 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 financing cost.

During the Period, 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, 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 Period. In addition, a total of 294,490,000 new shares were also issued through the exercise of certain share options in accordance with the Company's share option scheme and the proceeds in the sum of HK$42,900,000 generated from the exercise of share options was used as general working capital of the Group.

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.

Subsequent to the Period ended, in October 2007, the Company also completed the issuance of 2,700,000,000 new shares of HK$0.1 each and the grant of two tranches of convertible note options totaling HK$1,850,000,000. Up to 30 November 2007, the Company issued 5-year convertible notes bearing interest at 3% p.a. convertible into a total of 2,500,000,000 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. The proceeds in the sum of approximately HK$505,000,000 (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.

As at 30 September 2007, the Group's cash on hand and deposits in bank (including segregated and trust accounts) totaled approximately HK$125,354,000 (31 March 2007: HK$245,840,000), representing a decrease of 49% against the balance as at 31 March 2007. Approximately 62.8% of the deposits were denominated in Hong Kong dollars while the remainder in Renminbi. The Group's net current assets amounted to HK$70,647,000 (31 March 2007: HK$213,408,000). The Group's outstanding bank and other borrowings were HK$330,584,000 (31 March 2007: HK$353,169,000) which mainly comprised bank and other borrowings of approximately HK$127,104,000 repayable within one year, and HK$203,480,000 of bank and other borrowings repayable after one year. In addition, the Group's 2-year convertible notes amounted to nil (31 March 2007: HK$4,587,000). The gearing ratio was 32.6% (total borrowings/total assets).

As at 30 September 2007, approximately 17.9% 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 fixed or floating rate basis of which approximately 90.9% were secured by the Group's investment properties, property, plant and equipment and interests in leasehold land.

Since the Group's businesses are 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, prospects, and material acquisitions and disposals

Environmental Protection and Water Treatment Operation

During the Period, the Group continued to accelerate the pace in the development of existing projects 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 reached a daily average processing capacity of 120,000 tonnes, and the water price with respect to the water processed by the sewage treatment plant increased approximately 9% during the Period, a turnover of RMB15,329,000 (2006: RMB12,518,000) was achieved by the Group's environmental protection and water treatment operation.

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 was 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 the Changli sewage treatment project, completion is expected by the end of this year and operation will commence 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 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 Qinghuangdao and Ma'anshan sewage treatment plants, 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 water processed by the Group's environmental protection and water treatment operation will additionally increase by 140,000 tonnes to 320,000 tonnes per day, 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 projects, the Group announced a major transaction in relation to the acquisition of 黑龍江黑龍股份有限公司 "Black Dragon", (stock code: 600187, its A shares are listed on the Shanghai Stock Exchange and have been suspended from trading) during the Period. The Group entered into an agreement with the vendor in relation to the purchase of 70.21% equity interest of Black Dragon (the "Acquisition") in May 2007, and entered into a supplemental agreement for amending the total consideration for the Acquisition to RMB420,000,000 in November this year. In addition, Black Dragon has entrusted the Group to be its agent to purchase the water treatment project, and the Group will offer a loan of not more than approximately RMB173,000,000 to Black Dragon as the consideration for Black Dragon to settle the water treatment project, details of which were set out in the circular dispatched on 3 December 2007. The Group expects that Black Dragon will provide an additional financing platform for the environmental protection and water treatment operation of the Group and further expand the development scale of environmental protection and water treatment operation of the Group. The relevant approval procedures of the Acquisition by the regulatory authorities of Hong Kong and the Mainland are in process, details of which were set out in the announcements dated on 24 August and 15 November 2007 respectively.

The Group will continue to seek opportunities of 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 Group.

City Development and Investment Operation

The construction of the Interchina Mall, the Group's mega-scale luxurious residential and commercial complex in Changsha, comprised 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 planning and design work of the Phase Two residential project, which accounted for a gross floor area of 150,000 square meters, has been completed. Construction will be commenced in the first quarter next year, and is expected to bring huge revenue to the Group.

As at 30 September 2007, the total undeveloped site area in Changsha was about 215,000 square meters. The Group will continue to develop the Changsha property development project and is negotiating with established developers for possible cooperation in various ways. However, the Group does not rule out the possibility of disposing the Changsha property development project if opportunity arises.

In addition to the existing projects, in November this year, the Group entered into an agreement at a total consideration of approximately RMB200,000,000 with the Management Committee of Economic Development Zone in Hanzhong, Shaanxi in relation to the construction of the main highway and relevant facilities (such as greening, water, electricity, communication, gas, etc.) in the northern district of the development zone. The Group will share with the district government revenue from disposal of the land of approximately 2,000 hectares for commercial development in the northern district of the development zone, or it may acquire directly the above-mentioned land by ways of tender, listing-for-sale and auction. This will help the Group to develop the city development and investment operations in the western cities of the PRC.

Currently, the PRC government has imposed a series of macro-economic control measures on real estate developers to stabilise the market and enhance the healthy development of the domestic real estate market, which will be beneficial to the long-term development of the Group's real estate operation in the PRC.

Property Investment Operation

During the Period, the Group's rental income was mainly generated from investment properties located in Beijing, Shanghai and Hong Kong. During the Period, the Group's rental income amounted to HK$4,956,000 (2006: HK$1,101,000), representing an increase of 350.1% compared with the corresponding period of last year which was mainly due to the repurchase of 60% equity interest and shareholders' loan in a 40% owned associate which had interests in an investment property located in Shanghai, the PRC, during the Period for a total consideration of approximately HK$195,039,000. As the demand for prime properties remains strong in Beijing, the PRC and we are optimistic about the prospect of the leasing market in the city, the Group has also acquired a 100% interests together with shareholders' loan of a subsidiary which held interests in an investment property located in the centre of

Beijing, the PRC, in November this year for a total consideration of approximately HK$167,000,000 so as to enhance the rental income of the Group, details of which were set out in the circular despatched on 26 October 2007.

Securities and Financial Operation

The Group's securities and futures operation generated commission and interest income from margin clients amounting to HK$4,721,000 (2006: HK$1,680,000), representing an increase of 181% 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 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.

Contingent liabilities

As at 30 September 2007, the Group did not have any material contingent liability.

Pledge of Group's Assets

As at 30 September 2007, the Group's assets were pledged as security for its liabilities, comprising investment properties with a net book value of HK$50,673,000 (31 March 2007: HK$65,852,000) and property, plant and equipment with a net book value of HK$254,770,000 (31 March 2007: HK$400,864,000) and interests in leasehold land with a net book value of HK$39,543,000 (31 March 2007: HK$38,638,000).

Employment and Remuneration Policy

As at 30 September 2007, the Group had a total of 150 employees in the PRC and Hong Kong. Staff costs for the Period amounted to HK$11,993,000 (2006: HK$14,027,000). To maintain the Group's competitiveness, salary adjustment 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 Group also provides staff with various training and development programs.

7. WORKING CAPITAL

The Directors, after due and careful enquiry, were of the opinion that taking into account the financial resources available to the Group including internally generated funds, the present cash and bank balance and other facilities, 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 2007, being the date to which the latest audited consolidated financial statements of the Company have been made up) has sufficient working capital for at least 12 months from the date of this circular.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2007, the date to which the latest published audited consolidated financial statements of the Company had been made up.

9. MATERIAL ACQUISITION SINCE 31 MARCH 2007

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

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 黑龍集團公司 (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. The Company will pay the consideration of RMB420,000,000 by its internal resources. 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 Vendor, details of which are set out in the section "Letter from the Board" of this circular.

There has been no variation to the aggregate remuneration payable to and benefits in kind receivable by the directors of the above acquiring companies in consequence of the above acquisitions.

1. INTRODUCTION

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 黑龍集團公司 (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. As at the Latest Practicable Date, the acquisition of 70.21% of Black Dragon has not been completed.

Financial information of Black Dragon is required to be disclosed in this circular pursuant to the Listing Rules.

2. FINANCIAL RESULTS OF BLACK DRAGON

The following is the accountants' report of Black Dragon as extracted from the circular of the Company dated 31 January 2008:

I. INCOME STATEMENT

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

II. BALANCE SHEET

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

III. STATEMENT OF CHANGES IN EQUITY

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

Note:

Statutory reserve

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

IV. CASHFLOW STATEMENT

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

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

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

V. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

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

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

2. ADOPTION OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS

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

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

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

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

Notes:

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

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

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

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

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

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

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

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

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

(b) Revenue recognition

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

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

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

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

(c) Property, plant and equipment

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

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

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

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

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

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

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

(d) Interests in leasehold land

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

(e) Inventories

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

(f) Trade and other receivables

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

(g) Cash and cash equivalents

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

(h) Impairment of assets

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

i. Calculation of recoverable amount

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

ii. Reversals of impairment losses

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

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

(i) Retirement benefits costs

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

(j) Borrowing

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

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

(k) Financial instruments

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

(i) Financial assets

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

Loans and receivables

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

Available-for-sale financial assets

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

(ii) Financial liabilities and equity

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

Financial liabilities

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

Equity instruments

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

Derecognition

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

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

(l) Taxation

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

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

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

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

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

(m) Leasing

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

Black Dragon as lessor

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

Black Dragon as lessee

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

(n) Foreign currencies

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

(o) Provisions

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

(p) Contingent liabilities and contingent assets

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

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

(q) Related party transactions

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Useful lives and residual value of property, plant and equipment

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

Estimate impairment of trade and other receivables

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

Net realisable value of inventories

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

5. FINANCIAL INSTRUMENT

a. Financial risk management objectives and policies

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

Credit risk

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

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

Foreign exchange risk

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

Liquidity risk

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

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

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

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

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

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

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

Interest rate risk

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

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

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

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

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

b. Fair value

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

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

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

c. Capital risk management

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

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

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

d. Fair value estimation

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

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

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

6. TURNOVER AND SEGMENT INFORMATION

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

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

7. OTHER REVENUE

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

8. OTHER INCOME

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

9. STAFF COSTS

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

(a) Directors' emoluments

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

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

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

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

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

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

(b) Five highest paid individuals

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

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

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

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

10. (LOSS)/PROFIT FROM OPERATION

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

11. FINANCE COSTS

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

12. INCOME TAX EXPENSE

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

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

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

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

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

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

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

13. (LOSS)/EARNINGS PER SHARE

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

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

14. PROPERTY, PLANT AND EQUIPMENT

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

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

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

15. INTEREST IN LEASEHOLD LAND

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

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

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

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

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

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

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

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

17. INVENTORIES

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

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

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

18. TRADE AND OTHER RECEIVABLES

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

The aged analysis of trade receivable is as follow:

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

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

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

19. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

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

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

20. CASH AND CASH EQUIVALENTS

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

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

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

21. TRADE AND OTHER PAYABLES

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

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

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

22. AMOUNT DUE TO A RELATED COMPANY

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

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

23. BANK AND OTHER BORROWINGS

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

The maturity profile of the above loan is as follows:

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

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

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

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

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

24. SHARE CAPITAL

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

25. PLEDGE OF ASSETS

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

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

26. MAJOR NON-CASH TRANSACTIONS

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

27. COMMITMENT

Operating lease commitment

As lessor

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

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

28. RETIREMENT BENEFIT SCHEMES

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

29. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

(a) Amounts due from fellow subsidiaries

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

(b) Material related party transactions

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

(c) Key management compensation

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

30. LITIGATION

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

31. SUBSEQUENT EVENTS

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

VI. SUBSEQUENT FINANCIAL STATEMENTS

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

3. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP UPON COMPLETION OF ACQUISITION OF BLACK DRAGON

The following is the unaudited financial the Group upon completion of the acquisition of Black Dragon as extracted from the circular of the Company dated 31 January 2008:

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

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

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

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

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

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

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

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

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

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

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

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

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

1. SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of China Pipe for the three financial years ended 31 December 2006 and the six months ended 30 June 2007, as extracted from the annual reports and interim report of the China Pipe, is set out below:

Consolidated Profit and Loss Account

	Notes	For the Six months ended 30 June 2007 HK$'000 (unaudited)	As at 31 December 2006 HK$'000	2005 HK$'000	2004 HK$'000
Turnover		274,792	617,556	522,921	445,260
Cost of sales		(201,216)	(450,174)	(391,852)	(320,609)
Gross Profit		73,576	167,382	131,069	124,651
Other income		830	2,478	2,347	25,033
Other gains, net		542	3,618	2,421	253
Selling and distribution costs		(8,066)	(19,357)	(13,840)	(11,352)
Administrative expenses		(37,709)	(77,952)	(68,583)	(77,532)
Operating profit		29,173	76,169	53,414	61,053
Finance costs		(1,397)	(4,553)	(2,301)	(817)
Profit before taxation		27,776	71,616	51,113	60,236
Taxation		(5,268)	(12,314)	(8,589)	(9,961)
Profit for the year		22,508	59,302	42,524	50,275
Attributable to:					
Shareholders of the Company		22,508	59,302	42,524	50,430
Minority interests		–	–	–	(155)
		22,508	59,302	42,524	50,275
Earnings per share					
– Basic	*(3)*	0.19 cents	24.52 cents	17.58 cents	20.85 cents
– Diluted		N/A	N/A	N/A	N/A
Dividends		4,837	14,511	12,093	12,093

Consolidated Balance Sheet

	As at 30 June 2007	As at 31 December 2006	2005	2004
	HK$'000 (unaudited)	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Non-current assets				
Property, plant and equipment	8,235	4,111	5,025	4,935
Investment properties	32,446	16,800	16,800	16,800
Other assets	779	779	779	–
Other investment	–	–	–	629
Rental deposits	258	306	2,058	176
Deferred tax assets	1,491	1,143	1,216	918
	43,209	23,139	25,878	23,458
Current assets				
Inventories	223,514	233,634	202,558	174,636
Trade and other receivables	174,432	161,099	129,165	131,464
Financial assets at fair value through profit or loss	–	3,501	3,038	–
Trading securities	81	–	–	2,253
Tax recoverable	190	190	798	316
Bank balances and cash	54,950	101,219	63,824	66,538
	453,167	499,643	399,383	375,207
Total assets	496,376	522,782	425,261	398,665
Equity				
Capital and reserves attributable to the Company's equity holders				
Share capital	24,185	24,185	24,185	24,185
Reserves	323,913	306,005	261,214	230,783
Proposed dividend	4,837	9,674	7,256	7,256
Total equity	352,935	339,864	292,655	262,224

Consolidated Balance Sheet *(Continued)*

	As at 30 June 2007	As at 31 December 2006	2005	2004
	HK$'000 (unaudited)	*HK$'000*	*HK$'000*	*HK$'000*
Liabilities				
Non-current liabilities				
Borrowings	–	–	–	1,667
Deferred tax liabilities	571	–	–	–
	571	–	–	1,667
Current liabilities				
Trade and other payables	55,641	49,594	58,904	64,792
Amounts due to related companies	–	968	–	–
Taxation payable	8,776	6,100	1,608	4,926
Borrowings	78,453	126,256	72,094	65,056
	142,870	182,918	132,606	134,774
Total liabilities	143,441	182,918	132,606	136,441
Total equity and liabilities	496,376	522,782	425,261	398,665
Net current assets	310,297	316,725	266,777	240,433
Total assets less current liabilities	353,506	339,864	292,655	263,891

Notes

(1) The reports of the auditor in respect of the Group's accounts for each of the three years ended 31 December 2006 did not contain any qualification.

(2) The Directors are not aware of any additional disclosures which are required by the Hong Kong Financial Reporting Standards or Hong Kong Companies Ordinance to be disclosed as extraordinary and/or exceptional items in the respective annual reports of the Group.

(3) The calculation of basic earnings per share is based on the Group's profit attributable to shareholders and the weighted average of 12,092,700,000 shares in issue during the period. The weighted average number of ordinary shares in issue for 2007, 2006, 2005 and 2004 has been retrospectively adjusted for the effect of the share split on 31 August 2007.

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHINA PIPE GROUP FOR THE YEAR ENDED 31 DECEMBER 2006

The following are the audited consolidated financial statements of China Pipe for the year ended 31 December 2006 as extracted from the annual report of China Pipe for the year ended 31 December 2006:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31st December 2006

	Note	**2006** *HK$'000*	**2005** *HK$'000*
Turnover	*5*	617,556	522,921
Cost of sales	*8*	(450,174)	(391,852)
Gross profit		167,382	131,069
Other income	*6*	2,478	2,347
Other gains, net	*7*	3,618	2,421
Selling and distribution costs	*8*	(19,357)	(13,840)
Administrative expenses	*8*	(77,952)	(68,583)
Operating profit		76,169	53,414
Finance costs	*9*	(4,553)	(2,301)
Profit before taxation		71,616	51,113
Taxation	*10*	(12,314)	(8,589)
Profit for the year		59,302	42,524
Attributable to:			
Shareholders of the Company		59,302	42,524
Earnings per share			
– Basic	*15*	24.52 cents	17.58 cents
– Diluted	*15*	N/A	N/A
Dividends	*12*	14,511	12,093

CONSOLIDATED BALANCE SHEET
as at 31st December 2006

	Note	2006 HK$'000	2005 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	4,111	5,025
Investment properties	17	16,800	16,800
Other asset	19	779	779
Rental deposits	21	306	2,058
Deferred tax assets	27	1,143	1,216
		23,139	25,878
Current assets			
Inventories	20	233,634	202,558
Trade and other receivables	21	161,099	129,165
Financial assets at fair value through profit or loss	22	3,501	3,038
Tax recoverable		190	798
Bank balances and cash	23	101,219	63,824
		499,643	399,383
Total assets		522,782	425,261
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	25	24,185	24,185
Reserves	26	306,005	261,214
Proposed dividend	12	9,674	7,256
Total equity		339,864	292,655
LIABILITIES			
Current liabilities			
Trade and other payables	24	49,594	58,904
Amounts due to related companies	32	968	–
Taxation payable		6,100	1,608
Borrowings	28	126,256	72,094
		182,918	132,606
Total equity and liabilities		522,782	425,261
Net current assets		316,725	266,777
Total assets less current liabilities		339,864	292,655

BALANCE SHEET
as at 31st December 2006

	Note	2006 HK$'000	2005 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	18	86,938	86,938
Current assets			
Deposits, prepayments and other receivables		217	224
Amounts due from subsidiaries	18	28,132	70,301
Tax recoverable		190	–
Bank balances and cash	23	44,699	370
		73,238	70,895
Total assets		160,176	157,833
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	25	24,185	24,185
Reserves	26	118,362	118,638
Proposed dividend		9,674	7,256
Total equity		152,221	150,079
LIABILITIES			
Current liabilities			
Other payables and accrued charges		7,955	7,525
Taxation payable		–	229
Total liabilities		7,955	7,754
Total equity and liabilities		160,176	157,833

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December 2006

	Attributable to the Company's equity holders					
	Share capital	Share premium	Capital reserve	Merger reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2005	24,185	29,345	34,115	3,700	170,879	262,224
Profit attributable to shareholders	–	–	–	–	42,524	42,524
Dividends paid *(Note 12)*						
2004 final dividend	–	–	–	–	(7,256)	(7,256)
2005 interim dividend	–	–	–	–	(4,837)	(4,837)
As 31st December 2005	24,185	29,345	34,115	3,700	201,310	292,655
At 1st January 2006	24,185	29,345	34,115	3,700	201,310	292,655
Profit attributable to shareholders	–	–	–	–	59,302	59,302
Dividends paid *(Note 12)*						
2005 final dividend	–	–	–	–	(7,256)	(7,256)
2006 interim dividend	–	–	–	–	(4,837)	(4,837)
As 31st December 2006	24,185	29,345	34,115	3,700	248,519	339,864

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31st December 2006

	Note	2006 HK$'000	2005 HK$'000
Cash flows from operating activities			
Cash flows from operations	29	4,625	20,646
Interest paid		(4,553)	(2,301)
Tax paid		(7,141)	(12,687)
Net cash (used in)/generated from operating activities		(7,069)	5,658
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,491)	(2,148)
Proceeds from disposal of property, plant and equipment		38	277
Purchase of other asset		–	(150)
Purchase of financial assets at fair value through profits or loss		(36,098)	(20,262)
Sale of financial assets at fair value through profit or loss		37,468	19,785
Dividends received from financial assets at fair value through profit or loss		146	151
Interest received		2,332	697
Net cash generated from/(used in) investing activities		2,395	(1,650)
Cash flows from financing activities			
Repayment of bank borrowings		(1,686)	(1,314)
Increase in trust receipt loans		55,848	6,685
Dividends paid		(12,093)	(12,093)
Net cash generated from/(used in) financing activities		42,069	(6,722)
Net increase/(decrease) in cash and cash equivalents		37,395	(2,714)
Cash and cash equivalents at 1st January		63,824	66,538
Cash and cash equivalents at 31st December		101,219	63,824
Analysis of cash and cash equivalents			
Bank balances and cash	23	101,219	63,824

NOTES TO THE ACCOUNTS

1. GENERAL INFORMATION

World Trade Bun Kee Ltd. (the "Company") and its subsidiaries (collectively the "Group") is principally engaged in trading of construction materials, mainly pipes and fittings.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These consolidated accounts are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated accounts have been approved for issue by the Board of Directors on 16th April 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) BASIS OF PREPARATION

The consolidated accounts of World Trade Bun Kee Ltd. have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss and investment properties, which are carried at fair value.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 4.

(i) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1st January 2006 but are either not relevant or not have significant impact to the Group:

- HKAS 19 Amendment – Actuarial Gains and Losses Group Plans and Disclosures;
- HKAS 21 Amendment – Net Investment in a Foreign Operation;
- HKAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment – The Fair Value Option;
- HKAS 39 and HKFRS 4 Amendment – Financial Guarantee Contracts;
- HKFRS 6 Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 Amendment – First-time Adoption of International Financial Reporting Standards and HKFRS 6 Amendment – Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC)-Int 4 – Determining whether an Arrangement contains a Lease;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) BASIS OF PREPARATION (continued)

(i) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations (continued)

- HK(IFRIC)-Int 5 – Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6 – Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

(ii) Standards, amendment and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st May 2006 or later periods that the Group has not early adopted:

HKFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures are effective for annual periods beginning on or after 1st January 2007. HKFRS introduces new disclosures relating to financial instruments. The Group will apply HKFRS 7 from 1st January 2007, but it is not expected to have any impact on the classification and valuation of the Group's financial instruments;

HKFRS 8, Operating Segments is effective for annual periods beginning on or after 1st January 2009. Under HKFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker. Items are reported based on the internal reporting. The Group will apply HKFRS 8 from 1st January 2009;

HK(IFRIC)-Int 8, Scope of HKFRS 2 is effective for annual periods beginning on or after 1st May 2006. HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1st January 2007, but it is not expected to have any impact on the Group's accounts;

HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment is effective for annual periods beginning on or after 1st November 2006. HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1st January 2007, but it is not expected to have any impact on the Group's accounts; and

HK(IFRIC)-Int 11, HKFRS 2 – Group and Treasury Share Transactions, is effective for annual periods beginning on or after 1st March 2007. HK(IFRIC)-Int 11 requires that certain types of transaction are accounted for as equity-settled or cash-settled transaction under HKFRS 2. It also addresses the accounting for share-based payment transaction involving two or more entities within on group. The Group will apply HK(IFRIC)-Int 11 from 1st January 2008, but it is not expected to have any impact to the Group's accounts.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

(a) BASIS OF PREPARATION (continued)

(iii) Interpretation to existing standards that are not yet effective and not relevant to the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st March 2006 or later periods but are not relevant to the Group's operations:

HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies is effective for annual periods beginning on or after 1st March 2006. HK(IFRIC)-Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations;

HK(IFRIC)-Int 9, Reassessment of Embedded Derivatives is effective for annual periods beginning on or after 1st June 2006. HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. As none of the group entities have changed the terms of their contracts, HK(IFRIC)-Int 9 is not relevant to the Group's operations; and

HK(IFRIC)-Int 12, Service Concession Arrangements is effective for annual periods beginning on or after 1st January 2008. HK(IFRIC)-Int 12 provides guidance on the accounting by operators in public-to-private service concession arrangements. As none of the group entities have service concession arrangements, HK(IFRIC)-Int 12 is not relevant to the Group's operations.

(b) CONSOLIDATION

The consolidated accounts include the financial statements of the Company and all its subsidiaries made up to 31 December.

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 profit and loss account.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) CONSOLIDATION (continued)

Intercompany 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.

(c) FOREIGN CURRENCY TRANSLATION

(i) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated accounts are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at yearend exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, comprising leasehold improvements, plant and machinery, equipment, furniture and fixtures and motor vehicles are stated at historical cost less accumulated deprecation and accumulated impairment losses. Historical costs includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

Deprecation of property plant and equipment is calculated using straight-line method to allocate cost at annual rates ranged from 20% to 30%.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and recognised in the profit and loss account.

(e) INVESTMENT PROPERTIES

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the profit and loss account during the financial period in which they are incurred.

Changes in fair values are recognised in the profit and loss account.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) INVESTMENT PROPERTIES (continued)

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the profit and loss account.

(f) IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES AND NON-FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicated that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of impairment of each reporting date.

(g) LEASE (AS THE LESSEE FOR OPERATING LEASES)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the profit and loss account on a straight-line basis over the period of the lease.

(h) CLUB DEBENTURE

Club debenture is stated at cost less any provision for impairment losses.

(i) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss are held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the profit and loss account in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit and loss account when the Group's right to receive payments is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) CLUB DEBENTURE (continued)

(i) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of trade receivables is described in Note 2(k).

(j) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average method, comprises all costs of purchases and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(k) 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 carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the profit and loss account within administrative expenses. When trade and other receivables are uncollectible, they are written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the profit and loss account.

(l) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand and deposits held at call with banks.

(m) SHARE CAPITAL

Ordinary shares are classified as equity.

(n) TRADE PAYABLES

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(o) EMPLOYEE BENEFITS

(i) Employee leaves

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) EMPLOYEE BENEFITS (continued)

(i) Employee leaves (continued)

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) Pension obligations

Following the adoption of the Mandatory Provident Fund ("MPF") Scheme in December 2000, all employees of the Group employed in Hong Kong joined the MPF Scheme. Under this scheme, employees and the Group are required to make contributions to the scheme calculated at 5% of the individual employee's monthly basic salaries, subject to a cap of HK$1,000. The Group's contributions to this scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in independently administered funds.

(p) DEFERRED TAXATION

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts.

Deferred taxation is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(q) BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) REVENUE RECOGNITION

Revenue comprises the fair value for the sales of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables are reasonably assured.

(ii) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered.

(iii) Gross rental income from investment properties

Gross rental income from investment properties is recognised on a straight line basis over the periods of the respective leases.

(iv) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(v) Dividend income

Dividend income is recognised when the right to receive payment is established.

(s) DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

3.1 FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, credit risk and price risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) FOREIGN EXCHANGE RISK

The Group operates in Hong Kong and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Australian dollars, Euro dollars, United States dollars and Renminbi. Foreign exchange risk arises from future commercial transactions. In order to mitigate the foreign currency risk, foreign currency forward contracts are entered into in respect of highly probable foreign currency forecast transaction in accordance with the Group's risk management policies.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 FINANCIAL RISK FACTORS (continued)

(b) INTEREST RATE RISK

The Group's fair value interest rate risk relates to variable-rate borrowings (see Note 28 for details of these borrowings). Besides, the Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings. The interest rates and terms of repayment of bank borrowings of the Group are disclosed in Note 28 respectively.

(c) CREDIT RISK

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December 2006 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 the credit risk, the management of the Group has delegated a team responsible for 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 regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

(d) PRICE RISK

The Group's held-for-trading investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

3.2 FAIR VALUE ESTIMATION

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

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

The Group's net book value of property, plant and equipment as at 31st December 2006 was HK$5,025,000. The Group depreciates the plant and machinery on a straight line basis over the estimated useful life of 3 to 5 years, and after taking into account of their estimated residual value, using the straight-line method, at the rate 20% to 30% per annum, commencing from the date the equipment is placed into productive use. The estimated useful life and dates that the Group places the equipment into productive use reflects the Directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment.

PROVISION FOR IMPAIRMENT OF TRADE AND OTHER RECEIVABLES

The policy for provision for impairment of trade and other receivables of the Group is based on the evaluation of collectability and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

PROVISION FOR INVENTORIES

The management of the Group reviews the marketability of inventory items at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales. The management estimates the net realisable value for such finished goods and work-in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes provision for obsolete items.

INCOME TAXES

The Group is subject to income taxes in Hong Kong and People's Republic of China ("PRC"). Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the trading and distribution of construction materials, mainly water pipes and fittings.

	2006	**2005**
	HK$'000	*HK$'000*
Turnover		
Sales of pipes and fittings	616,463	521,820
Rental income	960	884
Sub-letting of warehouse	133	211
Transportation income	–	6
	617,556	522,921

5. TURNOVER AND SEGMENT INFORMATION (continued)

Business segment information is not shown as the turnover and assets of the wholesale business represent more than 90% of the total turnover and assets of the Group respectively.

Geographical segment information is not shown as over 90% of the Group's turnover and operating profit are derived from Hong Kong.

6. OTHER INCOME

	2006	**2005**
	HK$'000	*HK$'000*
Interest income	2,332	697
Dividend income from financial assets at fair value through profit or loss	146	151
Insurance compensation	–	1,499
	2,478	2,347

7. OTHER GAINS, NET

	2006	**2005**
	HK$'000	*HK$'000*
Net exchange gains	2,053	1,933
Net realised gain on disposal of financial assets at fair value through profit or loss	1,565	488
	3,618	2,421

8. EXPENSES BY NATURE

	2006	**2005**
	HK$'000	*HK$'000*
Cost of inventories	441,013	382,460
Auditor's remuneration	590	518
Depreciation of property, plant and equipment	2,082	2,058
Employee benefit expenses (including Directors' emoluments *(Note 14)*)	57,432	51,866
Operating lease on land and buildings	13,940	10,467
Loss/(gain) on disposal of property, plant and equipment	285	(277)
Write-back of provision for legal compensation	–	(1,500)
Impairment of trade and other receivables	1,500	4,000
Provision for slow-moving inventories	1,908	2,498
Net fair value (gain)/loss on financial assets at fair value through profit or loss	(268)	180
Other expenses	29,001	22,005
	547,483	474,275
Representing:		
Cost of sales	450,174	391,852
Selling and distribution costs	19,357	13,840
Administrative expenses	77,952	68,583
	547,483	474,275

9. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on bank borrowings	4,537	2,282
Others	16	19
	4,553	2,301

10. TAXATION

	2006	2005
	HK$'000	*HK$'000*
Current taxation:		
– Hong Kong profits tax	12,060	8,435
– Overseas tax	427	587
– Over provisions in prior years	(246)	(135)
Deferred taxation *(Note 27)*	73	(298)
Taxation charge	12,314	8,589

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the principal place of operation of the Company as follows:

	2006	2005
	HK$'000	*HK$'000*
Profit before taxation	71,616	51,113
Calculated at a taxation rate of 17.5% (2005: 17.5%)	12,533	8,945
Effect of different taxation rates in other countries	213	275
Utilisation of previously unrecognised tax losses	(49)	(35)
Unrecognised tax losses	–	35
Tax effect of income not subject to taxation	(210)	(251)
Tax effect of expenses not deductible for taxation purposes	–	53
Over provisions in prior years	(246)	(135)
Adjustment of deferred tax *(Note 27)*	73	(298)
Taxation charge	12,314	8,589

11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$14,235,000 (2005: HK$11,447,000).

12. DIVIDENDS

	2006	2005
	HK$'000	*HK$'000*
Interim, paid, of HK$0.02 (2005: HK$0.02) per ordinary share	4,837	4,837
Final, proposed, of HK$0.04 (2005: HK$0.03) per ordinary share	9,674	7,256
	14,511	12,093

At a meeting held on 16th April 2007, the Directors recommended a final dividend of HK$0.04 per ordinary share. This proposed dividend is not recognised as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31st December 2007.

13. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2006	2005
	HK$'000	*HK$'000*
Wages and salaries	56,171	50,541
Termination benefits	68	356
Pension costs – mandatory provident fund	1,193	969
	57,432	51,866

14. DIRECTORS' EMOLUMENTS

(a) The aggregate amounts of emoluments paid and payable to the Directors of the Company during the year are as follows:

Name	Fees	Salaries and other benefits	Bonus	Group's contributions to retirement scheme	2006 Total emoluments	2005 Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Tsang Chung Yin	–	1,972	3,476	12	5,460	4,176
Tsang Yin	–	2,894	3,510	12	6,416	5,173
Chan Churk Kai	–	2,389	633	12	3,034	2,896
Tsang Sik Yin, Eric	–	1,289	210	6	1,505	4,429
Tsang Ngan Chung	–	1,797	3,488	12	5,297	4,025
Ngai Chui Ling	–	488	207	12	707	703
Wong Wah On, Edward	120	–	–	–	120	120
Chan Yuk Ming	120	–	–	–	120	120
Wong, Samuel Kwok Kay	120	–	–	–	120	120
Total 2006	360	10,829	11,524	66	22,779	–
Total 2005	360	10,467	10,863	72	–	21,762

14. DIRECTORS' EMOLUMENTS (continued)

(b) The emoluments of the Directors fell within the following bands:

	2006	2005
Emoluments bands		
Nil to HK$1,000,000	4	4
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	–	–
Over HK$2,500,000	4	5
	9	9

Emoluments paid to Independent Non-executive Directors amounted to HK$360,000 (2005: HK$360,000).

(c) The five individuals whose emoluments were the highest in the Group during the year are the Directors of the Company. Details of their emoluments are reflected in the analysis presented in Note 14(a).

(d) During the year, no Directors waived any emoluments and no emoluments had been paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office.

15. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK$59,302,000 (2005: HK$42,524,000) and the weighted average of 241,854,000 shares (2005: 241,854,000 shares) in issue during the year.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in years 2006 and 2005.

16. PROPERTY, PLANT AND EQUIPMENT

At cost:

	Leasehold improvements *HK$'000*	Office furniture, fixtures and fittings *HK$'000*	Office equipment *HK$'000*	Machinery and equipment *HK$'000*	Computer equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
At 1st January 2005							
Cost	6,771	516	111	2,717	4,575	12,388	27,078
Accumulated depreciation	(3,871)	(516)	(72)	(2,082)	(4,429)	(11,173)	(22,143)
Net book amount	2,900	–	39	635	146	1,215	4,935
Year ended 31st December 2005							
Opening net book amount	2,900	–	39	635	146	1,215	4,935
Additions	825	–	64	303	24	932	2,148
Depreciation	(808)	–	(11)	(395)	(43)	(801)	(2,058)
Net book amount	2,917	–	92	543	127	1,346	5,025
At 31st December 2005							
Cost	7,596	516	175	3,020	4,599	13,320	29,226
Accumulated depreciation	(4,679)	(516)	(83)	(2,477)	(4,472)	(11,974)	(24,201)
Net book amount	2,917	–	92	543	127	1,346	5,025
Year ended 31st December 2006							
Opening net book amount	2,917	–	92	543	127	1,346	5,025
Additions	37	–	55	293	801	305	1,491
Disposal	(323)	–	–	–	–	–	(323)
Depreciation	(821)	–	(29)	(335)	(167)	(730)	(2,082)
Net book amount	1,810	–	118	501	761	921	4,111
At 31st December 2006							
Cost	7,232	516	195	3,313	5,400	6,530	23,186
Accumulated depreciation	(5,422)	(516)	(77)	(2,812)	(4,639)	(5,609)	(19,075)
Net book amount	1,810	–	118	501	761	921	4,111

Depreciation expense of HK$2,082,000 (2005: HK$2,058,000) has been expensed in administrative expenses.

17. INVESTMENT PROPERTIES

	2006	2005
	HK$'000	*HK$'000*
Beginning and end of the year	16,800	16,800

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

	2006	2005
	HK$'000	*HK$'000*
In Hong Kong, held on:		
Leases of between 10 to 50 years	16,800	16,800

Investment properties were revalued at 31st December 2006 on the basis of their open market value by Lawson David & Sung Surveyors Limited, a firm of independent qualified property valuers.

18. INVESTMENTS IN SUBSIDIARIES

Company

	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	86,938	86,938

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

Particulars of the subsidiaries are as follows:

Company	Place of incorporation and kind of legal entity	Issued and fully paid-up share capital	Percentage of attributable equity	Principal activities and place of operations
Held directly:				
World Trade Bun Kee (BVI) Ltd	British Virgin Islands, limited liability company	Ordinary shares. US$10,000 of holding 1 US dollar each	100%	Investment in Hong Kong
Held indirectly:				
Bun Kee (International) Limited	Hong Kong, limited liability company	Ordinary shares HK$100 of 1 HK dollar each	100%	Trading of construction materials, mainly pipes and fittings in Hong Kong
		Non-voting deferred shares HK$3,000,000 of 1 HK dollar each	0%	
Hamerwind Logistic Company Limited	Hong Kong, limited liability company	Ordinary shares HK$80,000 of 100 HK dollar each	100%	Provision of warehousing and logistic services in Hong Kong

18. INVESTMENTS IN SUBSIDIARIES (continued)

Company	Place of incorporation and kind of legal entity	Issued and fully paid-up share capital	Percentage of attributable equity	Principal activities and place of operations
Hing's Godown & Transportation Company Limited	Hong Kong, limited liability company	Ordinary shares HK$100,000 of 100 HK dollar each	100%	Provision of warehousing services in Hong Kong
National Link Investment Limited	Hong Kong, limited liability company	Ordinary shares HK$600,000 of 1 HK dollar each	100%	Provision of agency services and investment holding in Hong Kong
Patterson Engineering Company Limited	Hong Kong, limited liability company	Ordinary shares HK$100,000 of 100 HK dollar each	100%	Trading of construction materials, provision of agency services and property investment in Hong Kong
Huge Vantage International Industrial Limited	Hong Kong, limited liability company	Ordinary shares HK$100,000 of 1 HK dollar each	100%	Trading of sanitary products fluorescent lamps and stainless steel products in Hong Kong
Bun Kee Building Material (Shanghai) Co., Ltd	PRC, limited liability company	Ordinary shares US$200,000 of 1 US dollar each	100%	Trading of construction. materials, mainly pipes and fittings in PRC
Bun Kee Building Material (Guangzhou) Co., Ltd	PRC, limited liability company	Ordinary shares HK$2,500,000 of 1 HK dollar each	100%	Manufacturing and assembly construction material in PRC
Bun Kee Building Material & Equipment (Macao) Co., Ltd	Macau, limited liability company	Ordinary shares MOP50,000 of 1 MOP each	100%	Trading of construction materials, mainly pipes and fittings in Macau

19. OTHER ASSET

Club debenture:

	2006	2005
	HK$'000	*HK$'000*
Beginning of the year	779	629
Additions	–	150
End of the year	779	779

20. INVENTORIES

	2006	2005
	HK$'000	*HK$'000*
Merchandises	233,634	202,588

At 31st December 2006, provision for slow-moving inventories amounted to HK$9,348,000 (2005: HK$7,440,000).

The cost of inventories recognised as expenses and included in cost of sales amounted to HK$441,013,000 (2005: HK$382,460,000).

21. TRADE AND OTHER RECEIVABLES

	2006	2005
	HK$'000	*HK$'000*
Trade receivables	142,480	120,718
Less: provision for impairment of receivables	(2,200)	(5,707)
Trade receivables, net	140,280	115,011
Prepayments	14,480	11,991
Rental deposits	2,529	2,281
Other receivables	4,116	1,940
	161,405	131,223
Less: non-current portion	(306)	(2,058)
Current portion	161,099	129,165

The carrying amounts of trade and other receivables approximate their fair values. The balances are mainly denominated in Hong Kong dollars.

21. TRADE AND OTHER RECEIVABLES (continued)

Details of the ageing analysis of trade receivables is as follows:

	2006	2005
	HK$'000	*HK$'000*
Current to 30 days	43,407	41,480
31 days to 60 days	37,345	31,307
61 days to 90 days	24,280	23,279
91 days to 120 days	21,354	11,309
Over 120 days	16,094	13,343
	142,480	120,718

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2006	2005
	HK$'000	*HK$'000*
Market value of equity securities listed in Hong Kong	3,501	3,038

Changes in fair values of financial assets at fair value through profit or loss are recognised in the profit and loss account.

The fair values of all equity securities are based on their current bid prices in an active market.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at bank and in hand	87,745	63,824	44,699	370
Short-term bank deposits	13,474	–	–	–
	101,219	63,824	44,699	370

The effective interest rate on short-term bank deposits of the Group was 4.03% (2005: 1.95%). These deposits have an average maturity of 21 days (2005: 24 days).

23. CASH AND CASH EQUIVALENTS (continued)

The carrying amounts of the Group and the Company's cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong dollars	95,940	62,877	44,699	370
Euro dollars	3,133	–	–	–
United States dollars	1,299	202	–	–
Australian dollars	846	744	–	–
Other currencies	1	1	–	–
	101,219	63,824	44,699	370

24. TRADE AND OTHER PAYABLES

	2006	**2005**
	HK$'000	*HK$'000*
Trade payables	7,123	5,690
Accrued expenses and other payables	42,471	53,214
	49,594	58,904

Details of the ageing analysis of trade payables is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Current to 30 days	3,137	2,680
31 days to 60 days	2,163	1,793
61 days to 90 days	1,602	1,054
Over 90 days	221	163
	7,123	5,690

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	2006	**2005**
	HK$'000	*HK$'000*
Hong Kong dollars	47,029	58,597
United States dollars	2,189	307
Other currencies	376	–
	49,594	58,904

25. SHARE CAPITAL

(a) SHARE CAPITAL

	Number of shares *HK'000*	Nominal value *HK'000*
Ordinary shares of HK$0.10 each		
Authorised:		
At 1st January and 31st December, 2005 and 2006	500,000	50,000
Issued and fully paid:		
At 1st January, 2005 and 2006	241,854	24,185
At 31st December, 2005 and 2006	241,854	24,185

(b) SHARE OPTIONS

(i) Under the terms of the share option scheme (the "Scheme") adopted by the Company on 24th June 2004, the Directors of the Company are authorised at their absolute discretion, to invite any Eligible Person as defined in the Report of the Directors, to take up options to subscribe for shares in the Company. The Subscription price will be determined by the Board, but shall be at least the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant options are deemed to be granted and accepted in accordance with the terms of the Scheme (the "Commencement Date"), which must be a day on which the Stock Exchange is open for the business of dealing in securities ("Trading Day"); (b) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five Trading Days immediately preceding the Commencement Date; and (c) the nominal value of the shares. A consideration of HK$10 is payable on acceptance of the grant of an option. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 10% of the issued share capital of the Company as at the date of adoption of the Scheme. The Scheme became effective for a period of ten years commencing 24th June 2004 which is the date of adoption of the Scheme.

(ii) No option was granted during the year. As at 31st December 2006, there is no share option outstanding (2005: Nil).

26. RESERVES

GROUP

	Share premium *HK$'000*	Capital reserve *HK$'000*	Merger reserve *(note i)* *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1st January 2005	29,345	34,115	3,700	170,879	238,039
Profit attributable to shareholders	–	–	–	42,524	42,524
Dividends paid *(Note 12)*					
2004 final dividend	–	–	–	(7,256)	(7,256)
2005 interim dividend	–	–	–	(4,837)	(4,837)
At 31st December 2005	29,345	34,115	3,700	201,310	268,470
Proposed final dividend *(Note 12)*	–	–	–	(7,256)	(7,256)
	29,345	34,115	3,700	194,054	261,214
At 1st January 2006	29,345	34,115	3,700	201,310	268,470
Profit attributable to shareholders	–	–	–	59,302	59,302
Dividends paid *(Note 12)*					
2005 final dividend	–	–	–	(7,256)	(7,256)
2006 interim dividend	–	–	–	(4,837)	(4,837)
At 31st December 2006	29,345	34,115	3,700	248,519	315,679
Proposed final dividend *(Note 12)*	–	–	–	(9,674)	(9,674)
	29,345	34,115	3,700	238,845	306,005

26. RESERVES (continued)

COMPANY

	Contributed surplus *(note ii)* *HK$'000*	Share premium *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1st January 2005	86,759	29,345	10,436	126,540
Profit attributable to shareholders	–	–	11,447	11,447
Dividends paid *(Note 12)*				
2004 final dividend	–	–	(7,256)	(7,256)
2005 interim dividend	–	–	(4,837)	(4,837)
At 31st December 2005	86,759	29,345	9,790	125,894
Proposed final dividend *(Note 12)*	–	–	(7,256)	(7,256)
	86,759	29,345	2,534	118,638
At 1st January 2006	86,759	29,345	9,790	125,894
Profit attributable to shareholders	–	–	14,235	14,235
Dividends paid *(Note 12)*				
2005 final dividend	–	–	(7,256)	(7,256)
2006 interim dividend	–	–	(4,837)	(4,837)
At 31st December 2006	86,759	29,345	11,932	128,036
Proposed final dividend *(Note 12)*	–	–	(9,674)	(9,674)
	86,759	29,345	2,258	118,362

(i) The merger reserve of the Group arising from the group reconstruction is determined by the difference between the nominal value of shares of the subsidiaries acquired pursuant to the group reconstruction and the nominal value of the Company's shares deemed to have been issued.

(ii) The contributed surplus of the Company represents the difference between the nominal value of the shares issued by the Company in exchange for all the issued ordinary shares of World Trade Bun Kee (BVI) Ltd. and the value of net assets of the underlying subsidiaries acquired by the Company on 22nd November 2000. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders, subject to a solvency test. At the group level, the contributed surplus is reclassified into its component of reserves of the underlying subsidiaries.

(iii) At 31st December 2006, reserves of the Company available for distribution, including the contributed surplus, amounted to HK$98,691,000 (2005: HK$96,549,000).

27. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

The movement on the deferred tax assets account is as follows:

	2006	2005
	HK$'000	*HK$'000*
At 1st January	(1,216)	(918)
Deferred taxation charged/(credited) to profit and loss account *(Note 10)*	73	(298)
At 31st December	(1,143)	(1,216)

The movement in deferred tax (assets)/liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax assets

	Tax depreciation		Provisions		Total	
	2006	2005	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January	(89)	(259)	(1,302)	(704)	(1,391)	(963)
Charged/(credited) to profit and loss account	11	170	(334)	(598)	(323)	(428)
At 31st December	(78)	(89)	(1,636)	(1,302)	(1,714)	(1,391)

Deferred tax liabilities

	Tax depreciation	
	2006	2005
	HK$'000	*HK$'000*
As 1st January	175	45
Charged to profit and loss account	396	130
As at 31st December	571	175

	2006	2005
	HK$'000	*HK$'000*
Deferred tax assets	(1,714)	(1,391)
Deferred tax liabilities	571	175
	(1,143)	(1,216)

28. BORROWINGS

	2006	2005
	HK$'000	*HK$'000*
Bank borrowings	–	1,686
Trust receipt loans	126,256	70,408
	126,256	72,094

The borrowings of the Group are in Hong Kong dollars, interest is payable at a floating rate and wholly repayable within one year. The average effective interest rate per annum of the borrowings at 31st December 2006 was 4.78% (2005: 5.18%).

The Group had aggregate banking facilities of approximately HK$315,125,000 as at 31st December 2006 (2005: HK$284,125,000) for overdrafts, term loans and other trade finance facilities. Banking facilities utilised as at 31st December 2006 amounted to approximately HK$143,931,000 (2005: HK$93,577,000). The banking facilities were secured by corporate guarantees from the Company.

29. CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit for the year to cash generated from operations:

	2006	2005
	HK$'000	*HK$'000*
Profit for the year	59,302	42,524
Adjustments for:		
– Taxation	12,314	8,589
– Depreciation of property, plant and equipment	2,082	2,058
– Loss/(gain) on disposal of property, plant and equipment	285	(277)
– Write-back of provision for legal compensation	–	(1,500)
– Net fair value (gain)/loss on financial assets at fair value through profit or loss	(268)	180
– Net realised gain on disposal of financial assets at fair value through profit or loss	(1,565)	(488)
– Interest income	(2,332)	(697)
– Dividend income from financial assets at fair value through profit or loss	(146)	(151)
– Interest expenses	4,553	2,301
Changes in working capital		
– Increase in inventories	(31,076)	(27,922)
– (Increase)/decrease in trade and other receivables	(30,182)	417
– Decrease in trade and other payables	(9,310)	(4,388)
– Increase in amounts due to related companies	968	–
Cash generated from operations	4,625	20,646

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	2006	2005
	HK$'000	*HK$'000*
Net book amount	323	–
(Loss)/gain on disposal of property, plant and equipment	(285)	277
Proceeds from disposal of property, plant and equipment	38	277

30. OPERATING LEASES

(a) AS LESSEE

At 31st December 2006, the Group had future aggregate minimum lease payments under noncancellable operating leases in respect of land and buildings as follows:

	2006	2005
	HK$'000	*HK$'000*
Not later than one year	12,751	13,726
Later than one year and not later than five years	6,234	10,875
	18,985	24,601

(b) AS LESSOR

At 31st December 2006, the Group had future aggregate minimum lease receivables under noncancellable operating leases in respect of its investment properties as follows:

	2006	2005
	HK$'000	*HK$'000*
Not later than one year	760	960
Later than one year and not later than five years	–	760
	760	1,720

31. PENDING LITIGATION

Bun Kee (International) Limited was cited as a defendant in an action brought by a customer. The Group has filed a statement of defence. The sum included in the claim amounted to approximately HK$645,000 plus other related costs. No further action has been taken by the customer since November 1999. The Directors are of the opinion that the Group is unlikely to suffer any losses from the claim and no provision is considered necessary.

32. RELATED PARTY TRANSACTIONS

The Company is controlled by On Top Industrial Limited ("On Top"), a company incorporated in the British Virgin Islands, which directly owns 50.61% of the Company's shares. On Top is jointly controlled by Jong Yee Limited ("Jong Yee"), Kingsville Inc. ("Kingsville"), Manhattan Properties Limited ("Manhattan") and Click Fort Limited ("Click Fort") and which indirectly and collectively own 23.82% of the Company's shares. The remaining 25.57% of the shares are widely held.

Jong Yee is the trustee of the Jong Yee Unit Trust. All units of the Jong Yee Unit Trust are owned by the Karny Trust, the discretionary beneficiaries of which are family members of Mr. Tsang Chung Yin.

Kingsville is the trustee of the Kingsville Unit Trust. All units of the Kingsville Unit Trust are owned by the Fungming Trust, the discretionary beneficiaries of which are family members of Dr. Tsang Ngan Chung.

Manhattan Properties is owned by St. George's Trust Company Limited which is the trustee of the Manhattan Trust, the discretionary beneficiaries of which are family members of Mr. Tsang Yin.

Click Fort is owned by Mr. Tsang Kwong Sang, Sunny and Mr. Tsang Kwong Fai.

32. RELATED PARTY TRANSACTIONS (continued)

During the year, the Group had the following significant related party transactions, which were carried out in the normal course of Group's business:

	note	2006 HK$'000	2005 HK$'000
(a) Rental expenses paid to:			
Bun Kee (H.K.) Limited	*(i)*	4,632	3,266
Bun Kee (China) Limited	*(i)*	1,500	1,320
Powerful Agents Limited	*(i)*	5,532	3,925

(i) These companies are beneficially owned and controlled by certain Directors of the Company. Rentals were paid to these companies for leasing office premises, retail outlets and warehouses of the Group.

Rental agreements were entered into between the Group and Bun Kee (H.K.) Limited, Bun Kee (China) Limited and Powerful Agents Limited under which these properties were rented to the Group based on market rates as determined by a firm of independent property valuers.

(b) Year-end balances

	2006 HK$'000	2005 HK$'000
Bun Kee (H.K.) Limited	386	–
Bun Kee (China) Limited	121	–
Powerful Agents Limited	461	–
	968	–

The amounts due to related companies are unsecured, interest-free and repayable on demand

(c) Key management compensation

	2006 HK$'000	2005 HK$'000
Salaries, bonus and other short-term employee benefits	24,433	23,781
Pension costs – mandatory provident fund	410	108
	24,843	23,889

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CHINA PIPE GROUP FOR THE YEAR ENDED 31 DECEMBER 2005

The following are audited consolidated financial statement of China Pipe for the year ended 31 December 2005 as extracted from the annual report of China Pipe for the year ended 31 December 2005:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31st December 2005

	Note	2005 *HK$'000*	2004 *HK$'000*
Turnover	*5*	522,921	445,260
Cost of sales		(391,852)	(320,609)
Gross profit		131,069	124,651
Other revenues	*5*	848	253
Other income	*5*	7,574	25,033
Selling and distribution costs		(13,840)	(11,352)
Administrative expenses		(71,684)	(77,125)
Other operating expenses		(553)	(407)
Operating profit	*6*	53,414	61,053
Finance costs	*7*	(2,301)	(817)
Profit before taxation		51,113	60,236
Taxation	*8*	(8,589)	(9,961)
Profit for the year		42,524	50,275
Attributable to:			
Profit attributable to shareholders of the Company	*24*	42,524	50,430
Minority interests		–	(155)
		42,524	50,275
Earnings per share			
– Basic	*13*	17.58 cents	20.85 cents
– Diluted	*13*	N/A	N/A

CONSOLIDATED BALANCE SHEET
as at 31st December 2005

	Note	2005 HK$'000	2004 HK$'000
ASSETS			
Non-current assets			
Plant and equipment	14	5,025	4,935
Investment properties	15	16,800	16,800
Available-for-sale financial assets	17	779	–
Other investment		–	629
Rental deposits	19	2,058	176
Deferred tax assets	25	1,216	918
		25,878	23,458
Current assets			
Inventories	18	202,558	174,636
Trade and other receivables	19	129,165	131,464
Financial assets at fair value through profit or loss	20	3,038	–
Trading securities		–	2,253
Tax recoverable		798	316
Bank balances and cash	21	63,824	66,538
		399,383	375,207
Total assets		425,261	398,665
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	23	24,185	24,185
Reserves	24	261,214	230,783
Proposed dividend	10	7,256	7,256
Total equity		292,655	262,224

	Note	2005 HK$'000	2004 HK$'000
LIABILITIES			
Non-current liabilities			
Borrowings	26	–	1,667
Current liabilities			
Trade and other payables	22	58,904	64,792
Taxation payable		1,608	4,926
Borrowings	26	72,094	65,056
		132,606	134,774
Total liabilities		132,606	136,441
Total equity and liabilities		425,261	398,665
Net current assets		266,777	240,433
Total assets less current liabilities		292,655	263,891

BALANCE SHEET
as at 31st December 2005

	Note	2005 HK$'000	2004 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	16	157,239	170,559
Current assets			
Deposits, prepayments and other receivables		224	223
Tax Recoverable		–	14
Bank balances and cash		370	128
		594	365
Total assets		157,833	170,924
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	23	24,185	24,185
Reserves	24	118,638	119,284
Proposed dividend	10	7,256	7,256
Total equity		150,079	150,725
LIABILITIES			
Current liabilities			
Other payables and accrued charges		7,525	20,199
Taxation Payable		229	–
Total liabilities		7,754	20,199
Total equity and liabilities		157,833	170,924

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31st December 2005

	Note	2005 HK$'000	2004 HK$'000
Total equity as at 1st January		262,224	221,076
Surplus on revaluation of investment properties		–	2,811
Profit for the year		42,524	50,430
Dividends	10	(12,093)	(12,093)
Total equity as at 31st December		292,655	262,224

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31st December 2005

	Note	2005 HK$'000	2004 HK$'000
Cash flows from operating activities	27(a)	20,646	21,388
Interest paid		(2,301)	(817)
Tax paid		(12,687)	(7,612)
Net cash generated from operating activities		5,658	12,959
Cash flows from investing activities			
Purchase of plant and equipment		(2,148)	(17,247)
Proceeds from disposal of plant and equipment		277	–
Proceeds from disposal of property held for sale		–	18,002
Purchase of available-for-sale financial assets		(150)	–
Purchase of financial assets at fair value through profits or loss		(477)	–
Sales of trading Securities		–	16
Dividends received from financial assets to fair value through profit or loss/trading securities		151	88
Interest received		697	165
Net cash (used in)/generated from investing activities		(1,650)	1,024
Cash flows from financing activities	27(b)		
New bank loan raised		–	4,000
Repayment of bank loans		(1,314)	(5,290)
Increase in trust receipt loans		6,685	14,606
Dividends paid		(12,093)	(12,093)
Net cash (used in)/generated from financing activities		(6,722)	1,223
Net (decrease)/increase in cash and cash equivalents		(2,714)	15,206
Cash and cash equivalents at 1st January		66,538	51,332
Cash and cash equivalents at 31st December		63,824	66,538
Analysis of cash and cash equivalents			
Bank balances and cash	21	63,824	66,538

NOTES TO THE ACCOUNTS

1. GERENAL INFORMATION

The Company is a limited liability company incorporated in Bermuda. The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These consolidated accounts are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated accounts have been approved for issue by the Board of Directors on 19th April 2006.

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in Notes 16 to the account.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated accounts are set out below.

(a) BASIS OF PREPARATION

The consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss and investment properties, which are carried at fair value.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 4.

In 2005, the Group adopted the following new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 Comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment property
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-base Payments

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) BASIS OF PREPARATION (continued)

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 17, 21, 23, 24, 33, and 36 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of accounts and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23 and 36 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities have been re-evaluated based on the guidance to the revised standard.

– HKAS 24 had affected the identification of related parties and some other related-party disclosures.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the profit and loss account as part of other income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the profit and loss account.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments which require the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has not applied HKFRS 2 to share options that were granted after 7th November 2002 and had vested before 1st January 2005 in accordance with the relevant transitional provisions. Comparative figures have not been restated.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis;

– HKAS 40 – since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained profits as at 1 January 2005, including the reclassification of any amount held in revaluation surplus for investment property.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) CONSOLIDATION

The consolidated accounts include the financial statements of the Company and all its subsidiaries made up to 31 December.

Subsidiaries are all 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 profit and loss account.

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.

(c) FOREIGN CURRENCY TRANSLATION

(i) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated accounts are presented in thousands of units of Hong Kong dollars, which is the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at yearend exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) FOREIGN CURRENCY TRANSLATION (continued)

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

(d) PLANT AND EQUIPMENT

Plant and equipment, comprising leasehold improvements, plant and machinery, equipment, furniture and fixtures and motor vehicles are stated at historical cost less accumulated deprecation and accumulated impairment losses. Historical costs includes expenditure that is directly attributable to the acquisition of the items.

Deprecation of plant and equipment is calculated using straight-line method to allocate cost at annual rates ranged from 20% to 30%.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(e) INVESTMENT PROPERTIES

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) INVESTMENT PROPERTIES (continued)

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the profit and loss account during the financial period in which they are incurred.

Changes in fair values are recognised in the profit and loss account.

(f) IMPAIRMENT OF ASSETS

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicated that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(g) OPERATING LEASE

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the profit and loss account on a straight-line basis over the period of the lease.

(h) INVESTMENT

From 1 January 2004 to 31 December 2004: The Group classified its investments in securities, other than subsidiaries as trading securities.

Trading securities were carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities were recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the profit and loss account as they arised.

From 1 January 2005 onwards: The Group classifies its investments in the following categories: financial assets at fair value through profit or loss and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) INVESTMENT (continued)

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are nonderivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the profit and loss account in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

(i) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average method, comprises all costs of purchases and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) 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 profit and loss account.

(k) CASH AND CASH EQUIVALENTS

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

(l) SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(m) EMPLOYEE BENEFITS

(i) Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) Pensions obligations

Following the adoption of the Mandatory Provident Fund ("MPF") Scheme in December 2000, all employees of the Group employed in Hong Kong joined the MPF Scheme. Under this scheme, employees and the Group are required to make contributions to the scheme calculated at 5% of the individual employee's monthly basic salaries, subject to a cap of HK$1,000. The Group's contributions to this scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in independently administered funds.

(n) DEFERRED TAXATION

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) DEFERRED TAXATION (continued)

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(o) 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 profit and loss account over the period of the borrowings using the effective interest method.

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

(p) REVENUE RECOGNITION

Revenue comprises the fair value for the sales of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Sales of Goods

Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Sales of Services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(iii) Interest Income

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

(iv) Dividend Income

Dividend income is recognised when the right to receive payment is established.

(q) DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

3.1 FINANCIAL RISK FACTORS

The Group's major financial instruments include trade receivables, other receivables, trade payables, other payables and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) CURRENCY RISK

Several subsidiaries of the Company have foreign currency trade, which expose the Group to foreign currency risk. In order to mitigate the foreign currency risk, foreign currency forward contracts are entered into in respect of highly probable foreign currency forecast transaction in accordance with the Group's risk management policies.

(b) INTEREST RATE RISK

The Group's fair value interest rate risk relates to variable-rate borrowings (see Note 26 for details of these borrowings). Besides, the Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings. The interest rates and terms of repayment of bank borrowings of the Group are disclosed in note 26 respectively.

(c) CREDIT RISK

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 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 the credit risk, the management of the Group has delegated a team responsible for 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 regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

(d) PRICE RISK

The Group's held-for-trading investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

3.2 FAIR VALUE ESTIMATION

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In the process of applying the entity's accounting policies which are described in note 2, management has made the following judgements that have significant effect on the amounts recognised in the accounts. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

USEFUL LIVES OF PLANT AND EQUIPMENT

The Group's net book value of plant and equipment as at 31 December 2005 was HK$5,025,000. The Group depreciates the plant and machinery on a straight line basis over the estimated useful life of 3 to 5 years, and after taking into account of their estimated residual value, using the straight-line method, at the rate 20% to 30% per annum, commencing from the date the equipment is placed into productive use. The estimated useful life and dates that the Group places the equipment into productive use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's plant and equipment.

PROVISION FOR IMPAIRMENT OF TRADE AND OTHER RECEIVABLES

The policy for provision for impairment of trade and other receivables of the Group is based on the evaluation of collectability and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

PROVISION FOR INVENTORIES

The management of the Group reviews the marketability of inventory items at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales. The management estimates the net realisable value for such finished goods and work-in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a productby–product basis at each balance sheet date and makes provision for obsolete items.

INCOME TAXES

The Group is subject to income taxes in Hong Kong and People's Republic of China ("PRC"). Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. TURNOVER, REVENUES AND SEGMENT INFORMATION

The Group is principally engaged in the trading of construction materials, mainly water pipes and fittings. The results of operations by principal activities are summarised as follows:

	2005	2004
	HK$'000	*HK$'000*
Turnover		
Sales of pipes and fittings	521,820	443,880
Rental income	884	945
Sub-letting of warehouse	211	410
Transportation income	6	25
	522,921	445,260
Other revenues		
Interest income	697	165
Dividend income from financial assets at fair value through profit on loss/trading securities	151	88
	848	253
Other income		
Insurance compensation	1,499	17,395
Net exchange gains	1,933	1,453
Gain on disposal of property held for sale	–	4,112
Realised gain on disposal of financial assets at fair value through profit or loss	488	–
Realised gain on disposal of trading securities	–	432
Gain on disposal of plant and equipment	277	–
Write back of provision for legal compensation	1,500	–
Others	1,877	1,641
	7,574	25,033
Total revenues	531,343	470,546

Business segment information is not presented as the revenue, results and assets of the wholesale business represent more than 90% of the total revenue, results and assets of the Group respectively.

Geographical segment information is not shown as over 90% of the Group's turnover and operating profit are derived from Hong Kong.

6. EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution costs, administrative expenses and other operating expenses are analysed as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Charging/(crediting)		
Auditors' remuneration	518	447
Depreciation of plant and equipment	2,058	1,932
Employee benefit expenses (including directors' emoluments) *(note 11)*	51,866	59,313
Write-off of bad debts	65	2,687
Operating lease on land and buildings	10,467	10,234
Impairment of trade and other receivables	4,000	560
Provision for slow-moving inventories	2,498	920
Fair value loss on financial assets at fair value through profit or loss	180	–
Unrealised loss on trading securities	–	41
Write-back of provision for impairment of trade and other receivables	–	(2,813)

7. FINANCE COSTS

	2005	**2004**
	HK$'000	*HK$'000*
Interest on bank borrowings	2,282	817
Others	19	–
	2,301	817

8. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	2005	**2004**
	HK$'000	*HK$'000*
Current taxation:		
– Hong Kong profits tax	8,435	9,970
– Overseas tax	587	–
– Over provisions in prior years	(135)	(54)
Deferred taxation relating to the origination and reversal of temporary differences	(298)	45
Taxation charge	8,589	9,961

8. TAXATION (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the principal place of operation of the Company as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Profit before taxation	51,113	60,236
Calculated at a taxation rate of 17.5% (2004: 17.5%)	8,945	10,541
Effect of difference taxation rates in other countries	275	96
Utilisation of previously unrecognised tax losses	(35)	–
Unrecognised tax losses	35	–
Tax effect of income not subject to taxation	(251)	(735)
Tax effect of expenses not deductible for taxation purposes	53	68
Over provision in prior years	(135)	(54)
Adjustment of deferred tax *(Note 25)*	(298)	45
Taxation charge	8,589	9,961

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$11,447,000 (2004: HK$14,486,000).

10. DIVIDENDS

	2005	**2004**
	HK$'000	*HK$'000*
Interim, paid, of HK$0.02 (2004: HK$0.02) per ordinary share	4,837	4,837
Final, proposed, of HK$0.03 (2004: HK$0.03) per ordinary share	7,256	7,256

At a meeting held on 19th April 2006, the directors declared a final dividend of HK$0.03 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31st December 2006.

11. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2005	**2004**
	HK$'000	*HK$'000*
Wages and salaries	50,541	58,337
Termination benefits	356	275
Pension costs – mandatory provident fund	969	701
	51,866	59,313

12. DIRECTORS' EMOLUMENTS

(a) The aggregate amounts of emoluments paid and payable to the directors of the Company during the year are as follows:

Name	Fees	Salaries, Allowances and benefits in kinds	Bonus	Group's contributions to retirement scheme	2005 Total emoluments	2004 Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Tsang Chung Yin	–	1,672	2,492	12	4,176	6,196
Tsang Yin	–	2,658	2,503	12	5,173	6,954
Chan Churk Kai	–	2,142	742	12	2,896	2,641
Tsang Sik Yin, Eric	–	1,956	2,461	12	4,429	6,530
Tsang Ngan Chung	–	1,560	2,453	12	4,025	6,097
Ngai Chui Ling	–	479	212	12	703	657
Wong Wah On, Edward	120	–	–	–	120	120
Chan Yuk Ming	120	–	–	–	120	120
Wong, Samuel Kwok Kay	120	–	–	–	120	30
Total 2005	360	10,467	10,863	72	21,762	–
Total 2004	270	10,003	19,000	72	–	29,345

The emoluments of the directors fell within the following bands:

	2005	2004
Emoluments bands		
Nil to HK$1,000,000	4	4
HK$1,000,001 to HK$1,500,000	–	–
HK$1,500,001 to HK$2,000,000	–	–
HK$2,000,001 to HK$2,500,000	–	–
Over HK$2,500,000	5	5
	9	9

Emoluments paid to independent non-executive directors amounted to HK$360,000 (2004: HK$270,000).

(b) The five individuals whose emoluments were the highest in the Group during the year are the directors of the Company. Details of their emoluments are reflected in the analysis presented above.

(c) During the year, no directors waived any emoluments and no emoluments had been paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK$42,524,000 (2004: HK$50,430,000) and the weighted average of 241,854,000 shares (2004: 241,854,000 shares) in issue during the year.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in years 2005 and 2004.

14. PLANT AND EQUIPMENT

At cost:

	Leasehold improvements	Office furniture, fixtures and fittings	Office equipment	Machinery and equipment	Computer equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2004							
Cost	5,375	516	88	2,329	4,437	11,075	23,820
Accumulated depreciation	(3,267)	(516)	(66)	(1,762)	(4,390)	(10,210)	(20,211)
Net book amount	2,108	–	22	567	47	865	3,609
Year ended 31st December 2004							
Opening net book amount	2,108	–	22	567	47	865	3,609
Additions	1,396	–	23	388	138	1,313	3,258
Depreciation	(604)	–	(6)	(320)	(39)	(963)	(1,932)
Net book value	2,900	–	39	635	146	1,215	4,935
Year ended 31st December 2005							
Opening net book amount	2,900	–	39	635	146	1,215	4,935
Additions	825	–	64	303	24	932	2,148
Depreciation	(808)	–	(11)	(395)	(43)	(801)	(2,058)
Net book value	2,917	–	92	543	127	1,346	5,025
At 31st December 2005							
Cost	7,596	516	140	3,020	4,599	12,650	28,521
Accumulated depreciation	(4,679)	(516)	(48)	(2,477)	(4,472)	(11,304)	(23,496)
Net book amount	2,917	–	92	543	127	1,346	5,025

Depreciation expense of HK$2,058,000 (2004: HK$1,932,000) has been expensed in administrative expenses.

15. INVESTMENT PROPERTIES

	2005	2004
	HK$'000	*HK$'000*
Beginning of the year	16,800	13,989
Fair value gains	–	2,811
End of the year	16,800	16,800

15. INVESTMENT PROPERTIES (continued)

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

	2005	2004
	HK$'000	*HK$'000*
In Hong Kong, held on:		
Leases of between 10 to 50 years	16,800	16,800

Investment properties were revalued at 31st December 2005 on the basis of their open market value by Lawson David & Sung Surveyors Limited employed by the Group, a firm of independent qualified property valuers.

Investment properties with the carrying values of HK$16,800,000 (2004: HK$16,800,000) were pledged to secure the Group's banking facilities (Note 26).

16. INVESTMENTS IN SUBSIDIARIES

Company

	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	86,938	86,938
Due from subsidiaries	70,301	83,621
	157,239	170,559

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

Particulars of the subsidiaries are as follows:

Company	Place of incorporation and kind of legal entity	Issued and fully paid-up share capital	Percentage of attributable equity	Principal activities
Held directly:				
World Trade Bun Kee (BVI) Ltd.	British Virgin Islands, limited liability company	Ordinary shares US$10,000	100%	Investment holding
Held indirectly:				
Bun Kee (International) Limited	Hong Kong, limited liability company	Ordinary shares HK$100	100%	Trading of construction materials, mainly pipes and fittings
		Non-voting deferred shares HK$3,000,000	0%	
Hamerwind Logistic Company Limited	Hong Kong, limited liability company	Ordinary shares HK$80,000	100%	Provision of warehousing and logistic services
Hing's Godown & Transportation Company Limited	Hong Kong, limited liability company	Ordinary shares HK$100,000	100%	Provision of warehousing services

16. INVESTMENTS IN SUBSIDIARIES (continued)

Company	Place of incorporation and kind of legal entity	Issued and fully paid-up share capital	Percentage of attributable equity	Principal activities
National Link Investment Limited	Hong Kong, limited liability company	Ordinary shares HK$600,000	100%	Provision of agency services and investment holding
Patterson Engineering Company Limited	Hong Kong, limited liability company	Ordinary shares HK$100,000	100%	Trading of construction materials, provision of agency services and property investment
Huge Vantage International Industrial Limited	Hong Kong, limited liability company	Ordinary shares HK$100,000	100%	Trading of sanitary products fluorescent lamps and stainless steel products
Bun Kee Building Material (Shanghai) Co., Ltd.	People's Republic of China ("PRC"), limited liability company	Ordinary shares US$200,000	100%	Trading of construction materials, mainly pipes and fittings

All subsidiaries carry out their business operations in Hong Kong, except for Bun Kee Building Material (Shanghai) Co., Ltd., a wholly foreign owned enterprise whose business operation is carried out in the PRC.

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2005	**2004**
	HK$'000	*HK$'000*
Beginning of the year	629	629
Additions	150	–
End of the year	779	629

The Group's interest in club membership is shown as available-for-sale financial assets and stated at cost less any provision for the impairment losses.

18. INVENTORIES

	2005	**2004**
	HK$'000	*HK$'000*
Merchandises	202,588	174,636

At 31st December 2005, provision for slow-moving inventories amounted to HK$7,440,000 (2004: HK$4,941,000).

The cost of inventories recognised as expenses and included in cost of goods sold amounted to HK$382,460,000 (2004: HK$314,329,000).

19. TRADE AND OTHER RECEIVABLES

	2005	2004
	HK$'000	*HK$'000*
Trade receivables	120,718	116,401
Less: provision for impairment of receivables	(5,707)	(1,746)
Trade receivables – net	115,011	114,655
Prepayments	11,991	12,032
Rental deposits	2,281	2,328
Other receivables	1,940	2,625
	131,223	131,640
Less: non-current portion	(2,058)	(176)
Current Portion	129,165	131,464

The fair values of trade and other receivables are as follows:

	2005	2004
	HK$'000	*HK$'000*
Trade receivables	115,011	114,655
Prepayments	11,991	12,032
Rental deposits	223	2,152
Other receivables	1,940	2,625
	129,165	131,464

Details of the ageing analysis are as follows:

	2005	2004
	HK$'000	*HK$'000*
Current to 30 days	41,480	39,489
31 days to 60 days	31,307	35,090
61 days to 90 days	23,279	20,655
91 days to 120 days	11,309	11,279
Over 120 days	13,343	9,888
	120,718	116,401

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2005
	HK$'000
Market value of equity securities listed in Hong Kong	3,038

The carrying amounts of the above financial assets are classified as follows:

	2005
	HK$'000
Held for trading	160
Designated as fair value through profit or loss on initial recognition	2,878
	3,038

Changes in fair values of other financial assets at fair value through profit or loss are recorded in other gains/(losses) in the profit and loss account.

21. CASH AND CASH EQUIVALENTS

	2005	**2004**
	HK$'000	*HK$'000*
Cash at bank and in hand	63,824	41,847
Short-term bank deposits	–	24,691
	63,824	66,538

The effective interest rate on short-term bank deposits was 1.95% (2004: 0.69%) these deposits have an average maturity of 24 days (2004: 32 days).

22. TRADE AND OTHER PAYABLES

	2005	**2004**
	HK$'000	*HK$'000*
Trade payables	5,690	6,655
Accrued expenses and other payables	53,214	58,137
	58,904	64,792

Details of the ageing of the trade payables are as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Current to 30 days	2,680	4,772
31 days to 60 days	1,793	1,874
61 days to 90 days	1,054	–
Over 90 days	163	9
	5,690	6,655

23. SHARE CAPITAL

(a) SHARE CAPITAL

	Number of shares '000	Nominal value HK'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1st January and 31st December, 2004 and 2005	500,000	50,000
Issued and fully paid:		
At 1st January, 2004 and 2005	241,854	24,185
At 31st December, 2004 and 2005	241,854	24,185

(b) SHARE OPTIONS

(i) Under the terms of the share option scheme (the "Scheme") adopted by the Company on 24th June 2004, the directors of the Company are authorised at their absolute discretion, to invite any Eligible Person as defined in the Report of the Directors, to take up options to subscribe for shares in the Company. The Subscription price will be determined by the Board, but shall be at least the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant options are deemed to be granted and accepted in accordance with the terms of the Scheme (the "Commencement Date"), which must be a day on which the Stock Exchange is open for the business of dealing in securities ("Trading Day"); (b) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five Trading Days immediately preceding the Commencement Date; and (c) the nominal value of the shares. A consideration of HK$10 is payable on acceptance of the grant of an option. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 10% of the issued share capital of the Company as at the date of adoption of the Scheme. The Scheme became effective for a period of ten years commencing 24th June 2004 which is the date of adoption of the Scheme.

(ii) No option was granted during the year. As at 31st December 2005, there are no share options outstanding.

24. RESERVES

(a) GROUP

	Share premium HK$'000	Capital reserve HK$'000	Merger reserve *(note (b)(i))* HK$'000	Investment properties revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January 2004	29,345	34,115	3,700	–	129,731	196,891
Profit attributable to shareholders	–	–	–	–	50,430	50,430
Surplus on revaluation of investment properties	–	–	–	2,811	–	2,811
Dividends paid *(note 10)*						
2003 final dividend	–	–	–	–	(7,256)	(7,256)
2004 interim dividend	–	–	–	–	(4,837)	(4,837)
At 31st December 2004	29,345	34,115	3,700	2,811	168,068	238,039
Proposed final dividend *(note 10)*	–	–	–	–	(7,256)	(7,256)
	29,345	34,115	3,700	2,811	160,812	230,783
At 1st January 2005 (as previous reported)	29,345	34,115	3,700	2,811	168,068	238,039
Adjustment on adoption of HKAS 40	–	–	–	(2,811)	2,811	–
At 1st January 2005 (as restated)	29,345	34,115	3,700	–	170,879	238,039
Profit attributable to shareholders	–	–	–	–	42,524	42,524
Dividends paid *(note 10)*						
2004 final dividend	–	–	–	–	(7,256)	(7,256)
2005 interim dividend	–	–	–	–	(4,837)	(4,837)
At 31st December 2005	29,345	34,115	3,700	–	201,310	268,470
Proposed final dividend *(note 10)*	–	–	–	–	(7,256)	(7,256)
	29,345	34,115	3,700	–	194,054	261,214

24. RESERVES (continued)

(b) COMPANY

	Contributed surplus *(note ii)* *HK$'000*	**Share premium** *HK$'000*	**Retained profits** *HK$'000*	**Total** *HK$'000*
At 1st January 2004	86,759	29,345	8,043	124,147
Profit attributable to shareholders	–	–	14,486	14,486
Dividends paid *(note 10)*				
2003 final dividend	–	–	(7,256)	(7,256)
2004 interim dividend	–	–	(4,837)	(4,837)
At 31st December 2004	86,759	29,345	10,436	126,540
Proposed final dividend *(note 10)*	–	–	(7,256)	(7,256)
	86,759	29,345	3,180	119,284
At 1st January 2005	86,759	29,345	10,436	126,540
Profit attributable to shareholders	–	–	11,447	11,447
Dividends paid *(note 10)*				
2004 final dividend	–	–	(7,256)	(7,256)
2005 interim dividend	–	–	(4,837)	(4,837)
At 31st December 2005	86,759	29,345	9,790	125,894
Proposed final dividend *(note 10)*	–	–	(7,256)	(7,256)
	86,759	29,345	2,534	118,638

(i) The merger reserve of the Group arising from the group reconstruction is determined by the difference between the nominal value of shares of the subsidiaries acquired pursuant to the group reconstruction and the nominal value of the Company's shares deemed to have been issued.

(ii) The contributed surplus of the Company represents the difference between the nominal value of the shares issued by the Company in exchange for all the issued ordinary shares of World Trade Bun Kee (BVI) Ltd. and the value of net assets of the underlying subsidiaries acquired by the Company on 22nd November 2000. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders, subject to a solvency test. At the group level, the contributed surplus is reclassified into its component of reserves of the underlying subsidiaries.

(iii) At 31st December 2005, reserves of the Company available for distribution, including the contributed surplus, amounted to HK$96,549,000 (2004: HK$97,195,000).

25. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

The movement on the deferred tax liabilities/(assets) account is as follows:

	2005	2004
	HK$'000	*HK$'000*
At 1st January	(918)	(963)
Deferred taxation (credited)/charged to profit and loss account *(Note 8)*	(298)	45
At 31st December	(1,216)	(918)

The movement in deferred tax assets (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax assets

	Accelerated tax depreciation		Provisions		Total	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January	(259)	(259)	(704)	(704)	(963)	(963)
Charged/(credited) to profit and loss account	170	–	(598)	–	(428)	–
At 31st December	(89)	(259)	(1,302)	(704)	(1,391)	(963)

Deferred tax liabilities

	Accelerated tax depreciation	
	2005	**2004**
	HK$'000	*HK$'000*
As 1st January	45	–
Charged to profit and loss account	130	45
As at 31st December	175	45

	2005	2004
	HK$'000	*HK$'000*
Deferred tax assets	(1,391)	(963)
Deferred tax liabilities	175	45
	(1,216)	(918)

26. BORROWINGS

	2005	2004
	HK$'000	*HK$'000*
Non-current		
Bank borrowings	–	1,667
	–	1,667
Current		
Bank borrowings	1,686	1,333
Trust receipt loans	70,408	63,723
	72,094	65,056
Total borrowings	72,094	66,723

The borrowings of the Group are in Hong Kong dollars and interest is payable at a floating rate. The average effective interest rate per annum of the borrowings at 31st December 2005 was 5.18% (2004: 1.65%).

The Group had aggregate banking facilities of approximately HK$284,125,000 as at 31st December 2005 (2004: HK$239,125,000) for overdrafts, term loans and other trade finance facilities. Banking facilities utilised as at 31st December 2005 amounted to approximately HK$93,577,000 (2004: HK$84,801,000). The banking facilities were secured by corporate guarantees from the Company, and investment properties with carrying values of approximately HK$16,800,000.

At 31st December 2005, the bank loan was secured by the investment properties.

	2005	2004
	HK$'000	*HK$'000*
The analysis of the above is as follows:		
Wholly repayable within one year	72,094	65,056
More than two years, but not exceeding five years	–	1,667
	72,094	66,723

27. CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit for the year to cash generated from operations:

	2005	**2004**
	HK$'000	*HK$'000*
Profit for the year	42,524	50,275
Adjustment for:		
– Taxation	8,589	9,961
– Depreciation of plant and equipment	2,058	1,932
– Gain on disposal of plant and equipment	(277)	–
– Gain on disposal of property held for sales	–	(4,112)
– Write back of provision for legal compensation	(1,500)	–
– Unrealised loss on trading securities	–	41
– Fair value loss on financial assets at fair value through profit or loss	180	–
– Realised gain on disposal of financial assets at fair value through profit or loss	(488)	–
– Realised gain on disposal of trading securities	–	(432)
– Interest income	(697)	(165)
– Dividend income from financial assets at fair value through profit or loss/trading securities	(151)	(88)
– Interest expenses	2,301	817
Change in working capital		
– Increase in inventories	(27,922)	(31,203)
– Decrease/(increase) in trade and other receivables	417	(22,292)
– (Decrease)/increase in trade and other payables	(4,388)	16,654
Cash generated from operations	20,646	21,388

In the cash flow statement, proceeds from sales of plant and equipment comprise:

	2005	**2004**
	HK$'000	*HK$'000*
Net book amount	–	–
Gain on disposal of plant and equipment	277	–
Proceeds from disposal of plant and equipment	277	–

(b) Analysis of changes in financing during the year:

	2005	**2004**
	HK$'000	*HK$'000*
At 1st January	3,000	4,290
New bank loan raised	–	4,000
Repayment of bank loans	(1,314)	(5,290)
At 31st December	1,686	3,000

28. OPERATING LEASES

(a) AS LESSEE

At 31st December 2005, the Group had future aggregate minimum lease payments under noncancellable operating leases in respect of land and buildings as follows:

	2005	2004
	HK$'000	*HK$'000*
Not later than one year	13,726	8,381
Later than one year and not later than five years	10,875	709
	24,601	9,090

(b) AS LESSOR

At 31st December 2005, the Group had future aggregate minimum lease receivables under noncancellable operating leases in respect of its investment properties as follows:

	2005	2004
	HK$'000	*HK$'000*
Not later than one year	960	756
Later than one year and not later than five years	760	–
	1,720	756

29. COMMITMENT

There was no outstanding forward exchange contract at 31st December 2005 and 31st December 2004.

30. PENDING LITIGATION

Bun Kee (International) Limited was cited as a defendant in an action brought by a customer. The Group has filed a statement of defence. The sum included in the claim amounted to approximately HK$645,000 plus other related costs. No further action has been taken by the customer since November 1999. The directors are of the opinion that the Group is unlikely to suffer any losses from the claim and no provision is considered necessary.

31. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

	Note	2005	2004
		HK$'000	*HK$'000*
(a) Rental expenses paid to:			
Bun Kee (H.K.) Limited	*(i) & (ii)*	3,266	2,993
Bun Kee (China) Limited	*(i) & (ii)*	1,320	1,284
Powerful Agents Limited	*(i) & (ii)*	3,925	3,604

31. RELATED PARTY TRANSACTIONS (continued)

(i) These companies are beneficially owned and controlled by certain directors of the Company. Rentals were paid to these companies for leasing office premises, retail outlets and warehouses of the Group.

(ii) Rental agreements were entered into between the Group and Bun Kee (H.K.) Limited, Bun Kee (China) Limited and Powerful Agents Limited under which these properties were rented to the Group based on market rates as determined by a firm of independent property valuers.

(b) Key management compensation

	2005	**2004**
Salaries and other short-term employee benefits	23,781	31,151
Pension costs – mandatory provident fund	108	108
	23,889	31,259

There were no year-end balance arising from rental expense payables from related parties for the year end 2005 and 2004.

32. ULTIMATE HOLDING COMPANY

The Directors regard On Top Industrial Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

33. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 19th April 2006.

4. UNAUDITED CONSOLIDATED FINANCIAL STATEMETNS OF CHINA PIPE FOR THE SIX MONTHS ENDED 30 JUNE 2007

The following are the unaudited consolidated financial statements of China Pipe for the six months ended 30 June 2007 as extracted from the interim report of China Pipe for the six month ended 30 June 2007:

CONDENSED CONSOLIDATED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)

		For the six months ended 30 June	
		2007	**2006**
	Notes	*HK$'000*	*HK$'000*
Turnover	*4*	274,792	303,602
Cost of sales		(201,216)	(221,497)
Gross profit		73,576	82,105
Other income	*5*	830	1,119
Other gains, net	*6*	542	1,964
Selling and distribution costs		(8,066)	(9,816)
Administrative expenses		(37,709)	(40,331)
Operating profit	*7*	29,173	35,041
Finance costs		(1,397)	(2,024)
Profit before taxation		27,776	33,017
Taxation	*8*	(5,268)	(5,757)
Profit for the period		22,508	27,260
Profit attributable to shareholders of the Company		22,508	27,260
Dividend	*9*	4,837	4,837
Earnings per share			
Basic	*10*	0.19 cents	0.23 cents
Diluted	*10*	N/A	N/A

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Notes	30 June 2007 (Unaudited) HK$'000	31 December 2006 (Audited) HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	8,235	4,111
Investment properties	11	32,446	16,800
Other assets		779	779
Deferred tax assets		1,491	1,714
Rental deposits		258	306
		43,209	23,710
Current assets			
Inventories		223,514	233,634
Trade and other receivables	12	174,432	161,099
Financial assets at fair value through profit or loss		–	3,501
Derivative financial instruments		81	–
Tax recoverable		190	190
Cash and cash equivalents		54,950	101,219
		453,167	499,643
Total assets		496,376	523,353
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14	24,185	24,185
Reserves		323,913	306,005
Proposed dividend		4,837	9,674
Total equity		352,935	339,864
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		571	571

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Notes	**30 June 2007 (Unaudited)** *HK$'000*	**31 December 2006 (Audited)** *HK$'000*
Current liabilities			
Trade and other payables	*13*	55,641	49,594
Amounts due to related companies		–	968
Taxation payable		8,776	6,100
Borrowings		78,453	126,256
		142,870	182,918
Total liabilities		143,441	183,489
Total equity and liabilities		496,376	523,353
Net current assets		310,297	316,725
Total assets less current liabilities		353,506	340,435

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share capital *HK$'000*	Share premium *HK$'000*	Capital reserve *HK$'000*	Merger reserve *HK$'000*	Exchange reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2006	24,185	29,345	34,115	3,700	–	201,310	292,655
Profit for the period	–	–	–	–	–	27,260	27,260
Dividends paid 2005 final dividend	–	–	–	–	–	(7,256)	(7,256)
At 30 June 2006	24,185	29,345	34,115	3,700	–	221,314	312,659
At 1 January 2007	24,185	29,345	34,115	3,700	–	248,519	339,864
Exchange differences arising on translation of the accounts of foreign subsidiaries	–	–	–	–	237	–	237
Profit for the period	–	–	–	–	–	22,508	22,508
2006 final dividend	–	–	–	–	–	(9,674)	(9,674)
At 30 June 2007	24,185	29,345	34,115	3,700	237	261,353	352,935

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT (UNAUDITED)

	For the six months ended 30 June	
	2007	**2006**
	HK$'000	*HK$'000*
Net cash flows generated from/(used in) operating activities	27,309	(16,264)
Net cash flows (used in)/generated from investing activities	(16,176)	157
Net cash flows (used in)/generated from financing activities	(57,752)	43,315
Net (decrease)/increase in cash and cash equivalents	(46,619)	27,208
Cash and cash equivalents at beginning of period	101,219	63,824
Exchange differences on cash and cash equivalents	75	–
Cash and cash equivalents at end of period	54,675	91,032
Analysis of cash and cash equivalents		
Bank balances and cash	54,950	91,032
Bank overdrafts	(275)	–
	54,675	91,032

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

1. General information

World Trade Bun Kee Ltd. (the "Company") and its subsidiaries (collectively the "Group") are principally engaged in trading of construction materials, mainly pipes and fittings.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The Company has its primary listing on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

This condensed consolidated interim financial information was approved for issue by the Board of Directors on 21 September 2007.

2. Basis of preparation

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2007 have been prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34, "Interim financial reporting" and other relevant HKAS and Interpretations, the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants, and applicable requirements of Appendix 16 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited.

This condensed interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

3. Accounting policies

The accounting policies adopted are consistent with those used in the financial statements for the year ended 31 December 2006, except for the adoption of the following applicable amendments to standards and interpretation, which are effective for accounting periods beginning on or after 1 January 2007.

HKFRS 7	Financial Instruments: Disclosures
HKAS 1	Amendment Capital Disclosures
HK(IFRIC) Interpretation 7	Applying the Restatement Approach under HKAS 29
HK(IFRIC) Interpretation 8	Scope of HKFRS 2
HK(IFRIC) Interpretation 9	Reassessment of Embedded Derivatives
HK(IFRIC) Interpretation 10	Interim Financial Reporting and Impairment

The adoption of the above new accounting standards and interpretation has no material impact on the Group's balance sheet and profit and loss account.

No early adoption of the following new standard, interpretations and amendment that have been issued but are not yet effective. The adoption of such new standard, interpretations and amendment will not result in substantial changes to the Group's accounting policies.

HKAS 23 (Revised)	Borrowing Costs
HKFRS 8	Operating Segments
HK(IFRIC) Interpretation 11	HKFRS2 – Group and Treasury Share Transactions
HK(IFRIC) Interpretation 12	Service Concession Arrangements

4. Turnover and segment information

The Group is principally engaged in the trading of construction materials, mainly pipes and fittings.

	For the six months ended 30 June	
	2007	**2006**
	HK$'000	*HK$'000*
Sales of pipes and fittings	273,882	303,051
Rental income	910	551
	274,792	303,602

Business segment information is not required as the turnover, results and assets of the wholesale business represent more than 90% of the total turnover, results and assets of the Group respectively.

Geographical segment information is not shown as over 90% of the Group's turnover and operating profit are derived from Hong Kong.

5. Other income

	For the six months ended 30 June	
	2007	**2006**
	HK$'000	*HK$'000*
Interest income	810	1,048
Dividend income from financial assets at fair value through profit or loss	20	71
	830	1,119

6. Other gains, net

	For the six months ended 30 June	
	2007	**2006**
	HK$'000	*HK$'000*
Net realised gains on disposal of financial assets at fair value through profit or loss	551	993
Net exchange (losses)/gains	(9)	971
	542	1,964

7. Operating profit

	For the six months ended 30 June	
	2007	**2006**
	HK$'000	*HK$'000*
Employee benefit expenses (including directors' emoluments)	23,925	27,731
Depreciation of property, plant and equipment	1,241	1,063
Provision for slow-moving inventories	763	–
Provision for impairment of trade and other receivables	–	1,385
Operating lease on land and buildings	7,132	6,878
Net fair value loss on financial assets at fair value through profit or loss	1,544	207

8. Taxation

	For the six months ended 30 June	
	2007	**2006**
	HK$'000	*HK$'000*
Current taxation charge:		
– Hong Kong	5,105	5,817
– Overseas	163	249
– Over provisions in prior years	–	(309)
Taxation charges	5,268	5,757

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

9. Dividend

	For the six months ended 30 June	
	2007	**2006**
	HK$'000	*HK$'000*
Interim dividend proposed of HK0.04 cents (2006: HK0.04 cents) per ordinary share	4,837	4,837

A 2005 final dividend of HK0.06 cents per ordinary share as retrospectively adjusted for share subdivision on 31 August 2007, totalling HK$7,256,000 was paid in June 2006.

A 2006 final dividend of HK0.08 cents per ordinary share as retrospectively adjusted for share subdivision on 31 August 2007, totalling HK$9,674,000 was paid in May 2007.

At a meeting held on 21 September 2007, the Directors declared an interim dividend of HK0.04 cents per ordinary shares as retrospectively adjusted for share subdivision on 31 August 2007. This interim dividend has not been reflected as a dividend payable in the condensed interim financial information but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007.

10. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of the HK$22,508,000 (2006: HK$27,260,000) and the weighted average of 12,092,700,000 shares (2006: 12,092,700,000 shares) in issue during the period. The weighted average number of ordinary shares in issue for 2007 and 2006 has been retrospectively adjusted for the effect of the share split on 31 August 2007.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in half year ended 30 June 2006 and 2007.

11. Capital expenditure

	Property, plant and equipment *HK$'000*	**Investment properties** *HK$'000*
Net book amount at 1 January 2006	5,025	16,800
Additions	961	–
Depreciation	(1,063)	–
Net book amount at 30 June 2006	4,923	16,800
Net book amount at 1 January 2007	4,111	16,800
Additions	5,365	15,646
Depreciation	(1,241)	–
Net book amount at 30 June 2007	8,235	32,446

12. Trade and other receivables

	30 June 2007 *HK$'000*	**31 December 2006** *HK$'000*
Trade receivables	149,610	142,480
Less: provision for impairment of receivables	(2,200)	(2,200)
Trade receivables – net	147,410	140,280
Prepayments, rental deposits and other receivables	27,280	21,125
	174,690	161,405
Less: non-current portion	(258)	(306)
Current portion	174,432	161,099

12. Trade and other receivables (continued)

Details of the ageing analysis of trade receivables are as follows:

	30 June 2007	31 December 2006
	HK$'000	*HK$'000*
Current to 30 days	42,609	43,407
31 days to 60 days	39,901	37,345
61 days to 90 days	28,030	24,280
91 days to 120 days	23,646	21,354
Over 120 days	15,424	16,094
	149,610	142,480

The Group normally grants 90 to 120 days credit period to customers.

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

13. Trade and other payables

	30 June 2007	31 December 2006
	HK$'000	*HK$'000*
Trade payables	23,609	7,123
Accrued expenses and other payables	32,032	42,471
	55,641	49,594

Details of the ageing analysis of the trade payables are as follows:

	30 June 2007	31 December 2006
	HK$'000	*HK$'000*
Current to 30 days	17,288	3,137
31 days to 60 days	5,591	2,163
61 days to 90 days	207	1,602
Over 90 days	523	221
	23,609	7,123

14. Share capital

	30 June 2007	31 December 2006
	HK$'000	*HK$'000*
Authorised:		
500,000,000 ordinary shares of HK$0.10 each	50,000	50,000
Issued and fully paid:		
241,854,000 ordinary shares of HK$0.10 each	24,185	24,185

At the special general meeting of the Company held on 31 August 2007, ordinary resolutions were passed to approve (i) the subdivision of each of the issued and unissued shares of HK$0.10 in the capital of the Company into 50 shares of HK$0.002 each (the "Subdivided Shares"); and (ii) change of board lot size to 20,000 Subdivided Shares. The share subdivision and the change in board lot size were effective from 31 August 2007.

15. Related party transactions

The Group is controlled by Maxable International Enterprises Limited, a company incorporated in the British Virgin Islands, which owns approximately 74.43% of the Company's shares. The remaining interests are held by public investor. The ultimate controlling party of the Group is Ms. Wing Man Yi.

During the period, the Group had the following significant transactions, which were carried out in the normal course of Group's business:

(a) Rental expenses

	For the six months ended 30 June	
	2007	2006
	HK$'000	*HK$'000*
Rental expenses paid to:		
Bun Kee (H.K.) Limited	2,316	2,316
Bun Kee (China) Limited	750	750
Powerful Agents Limited	2,766	2,766

Above companies are beneficially owned and controlled by certain ex-Directors of the Company. Rental expenses were paid to these companies for leasing office premises, retail outlets and warehouses of the Group.

Rental agreements were entered into between the Group and Bun Kee (H.K.) Limited, Bun Kee (China) Limited and Powerful Agents Limited under which these properties were rented to the Group based on market rates as determined by independent property valuers.

15. Related party transactions (continued)

(b) Period/year ended balances

	30 June 2007	**31 December 2006**
	HK$'000	*HK$'000*
Amounts due to:		
Bun Kee (H.K.) Limited	–	386
Bun Kee (China) Limited	–	121
Powerful Agents Limited	–	461
	–	968

The balances are unsecured, interest-free and repayable on demand.

16. Events occurring after the balance sheet date

On 11 September 2007, the Company entered into a sale and purchase agreement with an independent third party (the "Vendor") to acquire (i) the entire share capital of Noble Win International Limited ("Noble Win"), a company incorporated in the British Virgin Islands and (ii) the shareholder's loan due from Noble Win to the Vendor as at the completion of the acquisition. The total consideration of the transaction is HK$185,000,000.

5. DISCUSSION AND ANALYSIS OF PERFORMANCE

(1) Business review for the year ended 31 December 2004

Review of Operation

For the year 2004, the performance of the China Pipe Group is satisfactory. For the year ended 31 December 2004, the turnover of the China Pipe Group was approximately HK$445,260,000 which represents a slight increase of 3.16% when compared with that of last year. The price of raw material such as copper, iron and uPvc had jumped over 30% during the year of 2004. The China Pipe Group had faced pressure from escalating purchase costs. The China Pipe Group benefited from the solid stock base purchased in the previous year which diluted the cost of sales allowing the gross profit margin to widen slightly when compared to that of last year. However, this strength cannot be sustained further as the increasing purchase costs will continue in the near future. The China Pipe Group disposed of the property held for sale in Tsim Sha Tsui and recorded a gain on disposal of HK$4,112,000. In November 2004, the China Pipe Group received settlement of an insurance claim from the insurance China Pipe of HK$17,395,000 and recorded it as other income.

The China Pipe Group achieved an increase of 50.81% in profit attributable to shareholders to HK$50,430,000 for the year ended 31st December 2004. The significant increase in the profit attributable to shareholders for the year was due to the widened profit margin and inclusion of the gain on disposal of property held for sale and insurance claim income.

During the year of 2004, the China Pipe Group has supplied pipes, fittings and/or other related accessories to several large projects namely, Grand Promenade, AIG Tower, Chelsea Court, Coastal Skyline, Four Seasons Hotel Hong Kong, AsiaWorld-Expo(Phase I) at Hong Kong International Airport, The Cairnhill, Residence Oasis, Central reclamation Phase III – Hinterland drainage improvement works (HK16/03), Immigration Services Training School and Preowne Immigration Centre, KCRC Lok Ma Chau Spur Line, Las Vegas Sands, Macau, Tomorrow Land Disneyland, Fantasy Land Disneyland, Tung Chung City Gate Hotel, Hung Hom KIL 11110 Hotel development, Hung Hom KIL11103 Hotel development, China Gas South Factory redevelopment (residential project), Redevelopment of Tiger Balm Gardens and Lai Chi Kok Bus Depot Redevelopment.

As at 31st December 2004, contracts on hand amounted to approximately HK$138 million for the China Pipe Group. The major projects which the China Pipe Group will supply pipes, fittings and/or other related accessories include, Wynn Macau Casino, The Grandville, Noble Hill, Expansion of Asia Airfreight Terminal: Terminal 2, Rock Hill Street Joint User Building (SS L311), Nina Tower, Tseung Kwan O Extension Property Development: Package Two of Tiu Keng Leng Station, Tseung Kwan O Area 55B Residential and Commercial Development, Route 8– Nam Wan Tunnel and West Tsing Yi Viaduct (HY/2001/

16), Tsuen Wan Town Center Redevelopment, Yeung Uk Road Redevelopment, The Hong Kong Polytechnic University: Community College, Xin Mao Tower Shanghai, Star River Guangzhou and Beijing Ritz-Carlton Hotel– Services Apartment. Apart from focusing on the existing businesses, the China Pipe Group began to supply sanitary products and energy saving environmental tubes in order to widen the product base.

To sustain the development of the China Pipe Group, the Board will continue to seek different investment opportunities and will diversify into business segments which are expected to show significant growth in the future. The Board will also endeavour to improve the operating efficiencies of the China Pipe Group.

Capital structure, liquidity, financial resources and gearing ratio

The China Pipe Group maintained a robust financial position, with cash and bank balances of HK$66,538,000 as at 31 December 2004. Basically the China Pipe Group's working capital requirement has been financed by its internal resources. The China Pipe Group believes that funds generated from internal operations, its existing reserve and the available banking facilities will enable the China Pipe Group to meet its future cash requirements. The China Pipe Group had aggregate banking facilities of approximately HK$239,125,000 as at 31 December 2004 for term loans and other trade finance facilities. Banking facilities utilised as at 31st December 2004 amounted to approximately HK$84,801,000. The banking facilities were secured by corporate guarantees from the China Pipe, and investment properties with a carrying value of approximately HK$16,800,000.

The China Pipe Group's borrowings are mainly denominated in Hong Kong Dollars. Banking facilities were granted to the China Pipe Group which bear interest at prevailing market rates. The China Pipe Group conducts its business transactions mainly in Hong Kong Dollars, US Dollars and Australian Dollars. Currency forward contracts were arranged for the transactions denominated in currencies other than Hong Kong Dollars and US Dollars for hedging purposes. There was no outstanding forward exchange contract as at 31st December 2004. During the year under review there was no significant deviation from the policies above. Over 90 percent of the China Pipe Group's cash is either denominated in Hong Kong Dollars or US Dollars. The exposure to exchange fluctuation is minimal. As at 31 December 2004, the gearing ratio (total debts/total assets of the China Pipe Group) was 0.17.

Material acquisitions and disposals

The China Pipe Group did not have any significant investment, material acquisition and disposal during the year.

Contingent liabilities

As at 31 December 2004, the China Pipe Group had contingent liabilities in respect of indemnities in respect of shipping guarantees given by banks totalling approximately HK$1,221,000.

Pledge of China Pipe Group's Assets

As at 31 December 2004, the China Pipe Group's investment properties with a carrying value of approximately HK$16,800,000 was pledged in favour of certain banks to secure the banking facilities granted by those banks to the China Pipe Group.

Employment and Remuneration Policy

As at 31 December 2004, the China Pipe Group employed a total of 150 full-time employees and directors. Total staff remuneration amounted to approximately HK$59,313,000. Remuneration is reviewed annually and certain staff members are entitled to commission. In addition to the basic salaries and contributions to the mandatory provident fund, the China Pipe Group also provides staff benefits including discretionary bonus and a medical scheme.

(2) Business review for the year ended 31 December 2005

Review of Operation

For the year 2005, the performance of the China Pipe Group is satisfactory. For the year ended 31 December 2005, the turnover of the China Pipe Group amounted to approximately HK$522,921,000 which represent an increase of 17.44% when compared with last year. The gross profit margin thinned from 28.00% to 25.06% as the China Pipe Group cannot transfer all the higher purchasing cost to the buyer. Despite this, the China Pipe Group had tried to maximize the turnover in order to compensate the thinned gross profit margin. The China Pipe Group had recorded a 5.15% increase of the gross profit when compared with last year.

The China Pipe Group had recorded a decrease of 15.68% in profit attributable to shareholders to HK$42,524,000 for the year ended 31 December 2005. The decrease in the profit attributable to the shareholders for the period was due to the inclusion of the gain on the disposal of investment property and insurance claim income amounted to HK$21,507,000 in year 2004. During the year of 2005, the China Pipe Group has supplied pipes, fittings and/or other related accessories to several large projects namely, Wynn Macau Casio, The Grandville, Noble Hill, Rock Hill Street Joint User Building (SS L311), Nina Tower, Tseung Kwan O Extension Property Development: Package Two of Tiu Keng Leng Station, Tseung Kwan O Area 55B Residential and Commercial Development, Route 8 – Nam Wan Tunnel and West Tsing Yi Viaduct (HY/2001/16), Tsuen Wan Town Center Redevelopment, Yeung Uk Road Redevelopment, The Hong Kong Polytechnic University: Community College, Manhattan Hill, Harbour Green, One SilverSea, Hong Kong Science Park Phase 2, Kowloon Station International Commerce Centre, Enterprise Square 5, Macau Galaxy Star World Hotel, Macau Venetian Resort-Hotel-Casino development, Tiu Keng Leng Metro Town, Cyberport Residential R4, Asia Airfreight Terminal, Xin Mao Tower Shanghai, Star River Guangzhou and Beijing Ritz-Carlton Hotel-Services Apartment. As at 31st December 2005, contracts on hand amounted to approximately HK$120 million for the China Pipe Group. The major projects which the China Pipe Group will supply pipes, fittings and/or other related accessories include, Millennium City 6, Grand Lisboa Hotel Macau, Union Square at Kowloon Station, Cyberport Residential R5, MGM Grand Macau, ICAC Headquarter, Mandarin Oriental Hotel renovation, YOHO Town Phase 2 and Shangri-La Sheng Zheng.

Apart from focusing on the existing businesses, the China Pipe Group also supplies sanitary product and energy saving environmental T5 tube in order to widen the product base. To sustain the development of the China Pipe Group, the Board will continue to strive for seeking different investment opportunities and will diversify into business segments which are expected to show significant growth in the future. The Board will also endeavour to improve the operating efficiencies of the China Pipe.

Capital structure, liquidity, financial resources and gearing ratio

The China Pipe Group maintained a robust financial position, with cash and bank balances of HK$63,824,000 as at 31 December 2005. Basically the China Pipe Group's working capital requirement has been financed by its internal resources. The China Pipe Group believes that funds generated from internal operations, its existing reserve and the available banking facilities will enable the China Pipe Group to meet its future cash requirements. The China Pipe Group had aggregate banking facilities of approximately HK$284,125,000 as at 31st December 2005 for term loans and other trade finance facilities. Banking facilities utilised as at 31st December 2005 amounted to approximately HK$93,577,000. The banking facilities were secured by corporate guarantees from the China Pipe and investment properties with a carrying value of approximately HK$16,800,000.

The China Pipe Group's borrowings are mainly denominated in Hong Kong Dollars. Banking facilities were granted to the China Pipe Group which bear interest at prevailing market rates. The China Pipe Group conducts its business transactions mainly in Hong Kong Dollars, US Dollars and Australian Dollars. Currency forward contracts were arranged for the transactions denominated in currencies other than Hong Kong Dollars and US Dollars to mitigate the foreign currency risk. There was no outstanding forward exchange contract as at 31st December 2004 and 2005. During the year under review there was no significant deviation from the policies above. Over 90 percent of the China Pipe Group's cash is either denominated in Hong Kong Dollars or US Dollars. The exposure to exchange fluctuation is minimal. As at 31 December 2005, the gearing ratio (total debts/total assets of the China Pipe Group) was 0.17.

Material acquisitions and disposals

The China Pipe Group did not have any significant investment, material acquisition and disposal during the year.

Contingent liabilities

As at 31 December 2005, the China Pipe Group had no material contingent.

Pledge of China Pipe Group's Assets

As at 31 December 2005, the China Pipe Group's investment properties with a carrying value of approximately HK$16,800,000 was pledged in favour of certain banks to secure the banking facilities granted by those banks to the China Pipe China Pipe Group.

Employment and Remuneration Policy

As at 31 December 2005, the China Pipe Group employed a total of 165 full-time employees. Total employee benefit expenses was approximately HK$51,866,000. Remuneration is reviewed annually and certain staff members are entitled to commission. In addition to the basic salaries and contributions to the mandatory provident fund, the China Pipe Group also provides staff benefits including discretionary bonus and medical scheme.

(3) Business review for the year ended 31 December 2006

Review of Operation

2006 was another record breaking year for the China Pipe Group in both turnover and net profit. Turnover for the year ended 31 December 2006 was about HK$617,556,000 which was 18.10% more than the last corresponding year. Profit for the year was approximately HK$59,302,000 representing an increase of 39.46% over the year ended 31 December 2005 (approximately HK$42,524,000). Both gross (27.10%) and net profit margins (9.60%) for the year were satisfactory when compared with 2005 (25.06% and 8.13% respectively).

During the year of 2006, the China Pipe Group supplied pipes, fittings and/or other related accessories to several large projects including, Millennium City 6, Grand Lisboa Hotel Macau, Union Square at Kowloon Station, Cyberport Residential R5, MGM Grand Macau, ICAC Headquarters, Mandarin Oriental Hotel renovation, New Infectious Disease Centre at Princess Margaret Hospital, The Great Hill, Grand Waterfront, Alteration of Hung Hom Peninsula, Ma On Shan Area 77 residential project, Johnston Road redevelopment project, HSBC Data Centre, To Fung Shan Residential Development Phase 2, Suzhou Shargri-La Hotel, Guanzhou Pazhou Shargri-La Hotel, and Shanghai Hyatt Regency Hotel.

As at 31 December 2006, contracts on hand amounted to approximately HK$122 million for the China Pipe Group. The major projects which the China Pipe Group will supply pipes, fittings and/or other related accessories including KCRC Shatin Ho Tung Lau residential project, YOHO Town Phase 2, Westlands Road Office Development, Kowloon Station Phase 7 – International Commerce Centre, Chinese University Hotel Development, Wai Yip Street Commercial Development, Oil Street Complex Development, Redevelopment of Tin Kwong Road Police Quarters, Hong Kong Skycity Marriott Hotel, How Ming Street Commercial Development, Tai Lin Pai Road Commercial Development, Dream City Phase 1, Chengdu Shangri-La Hotel, Ningbo Shangri-La Hotel, Guangzhou Pan Yu Star River Hotel and Nanjing Min Ji Hospital. We remain optimistic about the outlook of the financial year 2007. Both Macau and PRC construction markets appear to be on a reasonably firm footing. However, there are still challenges in the coming year. The fluctuation in raw material price would increase the cost of sales. In 2007, the China Pipe Group will try to map out various measures to meet the challenges. An assembly subsidiary in Pan Yu will start production in April 2007 in order to strengthen our competitiveness. Facing the rapid construction development in Macau, a retail shop was established in January 2007 to widen the revenue base. To sustain the development of the China Pipe Group, the Board will continue to strive for seeking different investment opportunities and will diversify into business segments which are expected to show significant growth in the future. The Board will also endeavour to improve the operating efficiencies of the China Pipe Group

Capital structure, liquidity, financial resources and gearing ratio

The China Pipe Group maintained a healthy financial position, with cash and bank balances of HK$101,219,000 as at 31 December 2006. Basically the China Pipe Group's working capital requirement has been financed by its internal resources. The China Pipe Group believes that funds generated from internal operations, its existing reserve and the available banking facilities will enable the China Pipe Group to meet its future cash requirements.

The China Pipe Group had aggregate banking facilities of approximately HK$315,125,000 as at 31 December 2006 for term loans and other trade finance facilities, approximately HK$143,931,000 of which were utilised as at 31 December 2006. The banking facilities are secured by corporate guarantees of the China Pipe.

The China Pipe Group's borrowings are mainly denominated in Hong Kong dollars. Banking facilities were granted to the China Pipe Group which bear interest at prevailing market rates. The China Pipe Group conducts its business transactions mainly in Hong Kong dollars, United States dollars and Australian dollars.

Currency forward contracts were arranged for the transactions denominated in currencies other than Hong Kong dollars and United States dollars to mitigate the foreign currency risk. There was no outstanding forward exchange contract as at 31 December 2005 and 2006. During the year under review there was no significant deviation from the policies above. Over 90 percent of the China Pipe Group's cash is either denominated in Hong Kong dollars, Euro dollars and United States dollars. The exposure to exchange fluctuation is minimal. As at 31 December 2006, the gearing ratio (total debts/total assets of the China Pipe Group) was 0.24.

Material acquisitions and disposals

The China Pipe Group did not have any significant investment, material acquisition and disposal during the year.

Contingent liabilities

As at 31 December 2006, the China Pipe Group had no material contingent.

Pledge of China Pipe Group's Assets

As at 31st December 2006, there was no charge on assets.

Employment and Remuneration Policy

As at 31 December 2006, the China Pipe Group employed a total of 163 full-time employees. Total employee benefit expenses was approximately HK$57,432,000. Remuneration is reviewed annually and certain staff members are entitled to commission. In addition to the basic salaries and contributions to the mandatory provident fund, the China Pipe Group also pays discretionary bonus and provides staff benefits including medical scheme.

(4) Business review for the period ended 30 June 2007

Review of Operation

During the six months ended 30 June 2007, the China Pipe Group's sales decreased to HK$274,792,000 from HK$303,602,000 for the same period of 2006. The drop of sales in the first half of 2007 was primarily attributable to the slowdown of Macau project as the next stage of Macau project will start to commence in the last quarter of 2007. the gross profit of the China Pipe Group for the first six months of 2007 was HK$73,576,000, with a gross margin of 26.78%, compared to gross profit for the same period of 2006 of HK$82,105,000 with a gross margin of 27.04%. The slightly decrease in gross margin was mainly resulted from the fierce price competition. During the period under review, both selling and distribution cost and administrative expenses had dropped when compared with the same period of 2006, which is in line with the drop of turnover and gross profit. Profit attributable to shareholders of the China Pipe decreased by 17.43% to HK$22,508,000, which resulted in a basic earnings per share of HK0.19 cents.

During the first half of 2007, the Group has supplied pipes, fittings and/or other related accessories to several large projects namely, KCRC Shatin Ho Tung Lau residential project, YOHO Town Phase 2, One Island East, Kowloon Station Phase 7 – International Commerce Centre, Chinese University Hotel Development, Wai Yip Street Commercial Development, Oil Street Complex Development, Celestial Heights, Hong Kong Skycity Marriott Hotel, Landmark East, Tai Lin Pai Road Commercial Development, Dream City Phase 1, Hyatt on the Bund, Shanghai, Shanghai LCH Centre, Shangri-La Hotel, Ningbo, Nanjing BenQ Hospital, Shangri-La Hotel, Chengdu, Shangri-La Hotel, Xian, Beijing Star River Apartments, Shangri-La Hotel, Qingdao and No. 9 Dong Hai Road, Qingdao. As at 30 June 2007, contracts on hand amounted to approximately HK$167 million for the China Pipe Group. The major projects which the China Pipe Group will supply pipes, fittings and/or other related accessories include, Residential Development at KCRC Wu Kai Sha Station Phase 1,2,3, KCRC Mass Railway – Tai Wai Station Complex Development (Contract One), The City of Dreams Resort, Venetian Parcel 5 (Shangri-La Hotel and Trader Hotel), Venetian Parcel 2 (Four Season Hotel), Venetian Parcel 6 (Sheraton Hotel and St. Regis Hotel), Redevelopment of Lo Wu Correctional Institution, Leighton Road Hotel Development, Refurbishment of Ocean Park, Kwu Tung Europa Garden Ph. 2 and 3, J Residence, Redevelopment of Larch Street / Fir Street in Tai Kok Tsui. In addition, with the aim to sustain future growth, the China Pipe Group established an assembly subsidiary in Panyu and Macau retail shop, which started operation in 2007. The China Pipe Group believe that there will be more effective in the cost of control and widen the revenue base.

On 3 September 2007, the Board of the China Pipe proposes that the English name of the China Pipe be changed from "World Trade Bun Kee Ltd" to "China Pipe Group Limited" and adopt the Chinese name of "中國管業集團有限公司" as secondary name of the China Pipe. The Board considers that the proposed new name of the China Pipe and the adoption of Chinese name as secondary name are to signify the China Pipe 's continuous enhancement in its existing trading and distribution of construction materials business in Hong Kong and its future business expansion in the market of the People's Republic of China, which is in the interests of the China Pipe and the shareholders of the China Pipe as a whole. The proposed change of the name of the China Pipe and adoption of Chinese name as secondary name are subject to (i) the passing of a special resolution by the Shareholders at the special general meeting on 5 October 2007 of the China Pipe; and (ii) the approval by the Registrar of Companies in Bermuda.

On 11 September 2007, the China Pipe entered into the Sale and Purchase Agreement with a third party independent of the China Pipe Group (the "Vendor") and its connected person, being the acquisition of the entire issued shares capital of Noble Win International Limited which upon completion of agreement indirectly is the holder of the Properties, being 15 retails units of a commercial podium located in Qiangsheng Gubei Garden, Lane 717 Huangjincheng Avenue, a residential development in Changning District, Shanghai, the PRC. The China

Pipe Group consider that this acquisition offers the China Pipe Group an invaluable opportunity of diversify into the property business in Shanghai and will increase the income stream of the China Pipe Group.

Capital structure, liquidity, financial resources and gearing ratio

As at 30 June 2007, the cash and bank balance of the China Pipe Group was HK$54,950,000. Basically the China Pipe Group's working capital requirement has been financed by its internal resources. The China Pipe Group believes that funds generated from internal operations, its existing reserve and the available banking facilities will enable the Group to meet its future cash requirements. The China Pipe Group had aggregate banking facilities of approximately HK$355,125,000 as at 30 June 2007 for term loans and other trade finance facilities. Banking facilities utilised as at 30 June 2007 amounted to approximately HK$103,637,000. The banking facilities were secured by corporate guarantees from the China Pipe. The China Pipe Group's borrowings are mainly denominated in Hong Kong dollars. Banking facilities were granted to the China Pipe Group which bear interest at prevailing market rates.

The China Pipe Group conducts its business transactions mainly in Hong Kong dollars, US dollars and Renminbi. During the period under review, there was no significant deviation from the policies above. Over 90% of the China Pipe Group's cash is either denominated in Hong Kong dollars or US dollars. The exposure to exchange fluctuation is minimal. As at 30 June 2007, the gearing ratio (total debts/total assets of the China Pipe Group) was 0.16.

Material acquisitions and disposals

The China Pipe Group did not have any significant investment, material acquisition and disposal during the period.

Contingent liabilities

As at 30 June 2007, the China Pipe Group had no material contingent.

Pledge of China Pipe Group's Assets

As at 30 June 2007, there was no charge on assets.

Employment and Remuneration Policy

As at 30 June 2007, the China Pipe Group employed a total of 206 full-time employees. Total employee benefit expenses was approximately HK$23,925,000. Remuneration is reviewed annually and certain staff members are entitled to commission. In addition to the basic salaries and contributions to the mandatory provident fund, the China Pipe Group also provides staff benefits including discretionary bonus and medical scheme.

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

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

15 April 2008

The 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 254 to 262 under the heading of "Unaudited Pro Forma Financial Information of the Group" (the "Unaudited Pro Forma Financial Information") in Appendix IV of the Company's circular dated 15 April 2008 (the "Circular") in connection with the proposed acquisition of approximately 29.52% of the issued share capital of China Pipe Group Limited ("China Pipe") by the Company (the "Acquisition"). 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 Acquisition might have affected the relevant financial information presented for inclusion in Appendix IV of the Circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the 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 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 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 issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, 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.

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 judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

– financial position of the Group as at 31 March 2007 or any future date, or

– the results and cash flows of the Group for the year ended 31 March 2007 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 GROUP

The following is the unaudited pro forma consolidated balance sheet, income statement and cash flow statement of the Group as if the Acquisition had been completed on 31 March 2007 for the unaudited pro forma consolidated balance sheet and on 1 April 2006 for the unaudited pro forma consolidated income statement and cash flow statement. The accompanying Unaudited Pro Forma Financial Information of the Group has been prepared to illustrate the effect of the proposed acquisition of approximately 29.52% of the issued share capital of China Pipe.

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

The Unaudited Pro Forma Financial Information of the Group should be read in conjunction with the Financial Information of China Pipe Group as set out on Appendix III and the historical financial information of the Group as set out in Appendix I and other financial information included elsewhere in this Circular.

On 17 May 2007, the Group also proposed to acquire approximately 70.21% of the issued share capital of Heilongjiang Black Dragon Company Limited ("Black Dragon"). The acquisition of Black Dragon was independent to the Acquisition. Details of the proposed acquisition of Black Dragon were set out in the Company's announcement dated 24 August 2007 and the Company's circular dated 31 January 2008.

A. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE GROUP

The following is the unaudited pro forma consolidated balance sheet of the Group, assuming that the Acquisition had been completed on 31 March 2007. The unaudited pro forma consolidated balance sheet is based on the consolidated financial statements of the Group for the year ended 31 March 2007 as set out in Appendix I to this Circular. Such information is adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated balance sheet of the 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 Group as at the date to which it is made up to or at any future date.

	The Group as at 31 March 2007	**Pro forma adjustment**	**The Group after completion of the Acquisition**
		Note 1	
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Investment properties	65,852		65,852
Interests in leasehold land and land use rights	38,638		38,638
Property, plant and equipment	624,543		624,543
Interests in associates	77,419	296,000	373,419
Goodwill	2,846		2,846
Other non-current assets	2,412		2,412
	811,710		1,107,710
Current assets			
Properties under development for sale	348,527		348,527
Trade and other receivables and prepayments	206,668		206,668
Financial assets at fair value through profit or loss	169		169
Bank balances – trust and segregated accounts	86,410		86,410
Cash and cash equivalents	159,430	(296,000)	(136,570)
	801,204		505,204

	The Group as at 31 March 2007	Pro forma adjustment	The Group after completion of the Acquisition
		Note 1	
	HK$'000	*HK$'000*	*HK$'000*
Current liabilities			
Trade and other payables and deposits received	443,406		443,406
Amount due to a related company	444		444
Tax payable	382		382
Bank borrowings, secured – due within one year	143,495		143,495
Obligations under finance leases – due within one year	69		69
	587,796		587,796
Net current assets/(liabilities)	213,408		(82,592)
Total assets less current liabilities	1,025,118		1,025,118
Equity			
Share capital	665,190		665,190
Share premium and reserves	119,305		119,305
Equity attributable to equity holders of the Company	784,495		784,495
Minority interests	23,317		23,317
	807,812		807,812
Non-current liabilities			
Bank borrowings, secured – due after one year	209,674		209,674
Obligations under finance leases – due after one year	141		141
Convertible notes	4,587		4,587
Deferred tax liabilities	2,904		2,904
	217,306		217,306
	1,025,118		1,025,118

B. UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE GROUP

The following is the unaudited pro forma consolidated income statement of the Group, assuming that the Acquisition had been completed on 1 April 2006. The unaudited pro forma consolidated income statement is based on (i) the audited financial statements of the Group for the year ended 31 March 2007 as set out in Appendix I to this Circular and (ii) the audited financial statements of the China Pipe Group for the year ended 31 December 2006 as set out in Appendix III to this Circular. Such information is adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated income statement of the 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 Group after completion of the Acquisition for the year ended to which it is made up to or for any future period.

	The Group for the year ended 31 March 2007	**Pro forma adjustment**	**The Group after completion of the Acquisition**
		Note 2	
	HK$'000	*HK$'000*	*HK$'000*
Turnover	33,213		33,213
Cost of sales	(4,934)		(4,934)
Other revenue	1,868		1,868
Other operating income	1,448		1,448
Reversal of impairment of trade receivable	15,561		15,561
Interest income	4,881		4,881
Staff costs	(25,989)		(25,989)
Amortisation and depreciation	(13,178)		(13,178)
Selling costs	(13,952)		(13,952)
Administrative costs	(38,326)		(38,326)
Surplus arising from revaluation of investment properties	4,439		4,439
Loss from operations	(34,969)		(34,969)
Finance costs	(36,453)		(36,453)
Share of (losses)/profits of associates	(6,164)	17,506	11,342
Gain on disposal of subsidiaries	48,448		48,448
Loss before taxation	(29,138)		(11,632)
Taxation	(2,010)		(2,010)
Loss for the year	(31,148)		(13,642)

C. UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT OF THE GROUP

The following is the unaudited pro forma consolidated cash flow statement of the Group, assuming that the Acquisition had been completed on 1 April 2006. The unaudited pro forma consolidated cash flow statement is based on (i) the audited financial statements of the Group for the year ended 31 March 2007 as set out in Appendix I to this Circular and (ii) the audited financial statements of the China Pipe Group for the year ended 31 December 2006 as set out in Appendix III to this Circular. Such information is adjusted to reflect the effect of the Acquisition.

As the unaudited pro forma consolidated cash flow statement of the 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 Group after completion of the Acquisition for the year ended to which it is made up to or for any future period.

	The Group for the year ended 31 March 2007	**Pro forma adjustment** *Note 1*	**Pro forma adjustment** *Note 2*	**Pro forma adjustment** *Note 3*	**The Group after completion of the Acquisition**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES					
Loss before taxation	(29,138)		17,506		(11,632)
Adjustments for:					
Depreciation and amortisation of property, plant and equipment	11,503				11,503
Amortisation of interests in leasehold land and land use rights	1,675				1,675
Surplus arising on revaluation of investment properties	(4,439)				(4,439)
Share of losses/(profits) of associates	6,164		(17,506)		(11,342)
Gain on disposal of property, plant and equipment	(118)				(118)
Gain on disposal of subsidiaries	(48,448)				(48,448)
Interest income	(4,881)				(4,881)
Interest expenses	36,153				36,153

	The Group for the year ended 31 March 2007 HK$'000	Pro forma adjustment *Note 1* HK$'000	Pro forma adjustment *Note 2* HK$'000	Pro forma adjustment *Note 3* HK$'000	The Group after completion of the Acquisition HK$'000
Operating cash flows before movements in working capital	(31,529)				(31,529)
Increase in properties under development for sale	(56,514)				(56,514)
Increase in trade and other receivables and prepayments	(89,462)				(89,462)
Increase in amount due from an associate	(873)				(873)
Decrease in financial assets at fair value through profit or loss	3				3
Increase in bank trust and segregated accounts	(81,134)				(81,134)
Increase in trade and other payables and deposits received	269,484				269,484
Decrease in amount due to a related company	(6)				(6)
Cash generated from operations	9,969				9,969
Profits tax refunded	193				193
Interest received	4,881				4,881
Net cash generated from operating activities	15,043				15,043
INVESTING ACTIVITIES					
Dividend received from an associate	–			1,428	1,428
Purchase of property, plant and equipment	(125,705)				(125,705)
Proceeds on disposal of property, plant and equipment	203				203
Proceeds on disposal of subsidiaries	254,073				254,073
Acquisition of interest in an associate	–	(296,000)			(296,000)
Net refund in other non-current assets	54				54
Net cash generated from/(used in) investing activities	128,625				(165,947)

	The Group for the year ended 31 March 2007	Pro forma adjustment *Note 1*	Pro forma adjustment *Note 2*	Pro forma adjustment *Note 3*	The Group after completion of the Acquisition
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
FINANCING ACTIVITIES					
Interest paid	(19,359)				(19,359)
New bank loan raised	78,788				78,788
Repayment of obligations under finance leases	(66)				(66)
Repayment of bank loans	(125,483)				(125,483)
Repayment of other loans	(40,000)				(40,000)
Proceeds from issue of convertible notes	111,698				111,698
Net cash generated from financing activities	5,578				5,578
Net increase/(decrease) in cash and cash equivalents	149,246	(296,000)		1,428	(145,326)
Cash and cash equivalents at the beginning of the year	16,894				16,894
Effect of foreign exchange rate changes	(6,710)				(6,710)
Cash and cash equivalents at the end of the year	159,430				(135,142)
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balances	245,840	(296,000)		1,428	(48,732)
Less: Bank balances – trust and segregated accounts	(86,410)				(86,410)
	159,430				(135,142)

NOTES ON THE PRO FORMA ADJUSTMENTS TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

1. Upon completion of the Acquisition, the Group had 29.52% equity interest in China Pipe and the China Pipe Group was accounted for as an associate in the unaudited pro forma consolidated balance sheet of the Group as at 31 March 2007. An interest in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment, any difference between the cost of the investment and the investor's share of the net fair values of the associate's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill in accordance with *HKFRS 3 Business Combinations*. Goodwill relating to the acquisition of 29.52% of the issued share capital of China Pipe was included in the interests in associates. The values of China Pipe Group's identifiable assets, liabilities and contingent liabilities used for calculation of the goodwill were assumed to be taken at their fair values.

   The pro forma adjustment represents that the acquisition of 29.52% of the issued share capital of China Pipe will be settled by a cash consideration of HK$296,000,000 by the Company at the date of completion of the Acquisition. The cash payment for the purpose of the Acquisition is not expected to have any continuing effect on the Group.

2. The pro forma adjustment of approximately HK$17,506,000 recognised on consolidated income statement represents the share of China Pipe Group's post acquisition profits for the year ended 31 December 2006 upon completion of the Acquisition. This adjustment is expected to have a continuing effect on the Group.

3. The pro forma adjustment of approximately HK$1,428,000 represents the receipt of 29.52% of the 2006 interim dividend from China Pipe Group by the Company during the year ended 31 December 2006.

   During the year ended 31 December 2006, China Pipe Group had two cash dividend payments, which were the 2005 final dividend and the 2006 interim dividend of approximately HK$7,256,000 and HK$4,837,000 respectively. As the Acquisition was assumed to be completed on 1 April 2006 for the purpose of this pro forma cash flow statement, the Company was only entitled to the 2006 interim dividend of China Pipe Group. Therefore, the Company should have received 2006 interim dividend of China Pipe Group of HK$1,428,000 (or equivalent to 29.52% of HK$4,837,000) during the year ended 31 December 2006. This adjustment is expected to have a continuing effect on the Group.

4. After making the above pro forma adjustments, the unaudited pro forma consolidated balance sheet showed a shortfall of cash and cash equivalents of HK$136,570,000. The shortfall will be settled by proceeds from issuance of new ordinary shares and convertible notes options. The Company entered into the subscription agreement in relation to the share subscription and grant of the convertible notes options as announced by the Company on 8 July 2007 to ensure that the Group has sufficient working capital to proceed the Acquisition. Pursuant to the subscription agreement, the

Company agreed to (i) allot and issue a total of 2,700,000,000 ordinary shares of the Company at HK$0.10 per share to Mr. Zhang Yang and (ii) grant the convertible note options at a premium of HK$20,000,000, being options to subscribe for the first tranche convertible notes for an aggregate principal amount of HK$650,000,000 and the second tranche convertible notes for an aggregate principal amount of HK$1,200,000,000 at the conversion price of HK$0.10 per conversion share. On 3 October 2007, the Company issued and allocated 2,700,000,000 ordinary shares of the Company at HK$0.10 each to Mr. Zhang Yang. During the period from 1 October 2007 to 1 April 2008, the first tranche option has been exercised in full and all first tranche convertible notes for an aggregate principal amount of HK$650,000,000 have been issued by the Company. The Company has not issued any part of the Second Tranche Convertible Notes and none of the Second Tranche Option has been exercised up to 1 April 2008.

The following is the text of a letter, summary of values and valuation certificate, prepared for inclusion in this circular, received from Savills Valuation and Professional Services Limited, an independent valuer, in connection with their valuations as at 31 January 2008 of the properties held by or to be acquired by the Group.

Savills Valuation and
Professional Services Limited

23/F Two Exchange Square
Central, Hong Kong

T: (852) 2801 6100
F: (852) 2530 0756

EA Licence: C-023750
savills.com

Interchina Holdings Company Limited
Room 701 Aon China Building,
29 Queen's Road Central,
Central,
Hong Kong

15 April 2008

Dear Sirs

In accordance with the instructions from your directors for us to value the properties held by Interchina Holdings Company Limited (the "Company") and its subsidiaries (hereinafter together referred to as "the Group") in Hong Kong and the People's Republic of China (the "PRC") and the properties held by China Pipe Group Limited in Hong Kong, Macau and the PRC which are to be acquired by the Group, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of such properties as at 31 January 2008 for inclusion in a circular issued by the Company.

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

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

In valuing the properties in the PRC, we have assumed that transferable land use rights in respect of the properties for respective specific terms at nominal land use fee have been granted and that all requisite land premium payable has been fully settled. We have also assumed that the owners of the properties have enforceable titles to their properties and have free and uninterrupted rights to use, occupy or assign the properties for the respective whole of the unexpired term as granted.

In valuing the properties in Groups I, II and VII, which are held for investment purposes by the Group in Hong Kong and the PRC respectively and held by China Pipe Group Limited for investment in Hong Kong, we have valued the properties by capitalizing the net incomes as shown in the schedules provided to us with due allowance for the reversionary income potential of the properties.

In valuing the property in Group III, which is held under development by the Group in the PRC, we have valued the property on the basis that the property will be developed and completed in accordance with the latest development schemes provided to us by the Group. In arriving at our opinion of value of the property, we have adopted the direct comparison approach whenever market comparable transactions are available and have taken into consideration the development costs spent and to be spent to reflect the quality of the completed development.

In valuing the property in Group IV, which are held for future development purposes by the Group in the PRC, we have adopted the direct comparison approach by making reference to the comparable market transactions are available assuming sale with the benefit of vacant possession.

In valuing the properties in Groups V, VI, VIII, IX and X, which are leased by the Group in Hong Kong and the PRC respectively and leased by China Pipe Group Limited in Hong Kong, Macau and the PRC respectively, we have assigned no commercial values to such properties due to the short term nature of the leases, prohibition against assignment or sub-letting or otherwise due to lack of substantial profit rent.

We have caused searches to be made at the Land Registry for the Hong Kong and Macau properties and have been provided with copies of extracts of title documents relating to the properties in the PRC. However, we have not inspected the original documents to ascertain any amendments that may not appear on the copies handed to us. We have relied to a very considerable extent on information given by the Group and its PRC legal advisers, Zhong Lun Law Firm (中倫金通律師事務所), Sinosourse Law Firm (北京市中潤律師事務所) and Jiao Yang Law Firm of Hunan China (湖南驕陽律師事務所), regarding the titles to the properties. We have also accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, particulars of occupancy, identification of the properties, site and floor areas and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximations. No on-site measurements have been made. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to our valuation. We have also advised by the Group that no material facts have been omitted from the information provided.

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

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any property 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.

In valuing the properties, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of 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.

Unless otherwise stated, all money amounts stated are in Hong Kong Dollars. Where appropriate, the exchange rate we have adopted is HK$1 to RMB0.9210, which was the prevailing exchange rate as at 31 January 2008. There have been no significant fluctuation in such exchange rate between that date and the date of this letter.

Our summary of values and valuation certificate are attached.

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

Note: Charles C K Chan, MSc, FRICS, FHKIS, MCIArb, RPS (GP), has been a qualified valuer and has about 23 years' experience in the valuation of properties in Hong Kong and has about 18 years' experience in the valuation of properties in the PRC.

SUMMARY OF VALUES

No.	Property	Capital value in existing state as at 31 January 2008	Interest attributable to the Group	Capital value attributable to the Group as at 31 January 2008
Group I – Property held for investment by the Group in Hong Kong				
1.	Flat No. 17 on 27th Floor, Apartment Tower on the Western Side, Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong	HK$15,000,000	100%	HK$15,000,000
	Sub-total:	*HK$15,000,000*		*HK$15,000,000*
Group II – Properties held for investment by the Group in the PRC				
2.	Portion of Basement 1 and Level 1 to 12, Guozhong Plaza, 33 Deng Shi Kou Main Street, Dongcheng District, Beijing, PRC	HK$242,000,000	100%	HK$242,000,000
3.	Basement 1 to 2 and Level 1 to 2, Guozhong Club, No. 1546 Dalian Road, Yangpu District, Shanghai, PRC	HK$359,000,000	100%	HK$359,000,000
	Sub-total:	*HK$601,000,000*		*HK$601,000,000*

No.	Property	Capital value in existing state as at 31 January 2008	Interest attributable to the Group	Capital value attributable to the Group as at 31 January 2008
Group III – Property held under development by the Group in the PRC				
4.	Interchina Mall and New Sports City Block Nos. 1 to 4, Lot No. 10L0158-2, New Sports City, Yuhua District, Changsha, Hunan Province, PRC	HK$981,700,000	100%	HK$981,700,000
	Sub-total:	*HK$981,700,000*		*HK$981,700,000*
Group IV – Property held for future development by the Group in the PRC				
5.	Lot Nos. 10L0158-3, 10L0158-1, 1999983, 1999985 and 1999986, New Sports City, Yuhua District, Changsha, Hunan Province, PRC	HK$864,700,000	100%	HK$864,700,000
	Sub-total:	*HK$864,700,000*		*HK$864,700,000*

No.	Property	Capital value in existing state as at 31 January 2008	Interest attributable to the Group	Capital value attributable to the Group as at 31 January 2008
Group V – Properties leased by the Group in Hong Kong				
6.	Room 701 on 7th Floor, Aon China Building, 29 Queen's Road Central, Central, Hong Kong	No commercial value	100%	No commercial value
7.	The Whole of 8th Floor, Place 18, 18 Cheong Lok Street, Jordan, Kowloon, Hong Kong	No commercial value	100%	No commercial value
8.	Portion of 12th Floor, Place 18, 18 Cheong Lok Street, Jordan, Kowloon, Hong Kong	No commercial value	100%	No commercial value
9.	Workshop No. 13 on 11th Floor, Harbour Industrial Centre, 10 Lee Hing Street, Ap Lei Chau, Hong Kong	No commercial value	100%	No commercial value
	Sub-total	*Nil*		*Nil*

No.	Property	Capital value in existing state as at 31 January 2008	Interest attributable to the Group	Capital value attributable to the Group as at 31 January 2008
Group VI – Properties leased by the Group in the PRC				
10.	A suite and a conference room, Level 6, Changli Building, Changli County, Qinghuangdao, Hebei Province, PRC	No commercial value	100%	No commercial value
11.	Unit Nos. 1212 and 1215, Guozhong Plaza 33 Dong Shi Kou Main Street, Dongcheng District, Beijing, PRC	No commercial value	100%	No commercial value
12.	A parcel of land, Wangjiashan, Maanshan, Anhui Province, PRC	No commercial value	100%	No commercial value
13.	A parcel of land, Haigang District, Qinhuangdao, Hebei Province, PRC	No commercial value	100%	No commercial value
	Sub-total:	*Nil*		*Nil*
	Grand-total of Groups I to VI:	**HK$2,462,400,000**		**HK$2,462,400,000**

No.	Property	Capital value in existing state as at 31 January 2008
Group VII – Properties held for investment by China Pipe Group Limited in Hong Kong		
14.	Shops A and B on Ground Floor, Shanghai Mansion, 380-390 Shanghai Street, 29-31 Pitt Street, Yau Ma Tei, Kowloon, Hong Kong	HK$23,000,000
15.	Unit Nos. 7A and 7B on Lower Ground Floor, Lai Yuen, 7-8 Tak Hing Street, Tsim Sha Tsui, Kowloon, Hong Kong	HK$25,000,000
	Sub-total:	*HK$48,000,000*
Group VIII – Properties leased by China Pipe Group Limited in Hong Kong		
16.	Whole of 12th Floor of Phase I, Austin Tower, 22-26 Austin Avenue, Tsim Sha Tsui, Kowloon, Hong Kong	No commercial value
17.	Section M of Lot No. 3719 in Demarcation District No. 104, Yuen Long, New Territories, Hong Kong	No commercial value
18.	Section N of Lot No. 3719 in Demarcation District No. 104, Yuen Long, New Territories, Hong Kong	No commercial value

No.	Property	Capital value in existing state as at 31 January 2008
19.	Sub-Section 1 of Section C of Sub-Section 1 of Section Q of Lot No. 3719 in Demarcation District No. 104, Yuen Long, New Territories, Hong Kong	No commercial value
20.	Ground Floor, 618 Shanghai Street, Mong Kok, Kowloon, Hong Kong	No commercial value
21.	Shop 8 on Ground Floor and cockloft, Hing Nin Building, 30-36 Hop Yick Road, Yuen Long, New Territories, Hong Kong	No commercial value
22.	Shop A on Ground Floor, Wealthy Mansion, 7, 7A, 9 and 11 Tai Wong Street East and 7, 7A, 9 and 11 Tai Wong Street West, Wanchai, Hong Kong	No commercial value
	Sub-total:	*Nil*

Group IX – Properties leased by China Pipe Group Limited in the PRC

No.	Property	Capital value in existing state as at 31 January 2008
23.	An industrial building, Longweihougang, Xiaolong Village, Shiji Town, Panyu, Guangzhou, Guangdong Province, PRC	No commercial value

No.	Property	Capital value in existing state as at 31 January 2008
24.	Unit No. 502 Block No. 7, Luwan Dushi Garden, Alley No. 509, Luban Road, Luwan District, Shanghai, PRC	No commercial value
25.	Warehouse No. 4, No. 2017 Jiangchun Road, Mingheng District, Shanghai, PRC	No commercial value
26.	An industrial building, No. 2017 Jiangchun Road, Mingheng District, Shanghai, PRC	No commercial value
27.	Unit No. 2803, No. 885 Renmin Road, Huangpu District, Shanghai, PRC	No commercial value
	Sub-total:	*Nil*

Group X – Property leased by China Pipe Group Limited in Macau

No.	Property	Capital value in existing state as at 31 January 2008
28.	Unit B on Ground Floor and First Floor, Nos. 35-35A Avenida De Demetrio Cinatti and No. 13 Rua Da Ribeira Do Patane, Macau	No commercial value
	Sub-total:	*No commercial value*
	Grand-total of Groups VII to X:	**HK$48,000,000**

VALUATION CERTIFICATE

Group I – Property held for investment by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2008
1.	Flat No. 17 on 27th Floor, Apartment Tower on the Western Side, Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong 901/4,000,000th shares of and in Inland Lot No. 8593	Convention Plaza is a development comprising two hotels, an apartment tower and an office tower surmounting a common podium which accommodates an exhibition and convention centre, shopping arcades, private club and carparks. It was completed in 1990. The property comprises a residential unit on the 27th Floor of the apartment tower of the development. The gross floor area of the property is approximately 122.17 sq. m. (1,315 sq. ft.). Inland Lot No. 8593 is held from the Government under Conditions of Grant No. UB11784 for a term of 75 years commencing on 19 February 1985 at an annual Government rent of HK$1,000.	The property is subject to a tenancy for a term of two years commencing on 1 June 2007 and expiring on 31 May 2009 at a monthly rent of HK$45,000 inclusive of rates, Government rent and management fee.	HK$15,000,000 (100% interest attributable to the Group: HK$15,000,000)

Notes:

(1) The registered owner of the property is Jet Source Investments Limited, which is a wholly-owned subsidiary of the Company.

(2) The property is subject to a Legal Charge/Mortgage in favour of The Bank of East Asia, Limited.

(3) The property is zoned for "Other Specified Uses (Exhibition Centre With Commercial Development)" use under the Wan Chai North Outline Zoning Plan No. S/H25/1 dated 19 April 2002.

VALUATION CERTIFICATE

Group II – Properties held for investment by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2008
2.	Portion of Basement 1 and Level 1 to 12, Guozhong Plaza, 33 Deng Shi Kou Main Street, Dongcheng District, Beijing, PRC	Guozhong Plaza is a 12-storey commercial/office building plus a 3 levels basement completed in 1997. The property comprises portion of Basement 1 and Levels 1 to 12 of Guozhong Plaza with a total gross floor area of approximately 9,244.28 sq. m. (99,505 sq. ft.). Basement 1, Level 1 and 2 of the property are devoted for commercial uses whilst the upper floors are devoted for office uses. The land use rights of the property were granted for a term expiring on 13 June 2044 for commercial and service uses.	Portion of the property with a total gross floor area of approximately 8,349.98 are subject to 38 tenancies with the latest expiry in September 2015 at a total monthly rent of about RMB 548,981 exclusive of management fees and other outgoings. The remaining portion of the property is vacant.	HK$242,000,000 (100% interest attributable to the Group: HK$242,000,000)

Notes:

(1) Pursuant to 63 State-owned Land Use Rights Certificates all issued by the People's Government of Beijing and 70 Building Ownership Certificates, all issued by Beijing State Land Resources and Housing Administration Burecu the title to the property with a total gross floor area of 9,244.28 sq. m. is held by various owners for a land use term expiring on 13 June 2044 for commercial and service uses. Details of the State-owned Land Use Rights Certificates and Building Ownership Certificates are listed as follows:

Owner	Gross floor area *(sq. m.)*	Building Ownership Certificate No.	State-owned Land Use Rights Certificate No.
Action Investments Ltd. (恒來投資有限公司) (a wholly-owned subsidiary of the Group)	2,427.89	Jing Fang Quan Zheng Shi Dong Gang Ao Tai Zi Di Nos. 0550297,0550318 to 0550337 and 0550341 to 0550350 (京房權證市東港澳臺字第0550297, 0550318-0550337, 0550341-0550350號)	Jing Shi Dong Gang Ao Tai Guo Yong (2003) Chu Zi Di No. 0550297, Jing Shi Dong Gang Ao Tai Guo Yong (2004) Chu Zi Di Nos. 0550318 to 0550337 and 0550341 to 0550350 (京市東港澳臺國用(2003)出字第0550297號，京市東港澳臺國用(2004)出字第0550318-0550337, 0550341-0550350號)

Owner	Gross floor area *(sq. m.)*	Building Ownership Certificate No.	State-owned Land Use Rights Certificate No.
(Interchina (Tianjin) Water Treatment Co., Ltd. 國中(天津)水務有限公司 (a wholly-owned subsidiary of the Group)	1,008.82	Jing Fang Quan Zheng Shi Dong Gang Ao Tai Zi Di Nos. 0550298 to 0550312 (京房權證市東港澳臺字第0550298-0550312號)	Jing Shi Dong Gang Ao Tai Guo Yong (2003) Chu Zi Di Nos. 第0550298-0550312 (京市東港澳臺國用(2003)出字第0550298-0550312號)
(Beijing Longbao Property Management Co., Ltd.) 北京龍堡物業管理有限公司 (a wholly-owned subsidiary of the Group)	5,807.57	Jing Fang Quan Zheng Shi Dong Gang Ao Tai Zi Di Nos. 0550413 to 0550418, 0550420, 0550433 to 0550436, 0550438 to 0550448, 0550451 and 0550452 (京房權證市東港澳臺字第0550413-0550418, 0550420, 0550433-0550436, 0550438-0550448, 0550451, 0550452號)	Jing Shi Dong Gang Ao Tai Guo Yong (2007) Chu Zi Di Nos. 6009222, 6013052 to 6013057, 6016747 to 6016751, 6018442 to 6018445 and 6020272 (京市東港澳臺國用(2003)出字第6009222, 6013052-6013057, 6016747-6016751, 6018442-6018445, 6020272號)
Total	9,244.28		

(2) As advised by the Group, the property is purchased from independent third parties at a total consideration of about HK$196,070,000.

(3) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:

(i) the Group has acquired the relevant State-owned Land Use Rights Certificates and Building Ownership Certificates of the property and the land premium has been fully paid;

(ii) portion of the property with a total gross floor area of approximately 2,427.89 sq. m. is subject to a mortgage, the Group can lease this mortgaged portion but prior written notification to the tenant is required. The Group can transfer or mortgage this mortgaged portion without any additional payment of land premium but prior written consent from the mortgagee is required;

(iii) the Group is entitled to lease, mortgage or transfer the remaining portion of the property without any additional payment of land premium; and

(iv) Except the aforesaid mortgage, the property is not subject to any other material encumbrances.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2008
3.	Basement 1 to 2 and Level 1 to 2, Guozhong Club, No. 1546 Dalian Road, Yangpu District, Shanghai, PRC	The property comprises a 2-storey commercial podium plus a 2-level commercial and car parking basement of a residential and commercial development completed in 1998. The property has a total gross floor area of approximately 18,370.15 sq. m. (197,736.29 sq. ft.). The land use rights of the property were granted for a term commencing on 19 December 2002 and expiring on 23 October 2042 for composite uses.	The property is subject to a lease for a term commencing on 1 July 2006 with no specified expiry date at a monthly rent of HK$1,630,000 exclusive of management fees and other outgoings.	HK$359,000,000 (100% interest attributable to the Group: HK$359,000,000)

Notes:

(1) Pursuant to a Shanghai City Real Estate Title Certificate Hu Fang Di Shi Zi (2002) Di No. 011558, issued by Shanghai Municipal Housing and Land Resource Administrative Bureau dated 18 November 2002, the building ownership with a gross floor area of 18,370.15 sq. m. and the corresponding land use rights of the property were granted to Equal Smart Profits Limited ("Equal Smart") (恆麗有限公司) (a wholly-owned subsidiary of the Group) for a term commencing on 19 December 2002 and expiring on 23 October 2042 for composite uses.

(2) As advised by the Group, the property is purchased from independent third parties at a total consideration of about HK$313,100,000.

(3) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:

(i) Equal Smart has obtained the building ownership and the corresponding land use rights of the property and is entitled to lease and transfer the property; and

(ii) the property is not subject to any mortgages and the land premium has been fully paid.

VALUATION CERTIFICATE

Group III – Property under development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2008
4.	Interchina Mall and New Sports City Block Nos. 1 to 4, Lot No. 10L0158-2, New Sports City, Yuhua District, Changsha, Hunan Province, PRC	The property comprises a parcel of land with a site area of approximately 49,859.70 sq. m. (536,690 sq. ft.), 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 2008.	The property is currently under construction.	HK$981,700,000 (100% interest attributable to the Group: HK$981,700,000)

According to the latest development proposal provided to us, the property will have a total gross floor area of approximately 139,072.81 sq. m. (1,496,980 sq. ft.) upon completion, the breakdown of which is summarized as follows:

Uses	Approximate Gross Floor Area (*sq.m.*)	Approximate Gross Floor Area (*sq.ft.*)
Commercial (Mall)	29,345.60	315,876
Commercial (Blocks 1 to 4)	15,543.41	167,309
Hotel	29,836.94	321,165
Apartment	29,841.48	321,214
Ancillary	34,505.39	371,416
Total:	139,072.81	1,496,980

The property will also provide 596 car parking spaces.

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) Pursuant to a Contract for Grant of Land Use Rights 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) (a wholly-owned subsidiary of the Company), the land use rights of a parcel of land with a total site area of 427,926.14 sq. m., including granted land of 336,202.77 sq. m. were granted to Changsha Interchina Star City Company Limited "Interchina Star City" for a term of 70 years commencing from 20 February 2003 for commercial/residential use at a consideration of RMB 63,660,962.50.

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

(2) 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 Interchina Star City 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.

(3) According to the Contract for Grant of Land Use Rights and State-owned Land Use Rights Certificate as stated in notes (1) and (2), the land use term of the property is commenced on 20 February 2003 and expiring on 20 February 2073.

(4) Pursuant to Planning Permit for Construction Land 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 (Interchina Star City Residential Area) 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 two Planning Permit for Construction Works Jian 2 (2004) Nos. 0137 and 0138 dated 31 March 2005 and 19 April 2004 respectively both issued by the Changsha City Planning Management Bureau, the property with a total planned gross floor area of approximately 141,465.18 sq. m. has been approved for construction.

(6) Pursuant to a Commodity Housing Pre-Sales Permit Chang Fang Shou Xu 21 (2004) Di No 2952 dated 28 January 2005, Interchina Star City is permitted to pre-sell portion of Interchina Mall, with a gross floor area of approximately 29,336.19 sq. m., including 27,256.13 sq. m. for commercial uses and 2, 079.29 sq. m. for other uses.

(7) Pursuant to a Commodity Housing Pre-sales Permit Chang Fang Shou Xu Zi (2005) Di No.3826 dated 18 April 2005 issued by Changsha City House Title Management Bureau, Interchina Star City is permitted to pre-sell portion of BIock Nos. 3 and 4 of the property, with a gross floor area of approximately 35,501.13 sq. m., including 14,879.05 sq. m. for residential uses, 4,603.55 sq. m. for commercial uses and 16,018.23 sq. m. for other uses.

(8) Pursuant to a Commodity Housing Pre-sales Permit Chang Fang Shou Xu Zi (2005) Di No 4197 dated 22 September 2005 issued by Changsha City House Title Management Bureau, Interchina Star City is permitted to pre-sell portion of Blocks 1 and 2 of the property, with a gross floor area of approximately 37,541.05 sq. m., including 15,054.66 sq. m. for residential uses, 7,434.12 sq. m. for commercial uses and 15,052.27 sq. m. for other uses.

(9) According to the information provided by the Group, the estimated total construction costs expended as at 31 January 2008 was approximately RMB284,040,000 and the outstanding construction costs to complete the development was approximately RMB169,010,000. In the course of our valuation, we have taken into account the aforesaid amounts. The capital value of the property when completed is approximately RMB1,454,000,000.

(10) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:

Interchina Star City has fully settled the land premium, acquired the land use rights of the property and is entitled to lease, transfer or mortgage the land use rights of the property.

VALUATION CERTIFICATE

Group IV – Property held for future development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2008
5.	Lot Nos. 10L0158-3, 10L0158-1, 1999983, 1999985 and 1999986, New Sports City, Yuhua District, Changsha, Hunan Province, PRC	The property comprises 5 parcels of land with a total site area of approximately 237,281.96 sq. m. (2,554,103 sq. ft.). The property is proposed to be developed into various residential buildings with a total permitted gross floor area of approximately 424,253.87 sq. m. (4,566,669 sq. ft.). As advised, the development of the property will be commenced in 2008. Currently the property is erected with a temporary 4-storey building with a total gross floor area of approximately 6,507.56 sq. m. (70,047 sq. ft.). The land use rights of the property were granted for a term of 70 years expiring on 20 February 2073 for residential uses.	A building is erected on portion of the property which is used as a sales office whilst the remaining portion of the property is vacant.	HK$864,700,000 (100% interest attributable to the Group: HK$864,700,000)

Notes:

(1) Pursuant to a Contract for Grant of Land Use Rights No. 2003066 dated 20 February 2006 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) (a wholly-owned subsidiary of the Group), the land use rights of a parcel of land with a total site area of 427,926.14 sq. m., including granted land of 336,202.77 sq. m. were granted to Interchina Star City for a term of 70 years commencing from 20 February 2003 for commercial/residential use at a consideration of RMB 63,660,962.50.

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

(2) Pursuant to a State-owned Land Use Rights Certificate Chang Guo Yong (2006) Di No. 030906 dated 9 August 2006 issued by Changsha City Municipal Government, the land use rights of a parcel of land with a site area of 10,751.99 sq. m. were granted to Interchina Star City for a term of 70 years expiring on 20 February 2073 for residential uses. The site has additional road area of 11,832.50 sq. m. and green area of 4,376.28 sq. m.

(3) Pursuant to a State-owned Land Use Rights Certificate Chang Guo Yong (2006) Di No. 030904 dated 9 August 2006 issued by Changsha City Municipal Government, the land use rights of a parcel of land with a site area of 12,275.10 sq. m. were granted to Interchina Star City for a term of 70 years expiring on 20 February 2073 for residential uses.

These State-owned Land Use Rights Certificate as stipulated in Notes 2 and 3 have superseded a State-owned Land Use Rights Certificate Chang Guo Yong (2003) Di No. 005441, which has 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 a State-owned Land Use Rights Certificate Chang Guo Yong (2003) Di No. 005442 dated 16 May 2003 issued by Changsha City Municipal Government, the land use rights of a parcel of land with a site area of 42,770.92 sq. m. were granted to Interchina Star City for a term of 70 years expiring on 20 February 2073 for residential uses.

(5) Pursuant to a State-owned Land Use Rights Certificate Chang Guo Yong (2003) Di No. 005439 dated 16 May 2003 issued by Changsha City Municipal Government, the land use rights of a parcel of land with a site area of 84,789.13 sq. m. were granted to Interchina Star City for a term of 70 years expiring on 20 February 2073 for residential uses.

(6) Pursuant to a State-owned Land Use Rights Certificate Chang Guo Yong (2003) Di No. 005440 dated 16 May 2003 issued by Changsha City Municipal Government, the land use rights of a parcel of land with a site area of 86,694.82 sq. m. were granted to Interchina Star City for a term of 70 years expiring on 20 February 2073 for residential uses.

(7) According to the Contract for Grant of Land Use Rights and State-owned Land Use Rights Certificates as stated in notes (1) to (6), the land use term of the property is commenced on 20 February 2003 and expiring on 20 February 2073.

(8) Pursuant to an Other Land Use Rights Certificate Chang Guo Tu Ta Xiang (2006) Zi Di No. 222, the land use rights of the property as stated in Notes (4), (5) and (6) above have been mortgaged to Changsha Huaxin Branch of China Construction Bank for a period commencing on 20 September 2006 and expiring on 19 June 2008.

(9) As advised by the Group, no construction permit for the temporary building of the property has been obtained from the relevant authorities and will be demolished in the future. We have not included this temporary building in our valuation as the Group does not have a proper legal title to this temporary building.

(10) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:

(i) Interchina Star City has fully settled the land premium and acquired the land use rights of the property and is entitled to transfer, lease or mortgage the land use rights of the property; and

(ii) the land use rights with portion of the property with a total site area of 214,254.87 sq. m. are subject to a mortgage. Interchina Star City has to obtain the mortgagee's prior written consent before transferring, leasing or mortgaging such portion of the property during the mortgage term.

VALUATION CERTIFICATE

Group III – Properties leased by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2008
6.	Room 701 on 7th Floor, Aon China Building, 29 Queen's Road Central, Central, Hong Kong	Aon China Building is a 23-storey commercial building plus upper and lower basements completed in 1977. The property comprises an office unit on the 7th Floor of the building with a saleable area of approximately 141.40 sq. m. (1,522 sq. ft.). By a tenancy agreement dated 24 July 2006 made between Vember Lord Limited, an independent third party, as the landlord, and the Company as the tenant, the property is leased for a term of three years from 1 July 2006 and expiring on 30 June 2009 at a monthly rent of HK$66,462 exclusive of management fee, rates and Government rent with an option to renew for one year at market rent subject to the tenant of Room 701A exercising its optional right to renew the tenancy simultaneously.	The property is currently used as an office.	No commercial value

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2008
7.	The whole of 8th Floor, Place 18, 18 Cheong Lok Street, Jordan, Kowloon, Hong Kong	Place 18 is a 17-storey commercial building completed in 1989. The property comprises the whole of 8th Floor of the building with a saleable area of approximately 239.97 sq. m. (2,583 sq. ft.). By a lease dated 30 March 2004 made between Best Plain Trading Limited, a wholly-owned subsidiary of the Company, as the lessor, Wide Step Industrial Limited, an independent third party, as the lessee, China Happy Limited, an independent third party, as the 1st guarantor, and Rich Famous Corporation Limited, an independent third party, as the 2nd guarantor, the whole of the building is leased for a term of six years from 1 November 2003 and expiring on 31 October 2009 at a monthly rent of HK$700,000 exclusive of management fee, rates and Government rent.	The property is currently used as a showroom.	No commercial value

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2008
		By a tenancy agreement dated 9 June 2004 made between Wide Step Industrial Limited, an independent third party, as the landlord, and China Field Investments Limited, in which the Company has a 100% interest, as the tenant, the property is leased for a term of six years from 1 November 2003 and expiring on 31 October 2009 at a monthly rent of HK$29,000 exclusive of management fee and rates but inclusive of Government rent.		

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2008
8.	Portion of 12th Floor, Place 18, 18 Cheong Lok Street, Jordan, Kowloon, Hong Kong	Place 18 is a 17-storey commercial building completed in 1989. The property comprises a portion of 12th Floor of the building with a gross floor area of approximately 185.80 sq. m. (2,000 sq. ft.). By a lease dated 30 March 2004 made between Best Plain Trading Limited, a wholly-owned subsidiary of the Company, as the lessor, Wide Step Industrial Limited, an independent third party, as the lessee, China Happy Limited, an independent third party, as the 1st guarantor, and Rich Famous Corporation Limited, an independent third party, as the 2nd guarantor, the whole of the building is leased for a term of six years from 1 November 2003 and expiring on 31 October 2009 at a monthly rent of HK$700,000 exclusive of management fee, rates and Government rent.	The property is currently used as an office.	No commercial value

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2008
		By a tenancy agreement dated 12 February 2005 made between Wide Step Industrial Limited, an independent third party, as the landlord, and Ever Profit Management Limited, an independent third party, as the tenant, the whole of 12th floor of the building is leased for a term of five years and two months from 1 September 2004 and expiring on 31 October 2009 at a monthly rent of HK$29,000 exclusive of management fee and rates but inclusive of Government rent. By a licence dated 1 September 2006 made between Ever Profit Management Limited, an independent third party, as the licensor, and Interchina Securities Limited, in which the Company has a 100% interest, as the licensee, the property is licensed for a term of three years and two months from 1 September 2006 and expiring on 31 October 2009 at a monthly licence fee of HK$19,500 exclusive of management fee but inclusive of rates and Government rent.		

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2008
9.	Workshop No. 13 on 11th Floor, Harbour Industrial Centre, 10 Lee Hing Street, Ap Lei Chau, Hong Kong	Harbour Industrial Centre is a 24-storey industrial building with ancillary car park on the Ground and 1st Floors completed in 1990. The property comprises a workshop unit on the 11th Floor of the building with a gross floor area of approximately 93.83 sq. m. (1,010 sq. ft.). By a tenancy agreement dated 13 October 2006 made between Zeta Estates Limited, an independent third party, as the landlord, and Interchina Trading (H.K.) Limited, in which the Company has a 100% interest, as the tenant, the property is leased for a term of three years from 9 October 2006 and expiring on 8 October 2009 at a monthly rent of HK$6,000 inclusive of management fee, rates and Government rent.	The property is currently used as a workshop.	No commercial value

VALUATION CERTIFICATE

Group VI – Properties leased by the Group in the PRC

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 January 2008
10.	A suite and a conference room, Level 6, Changli Building, Changli County, Qinghuangdao, Hebei Province, PRC	The property comprises a hotel suite and a conference room on the Level 6 of a 12-storey hotel building completed in 2003. The property has a total floor area of approximately 100 sq. m. (1,076 sq. ft.). The property is currently leased to the Group for a term commencing on 20 September 2007 and expiring on 20 March 2008 at a total rent of approximately RMB25,000 for the whole lease term, inclusive of management fees and other utilities charges.	The property is currently used as office.	No commercial value

Notes:

(1) The property is leased from an independent third party to 國水(昌黎)污水處理有限公司 (Guo Shui (Changli) Sewage Water Treatment Co. Ltd.), a wholly-owned subsidiary of the Company.

(2) The tenancy of the property is renewed on 30 March 2008 for a lease term commencing on 30 March 2008 with no fixed term of rental period at a monthly rent of RMB4,100, inclusive of management fees and other utilities charges.

As advised by the Company, the tenant will not move out from the property in 2008.

(3) We have been provided with a legal opinion on the legality of the tenancy agreement of the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:

(i) the tenancy agreement is legal and valid; and

(ii) the Group has the rights to request the lessor for fulfilling the tenancy agreement.

VALUATION CERTIFICATE

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 January 2008
11.	Unit Nos. 1212 and 1215, Guozhong Plaza, 33 Dong Shi Kou Main Street, Dongcheng District, Beijing, PRC	The property comprises two office units on Level 12 of a 12-storey commercial building plus three levels of commercial/car park basement completed in 2003. The property has a total gross floor area of approximately 305.36 sq. m. (3,287 sq. ft.). The property is currently leased to the Group for a term commencing on 1 January 2008 and expiring on 30 June 2008 at a monthly rent of approximately RMB9,893.66, exclusive of other charges.	The property is currently used as office.	No commercial value

Notes:

(1) The property is leased from an independent third party to Beijing Guoqing Environmental Technology Co. Ltd., a wholly-owned subsidiary of the Company.

(2) We have been provided with a legal opinion on the legality of the tenancy agreement of the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:

(i) the tenancy agreement is legal and valid; and

(ii) the Group has the rights to request the lessor for fulfilling the tenancy agreement.

VALUATION CERTIFICATE

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 January 2008
12.	A parcel of land, Wangjiashan, Maanshan, Anhui Province, PRC	The property comprises a parcel of land with a site area of approximately 64,000.32 sq. m. (688,899 sq. ft.). The property is currently leased to the Group for a term commencing on 1 July 2006 and expiring on 31 July 2029 at an annual rent of approximately RMB265,500 from the third year of the lease term. It is free of rent for the first two years of the lease term.	The property is currently used as a water treatment plant.	No commercial value

Notes:

(1) The property is leased from an independent third party to 國水(馬鞍山)污水處理有限公司 (Guoshui (Maanshan) Sewage Treatment Co., Ltd), a wholly-owned subsidiary of the Group.

(2) We have been provided with a legal opinion on the legality of the tenancy agreement of the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:

(i) the tenancy agreement is legal and valid; and

(ii) the Group has the rights to request the lessor for fulfilling the tenancy agreement.

VALUATION CERTIFICATE

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 January 2008
13.	A parcel of land, Haigang District, Qinhuangdao, Hebei Province, PRC	The property comprises a parcel of land with a site area of approximately 62,800 sq. m. (675,979 sq. ft.). The property is currently occupying by to the Group for a term commencing on 1 August 2003 and expiring on 31 July 2023 at a monthly payment of RMB56,520.	The property is currently used as a water treatment plant.	No commercial value

Notes:

(1) The property is occupying by Interchina (Qinhuangdao) Sewage Treatment Co. Ltd., a wholly-owned subsidiary of the Group.

(2) We have been provided with a legal opinion on the legality of the 特許專營權合同 (A BOT Concession Contract) of the property issued by the Group's PRC legal adviser, which contains, inter alia, the followings information:

(i) according to the 特許專營權合同 (A BOT Concession Contract) and Memorandum entered into between the Company and the People's Government of Qinhuangdao on 22 November 2002, the People's Government of Qinhuangdao will lease a parcel of land with a site area of 62,800 sq m to the Company for the construction and operation of a water treatment plant for an operation period of 20 years. The 特許專營權合同 and Memorandum are legal and valid;

(ii) the land management bureau of the People's Government of Qinhuangdao is possessing the tenancy of the property and they accept the Company to use the property legally; and

(iii) it is legal and effective for the Company to invest, design and construct the water treatment plant.

VALUATION CERTIFICATE

Group VII – Properties held for investment by China Pipe Group Limited in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2008
14.	Shops A and B on Ground Floor, Shanghai Mansion, 380-390 Shanghai Street, 29-31 Pitt Street, Yau Ma Tei, Kowloon, Hong Kong 2/108th shares of and in Kowloon Inland Lot Nos. 6825 and 6826.	Shanghai Mansion is a 11-storey composite building completed in 1965. The property comprises two shop units on the Ground Floor of the building with a total saleable area of approximately 152.92 sq. m. (1,646 sq. ft.) plus a yard of approximately 10.31 sq. m. (111 sq. ft.). Kowloon Inland Lot Nos. 6825 and 6826 are held under Conditions of Renewal Nos. 5594 and 5595 respectively each for a term of 150 years commencing from 1 January 1898. The total annual Government rent payable for the lots is HK$394.	The property is subject to a tenancy for a term of two years commencing on 15 October 2007 and expiring on 14 October 2009 at a monthly rent of HK$80,000 exclusive of rates and management fees.	HK$23,000,000

Notes:

(1) The registered owner of the property is Patterson Engineering Company Limited, which is a wholly-owned subsidiary of China Pipe Group Limited.

(2) The property is subject to a Mortgage in favour of Industrial and Commercial Bank of China (Asia) Limited.

(3) The property is zoned for “Residential (Group A)” use under the Yau Ma Tei Outline Zoning Plan No. S/K2/19 dated 31 August 2007.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2008
15.	Unit Nos. 7A and 7B on Lower Ground Floor, Lai Yuen, 7-8 Tak Hing Street, Tsim Sha Tsui, Kowloon, Hong Kong 3/76th shares of and in Kowloon Inland Lot No. 10555	Lai Yuen is a 10-storey composite building completed in 1964. The property comprises two shop units on the Ground Floor of the building with a total saleable area of approximately 156.73 sq. m. (1,687 sq. ft.). Kowloon Inland Lot No. 10555 is held under Government Lease for a term of 150 years commencing on 8 October 1901. The annual Government rent payable for the subject lot is HK$1,000.	The property is subject to a tenancy for a term of three years commencing on 3 October 2006 and expiring on 2 October 2009 at a monthly rent of HK$55,000 exclusive of rates and management fees.	HK$25,000,000

Notes:

(1) The registered owner of the property is Hing's Godown & Transportation Company Limited, which is a wholly-owned subsidiary of China Pipe Group Limited.

(2) The property is subject to a Mortgage in favour of Industrial and Commercial Bank of China (Asia) Limited.

(3) The property is zoned for "Residential (Group A)" use under the Tsim Sha Tsui Outline Zoning Plan No. S/K1/22 dated 17 October 2006.

VALUATION CERTIFICATE

Group VIII – Properties leased by China Pipe Group Limited in Hong Kong

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 January 2008
16.	Whole of 12th Floor of Phase I, Austin Tower, 22-26 Austin Avenue, Tsim Sha Tsui, Kowloon, Hong Kong	Austin Tower Phase I comprises an 18-storey commercial building surmounting a 3-level basement car park completed in 1982. The property comprises the whole of the 12th Floor with a gross floor area of approximately 762.73 sq. m. (8,210 sq. ft.). By a tenancy agreement dated 29 October 2007 made between Bun Lee (China) Limited, a related company of China Pipe Group Limited, as the landlord, and Bun Kee (International) Limited, a wholly-owned subsidiary of China Pipe Group Limited, as the tenant, the property is leased for a term of two years from 31 October 2007 and expiring on 30 October 2009 at a monthly rent of HK$140,000 exclusive of management fee and rates but inclusive of Government rent.	The property is currently occupied by China Pipe Group Limited as an office.	No commercial value

VALUATION CERTIFICATE

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 January 2008
17.	Section M of Lot No. 3719 in Demarcation District No. 104, Yuen Long, New Territories, Hong Kong	The property comprises a parcel of land with a registered site area of approximately 9,307.69 sq. m. (100,188 sq. ft.). Currently standing on the property is a warehouse of steel panel structure with a site coverage of approximately 2,941.93 sq.m. (31,667 sq. ft.). By a tenancy agreement dated 29 October 2007 made between Powerful Agents Limited, a related company of China Pipe Group Limited, as the landlord, and Bun Kee (International) Limited, a wholly-owned subsidiary of China Pipe Group Limited as the tenant, the property is leased for a term of two years from 31 October 2007 and expiring on 30 October 2009 at a monthly rent of HK$420,000 exclusive of management fee, waiver fee and rates but inclusive of Government rent.	The property is currently occupied by Bun Kee (International) Limited, a wholly-owned subsidiary of China Pipe Group Limited as a warehouse and open storage.	No commercial value

Notes:

(i) The property is subject to a Short Term Waiver No. 1487 (the "Waiver") granted by the Government. The Waiver permits a structure/structures on the property not exceeding 7.6m height or more than one storey with a total site coverage of 2,326.60 sq.m. (25,044 sq.ft.). The structure should be used for storage of building machinery and building materials.

(ii) It is noted that the existing structure on the property exceeds the site coverage permitted under the Waiver. The Company opines that the excessive site coverage of the existing building structure has no material effect to the operation of China Pipe Group Limited and considers that the tenancy agreement is legally binding and valid.

VALUATION CERTIFICATE

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 January 2008
18.	Section N of Lot No. 3719 in Demarcation District No. 104, Yuen Long, New Territories, Hong Kong	The property comprises a parcel of land with a registered site area of approximately 9,306.02 sq. m. (100,170 sq. ft.). Currently standing on the property is a warehouse of steel panel structure with a site coverage of approximately 1,726.72 sq. m. (18,586 sq. ft.) plus some temporary structures with a total site coverage of 315.20 sq. m. (3,393 sq. ft.). By a tenancy agreement dated 29 October 2007 made between Bun Kee (H.K.) Limited, a related company of China Pipe Group Limited, as the landlord, and Bun Kee (International) Limited, a wholly-owned subsidiary of China Pipe Group Limited, as the tenant, the property is leased for a term of two years from 31 October 2007 and expiring on 30 October 2009 at a monthly rent of HK$370,000 exclusive of management fee, waiver fee and rates but inclusive of Government rent.	The property is currently occupied by Bun Kee (International) Limited, a wholly-owned subsidiary of China Pipe Group Limited as a warehouse and open storage.	No commercial value

Notes:

(i) The property is subject to Short Term Waiver No. 1183 (the "Waiver") granted by the Government. The Waiver permits a structure/structures on the property not exceeding 7.62m height and not contain more than one storey with a total site coverage of 931 sq. m. (10,021 sq. ft.). The structure should be used for storage of building machinery and building materials.

(ii) It is noted the existing structures on the property exceed the site coverage permitted under the Waiver. The Company opines that the excessive site coverage of the existing building structures has no material effect to the operation of China Pipe Group Limited and considers that the tenancy agreement is legally binding and valid.

VALUATION CERTIFICATE

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 January 2008
19.	Sub-Section 1 of Section C of Sub-Section 1 of Section Q of Lot No. 3719 in Demarcation District No. 104, Yuen Long, New Territories, Hong Kong	The property comprises a parcel of land with a registered site area of approximately 4,646.86 sq. m. (50,019 sq. ft.). By a tenancy agreement dated 24 August 2007 made between Asia Development (1950) Limited, an independent third party, as the landlord, and Hing's Godown & Transportation Company Limited, a wholly-owned subsidiary of China Pipe Group Limited, as the tenant, the property is leased for a term of two years from 1 August 2007 and expiring on 31 July 2009 at a monthly rent of HK$72,000 inclusive of rates and Government rent.	The property is currently occupied by Bun Kee (International) Limited, a wholly-owned subsidiary of China Pipe Group Limited, as an open storage.	No commercial value

VALUATION CERTIFICATE

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 January 2008
20.	Ground Floor, 618 Shanghai Street, Mong Kok, Kowloon, Hong Kong	"616 Shanghai Street" together with "618 Shanghai Street" is a 6-storey composite building completed in 1965. The property comprises a shop unit on the Ground Floor of the building with a saleable area of approximately 58.34 sq. m. (628 sq. ft.) plus a yard of approximately 4.55 sq. m. (49 sq. ft.). By a tenancy agreement dated 29 October 2007 made between Powerful Agents Limited, a related company of China Pipe Group Limited, as the landlord, and Bun Kee (International) Limited, a wholly-owned subsidiary of China Pipe Group Limited, as the tenant, the property is leased for a term from 31 October 2007 and expiring on 30 October 2009 at a monthly rent of HK$67,000 exclusive of management fee and rates but inclusive of Government rent.	The property is currently occupied by Bun Kee (International) Limited, a wholly-owned subsidiary of China Pipe Group Limited, as a retail shop.	No commercial value

VALUATION CERTIFICATE

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 January 2008
21.	Shop 8 on Ground Floor and cockloft, Hing Nin Building, 30-36 Hop Yick Road, Yuen Long, New Territories, Hong Kong	Hing Nin Building is a 6-storey composite commercial/residential building with a commercial Ground Floor completed in 1977. The property comprises a shop unit on the Ground Floor of the building with a saleable area of approximately 45.80 sq. m. (493 sq. ft.) plus a cockloft of approximately 42.55 sq. m. (458 sq. ft.). By a tenancy agreement dated 20 November 2006 made between Mr Wong Chun Fat and Mr Wong Kwok Shing, an independent third party, as the landlord, and Bun Kee (International) Limited, a wholly-owned subsidiary of China Pipe Group Limited, as the tenant, the property is leased for a term of two years from 10 November 2006 and expiring on 9 November 2008 at a monthly rent of HK$30,000 exclusive of management fee, rates, Government rent and other outgoings.	The property is currently occupied by Bun Kee (International) Limited, a wholly-owned subsidiary of China Pipe Group Limited, as a retail shop.	No commercial value

VALUATION CERTIFICATE

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 January 2008
22.	Shop A on Ground Floor, Wealthy Mansion, 7, 7A, 9 and 11 Tai Wong Street East and 7, 7A, 9 and 11 Tai Wong Street West, Wanchai, Hong Kong	Wealthy Mansion is a 12-storey composite building completed in 1974. The property comprises a shop unit on the Ground Floor of the building with a gross area of approximately 54.53 sq. m. (587 sq. ft.). By a tenancy agreement dated 18 September 2007 made between Full Tree Trading Limited, an independent third party, as the landlord, and Bun Kee (International) Limited, a wholly-owned subsidiary of China Pipe Group Limited, as the tenant, the property is leased for a term of two years from 1 October 2007 and expiring on 30 September 2009 at a monthly rent of HK$34,650 exclusive of management fee, rates and Government rent.	The property is currently occupied by Bun Kee (International) Limited, a wholly-owned subsidiary of China Pipe Group Limited, as a retail shop.	No commercial value

VALUATION CERTIFICATE

Group IX – Properties leased by China Pipe Group Limited in the PRC

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 January 2008
23.	An industrial building, Longweihougang, Xiaolong Village, Shiji Town, Panyu, Guangzhou, Guangdong Province, PRC	The property comprises a single-storey industrial building with a gross floor area of approximately 3,887.90 sq. m. (41,849 sq. ft.) completed in 2006. The property is currently leased to China Pipe Group Limited for a term commencing on 1 March 2006 and expiring on 28 February 2016 at a monthly rent of approximately RMB46,000 for the first 3 year; RMB50,600 for the 4th to 6th years; RMB55,200 for the 7th to 9th years and RMB59,800 for the 10th year.	The property is currently used for industrial purposes.	No commercial value

Notes:

(1) The property is leased from an independent third party to China Pipe Group Limited.

(2) We have been provided with a legal opinion on the legality of the tenancy agreement of the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:

(i) the tenancy agreement is legal and valid; and

(ii) China Pipe Group Limited has the rights to request the lessor for fulfilling the tenancy agreement.

VALUATION CERTIFICATE

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 January 2008
24.	Unit No. 502 Block No. 7, Luwan Dushi Garden, Alley No. 509, Luban Road, Luwan District, Shanghai, PRC	The property comprises a residential unit on Level 5 of a 28-storey residential building completed in 2004. The property has a gross floor area of approximately 96.96 sq. m. (1,044 sq. ft.). The property is currently leased to China Pipe Group Limited for a term commencing on 10 May 2007 and expiring on 10 May 2008 at a monthly rent of approximately RMB5,500.	The property is currently used as staff quarter.	No commercial value

Notes:

(1) The property is leased from an independent third party to China Pipe Group Limited.

(2) We have been provided with a legal opinion on the legality of the tenancy agreement of the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:

(i) the tenancy agreement is legal and valid; and

(ii) China Pipe Group Limited has the rights to request the lessor for fulfilling the tenancy agreement.

VALUATION CERTIFICATE

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 January 2008
25.	Warehouse No. 4, No. 2017 Jiangchun Road, Mingheng District, Shanghai, PRC	The property comprises a single-storey warehouse building completed in 1985. The property has a gross floor area of approximately 482.40 sq. m. (5,193 sq. ft.). The property is currently leased to China Pipe Group Limited for a term commencing on 25 November 2007 and expiring on 24 November 2009 at an annual rent of approximately RMB79,234.	The property is currently used as warehouse.	No commercial value

Notes:

(1) The property is leased from an independent third party to China Pipe Group Limited.

(2) We have been provided with a legal opinion on the legality of the tenancy agreement of the property issued by the Group's PRC legal adviser, which contains, inter alia, the followings information:

(i) the tenancy agreement is legal and valid; and

(ii) China Pipe Group Limited has the rights to request the lessor for fulfilling the tenancy agreement.

VALUATION CERTIFICATE

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 January 2008
26.	An industrial building, No. 2017 Jiangchun Road, Mingheng District, Shanghai, PRC	The property comprises a single-storey office/warehouse building completed in 1985. The property has a gross floor area of approximately 542.00 sq. m. (5,834 sq. ft.). The property is currently leased to China Pipe Group Limited for a term commencing on 1 January 2008 and expiring on 31 December 2009 at an annual rent of approximately RMB89,000.	The property is currently used as warehouse.	No commercial value

Notes:

(1) The property is leased from an independent third party to China Pipe Group Limited.

(2) We have been provided with a legal opinion on the legality of the tenancy agreement of the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:

(i) the tenancy agreement is legal and valid; and

(ii) China Pipe Group Limited has the rights to request the lessor for fulfilling the tenancy agreement.

VALUATION CERTIFICATE

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 January 2008
27.	Unit No. 2803, No. 885 Renmin Road, Huangpu District, Shanghai, PRC	The property comprises an office unit on Level 28 of a 28-storey commercial building completed in 2003. The property has a gross floor area of approximately 198.00 sq. m. (2,131 sq. ft.). The property is currently leased to China Pipe Group Limited for a term commencing on 10 March 2007 and expiring on 9 March 2008 at a monthly rent of approximately RMB25,000.	The property is currently used as an office.	No commercial value

Notes:

(1) The property is leased from an independent third party to China Pipe Group Limited.

(2) We have been provided with a legal opinion on the legality of the tenancy agreement of the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:

(i) the tenancy agreement is legal and valid; and

(ii) China Pipe Group Limited has the rights to request the lessor for fulfilling the tenancy agreement.

VALUATION CERTIFICATE

Group X – Property leased by China Pipe Group Limited in Macau

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 January 2008
28.	Unit B on Ground Floor and First Floor, Nos. 35-35A Avenida De Demetrio Cinatti and No. 13 Rua Da Ribeira Do Patane, Macau	The property comprises a retail unit on Ground Floor and First Floor of a 7-storey composite building completed in 1989. The total saleable area of the property is approximately 104.28 sq. m. (1,122 sq. ft.). The property is leased to Bun Kee (International) Limited, a wholly-owned subsidiary of China Pipe Group Limited, from an independent third party for a term commencing on 2 January 2007 and expiring on 31 December 2011 at a monthly rent of HK$10,000 inclusive of property tax and land tax.	The property is currently occupied by Bun Kee (International) Limited, a wholly-owned subsidiary of China Pipe Group Limited, as a retail shop.	No commercial value

Note: The tenant of the property is Hing's Godown and Transportation Co, Ltd., a wholly-owned subsidiary of China Pipe Group Limited,

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. MANAGEMENT PROFILES

The profiles of the Directors and senior management of the Company are as follows:

Executive Directors

Mr. ZHANG Yang, aged 44, was appointed as a Director in March 2000 and became the chairman of the Group in September 2000. Mr. Zhang was also appointed as a director and chairman of Kai Yuan Holdings Limited (formerly known as Guo Xin Group Limited) ("**Kai Yuan**"), the shares of which are listed on the Stock Exchange, during the period from December 2001 to April 2007. Mr. Zhang was also appointed as honourable chairman of China Pipe, the shares of which are listed on the Stock Exchange, in July 2007. Mr. Zhang had studied in Industrial Automation Department of Shanghai Second Staff University. He has over twenty years of experience in industrial investment and management. Mr. Zhang is responsible for the strategic planning and overall management control of the Group.

Mr. CHAN Wing Yuen, Hubert, aged 49, was appointed as a Director and chief executive officer of the Company in March 2002 and November 2003, respectively. Mr. Chan was also appointed as an executive director of China Pipe, the shares of which are listed on the Stock Exchange, in June 2007. Mr. Chan received a Higher Diploma from the Hong Kong Polytechnic University in 1982. Mr. Chan is an associate of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. Mr. Chan is also a member of the Hong Kong Securities Institute and the Hong Kong Institute of Directors Ltd. Prior to joining the Group, Mr. Chan spent over ten years with the Stock Exchange where he held the position of director of Mainland Affairs Department of the Listing Division. Mr. Chan also spent two and a half years as a director and deputy general manager of Guangdong Investment Limited. Mr. Chan was the company secretary and director of compliance of Sunevision Holdings Limited, the shares of which are listed on the Growth Enterprise Market of the Stock Exchange. In addition, Mr. Chan was an independent non-executive director of Rising Development Holdings Limited, the shares of which are listed on the Stock Exchange.

Mr. LAM Cheung Shing, Richard, aged 49, was appointed as a Director and the deputy chief executive officer of the Company in August 2001. In addition, he was appointed as a company secretary of the Company in March 2004. Mr. Lam was appointed as a director of Kai Yuan, the shares of which are listed on the Stock Exchange, in December 2001 and also the chief executive officer of Kai Yuan during the period from December 2001 to April 2007. Mr. Lam was appointed as an executive director of China Pipe, the shares of which are listed on the Stock Exchange, in June 2007. Mr. Lam is a fellow member of both Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. Mr. Lam was admitted to the Master Degree of Business Administration in the Chinese University of Hong Kong in 2006. Mr. Lam spent over ten years in PriceWaterhouseCoopers, an international accounting firm and promoted to a senior audit manager, and is equipped with extensive experience in accountancy, taxation and corporate finance. Prior to joining the Group, Mr. Lam held senior positions in a number of listed companies in Hong Kong, including Sun Hung Kai & Co., Limited, Kingsway SW Asset Management Limited and U-Cyber Technology Holdings Limited. Mr. Lam was also appointed as an independent non-executive director of Leadership Publishing Group Limited, the shares of which are listed on the Stock Exchange, during the period from April 2004 to March 2005.

Independent Non-executive Directors

Mr. WONG Hon Sum, aged 49, was appointed as an independent non-executive Director in May 2000. Mr. Wong is a certified public accountant in Hong Kong. He has over twenty years of experience in the field of audit, accountancy, finance, taxation and business advisory. Mr. Wong is a fellow member of the Association of Chartered Certified Accountants, Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He is also a member of the Hong Kong Securities Institute. Mr. Wong was appointed as an independent non-executive director of China Mining Resources Group Limited (formerly known as INNOMAXX Biotechnology Group Limited) since January 2007, the shares of which are listed on the Stock Exchange.

Ms. HA Ping, aged 43, was appointed as an independent non-executive Director in May 2000. Ms. Ha received her Honorary Doctorate from Queen's University of Brighton. Ms. Ha is the chairman of All Leaders Publication Group Limited and was an independent non-executive director of a Smart Energy Finance (Holdings) Limited during the period from June 2000 to May 2007, the shares of which are listed on the Stock Exchange.

Dr. TANG Tin Sek, aged 49, was appointed as an independent non-executive Director in August 2006. Dr. Tang is a certified public accountant and a partner of Terence Tang & Partners. Dr. Tang has over 26 years of experience in corporate finance, business advisory, financial management and auditing. Dr. Tang is also a member of The Chinese Institute of Certified Public Accountants, The Institute of Chartered Accountants in Australia and Chartered Association of Certified Accountants in the United Kingdom. Dr. Tang obtained a bachelor of science degree from The University of Hong Kong in 1980, a master of business administration degree from The University of Sydney, Australia in 1990 and a doctorate in accountancy from The Hong Kong Polytechnic University in 2004. Dr. Tang is also an independent non-executive director of CEC International Holdings Limited, Sinofert Holdings Limited (formerly known as Sinochem Hong Kong Holdings Limited), New Smart Energy Group Limited (formerly known as New Smart Holdings Limited) and Frankie Dominion International

Limited, the shares of all of which are listed on the Stock Exchange. Dr. Tang was an independent non-executive director of China Mining Resources Group Limited (formerly known as INNOMAXX Biotechnology Group Limited) for the period from May 2000 to May 2007, the issued shares of which are listed on the Stock Exchange.

3. 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 Issuers, to be notified to the Company and the Stock Exchange were as follows:

Name	Name of company in which interests or short positions were held	Nature of interests	Number of shares	Approximately percentage of shareholding
Mr. Zhang	The Company	Interests of controlled corporation *(Note 1)*	103,495,000 Shares (L)	0.58%
	The Company	Beneficial owner *(Note 2)*	13,889,130,000 Shares (L)	78.09%
Lam Cheung Shing, Richard	The Company	Beneficial owner	77,000,000 Shares (L)	4.33%
Chan Wing Yuen, Hubert	The Company	Beneficial owner	77,000,000 Shares (L)	4.33%
Ha Ping	The Company	Beneficial owner *(Note 3)*	5,000,000 Shares (L)	0.03%
Wong Hon Sum	The Company	Beneficial owner *(Note 4)*	5,000,000 Shares (L)	0.03%
Tang Tin Sek	The Company	Beneficial owner *(Note 5)*	5,000,000 Shares (L)	0.03%

(L) denotes the long position held in the shares

Notes:

1. These Shares are held by Wealth Land Development Corp., which is wholly and beneficially owned by Mr. Zhang, who is a Director and the chairman of the Company.

2. These Shares represent (i) 2,389,130,000 Shares held by Mr. Zhang; (ii) 11,500,000,000 Shares to be allotted and issued to Mr. Zhang upon the exercise in full of the conversion rights attaching to the convertible notes to be issued by the Company, details of which are set out in the announcement of the Company dated 6 July 2007.

3. These Shares represent the Shares which may be allotted and issued to Ms. Ha Ping upon the exercise in full of the subscription rights attached to the options granted by the Company.

4. These Shares represent the Shares which may be allotted and issued to Mr. Wong Hon Sum upon the exercise in full of the subscription rights attached to the options granted by the Company.

5. These Shares represent the Shares which may be allotted and issued to Dr. Tang Tin Sek upon the exercise in full of the subscription rights 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 Issuers, to be notified to the Company and the Stock Exchange.

(b) Substantial Shareholders and persons having 5% or more shareholding

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons (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 2007, being the date to which the latest audited consolidated financial statements of the Company have been made up) or had options in respect of such capital:

Name	Name of company in which interests or short positions were held	Nature of interests	Number of shares	Approximate percentage of shareholding
Chan Tim Shing	The Company	Beneficial owner	1,560,000,000 Shares (L)	8.77%
黑龍集團公司 (Heilong Group Limited*)	黑龍江黑龍股份有限公司 (Heilongjiang Black Dragon Company Limited*)	Beneficial owner	229,725,000 domestic shares *(Note)*	70.21%

(L) denotes long position in the shares

* *for identification purpose only*

Note: Pursuant to the sale and purchase agreement dated 17 May 2007 signed by 黑龍集團公司 (Heilong Group Limited) and Interchina (Tianjin) Water Treatment Company Limited, a wholly-owned subsidiary of the Company (as supplemented by the supplemental agreements dated 29 June 2007, 15 November 2007 and 17 December 2007 respectively), Interchina (Tianjin) Water Treatment Company Limited agreed to acquire 229,725,000 domestic shares in 黑龍江黑龍股份有限公司 (Heilongjiang Black Dragon Company Limited), details of which are set out in the circular of the Company dated 31 January 2008. As at the Latest Practicable Date, the said acquisition had not yet completed.

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 any interest or 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 2007, being the date to which the latest audited consolidated financial statements of the Company have been made up) or who had any options in respect of such capital.

4. SERVICE CONTRACT

As at the Latest Practicable Date, there was no service contract or any 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 2007, being the date to which the latest audited consolidated financial statements of the Company have been made up), excluding contracts expiring or determinable by the Group 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 (within the meaning defined in the Listing Rules) had any interests in any business which competes or may compete with the business of the Group as at the Latest Practicable Date.

6. INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors or experts named in the section headed "Experts" in this appendix had any direct or indirect interest in the assets which had been, since 31 March 2007, the date to which the latest published audited consolidated financial statements 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 2007, being the date to which the latest audited consolidated financial statements 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 2007, being the date to which the latest audited consolidated financial statements of the Company have been made up).

As at the Latest Practicable Date, save for the subscription agreement dated 5 July 2007 in relation to the allotment and issue of 2,700,000,000 new Shares at the subscription price of HK$0.10 per new Share to Mr. Zhang and the grant of the convertible note options at the premium of HK$20,000,000, being options to subscribe for two tranches of convertible notes at an aggregate principal amount of HK$1,850,000,000 at the conversion price of HK$0.10 per Share, 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 2007, being the date to which the latest audited consolidated financial statements of the Company have been made up).

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 2007, being the date to which the latest audited consolidated financial statements of the Company have been made up) was engaged in any litigation or arbitration or claim of material importance was 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 2007, being the date to which the latest audited consolidated financial statements of the Company have been made up).

8. EXPERTS

The following is the qualifications of the experts who has given opinion or advice which is contained in this circular:

Name	Qualification
HLB Hodgson Impey Cheng	Chartered Accountants Certified Public Accountants
Wallbanck Brothers	a licensed corporation to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (assets management) regulated activities under the SFO
Savills Valuation and Professional Services Limited	Registered professional surveyor
Zhong Lun Law Firm	Legal advisers on PRC law
Jiao Yang Law Firm of Hunan China	Legal advisers on PRC law

Name	Qualification
Sinosourse Law Firm	Legal advisers on PRC law

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the expert's statement included in the form and context in which it is included and the references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the above experts had any shareholding, direct or indirect, 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.

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into 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 2007, being the date to which the latest audited consolidated financial statements of the Company have been made up) within two years immediately preceding the Latest Practicable Date:

(a) the sale and purchase agreement dated 26 May 2006 entered into between Mr. Hu Yishi and China Field Investments Limited (a wholly-owned subsidiary of the Company) in relation to the disposal of the entire issued capital of a subsidiary of the Company and the shareholder's loan amounting to HK$20,750,000 due and owing by such subsidiary to China Field Investments Limited at an aggregate consideration of HK$48,100,000;

(b) the termination agreement entered into between the Company and the People's Government of Xianyang City, Shaanxi Province on 23 June 2006, in relation to the water treatment plant project in Xianyang, Shaanxi Province, the PRC;

(c) the termination agreement entered into between Interchina Water Treatment Limited ("**Interchina Water Treatment**") and the People's Government of Zhuozhou, Hebei Province on 6 July 2006, in relation to granting an exclusive right to finance, design, construct, own, manage, maintain and operate two sewage treatments plants in Zhuozhou, Hebei Province, the PRC for 25 years;

(d) the framework agreement ("**Framework Agreement**") dated 19 October 2006 entered into between the Company and Shanghai Lam Hong (Group) Company Limited ("**Lam Hong**") for the sale and purchase of the entire equity interest in Burlingame (Shanghai) Investment Limited ("**BSI**"), the entire equity interest in Interchina (Changsha) Investments And Management Company Limited ("**ICIM**"), 38.9% equity interest in Changsha Interchina Star City Company Limited ("**CIC**"), the shareholder's loan ("**BIC Shareholder Loan**") owing by BSI to Burlingame International Company Limited ("**BIC**"), the shareholder's loan ("**CAI**

Shareholder Loan") owing by BSI to Chinese Asial Investments Limited ("**CAI**") and the shareholder's loan ("**ICIM Shareholder Loan**") owing by ICIM to the Company at a total consideration of HK$617,870,000;

(e) the sale and purchase agreement ("**BSI Agreement**") dated 19 October 2006 entered into between BIC, CAI and Mr. Zhang in relation to the disposal of the entire equity interest in BSI, the BIC Shareholder Loan and the CAI Shareholder Loan at a total consideration of HK$219,000,000;

(f) the two sale and purchase agreements ("**ICIM and CIC Agreements**") dated 19 October 2006 entered into between the Company and Tangible Wealth Investments Limited ("**TWI**") in relation to the disposal of the entire equity interest in ICIM, the 38.9% equity interest in CIC and the ICIM Shareholder Loan at a total consideration of HK$398,870,000;

(g) the subscription agreement dated 12 February 2007 entered into between the Company and Mr. Sun Yi in relation to (i) tranche 1 convertible note in an aggregate principal amount of HK$60,000,000; and (ii) tranche 2 convertible note in an aggregate principal amount of HK$51,698,000, both at the conversion price of HK$0.10 per Share;

(h) the termination agreement dated 28 March 2007 entered into between the Company, Lam Hong, BIC, CAI, Mr. Zhang and TWI for the termination of the Framework Agreement, the BSI Agreement and the ICIM and CIC Agreements;

(i) the head sale and purchase agreement entered into between the Company and Lam Hong on 28 March 2007 in relation to the disposal of 100% equity interest in the capital of BSI together with the BIC Shareholder Loan and the CAI Shareholder Loan at a total consideration of HK$206,000,000;

(j) the sale and purchase agreement entered into between BIC, CAI and Mr. Zhang on 28 March 2007 in relation to the disposals of the entire equity interest in the capital of BSI, the BIC Shareholder Loan and the CAI Shareholder Loan at a total consideration of HK$206,000,000;

(k) the sale and purchase agreement dated 11 June 2007 entered into between the Company and Mr. Li Gong Tao ("**Mr. Li**") in relation to the acquisition of a 60% equity interest in Money Capture Investments Limited together with Mr. Li's interest in shareholder's loan at a total consideration of HK$195,039,455;

(l) the subscription agreement dated 5 July 2007 entered into between the Company and Mr. Zhang in relation to (i) the allotment and issue of 2,700,000,000 new Shares at the share subscription price of HK$0.10 per Share; and (ii) grant of the convertible note options at the premium of HK$20,000,000, being options to subscribe for the first tranche convertible notes, up to the aggregate principal amount of HK$650,000,000, and the second tranche convertible notes, up to the aggregate principal amount of HK$1,200,000,000, at the conversion price of HK$0.10 per Share;

(m) the agreement entered into between the Company and Mr. Li on 6 August 2007 whereby the Company shall (i) pay an amount of HK$4,189 in cash; and (ii) issue the convertible notes in principal amount of HK$132,676,800 at the conversion price of HK$0.131 per Share in order to satisfy balance payment of the Company's acquisition of 60% equity interest in Money Capture Investments Limited;

(n) the sale and purchase agreement dated 5 October 2007 entered into between the Company and Mega Winner Investments Limited in relation to the acquisition of the entire issued share capital of Success Flow International Limited and the shareholder's loan at an aggregate consideration of HK$167,000,000;

(o) the conditional agreement entered into between Interchina (Tianjin) Water Treatment Company Limited ("**Interchina (Tianjin)**") (a wholly-owned subsidiary of the Company) and Heilong Group Limited ("**Heilong Group**") on 17 May 2007 in relation to the acquisition of approximately 70.21% of the issued share capital of Black Dragon at a total consideration of RMB420,000,000 ("**Black Dragon Share Transfer Agreement**");

(p) the share transfer agreement dated 30 April 2007 entered into between the Company and North China Municipal Engineering Design & Research Institute in relation to the acquisition of a 5.95% equity interest in Interchina (Tianjin) at a consideration of RMB14,000,000;

(q) the conditional agreement entered into between Interchina (Tianjin) and Black Dragon on 17 May 2007 in relation to the disposal of the entire equity interest in Interchina Water Treatment at a consideration of US$10,000 ("**Interchina Water Treatment Share Transfer Agreement**");

(r) the supplemental agreement dated 29 June 2007 entered among Heilong Group, Interchina (Tianjin) and Black Dragon to amend the terms of the Black Dragon Share Transfer Agreement and the Interchina Water Treatment Share Transfer Agreement;

(s) the second supplemental agreement dated 15 November 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);

(t) 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;

(u) the termination agreement dated 15 November 2007 entered into between Interchina (Tianjin) and Black Dragon to terminate the Interchina Water Treatment Share Transfer Agreement;

(v) 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); and

(w) the Acquisition Agreement.

10. 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 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. Lam Cheung Shing, Richard, who is a fellow member of both Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants.

(d) The qualified accountant of the Company is Mr. Lau Chi Lok, Freeman who is a member of Hong Kong Institute of Certified Public Accountants and CPA Australia.

(e) The English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at Room 701, 7/F, Aon China Building, 29 Queen's Road, Central, Hong Kong during 9:00 a.m. to 6:00 p.m. on any Business Day, from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;

(c) the accountants' report on Black Dragon, the text of which is set out in appendix II to this circular;

(d) the letter from the Independent Board Committee, the text of which is set out on page 11 of this circular;

(e) the letter of advice from Wallbanck Brothers, the text of which is set out on pages 12 to 29 of this circular;

(f) the report regarding unaudited pro forma financial information of the Group, the text of which is set out in appendix IV to this circular;

(g) the property valuation report, the text of which is set out in appendix V to this circular;

(h) the consent letters referred to in the paragraph headed "Experts" in this appendix;

(i) the annual reports of the Company for the two years ended 31 March 2007 and the interim report of the Company for the six months ended 30 September 2007;

(j) this circular; and

(k) a copy of each circular issued pursuant to the requirements set out in Chapters 14 and/or 14A which has been issued since 31 March 2007, being the date of the latest published audited accounts of the Company were made up.

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

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Interchina Holdings Company Limited (the "**Company**") will be held at The Laurel, level 3, Renaissance Kowloon Hotel, 22 Salisbury Road, Tsimshatsui, Kowloon, Hong Kong on 17 May 2008 at 9:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution, with or without amendments, as an ordinary resolution of the Company:

Ordinary Resolution

"**THAT**:

(i) the terms and conditions of the agreement dated 18 December 2007 (the "**Acquisition Agreement**", a copy of which has been produced to the meeting marked "A" and signed by the chairman of the meeting for the purpose of identification) entered into between the Company as purchaser and Maxable International Enterprises Limited as vendor pursuant to which the Company has conditionally agreed to acquire 3,700,000,000 shares of HK$0.002 each in the capital of China Pipe Group Limited be and are hereby approved, confirmed and ratified; and

(ii) the directors of the Company be and are hereby authorised on behalf of the Company to do all such things and sign, seal, execute, perfect and deliver all such documents as they may in their discretion consider necessary, desirable or expedient, for the purposes of or in connection with the implementation and/or to give effect to any matters relating to the Acquisition Agreement and the transactions contemplated thereunder."

By order of the Board
Interchina Holdings Company Limited
Lam Cheung Shing, Richard
Director and Company Secretary

Hong Kong, 15 April 2008

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

Notes:

1. A shareholder entitled to attend and vote at the 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, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

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